

1986

ANNUAL REPORT

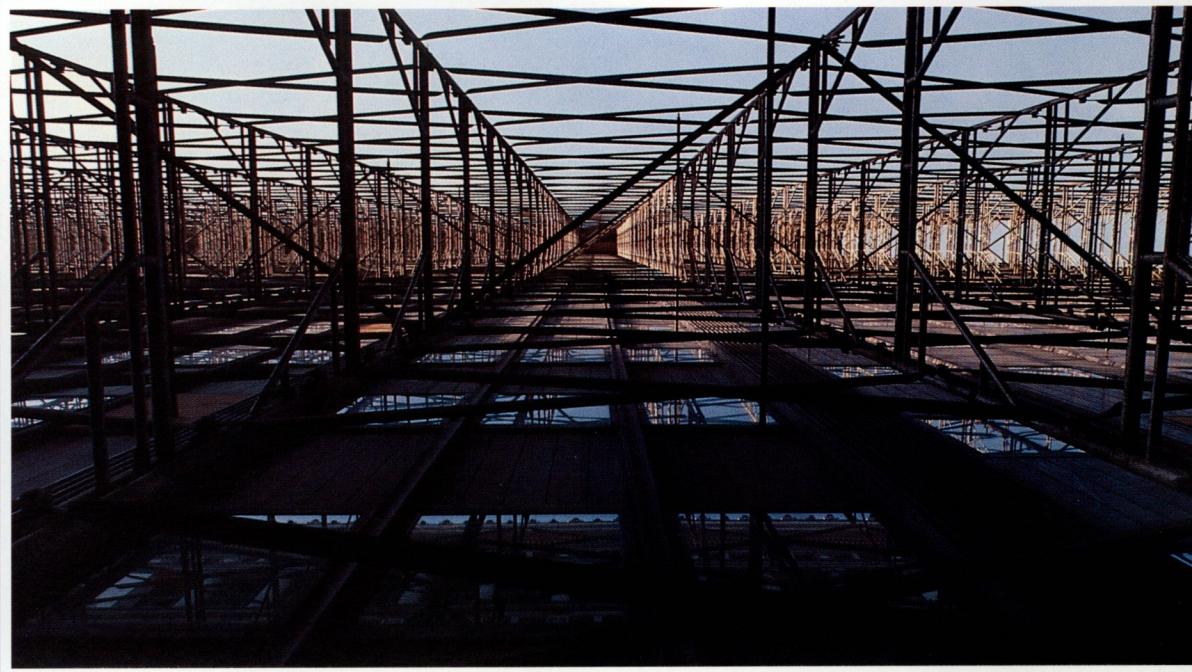
FEDERAL RESERVE BANK OF CHICAGO

BUILDING FOR THE FUTURE

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., function as the nation's central bank. The primary responsibility of the Federal Reserve System is to foster a flow of money and credit through the economy that will promote economic growth and a stable dollar. Each regional Reserve Bank also acts as a bank for the U.S. government, issues the nation's currency and coin, regulates and examines private commercial banks and bank holding companies, and provides banking services to depository institutions within the District it serves. The Federal Reserve Bank of Chicago serves the Seventh Federal Reserve District which includes Iowa, the lower peninsula of Michigan, and major portions of Illinois, Indiana, and Wisconsin.

1986 ANNUAL REPORT

FEDERAL RESERVE
BANK OF CHICAGO



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MESSAGE FROM THE PRESIDENT

As 1986 closed, our nation's economy entered the fifth straight year of solid expansion. This has been a relatively good economic cycle—far better, in fact, than some people assume. In terms of both its length and strength, the expansion we have enjoyed has few equals in peacetime.

All major measures of economic performance have achieved record levels—Gross National Product, industrial output, income, employment. Our economy has created more than nine million new jobs since the last cyclical peak and about 12 million jobs since the recession's bottom in the fourth quarter of 1982. That this has been accomplished while inflation is at its lowest level in two decades is a most remarkable achievement. Although we have to admit to some good fortune with respect to oil and food prices, we have so far avoided the pressures on prices and interest rates that usually assert themselves at this point in a cycle.

With every reason to believe that this expansion will continue through the year ahead, we can feel both gratified and optimistic as 1987 begins. But lest we become euphoric, there are aspects of our current situation that cause significant concern.

First, our economic results have been and will continue to be very uneven—a fact that we in the Midwest understand all too well. The process of adjusting to new realities in an increasingly global economy continues for agriculture and heavy industry—as well as for the

financial institutions that serve these sectors of our economy.

Second, there are significant economic imbalances that threaten continued expansion in the near term and our general economic well-being in the longer term. The common thread running through these various imbalances is the build-up of debt across all sectors of our economy—from the burgeoning debt loads of both consumer and corporate America, to the mounting debts of this and many other nations of the world.

The escalating level of debt and deficits is hardly a new issue. Indeed, it has been with us throughout the current cycle and before. Happily, in a few areas it actually shows some promise of improvement. At long last there may be some reduction in our fiscal deficit. So too could we finally see some progress in our trade deficit facilitated by the turnaround that has taken place in foreign exchange markets. But for now we have only promising signs, not tangible results. Until promises become reality, the risk to our continued prosperity will loom large. The question is not whether we can continue to live beyond our means and consume more than we produce but, rather, how much longer this process can go on.

The risk of such circumstances is to place pressures on policymakers to further stimulate the

economy. Continued expansion is vital to our ability to handle our debt, and the more vigorous the expansion, the less significant the level of that debt. Such a strategy is made even more tempting by our natural desire to assist the disadvantaged sectors and regions of our economy.

These temptations lead to a third area of concern—the resurgence of inflation. Here, in all likelihood, the good news is largely behind us. In fact, if we look beyond the aggregate numbers into areas such as the service sector—the very part of our economy that is growing in importance but where productivity increases may be the hardest to achieve—we see rates of price increase that, while perhaps moderating, far exceed the rate for the economy as a whole. At the same time, our increasingly more service-oriented economy may not be able to achieve the rates of long-term growth we once enjoyed. So efforts to provide additional economic stimulus—though the product of the very best of intentions—could well produce instead the very worst of results.

The Federal Reserve, charged with a responsibility to ensure the health of our nation's financial system and economy, faces significant challenges within this ever more complicated environment. Coping with those challenges requires the Federal Reserve Bank of Chicago to be increasingly more responsive, forward thinking, and imaginative in carrying out its responsibilities.

This is what we mean by "Building for the Future"—the theme of our Bank's annual report for this year. This theme is an outgrowth of the construction project, initiated in earnest this past year, that will ensure that our headquarters building can accommodate our operations far into the 21st Century. But more broadly speaking, this theme is meant to capture the essence of so many efforts on the part of the Bank during 1986, aimed ultimately at enhancing the future development of the economy and financial system. The Bank's commitment to the future, while supported by the walls that surround the Bank, is carried out through the efforts initiated inside.

The pages that follow focus on just a selection of the Bank's more noteworthy efforts and accomplishments in 1986, and, most importantly, highlight a very small sample of the many individuals involved in them. Hopefully, this brief treatment provides a glimpse of the initiative, commitment, and quality that typify the people we are fortunate to have at every level of our organization.

I want to extend my thanks to each and every one of those individuals—to all of our directors who give so unselfishly of their time and talents to this Bank, and to our officers and staff who continuously demonstrate how much can be accomplished by hard work, dedication, and the desire to excel.





*Robert J. Day, Chairman of the Board of Directors of the
Federal Reserve Bank of Chicago, Deputy Chairman
Marcus Alexis, President Silas Keehn, and First Vice
President Daniel M. Doyle review plans for the future.*

BUILDING FOR THE FUTURE

The construction of a building must address a variety of needs. The building must be strong and secure. It must also be constructed to last. And finally, it must serve the people and the activities for which it has been built.

Just so, the Federal Reserve Bank strives to maintain a financial system and economy that are strong and durable and which do, indeed, perform smoothly for those they serve.

For the Federal Reserve Bank of Chicago, 1986 was truly a "building" year. The Bank began construction that will accomplish a sorely needed renovation and expansion of its 65-year old headquarters building. The Bank also took a number of significant steps to strengthen the foundations of our economy and financial system. In all areas of the Bank's activity—in economic research, supervision and regulation, financial services, and internal support activities—the Bank was "building for the future."

The need to modernize the Bank's headquarters had become more and more apparent. Yesterday's building was increasingly inadequate to house both today's technology—the automated equipment and computers that run the Bank's operations—and current staff mix—the greater proportion of technicians and professionals who guide these operations. At the same time, support systems, such as heating and ventilation, were being stretched beyond their limits.

After considering alternatives such as constructing a new facility, the decision was reached to renovate and expand the present headquarters to create a facility that will serve the Bank's needs well into the future. Thus, the Bank will remain in the heart of Chicago's financial district and can contribute to the preservation of the character of that area.

While the benefits of remaining in the same structure were clear, the logistics of renovating an occupied building are highly complex. All areas of the Bank face complete renovation, and new construction has to be tied into the older structure.

When completed in 1989, the renovation and expansion will provide the Bank with nearly a million square feet of space, compared with a current total of 650,000. The expansion largely results from a 14-story addition constructed during 1986 at the building's northwest corner.

The exterior of the new addition, as well as a 1957 addition to the building, is being faced with Indiana limestone to blend with the original 1920s facade, in keeping with the character of the financial district. LaSalle Street will again become the main entrance, as designated in the original building, and, inside, an enlarged lobby will welcome and serve visitors. Overall, the renovation emphasizes the original

design of the building while providing efficient access to the public, an attractive and stimulating environment for the Bank's staff, and adequate security to protect valuables handled by the Bank.

The building project will create a new facility able to meet the challenges and demands of the 21st Century. It serves as a visible symbol of the Bank's commitment to build for the future. But other projects, begun or completed by the Bank during 1986, are also tied to this commitment.

As the Chicago Reserve Bank strives to construct a sound building, it has also worked to construct a sound and secure banking system.

As the Bank has designed a building that will meet the needs of those who use it, the Bank has also strived to provide the highest quality of financial services possible.

And as the Bank builds to withstand the test of time, so has it set its sights on fostering a better economic and financial environment for this—as well as the next—generation.



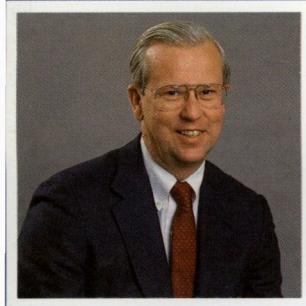
Richard P. Anstee
*Senior Vice President
Support Services*



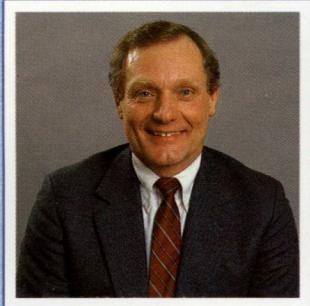
Charles W. Furbee
*Senior Vice President
Operations and
Check Services*



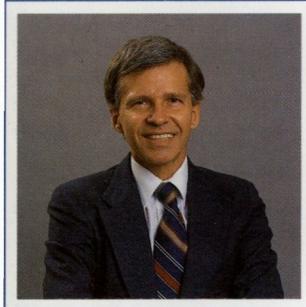
Karl A. Scheld
*Senior Vice President and
Director of Research
Economic Research and
Information Services*



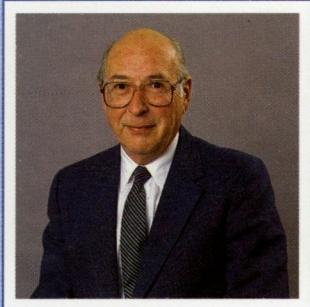
Richard P. Bush
General Auditor
Office of the General Auditor



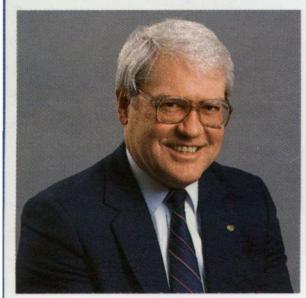
William C. Conrad
Senior Vice President
Automation and Electronic Services



William H. Gram
Vice President, General Counsel, and Secretary
Office of the General Counsel



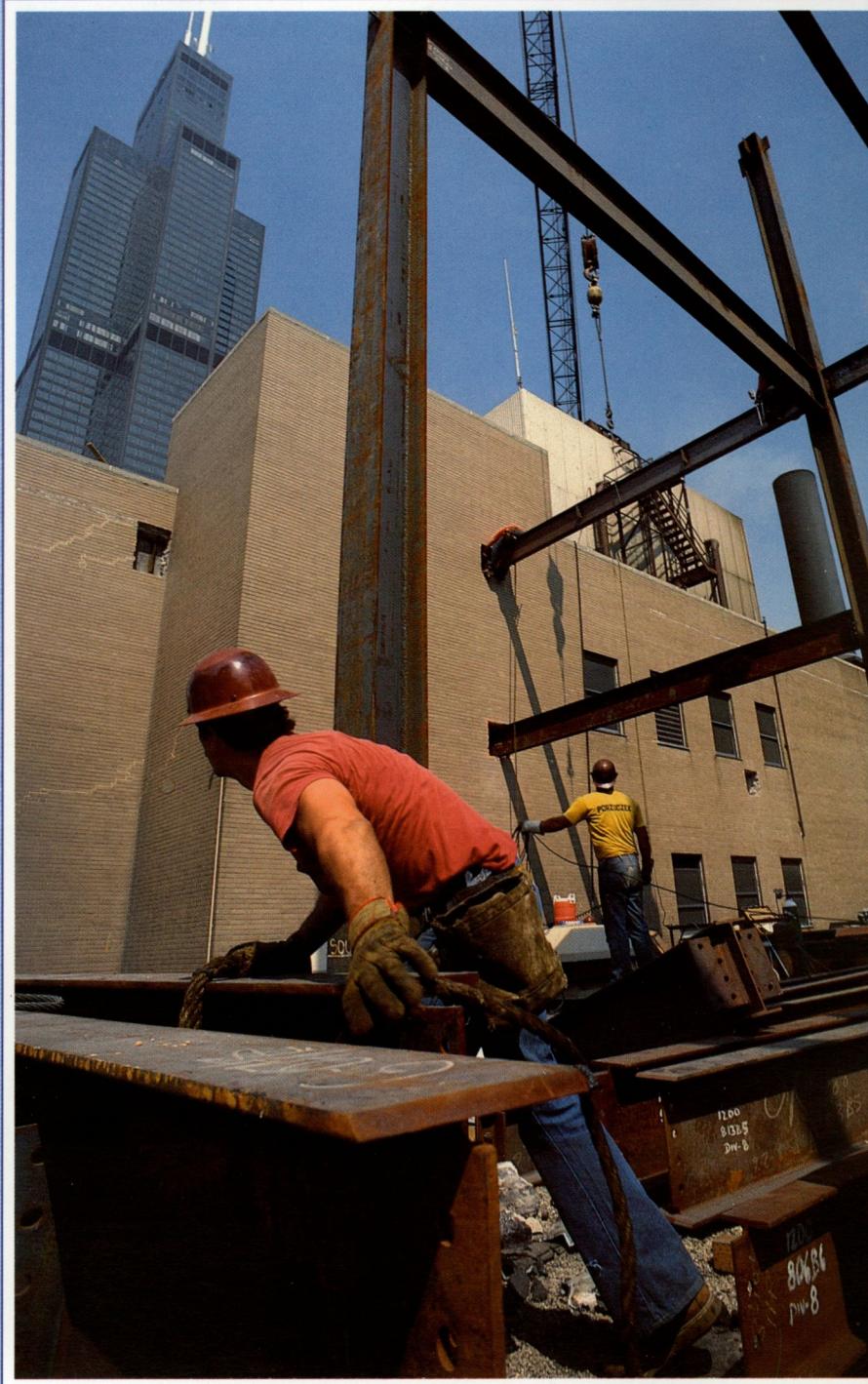
James R. Morrison
Senior Vice President
Supervision and Regulation and Loans



Roby L. Sloan
Senior Vice President and Manager
Detroit Branch



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



Led by President Silas Keehn and First Vice President Daniel M. Doyle, the Bank's Management Committee sets the Federal Reserve Bank's strategic direction.

BUILDING FOR THE FUTURE

Exam staff bolstered to meet challenges of changing environment

One of a Reserve Bank's most important functions is to monitor and examine banks and bank holding companies under its jurisdiction, with an ultimate objective of assuring that the nation's banking system is safe and sound. At the end of 1985, enhanced surveillance requirements were adopted by the Federal Reserve Board to meet the challenges posed by an increasingly complex financial industry. In response, the Chicago Bank implemented new programs and procedures that included expanded training for entry-level staff and the hiring of additional experienced staff.

Each year the Bank hires approximately 20 entry-level examiners for a variety of positions. To train this group to meet today's challenges, the Bank has developed an integrated 12-month program of formal instruction and in-the-field experience. Classroom sessions, covering bank and bank holding company analysis, include activities such as mock sessions with financial institution management, lectures, guest speakers, and team-building activities. Each instructional period is followed by on-the-job application of the skills and knowledge developed. Chicago's training expertise is being utilized by a System committee developing training programs for staff throughout the Federal Reserve System.

In the past, the hiring of new examiners was largely at entry-level positions. But in 1986, with more frequent examinations, the Bank had to hire more than twice the usual number of examiners, who would quickly be dealing with increasingly complex financial issues. In response, the Bank recruited individuals with prior experience in examination, banking, or related fields, hiring 27 by year-end 1986.

ACH promoted through service innovations

Almost 70 years ago the Federal Reserve took an innovative approach toward moving money from one place to another—it transferred funds via telegraph. Since that first wire transfer in 1918, the System has worked to promote electronic payments through a variety of service innovations.

One of the latest examples is *Database Plus*, introduced by the Chicago Reserve Bank in 1986 to expedite the return of Automated Clearinghouse (ACH) items. Because the information needed for returning an ACH item is contained on a database, subscribers need only identify the transaction to be returned. This is a significant improvement from the previous paper-based method which was far more costly and time consuming.

Treasury Direct provides new investor services

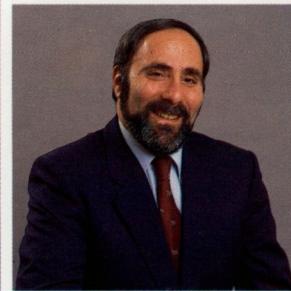
The Federal Reserve System, as the government's bank, issues, services, and redeems all Treasury bills, notes, and bonds. The smooth introduction of *Treasury Direct* by Chicago, the other Reserve Banks, and the Treasury in August 1986 marked another milestone in the automation of these activities. *Treasury Direct* will save taxpayers an estimated \$46 million over the next seven years by eliminating physical securities.

For investors, *Treasury Direct* eliminates the possibility of lost or stolen certificates. In addition, record-keeping is simplified through a single master account statement and the automatic deposit of interest, refund, and principal payments directly to the investor's personal account. Other benefits include a broader range of registration options and the ease with which any investor can obtain account information or make transactions at 36 Federal Reserve sites across the nation.

To familiarize the public and financial institutions with the new procedures, features, and benefits of *Treasury Direct*, seminars for both institutional and individual customers were held at the Chicago Reserve Bank. In addition, Bank staff made appearances on local television news and talk shows to explain the program to the public.



Janice Price, *assistant product manager in Electronic Services, helped introduce the Bank's new "Database Plus" service.*



Marshall Holmberg, *as manager of Government Securities and Investments, helped launch the successful "Treasury Direct" program at the Chicago Reserve Bank.*



Bill Barouski,
*administrative examiner
in the Supervision and
Regulation Analytical
Support Division, helped
develop and supervise new
training programs for
entry-level examiners.*



BUILDING FOR THE FUTURE

STAT project updates data collection

Financial data collected from thousands of District organizations provide an information base for the Bank's supervisory, regulatory, monetary policy, and lending activities. In turn, these data are a component of national statistics closely followed by the financial and business community, the media, and the general public to gauge trends in the nation's financial activity.

Rapid change in financial markets and activities has brought with it a need to continuously modify the data collected. To efficiently handle these changing reporting requirements, the Federal Reserve Banks and the Board jointly designed and developed *STAT*, a comprehensive and highly flexible data management software system.

The *STAT* software is used to collect, edit, report, and transmit both individual institution and aggregate data. The software allows quick and inexpensive modifications, without the need for specialized computer programmers.

The Chicago Reserve Bank played a special role in the development of *STAT* by serving as the test site for installation of the new software. During 1986, the Bank successfully completed testing, opening the way for the use of *STAT* by the other Reserve Banks.

Improved check services enhance payments system

Improvements in check processing at a Federal Reserve Bank not only mean better service for customers,

they also create a rippling effect through the payments mechanism that encourages a more efficient overall system. This is especially true for the Chicago Reserve Bank since its Head Office is the largest processor of checks in the System, with an annual volume of nearly a billion items.

The revised deadlines and availability schedules provided to the Bank's check processing customers during 1986 are a case in point. The revised deadlines mean that customers can submit check processing work to the Chicago Reserve Bank later than was previously possible. At the same time, improved availability schedules for certain check categories provide customers with better use of their funds. The end result is a savings in time and money for the customer and a more efficient payments system.

A desire for more efficient operations contributed to a steady increase in the number of institutions using payor information services in 1986. These Reserve Bank services provide customer account information that can be used to improve operating efficiencies and as a cash management tool.

New electronic services aid customers

As part of its unique position in the financial services field, the Federal Reserve has a two-fold goal—to compete successfully in the marketplace while fostering a more efficient payments system. Ideally, these two

goals can be achieved simultaneously through service innovations and operational improvements.

The Chicago Reserve Bank's *Voice Response Network* was offered in 1986 to help respond more effectively to institutions that regularly telephone for account balance information. The service features an "electronic operator" that simultaneously answers and provides data to several callers. As a result, information can be provided to a number of callers more efficiently.

Similarly, the Bank's new *Dual Verification* service enables customers to increase the security of their wire transfer operations. Through the service, customers can set up verification procedures that reflect their own particular security needs. No transfer is completed by the Reserve Bank until this custom-fitted verification is performed.

Contingency sites assure computer reliability

The Federal Reserve seeks to assure not only an efficient payments system, but most importantly, a reliable one. To this end, an ongoing goal of the Chicago Reserve Bank is the continuous reliability and safety of its computer operations, even in the event of an emergency.

An important step taken during 1986 was the successful test of a contingency site in Culpeper, Virginia for relocating the Bank's computer operations. In a similar effort, the Bank established a contingency site for the Network Control



Dave Van Gorder, technical coordinator in the Statistics Division of Economic Research, oversaw the testing of "STAT," the new Federal Reserve data management system.



Maureen O'Neil, assistant product manager in Electronic Services, worked on the development and testing of the Bank's new "Dual Verification" service.

Center, the unit based at the Chicago Office that manages the Federal Reserve System's nationwide communication system. If necessary, the Center's operations could be shifted to the Detroit site with no disruption to communications between Federal Reserve offices and depository institutions or to



Marsha Coleman, assistant manager of check processing on the "p.m." shift at the Chicago Office, helped provide improved deadlines and availability for the Bank's customers.

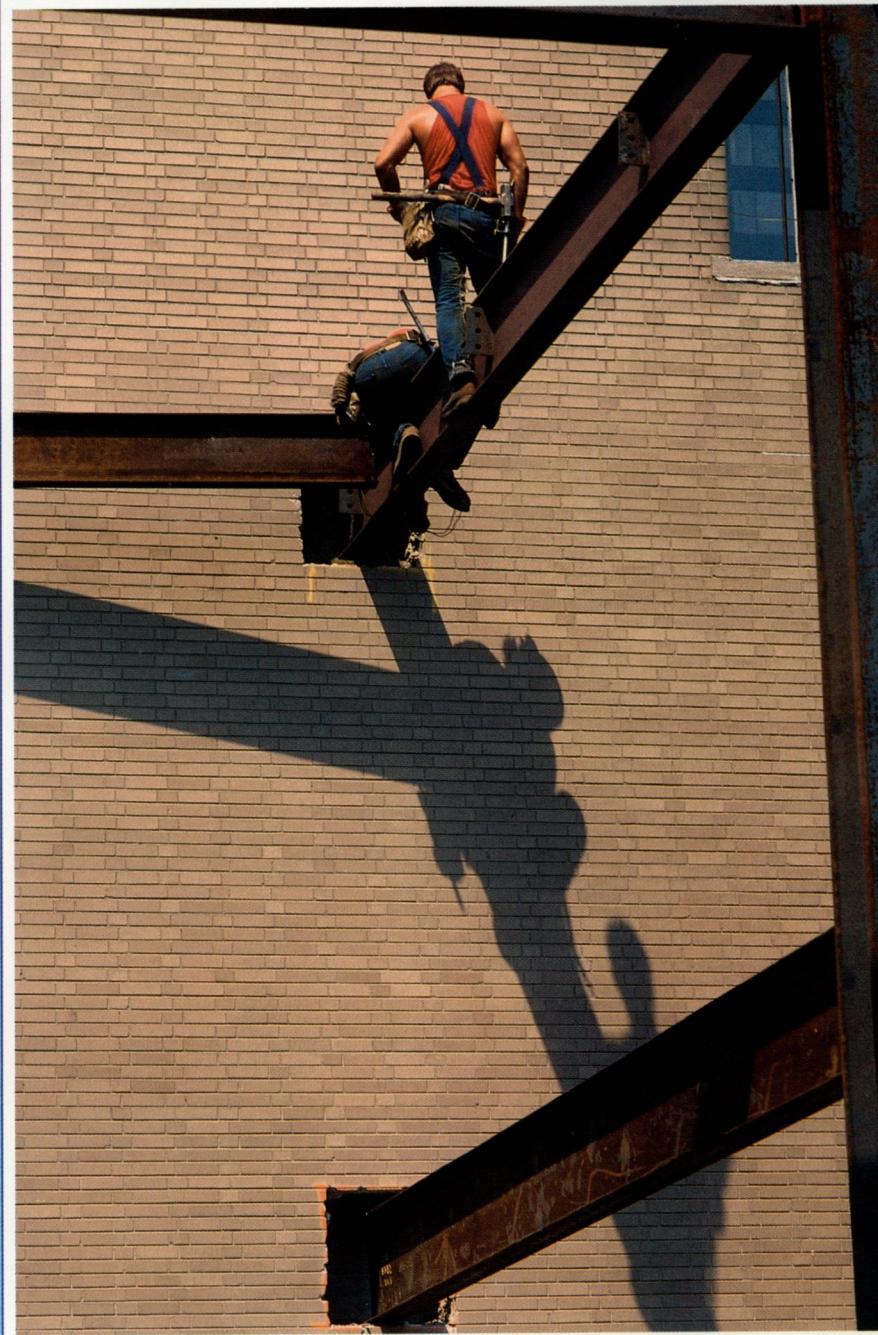


Larry Nemec, manager in the Bank's Computer Operations Department, coordinated the testing of the Culpeper contingency site.

the nation's payments system generally.

Also during 1986, the Chicago Head Office prepared to move its electronic funds transfer operations and computer support for them from its headquarters to a temporary location in the South Loop. The move, to be completed

in 1987, provides greater capacity for handling this constantly growing area of activity while assuring the reliability of these operations during the Bank's extensive renovation project.



BUILDING FOR THE FUTURE

Bank installs state-of-the-art electronic networks

A variety of Federal Reserve electronic networks—linking Federal Reserve offices and thousands of depository institutions—move an ever expanding volume of funds, securities, and information instantaneously. As the pace of change in computer technology accelerated in 1986, so did the Chicago Reserve Bank's commitment to take advantage of the latest technology in the electronic connections it provides. As part of this effort, the Bank upgraded the Federal Reserve's nationwide communications system (*FRCS-80*), which is managed at the Chicago Office. By adding new software the Bank improved the network's control and monitoring functions.

The Bank also tested and certified software packages that could be used by financial institutions to complete electronic transfers through the Federal Reserve. The past year also saw the development of a unique Seventh District communications network that is the first of its kind in the System. The network, scheduled to be completed in late 1987, will consist of a management center in Chicago and six data switching centers throughout the Seventh District. The network will enable institutions with high volumes of electronic funds transfers to maintain a direct connection to their local Federal Reserve office.

Other 1986 network improvements included a successful pilot program to test the use of dial-up personal computers for electronic transfers. The use of dial-up computers—which will replace terminals currently in operation at many District institutions—is an efficient, automated alternative for institutions with a relatively low volume of electronic transfers. Also in 1986, the Bank implemented bulk data connections to provide more efficient service for customer institutions with large volumes of electronic transfers. The new high-speed computer linkage enables institutions to transmit a large number of messages simultaneously, rather than one by one.

New Des Moines exam office aids monitoring

Volatile economic conditions and a more complex financial industry have intensified the need for extensive and timely communications between the Federal Reserve and the banks and bank holding companies it monitors. To this end, the Bank opened a field office in Iowa in early 1986. Ten examiners plus their supervisor are now based at the new Des Moines facility, and two staff members will be added in 1987.

Working exclusively with Iowa institutions provides the Des Moines staff with a better understanding of conditions in a state particularly hard hit by changing financial and economic circumstances. It also helps the examination

team to identify trends and significant developments before crises occur.

Because of its many benefits, the Des Moines office, opened as a pilot, will serve as a model for other off-site offices as the Bank regionalizes its supervisory activities wherever practical.

Check operation improvements yield lower prices

The five offices of the Chicago Reserve Bank provided the largest overall decrease in check service prices within the Federal Reserve System during 1986. These price reductions were made possible by more efficient operating procedures that also resulted in improved services. A case in point was the implementation of "reject repair" processing at Chicago and the Detroit Branch. This effort focused on "repairing" millions of checks that otherwise could not be "read" and processed by the Bank's high-speed sorters. Such checks previously required manual processing, an inefficient and time-consuming procedure.

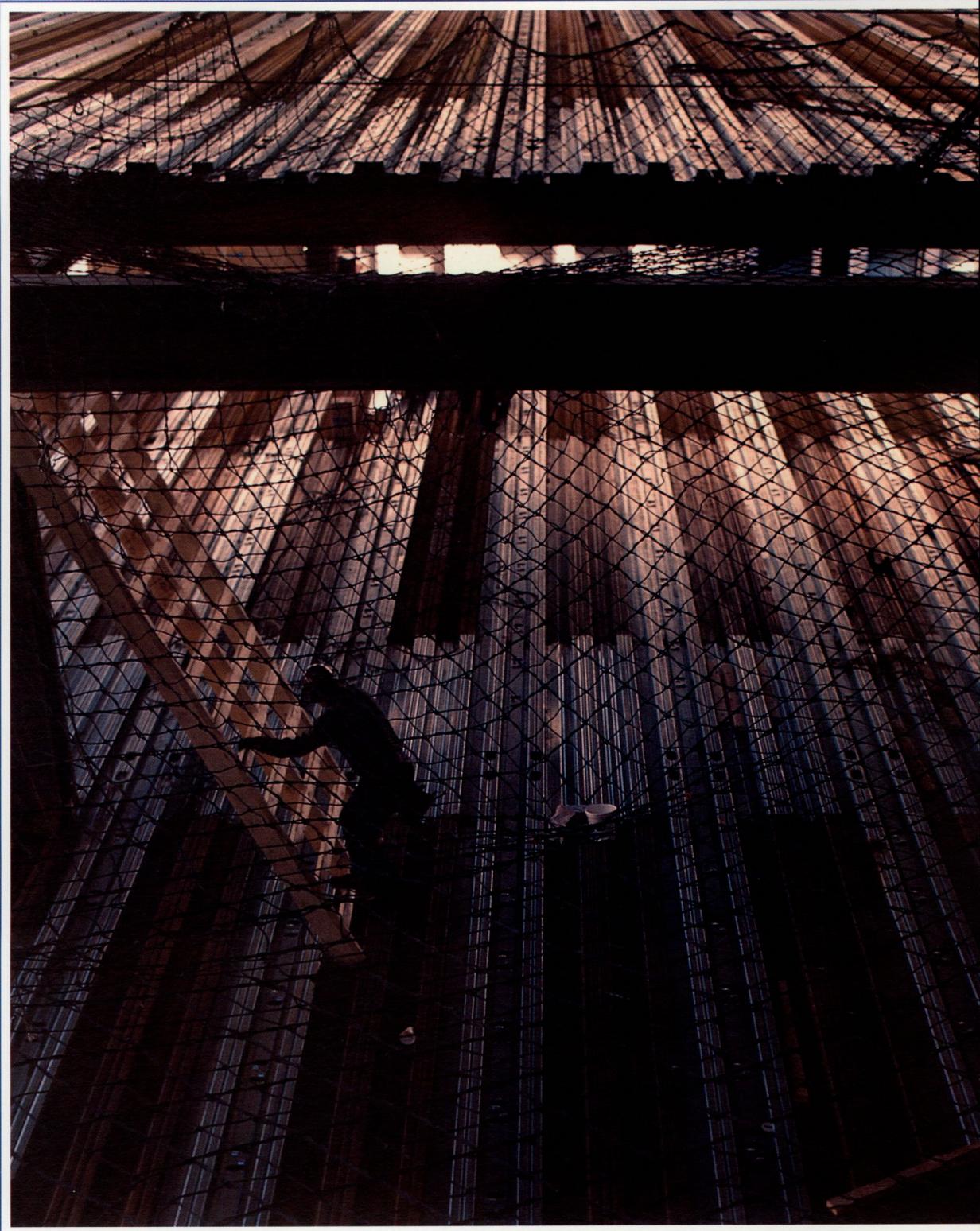
The overall efficiency of the check processing operation was also improved by establishing a special unit to handle inquiries regarding possible adjustments to check deposits. As a result, the Bank is able to handle the adjustment process more efficiently and provide better customer service.



Kristi Zimmermann, a staff analyst in Automation Services, trained customers on the use of dial-up personal computers for their electronic funds transfer operations.



Laura Berg, a check operations analyst at the Detroit Branch, helped coordinate efforts to "repair" rejected checks.



Dean Rowland, regional representative in the Field Operations Division of Supervision and Regulation, helped establish the Des Moines examination facility and serves as the new field office's supervising examiner.

BUILDING FOR THE FUTURE

Bank studies support regional economic development efforts

In recent years, the Chicago Reserve Bank has worked with governmental, civic, and private groups across the region on a variety of economic development studies and reports. Through such cooperative efforts, the Bank can share its information and expertise and also gain a broader understanding of the region's economy.

At the end of 1986, the Iowa Business Council and the Federal Reserve Bank completed a study, "The Iowa Economy—Dimensions of Change." The comprehensive report places Iowa's economic trends into perspective with neighboring states and may be used as a base for Iowa's strategic economic development plan.

At the invitation of the Detroit Economic Growth Corporation, the Bank embarked on a study to assess Detroit's position and future role as a financial center. Also in 1986, the Bank joined in an effort organized by the Financial Planning Committee (FPC) for the City of Chicago. The FPC enlisted a team of experts to project the city's fiscal position through 1992 and identify opportunities for strengthening the city's financial future. As part of the team, Bank staff prepared a study, "Environment and Change in Major American Cities."

Cooperative efforts with the Great Lakes Commission also continued into 1986, as a joint project with the Commission's Economic Advisory Task Force was begun to examine trends and issues that will confront the Great Lakes States in the near future.

Strategic planning provides blueprint for human resource management

What an organization can accomplish depends on having the right people in the right place at the right time. During 1986 the Bank's Human Resource Services Department, working with line management, used a five-year strategic planning process to identify current and long-term human resource needs in the face of social, technological, and industry changes.

The process consisted of two phases, with communication the key element in each. First, a focus group session for each functional area of the Bank was held with that area's management team to develop information on staffing levels and mix, employee turnover, affirmative action goals, staff development, and compensation. The information was then used by management as they developed their own strategic plans.

In the second phase, the Human Resource Services staff used the focus group information to devise its own five-year plan, guiding

the programs, activities, and services it will provide the rest of the Bank. As a result of the process, special emphasis is being placed on refining staff forecasting techniques and the implementation of a new management development program, to dovetail with succession planning for key management and official positions.

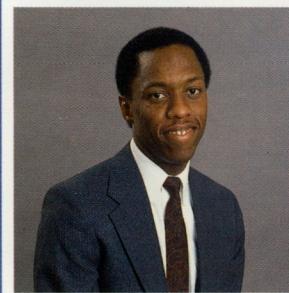
New policy strives to contain payments system risk

As the speed and dollar volume on wire transfer networks have increased, so have concerns that the failure of a payments system participant could have broad repercussions throughout the economy. In response, the Federal Reserve in 1986 implemented a policy designed to reduce risk on large-dollar wire transfer networks. The policy's approach is to place a cap or limit on the amount of net debits—that is, the amount of outgoing payments in excess of incoming credits—that an institution can accumulate on wire transfer networks, based on the institution's own evaluation of its creditworthiness, operational controls, and credit policies and procedures.

The Chicago Reserve Bank played a key role in implementing this policy nationwide by coordinating the development of educational programs and materials on behalf of the entire System. Bank efforts to implement the new policy in the Seventh District included working with depository institutions'



Eleanor Erdevig, economist in the Research Department, was part of the team that prepared *"The Iowa Economy—Dimensions of Change."*



Dan Richardson, as an analyst in Loans and Reserves, helped develop educational programs about the new payments system risk policy.

management and boards of directors in setting and monitoring the caps.

Integrated Accounting System links Bank operations

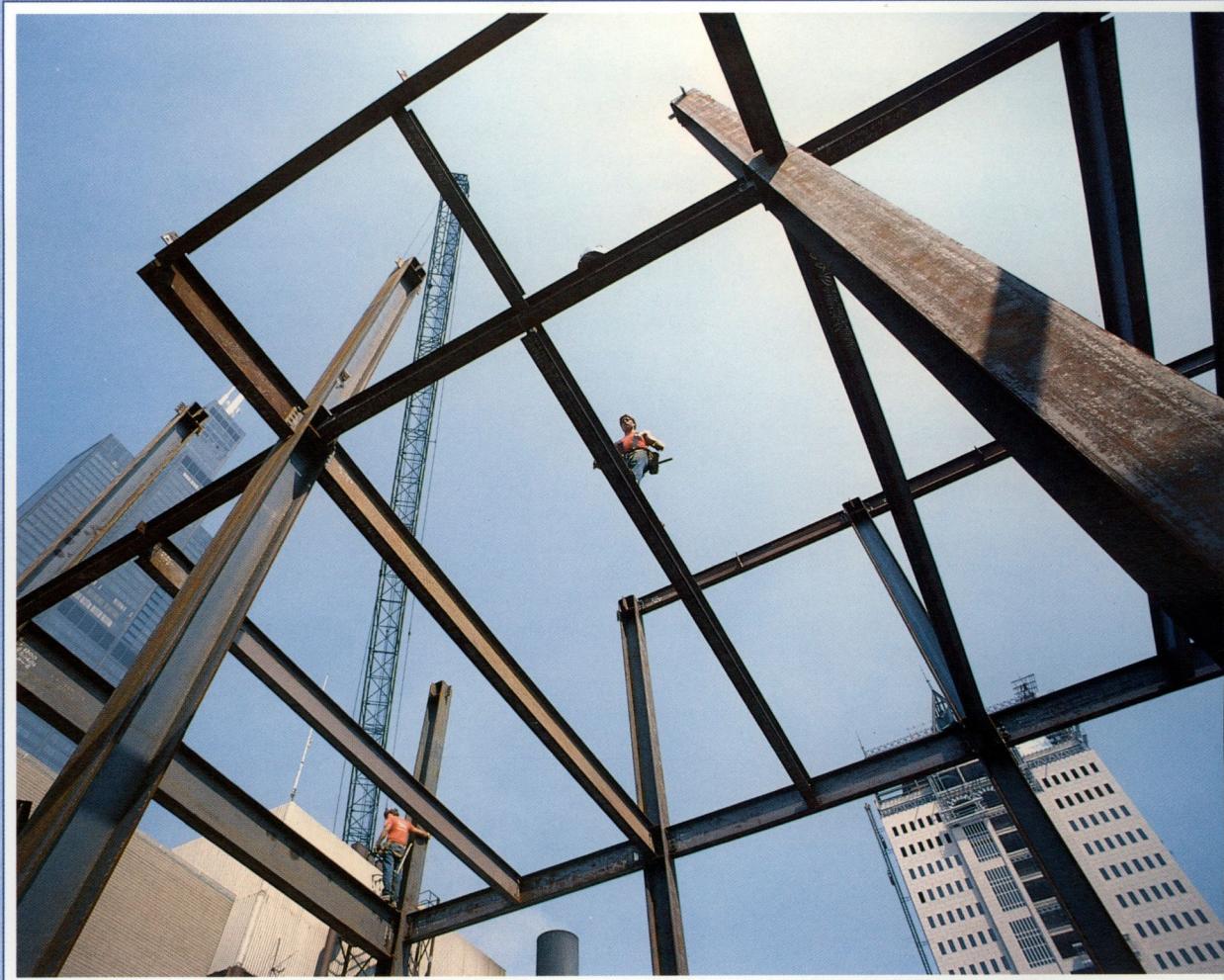
During 1986, the Chicago Reserve Bank laid the groundwork for the new *Integrated Accounting System (IAS)*, scheduled to be in operation at the Chicago Bank in early 1987. The *IAS* is the latest step in the Bank's ongoing effort to



Brian Hausmann, manager of Human Resource Services, assisted Bank management in applying strategic planning tools to human resource needs.



Kathy Matre, of Financial Institution Accounts, helped coordinate a new accounting system with various Bank departments and customer institutions.



integrate its diverse operations and accounting system into a unified whole.

The system increases efficiency by avoiding duplication of work. For example, a transaction such as the deposit of checks by a depository institution can be recorded directly into the accounting system by the Check Department. This eliminates the need to record data twice: once by the originating department and later into the accounting system. In addition, once data is entered it can be

simultaneously recorded for external distribution in a customer statement, applied to reserve accounts, and included in the Reserve Bank's general ledger accounts.

The new system is also integrating the accounting procedures of the 12 Reserve Banks. *IAS*—which was jointly developed by the Federal Reserve as a “resource shared application”—will be implemented throughout the System to ensure that accounting procedures for all transactions as well as system updates are handled uniformly.

BUILDING FOR THE FUTURE

Education programs build economic literacy

A major focus of the Bank's public information activities is to foster economic literacy, particularly by reaching out to educators and encouraging the teaching of economics to students from kindergarten through high school. Thus prepared, the students can make informed and educated decisions for their economic future.

The Bank's educational program begins with teachers. During this past year, workshops for nearly 250 elementary and secondary teachers from Illinois, Indiana, and Wisconsin were held at the Chicago Reserve Bank. Workshop topics ranged from theoretical discussions of inflation, to functional studies of financial institutions, to the practical review of economic education materials available to instructors.

To assist teachers in locating and selecting materials for teaching economics, the Chicago Reserve Bank prepared *Elementary Economics: A Bibliography*. The guide catalogs economic education materials appropriate for kindergarten through sixth grade including audiovisuals, booklets, instructional units, microcomputer disks, and games. All materials listed were evaluated by an advisory committee and judged to present economic concepts objectively and understandably.

The Bank also publishes a newsletter for teachers—*On Reserve*—focusing on economic concepts and current issues that can serve as a basis for classroom discussion and activities. Topics covered in 1986 included the public debt and deficits, the concept of the free market, and the factors that underlie the level of interest rates.

Bank focuses on customer contact

In an increasingly complicated financial services marketplace, face-to-face communication with the customer is essential. At the Chicago Office direct customer communication was accomplished through a series of Check Operation Seminars held in 1986. Seminars on important aspects of depositing checks with the Federal Reserve were held for larger Chicago-area institutions and for banks located in the Chicago metropolitan area and in downstate Illinois. Both the Indianapolis and the Milwaukee Offices also participated in seminars to explain Federal Reserve operations and procedures, while the Des Moines Office concentrated on one-on-one visits with customers.

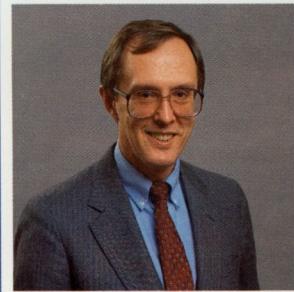
The Bank's Detroit Branch took a different approach to customer communication with the formation of an innovative task force consisting of employees of the Branch and a large local bank. The task force was set up to study check adjustment procedures and to make recommendations for improving the process.

Information security ensures payments system reliability

The electronic movement of funds and information through increasingly sophisticated, efficient, and faster computers clearly plays a crucial role in the economy. For this reason, protecting the security of electronic information is an essential part of the System's mandate to assure an efficient and reliable payments system.

During 1986, the Bank's efforts to ensure information security included an increased emphasis on encryption—or encoding—of electronic payments transactions to prevent an unauthorized party from understanding the message. At the same time, an internal education program was undertaken to raise the awareness of Bank employees to the importance of data security, emphasizing specific steps employees should take to ensure information security.

The Bank also began planning an Information Security Conference aimed at financial institution executives. The two-day seminar—to be held in 1987—will include presentations and panel discussions featuring nationally-recognized authorities and representatives of local data security organizations.



Keith Feiler, public information specialist, directed the Bank's economic education efforts, including workshops for teachers.



Bill Capre, an analyst in Automation Services, coordinated an effort to raise awareness about the importance of information security.



Diane Nelson, division manager of check processing and computer operations at the Milwaukee Office, participated in seminars to explain the Office's operations and services to financial institutions.

DIRECTORS FEDERAL RESERVE BANK OF CHICAGO

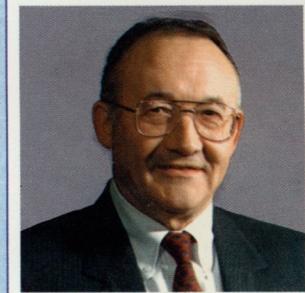
The nine-member board of directors of a Federal Reserve Bank has a general governance responsibility for the management of the Bank's operations. The board also acts on the Bank's discount rate and, most importantly, contributes to the formulation of U.S. monetary policy, the Federal Reserve's foremost area of responsibility, by advising on regional economic conditions.

The selection process for Reserve Bank directors assures that they represent not only member banks of all sizes but also a broad range of nonbanking interests such as industry, agriculture, commerce, services, labor, and consumers. Member banks of the district, divided into size groups according to their capital and surplus, elect a total of three banker and three nonbanker directors. The Board of Governors, in Washington, D.C., appoints the three remaining directors, also nonbankers, and designates from among them the Reserve Bank's chairman and deputy chairman.

Three new directors joined the Chicago board in 1986: John W. Gabbert, Charles S. McNeer, and Max J. Naylor. McNeer was appointed a director by the Board of Governors while Gabbert was elected by medium-sized banks and Naylor was elected by the largest banks. They replaced three directors who all completed two full terms on the board at year-end 1985: Stanton R. Cook, president and chief executive officer, Tribune Company, Chicago, Illinois; Mary Garst, manager, Cattle Division, The Garst Company, Coon Rapids, Iowa; and Patrick E. McNarny, president and chief executive officer, The First National Bank of Logansport, Logansport, Indiana.

Also for 1986, Robert J. Day was designated Chicago board chairman and Marcus Alexis was designated deputy chairman by the Board of Governors. Day replaced Stanton Cook as chairman while Alexis assumed Day's former post as deputy chairman.

New Chicago directors beginning three-year terms in 1987 are: B. F. Backlund, president and chief executive officer of Bartonville Bank, Bartonville, Illinois, and Paul J. Schierl, chairman and chief executive officer, Fort Howard Paper Company, Green Bay, Wisconsin. Backlund was elected by the smallest banks, while Schierl was elected by medium-sized banks, replacing O. J. Tomson and Leon T. Kendall who completed two full terms as directors at year-end 1986. Also for 1987, Robert Day and Marcus Alexis were redesignated board chairman and deputy chairman respectively.



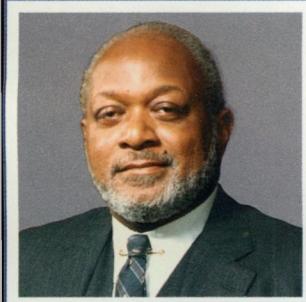
Chairman
Robert J. Day
Chairman and Chief Executive Officer
USG Corporation
Chicago, Illinois



Leon T. Kendall
Chairman of the Board and Chief Executive Officer
Mortgage Guaranty Insurance Corporation
Milwaukee, Wisconsin



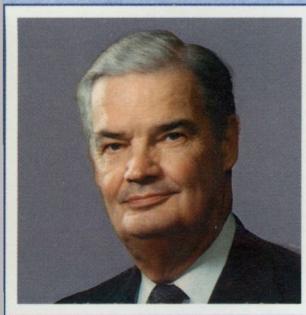
Edward D. Powers
President and Chief Executive Officer
Mueller Company
Decatur, Illinois



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



John W. Gabbert
President and Chief
Executive Officer
First National Bank &
Trust Company
La Porte, Indiana



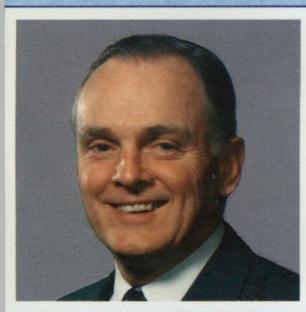
Charles S. McNeer
Chairman of the Board
and Chief Executive
Officer
Wisconsin Electric Power
Company
Milwaukee, Wisconsin



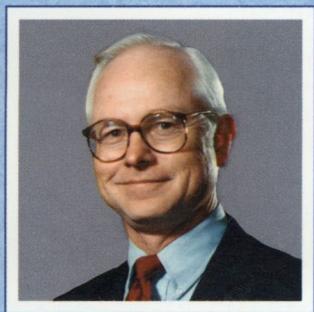
Max J. Naylor
Grain and livestock
farmer
Jefferson, Iowa



*Federal Reserve Bank of Chicago and Detroit Branch
directors, accompanied by Governor Wayne Angell of the
Federal Reserve Board and senior Bank management, visit
the Quad Cities to learn more about the changing nature
of the District economy.*



Barry F. Sullivan
Chairman of the Board
The First National Bank
of Chicago
Chicago, Illinois



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

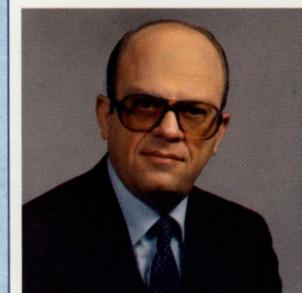
DIRECTORS DETROIT BRANCH

The seven-member board of directors of the Detroit Branch has a general oversight responsibility, helping to ensure that the operations of the Branch serve the needs of its Michigan territory. The Branch directors also serve as an additional source of information about regional conditions and participate in various activities and deliberations of the District board of directors.

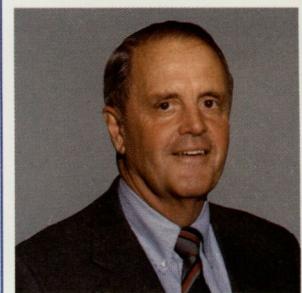
Four of the seven Branch directors are appointed by the Federal Reserve Bank board of directors. The other Branch directors, all nonbankers, are selected by the Board of Governors, and the Branch board names its own chairman from among these three directors.

Selected to the Detroit Branch board effective January 1, 1986 were Donald R. Mandich and Phyllis E. Peters. Mandich, who was appointed by the Chicago board, and Peters, selected by the Board of Governors, replaced Charles T. Fisher, chairman and president, National Bank of Detroit, Detroit, Michigan, and Russell G. Mawby, chairman of the board and chief executive officer, W. K. Kellogg Foundation, Battle Creek, Michigan. Robert E. Brewer was appointed Branch chairman for 1986, replacing Mawby in that position.

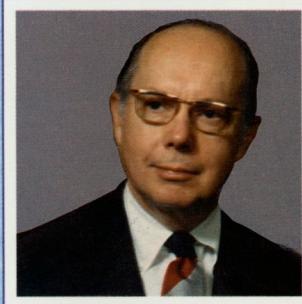
Selected a Detroit Branch director effective January 1, 1987 was Richard T. Lindgren, president and chief executive officer, Cross & Trecker Corporation, Bloomfield Hills, Michigan. Also, Robert Brewer was reappointed Branch chairman for 1987, and Ronald Story was appointed to a second three-year term as a director.



Chairman
Robert E. Brewer
Senior Vice President
K mart Corporation
Troy, Michigan



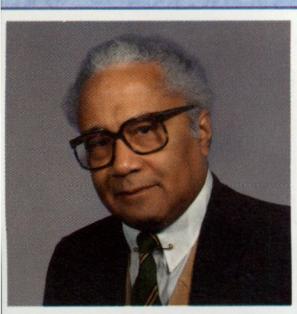
Richard M. Gillett
Chairman of the Board
Old Kent Financial
Corporation
Grand Rapids, Michigan



Donald R. Mandich
Chairman and Chief
Executive Officer
Comerica Bank-Detroit
Detroit, Michigan



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



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



Phyllis E. Peters
*Director, Professional
 Standards Review
 Touche Ross and Company
 Detroit, Michigan*



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



**Federal Advisory
 Council Representative
 Hal C. Kuehl
 Chairman of the Board
 First Wisconsin
 Corporation
 Milwaukee, Wisconsin**

The Federal Advisory Council consists of one member from each of the 12 Federal Reserve Districts and meets quarterly with the Board of Governors in Washington, D.C. to discuss business and financial conditions. The Seventh District representative is selected annually by the Chicago Reserve Bank's board of directors.

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 are selected from nominations by organizations representing small business and agriculture in the Seventh District.

ADVISORY COUNCILS

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*

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

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*

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

OFFICERS



Silas Keehn
President



Daniel M. Doyle
First Vice President

Appointments to a Federal Reserve Bank's official staff are made by the Bank's board of directors.

Officers promoted in 1986 included: Richard P. Anstee, to senior vice president in charge of Support Services; Gerard J. Nick, vice president, responsible for Financial Institution Accounts; and Jean L. Valerius, vice president in charge of the Statistics Division.

Also during 1986, Jerome D. Nicolas, Operations; Susan H. Riis, General Services; and Colleen M. Walsh, Human Resource Services, were promoted to assistant vice president. In addition, Linda P. Maschio was named operations officer in Electronic Services, and Patricia W. Wishart, vice president and assistant director of research, retired after more than 40 years of service to the Bank.

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

James A. Bluemle, *Assistant Vice President*

Economic Research and Information Services

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

Economic 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*

Steven H. Strongin, *Research Officer*

Information Services

Nancy M. Goodman, *Assistant Vice President*

Statistics

Jean L. Valerius, *Vice President*

Services to Depository Institutions

Operations and Check Services

Charles W. Furbee, *Senior Vice President*

Cash, Fiscal Agency and Securities Services

David R. Starin, *Vice President*

Daniel P. Kinsella, *Vice President*

Jerome D. Nicolas, *Assistant Vice President*

Warren E. Potts, *Assistant Vice President*

Lawrence J. Powaga, *Assistant Vice President*

Check Services

Wayne R. Baxter, *Vice President*

Paul J. Bettini, *Vice President*

William A. Bonifield, *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*

Maria H. Coons, *Operations Officer*

Automation and Electronic Services

William C. Conrad, *Senior Vice President*

Automation Support and Computer Operations

Marlene M. O'Sullivan, *Vice President*

Stephen M. Pill, *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*

Electronic Services

Glen Brooks, *Vice President*

James M. Rudny, *Assistant Vice President*

Janet M. Terry, *Assistant Vice President*

Linda B. Maschio, *Operations 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 Institution Accounts

Gerard J. Nick, *Vice President*

Financial Management and Management Services

Glenn C. Hansen, *Vice President*

Jerome F. John, *Assistant Vice President*

Office of the General Auditor

Richard P. Bush, *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

Richard P. Anstee, *Senior Vice President*

Administrative Services

Adolph J. Stojetz, *Vice President*

Facilities Improvement

Robert D. Lauson, *Vice President*

General Services

Robert A. Ludwig, *Vice President*

Susan H. Riis, *Assistant Vice President*

Human Resource Services

Thomas G. Ciesielski, *Vice President*

Gerald I. Silber, *Assistant Vice President*

Colleen M. Walsh, *Assistant Vice President*

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*

Yvonne H. Montgomery, *Operations Officer*

Regional Offices

Des Moines

Thomas P. Killeen, *Vice President*

Indianapolis

Allen R. Jensen, *Assistant Vice President*

Milwaukee

Charles M. Lund, *Assistant Vice President*

STATEMENT OF CONDITION

| | As of December 31 | |
|--------------------------------------|-------------------|-------------------|
| | 1986 | 1985 |
| <i>(in thousands of dollars)</i> | | |
| Assets | | |
| Gold certificate account | 1,394,000 | 1,451,000 |
| Interdistrict settlement account | 2,974,753 | (262,579) |
| Special drawing rights | | |
| certificate account | 656,000 | 620,000 |
| Coin | 28,851 | 28,933 |
| Loans and securities: | | |
| Loans | 88,875 | 31,509 |
| Federal agency securities | 873,141 | 906,423 |
| U.S. government securities | <u>22,039,465</u> | <u>19,588,158</u> |
| Total loans and securities | 23,001,481 | 20,526,090 |
| Cash items in process of collection | 1,012,504 | 958,107 |
| Bank premises | 43,165 | 22,001 |
| Other assets: | | |
| FDIC assumed indebtedness | 2,904,299 | 3,222,905 |
| Other | <u>1,694,647</u> | <u>1,417,924</u> |
| Total other assets | <u>4,598,946</u> | <u>4,640,829</u> |
| Total assets | 33,709,700 | 27,984,381 |
| Liabilities | | |
| Federal Reserve notes | 27,063,964 | 23,723,605 |
| Deposits: | | |
| Depository institutions | 5,008,403 | 2,545,056 |
| U.S. Treasury—general account | 0 | 0 |
| Foreign | 20,250 | 21,000 |
| Other | <u>102,368</u> | <u>109,010</u> |
| Total deposits | 5,131,021 | 2,675,066 |
| Deferred availability cash items | 751,662 | 848,575 |
| Other liabilities | <u>260,309</u> | <u>254,773</u> |
| Total liabilities | 33,206,956 | 27,502,019 |
| Capital accounts | | |
| Capital paid in | 251,372 | 241,181 |
| Surplus | <u>251,372</u> | <u>241,181</u> |
| Total capital | <u>502,744</u> | <u>482,362</u> |
| Total liabilities and capital | 33,709,700 | 27,984,381 |

STATEMENT OF INCOME

| | Year ending December 31 | |
|--|-------------------------|------------------|
| | 1986 | 1985 |
| (in thousands of dollars) | | |
| <i>Current income</i> | | |
| Interest on loans | 206,124 | 318,485 |
| Interest on government securities | 1,782,213 | 1,986,310 |
| Interest on investments of foreign currencies | 53,107 | 32,009 |
| Service fees | 84,723 | 81,575 |
| All other | 1,712 | 1,600 |
| Total current income | 2,127,879 | 2,419,979 |
| <i>Current expenses</i> | | |
| Operating expenses | 137,965 | 133,522 |
| Other current expenses | 21,706 | 21,098 |
| Total current expenses | 159,671 | 154,620 |
| Less reimbursement for certain fiscal agency and other expenses | 12,795 | 10,751 |
| Current net expenses | 146,876 | 143,869 |
| Current net income | 1,981,003 | 2,276,110 |
| <i>Additions to (or deductions from) current net earnings</i> | | |
| Net profit (or loss) on sales of securities | 7,422 | 12,145 |
| Net profit (or loss) on foreign exchange transactions | 266,035 | 169,406 |
| Board of Governors assessment | (36,855) | (35,416) |
| All other—net | (7,542) | (696) |
| Net additions (or deductions) | 229,060 | 145,439 |
| Net earnings available for distribution | 2,210,063 | 2,421,549 |
| <i>Distribution of net earnings</i> | | |
| Dividends paid | 14,839 | 14,199 |
| Payments to U.S. Treasury (as interest on Federal Reserve notes) | 2,185,033 | 2,393,781 |
| Transferred to surplus | 10,191 | 13,569 |
| 2,210,063 | 2,421,549 | |

HIGHLIGHTS OF OPERATIONS

| | Dollar amount | | Volume | |
|--|---------------|---------------|----------------|----------------|
| | 1986 | 1985 | 1986 | 1985 |
| Check and related services | | | | |
| Checks, NOWs, and share drafts processed | 1.0 trillion | 1.0 trillion | 1.9 billion | 1.9 billion |
| Fine sort and packaged checks handled | 129.4 billion | 123.2 billion | 292.5 million | 286.7 million |
| U.S. government checks processed | 55.2 billion | 54.9 billion | 63.8 million | 65.9 million |
| Automated clearinghouse (ACH) items processed | 573.7 billion | 456.2 billion | 117.4 million | 92.3 million |
| Transfers of funds | 20.8 trillion | 20.6 trillion | 9.2 million | 8.5 million |
| Cash operations | | | | |
| Currency received and counted | 18.4 billion | 17.0 billion | 1.8 billion | 1.6 billion |
| Unfit currency withdrawn | 2.9 billion | 2.8 billion | 480.7 million | 480.7 million |
| Coin received and processed | 478.3 million | 457.3 million | 3.6 billion | 3.4 billion |
| Securities services for depository institutions | | | | |
| Safekeeping of securities: | | | | |
| Definitive, balance December 31 | 14.0 billion | 12.8 billion | 0.5 million | 0.5 million |
| Book entry, balance December 31 | 169.9 billion | 145.2 billion | — | — |
| Purchase and sale of securities | 3.2 billion | 3.1 billion | 13.7 thousand | 22.1 thousand |
| Collection of bonds, coupons and other noncash items | 1.1 billion | 1.1 billion | 278.3 thousand | 331.4 thousand |
| Loans to depository institutions | | | | |
| Total loans made during year | 4.5 billion | 93.4 billion | 1,840 | 2,856 |
| Institutions accommodated | — | — | 207 | 271 |
| Services to U.S. Treasury | | | | |
| Marketable government securities issued, exchanged and redeemed: | | | | |
| Definitive securities | 2.7 billion | 5.1 billion | 233.6 thousand | 300.4 thousand |
| Book entry securities | 4.2 trillion | 3.4 trillion | 1.1 million | 1.0 million |
| U.S. government coupons paid | 158.6 million | 338.3 million | 277.0 thousand | 366.0 thousand |
| U.S. savings bonds issued, exchanged and redeemed | 3.6 billion | 2.8 billion | 30.1 million | 26.9 million |
| Federal tax deposits processed | 92.3 billion | 84.1 billion | 860.6 thousand | 837.2 thousand |
| Food stamps received and processed | 1.5 billion | 1.5 billion | 307.4 million | 331.0 million |

For additional copies of this report, contact the Public Information Center, Federal Reserve Bank of Chicago (312/322-5111).

**FEDERAL RESERVE BANK
OF CHICAGO**

Head Office

230 South LaSalle Street
Chicago, Illinois 60604

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