1985 Annual Report Federal Reserve Bank of Chicago

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The Federal Reserve Bank of Chicago is one of 12 regional Federal 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.

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Message from the President

For the Federal Reserve Bank of Chicago, 1985 was a year of significant accomplishment. Confronted by challenging circumstances in the national and international environment and particularly in the region we serve, we set ambitious objectives in each area of our activity, and in each area, we achieved them.

Indeed, in one area, our financial service activities, the Bank achieved a particularly important milestone during 1985. A process of transition that dramatically altered the nature of the Bank's participation in the payments system was set in motion by Congress in 1980 by the Monetary Control Act. The Bank's solid performance in its priced service activities during 1985 gives us confidence that this transition has been successfully accomplished.

President Silas Keehn

This achievement, significant in itself, has even larger implications that should be noted. The payments system represents, in essence, the pipeline through which our nation's economic activity flows. The participation of the Reserve Banks in the payments system, therefore, has served as a critical adjunct to their broader responsibilities for the smooth functioning of both the economy and the financial system. The need for the Federal Reserve Bank of Chicago to continue as an important and effective participant in the payments system, then, relates in a fundamental way to our overall monetary policy responsibilities.

In the area of our supervisory and regulatory responsibilities, the challenges and the accomplishments were also extremely significant. The stress in our financial system was nowhere felt more acutely than by the many agricultural banks in our District. While the process of adjustment has resulted in the closing of a distressing number of institutions, the problems have been confined to the individual institutions—they have not become systemic—indicating that the supervisory process can and has responded effectively.

Also during 1985, this Bank, through its economic research and monetary policy activities, achieved considerable success in expanding our understanding of the forces shaping the economy of the region we serve and, importantly, in sharing this growing expertise with private and public entities that have a common interest in regional economic development. At the same time, we can also take pride in our accomplishments during 1985 as a participant in monetary policy. In the face of some particularly challenging circumstances, the Federal Reserve System succeeded in forging a policy consistent with sustained economic growth and the lowest level of inflation in more than a decade.

The expansion, now entering its fourth year, continues to move forward. Our economy has created more than eight million new jobs since the previous peak, a remarkable achievement. Even more notable, particularly from the monetary policymaker's perspective, is that the expansion has proved so durable, and yet inflation has not reemerged as a significant threat.

But beneath the surface of this good economic news, there has been a buildup of some significant imbalances that provide cause for concern.

It is particularly—and painfully—clear to all of us in the Midwest that the expansion has been quite uneven in different regions of the country as well as among various sectors of our economy. Despite strong gains in employment

nationally in 1985, manufacturing jobs continued to decline and the agricultural sector remains extremely depressed.

Conditions in these sectors, so critically important to the Midwest, are tied to another imbalance that characterizes the economy today—our international trade deficit, which has climbed relentlessly to new records. Moreover, for the first time in seven decades our nation became a net external debtor in 1985, and should recent trends continue, we will become the world's largest debtor nation before the decade is out.

The escalation of our debts to the rest of the world has been driven in turn by another imbalance—the fiscal deficit. That imbalance is the common denominator in the various weaknesses that threaten our economy.

That this nation has incurred enormous budget deficits during a period of sustained economic expansion has been most inappropriate—and without historical precedent. To be sure, some encouraging progress was achieved in 1985 to place the deficit over the longer term on a declining trend. But a number of very difficult choices will have to be made to turn these brighter prospects into reality. If our nation is not up to the task, the favorable trends in economic growth, interest rates, and prices will be reversed.

Paralleling the succession of record fiscal deficits, debt continues to build across all other segments of our society. In turn, this greater leveraging of both households and corporate America adds another element of vulnerability to an already fragile financial system. Constrained by regulatory barriers that have outlived their usefulness, and buffeted by drastically changed economic circumstances, our nation's banks and thrifts have had to contend with significant asset and earnings problems during the past few years. While not systemic, the problems clearly have been a disturbing element.

Against this background, the real success story of 1985 was not simply the economy's continued growth, but rather that this growth was achieved in the face of such unfavorable circumstances. And it is these circumstances that provided some of the most significant challenges faced by the Federal Reserve Bank of Chicago during 1985 and that also underscore its achievements.

What the Bank has been able to accomplish is in large part an outgrowth of the invaluable input and support of the institutions and individuals we work with and serve. Most importantly, the Bank's achievements are visible evidence of the outstanding commitment and efforts put forth by its directors, officers, and most particularly, our corps of dedicated employees that are, in essence, the Federal Reserve Bank of Chicago.

While each and every one of these individuals has played a vital role in the Bank's success, it is also appropriate to highlight the contribution of one person in particular—Stanton R. Cook—who completed the maximum of two terms on our Board of Directors at the end of 1985, having served as Chairman for the past two years after four years of service as Deputy Chairman.

Stanton Cook has been unstinting in his commitment of time, energy, and interest on behalf of the Bank. He guided our Board during a period of unprecedented change in the economy and financial system, and his strong leadership and direction were invaluable. We are indebted to him for his important contribution to our Bank and the Federal Reserve System.

While we have indeed been fortunate to have benefitted from Stanton Cook's association with the Bank, we are likewise fortunate that his leadership role has been assumed by Robert J. Day who has served as our Deputy Chairman. With Robert Day now at the helm, and with the constant dedication of our entire Board and staff, we can look to the future, fully confident in the Bank's continued commitment to providing the highest possible level of service to the public, our region, and its financial institutions.

1985 in Review

The U.S. economy performed well in 1985, the third consecutive year of expansion—a duration rarely exceeded in peacetime. Moreover, there was little evidence that the economy was winded by its 37-month climb. Employment, retail sales, construction, and factory output all ended the year at record highs. The stock market broke new ground. Inflation remained at the lowest rate in more than a decade. Most forecasters for 1986 saw further growth and continued modest inflation.

The varieties of money that circulated through our nation's history shed light on the economic and financial circumstances of those earlier days and provide some messages still pertinent today.

The generally healthy tone of the U.S. economy, however, could not mask a number of problems. Some were immediate, such as the foreign trade deficit, the agricultural crisis, and the politically charged question of the federal budget deficit. Others, such as rising personal and business indebtedness and stresses on the financial system, attracted increasing attention in 1985. In this environment, the atypical behavior of the monetary aggregate M1, which serves as a guide for monetary policy, presented an additional challenge to policymakers.

International: A debtor nation

The value of the U.S. dollar trended downward during most of 1985. However, the U.S. economy continued to be buffeted by the sharp rise in the value of the dollar during the first half of the 1980s, resulting in an all-time high U.S. trade deficit.

Between early 1980 and 1985, the U.S. dollar almost doubled in value relative to the German mark, and more than doubled in value relative to the French franc and British pound. Its appreciation relative to virtually all other major world currencies was equally significant. The rise, which peaked in February 1985, has had a profound impact on the United States economy. In part, the impact was positive for U.S. consumers and businessmen. U.S. prices of foreign goods and supplies were kept considerably below where they otherwise would have been, helping to keep inflation relatively low and expanding the purchasing power of U.S. residents. On the other hand, the rising value of the dollar, combined with slow growth in demand abroad, inflicted hardship on many sectors of the U.S. economy as the cheaper foreign-produced goods displaced U.S. goods in markets here and abroad. As a result, U.S. exports stagnated and imports rose. In 1985, the trade deficit reached $124 billion, about five times the level of 1981.

The country's growing deficit in trade and other current account transactions was financed by borrowing abroad and by liquidation of U.S.-owned foreign assets. These developments have resulted over the years in an erosion of U.S. net international wealth. The year 1985 represented a watershed in this trend as the United States became a net international debtor for the first time since World War I.

In the latter part of 1985, the U.S., together with the governments of Germany, Japan, the United Kingdom, and France (the so-called Group of Five or G-5) launched an effort to bring down the value of the dollar through active intervention in the foreign exchange markets, and through coordination of domestic economic policies. The effort was in part designed to forestall protectionist moves that would seriously jeopardize the flow of commerce between the United States and its trading partners.

The joint action put further pressure on the dollar's already downward trend. By the end of 1985, the dollar had depreciated by about 25 percent in its trade-weighted average value against the world's major currencies, a decline that sets the stage for improving U.S. international economic relations.

Agriculture: Continued ordeal

The nation's agricultural sector has been dramatically affected by the international trends of the early 1980s, a phenomenon still painfully apparent in 1985.

U.S. crop production rose 5.5 percent and livestock production 3 percent from the year before. Production of corn and soybeans, the two

dominant crops grown in the Seventh Federal Reserve District, were up 16 percent and 13 percent respectively, with corn far surpassing the 1982 record. But the expanded production coincided with further declines in market demand, especially from abroad. Exports of both corn and soybeans fell to 8-year lows. Several factors have contributed to the slide in farm exports—the high value of the U.S. dollar, changing trade patterns, sharply expanded production elsewhere in the world, and U.S. price supports that undermined the price competitiveness of U.S. crops in world markets.

The combination of expanded production and weaker demand depressed commodity prices and farm earnings again in 1985. The index of prices received by farmers fell to a 7-year low, down 10 percent from the 1984 high. The lower prices meant lower farm sector earnings and lower returns on assets, and thus further large declines in farm land values. Farm land values in the District, on average, fell 20 percent in 1985, and are now some 42 percent below the 1981 peak. The drastic declines in land values, which account for three-fourths of farm sector assets, have reduced the equity of all land owners. Perhaps one out of every six commercial farm operators is facing serious problems and possible insolvency.

The financial stress among farmers has led to reduced earnings and sharply rising loan charge-offs among farm lenders. Commercial banks nationwide charged off about $1.3 billion, or 4 percent, of their farm loans in 1985, up from roughly $900 million in 1984. Hardest hit was the Farm Credit System (FCS). Accounting for about a third of the roughly $200 billion in outstanding farm sector debt, the FCS, composed of 37 separate banks and numerous borrower-owned local cooperatives, is the leading supplier of credit to farmers. For 1985, the FCS reported a net loss of $2.7 billion, which contrasted sharply with net profits of $373 million in 1984.

Two pieces of federal legislation enacted in late 1985 offer some help for agriculture. An amendment to the Farm Credit Act of 1971 should help restore confidence in the FCS. The Food Security Act of 1985, signed on December 23, extends and modifies the provisions of existing government farm programs for 5 more years. Among other things, the Act lowers support prices for most grains and soybeans, in recognition of the need to enhance the competitiveness of U.S. commodities in world markets. Simultaneously, the Act insures that government payments to crop farmers will offset most of the loss from lower support prices.

The Seventh District: An elusive turnaround?

With the ongoing agricultural crisis and large job losses linked to the strong dollar, economic recovery in the Seventh Federal Reserve District continued to lag that of the nation in 1985. Some 45,000 jobs were lost in the District's manufacturing sector in 1985, despite a continued strong performance by the auto industry. In the nonmanufacturing industries, District employment growth was positive, but only about two-thirds the national increase of 4 percent in 1985.

The decline of the Midwest relative to the rest of the nation has been evident for more than a decade, in recession and recovery alike. The long cyclical decline did not end in 1985. But there were some hopeful signs.

The brutal revaluation of farmland may be nearing its end. Some analysts look for a bottom to the land price decline in 1986. Lower-valued farm real estate, linked with changes in farm support programs, and cheaper energy, could help to boost agriculture, particularly in the Midwest.

The Midwest's manufacturing sector continues its painful process of realignment with the new economic realities. New technologies are being applied to the old industries. The Midwest—particularly the area from Ann Arbor and Detroit to Cincinnati known as Automation Alley—is the center for

a growing robotics industry and provides most of the customers for that industry as well. In biotechnology, Midwestern research is concentrating on applications for agriculture and for the food and drug industries, all important components of the Midwestern economy. Computer software and communications research companies are springing up west of Chicago to add to the already considerable strengths of the Midwest in those fields.

Perhaps the most hopeful sign of a Midwestern renaissance lies in the growing realization that Midwestern governments and industries must begin to act in the area's common interest. Regional cooperative efforts—in which the Federal Reserve Bank of Chicago has been deeply involved—have focussed the attention and energies of the Midwest on economic realignment and recovery. But the task at hand remains a substantial one.

The Deficit: A new record

While the national economy completed a third year of expansion, there was a record $212 billion federal budget deficit in fiscal 1985, the latest in a string of huge federal budget shortfalls. U.S. Treasury debt has more than doubled over the past five years, and will surpass the $2 trillion mark in 1986. Federal budget deficits as a percent of GNP typically rise in recessions and early recovery periods, then decline as an economic expansion matures. However, in the current expansion federal budget deficits have remained at about 5 percent of GNP, an historically high proportion.

Huge budget deficits have serious ramifications for the nation. As noted by Federal Reserve Board Chairman Paul Volcker:

> The persistence of deficits of such awesome dimensions worsens our long-run prospects for economic growth, ensures that a substantial portion of our future income will have to be sent abroad to finance indebtedness to foreigners, and perpetuates the difficulties of our industries that compete in world markets. By contributing to high real interest rates, the deficits help to support a high exchange value of the dollar, weakening the ability of farmers and others exposed to trade pressures to repay loans. Moreover, the rapid growth of federal debt exacerbates financial problems elsewhere in the economy. The high real interest rates raise the debt service costs of all borrowers, including those overseas with debts to U.S. banks.

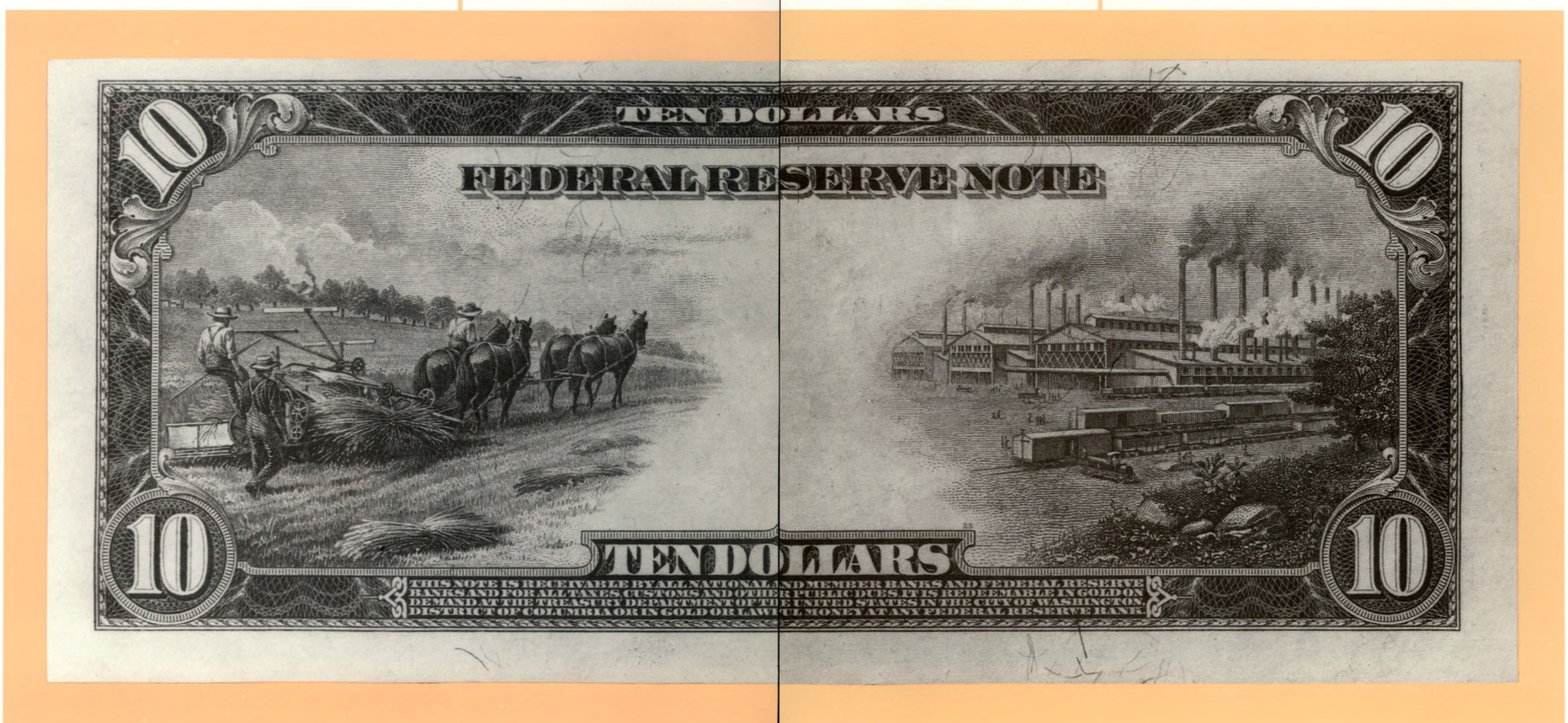
The likelihood of continued record federal budget deficits may have been reduced in December when the President signed the "Balanced Budget and Emergency Deficit Control Act of 1985," commonly referred to as Gramm-Rudman. While both the constitutionality and workability of this law

The importance of the farm and factory in American economic life was highlighted on the reverse of the first Federal Reserve Notes. Seven decades later, these sectors remain the backbone of the Seventh District economy, but their luster has faded.

Federal Reserve Note, 1914.

Billowing smokestacks of a mill in Joliet, Illinois depicted economic activity and prosperity in the early days of the century. Today, cooperative efforts and new technologies are being applied to recapture some of the Midwest's former industrial vitality.

Federal Reserve Note, 1914.



are in doubt, its enactment can be viewed as a commitment on the part of the Congress and the Administration to work toward reducing budget deficits over the coming years.

Private Debt: A growing burden

Like federal debt, debt of American consumers, firms, and municipalities continued to expand at a rapid pace in 1985. This continued rapid debt accumulation increases the vulnerability of some firms and individuals to adverse changes in the economy or financial markets.

Outstanding consumer installment debt as a percent of disposable income climbed to a record level in 1985. In addition, delinquency rates on consumer debt have been rising since 1984, although they remain well below 1980 peaks. But despite the rise in debt, household assets and net worth are at record levels and households in the aggregate appear to be in a comfortable financial position. Nonetheless, individual households with excessive debt and low assets could experience difficulties if the economy were to turn downward.

The rise in nonfinancial corporate debt has occurred despite lower external financing needs as cash flow outpaced increases in spending on fixed capital and inventories. A significant portion of the corporate debt rise can be traced to the extraordinary pace of mergers, leveraged buyouts, and stock repurchases of the past two years. Resulting corporate stock retirements significantly exceeded new issues in both 1984 and 1985, and corporate debt-to-equity ratios rose sharply.

As a result, the default risk of U.S. firms has increased, a factor reflected in the unusually large number of downgradings in bond ratings in a period of economic expansion. Firms that have increased their leverage are now more vulnerable to a period of weakness in their line of business, and some may be more vulnerable to increases in interest rates, adding another element of fragility to an already strained financial system.

Financial System: Signs of stress

Signs of stress on America's financial system were evident once again in 1985. The number of bank failures reached another post-Depression record, particularly because of problems in agriculture, real estate, and energy loans. While the Farm Credit System reported sizable losses and sought financial assistance from Congress, many savings and loan associations continued to operate with negative tangible net worth, despite higher earnings. Moreover, the failure of several government securities dealers resulted in losses for some banks, thrifts, and municipalities, and undermined confidence in private state deposit insurance funds.

The strains on the financial system seen over the past few years are the outgrowth of many factors. Heavy debt in some industries, particularly agriculture, real estate, and energy, have been exacerbated by difficulties

associated with adjusting to a less inflationary environment and/or heightened competition from abroad. At the same time, financial institutions continue their own adjustment to a less regulated environment.

Thus far, regulators have been able to contain financial system problems. While confidence in privately-insured deposit funds was shaken last year, faith in the federal deposit insurance funds, and the ability of regulators to prevent various strains on the financial system from spreading, continues to be strong.

Monetary Policy: What happened to M1?

For all the seriousness of these problems, policymakers can be gratified by the performance of the economy in 1985. Economic growth continued at a more sustainable pace, employment gains were impressive, and inflation remained subdued. Moreover, forecasts generally suggest a continuation of these trends. However, the making of monetary policy in 1985 was made more difficult by the unusual behavior of M1 relative to the economy.

Throughout 1985, growth in M1—the narrowest measure of money, including currency, demand deposits, and other checkable deposits such as NOW accounts—was well above targeted ranges set by the Federal Reserve System's Federal Open Market Committee. In the past, such rapid M1 growth usually presaged faster real GNP growth and/or more inflation. The dilemma faced by monetary policymakers, then, was reconciling the conflicting signals from rapid M1 growth with what was actually happening in the economy.

The setting of monetary and credit aggregate growth ranges has been a central part of monetary policy for over a decade. Indeed, since 1975, when such ranges were first reported to Congress, they have provided the primary means for communicating monetary policy plans to Congress and the public. The usefulness of money and credit aggregates as monetary policy guides, however, rests on the existence of a predictable relationship between them and the economy.

For most of the postwar period, M1 was the most reliable guide. But in 1982-83 and again in 1985, M1 rose more rapidly than history suggests was consistent with economic performance. For example, if historical relationships between M1 and the economy had held in 1985, nominal GNP growth would have been nearly triple what actually occurred. Adding to the policy dilemma was a deterioration in relationships between the economy and other monetary and credit aggregates as well, although the problem seems more acute for M1.

The deterioration of M1 as a policy guide seems to have many causes. One stems from the international situation. A larger part of domestic demand for goods and services in recent years has been satisfied by imports. As a result, domestic output or GNP has been outstripped by domestic spending which may be more closely tied to M1. Another factor stems from financial deregulation. Interest-bearing checking accounts included in M1 are now more widely available. Such accounts serve not only as transactions balances, but also provide savings services to their owners. Another factor, and perhaps the most important one, is interest rates. Growth of M1 appears to have become more responsive to changes in interest rates over the past few years, as interest rates have fallen sharply.

Given the unusual behavior of M1 relative to the economy last year, the FOMC accepted M1 growth above its growth range. The behavior of M1 and other money and credit measures was evaluated in light of what was happening in the economy, inflation, and financial and international markets, including the exchange value of the dollar.

It is still not clear whether M1's unusual behavior last year will become the norm or whether its historical relationship will reemerge. So far real economic growth continues with few signs of stalling, and inflation remains moderate, at least by recent standards. Without good guideposts to the future behavior of the economy, however, policy decisions are much more difficult. The ever present growth-vs.-inflation tradeoff remains. Too tight a policy could stall the expansion, while too loose a policy could reignite inflation. Despite the many difficulties, recent economic performance and a favorable outlook increase confidence that policymakers will meet the challenge successfully.

The Bank: Economic analysis and policy activities

Despite the various imbalances in the economy, the Federal Reserve was able to achieve its overall monetary policy goals in terms of a healthy and growing economy in 1985. The economic upswing continued through its third year, inflationary pressures remained in check, and the unemployment rate dropped to its lowest level since 1980.

To accomplish this, the Federal Reserve, as always, had to travel a narrow course. On one side, too tight a policy could seriously damage the fragile prosperity. On the other side, too loose a policy could recreate the inflation which poisoned the 1970s.

Postage Currency, 1862.

"What is money?" is one of the constant puzzles facing monetary policymakers. During the Civil War, when metal coins disappeared from circulation because of inflation, the answer included stamps, encased stamps, and government-issued postage currency which were used for small transactions.

The reason navigation is always difficult is that monetary policy operates with a lag. A policy that seems appropriate today given the state of the economy may be completely inappropriate by the time that policy actually has an effect. Thus, good policy depends on a combination of knowing where the economy is going and how a given policy action will affect that direction.

Those who work in the Bank's economic policy and analysis areas provide the information and supporting analysis to help President Silas Keehn make such policy judgments in his role as a participant in the Federal Open Market Committee—the Fed's chief policymaking body. As part of his responsibility as a member of the Committee, Keehn provides first-hand, grass-roots information on current economic conditions and emerging trends in the Seventh Federal Reserve District.

To help provide this information, Bank staff members gather, compile, and analyze a wide range of statistics and other information to determine the current and long-range outlook for the District economy. This information, along with input from other sources such as the Bank's board of directors, is ultimately incorporated into national monetary policy.

Along with these ongoing activities supporting current policy decisions, the Bank also gave special emphasis during 1985 to researching some of the fundamental relationships that underlie monetary policy and the behavior of the economy. The results of these studies were shared with the broader economics profession in 1985 through a variety of papers and published articles.

The Bank also sought during 1985 to contribute to a more thorough understanding of economic conditions and prospects in the region it serves. To this end, the Bank provided support for a variety of important cooperative studies directed at improving the long-run economic performance of the area within the Seventh District.

These efforts include the Bank's participation in a cooperative venture undertaken by Illinois, Indiana, Michigan, and Wisconsin and four other Great Lakes states. The Bank played a major role in preparing a statistical compendium for the region entitled, *The Great Lakes Economy: A Resource and Industry Profile of the Great Lakes States.* The information developed was meant to serve as a common basis for a better understanding of the

region's economic position and performance, and can be used to develop common regional strategies.

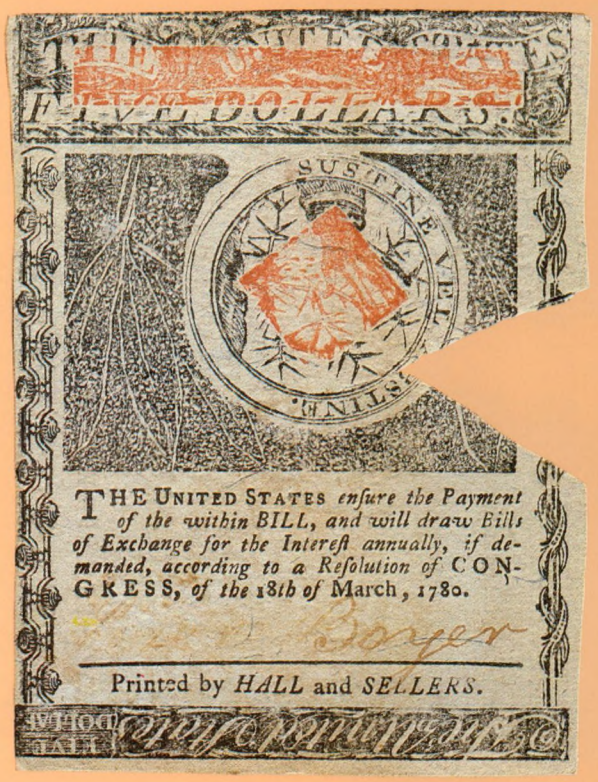
A similar effort was sponsored by the Wisconsin Strategic Development Commission, a public/private partnership created by the governor of Wisconsin. The Commission issued its report in 1985, containing a long-range strategic plan for stronger economic performance in Wisconsin, with a particular focus on developing job growth in the state. The Bank assisted the Commission's study groups by collecting and analyzing the data that provided a basis for assessing the state's economic strengths and weaknesses.

The Bank is also continuing its participation in a study sponsored by the Commercial Club of Chicago. While assisting in the Club's *Jobs for Metropolitan Chicago* project, the Bank has collected and analyzed data on different aspects of the Chicago metropolitan economy. The Bank has also started preliminary work on a strategic economic plan for the Detroit area sponsored by the Detroit Renaissance Commission.

In a related effort, the Bank continued in 1985 to promote a two-way flow of information with various groups across the District. By improving such communication, the Bank can expand its understanding of the regional economy and also share its expertise with other interested parties.

The formation of two new Federal Reserve Bank of Chicago advisory groups—the Advisory Council on Agriculture and the Advisory Council on Small Business—was aimed at improving the Bank's input from these sectors. The Councils each met twice with President Keehn and other senior Bank officials to discuss general economic policy issues as well as developments and prospects in the agricultural and small business areas. Council members, selected from nominations by organizations representing agriculture and small business in the Seventh District, were chosen to assure representation of different organizations and geographic areas as well as a mixture of small business and agricultural activities.

An expanded series of economic forums featuring the Bank's president and economic research director provided another important avenue for communication during 1985. Sessions held in each of the District's 5 states permitted the Bank's top monetary policy participants to discuss the general economic outlook, regional conditions, and monetary policy issues and objectives with financial institution executives and other business leaders representing 18 of the region's metropolitan areas.



Massachusetts Bill of Credit, 1780.

The first citizens of the United States had an early lesson in inflation that we recall today with the expression "not worth a continental." This 1780 $5 Massachusetts bill of credit was actually worth $200 in the currency issued by the Continental Congress to finance the Revolutionary War.

Supervision and Regulation: A more complex task

The number of banking organizations supervised and monitored by the Federal Reserve Bank of Chicago is among the largest within the Federal Reserve System. This responsibility, complicated by the rapidly changing environment in which financial institutions function, has become more critical in recent years—and more challenging.

As a regulator, the Bank helps to establish the framework of policies and rules within which depository institutions must operate. As a supervisor, it administers these policies and monitors the condition of the banks and bank holding companies under its jurisdiction. As a lender of last resort, the Bank contains disruptions in the financial system by assisting depository institutions that experience temporary, seasonal, or emergency needs for credit.

These activities provide a stable environment in which the various participants in the economy can conduct financial transactions, as well as an environment that encourages efficiency and competition in the financial marketplace. As a result, the interests of depositors and borrowers alike are protected.

During 1985, the Bank carried out these responsibilities by helping to maintain stability and public confidence in the face of considerable stress in the financial system. While there were numerous problems for individual institutions, they were contained—they did not become systemic. At the same time, the Bank helped to improve the supervisory process itself.

Because supervision and regulation should foster a banking system that responds quickly to changes in the financial environment, the supervisory and regulatory function itself must be equally responsive. Such an increased responsiveness was the goal of many of the Bank's 1985 activities.

Bank of the United States Note, 1840, and Federal Reserve Bank Note, 1918.

The Federal Reserve System, established by an Act of Congress passed in 1913 to "furnish an elastic currency" and foster a sound banking system, was actually the nation's third experiment in central banking. Because of suspicions about money and power, neither the first nor second Bank of the United States was re-chartered beyond its initial 20-year charter.

The Bank has been a leader, for example, in applying automation to the supervisory function. The increased use of electronic data analysis assists in the critical "early warning" stage of bank monitoring by quickly identifying institutions that require attention. In the field, examiners use personal computers to analyze and assess individual firms. Personal computers also shorten the time for processing examination reports, producing data which is more timely and, therefore, more meaningful. This innovative adaptation of automation to the supervisory function should be even more valuable in the future as changes engendered by interstate banking add to the complexity of the Bank's workload.

Similarly, changes in bank surveillance programs were adopted by the Federal Reserve Board in 1985 with a dual purpose in mind: to prevent problems from developing at banking institutions, and to identify and quickly resolve problems should they occur. The new policies call for increased

monitoring through reports submitted to the Fed, combined with more frequent on-site inspections and examinations of banking organizations. To implement this program change, the Chicago Fed began, in 1985, to augment its examination staff. Eventually, 40 to 45 individuals are to be added—an increase of approximately 20 percent. In addition, an examination office is being established in Des Moines, which will bring Bank field staff closer to its constituency.

Despite heavy demands on the Bank's staff within the Seventh District, the Bank was able to help respond to critical events outside the region. During the savings and loan crises in Maryland and Ohio, Chicago Fed personnel traveled to these areas to provide assistance and guidance.

While enhanced surveillance provides a protective sheath for the banking system, other new regulatory policies and programs were adopted in 1985 to strengthen the system internally and make it more resilient. Capital adequacy guidelines for bank holding companies and state member banks were upgraded in 1985 to provide a better cushion in times of financial strain. Another area of regulatory concern and policy action in 1985 related to the growing volume of transactions on large-dollar electronic funds transfer systems. While this growth has increased speed and efficiency in the payments mechanism, it also produced an undesirable by-product—increased risk. In response, the Board of Governors approved a new policy covering Fedwire, the Federal Reserve's network, as well as the private large-dollar transfer systems. Essentially, the policy is aimed at reducing credit exposure, also referred to as daylight overdrafts, through voluntary measures that take effect in early 1986.

The Federal Reserve Bank of Chicago played a key role in implementing this policy by coordinating the development of educational programs and materials used throughout the Federal Reserve System. In addition, the Bank sponsored seminars across the Seventh District to familiarize the many institutions under its own jurisdiction with the new policy.

Continued stress in the agricultural sector during 1985 led the Board of Governors to revise its seasonal credit program. Again, the Chicago Fed

Between the Revolutionary and Civil Wars, private banks issued much of the paper currency that circulated in the U.S. But without a general system of banking regulation, there was a lack of confidence in banks, and in their notes, undermining the smooth operation of the economy.

Citizens Bank of Gosport, Indiana
Note, 1857.

played an instrumental role by assisting Board staff in the development of a liberalized program. Within the District, the Bank sponsored a series of seminars, and staff appeared at various banking association meetings to introduce and explain the details and benefits of the revisions.

Concomitant with the Bank's responsibilities for supervising and regulating financial institutions is a responsibility to foster a better understanding of regulatory issues and problems. To this end, the Bank

sponsors a wide-ranging program of research to identify and analyze these issues, and many such issues are highlighted each year at the Bank's Conference on Bank Structure and Competition. The 21st annual conference, held in 1985, was the largest in conference history, and provided a forum for regulators, researchers, and bankers to exchange views on current topics such as deposit insurance and the problems facing agricultural banks.

The Bank's concerns extend beyond the institutions that it monitors, and into the communities that these institutions serve. Since the Community Reinvestment Act (CRA) was passed, the Bank has continued to increase its emphasis on developing strong relationships between financial institutions and their communities. These relationships often result in the creation of partnerships of the public and private sectors in community restoration, maintenance, and support and in other community-related activities.

During 1985 the Chicago Fed furthered these objectives by visiting community groups in 15 Seventh District cities to determine area needs. This information was then shared with member banks that serve those communities. Also, meetings were held to familiarize banks with Neighborhood Housing Services, an organization that promotes the revitalization of housing in designated areas. Additionally, in order to assist the banks in implementing their community reinvestment objectives, conferences were sponsored on related programs.

Repurchase agreement seminars held in Chicago, Detroit, and Indianapolis represented another significant educational effort on the part of the Chicago Fed. The three sessions were designed to acquaint investors with risks and safeguards associated with these investments.

Despite the stress weathered by the financial system during the past year, the basic soundness of the system and public confidence in this soundness were both maintained. Of equal importance is the fact that enhanced policies and procedures better position the Federal Reserve System to meet the challenges that future years will surely bring.

Services: A successful transition

In providing financial services, the Bank achieved considerable success in 1985. Perhaps the most tangible measure of this success is the fact that the Bank fully recovered the costs of providing services. A less tangible but more far-reaching and fundamental result is the assurance that the Bank will continue to play an active role in the payments system.

Since its inception, the Federal Reserve's role in the payments system has been a vital and necessary component of its overall responsibilities for the smooth operation of the economy and the financial system. Among their various activities today, the Reserve Banks clear checks, transfer funds, issue currency and coin, process electronic payments, issue U.S. government securities, and process tax deposits and food stamps. Everyday financial

transactions—ranging from using a quarter to buy a newspaper to writing a check to purchase a savings bond—can be taken for granted as the result of these and other services provided by the Fed Banks. By serving as a pipeline through which many of the nation's financial transactions are funneled, the Chicago Reserve Bank and its counterparts help to assure the effective operation of the nation's payments system and, in turn, the stable functioning of the economy.

The Bank's success as a service provider during 1985 can be traced back to the challenge presented to the Federal Reserve by the passage of the Monetary Control Act of 1980. That legislation required the Fed to price many of the services which were previously offered free and to recover all relevant costs of providing these services—including even an imputed amount that the Fed would have to earn if it were a private firm, to cover such items as taxes and a fair return on capital. The goal of the Federal Reserve Bank of Chicago, then, became two-fold: to fully recover costs related to providing priced services, and to continue its traditional role of promoting a more efficient and effective payments system.

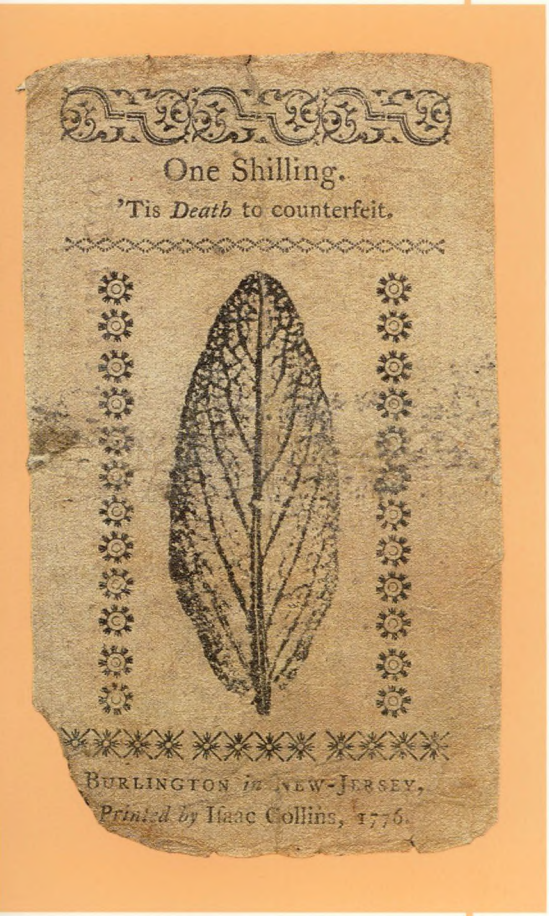
To achieve these objectives, each of the five offices of the Federal Reserve Bank of Chicago pursued two main goals during 1985: improving its own efficiency and offering new or improved services.

Among the new check services featured by the Bank was a *High Dollar Group Sort Culled* program which allowed small depositors to collect some large-dollar items one day earlier. Another new service offered by the Bank was in response to an amendment to Regulation J strengthening notification requirements for returning large-dollar checks. Through the *Large-Dollar Return Item Notification* service, institutions returning such items can choose one of several options for notifying the institution where the check was first deposited of the return. Also, deadlines were extended, allowing depositors more time to prepare and transport work, and the Bank expanded the *Check Processing Analysis* service to all District offices in 1985. Through this service, an institution's check volumes are analyzed to determine how it can receive better availability or make better use of Federal Reserve services.

Complementing the introduction of new services, operations were increasingly automated in order to improve efficiency. As part of this effort, new automated methods to process rejected cash letters and rejected checks were introduced. By eliminating the need for special manual handling, the time needed for processing these items was reduced. Check processing was also improved by automating the cash letter receiving process.

The series of innovations that have improved our nation's payments system traces back to the colonists. The first paper money authorized by a government in the Western World was issued in 1690 by the Province of Massachusetts Bay, and other colonies followed its example.

Colonial New Jersey
Bill of Credit, 1776.



Interaction with customers continued to play a key role in the Bank's check operations in 1985. A case in point: A total of 20 seminars were held with financial institutions to discuss how the new notification requirements for returning large-dollar checks would affect the Chicago Fed and its customers. Customer feedback was also an important goal of a survey conducted to gather customer input on services as well as sessions held to discuss customers' experiences with the check adjustment and return item functions.

In the cash, fiscal agency, and securities services areas, special emphasis was placed on improving efficiency. For example, the Detroit Branch improved securities services by consolidating activities, cross training employees, and encouraging automation in its savings bond payroll program. Similarly, the Chicago Office consolidated the safekeeping and noncash collection operations to provide additional flexibility in staffing.

A similar emphasis on improving services and efficiency took place in electronic services. For wire transfer customers, a new service was introduced through which the Bank now stores certain key information so that customers can easily make recurring transfers. In addition, a service enabling customer institutions to receive information about their ACH and check activities was enhanced in 1985 and became available from all District Offices under its new name, *ENHANCED MONEY PO$ITION*. The Bank also continued to improve the communications network connecting customers to its electronic services. The process of converting institutions with higher wire-transfer volumes from older technology to more up-to-date interactive terminals and personal computers was completed in 1985 and additional institutions were connected to the network.

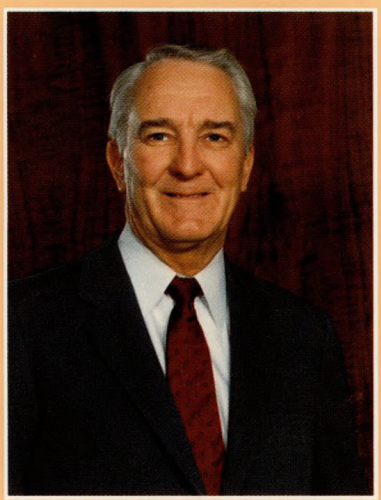
In the ACH area, faster processing of transactions and other improvements were achieved by implementing new computer software. The Bank also concentrated on expanding the electronic delivery of ACH information by updating and enhancing the ACH file transmission system. In addition, new automation in the processing of ACH return items resulted in the near elimination of the costly and time-consuming process of receiving paper items. This technology was also utilized by the Bank to design *Database Returns*. This new service, to be available early in 1986, will simplify and accelerate ACH return item processing by enabling subscribers to process a return item electronically rather than by completing a lengthy paper form. Automation also played a key role in increasing efficiency in net settlement services by enabling 15 times the previous volume to be reliably handled without an increase in staff.

These achievements and others in previous years have enabled the Bank to successfully complete the transition necessitated by the passage of the Monetary Control Act of 1980. As the Bank enters the second half of the decade, it stands poised to continue to play a significant role in shaping and fostering further improvements in the payments system.

Executive Changes

Directors

Three new directors joined the Chicago Fed board in 1985: Barry F. Sullivan and Edward D. Powers were elected by the largest and smallest District banks respectively, and Marcus Alexis was appointed by the Board of Governors. In addition, the Board of Governors redesignated Stanton R. Cook chairman of the board and named Robert J. Day deputy chairman for 1985.



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

At year-end 1985, Stanton Cook completed the maximum of two full three-year terms as a director of the Federal Reserve Bank of Chicago, having served the last two years as chairman following four years of service as deputy chairman. During his tenure, he provided invaluable leadership and counsel to the Bank, guiding it through a period of enormous challenge and change.

Day replaced Edward F. Brabec, president, Chicago Federation of Labor, who completed the maximum two full terms as a director. Also completing their terms at year-end 1984 were Charles M. Bliss, director, Harris Bancorp, Inc. in Chicago, and Dennis W. Hunt, president of Hunt Truck Lines, Inc. in Rockwell City, Iowa.

In Detroit, Richard M. Gillett was named to the Branch board by the Chicago Fed directors replacing James H. Duncan, chairman and chief executive officer, First of America Bank Corporation, Kalamazoo. Also, Robert E. Brewer and Thomas R. Ricketts were reappointed by the Board of Governors, and the Detroit directors reappointed Russell G. Mawby Branch chairman for 1985.

New Chicago Fed directors as of January 1, 1986 are John W. Gabbert, president and chief executive officer, First National Bank & Trust in La Porte, Indiana, and Max J. Naylor, owner and operator of a grain and livestock farm in Jefferson, Iowa. Gabbert was elected by medium-sized banks and Naylor was elected by the largest banks. They replace Mary Garst and Patrick E. McNarny, who completed two full terms on the board.

Also for 1986, Robert J. Day was designated chairman and Marcus Alexis was designated deputy chairman by the Board of Governors. Day replaces previous chairman Stanton R. Cook who completed two full terms on the board, while Alexis assumed Day's former post as deputy chairman.

Selected to the Branch board effective January 1, 1986 were Phyllis E. Peters, director, professional standards review, Touche Ross & Company of Detroit, and Donald R. Mandich, chairman and chief executive officer of Comerica Bank—Detroit. Peters, who was appointed by the Board of Governors, and Mandich, selected by the Chicago Fed board, replace Russell G. Mawby and Charles T. Fisher. Robert E. Brewer was appointed Branch chairman for 1986, replacing Mawby in that position.

Officers

Officers promoted in 1985 were Thomas G. Ciesielski, vice president in charge of Human Resource Services; Bonnie Bates, assistant vice president, System Communications Center; Joan M. DeRycke, assistant vice president and assistant secretary, Office of the Bank Secretariat; and Teri J. Kurasch, assistant general counsel, Legal Department.

New officers appointed in 1985 were Assistant Vice Presidents David S. Epstein and Geoffrey C. Rosean and Assistant Chief Examiners Douglas J. Kasl and William H. Lossie, all in the Supervision and Regulation Department; Charles M. Lund, assistant vice president in charge of the Milwaukee Office; Auditing Officer Angelina Chin; Operations Officer Maria H. Coons, Support Services; Research Officers Paul L. Kasriel and Steven H. Strongin; Operations Officer Jerome D. Nicolas, Check Services and Operations; Assistant Counsel M. Kathleen O'Brien, Legal Department; and Yvonne H. Montgomery, operations officer, Detroit Branch.

Directors

Federal Reserve Bank of Chicago

(as of December 31, 1985)

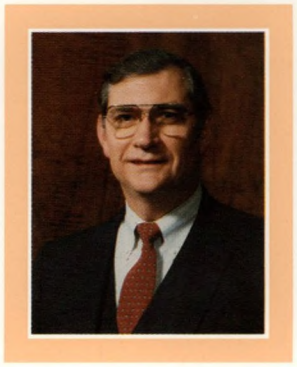
Deputy Chairman Robert J. Day, *Chairman and Chief Executive Officer, USG Corporation, Chicago, Illinois*

Marcus Alexis, *Dean, College of Business Administration, University of Illinois at Chicago, Chicago, Illinois*

Mary Garst, *Manager, Cattle Division, The Garst Company, Coon Rapids, 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*



Edward D. Powers, *President and Chief Executive Officer, Mueller Company, Decatur, Illinois*

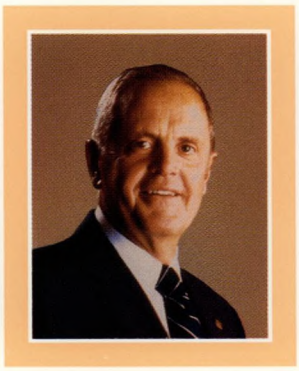
Barry F. Sullivan, *Chairman of the Board and Chief Executive Officer, The First National Bank of Chicago, Chicago, Illinois*

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

Directors

Detroit Branch

(as of December 31, 1985)



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

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

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

Richard M. Gillett, *Chairman of the Board, Old Kent Bank and Trust Company, Grand Rapids, Michigan*

Karl D. Gregory, *Professor of Economics and Management, Oakland University, Rochester, Michigan*

Thomas R. Ricketts, *Chairman of the Board and President, Standard Federal Bank, Troy, Michigan*

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

Federal Advisory Council

The Federal Advisory Council, consisting of one member from each of the 12 Federal Reserve Districts, meets quarterly with the Board of Governors in Washington, D.C. to discuss business and financial conditions. Chosen by the Chicago Reserve Bank's board of directors to represent the Seventh District during 1985 was:

Hal C. Kuehl, *Chairman of the Board, First Wisconsin National Bank of Milwaukee, Milwaukee, Wisconsin.*

Reserve Bank Advisory Councils

Two new advisory councils were formed by the Federal Reserve Bank of Chicago in 1985 to promote communication with the agricultural and small business sectors. Council members, along with the organizations they represent, were:

Advisory Council on Agriculture

Glen Apple, *Sandborn, Indiana , American Agriculture Movement of Indiana;*

Allan Aves, *Kirkland, Illinois, Land of Lincoln Soybean Association;*

Susan Bright, *Centerville, Indiana, Women Involved in Farm Economics;*

David Diehl Sr., *Dansville, Michigan, Michigan Soybean Association;*

Howard Fischer, *Neenah, Wisconsin, National Farmers Organization;*

Wallace Furrow, *El Paso, Illinois, Grain and Feed Association of Illinois;*

John Laurie, *Cass City, Michigan, Michigan Farm Bureau;*

Malcolm McGregor, *Nashua, Iowa, Iowa Cattlemen's Association;*

George Morton, *Lebanon, Indiana, Indiana Beef Cattle Association;*

Max Naylor, *Jefferson, Iowa, Iowa Corn Growers Association;*

William Riggan, *Washington, Iowa, Iowa Pork Producers Association; and*

Lester Wallace, *Beloit, Wisconsin, Wisconsin Grange.*

Advisory Council on Small Business

John Barnes, *Logansport, Indiana, Indiana State Chamber of Commerce;*

Melvin Boldt, *Mt. Prospect, Illinois, Independent Business Association of Illinois;*

Raul Chavez, *Indianapolis, Indiana, U.S. Hispanic Chamber of Commerce;*

Jean Hansen, *Racine, Wisconsin, Wisconsin Women Entrepreneurs;*

Saundra Herre, *Racine, Wisconsin, Independent Business Association of Wisconsin;*

Pearl Holforty, *Southfield, Michigan, National Association of Women Business Owners;*

Jon Kneen, *Ottumwa, Iowa, Iowa Association of Business and Industry;*

James Oughton Jr., *Dwight, Illinois, National Federation of Independent Business;*

Gordon Stauffer, *Greenville, Michigan, Michigan State Chamber of Commerce; and*

Connie Wimer, *Des Moines, Iowa, National Federation of Independent Business.*

Officers

(as of December 31, 1985)

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*
David S. Epstein, *Assistant Vice President*
Douglas J. Kasl, *Assistant Chief Examiner*
Rose M. Kubush, *Assistant Vice President*
William H. Lossie, Jr., *Assistant Chief Examiner*
Geoffrey C. Rosean, *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

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*
Paul L. Kasriel, *Research Officer*
Steven H. Strongin, *Research Officer*

Information Services

Nancy M. Goodman, *Assistant Vice President*

Services to Depository Institutions

Check Services and Operations

Charles W. Furbee, *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*
Lawrence J. Powaga, *Assistant Vice President*
Jerome D. Nicolas, *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*
LeRoy E. Ketchmark, *Assistant Vice President*
DeWayne W. Baker, *Operations Officer*

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*
Bonnie Bates, *Assistant Vice President*
R. Steve Crain, *Assistant Vice President*

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*
George W. Steffen, *Assistant General Auditor*
Angelina Chin, *Auditing Officer*

Office of the General Counsel

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

Legal Services

Teri J. Kurasch, *Assistant General Counsel*
M. Kathleen O'Brien, *Assistant Counsel*

Office of the Bank Secretariat

Joan M. DeRycke, *Assistant Vice President and Assistant Secretary*

Support Services

Administrative Services

Adolph J. Stojetz, *Vice President*

Facilities Planning and Management

Robert D. Lauson, *Vice President*

General Services

Robert A. Ludwig, *Vice President*
Maria H. Coons, *Operations Officer*

Human Resource Services

Thomas G. Ciesielski, *Vice President*
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*
F. Alan Wells, *Assistant Vice President*
Richard L. Simms, Jr., *Assistant Vice President*
Yvonne H. Montgomery, *Operations Officer*

Regional Check Processing Centers

Des Moines Office
Indianapolis Office
Milwaukee Office

Thomas P. Killeen, *Vice President*
Allen R. Jensen, *Assistant Vice President*
Charles M. Lund, *Assistant Vice President*

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

Statement of condition

(in thousands of dollars)

	As of December 31	
	1985	1984
Assets		
Gold certificate account	1,451,000	1,510,000
Interdistrict settlement account	(262,579)	(5,426,572)
Special drawing rights certificate account	620,000	646,000
Coin	28,933	25,713
Loans and securities:		
Loans	31,509	2,969,218
Federal agency securities	906,423	1,145,354
U.S. government securities	19,588,158	21,737,967
Total loans and securities	20,526,090	25,852,539
Cash items in process of collection	958,107	592,582
Bank premises	22,001	21,393
Other assets:		
FDIC assumed indebtedness	3,222,905	3,500,000
Other	1,417,924	1,345,618
Total other assets	4,640,829	4,845,618
Total assets	**27,984,381**	**28,067,273**
Liabilities		
Federal Reserve notes	23,723,605	23,872,609
Deposits:		
Depository institutions	2,545,056	2,797,116
U.S. Treasury—general account	0	0
Foreign	21,000	19,650
Other	109,010	112,801
Total deposits	2,675,066	2,929,567
Deferred availability cash items	848,575	446,318
Other liabilities	254,773	363,553
Total liabilities	27,502,019	27,612,047
Capital accounts		
Capital paid in	241,181	227,613
Surplus	241,181	227,613
Total capital	482,362	455,226
Total liabilities and capital	**27,984,381**	**28,067,273**

Statement of income

(in thousands of dollars)

	Year ending December 31	
	1985	1984
Current income		
Interest on loans	318,485	420,196
Interest on government securities	1,986,310	2,274,308
Interest on investments of foreign currencies	32,009	28,493
Service fees	81,575	75,115
All other	1,600	1,537
Total current income	2,419,979	2,799,649
Current expenses		
Operating expenses	133,522	131,008
Other current expenses	21,098	28,128
Total current expenses	154,620	159,136
Less reimbursement for certain fiscal agency and other expenses	10,751	10,217
Current net expenses	143,869	148,919
Current net income	**2,276,110**	**2,650,730**
Additions to (or deductions from) current net earnings		
Net profit (or loss) on sales of securities	12,145	6,671
Net profit (or loss) on foreign exchange transactions	169,406	(59,581)
Board of Governors assessment	(35,416)	(33,855)
All other—net	(696)	(720)
Net additions (or deductions)	145,439	(87,485)
Net earnings available for distribution	**2,421,549**	**2,563,245**
Distribution of net earnings		
Dividends paid	14,199	12,142
Payments to U.S. Treasury (as interest on Federal Reserve notes)	2,393,781	2,515,375
Transferred to surplus	13,569	35,728
	2,421,549	**2,563,245**

Highlights of operations

	Dollar amount		Number	
	1985	1984	1985	1984
Check and related services				
Checks, NOWs, and share drafts processed	1.0 trillion	1.0 trillion	1.9 billion	1.8 billion
Fine sort and packaged checks handled	123.2 billion	126.2 billion	286.7 million	284.2 million
U.S. government checks processed	54.9 billion	56.2 billion	65.9 million	65.7 million
Automated clearinghouse (ACH) items processed	456.2 billion	314.8 billion	92.3 million	68.5 million
Transfers of funds	20.6 trillion	18.3 trillion	8.5 million	8.0 million
Cash operations				
Currency received and counted	17.0 billion	15.8 billion	1.6 billion	1.5 billion
Unfit currency withdrawn	2.8 billion	2.7 billion	480.7 million	441.0 million
Coin received and processed	457.3 million	439.1 million	3.4 billion	3.2 billion
Securities services for depository institutions				
Safekeeping of securities:				
Definitive, year-end balance	12.8 billion	12.0 billion	0.5 million	0.6 million
Book entry, year-end balance	145.2 billion	119.9 billion	—	—
Purchase and sale of securities	3.1 billion	2.8 billion	22.1 thousand	24.5 thousand
Collection of bonds, coupons and other noncash items	1.1 billion	1.2 billion	331.4 thousand	341.8 thousand
Loans to depository institutions				
Total loans made during year	93.4 billion	722.5 billion	2,856	6,076
Institutions accommodated	—	—	271	413
Services to U.S. Treasury				
Marketable government securities issued, exchanged and redeemed:				
Definitive securities	5.1 billion	5.3 billion	300.4 thousand	303.4 thousand
Book entry securities	3.4 trillion	2.9 trillion	990.8 thousand	981.9 thousand
U.S. government coupons paid	338.3 million	436.0 million	366.0 thousand	552.1 thousand
U.S. savings bonds issued, exchanged and redeemed	2.8 billion	2.4 billion	26.9 million	26.7 million
Federal tax deposits processed	84.1 billion	83.5 billion	837.2 thousand	832.5 thousand
Food stamps processed	1.5 billion	1.6 billion	331.0 million	375.3 million


STATE OF
THE CITIZENS BANK
OF
GOSPORT
INDIANA
DOLLARS
on demand
BANK OF NORTH
5
2
3