ELECTRONIC PAYMENTS

the time is now

the sky's the limit
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**OUR MISSION**

The Federal Reserve Bank of Chicago is one of 12 regional Reserve Banks across the United States that, together with the Board of Governors in Washington, D.C., serve as the nation’s central bank. The role of the Federal Reserve System, since its establishment by an act of Congress passed in 1913, has been to foster a strong economy, supported by a stable financial system.

To this end, the Federal Reserve Bank of Chicago participates in the formulation and implementation of national monetary policy, supervises and regulates state-member banks, bank holding companies and foreign bank branches, and provides financial services to depository institutions and the U.S. government. Through its head office in Chicago, branch in Detroit, regional offices in Des Moines, Indianapolis and Milwaukee, and facility in Peoria, the Federal Reserve Bank of Chicago serves the Seventh Federal Reserve District, which includes major portions of Illinois, Indiana, Michigan and Wisconsin, plus all of Iowa.

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**OUR VISION**

- Further the public interest by fostering a sound economy and stable financial system
- Provide products and services of unmatched value to those we serve
- Set the standard for excellence in the Federal Reserve System
- Work together, value diversity, communicate openly, be creative and fair
- Live by our core values of integrity, respect, responsibility and excellence
"THE CHECK'S IN THE MAIL" We've all heard this excuse—or even used it ourselves. To some, the durable popularity of this expression is just one more reminder that paper-based payments—like death and taxes—are a permanent part of the national landscape. Despite the continued popularity of checks, I believe we're approaching a turning point for electronic payments. After decades of unfulfilled promise, electronic payments are tantalizingly close to achieving critical mass. The logjam has broken and we're starting to see a flood of new products, providers, and users.

To be sure, I don't expect to see a checkless society in the foreseeable future. The check continues to be an effective and well-liked medium for making payments—due in part to the Fed's nationwide check-clearing system. But it appears that electronic payments are much closer to finally achieving their potential.

Why is this important? I firmly believe our financial system is enhanced by the use of efficient, cost-effective electronic payments. For this reason, the shift to electronic payments is very much in keeping with the Fed's mission to foster a healthy, growing economy and a stable financial system. A recent Federal Reserve System study reinforced this idea by recommending that the Fed take a more active role in fostering the shift to electronic payments.

To do that at the Chicago Fed, we're providing improved electronic products and aggressively marketing them. We've established a task force to study how to promote the development and usage of electronic alternatives. We're also continuing efforts to educate people about the benefits of electronic payments—using tools such as this annual report. The growth potential for electronic payments is tremendous, and we intend to be a leader in making that potential a reality.

Looking back on 1997, the U.S. economy performed at a very high level. Real GDP growth was 3 3/4 percent; inflation as measured by the core Consumer Price Index (which excludes food and energy prices) increased 2 3/4 percent; and the unemployment rate in the fourth quarter averaged 4 3/4 percent. In 1998, we expect that real GDP growth will continue at a respectable, but more sustainable, rate and that inflation and unemployment will continue to be favorable.
Electronic PAYMENTS:
The Sky’s the LIMIT

Gold. Silver. Paper currency. Checks. Plastic. Electronic blips. The face of money in the U.S. has undergone significant change over time. Never has that been more apparent than today.

In 1997, more than $2.4 trillion changed hands each day in America. That is not surprising given a healthy economy, a bull market on Wall Street, low interest rates and the highest employment level in 24 years. What may be surprising, however, is the way we paid for those purchases. Electronic payments—financial transactions that move money between parties electronically rather than through physical exchange of cash or checks—are incrementally, but indelibly, weaving their way into the fabric of our economy.

More than 90 percent of the volume of all payments made in the U.S. today still involves cash or checks. However, electronic transactions account for about 90 percent of the value of all payments, with financial institutions, businesses and governments generating the lion’s share of the total.

Where does the Federal Reserve fit into this scenario? The Fed’s mission is to foster a sound economy and stable financial system. As part of that mission the Fed has worked throughout our history to preserve the integrity of the U.S. payments system, keeping it reliable and efficient—no matter what form money takes. With the recent release of the report of the Committee on the Federal Reserve in the Payments Mechanism, the Fed further defined its responsibility.

The committee, headed by Federal Reserve Board Vice Chair Alice M. Rivlin, was formed to study the Fed’s role in the payments system. After soliciting the views of representatives from depository institutions, third-party service providers, consumers, retailers and academics, the committee recommended the Fed take a more aggressive role in encouraging development of and transition to electronic payments.

In collaboration with both providers and users, the Fed is focusing on key issues related to electronic payments such as the legislative and operational framework, and the need for uniform standards and broadband education. Like the transition from the horse and buggy to the automobile, the shift to electronic payments requires a better infrastructure—the highways, gas stations, dealerships, rules of the road and driving schools—before we can expect even greater traffic.

In the following pages, we take a closer look at how banks, businesses and consumers in the Chicago Fed’s Seventh District are taking advantage of electronic payments.
Midwestern BANKERS are using electronic payments to serve CUSTOMERS better.
IOWA TOWN HARVESTS BENEFITS OF ELECTRONIC PAYMENTS

In Mechanicsville, Iowa, electronic payments are as common as the farm fields surrounding town. Working with the Chicago Fed, the local MECHANICSVILLE TRUST & SAVINGS BANK has aggressively shifted to electronics, enabling local residents to take advantage of a variety of convenient payment services.

BOB STEEN, president of the bank and a farmer at heart (above left), has led the effort. Bank staff members use Fedline software to gain access to a wide variety of Chicago Fed electronic payment services. These allow the bank to offer customers services such as direct payment of phone and utility bills, and direct deposit of paychecks and benefit payments such as Social Security.

The bank also has a more efficient internal check-processing operation because of Federal Reserve products such as Electronic Check Presentment and sophisticated check imaging.

Many of the 1100 residents in this agricultural community 150 miles east of Des Moines appreciate the bank's efforts. After bank staff began offering direct deposit and then worked with the local phone company and city government to offer direct bill payment, customers increasingly gained confidence in electronic payments.

"Electronic payments have worked in Mechanicsville," said Steen, "if they can work here, they can work elsewhere."
REDUCED PRICES PROMOTE ELECTRONIC PAYMENTS

Since 1995, the Federal Reserve has repeatedly lowered the prices of its electronic payments services in an attempt to encourage the shift from paper to electronics.

The price changes are expected to save Automated Clearing House (ACH) and Fedwire customers a combined $42 million in fees by the end of 1998.

Fedwire funds transfer fees were reduced by 11 percent in January 1998, and fees for ACH transactions originated by financial institutions decreased by an average of 12.5 percent. Some ACH fees have been reduced by as much as 73 percent in the last two years.

As a result, processing volumes have increased substantially, as illustrated below.

ACH Items Processed by the Federal Reserve Bank of Chicago

Fedwire Funds Transfers Processed by the Federal Reserve Bank of Chicago

BANKS, once cautious in embracing the next wave in payment methods, now are among the principal users of and most vigorous investors in electronics.

Witness the growth of Automated Clearing House (ACH) and Fedwire funds transfer services as fast, secure, and efficient alternatives (see charts at left). Equally important evidence is the rapid proliferation of direct electronic links between financial institutions and their customers. Spending by banks on electronic systems was $19 billion in 1997 alone, according to Newton, Mass.-based research and consulting firm, The Tower Group.

THE ELECTRONIC HANDWRITING IS ON THE WALL

The Tower Group also found that while delivery of banking services through branches is expected to remain stable over the next five years, more than 90 percent of transaction growth will come from off-premise channels such as retail call centers, online banking, and bill-payment services. Retail customers, pressed for time, accustomed to ATMs and increasingly computer literate, are starting to create demand for electronic banking options.

For better treasury control, corporate clients are increasingly automating their cash management functions and are looking for products that provide direct connectivity to their financial institutions, especially for initiating electronic payments. Other commercial customers are seeking additional ways to reduce cash and check use at point of sale.

Virtually all bank customers will feel the effects of the U.S. Treasury's goal to end the flow of paper checks in and out of Washington. Individuals receiving government payments or benefits, companies conducting business with the Treasury and employers withholding taxes—as well as the banks that service them—will enter the electronic era.

Although the investment in developing alternative channels and sophisticated products is high, future cost savings derived from increased electronic volume are potentially enormous. According to the National Automated Clearing House Association, bankers save 80 cents for each electronic transfer that eliminates a paper check.

Perhaps most importantly, bankers realize they need to take the initiative to offer electronic products or their non-bank competitors will. Banks run the risk of losing business to software giants, credit card companies and telecommunications providers, which already circumvent bank involvement by tapping the Internet and other existing payment channels.

The banking industry's sources of customers and profit will undergo a vast transformation over the next decade, according to William H. Phillips, director of policy development for the American Bankers Association.

"Financial institutions must examine where their customers will come from in the future and what they must do to create and sustain those relationships," he said. "Both large and community banks have no choice but to become electronically adept."

THE FED FACILITATES THE TRANSITION

For most of its life, the Federal Reserve has been a leader in implementing new payment technologies and supporting banks' migration to electronics. The earliest version of Fedwire was coordinated by the Chicago Fed 80 years ago. Today, Fedwire is an electronic interbank payments system for rapid transfer of large-value payments made primarily by financial institutions, businesses and governments.

In the 1970s, the Fed launched its ACH service for recurring small-value payments initiated by businesses and consumers. Today, the Federal Reserve processes nearly 80 percent of all commercial ACH transactions and 100 percent of government transactions.
Linking to a variety of Federal Reserve services—including Fedwire and ACH—requires little more than connecting the bank’s computer system to the Federal Reserve via Fedline software.

Community financial institutions such as Iowa’s Mechanicsville Trust & Savings Bank benefit from such connections.

“Being online with the Federal Reserve has allowed us to be competitive, to affordably deliver services to our customers,” said President Bob Steen. “By controlling the flow of paper, we spend less time on manual handling, while increasing accuracy and providing services such as direct deposit that mean something to our customers.”

For a large bank such as First Chicago NBD Corporation, “Electronic payments using ACH and Fedwire allow us to satisfy our customers’ need for speed and same-day settlement,” said Michael Merony, senior vice president.

**BANKING ON INNOVATION**

The Fed is committed to protecting consumers, but its goal is also to avoid developing overly restrictive regulations, according to Jack Wixted, head of the Chicago Fed’s Supervision & Regulation Department.

“Financial institutions should be free to innovate and allow market forces to determine acceptance,” he said.

And those innovations are many and varied, including:

- A wealth of products that allow commercial clients to initiate electronic payments to employees or payees anywhere in the world using their PC, telephone or mainframe. These products facilitate a range of payment forms, including wire transfer, ACH and financial Electronic Data Interchange (EDI).
- Intranets that enable companies without EDI capability to send and receive payments electronically using Windows®-based secure electronic forms.
- Proprietary networks to support Internet banking applications and ensure security and accuracy.
- Electronic bill presentment services that allow customers to view and pay bills from participating merchants over the Internet.
- Round-the-clock call centers that enable customers to authorize bill payment using a touch-tone phone.
- Online banking, which lets account holders dial up the bank from their personal computer to access account information and pay bills.
- An array of debit cards and stored-value cards, including smart cards for Electronic Benefits Transfer.

**MOVING FORWARD**

Bankers are working hard to tap the potential of electronics, but much remains to be done before they can achieve widespread use and desired economies of scale, said Dick Anstee, senior vice president at the Chicago Fed.

“Security, privacy and fees are key customer concerns,” he said. “That’s in addition to industry issues such as the lack of standards, rapidly changing technology, and a large investment in current paper-based technology. We’re committed to working with banks to overcome the barriers that have hampered the growth of electronic payments.”

Even with the solid growth of electronic payments, Americans still wrote about 63 billion checks in 1997. The Federal Reserve processed nearly one-third of them. Today, the Fed has vastly improved efficiency by implementing cutting-edge technologies that reduce paper flow, as well as banks’ transportation, handling and storage costs. These include:

- **Electronic cash letter (ECL)** Banks electronically capture pertinent information from checks and then transmit the data via electronic file to the Federal Reserve in advance of sending the actual checks.
- **Electronic check presentment** This works the same way as ECL, but for outgoing transmission of check data from the Federal Reserve to paying banks.
- **Check truncation** After electronically sending check information, the financial institution of first deposit stores the checks rather than routing them through the system.
- **Check imaging** Digitized images of the front and back of each check are recorded on CD-ROM or magnetic tape, then sent either to a paying bank or kept at the bank of first deposit.
Electronic payments are a **BOON** to **BUSINESS** in a variety of ways
THE ELECTRONIC SIDE OF SEARS

Need a new hammer? SEARS, ROEBUCK AND CO. sells tools via an Internet Web site.

Sears, whose chairman, Arthur Martinez, serves as a Chicago Fed director, uses a variety of electronic methods to better serve customers and suppliers while improving operating efficiency. Sears pays about 2,500 vendors electronically. In fact, the company averages about 6,000 financial EDI (Electronic Data Interchange) payments a month, worth roughly $1 billion.

EDI technology also lets the nation's second largest retailer communicate a wide range of sales data. People like Director of Electronic Commerce JUDY KERCH (above left) oversee the use of EDI to communicate purchase orders, purchase order changes, invoices, and advance shipping notices.

The 70 million EDI transactions Sears carried out in 1997 resulted in lower labor costs, less paperwork, and more efficient internal operations.

"When you look at the cost benefits to the organization, it's been far in excess of $100 million since we implemented EDI in 1990," said Chief Financial Officer Gary Crittenden.

In related areas, roughly 85 percent of salaried employees and 50 percent of non-salaried employees have their paychecks deposited directly. Automated cash-dispensing stations have been installed at many U.S. full-line stores, and the company is working on better use of the Internet to manage vendor relationships.
INDIANA FIRM BUILDS SOLID ACH CONNECTION

Shelter Components started working with its bank to take advantage of the Chicago Fed’s ACH because it’s an efficient payment method. But in the process, the Elkhart, Ind.-based supplier of building products to the manufactured housing industry found ACH to be a valuable tool for managing cash flow.

ACH lets the firm coordinate the timing of payments to suppliers to match up with payments received from customers. Thus, Shelter can minimize short-term borrowing needs. The company, a subsidiary of Kevco, Inc., finds the certainty of ACH payments a real plus—and also a benefit to customers and suppliers.

Shelter’s electronic access to its bank is also helpful. With it, the company can track its daily cash activity. But the real benefit is at month’s end. Shelter’s bank sends the company an electronic file that can be downloaded with only minor changes before being entered into the firm’s general ledger. Shelter gets the information it needs, in the form it wants, in only a day or two. With a paper-based system, it took 9 or 10 days to receive the information.

BUSINESSES are using electronic payments to lower operating costs, streamline operations and tap new markets. Many companies credit the move with helping them stay competitive.

Manufacturers, retailers or service providers are taking advantage of new technology and sophisticated tools. These firms are engaging in electronic transactions on three major fronts: behind-the-scenes treasury management through their banks, business-to-business commerce with trading partners and business-to-consumer sales.

ELECTING ELECTRONICS

The drive for higher productivity, lower business costs and financial control—not to mention a burgeoning volume of paperwork—are among companies’ reasons for automating their treasury management functions. In the process, many businesses are streamlining payment operations by reducing the number of checks issued and going online with their banks.

While many large corporations, especially those with accounts at several financial institutions, create their own software in house, middle-market businesses often turn to off-the-shelf products offered by their primary bank. With these products, cash managers—using PC workstations or mainframes—can initiate global and domestic payments in a variety of forms, including wire transfer and automated clearing house (ACH), and then transmit the information to their bank in a single electronic file. Many programs also incorporate financial Electronic Data Interchange (EDI) features, which enable companies to send detailed remittance information along with electronic payment.

The majority of corporate domestic payments can be transferred over the Federal Reserve’s cost-efficient ACH network.

“With ACH, it’s easy for us to make payments electronically,” said Mark Neilson, chief financial officer for Shelter Components Corporation, Elkhart, Ind. “We see improved efficiency and cost savings. We do not have to handle a check through its life cycle and can eliminate the expense of postage, reconciliation and losses through fraud.”

American businesses are expected to reduce check volume one to four percent per year as a result of broader use of electronic funds transfer. One of the forces driving the increased use of electronics is the government mandate that businesses pay taxes electronically. In July 1997, businesses withholding $50,000 or more for employee taxes were required to remit those payments electronically.

E-COMMERCE TAKES OFF

Today, more and more companies also receive payments electronically. This system of disbursement and collection of funds spills into the arena of electronic commerce.

Some of the country’s biggest buyers are the catalysts behind this trend, requiring their vendors to accept electronic payment as a condition of sale. These large companies say electronic payment not only saves them time and money over paper, it gives them negotiating clout. Many businesses are using electronic payments to obtain vendor discounts.

Similarly, online capability will be essential for companies conducting business with the federal government. As of January,
1999, the Treasury will pay electronically all businesses providing products and services to the government. The Treasury says it can issue an electronic payment for two cents versus forty-three cents for a paper check. Recipients also benefit because electronic funds transfers are 20 times less prone to error.

**CONDUCTING BUSINESS ON THE WEB**

The area of greatest opportunity for e-commerce lies in the Internet. Today, most businesses use the Internet only for quoting, bidding, placing orders and invoicing. Less than five percent of business-to-business Web sites are set up for direct sales.

That may change as various technologies are applied to Internet payments. Some approaches seek to apply to Internet transactions the same sophisticated mathematical devices—such as encryption and digital signatures—that protect electronic payment file transfers. Still other alternatives involve proprietary networks that provide corporate-to-corporate payment information with limited bank involvement.

Businesses also are integrating electronic payment vehicles into their consumer marketing. Companies are participating in point-of-sale debit card programs, issuing proprietary stored-value cards, encouraging direct debit and retooling their Web sites to promote online sales. Different businesses take different approaches:

- **For retailers,** debit cards speed up checkout, reduce processing charges, improve funds availability and guarantee payment.
- **Phone companies,** office service companies and transit systems are marketing stored-value cards to capitalize on consumer need for convenience.
- **Utilities,** insurance companies and lenders are urging consumers to sign up for direct debit programs to ensure receipt of payments and reduce billing and collection expenses.

**THE POTENTIAL OF THE INTERNET**

Many companies are exploring the potential of the Internet. The total value of all business-to-consumer e-commerce transactions is expected to increase dramatically during the next three years. Hot Internet sellers include retailers, car makers, software vendors and virtual businesses such as bookseller Amazon.com, whose only market is online.

"So much opportunity exists today for businesses to benefit from electronic payments," said Bill Conrad, Chicago Fed first vice president. "From the Internet to electronic bill payment, a lot of things are possible. The time appears right to move ahead more aggressively to take advantage of them."

**CHICAGO FED PROMOTES ACH**

In 1997, the Chicago Fed aggressively promoted the benefits of the Automated Clearing House (ACH), an electronic payment delivery system most often used to process recurring, small-dollar payments such as utility bills.

Numerous promotional and educational efforts were undertaken jointly with other key players in the ACH industry. The Chicago Fed's colleagues in promoting ACH in the Midwest include the National ACH Association; the Wisconsin ACH Association; the Midwest ACH Association; the Mid-America Payment Exchange; SHAZAM, Inc.; and The Payments Authority, Inc.

As a result of marketing and education efforts, 116 financial institutions in the Seventh District began originating ACH payments in 1997, bringing the total number of ACH originators in the District to 1,433.
CONSUMERS have more electronic payment OPTIONS than ever.
ELECTRONIC PAYMENTS HIT HOME
FOR THE BROWN FAMILY

“I haven’t received a paycheck in years, and I haven’t been inside a bank in almost as long,” says Clark Brown, here with his wife, Dawn, and daughters Katie, 10, and Kendra, 2, in front of their Munster, Ind. home.

How does he do it? Electronically. Clark’s paid via direct deposit from his employer, Schneider National, a Green Bay, Wis.-based trucking company. He and Dawn pay their credit card bills over the phone by instructing the bank to transfer funds. They use a debit card to pay for their groceries and gas.

“We feel safer carrying less cash,” Dawn says. “And with a debit card we avoid the interest charges of credit cards and annual fees. It sure beats writing a check.”

Clark likes checking bank balances on his home computer. Though still concerned about security, he’s getting more confident and expects to be doing a lot more banking on-line in the future.

Electronic payments are also a part of his work as a truck-driving instructor. Donald Schneider, president of Schneider National and a Chicago Fed director, has emphasized the use of electronics at the company. In addition to direct deposit, all of Schneider’s drivers have debit cards to pay for fuel and repairs.

Both on the job and at home, electronic payments offer Clark increased convenience and efficiency.

“We don’t have to go to the bank to deposit a check or sit down to write checks to pay bills, or worry about whether there’s enough cash on hand,” he says. “It just wouldn’t make any sense to do it any other way.”
FOOD STAMPS GO ELECTRONIC
The federal government is requiring states to distribute food stamp benefits electronically by 2002. Illinois is at the forefront of that effort with its LINK program. Now, instead of paper stamps, Illinois recipients receive a LINK card. It's used to pay for food using point-of-sale (POS) machines in grocery and convenience stores.

People like the program. More than 80 percent of recipients prefer the LINK card over paper food stamps, saying it's safer and easier to use. Retailers like it too because it reduces paperwork, accounting and administrative costs.

The new system is expected to save Illinois $9.6 million a year, the federal government $4 million a year and recipients, who won't have to pay for check-cashing services, $10.6 million annually.

CONSUMERS
have more choices than ever. No cash in your pocket? Swipe your debit card or stored-value card. Feel like paying bills at midnight? Put down that pen and pick up the phone, turn on your PC or plop down in front of interactive TV. Have an itch to go shopping? Log on to the Internet and don't forget to pack your cybercash.

Thanks to technology and enterprising banks and businesses, these choices are possible today, with many more on the way:

NIPPING AT THE HEELS OF CASH AND CHECKS
An increasingly popular electronic payment option for consumers is debit cards, which immediately deduct payments from a bank account. U.S. financial institutions have issued more than 205 million of these "pay as you go" cards, with the number now increasing 40 percent to 45 percent each year.

Also on the rise are single-purpose stored-value cards, which use magnetic strips to record a dollar balance that is either pre-determined or established when the consumer purchases the card. These pre-paid cards often are issued for items costing less than $10, such as phone calls, transit fares and photocopying. Another type of stored-value card is the smart card, which replaces the magnetic strip with a microchip with a memory and can be reloaded through an ATM or special telephone. Some smart cards can cover multiple types of purchases, including groceries, gas and stamps.

Another popular electronic payment alternative is direct debit. With this convenience, banks are pre-authorized to move funds electronically from individual accounts to appropriate recipients on a certain day of each month. These transfers typically include mortgage and car payments, insurance premiums, student loans, even alimony. Among the advantages: not having to write checks, buy stamps, or worry about payments arriving on time.

On the flip side, the most popular method of receiving funds is direct deposit. About half of Americans authorize their employer to automatically deposit their paychecks into their bank account. Federal Reserve staff receive their salaries in this way as do nearly all federal government employees. Many people also receive expense reimbursements, commissions, dividends and pension payments through direct deposit. In addition, 69 percent of Social Security recipients opt for electronic payment. By January 1999, all government payments—with some exceptions including tax refunds—will be delivered electronically. Direct deposit recipients don't have to worry about their check being lost or stolen and can count on their money being in their account on a certain date.

BYE, BYE, BRANCH?
Direct deposit eliminates one reason to physically visit the bank. Coupled with the proliferation of ATMs and the advent of online banking, some predict that many account holders might never need to set foot in a branch again.
Over the past two years, many bank customers have begun taking advantage of electronic alternatives that literally place banking services at their fingertips. Many banks nationwide operate call centers, providing live operators and automated voice response units, up to 24 hours a day, seven days a week. Using a touch-tone phone, customers can access accounts, apply for a loan, and authorize bill payment.

Online banking offers the same services through a person's home computer. Customers use bank-provided software and a commercially available money management program to point and click to pay bills.

Consumers also have the option of banking in cyberspace. While a handful of virtual banks—that is, banks that exist only in cyberspace—currently operate on the Internet, many brick-and-mortar banks have Web sites, with some conducting business on the Web.

Even the trusty ATM is gaining super powers. The new generation of ATMs sells everything from postage stamps and travelers checks to phone cards and gift certificates. And ATMs are showing up everywhere—in office buildings, health clubs, supermarkets, convenience stores, hotels, restaurants, malls, even as freestanding units on street corners. ATM cards have turned into money machines on their own, functioning as debit cards at the gas pump and designated retailers.

**OVERCOMING HURDLES**

Despite so many electronic choices, surveys show a mere one to four percent of U.S. households conduct banking transactions online. What's slowing down acceptance?

"We're all creatures of habit. And habits die hard," said Chicago Fed Senior Vice President David Allardice. "Writing checks has become ingrained, part of our routine. Add to that consumer questions about security, privacy, liability and the sometimes higher cost of e-banking over traditional checking, and the allure of electronics can fade."

Security concerns may be more perceived than real. The Federal Reserve System's Regulation E and the Electronic Fund Transfer Act provide the framework for establishing rights and liabilities in electronic funds transfer systems, including preauthorized transfers from a consumer's account. Banks, merchants, third-party service providers, industry associations and the Federal Reserve are all working together to protect consumer interests. Encryption technology, PINs, digital signatures and proprietary networks are just some of the safeguards for online banking payments and Internet transactions.

"The outlook for electronic payments is bright," Allardice concluded. "Consumer concerns such as security are being addressed. Technology is making giant steps, and there are just so many advantages for this safe, fast and efficient payment method that consumers are bound to be attracted to using electronics more and more."

**SHOW ME THE E-MONEY**

- Convenience. Time savings. Availability of a broad array of products and services any time of day. Many of the benefits associated with electronic banking apply to shopping on the Internet. Where they differ is in payment. The overwhelming majority of consumers who charge purchases over the Internet use credit cards.
- However, alternatives are emerging.
- Digital cash—stored and retrieved online—can pay for Internet purchases. Digital cash is especially useful for online news and databases, whose cost of less than a dollar makes it impractical for credit card use. Another innovation is the electronic check, which the consumer generates on a computer, then digitally signs and encrypts before electronically forwarding for payment.
The Bank had a very successful year, achieving its critical objectives while keeping expenses well below budget.

Six cultural transformation teams were established to assure that the Bank's culture is aligned with its goals.

A task force was organized to examine issues related to diversity.

The Bank implemented a corporate measurement system, which uses both quantitative and qualitative measures to determine Bank results.

The Bank played a leadership role on 20 System committees.

ECONOMIC RESEARCH

The Research Department held a series of conferences announcing the results of the comprehensive study, Assessing the Midwest Economy: Looking Back for the Future.

The Bank hosted a conference with the World Bank on preventing banking crises.

The Bank hosted the 33rd annual Conference on Bank Structure and Competition, with the theme “Technology: Policy Implications for the Future of Financial Services.”

Economic Research staff had 43 papers published or accepted for publication in leading scholarly journals and presented 183 papers to professional groups.

Research Statistics met more than 94,000 report deadlines.

SUPERVISION AND REGULATION

Supervision and Regulation performed more than 770 inspections and examinations, one of the heaviest workloads in the System.

The Bank implemented new CRA examination procedures for large banks.

Supervision and Regulation implemented a risk-focused approach to examinations.

The Bank established a new risk management and payment system risk function to coordinate all payment system risk activities.

Supervision and Regulation processed 247 applications.

FINANCIAL SERVICES

The Bank fully recovered the costs of providing priced financial services, including the cost of taxes and capital the Fed would incur if it were a private firm.

The Automated Clearing House (ACH) Department had the lowest unit costs and highest recovery rate of all Reserve Banks.

Electronic cash letter (ECL) volume increased by approximately 35 percent over 1996, bringing ECL volume to 28 percent of total check volume.

Commercial ACH volume increased more than 15 percent.

The Check Department began processing government checks using imaging technology and was selected as one of the System’s long-term archival sites.

Cash Operations was the Federal Reserve’s best currency processor based on System-wide efficiency ratings.

The Fed System extended Fedwire hours to help reduce settlement risk in foreign exchange markets.

The Government Securities Department developed the “Sell Direct” service for the entire Federal Reserve System, handling the sale of Treasury Securities for holders of the securities.

The Bank was selected to direct the System-wide Business Development Office, which coordinates financial services marketing activities.

A new centralized customer service call center opened and by year-end was handling more than 6,000 calls a month.

More than half of the 460 million checks processed by the Detroit Branch were “electronic checks.”

The staff at the Detroit Branch suggested more than 450 ideas to improve workflow, operations and quality, with 76 percent of the ideas being implemented.

The Des Moines Office moved to a new, more efficient building located adjacent to the Des Moines airport.

The Bank began distributing newly designed $50 bills.

SUPPORT

The Bank converted to the National Book-Entry System, the Fed System’s new centralized computer processing application.

The Bank’s mainframe and LAN/WAN computer operations were centralized to increase efficiencies.

The Bank was one of three Reserve Banks that piloted for the Fed System a new internal control framework developed by the Committee of Sponsoring Organizations (COSO).

The Bank worked closely with financial institutions as part of an ongoing effort to help assure that their computer systems are prepared for the century date change by Summer 1998.

The Bank conducted tours of its operations for more than 10,400 visitors.

Consumer and Community Affairs led the Mortgage Credit Access Partnership to help promote fair treatment in the home-purchasing process in the Chicago metropolitan area.

The Bank initiated a new performance management system to more closely align Bank objectives with individual employee goals.
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<th>Operations Volumes</th>
<th>Dollar Amount</th>
<th>Number of Items</th>
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<td>Check &amp; Electronic Payments</td>
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<td>Checks, NOWs, &amp; share drafts processed</td>
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<td>Fine sort &amp; packaged checks handled</td>
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<td>U.S. government checks processed</td>
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<td>Automated Clearing House (ACH) items processed*</td>
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</tr>
<tr>
<td>Transfer of funds</td>
<td>37.0 trillion</td>
<td>33.8 trillion</td>
</tr>
<tr>
<td>Electronic cash letters processed</td>
<td>181.7 billion</td>
<td>115.9 billion</td>
</tr>
<tr>
<td>Cash Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency received and counted</td>
<td>39.3 billion</td>
<td>35.9 billion</td>
</tr>
<tr>
<td>Unfit currency destroyed</td>
<td>10.8 billion</td>
<td>9.6 billion</td>
</tr>
<tr>
<td>Coin received and counted</td>
<td>759.8 million</td>
<td>777.4 million</td>
</tr>
<tr>
<td>Securities Services for Depository Institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safekeeping balance December 31:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Definitive securities</td>
<td>12.7 billion</td>
<td>11.7 billion</td>
</tr>
<tr>
<td>Book-entry securities</td>
<td>282.5 billion</td>
<td>340.0 billion</td>
</tr>
<tr>
<td>Purchase &amp; sale</td>
<td>3.1 billion</td>
<td>2.9 billion</td>
</tr>
<tr>
<td>Collection of securities &amp; other noncash items</td>
<td>78.7 million</td>
<td>110.2 million</td>
</tr>
<tr>
<td>Book-entry government securities</td>
<td>7.2 trillion</td>
<td>7.1 trillion</td>
</tr>
<tr>
<td>Loans to Depository Institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total loans made during year</td>
<td>4.0 billion</td>
<td>3.1 billion</td>
</tr>
<tr>
<td>Services to U.S. Treasury and Government Agencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redemptions of definitive government securities</td>
<td>37.4 million</td>
<td>189.3 million</td>
</tr>
<tr>
<td>Government coupons paid</td>
<td>3.8 million</td>
<td>35.3 million</td>
</tr>
<tr>
<td>Federal tax deposits processed</td>
<td>46.8 billion</td>
<td>87.9 billion</td>
</tr>
<tr>
<td>Food stamps redeemed</td>
<td>1.5 billion</td>
<td>2.2 billion</td>
</tr>
<tr>
<td>Sell Direct transactions processed</td>
<td>132.3 million</td>
<td>-</td>
</tr>
</tbody>
</table>

The Federal Reserve Bank of Chicago's volumes of operations during 1997 reflected the System's continuing efforts to improve efficiency and encourage the use of electronic payments. The volume of funds transfers and Automated Clearing House (ACH) transactions continued to rise. Food stamps processed decreased because of the migration to the Electronic Benefits Transfer program. Federal tax deposits processed decreased because of the continued use of the Electronic Federal Tax Payment System, which is handled by ACH. Sell Direct is a new service the Chicago Reserve Bank implemented in 1997 in which the Bank sells Treasury Securities for the holders of the securities.

*The methodology for reporting the number of ACH items processed was different in 1997 than in 1996. As a result, 1997 volume may be slightly understated in comparison to 1996 volume.
Year-to-year changes in Reserve Bank assets and liabilities largely reflect general economic developments and System monetary policy actions. By purchasing securities in the open market and making loans to depository institutions, the Federal Reserve increases reserves, providing a base for monetary and credit expansion in accord with the national economy's growth needs. In 1997, the Bank's total assets increased, accommodating an increase in deposits of depository institutions and fluctuations in the interdistrict account that more than offset a decline in currency in circulation. Nationally, however, currency outstanding increased in 1997.

<table>
<thead>
<tr>
<th>Assets</th>
<th>12/31/97</th>
<th>12/31/96</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold Certificates</td>
<td>$1,069</td>
<td>$1,140</td>
</tr>
<tr>
<td>Special Drawing Rights Certificates</td>
<td>900</td>
<td>979</td>
</tr>
<tr>
<td>Coin</td>
<td>52</td>
<td>70</td>
</tr>
<tr>
<td>Items in Process of Collection</td>
<td>773</td>
<td>1,537</td>
</tr>
<tr>
<td>Loans to Depository Institutions</td>
<td>13</td>
<td>18</td>
</tr>
<tr>
<td>U.S. Government and Federal Agency Securities, Net</td>
<td>46,293</td>
<td>42,727</td>
</tr>
<tr>
<td>Investments Denominated in Foreign Currencies</td>
<td>1,989</td>
<td>2,296</td>
</tr>
<tr>
<td>Accrued Interest Receivable</td>
<td>438</td>
<td>385</td>
</tr>
<tr>
<td>Interdistrict Settlement Account</td>
<td>87</td>
<td>76</td>
</tr>
<tr>
<td>Property and Equipment, Net</td>
<td>143</td>
<td>149</td>
</tr>
<tr>
<td>Other Assets</td>
<td>87</td>
<td>76</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$51,757</strong></td>
<td><strong>$49,534</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Capital</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Reserve Notes Outstanding, Net</td>
<td>$40,531</td>
<td>$44,858</td>
</tr>
<tr>
<td>Deposits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depository Institutions</td>
<td>3,570</td>
<td>2,574</td>
</tr>
<tr>
<td>Other Deposits</td>
<td>82</td>
<td>69</td>
</tr>
<tr>
<td>Deferred Credit Items</td>
<td>679</td>
<td>808</td>
</tr>
<tr>
<td>Statutory Surplus Transfer Due U.S. Treasury</td>
<td>59</td>
<td>68</td>
</tr>
<tr>
<td>Interdistrict Settlement Account</td>
<td>5,705</td>
<td>0</td>
</tr>
<tr>
<td>Accrued Benefit Cost</td>
<td>76</td>
<td>74</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$50,728</strong></td>
<td><strong>$48,473</strong></td>
</tr>
</tbody>
</table>

| Capital:                            |          |          |
| Capital Paid-in                     | 527      | 537      |
| Surplus                             | 502      | 524      |
| **Total Capital**                   | **$1,029** | **$1,061** |

| Total Liabilities and Capital       | **$51,757** | **$49,534** |
## STATEMENT OF INCOME

For the years ended Dec. 31, 1997 and Dec. 31, 1996 (in millions)

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest Income:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on U.S. Government Securities</td>
<td>$2,696</td>
<td>$2,604</td>
</tr>
<tr>
<td>Interest on Foreign Currencies</td>
<td>44</td>
<td>53</td>
</tr>
<tr>
<td>Interest on Loans to Depository Institutions</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total Interest Income</strong></td>
<td>$2,742</td>
<td>$2,658</td>
</tr>
<tr>
<td><strong>Other Operating Income (loss):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from Services</td>
<td>95</td>
<td>99</td>
</tr>
<tr>
<td>Reimbursable Services to Government Agencies</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td>Foreign Currency Losses, Net</td>
<td>(303)</td>
<td>(199)</td>
</tr>
<tr>
<td>Government Securities Gains, Net</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Other Income</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total Other Operating Loss</strong></td>
<td>$(186)</td>
<td>$(77)</td>
</tr>
<tr>
<td><strong>Operating Expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Other Benefits</td>
<td>127</td>
<td>126</td>
</tr>
<tr>
<td>Occupancy Expense</td>
<td>20</td>
<td>19</td>
</tr>
<tr>
<td>Equipment Expense</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Cost of Unreimbursed Treasury Services</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Assessments by Board of Governors</td>
<td>58</td>
<td>61</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>96</td>
<td>89</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>$323</td>
<td>$317</td>
</tr>
<tr>
<td><strong>Net Income Prior to Distribution</strong></td>
<td>$2,233</td>
<td>$2,264</td>
</tr>
</tbody>
</table>

**Distribution of Net Income:**

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends Paid to Member Banks</td>
<td>$32</td>
<td>$31</td>
</tr>
<tr>
<td>Transferred to (from) Surplus</td>
<td>(10)</td>
<td>64</td>
</tr>
<tr>
<td>Payments to U.S. Treasury as Interest on Federal Reserve Notes</td>
<td>0</td>
<td>1,587</td>
</tr>
<tr>
<td>Payments to U.S. Treasury as Required by Statute</td>
<td>2,211</td>
<td>582</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,233</td>
<td>$2,264</td>
</tr>
</tbody>
</table>

A Reserve Bank's income is largely a by-product of monetary policy rather than the pursuit of profit. Most of the Bank's income is interest on its share of the System's Open Market Account portfolio of securities, and appropriately, the vast majority of this income is turned over to the U.S. Treasury each year. Current income decreased slightly compared to 1996, primarily because of a net loss in foreign currency income, which more than offset a slight increase in interest on U.S. government securities.
Seventh District member banks are required to purchase capital stock in the Federal Reserve Bank of Chicago equal to six percent of their capital and surplus. A six-percent annual dividend is provided on the paid-in stock, as specified by law. The holding of stock does not carry with it the control and financial interest conveyed to holders of common stock in for-profit organizations. During 1997 the value of Bank capital decreased because of effects of consolidations brought on by interstate banking.

### STATEMENT OF CHANGES IN CAPITAL

For the years ended Dec. 31, 1997 and Dec. 31, 1996 (in millions)

<table>
<thead>
<tr>
<th></th>
<th>Capital Paid-in</th>
<th>Surplus</th>
<th>Total Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 1996 (9.4 million shares)</td>
<td>$473</td>
<td>$473</td>
<td>$946</td>
</tr>
<tr>
<td>Net Income Transferred to Surplus</td>
<td></td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>Statutory Surplus Transfer to U.S. Treasury</td>
<td></td>
<td>(13)</td>
<td>(13)</td>
</tr>
<tr>
<td>Net Change in Capital Stock Issued (1.3 million shares)</td>
<td></td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>Balance at December 31, 1996 (10.7 million shares)</td>
<td>$537</td>
<td>$524</td>
<td>$1,061</td>
</tr>
<tr>
<td>Net Income Transferred to Surplus</td>
<td></td>
<td>(10)</td>
<td>(10)</td>
</tr>
<tr>
<td>Statutory Surplus Transfer to U.S. Treasury</td>
<td></td>
<td>(12)</td>
<td>(12)</td>
</tr>
<tr>
<td>Net Change in Capital Stock Redeemed (0.2 million shares)</td>
<td></td>
<td>(10)</td>
<td>(10)</td>
</tr>
<tr>
<td>Balance at December 31, 1997 (10.5 million shares)</td>
<td>$527</td>
<td>$502</td>
<td>$1,029</td>
</tr>
</tbody>
</table>

The statements of income, condition, and changes in bank capital are prepared by Bank management. Copies of full and final financial statements, complete with footnotes, are available by contacting the Federal Reserve Bank of Chicago's Public Information Center, P.O. Box 834, Chicago, Illinois 60690-0834, 312-322-5111.
March 11, 1998
To the Board of Directors
of the Federal Reserve Bank of Chicago:

The management of the Federal Reserve Bank of Chicago (FRBC) is responsible for the preparation and fair presentation of the Statement of Financial Condition, Statement of Income, and Statement of Changes in Capital as of December 31, 1997 (the “Financial Statements”). The Financial Statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System and as set forth in the Financial Accounting Manual for the Federal Reserve Banks, and as such, include amounts, some of which are based on judgments and estimates of management.

The management of the FRBC is responsible for maintaining effective internal controls over financial reporting and the safeguarding of assets as they relate to the Financial Statements. Such internal controls are designed to provide reasonable assurance to management and to the Board of Directors regarding the preparation of reliable Financial Statements. These internal controls contain self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in internal controls are reported to management, and appropriate corrective measures are implemented.

Even effective internal controls, no matter how well designed, have inherent limitations—including the possibility of human error and costs versus benefits considerations—and therefore can provide only reasonable assurance with respect to the preparation of reliable Financial Statements.

The management of the FRBC assessed its internal controls over financial reporting and the safeguarding of assets reflected in the Financial Statements, based upon the criteria established in the “Internal Control—Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the management of the FRBC believes that the FRBC maintained effective internal controls over financial reporting and the safeguarding of assets as they relate to the Financial Statements.

Michael H. Moskow
President

William C. Conrad
First Vice President and Chief Operating Officer
March 11, 1998
To the Board of Directors
of the Federal Reserve Bank of Chicago:

We have examined management's assertion that the Federal Reserve Bank of Chicago (the "Reserve Bank") maintained an effective internal control structure over financial reporting and over the safeguarding of assets as they relate to the Financial Statements as of December 31, 1997, included in the accompanying Management's Assertion.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control structure over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control structure, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure over financial reporting to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the Reserve Bank maintained an effective internal control structure over financial reporting and over the safeguarding of assets as they relate to the Financial Statements as of December 31, 1997, is fairly stated, in all material respects, based upon criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Coopers & Lybrand L.L.P.
Chicago, Illinois
Directors

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- **Harold F. Force**  
  Columbus, Indiana  
  Indiana Chamber of Commerce

- **Sue Ling Gin**  
  Chicago, Illinois  
  Member-at-Large

- **Manuel T. Gonzalez**  
  Indianapolis, Indiana  
  United States Hispanic Chamber of Commerce

- **Richard T. Keenings**  
  Elm Grove, Wisconsin  
  Independent Business Association

- **Myrna Ordower**  
  Chicago, Illinois  
  National Association of Women Business Owners (NAWBO)

- **James Michael Schultz**  
  Effingham, Illinois  
  Illinois State Chamber of Commerce

- **Billie Jo Wanlink**  
  Royal Oak, Michigan  
  National Association of Women Business Owners (NAWBO)

- **Alan C. Young, CPA**  
  Detroit, Michigan  
  Booklet T. Washington Business Association

#### Indiana
- **H. Matthew Ayers**  
  State Bank of Lizton  
  Lizton, Indiana

- **Lynn Bielein**  
  Sales Banches, Inc.  
  Indianapolis, Indiana

- **Debora L. Cox**  
  Irwin Union Bank & Trust  
  Columbus, Indiana

- **Robert E. Fail**  
  NBD Indianapolis, NA  
  Indianapolis, Indiana

- **Steven D. Flowers**  
  Bank One Indianapolis, NA  
  Indianapolis, Indiana

- **Pamela S. Gossett**  
  DeMotte State Bank  
  DeMotte, Indiana

- **Dee Ann Hammel**  
  First Federal Savings Bank  
  Huntington, Indiana

- **Stan V. Hart**  
  Terre Haute First National Bank  
  Terre Haute, Indiana

- **H. Dean Hawkins**  
  First State Bank  
  Morgantown, Indiana

- **Paul Hoover**  
  First Merchants Bank, NA  
  Muncie, Indiana

- **Sheri Jones**  
  Phillips Electronics Federal Credit Union  
  Fort Wayne, Indiana

- **Sharon A. Marx**  
  National City Bank  
  Indianapolis, Indiana

- **Carl A. Minick**  
  Fort Wayne National Bank  
  Fort Wayne, Indiana

- **Robert J. Ralston**  
  Lafayette Bank & Trust Company  
  Lafayette, Indiana
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Michael H. Moskow  
President

William C. Conrad  
First Vice President

**CENTRAL BANK ACTIVITIES**

**Economic Research and Programs**

William C. Hunter  
Senior Vice President and Director of Research

**Administration and Publications**

Vance B. Lancaster  
Administrative Officer

**Financial Markets Regulation and Payments Issues**

Elijah Brewer III  
Senior Economist and Assistant Vice President

Douglas D. Evanoff  
Senior Economist and Assistant Vice President

James T. Moser  
Senior Research Economist and Research Officer

**Macroeconomic Policy Research**

Charles L. Evans  
Senior Economist and Assistant Vice President

Anne Marie L. Gonczy  
Senior Economist and Assistant Vice President

**Microeconomic Policy Research**

Daniel G. Sullivan  
Senior Economist and Assistant Vice President

Phillip R. Israilevich  
Senior Regional Economist and Research Officer

Paula R. Worthington  
Senior Research Economist and Research Officer

**Regional Economic Programs**

Gary L. Benjamin  
Economic Advisor and Vice President

William A. Testa  
Senior Economist and Assistant Vice President

**Statistics**

Jean L. Valerius  
Vice President

Loretta C. Ardaugh  
Statistical Reports Officer

**Supervision and Regulation**

John J. Wixted, Jr.  
Senior Vice President

**Administration**

James A. Bluemle  
Vice President and Division Leader

Sheryn E. Bormann  
Director

Terry R. Ferrari  
Director

Michael R. Jarrell  
Director

Karen M. Whalen-Ward  
Director

**Bank and Bank Holding Company Supervision**

Barbara D. Benson  
Vice President and Division Leader

A. Raymond Bacon  
Special Exams Director

Robert A. Bechaz  
Regional Director—Illinois

Richard C. Cahill  
Regional Director—Iowa

Jeffrey A. Jensen  
Regional Director—Wisconsin

Frederick L. Miller  
Regional Director—Wisconsin

Mary T. Musgrave  
Resource Coordinator

**Compliance/Community Reinvestment Act**

Douglas J. Kasi  
Vice President and Division Leader

Richard D. Chelsvig  
Regional Director—Wisconsin

William M. Hill  
Regional Director—Iowa

Ellen J. Holmgren  
Regional Director—Iowa

Kevin P. Murray  
Regional Director—Iowa

Paulette M. Myrie-Hodge  
Director—Operations

**Global Supervision**

James W. Nelson  
Vice President and Division Leader

Adrian B. D'Silva  
Director

Philip G. Jackson  
Director

Mark H. Kawa  
Director

*Includes directors as well as officers.*
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<td>Legal Department and Office of the Secretary</td>
<td>William H. Gram</td>
<td>Senior Vice President, General Counsel</td>
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<td>Legal Services</td>
<td>Yurii Skorin</td>
<td>Vice President and Associate General Counsel</td>
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<tr>
<td>Legal Services</td>
<td>Anna M. Voytovich</td>
<td>Assistant Vice President and Assistant General Counsel</td>
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<td>Management Services, Accounting, Loans and Payment System Risk</td>
<td>Carl E. Vander Wilt</td>
<td>Senior Vice President and Chief Financial Officer</td>
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DIRECTORS

Members of the Federal Reserve Bank of Chicago's board of directors are selected to represent a cross section of the Seventh District economy, including consumers, industry, agriculture, the service sector, labor, and commercial banks of various sizes.

The board consists of nine members. Member banks elect three bankers and three nonbankers. The Board of Governors appoints three additional nonbankers and designates the Reserve Bank chair and deputy chair from among its three appointees.

The Detroit Branch has a seven-member board of directors. The Board of Governors appoints three nonbankers and the Chicago Reserve Bank board appoints four additional directors. The Branch board selects its own chair each year. All Reserve Bank and Branch directors serve three-year terms, with a two-term maximum.

Director appointments and elections at the Chicago Reserve Bank and its Detroit Branch effective in 1997 were:
- Lester H. McKeever, Jr. designated Chairman.
- Arthur C. Martinez designated Deputy Chairman.
- Robert J. Darnall appointed to three-year term as director replacing Robert M. Healey.
- Verne G. Istock elected to three-year term as director replacing David W. Fox.
- Migdalia Rivera elected to three-year term as director replacing A. Charlene Sullivan.
- Florine Mark redesignated Branch Chair.
- Irma B. Elder appointed to three-year term as Branch director replacing Charles E. Allen.
- Timothy D. Leuliette appointed as Branch director to fulfill the remainder of John D. Forsyth's term.
- Denise Ilitch Lites appointed to three-year term as Branch director replacing William E. Odom.

At year-end 1997 the following appointments and elections to terms beginning in 1998 were announced:
- Lester H. McKeever, Jr. reappointed to second three-year term and redesignated Chairman.
- Arthur C. Martinez redesignated Deputy Chairman.
- Jack B. Evans, President of The Hall-Perrine Foundation, Cedar Rapids, Iowa, and Robert R. Yohanan, Managing Director and Chief Executive Officer of First Bank & Trust, Evanston, Illinois, elected to three-year terms as directors replacing Thomas C. Dorr and Stefan S. Anderson.
- Florine Mark redesignated Branch Chair.
- Timothy D. Leuliette reappointed as Branch director.
- David Wagner, Chairman, President, and Chief Executive Officer of Old Kent Financial Corporation and Chairman of Old Kent Bank, Grand Rapids, Michigan, appointed to three-year term as Branch director, replacing Charles R. Weeks.

ADVISORY COUNCILS

The Federal Advisory Council, which meets quarterly to discuss business and financial conditions with the Board of Governors in Washington, D.C., is comprised of one member from each of the 12 Federal Reserve Districts. Each year the Chicago Reserve Bank's board of directors selects a representative to this group. Roger L. Fitzsimonds, completed the maximum third one-year term as the Seventh District's representative in 1997. Norman R. Bobins, President and Chief Executive Officer of LaSalle National Corporation and LaSalle National Bank, was appointed to a one-year term for 1998.

Members of the Bank's Advisory Council on Agriculture, Labor, and Small Business, who are selected from nominations by Seventh District small business, labor, and agricultural organizations, served the first year of their terms in 1997. The council provides a vital communication link between the Bank and these important sectors.

OFFICERS

The Bank's board of directors acted on the following promotion during 1997:
- James R. Holland to assistant vice president, Corporate Communications.
- Robert W. Lapinski to assistant vice president, Corporate Communications.
- Vance B. Lancaster to administrative officer, Economic Research.
- Rosemarie A. Wilcox to administrative officer, Strategic Marketing.