

1972

annual report

Federal
Reserve
Bank of  Cleveland



Horace A. Shepard, Willis J. Winn, Albert G. Clay

To the Banks in the Fourth Federal Reserve District:

Change and the need to respond to change are primary elements in almost all aspects of our lives: political, economic and social. The Federal Reserve System and the commercial banks were challenged in many areas during the year 1972, particularly monetary policy, banking structure and regulation, and bank operations. This Annual Report focuses on the evolutionary developments underway in the payments mechanism—a concern of both the Federal Reserve and the banks. The ever increasing volume of checks, rising costs of operations, and the developing computer-based communications technology are all factors generating the movement toward an electronic payments system.

During 1972, the Federal Reserve Bank of Cleveland began operation of its first Regional Check Processing Center in Columbus as part of this evolutionary process. In addition, other actions were taken regarding the development and implementation of other RCPCs in Cleveland, Pittsburgh, and Cincinnati; the former two were operating in early 1973, and Cincinnati will be in operation in early April.

This Report is a tribute to the many individuals whose efforts made RCPCs a reality. In particular, we are grateful for the assistance and cooperation of the member banks in the Fourth District.

These acknowledgements would be incomplete without a special mention of Albert G. Clay, who concluded five years of service as Chairman of the Board of Directors at the Main Office on December 31, 1972, and a total of nine years as a member of the Board. Albert's distinguished record of public service exemplifies the dedication of the Federal Reserve Bank of Cleveland and its directors, officers, and staff.

Horace A. Shepard
CHAIRMAN OF THE BOARD

Willis J. Winn
PRESIDENT

Regional Check Processing and the Payments Mechanism

The institutional means by which payments are made today are the result of a continuing evolutionary process that has been going on for centuries. From the early days of barter, to the use of commodities as a medium of exchange, to the adoption of bank notes and deposits, the process has been driven by the search for more economically efficient means of facilitating exchange. The advance of technology has also played an important role. The discovery of new methods and the acquisition of skills resulted in formerly efficient arrangements being superseded by economically more appropriate ones. As literacy became almost universal in some countries, the attractiveness of the checking account was enhanced. With the development of the telegraph, the wire transfer became feasible.

However, the evolutionary changes in the payments mechanism appear to have accelerated in recent years. Rising check volume, increasing labor costs, improved communications equipment and the technology of the computer, with its promised economies, are in large part responsible. In addition, the Federal Reserve System has been active in restructuring the payments mechanism, especially inter-bank settlements. The Fourth Federal Reserve District has not been immune to these changes. Indeed, the District has been a center for much recent experimentation in the payments mechanism. This Annual Report examines some aspects of the U. S. payments mechanism in the throes of change. The nature of the current problem and the response of the U. S. commercial

banking system and the Federal Reserve to that problem are discussed with emphasis on the role of regional check processing centers in the Fourth District.

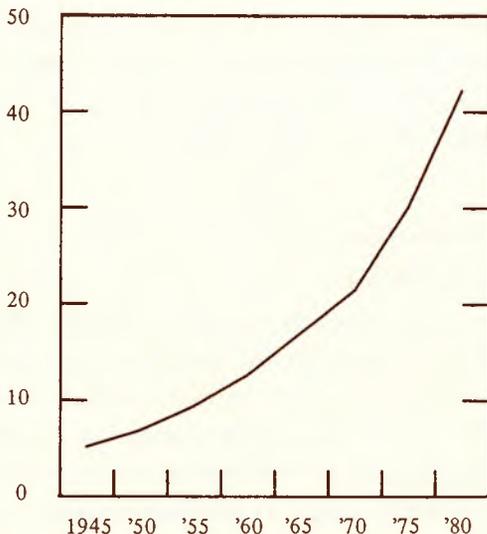
TWENTY-FIVE BILLION AND RISING

Today in the United States, the check is a major element in the payments mechanism. In 1972, the number of checks written was in the neighborhood of 25,000,000,000. Each of these pieces of paper passed through an average of two to three banks and was handled many times. The magnitude of the task facing the commercial banks of this country in carrying out their demand deposit activity can be given some perspective by noting that, if the checks written in one year were placed end-to-end, they would extend to the moon and back five times. And the flow of checks is not diminishing. Check volume, stimulated by economic growth and the advent of "free" checking, is growing at a rate of six to seven percent each year. If this pace is maintained, volume will rise to 42 billion items by 1980 (see Chart).

One might think that all these pieces of paper are no cause for concern. However, even with modern technology, check processing is a labor-intensive, costly operation. As check volume increases, total processing costs go up and, for some banks, per item cost also rises. It is predictable then that these rising costs and competition will motivate the banks of this country to seek out more economical ways of effecting payments. Such a search is already well under way.

GROWTH OF CHECK VOLUME IN UNITED STATES

Billions of Checks



Sources: *Banking*; Arthur D. Little Inc.; and Federal Reserve Bank of Cleveland

EARLY RESPONSES TO THE PROBLEM

From Chart 1, it is clear that rising check volume is not a new phenomenon. Each year's increase in volume has been accompanied by rising total processing costs and in some cases strained processing facilities. An early industry study of the check collection system, the Wurts Report¹ of 1954, reendorsed the established² concept of regional check clearing facilities. Since most items received by a bank are drawn on other banks located within 50 miles, multiple handlings and circuitous routings of checks can be reduced if all banks within a trade area agree to a central exchange of checks, such as that used by members of city clearing-houses. This concept figures very strongly in present attempts to improve check collection procedures.

Another response by the banking system to the rising costs of manual check processing has been the adoption of

¹Officially, *Report of the Joint Committee on the Check Collection System to the American Bankers Association, the Association of Reserve City Bankers and the Conference of Presidents of the Federal Reserve Banks.*

²Walter E. Spahr, *The Clearing and Collection of Checks* (New York: Bankers Publishing Co.), pp. 119-130.

electronic check processing equipment. This development was given an enormous boost by the adoption of a common machine language for check handling, Magnetic Ink Character Recognition (MICR), under the aegis of the Bank Management Commission of the American Bankers Association. The standardized electronic coding permits a bank's processing equipment to handle encoded checks.

While expanded regional clearing arrangements reduce the number of times checks have to be handled, and MICR and the associated electronic processing equipment decrease the cost of each handling, the final answer to processing all those little pieces of paper may be to do away with all (or at least some) checks. This view has been taken by a number of studies on the future of the payments mechanism. Of the various means by which the number of checks may be reduced, the point-of-sale transfer, the pre-authorized payment, and the expanded use of the bank credit card have received the most attention.

The Point-of-Sale Transfer. Under this arrangement computer terminals are located in stores with a high volume of transactions. These terminals are linked to a bank's computer. Through the use of some type of identification device, the point-of-sale terminal may be used to check a potential customer's credit and to effect an immediate transfer of funds from the buyer's to the seller's bank account. All this is done without the necessity of writing a check.

A pilot project in the Fourth District to test a preliminary form of the point-of-sale system under field conditions was conducted from October 1971 through June 1972. Dubbed POST, for "Point-of-Sale Terminal" system, the project was conducted by The City National Bank & Trust Company of Columbus, Ohio, in conjunction with International Business Machines, Inc. and National BankAmericard, Inc. in the Columbus suburb of Upper Arlington.

Thirty merchants participated in the test, and 60 terminals were placed in two shopping centers. Twenty thousand magnetically striped cards were issued to customers for use in their retail shopping.

Under this system, customers charged purchases with the card at the point of sale. Sales were electronically authorized and entered directly into the credit card accounting system of the bank. At the end of each day, the merchant's

total sales were automatically credited to his account with the bank. At the end of each month, the customer was billed by the bank, and he paid for his purchases with one check.

The Columbus POST system reduced the number of checks but did not eliminate them. This pilot project, however, established the technical feasibility of point-of-sale transfer.

Preauthorized Payments. For some time, a number of banks have offered to automatically pay regular recurring bills, such as those of utilities and insurance companies, for their customers. Now the rising costs of checks provide commercial banks with an incentive to greatly expand the scope of these less costly transfers. Moreover, preauthorized payments are now often included in a complete financial management package of services that includes an automatic line of credit.

Bank Credit Cards. Since 1967, bank credit cards have become a significant part of the payments mechanism. For example, in December 1967 there were only 390 insured commercial banks in the U. S. providing credit card services. Four years later, the number had risen to 1,535. Similarly, consumer credit outstanding under various bank credit card plans amounted to \$0.8 billion in December 1967 and almost \$4.5 billion in June 1972.

At present, most bank credit card arrangements are a hybrid of monthly billing and instalment credit. That is, bank credit cards may be used to make purchases during a billing period with a single check issued for the cumulative total within a 25-day grace period. Alternatively, at the option of the cardholder, payments may be deferred over a longer period by conversion of the unpaid balance into an instalment loan.

There is some evidence,³ however, that the banks have incentives to link credit card transactions immediately to the customer's demand deposit. If, for example, a demand deposit were debited as soon as the credit card sales ticket was received, the bank would spare itself what is in effect an interest-free loan now being made to those who pay off

their credit card balance within 25 days. Indeed, at least one major Ohio bank has proposed a test of such a credit card-demand deposit link. The significance of this is that the credit card thereby replaces the check as an instrument for transferring demand balances. Such a demand deposit-credit card system would seem to be a logical intermediate step towards the technologically more complex (and expensive) point-of-sale terminal system.

OTHER APPROACHES TO RISING CHECK VOLUME

Other notable efforts by the banking system to deal with the problem of the rising tide of checks by reducing their number include the Special Committee on Paperless Entries (SCOPE), in California, and the Committee on Paperless Entries (COPE), in metropolitan Atlanta, Georgia. One basic objective of both is to substitute electronic impulses for checks as a means of transferring money balances.

SCOPE

The California SCOPE project started operating on October 16, 1972. The nation's first Special Committee on Paperless Entries established two automated clearinghouses, one in San Francisco and the other in Los Angeles. They are the heart of a network permitting electronic exchanges of preauthorized debits and credits among all California banks. Communications standards and formats for inter-bank exchanges are being subjected to rigorous testing in these new operations.

The California SCOPE project is based on transactions that are similar to the check, such as automatic deposit of payrolls and payment of utility services. Both types of payment under the SCOPE arrangement require preauthorization. The transactions are recorded on magnetic tape, rather than on paper documents, and the impulses on the tapes are then sorted in a way similar to checks. Thus, SCOPE eliminates the high-cost, labor-intensive check for a significant number of transactions.

COPE

Development of the Atlanta Committee on Paperless Entries (COPE) was an outgrowth of the Atlanta Payments Project, a technical research study begun in 1969. The five major Atlanta commercial banks represented on COPE, in

³“The Profitability of Bank Credit Card Operations: An FCA Summary of U. S. and Ohio Banks in 1971,” *Economic Commentary*, Federal Reserve Bank of Cleveland, December 4, 1972.

conjunction with the Federal Reserve Bank of Atlanta, concentrated on the feasibility of implementing the funds transfer system developed in the study.

COPE now has an automated clearinghouse planned and is directing marketing efforts at gaining public acceptance for two of the research study's recommendations.

One is Bill-Check, a paper authorization by a customer to a merchant to pay bills electronically. A magnetic tape of such payment authorizations is prepared by the retailer, turned over to a bank, and processed through the automated clearinghouse at the Federal Reserve.

The other is direct deposit of payroll, similar to that developed by the California SCOPE project, requiring approval of business-industrial employers and their employees.

A final proposal of COPE is a point-of-sale system that would give the customer three electronically operated options in paying for purchases: check verification to assure that sufficient funds are in an account; a cash card to transfer funds from a checking account to the merchant's account; and a bank credit card with the privilege of deferred payment. A switching and processing center would connect terminals in stores throughout the city with major banks.

THE ROLE OF THE FEDERAL RESERVE IN THE EVOLVING PAYMENTS MECHANISM

The Federal Reserve has been an interested and concerned observer and participant in the multiplicity of studies, tests, and innovations that characterize banking's response to the constantly changing conditions affecting the nation's payments mechanism. This concern derives from the Federal Reserve's responsibility as the nation's central bank to insure a compatibility of changes in the payments mechanism introduced by individual banks.

The Federal Reserve System Steering Committee on Improving the Payments Mechanism, headed by Governor George W. Mitchell, has taken responsibility for policy direction in this area. The Steering Committee and the Board of Governors have taken the position that the Federal Reserve can no longer merely respond to evolutionary change but must act to coordinate and accelerate changes. At the same time, the System's actions seek to

complement private initiative. This has been made clear in published statements of policy:

Increasing the speed and efficiency with which the rapidly mounting volume of checks is handled is becoming a matter of urgency.... The Federal Reserve Board therefore states as a matter of policy that it places high priority upon efforts by the Federal Reserve System to improve the nation's means of making payments, initially along the following lines:

1. Extending present clearing arrangements, in cities with Federal Reserve offices, into larger zones of immediate payment....
2. Establishing other regional clearing facilities, in which settlements are made in immediately available funds....
3. (a) Encouraging banks and their customers to make greater use of the expanded capabilities of the Federal Reserve wire transfer system.
(b) Removing restrictions on third party transfers of demand deposits, and extending the time period in which the wire transfer system can be used.
(c) Expanding facilities at Reserve Bank offices...

Plans for making these basic changes in the present money transfer system should be pursued actively, to achieve as soon as possible an accelerated flow of funds along more optimal routing patterns. These initiatives are generally intended to supplement those efficient direct check exchange programs that are now in existence.

The first objective should be expansion of the geographic area of existing immediate payment zones. This should be accomplished as soon as necessary arrangements can be made. Meantime, studies looking to the establishment of new clearing centers, wherever warranted, should be undertaken promptly by each Federal Reserve Bank, and submitted to the Board for review. Expansion of facilities at Federal Reserve offices for increased access to the Reserve System's wire network should be con-

cluded at the earliest practicable time....⁴

In general, the[se] guidelines [for Regional Check Processing and Collection Centers] adopted by the Steering Committee would limit the Federal Reserve's check collection role to (1) facilitating the local exchange of checks when the checks are drawn on and paid to banks located in the same community, metropolitan area, or region, and (2) assuming greater responsibility for providing a more efficient system for handling inter-regional checks and doing so on as uniform a basis as feasible. The guidelines are not regarded as imposing constraints upon the continued use and development of check handling facilities of the commercial banking system.⁵

The Federal Reserve System will need for some time to continue to devote significant resources to the development of the Nation's payments mechanism.⁶

In pursuit of an improved payments mechanism, the Board of Governors revised its check collection regulations in November 1972 to promote faster check collection. Prior to the revision in Regulation J, banks located outside of cities with Federal Reserve Banks and branches and other designated immediate payment areas had paid the Federal Reserve for checks presented in funds collectable one or more days after presentation. The amended regulation requires all banks to pay in immediately available funds on the day of presentment. The Board simultaneously revised Regulation D pertaining to reserve requirements and, in doing so, generally lowered those requirements. However, the most visible effort of the Federal Reserve has been the establishment of a number of regional check processing centers (RCPCs).

⁴Board of Governors of the Federal Reserve System, "Statement of Policy on the Payments Mechanism," June 17, 1971.

⁵Board of Governors of the Federal Reserve System, "Statement by the System Steering Committee on Improving the Payments Mechanism," February 2, 1972.

⁶"Evolution of the Payments Mechanism." Statement by the System Steering Committee on Improving the Payments Mechanism, *Federal Reserve Bulletin*, December 1972.

REGIONAL CHECK PROCESSING CENTERS

The basic idea of an RCPC is to extend the established clearinghouse concept, augmented with electronic processing equipment, to large geographical areas. One of the goals of the RCPC is to set up the computer and electronic mechanism that in future years will permit the processing of more inter-regional items in the payments mechanism through a nationwide communications network instead of passing paper. RCPCs, providing for overnight settlement of intra-RCPC zone checks, are now being established in some 40 trade centers including Columbus, Cincinnati, Cleveland and Pittsburgh in the Fourth District (see Map). "Additionally, it is anticipated that the Federal Reserve will install and manage a national communications network through which inter-regional settlements between financial institutions will be made."⁷

RCPCs in the Fourth Federal Reserve District

In compliance with guidelines for improving the payments mechanism issued by the Board of Governors, officials of the Federal Reserve Bank of Cleveland have set four major goals to be accomplished:

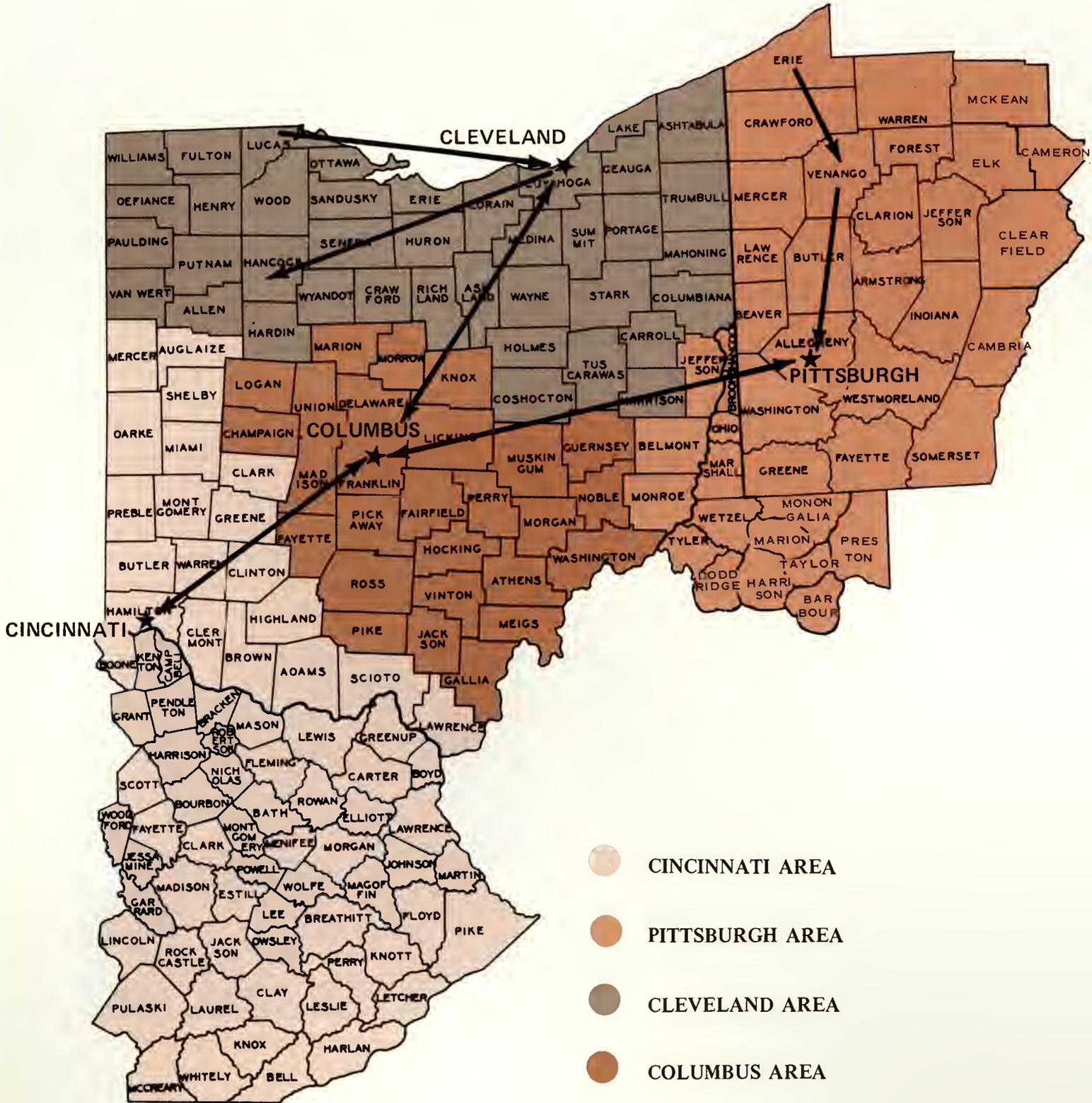
Goal No. 1—Providing next-day presentment of checks to member and nonmember banks throughout the Fourth District. Any bank in the District should be able to collect a check drawn on any other Fourth District bank within one day, compared to a maximum of three days required at present.

This goal of next-day presentment can be aided by establishing an air transportation network linking RCPCs in the Main Office and Cincinnati and Pittsburgh branches with the Columbus Regional Center, which will serve as the center of the Fourth District system. Aircraft will also be used to move shipments of checks to and from remote areas in an RCPC zone.⁸

⁷"Evolution of the Payments Mechanism," *Federal Reserve Bulletin*, December 1972, p. 1010.

⁸In addition to the Fourth District aircraft network, checks are also being moved by aircraft between Federal Reserve Districts to achieve overnight collection of checks.

RCPC Areas of the Fourth Federal Reserve District



NOTE: Arrows denote existing and proposed air transport network.

Goal No. 2—Eliminating circuitous routing and reducing intermediate handlings of items in the present collection stream, resulting in cutting the cost and burden of check clearing for all commercial banks.

Goal No. 3—Expediting the return of unpaid items, thereby reducing or eliminating losses to the public and banks from check frauds by speeding check presentment and return of dishonored items to the collecting bank and its depositor.

Goal No. 4—Providing the basis for a future automated clearinghouse with electronic money settlements.

Columbus RCPC

Early in 1970, a request was sent to the Board of Governors of the Federal Reserve System to establish a Federal Reserve facility in Columbus, the State's capital and second largest city. The regional center was said to be vital to keep pace with the rapid growth of commerce and industry in the Columbus area, and to meet the needs of the business and banking communities.

The facility was to serve 126 banks and their 220 branch offices in the 27 counties that were defined as the Columbus RCPC area. About 71 percent of the checks handled by these banks were to be paid one day following receipt by the bank of first deposit, as opposed to as many as three days before the RCPC was completed.

A building shell in Busch Corporate Center, 965 Kingsmill Parkway, on the northern outskirts of Columbus was selected. The 20,500 square feet of floor space were divided into three areas: computer room, clerical area, and administrative area. Operating and administrative personnel moved in as soon as the computer and work areas were completed early in October.

The Center is primarily a night operation. Fully two-thirds of the 60 persons employed at the Center work nights. It is a five-day-a-week operation, compared with the former Federal Reserve check operation of six days a week. Work that would normally be received on a Friday night and Saturday under the old system comes in on Sunday night, thus making that a peak volume night for the Center.

Goals of the Columbus Regional Center are the same as for such centers generally: next-day presentment for the great majority of banks; elimination of circuitous routing and many intermediate handlings; and speeding the return

of dishonored items. In addition, bankers in the Columbus RCPC area have shown interest in exploring just what kind of role the Center might play in any future improvements in the payments mechanism.

Operation of the Columbus Regional Center was started in mid-October 1972, processing 25,000 checks a day from Cleveland. The main objective of this phase of the operation was to test computer equipment and to train personnel. The test phase lasted for 30 days. In November, the Center began accepting work from three major banks in the City of Columbus. In the second week of December, the remaining 123 banks were added. Early in January of 1973, the Center entered the last phase, that of accepting checks for presentment from banks across the nation.

Cleveland RCPC

In April 1971, the Cleveland Reserve Bank began planning the establishment of a regional clearing center in the main office. It was determined that the Cleveland RCPC would serve 249 banks in 39 counties across the northern third of Ohio. Because of the diverse geographical area served, each evening an aircraft brings checks from Northwestern Ohio banks into Cleveland for processing. The next morning, a plane departs for the northwestern portion of Ohio with checks drawn on banks in that area. The other banks are served by ground transportation from Cleveland. The Cleveland RCPC began operations January 15.



Sorter room at Cleveland RCPC

Pittsburgh RCPC

Planning for the Pittsburgh RCPC began in May 1971. After study of several alternatives, the decision was made to offer overnight presentment to all banks in the existing branch territory. Staffing, equipment, and planning were geared to starting the Pittsburgh RCPC on January 2, 1973. This target date was met.

Future expansion of the Pittsburgh RCPC will include five counties in central Pennsylvania presently served by the Federal Reserve Bank of Philadelphia, as well as seven counties in Northern West Virginia now being served by the Federal Reserve Bank of Richmond. In addition, three Ohio counties bordering the Ohio River and West Virginia, previously served by Cleveland, will be transferred to the Pittsburgh RCPC.

Cincinnati RCPC

After consultation with area bank representatives, a decision was made to have a center at Cincinnati to cover the territory currently served by the Reserve branch office.

The Cincinnati RCPC will serve 19 counties in Ohio and 56 counties in Kentucky, for a total of 270 banks. Nine Ohio counties previously serviced by the Cincinnati office were incorporated in the territory of the Columbus RCPC. Check collection for three counties in Ohio—Auglaize, Mercer and Shelby—will be transferred from the Cleveland main office territory to the Cincinnati RCPC.

The Cincinnati branch moved its operations into a new building in September 1972. Although this move slowed the implementation of the Cincinnati RCPC, there is now adequate space for the facility and provision for considerable expansion, if required. At the same time as the move, more advanced check processing equipment was installed. This equipment greatly expands the check processing capability of this office and lends itself to further enlargement without disrupting operations. Start-up of RCPC operations is set for late spring of 1973.

ADVISORY COMMITTEES

Officers of commercial banks in each RCPC zone have been appointed to Advisory Committees to provide liaison between participating banks and the Regional Centers.

They were chosen by bankers' association groups within the RCPC boundaries and clearinghouse associations in larger towns. These bankers meet periodically with Federal Reserve officials to discuss operations, concepts, and services.

One of the main responsibilities of these groups is to keep the Centers advised on problems being experienced by commercial banks, so that appropriate action can be taken to minimize the impact of procedural changes.

Feedback from the Advisory Committees was extremely helpful in identifying problem areas. The Committees provided communications channels to the commercial banking community that were instrumental in the selection of sites for satellite pickup points. Through the efforts of these committees, the Federal Reserve office in each RCPC zone has been able to serve the commercial banks in its territory more efficiently.

BEYOND RCPCs

No one can clearly foresee the future, but a system that will substitute electronic movements of funds for checks is now being put in place. The transition however will be, at best, a gradual process. It will take time for the system to evolve and to link the local and regional systems into a national network. In addition, there is some question as to whether the public is ready to accept all of the implications of electronic funds transfer. Moreover, the cost of establishing and operating such a system is far from a trivial matter. In particular, it is necessary that careful consideration be given to the level and distribution of benefits that will result from this expenditure of public and private funds.

It is certain though that the future will be an exciting time for everyone involved in the payments mechanism—a time of challenge, response, and adaptation.

The great mathematician and philosopher, Bertrand Russell, was once asked how he could continue to make dramatic discoveries in a field such as mathematics that seemed an already completely explored and fixed science. His deceptively simple answer: "I challenge the axioms."

The Federal Reserve and the banking system might well ponder this approach.

Columbus RCPC in Operation



Check delivery at Columbus Center.



Check classification for machine processing.



Logging of incoming checks.



Items being prepared for high speed processing.



High speed reader-sorter.



Processed checks leaving the sorting room.



Computer room.



Hand sorting batches of checks.



Sorted checks at loading bay.

COMPARATIVE STATEMENT OF CONDITION

ASSETS

	<u>Dec. 31, 1972</u>	<u>Dec. 31, 1971</u>
Gold Certificate Reserves	\$ 884,658,767	\$ 973,576,773
Special Drawing Rights Certificates	33,000,000	33,000,000
Federal Reserve Notes of Other Banks	76,473,234	68,968,775
Other Cash	39,446,403	26,968,862
Loans to Member Banks	193,500,000	—0—
Federal Agency Obligations - Bought Outright	98,156,000	38,609,000
U. S. Government Securities:.....		
Bills	2,220,402,000	2,400,494,000
Notes	2,745,605,000	2,830,231,000
Bonds	<u>259,158,000</u>	<u>261,605,000</u>
Total U. S. Government Securities	<u>5,225,165,000</u>	<u>5,492,330,000</u>
Total Loans and Securities	5,516,821,000	5,530,939,000
Cash Items in Process of Collection	596,580,121	980,806,076
Bank Premises	27,181,035	24,256,207
Other Assets	<u>87,526,594</u>	<u>55,860,563</u>
Total Assets	<u><u>\$7,261,687,154</u></u>	<u><u>\$7,694,376,256</u></u>

LIABILITIES

Federal Reserve Notes	\$4,751,683,430	\$4,473,426,148
Deposits:		
Member Bank — Reserve Accounts	1,552,285,985	1,968,530,381
U. S. Treasurer — General Account	143,680,513	163,751,169
Foreign	26,390,000	25,200,000
Other Deposits	<u>20,487,802</u>	<u>34,049,712</u>
Total Deposits	1,742,844,300	2,191,531,262
Deferred Availability Cash Items	582,343,838	846,792,417
Other Liabilities	<u>41,226,086</u>	<u>46,862,629</u>
Total Liabilities	<u><u>\$7,118,097,654</u></u>	<u><u>\$7,558,612,456</u></u>

CAPITAL ACCOUNTS

Capital Paid In	71,794,750	67,881,900
Surplus	<u>71,794,750</u>	<u>67,881,900</u>
Total Liabilities and Capital Accounts	<u><u>\$7,261,687,154</u></u>	<u><u>\$7,694,376,256</u></u>
Contingent Liability on Acceptances Purchased for Foreign Correspondents	\$ 16,289,000	\$ 22,941,000

COMPARISON OF EARNINGS AND EXPENSES

	<u>1972</u>	<u>1971</u>
Total Current Earnings	\$ 290,750,352	\$ 285,002,026
Net Expenses	<u>28,094,398</u>	<u>23,925,582</u>
Current Net Earnings	262,655,954	261,076,444
Additions to Current Net Earnings:		
Profit on Sales of U. S. Government Securities (Net) . . .	229,761	7,866,249
All Other	<u>97,522</u>	<u>470,646</u>
Total Additions	327,283	8,336,895
Deductions from Current Net Earnings:		
Loss on Foreign Exchange Transactions (Net)	4,716,952	736,336
All Other	<u>2,917</u>	<u>96,102</u>
Total Deductions	<u>4,719,869</u>	<u>832,438</u>
NET DEDUCTIONS	4,392,586	-0-
NET ADDITIONS	-0-	7,504,457
Net Earnings before Payments to U. S. Treasury	<u>\$ 258,263,368</u>	<u>\$ 268,580,901</u>
Dividends Paid	\$ 4,205,725	\$ 3,957,512
Payments to U. S. Treasury (Interest on F. R. Notes)	250,144,793	259,851,139
Transferred to Surplus	<u>3,912,850</u>	<u>4,772,250</u>
Total	<u>\$ 258,263,368</u>	<u>\$ 268,580,901</u>

DISPOSITION OF GROSS EARNINGS

	<u>1972</u>	<u>1971</u>
TO U. S. TREASURY	87.3%	88.8%
DIVIDENDS	1.5	1.4
OPERATING EXPENSES	9.8	8.2
SURPLUS	1.4	1.6

FEDERAL RESERVE BANK OF CLEVELAND

FEDERAL RESERVE
AGENT
H. A. Shepard



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Senior
Vice President



T. E. Ormiston, Jr.
Vice President



J. E. Birky
Vice President



R. E. Showalter
Vice President



D. G. Vincel
Vice President



R. J. Ginnane
Vice President



L. M. Selby
Vice Pres. &
Secretary



P. V. Cost
Asst. Vice
President



O. H. Beach, Jr.
Asst. Vice
President



G. E. Coe
Asst. Vice
President



V. L. Whitmer
Asst. Vice
President



R. Van
Valkenburg
Asst. Vice
President



D. A. Trubica
Asst. Vice
President



H. J. Swart
Asst. Vice
President &
Asst. Secretary

Accounting

Data Services

Operations
Research

Data Systems
Support
Data Pro-
cessing

Communi-
cations

Check-Day
Noncash
Collection
Mail

Check-Night

Columbus
R C P C

Fiscal
Credit & Loans
Securities

Cash
Secretary

Building
Emergency
Preparedness
Protection

BOARD OF DIRECTORS
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 J. W. Keener, Deputy Chairman

E. W. Baker
 A. B. Bowden

D. L. Brumback, Jr.
 J. L. Gushman
 R. C. McPherson

D. E. Noble
 O. A. Singletary

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W. J. Winn
 President



W. H. MacDonald
 First Vice President

BRANCH OPERATIONS



F. S. Kelly
 Vice President



H. W. Huning
 Vice President



W. J. Hocter
 Vice President



G. E. Booth, Jr.
 Vice Pres. & Cashier



P. C. Breidenbach
 Vice Pres. & Gen. Counsel



R. T. King
 Vice President



E. B. Miller
 General Auditor



F. B. Kehres
 Chief Examiner



A. J. Erste
 Asst. Vice President



J. J. Erceg
 Asst. Vice President



M. A. Beekel
 Asst. Vice President



R. G. Coury
 Asst. General Counsel



T. J. Callahan
 Asst. Vice President



D. J. Weitzel
 Asst. General Auditor

General Services	Bank Supervision	Regulations	Community Relations	Bank Relations	Research Library	Special Studies Vault	Legal	Personnel Benefits	Auditing Main Office & Branches
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FEDERAL RESERVE BANK OF CLEVELAND
DIRECTORS

Chairman

HORACE A. SHEPARD

Chairman of the Board and Chief Executive Officer
TRW Inc., Cleveland, Ohio

Deputy Chairman

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Assistant Vice President



COLUMBUS REGIONAL CHECK PROCESSING CENTER



PITTSBURGH BRANCH



CINCINNATI BRANCH



CLEVELAND FEDERAL RESERVE BANK

ERRATA

Board of Directors: E. W. Baker should read E. W. Barker

E. B. Miller, General Auditor, reports directly to the Audit Review Committee of the Board of Directors.

