Federal Reserve Bank of Chicago 1984 Annual Report

The Federal Reserve Bank of Chicago *is one of 12 regional Reserve Banks that, together with the Board of Governors in Washington, D.C., serve as the nation's central bank. The Federal Reserve's primary responsibility is to foster a flow of money and credit through the economy that promotes economic growth and a stable dollar. Each Reserve Bank also issues the nation's currency and coin, regulates and examines commercial banks and bank holding companies, and provides banking services to the U.S. government and to depository institutions within its district. The Federal Reserve Bank of Chicago serves the Seventh District covering Iowa and major portions of Illinois, Indiana, Michigan, and Wisconsin.*

Head Office
230 South LaSalle Street
Chicago, Illinois 60690

Detroit Branch
160 West Fort Street
Detroit, Michigan 48226

Des Moines Office
616 Tenth Street
Des Moines, Iowa 50309

Indianapolis Office
41 East Washington Street
Indianapolis, Indiana 46204

Milwaukee Office
304 East State Street
Milwaukee, Wisconsin 53202

For additional copies of this report, contact the Public Information Center, Federal Reserve Bank of Chicago (312/322-5112).

1984 Annual Report: Taking on the Challenges

Contents

Message from our board and management

Silas Keehn (left), President, and Stanton R. Cook, Chairman of the Board, Federal Reserve Bank of Chicago.

The past year was one of tremendous challenge and change—a time of transition and yet a year of very exciting accomplishment.

The markets we serve, the institutions we regulate, and the region we support are being transformed by forces that showed no signs of abating during 1984. These various forces of change, although in many ways quite distinct, have come together to affect dramatically each and every facet of the Bank's activity. But these changes have also provided the Bank with an important opportunity—a chance to use its activities to shape the process of change. That was our focus in 1984.

In one major area of our activities—namely, priced service operations—we successfully completed the process of transition. The Monetary Control Act had initiated that process by requiring the Federal Reserve Banks to offer financial services, formerly provided free of charge, at competitive market prices that would recover all pertinent costs including a fair return on investment. We met the mandate of the Monetary Control Act during 1984, providing a basis of assurance that this Bank, as an integral part of the Federal Reserve System, will continue to play an important role in shaping the evolving payments system. Volumes and revenues in our priced service activities last year showed favorable trends, and the Bank undertook a significant expense reduction program to bring costs to levels consistent with the realities of the competitive marketplace. Our operating groups were reorganized, placing the check and electronic service areas under separate product managers—a structure that allows the Bank to more effectively and efficiently address the needs of the marketplace. The early results of this important change seem highly favorable.

Similarly, in the area of our regulatory responsibilities, the Bank accomplished a great deal in the face of enormous challenges. The liquidity crisis at one of the nation's largest banks required an unprecedented response on the part of this Bank and other regulatory authorities. Working together closely, the regulators were able to maintain the orderly function of the institution. That the situation was successfully contained provides important assurance that our supervisory system can provide effective and timely responses to critical events.

While this event as well as financial strains experienced by other institutions placed heavy demands on our resources, the Bank was still able to play an active role in its other regulatory activities. In part through automation, monitoring systems were further refined to provide early warnings of emerging problems within supervised institutions. At the same time, research focused on issues that would permit the Bank to provide constructive guidance on changes taking place in the nation's regulatory and financial structure.

The Bank's focus on shaping the process of change was also clearly reflected in its regional economic research activities. The Bank has sought to actively promote efforts directed at improving the long-term economic performance of the District. During 1984, the Bank was an important participant in studies that made significant contributions to various economic development efforts underway in the District, including projects sponsored by the Commercial Club of Chicago and the Wisconsin Strategic Development Commission. The role of our Bank in these projects has been well recognized and provides a basis for an expanded effort in other parts of the District—a priority emphasis of our economic research group.

These accomplishments are, of course, extremely satisfying. Clearly, however, many issues of 1984, although successfully addressed, will continue to challenge us. The adjustment process for Midwest industry and agriculture and for the nation's financial institutions is far from complete.

Looking beyond the Bank and District to the state of the nation's economy, we can also readily see how much was accomplished during 1984. Significant economic growth was achieved, creating new jobs for many, without rekindling inflationary pressures. Nonetheless, it is also very apparent that some major policy issues have yet to be resolved.

Of paramount concern are our nation's fiscal and trade deficits. These enormous imbalances have aggravated the problems of adjustment, with a particularly harsh impact on the Midwest. We have been able to sustain national economic growth in the face of high deficits and rising imports largely because of a willingness of foreigners to purchase and hold dollar assets. Should international sentiment turn around sharply, serious adjustment problems could occur, posing new strains on prices, interest rates, and growth—strains that cannot be offset by monetary policy.

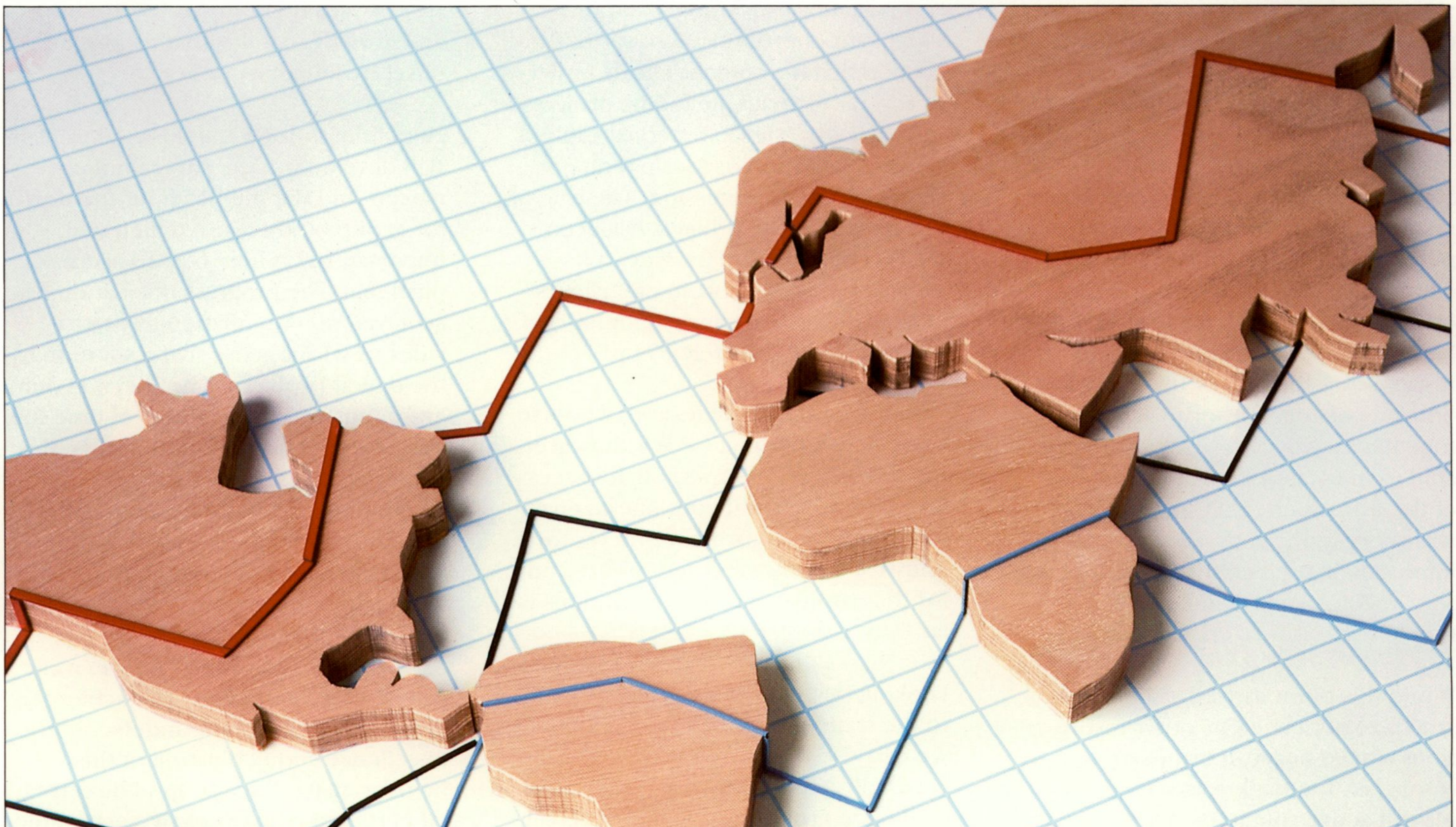
Hopefully as 1985 unfolds a consensus will develop on the part of policymakers and the public about the need for action on the fiscal deficit and, importantly, on how best to accomplish this. The progress this nation has achieved on the inflation front provides us with a sense that a solution to the deficit problem is not beyond our grasp. But with the passage of time the need for specific action to reduce the fiscal imbalance becomes even more compelling. It will be exceptionally difficult to operate monetary policy successfully in an increasingly adverse fiscal environment.

As we look to the Bank's future, we can be more confident. The achievements of this past year underscore the excellence and dedication of this Bank's outstanding group of directors, officers, and employees. We are grateful for all their efforts and support during 1984 and are fortunate to have the opportunity to continue working with them as we take on the challenges certain to confront us in the future.

Stanton R. Cook
Chairman of the Board

Silas Keehn
President

The world is being transformed by powerful economic forces that include the disappearance of competitive barriers, floating exchange rates, the rising importance of services relative to industry in developed economies, a move away from chronic inflation in the U.S. and elsewhere, and perhaps most significant, astonishing technological advances that in turn serve to transmit and intensify the impact of these various trends. As a result, we all find ourselves operating in a smaller, more interdependent world economy, where resources, goods (including money), and prices move more freely, and where changes come more quickly, are less predictable but are communicated faster, and require quicker responses.



The Bank's environment: Trends shaping the 1980s

No decade in history has seen the rapid pace of change experienced in the first half of the 1980s. Technological advances are altering our lifestyles and our economy in ways that were unforeseeable even a few years ago. Telecommunications and the computer have interconnected the ends of the earth so completely that almost all human activity—no matter how local—has its global aspect.

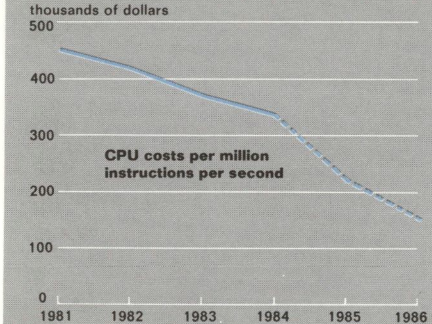
Nowhere has the electronic revolution been more dramatic than in the financial services industry. Both the range of financial services and the degree of competition in financial markets have been affected by the new technologies. Real-time monitoring of financial positions and the virtually instantaneous access to and transmission of stored information provided by the computer have enabled the industry to offer products that, until recently, were economically infeasible.

These innovations could not have occurred without the recent technological advances. However, the incentive to adopt them was provided by equally dramatic changes in the broader political and economic environment. Public skepticism about the desirability and effectiveness of many forms of detailed government intervention in the marketplace has led to deregulation in a number of industries, with transportation and financial services the leading examples.

For many people, the disillusionment with regulation stems from very pragmatic reasons—the observed ineffectiveness of regulations in thwarting market forces under changed economic conditions. A preview of later developments had been given by the "credit crunches" of 1966 and 1969, when the rise of market interest rates above existing legal ceilings on deposit interest rates resulted in massive withdrawals of funds by depositors seeking the higher returns available elsewhere. But, in retrospect, these were temporary and mild inconveniences. The shortages, long lines, inefficiencies, and frayed tempers produced in 1973 and 1974 by price, wage, and interest rate controls in the face of rising inflation, a sharp cutback in world oil production, and greatly increased volatility in financial markets combined to create a new respect and understanding for the power and irresistibility of market forces.

In the financial services industry, a growing conflict between market forces and existing regulation gave rise to a burst of entrepreneurial creativity. New institutions and types of accounts were developed to circumvent restrictions. After initial resistance, regulators and legislators came to recognize the need for legislation enhancing the financial industry's ability to deal with the changing rules of the game.

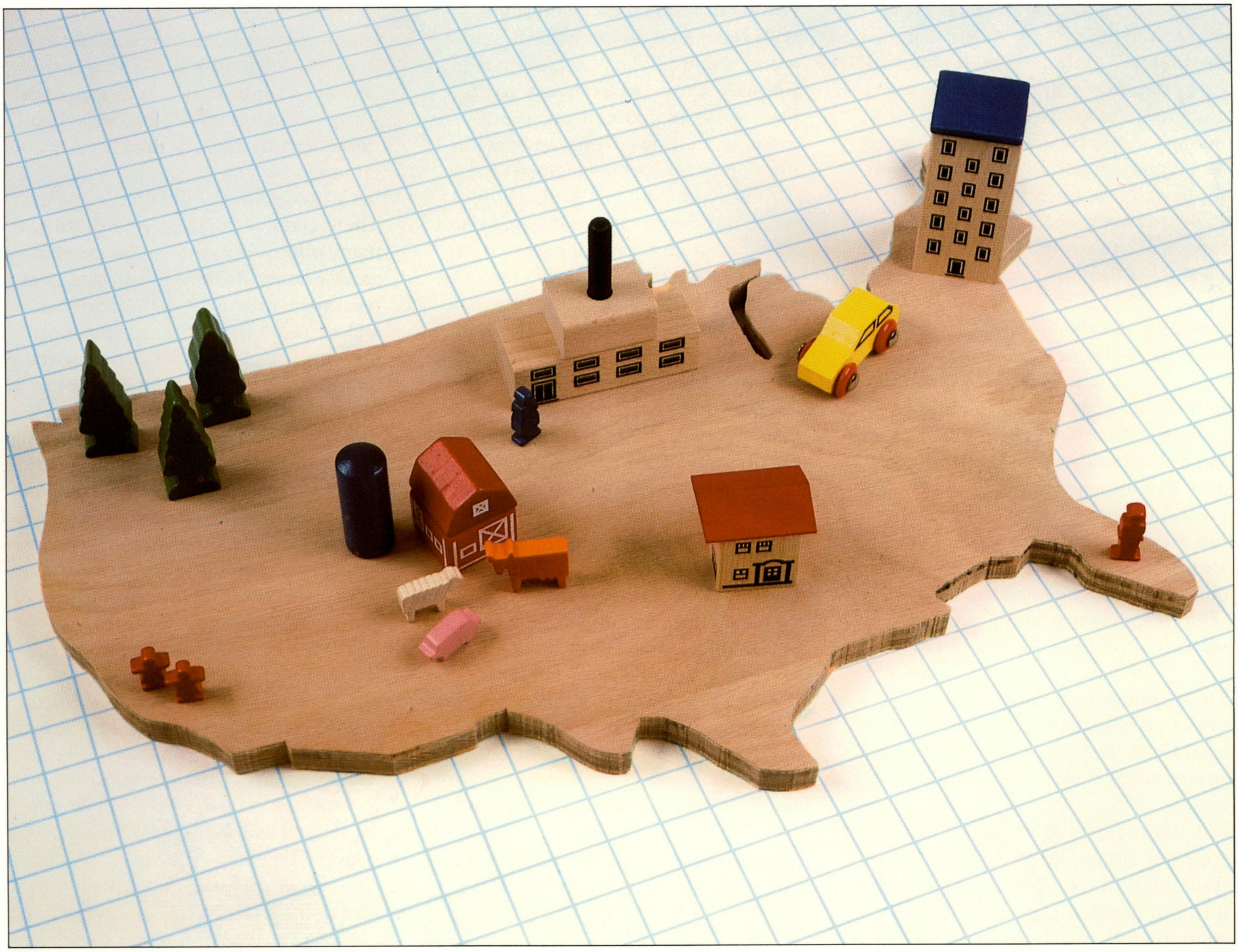
A dramatic drop in computing costs ushers in the information age



As with deregulation, other rules of the economic game were changing—largely in response to a decade of accelerating inflation and rising interest rates. Already by 1971, the United States, faced with chronic trade deficits, had been forced to abandon fixed exchange rates and allow the dollar to float. By the end of the 1970s the inequities and inefficiencies associated with high and volatile rates of inflation and interest rates gradually produced the vital public consensus required to pursue a meaningful and sustainable assault on inflation—and to incur the short-run costs that such a policy entails.

With the convergence of these forces—deregulation, disinflation, and the floating dollar—the decade of the 1980s opened with the economy relying more heavily than at any time in the immediate past on the free operation of market forces. Gone was much of the insulation that had been provided by regulatory barriers to competition plus the predictability of both the dollar's value abroad and the continuous upward movement of prices. In short, very little in the economic environment was now constant and, with the ability of telecommunications to transmit these developments as they occur, there was no safe refuge from the forces of change.

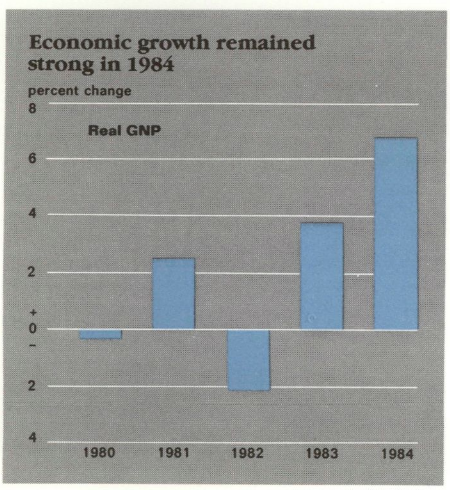
Even as new forces transformed many aspects of the nation's economy, the U.S. achieved notable progress overall during 1984, particularly as measured by GNP growth, employment increases, and price stability. While the pace of the expansion exceeded most predictions and continued at a high level by historical standards, inflation was successfully kept in check. At the same time, the persistence of the fiscal and trade deficits, relatively high interest rates, differences in economic strength between regions and industrial sectors, and financial strains provide cause for concern.



The Bank's environment: Significant developments in 1984

Both the Federal Reserve System and the Federal Reserve Bank of Chicago could take some satisfaction from the performance of the national economy in 1984. The economic recovery, which had been expected to continue but at a much more moderate rate, proved more vigorous than even the most optimistic of forecasters had expected. Real output for 1984 was 6.8 percent higher than in 1983. The unemployment rate, though still far too high, fell from 8.1 percent at year-end 1983 to 7.1 percent at year-end 1984. Overall, the growth in output and employment during 1984 was exceptionally strong compared to the other economic expansions of the last 30 years.

It is particularly significant that these economic gains were achieved without any increase in inflationary pressures. The inflation rate, as measured by the GNP implicit price deflator, was a moderate 3.8 percent in 1984, the same rate of price change as occurred in 1983. Also, interest rates, after rising early in the year, were falling at year-end.



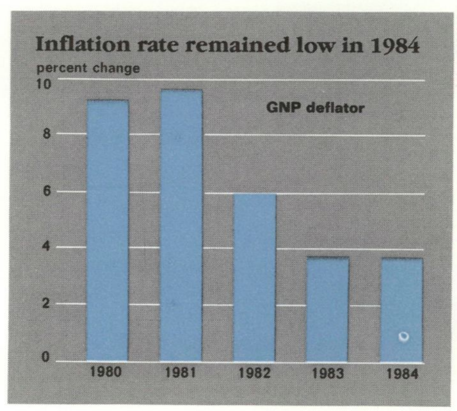
While these trends are highly favorable, significant economic problems remain. Despite the robustness of the recovery, the federal budget deficit remains at historically unprecedented peacetime levels, both absolutely and relative to gross national product. At least partly as a consequence, interest rates, though down sharply from their cyclical peaks, remain well above the levels of the recent past.

Not only do these high interest rates distort consumption/investment decisions and harm highly interest-sensitive sectors of the economy such as housing, but they appear to be a major factor in the strength of the dollar since 1980. In turn, the strong dollar has made it extremely difficult for many U.S. industries to compete with imported goods and has resulted in a massive current account deficit. The smokestack industries, agriculture, and therefore the entire Midwest have been especially hard hit by these conditions and have not participated fully in the renewed prosperity.

In particular, conditions in the agricultural sector are very depressed. Farm earnings continued in a slump in 1984, and farmland values remained in a downtrend unprecedented since the early 1930s. A small, but growing contingent of farmers are struggling under heavy debt burdens built up during the more prosperous times in the 1970s. The financial stress of farmers is increasingly reflected in problems within the industries and lenders that serve farmers and in the eroding economic vitality of many rural communities.

There is no doubt that agriculture and many other industries would benefit greatly from lower interest rates, some weakening of the value of the dollar, and a reduced trade deficit. Financial institutions, which have been under considerable strain because their interest costs have risen relative to the yield on their assets, would also derive relief from a fall in rates.

But such an improvement awaits significant congressional action to cut government spending and lower the budget deficit. In the meantime, the Federal Reserve Bank of Chicago continues to work for a moderate and reasonably steady rate of monetary growth that will help to assure price stability and, over the longer term, lower interest rates, increased investment, and sustainable economic growth.

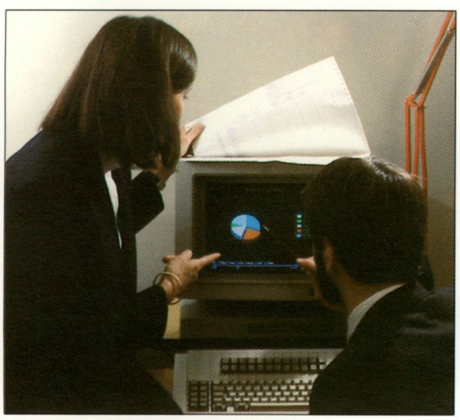


The Midwest has not fully shared in the nation's recent economic prosperity and indeed continues to experience a malaise that dates from at least the late 1970s if not from a much earlier point. With its aging facilities and lagging productivity, plus the strong dollar, the region, long the nation's leading provider of manufactured and agricultural products to world markets, now falls victim itself to vigorous foreign competition. Economic research by the Federal Reserve Bank of Chicago, focusing on both the causes and ramifications of the region's current condition, has sought to contribute to efforts of public and private groups alike to foster renewed economic vitality in the Midwest.

The Bank in 1984: Economic analysis

Prior to the late 1970s the economic health of the Midwest and the Seventh Federal Reserve District was basically sound and prosperous. But market shifts, government policies, and national and international economic forces have since that time moved counter to the District's strengths.

The impact of these forces can be seen in the overall economic decline in the District relative to the rest of the country. The causes of the decline are numerous. Government policies—both national and local—have constrained or distorted the allocation of resources away from the Seventh District. Since 1979, the District states' contributions to federal revenues have exceeded federal disbursements by more than $112 billion. State usury ceilings, excessive business taxes, relatively high unemployment insurance and workers' compensation, and costly environmental controls have tended to contribute to the "unfavorable business climate" reputations of the states. The District's aging plant and equipment—whose replacement was postponed or cancelled due to inflation and rising interest rates—acted to inhibit growth in productivity. The most recent shock to the District has occurred in the farm sector where declining land values and low crop prices have led to further contraction.



Research economists monitor and analyze a wealth of data to evaluate the economy's performance.

During 1984, the Bank further intensified its research on the region's economy in order to gain a better understanding of the economic forces at work and to bring the Bank's expertise to bear on the District's problems. To these ends, the Bank was actively involved in two projects, each bringing together public and private groups in a strategic economic development planning effort.

In December 1984, the Commercial Club of Chicago released the findings of its "Jobs for Metropolitan Chicago" project. The report, entitled *Make no little plans*, was the product of 325 people working on 25 committees, each concerned with a different aspect of the Chicago metropolitan economy. The Bank aided in the study by collecting and analyzing numerous volumes of data supporting each of the working committees as well as the overall effort. From this economic scanning process evolved a better understanding of the strengths and weaknesses, threats and opportunities, facing public and private decision makers.

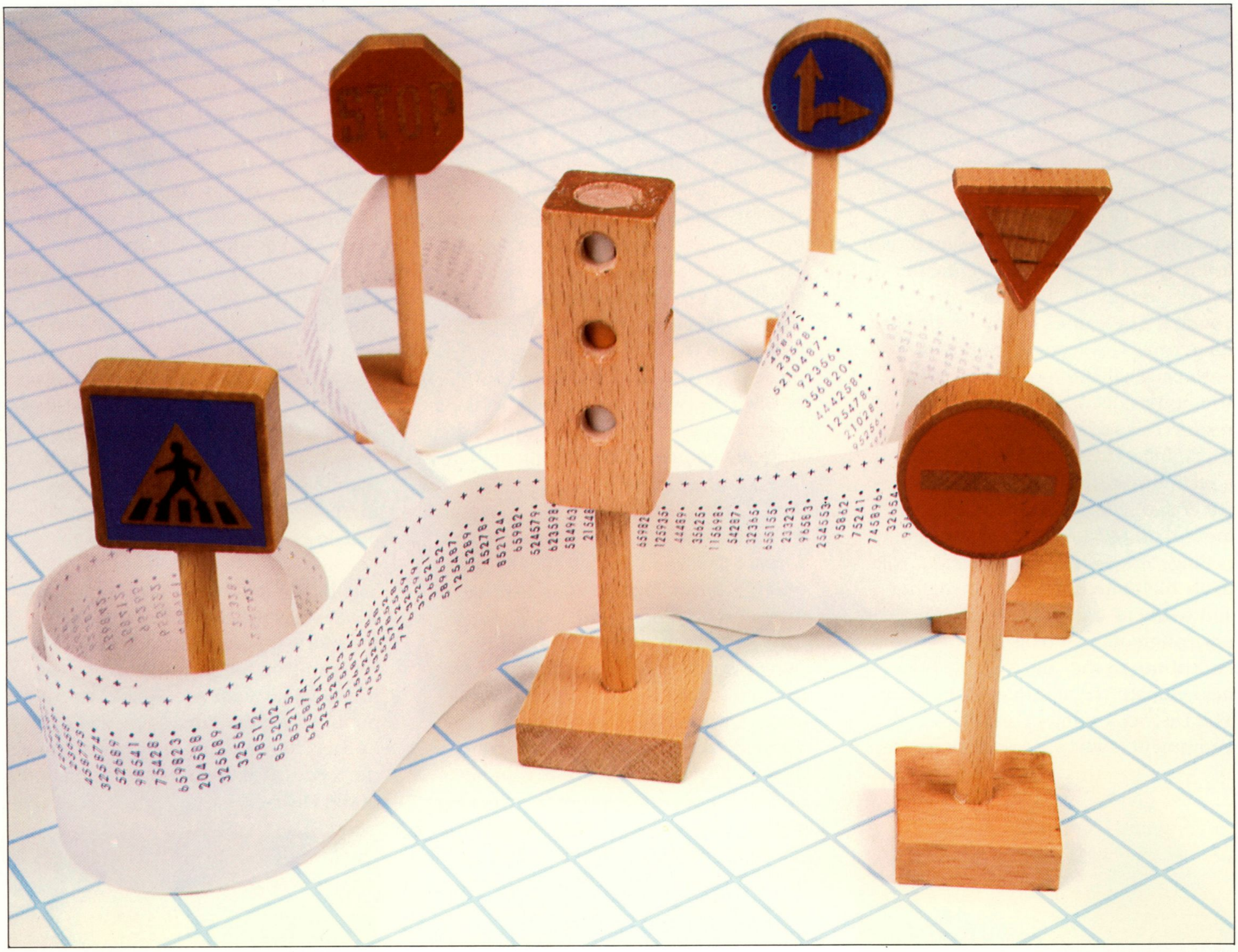
As a result of the project's findings, six task forces in the areas of health care, small business, financial services, marketing, software technology, and emerging business were established to implement specific programs to help retain and attract jobs for the Chicago metropolitan area. With only the initial phase of a strategic plan aimed at the year 2000 now complete, the Bank's active support of the project continues.

Also during 1984, the Bank began its participation with the Wisconsin Strategic Development Commission, formed by the governor to develop the state's first long-term strategic plan. The Bank's role is to aid the Commission's study groups in data collection and analysis. The Bank prepared a two-volume economic scan of the Wisconsin economy, to provide a baseline from which the study groups could identify the strengths, weaknesses, threats, and opportunities in the Wisconsin economy.

The Bank's involvement in these two studies has enhanced its understanding of the economic condition of the Seventh District. In the coming year, involvement with an expanded array of public/private partnerships will help further improve this understanding of the forces at work in other segments of the District.

Regional issues and topics are the focus of many of the Bank's research publications.

Financial institutions have not been immune from the strains of adjusting to the new economic realities and relationships emerging from the interplay of such forces as disinflation, deregulation, and technological advances. For institutions in the Midwest, serving a predominately heavy industrial and agricultural customer base, the stress has been particularly acute. In this environment, the Federal Reserve Bank of Chicago faced some extraordinary challenges in 1984 in carrying out its responsibilities as a bank supervisor and as a lender of last resort. At the same time, other activities, such as the analysis of regulatory and competitive issues, were maintained at a high level.



The Bank in 1984: Regulatory activities

As a regulator, a supervisor of state member banks and bank holding companies, and a "lender of last resort" to all financial institutions within the District, the Chicago Reserve Bank—not unlike its constituent banks—faced growing challenges in 1984.

New competitors and new product offerings and the increased speed with which rates and money can move have fundamentally changed the risks and requirements of contemporary banking. These changes have put an added premium on efficiency, cost containment, asset/liability management, risk identification and diversification—making the task of managing a bank enormously more complex.

Faced with these changes, bankers in the Seventh District must also deal with pressures associated with the Midwest's long-term economic realignment. Given the national upturn, the District's economic performance has improved recently, and so has the performance of banks in the auto and capital goods areas of the District. But bank asset quality tends to lag the economic cycle. Moreover, banks heavily involved in agricultural and energy lending endured increased strains during 1984 as prices of farm commodities, land, and energy continued to weaken in response to reduced inflationary expectations and the increasing strength of the dollar.

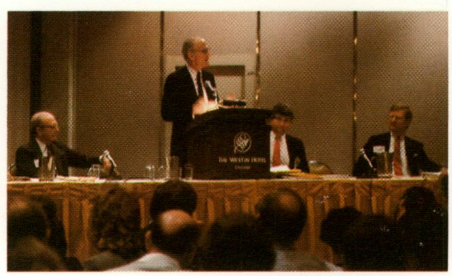
Through its discount window the Bank makes loans to depository institutions to relieve liquidity strains and assure the basic stability of our financial system.

In the long run, the adjustment process taking place in the economy and the financial industry will bring desirable results, especially as bankers are responding to added risks and economic volatility by increasing loss reserves and capital and by enhancing management systems and controls. But the adjustment process has been neither easy nor painless.

Indeed, 1984 witnessed a post-Depression record number of bank failures both nationally and in the District. These dramatic events were merely the more visible symptoms of the financial strains experienced by a substantial number of institutions during the year. And, of course, the most highly publicized and traumatic events of the year in this context were the problems encountered by one of the nation's largest banks. That bank's difficulties demonstrated all too clearly just how vulnerable an institution can be in today's world, where money can move at the speed of light.

Responding effectively to the extraordinary problems of 1984 required an enormous commitment of Chicago Reserve Bank resources. But there was other work to be done within the Bank's loans, bank examination, bank holding company, and consumer affairs functions. Through increased use of automation and more sophisticated internal monitoring systems, the Bank has enhanced examiner productivity and focused resources on institutions most requiring attention. At the same time, emphasis has been placed on communications with constituent institutions to simplify the regulatory burden for all concerned, as exemplified by the payments system risk, community affairs, bank holding company, and contemporaneous reserve requirements seminars held in 1984.

While addressing its immediate supervisory and regulatory tasks, the Bank also maintained its strong interest in underlying regulatory issues during 1984. Research concentrated on such current and emerging issues as interstate banking, nonbank entry into the financial services industry, the antitrust implications of bank mergers, and the use and regulation of financial futures hedging by banks. The Bank again in 1984 sponsored its highly regarded *Conference on Bank Structure and Competition* which brings together many of the nation's leading economists, financial executives, and regulators to share their views on broad regulatory questions. Through this unique forum as well as in its own publications, journal articles, and speeches by Bank staff, the Bank complements its day-to-day regulatory responsibilities by promoting a more effective system of regulation.



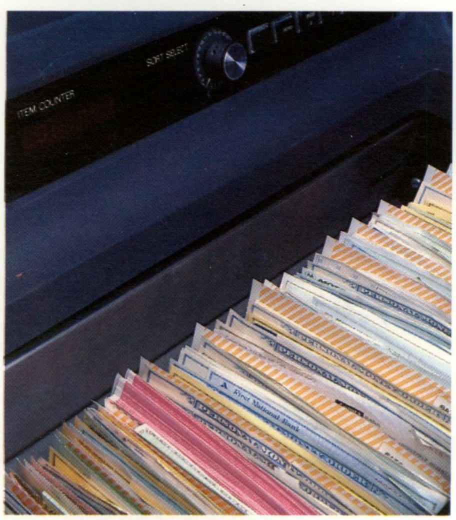
The Bank's Conference on Bank Structure and Competition *draws speakers and participants from across the nation.*

The high interest rates and technological advances of the 1970s fueled a process of competitive innovation in financial services markets. That process was given added force by the landmark legislation of 1980 that further deregulated the marketplace and mandated a new role for the Federal Reserve Banks as service providers. 1984 marked the successful completion of the Chicago Reserve Bank's transition to that role.

The Bank in 1984: Operations

For the Federal Reserve Bank of Chicago as a provider of services to depository institutions, 1984 was a milestone year. The already powerful forces transforming the financial system during the 1970s were given added impetus by the 1980 legislation that reaffirmed but greatly modified the Reserve Bank role as a service provider. The Banks were required to price the services previously provided free and to set those prices competitively, to recover all relevant costs. Thus, the 1980 law initiated a process of transition—a series of dynamic changes bringing forth new market participants and new service arrangements. While the competition that has been fostered assures that the marketplace will continue to be a dynamic one, 1984 marked the successful completion of the transition phase for the Federal Reserve Bank of Chicago.

The Bank's favorable priced service results for 1984 were achieved largely in three ways. First, a thoroughgoing cost reduction program brought expenses in line with current levels of activity. Second, the Bank reorganized its operations areas, establishing two primary business units, check services and electronic services, enabling each unit to more effectively address customer needs and the demands of the marketplace. The third avenue pursued by the Bank during 1984 to improve results was to increase service levels.



The Bank's check department staff processed 1.8 billion checks representing $1 trillion in transactions during 1984.

Check services concentrated on improved availability, new deposit times, service stability, and new sort options to provide institutions the level of Fed service that best suits their own sorting capabilities and service needs. In providing these expanded check services the Bank emphasized a consultative sales approach. Through a new service, *Check Processing Analysis*, the Bank now provides institutions with individualized availability and cost analyses and recommends the most efficient and cost-effective alternatives for handling incoming and outgoing checks. This approach not only helps establish and maintain good customer relationships, but more importantly, it supports the Federal Reserve's overall objective of improving the payments system.

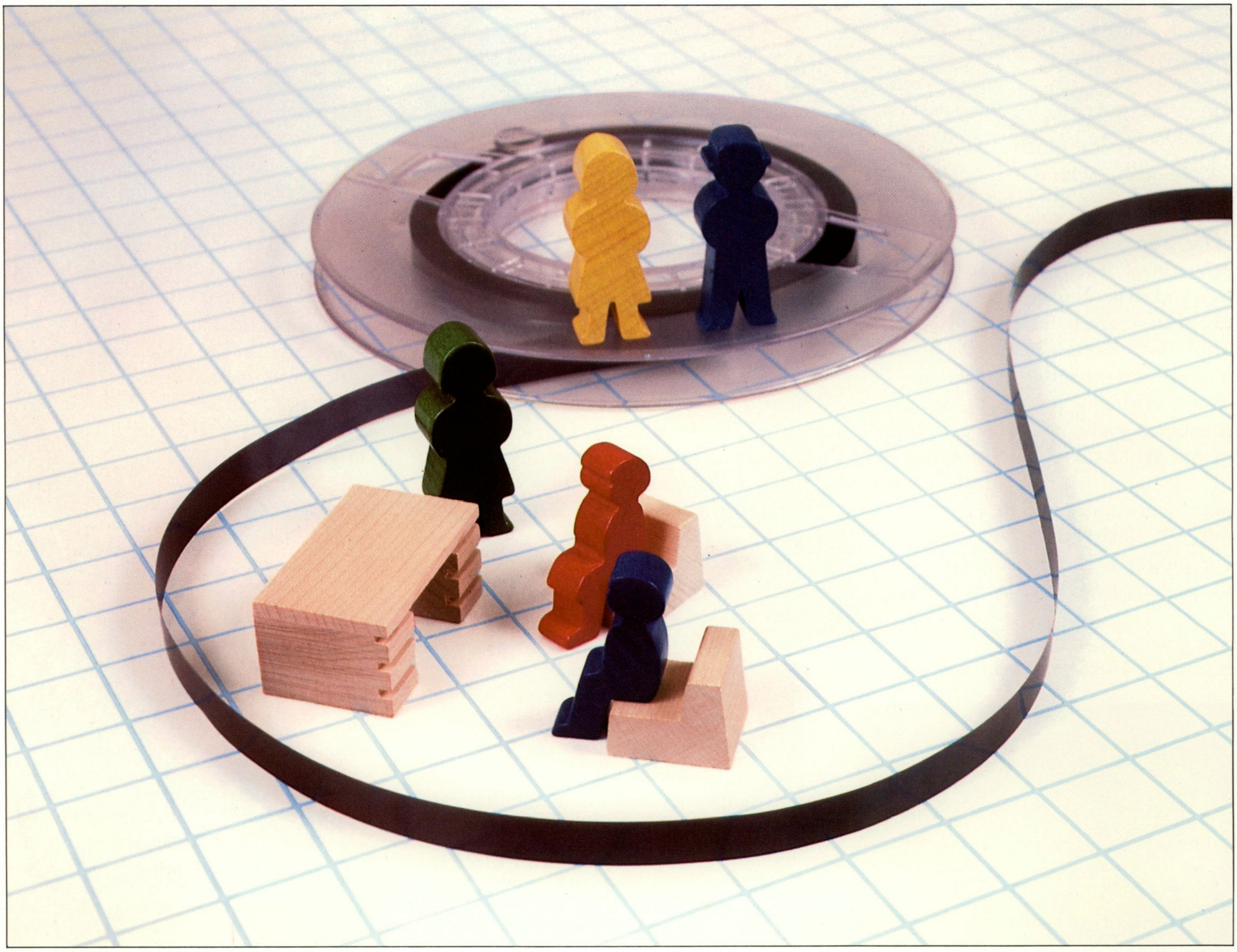
Reducing float, and thereby eliminating a major impediment to the effective operation of the payments system, was another Bank focus in 1984. Internal daily reports identified related float components and sources; institutions depositing improperly sorted work were contacted and assisted; and automation was introduced to speed the processing of rejected checks.

Electronic services were likewise improved, largely by enhancing the network that delivers those services. New interactive terminals that offer added flexibility to customers while reducing operating costs were successfully pilot-tested and installed at a number of institutions. Initially providing access for funds and securities transfers in an on-line real-time mode, future offerings will include cash management, information services, and automated clearinghouse (ACH) capabilities. At the same time, the Bank continued to serve customers with more limited electronic service needs by adding 81 institutions to its "low-volume terminal" network. In the ACH service, deposit schedules were extended and the Bank concentrated on automating ACH return items and expanding electronic delivery of ACH information.

As institutions move toward electronic payment systems, the concern for data security increases. To address those concerns, the Federal Reserve System announced that it would implement additional security measures (i.e., data encryption) and investigate others—actions strongly supported by the Federal Reserve Bank of Chicago during 1984 in line with its overall goal of improving the payments system.

Wire transfers, executed by telephone or through the Bank's expanding on-line network, move funds quickly and safely across the city or across the country.

A major focus of the past year for the Bank was the future . The challenges that confronted the financial institutions and economy of the district served by the Bank will continue as new ones emerge. Efforts on the part of the Bank's support areas—in cost reduction, enhanced automation capabilities, and management planning among others—are largely responsible for enabling the Bank to meet the challenges of 1984 and beyond.

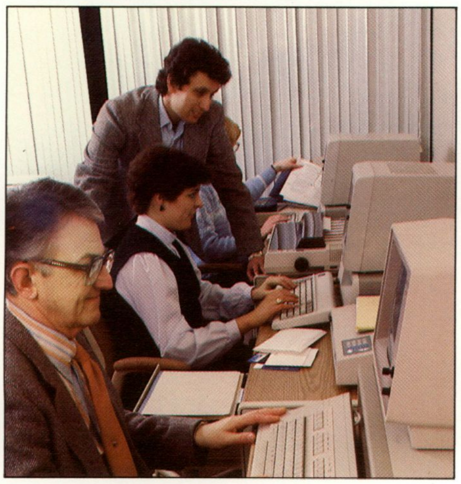


The Bank in 1984: Support activities

A review of the Bank's 1984 accomplishments quite naturally focuses on its three main areas of responsibility: economic research, supervision and regulation, and services. But credit for these accomplishments is due as much to the many behind-the-scenes players as it is to those directly engaged in these activities.

In fact, the various activities that support the Bank's outputs not only have an important role to play in the Bank's current achievements but are largely responsible for providing a firm basis for its future success. What the Bank's various support activities accomplished in 1984 was done with that important focus on the future.

A major thrust on the part of the entire Bank in 1984 was cost containment and cost reduction, with those in the financial management and human resource areas, among others, playing major roles. By minimizing central bank expenses (and maximizing the operating surplus the Bank annually transfers to the U.S. Treasury), such efforts benefit the taxpayer. At the same time, by bringing about favorable results in priced service activities, the cost reductions help to assure that the Bank will continue to serve as an effective presence in the payments system and through that channel benefit the public.



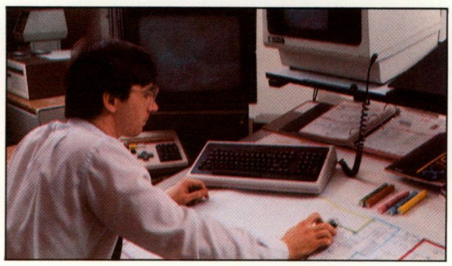
The new "information resource center" helps staff throughout the Bank use personal computers in their jobs.

Also critical to the Bank's future were the 1984 efforts, coordinated by the management systems area, that developed a Bank-wide multi-year planning process and the three-year strategic plan that was devised through that process. The effort included establishing a formalized system for collecting and analyzing information on changes taking place in the Bank's environment, covering the economy, labor market, legislation, technology, and financial markets. A system of analysis was also initiated to compare this Bank's performance against other Reserve Banks and to determine the internal and external factors contributing to those comparisons. Finally, for each of seven important areas of the Bank's activity, a planning group was organized, bringing together representatives from the various units across the Bank that contribute to that activity. Using the general environmental information put together, these groups developed the critical components of the Bank's strategic plan.

Contingency planning serves as another example of the forward focus of the Bank's support activities during 1984. Information on emergency plan procedures was updated and disseminated, disaster recovery plans were developed, and progress was also made in developing a new comprehensive automation contingency plan.

In addition, off-site storage for back-up computer tapes was established. At the same time, computer operations concentrated on service reliability to minimize interruptions and on the growing importance of security, particularly as processing becomes more decentralized. Finally in the area of automation, the System Communications Center, the group based at the Chicago Reserve Bank that monitors the electronic network linking the entire Federal Reserve System and the institutions it serves, implemented a variety of modifications during 1984. As a result, the communications system will be able to effectively accommodate new services and increased volumes in the future.

Finally, work continued on the Bank's building renovation project to assure that the Bank's 60-year old facilities will be able to meet future needs. With the progress achieved in all areas of the Bank's activity during 1984, a firm foundation has been established to take on the challenges that tomorrow will inevitably bring.



Managing the Bank's scarce space—an increasingly difficult task—is accomplished with the help of computer graphics equipment.

A Reserve Bank board of directors is structured to represent a broad range of interests such as agriculture, commerce, industry, services, labor, consumers, and banks of all sizes. Member banks elect 3 bankers and 3 nonbankers, and the Board of Governors appoints 3 additional nonbankers. The Chicago Reserve Bank's board appoints 4 of the 7 Detroit Branch directors (the others are appointed by the Board of Governors); selects the District's Federal Advisory Council representative; appoints the Bank's officers; and through them has a general governance responsibility over the Bank. The directors also act on the Bank's discount rate and contribute to monetary policy by advising on regional conditions.

Directors and officers

Director changes

At the end of 1983, Class A director O. J. Tomson and Class B director Leon T. Kendall 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, Stanton R. Cook was appointed chairman of the board. He had served as deputy chairman for the four previous years under John Sagan, Vice President-Treasurer, Ford Motor Company, who completed the maximum two full terms as a director at year-end 1983. Moving into the post of deputy chairman was Edward F. Brabec and assuming the Class C director seat formerly held by Mr. Sagan was Robert J. Day. All three appointments were made by the Board of Governors.

A new director was also named at the Detroit Branch, to begin a term on January 1, 1984: Ronald D. Story was appointed by the Chicago Reserve Bank board to replace Lawrence A. Johns, President, Isabella Bank and Trust, Mount Pleasant, Michigan, who completed six years of service on the Branch board. In addition, Karl D. Gregory was re-appointed as a Branch director by the Board of Governors, and Russell G. Mawby was re-appointed as chairman of the Branch board by the Detroit directors.

Effective in 1985, Mr. Cook was redesignated chairman of the Chicago board, and Mr. Day was named deputy chairman in place of Mr. Brabec who completed the maximum of two full terms on the board. Named by the Board of Governors to fill Mr. Brabec's seat as a Class C director was Marcus Alexis, Chairman of the Economics Department, Northwestern University, Evanston, Illinois, and elected by the District's smallest member banks to replace Dennis W. Hunt who completed six years of service on the board was Edward D. Powers, Chairman and Chief Executive Officer, Mueller Company, Decatur, Illinois.

At the Detroit Branch, Dr. Mawby was re-appointed chairman for 1985. Named by the Chicago directors to join the Branch board on January 1 was Richard M. Gillett, Chairman of the Board, Old Kent Financial Corporation, Grand Rapids, Michigan, to replace James H. Duncan who had served six years as a Branch director. Also effective January 1, Robert E. Brewer and Thomas R. Ricketts were re-appointed to the board.

Officer changes

A number of changes in the Bank's official staff occurred in 1984 as a result of promotions and the realignment of certain Bank functions. The Loans and Reserves functions were combined under the direction of Vice President Ruth A. Farb and Assistant Vice President James A. Bluemle within the Supervision and Regulation and Loans Department. Financial Institution Accounts, directed by Assistant Vice President Gerard J. Nick, was brought into the Financial and Management Services Department, and Senior Vice President Carl E. Vander Wilt was named the Bank's Chief Financial Officer. The Bank's service operations were reorganized into two departments, each directed by a product manager. This change brought Vice Presidents Wayne R. Baxter, Paul J. Bettini, Stephen M. Pill, and Allen G. Wolkey into the Check Services and Operations Department, headed by Senior Vice President Robert M. Fitzgerald. It also created the Automation and Electronic Services Department, under Senior Vice President William C. Conrad, with Vice President Glen Brooks, Assistant Vice President James M. Rudny, and Administrative Officer Susan H. Riis directing various electronic services activities. With Conrad moving to Chicago, Senior Vice President Roby L. Sloan was named Manager of the Detroit Branch.

Four officers were promoted during 1984. Named vice presidents were William A. Bonifield Jr., who oversees check operations in Chicago, and Thomas P. Killeen, who heads the Bank's Des Moines Office. Promoted to assistant vice presidents were Alicia Williams in Consumer Affairs and Allen R. Jensen who was named to oversee the Bank's Indianapolis Office. New officers appointed in 1984 were: Assistant Vice President James A. Suprinski, Computer Operations; Systems Officer Bonnie Bates, System Communications Center; Administrative Officer Joan M. DeRycke, Office of the Bank Secretariat; Assistant Counsel Teri J. Kurasch, Legal; and Personnel Officer Colleen M. Walsh, Human Resource Services. Finally, two officers' titles were changed to assistant vice president: Jerome F. John, in Financial Management, and Leroy E. Ketchmark who shifted to the Support Services Department.

Directors (as of December 31, 1984)

1984 Board of Directors, Federal Reserve Bank of Chicago, from left to right: (seated) C. Bliss, E. Brabec, S. Cook, M. Garst, D. Hunt; (standing) R. Day, O. Tomson, P. McNarny, L. Kendall.

Federal Reserve Bank of Chicago

Stanton R. Cook, *Chairman*
President and Chief Executive Officer
Tribune Company
Chicago, Illinois

Edward F. Brabec, *Deputy Chairman*
President
Chicago Federation of Labor
Chicago, Illinois

Charles M. Bliss
Director
Harris Bankcorp, Inc.
Chicago, Illinois

Robert J. Day
President and Chief Operating Officer
United States Gypsum Company
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

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

Robert E. Brewer
Executive Vice President—Finance
K mart Corporation
Troy, Michigan

James H. Duncan
Chairman of the Board 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

Thomas R. Ricketts
Chairman of the Board and President
Standard Federal Savings and Loan Association of Troy
Troy, Michigan

Ronald D. Story
President
The Ionia County National Bank
Ionia, Michigan

Federal Advisory Council Member

Barry F. Sullivan
Chairman of the Board and Chief Executive Officer
The First National Bank of Chicago
Chicago, Illinois

1984 Board of Directors, Detroit Branch, from left to right: K. Gregory, C. Fisher, J. Duncan, R. Mawby, R. Story, T. Ricketts, R. Brewer.

Officers (as of December 31, 1984)

Management Committee, Federal Reserve Bank of Chicago, from left to right: (seated) R. Fitzgerald, D. Doyle, S. Keehn, C. Vander Wilt, C. Furbee; (standing) W. Conrad, R. Sloan, R. Bush, K. Scheld, J. Morrison, W. Gram.

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
Rose M. Kubush, Assistant Vice President
Patrick J. Tracy, Assistant Chief Examiner
Alicia Williams, Assistant Vice President

Loans and Reserves

Ruth A. Farb, Vice President
James A. Bluemle, 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

Check Services and Operations

Robert M. Fitzgerald, Senior Vice President

Cash, Fiscal Agency, and Securities Services

David R. Starin, Vice President
Daniel P. Kinsella, Vice President
Warren E. Potts, Assistant Vice President
DeWayne W. Baker, Operations Officer

Check Services

Wayne R. Baxter, Vice President
Paul J. Bettini, Vice President
William A. Bonifield, Vice President
Stephen M. Pill, Vice President
Robert W. Wellhausen, Vice President
Allen G. Wolkey, Vice President
Theodore E. Downing, Jr., Assistant Vice President
Lawrence J. Powaga, Assistant Vice President

Automation and Electronic Services

William C. Conrad, Senior Vice President

Automation Support and Computer Operations

Richard P. Anstee, Vice President and Director of Automation Services
Marlene M. O'Sullivan, Vice President
Kenneth R. Berg, Assistant Vice President
Frank S. McKenna, Assistant Vice President
Charles L. Schultz, Assistant Vice President
James A. Suprinski, Assistant Vice President
Janet M. Terry, Assistant Vice President

Electronic Funds/Securities Transfer

Glen Brooks, Vice President
James M. Rudny, Assistant Vice President
Susan H. Riis, Administrative Officer

System Communications Center

George E. Coe, Vice President
R. Steve Crain, Assistant Vice President
Bonnie Bates, Systems Officer

Support Functions

Financial and Management Services

Carl E. Vander Wilt, Senior Vice President and Chief Financial Officer

Financial Management and Management Services

Glenn C. Hansen, Vice President
Jerome F. John, Assistant Vice President

Financial Institution Accounts

Gerard J. Nick, Assistant Vice President

Office of the General Auditor

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
Teri J. Kurasch, Assistant Counsel

Office of the Bank Secretariat

Joan M. DeRycke, Administrative Officer

Support Services

Charles W. Furbee, Senior Vice President

Administrative Services

Adolph J. Stojetz, Vice President
LeRoy E. Ketchmark, Assistant 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

Gerald I. Silber, Assistant Vice President
Colleen M. Walsh, Personnel Officer

District Offices

Detroit Branch

Roby L. Sloan, Senior Vice President and Branch Manager
Frederick S. Dominick, Vice President and Assistant Branch Manager
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, Vice President

Indianapolis Office

Allen R. Jensen, Assistant Vice President

Milwaukee Office

Thomas G. Ciesielski, Assistant Vice President

Statement of condition (in thousands of dollars)

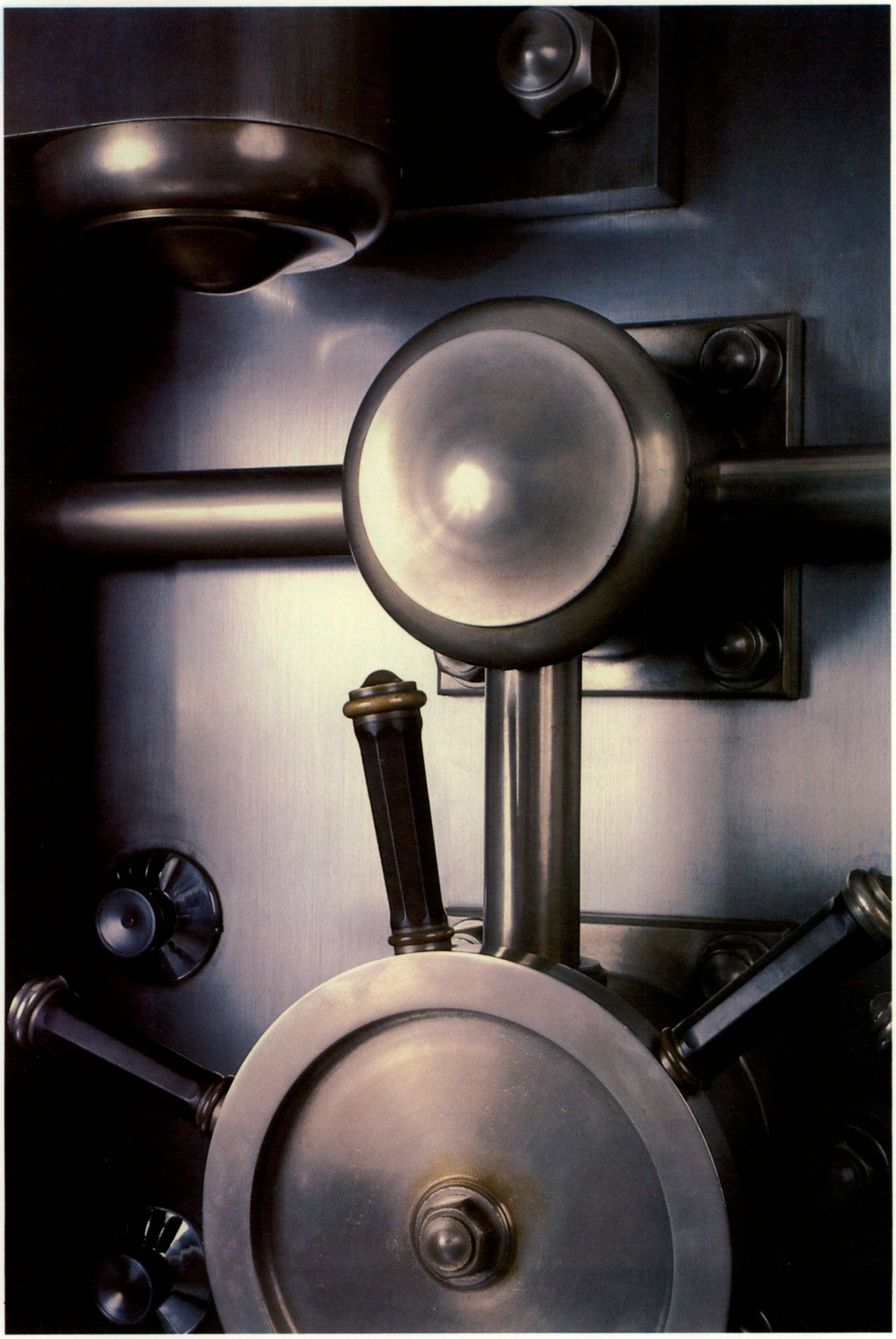
	As of December 31	
	1984	1983
Assets		
Gold certificate account	1,510,000	1,504,000
Interdistrict settlement account	(5,426,572)	90,606
Special drawing rights certificate account	646,000	646,000
Coin	25,713	24,225
Loans and securities:		
Loans	2,969,218	95,030
Federal agency securities	1,145,354	1,191,372
U.S. government securities	21,737,967	20,748,385
Total loans and securities	25,852,539	22,034,787
Cash items in process of collection	592,582	1,054,115
Bank premises	21,393	20,072
Other assets:		
FDIC assumed indebtedness	3,500,000	0
Other	1,345,618	1,045,064
Total other assets	4,845,618	1,045,064
Total assets	**28,067,273**	**26,418,869**
Liabilities		
Federal Reserve notes	23,872,609	22,424,894
Deposits:		
Depository institutions	2,797,116	2,340,732
U.S. Treasury—general account	0	0
Foreign	19,650	20,400
Other	112,801	97,598
Total deposits	2,929,567	2,458,730
Deferred availability cash items	446,318	822,403
Other liabilities	363,553	329,072
Total liabilities	27,612,047	26,035,099
Capital accounts		
Capital paid in	227,613	191,885
Surplus	227,613	191,885
Total capital	455,226	383,770
Total liabilities and capital	**28,067,273**	**26,418,869**

Statement of income (in thousands of dollars)

	Year ending December 31	
	1984	1983
Current income		
Interest on loans	420,196	6,616
Interest on government securities	2,274,308	2,096,979
Interest on investments of foreign currencies	28,493	37,236
Service fees	75,115	72,018
All other	1,537	1,099
Total current income	2,799,649	2,213,948
Current expenses		
Operating expenses	131,008	129,784
Other current expenses	28,128	19,050
Total current expenses	159,136	148,834
Less reimbursement for certain fiscal agency and other expenses	10,217	9,567
Current net expenses	148,919	139,267
Current net income	**2,650,730**	**2,074,681**
Additions to (or deductions from) current net earnings		
Net profit (or loss) on sales of securities	6,671	2,948
Net profit (or loss) on foreign exchange transactions	(59,581)	(62,056)
Board of Governors assessment	(33,855)	(30,833)
All other—net	(720)	(103)
Net additions (or deductions)	(87,485)	(90,044)
Net earnings available for distribution	**2,563,245**	**1,984,637**
Distribution of net earnings		
Dividends paid	12,142	11,399
Payments to U.S. Treasury (as interest on Federal Reserve notes)	2,515,375	1,966,026
Transferred to surplus	35,728	7,212
	2,563,245	**1,984,637**

Highlights of operations

	Dollar amount		Number	
	1984	1983	1984	1983
Check and related services				
Checks, NOWs, and share drafts processed	1.0 trillion	1.0 trillion	1.8 billion	1.8 billion
Fine sort and packaged checks handled	126.2 billion	134.3 billion	284.2 million	311.5 million
U.S. government checks processed	56.2 billion	67.8 billion	65.7 million	67.4 million
Automated clearinghouse (ACH) items processed	314.8 billion	171.8 billion	68.5 million	53.7 million
Transfers of funds	18.3 trillion	16.5 trillion	8.0 million	7.6 million
Cash operations				
Currency received and counted	15.8 billion	12.7 billion	1.5 billion	1.3 billion
Unfit currency withdrawn	2.7 billion	2.4 billion	441.0 million	406.4 million
Coin received and processed	439.1 million	359.1 million	3.2 billion	2.6 billion
Securities services for depository institutions				
Safekeeping of securities:				
Definitive, balance December 31	12.0 billion	14.7 billion	0.6 million	1.0 million
Book entry, balance December 31	119.9 billion	108.6 billion	—	—
Purchase and sale of securities	2.8 billion	2.3 billion	24.5 thousand	17.9 thousand
Collection of bonds, coupons and other noncash items	1.2 billion	2.0 billion	341.8 thousand	381.0 thousand
Loans to depository institutions				
Total loans made during year	722.5 billion	14.6 billion	6,076	4,207
Institutions accommodated	—	—	413	327
Services to U.S. Treasury				
Marketable government securities issued, exchanged and redeemed:				
Definitive securities	5.3 billion	4.4 billion	303.4 thousand	315.1 thousand
Book entry securities	2.9 trillion	2.2 trillion	981.9 thousand	915.1 thousand
U.S. government coupons paid	436.0 million	376.7 million	552.1 thousand	748.0 thousand
U.S. savings bonds issued, exchanged and redeemed	2.4 billion	2.5 billion	26.7 million	27.5 million
Federal tax deposits processed	83.5 billion	72.2 billion	832.5 thousand	816.6 thousand
Food stamps received and processed	1.6 billion	1.6 billion	375.3 million	384.1 million



Photography—all photos by Mary Cairns except:
page 7 right—Frank Kocich;
page 18—Joseph H. Stephens, Moffet Studio;
page 19—Frank Uber, H.A. Powell Studio.