

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

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FUNCTIONAL COST ANALYSIS BULLETIN

Recently, bankers who participated in our 1966 program were polled concerning ways in which the report has been a helpful tool in increasing earnings, decreasing expenses, or otherwise improving operating efficiency. We were gratified by the replies, as a number indicated significant profit gains have already been realized. Hopefully, in reviewing the following summary of uses made of the 1966 report, you will find some profitable ideas that can be utilized even before your bank receives its 1967 report.

Management Aids

Assist with feasibility study for banks considering computer installation or use of off-premise computer service.

Indicated the usefulness of an account analysis to determine the profitable and unprofitable customers of the bank.

Used as a basis for deciding how to register under the new Texas consumer credit laws.

Served as a guide for preparing the bank budget.

A guide to determine the cost and income potential of new services.

Information source used for preparing a report to estimate the cost of a greater interest rate on time certificates of deposit.

Spotlighted superior employees by revealing functions under their control to be well above average; also indicated overstaffed areas of operation.

A positive report to induce the bank officers to be more expense conscious.

Focused attention on neglected areas of bank operations, such as real estate loans, etc.

Employed as a useful guide in more effectively budgeting employees' time.

Served as a guideline to help control costs of business acquisition.

Pointed out low yield areas and brought about a study to provide corrective measures.

Bank's Board of Directors used the cost study to determine the soundness of past management decisions.

Income Improvement

Redirected emphasis to seek better income producing types of loans.

Federal funds market brought to management's attention as an excellent way to make profits from short-term idle funds.

Safe deposit charges were reviewed and found to be inadequate and rates were subsequently raised.

Account maintenance charges, return check charges, and overdraft charges were found, in numerous cases, to be extremely low. Break even points for deposit accounts were used in this evaluation.

Enforcement of the collection of instalment loan late charges.

Initiated a charge for frequent withdrawals from savings accounts.

Adjustments were made in the size of the minimum loan accepted and the minimum charge for a loan.

Indicated more cash than necessary and prompted the bank to become more fully invested.

Instalment Loans

Instalment loan section of cost study indicated it would be more profitable to concentrate on specific types of loans rather than equal emphasis on all types.

Brought about a study to determine more economical methods of processing instalment loan payments.

Several banks analyzed the instalment loan operation with thoughts of reducing or discontinuing those types of loans which were producing inadequate profit.

Advertising

Discontinued advertising for special checking accounts.

Directed advertising for savings accounts toward least costly types of savings.

Increased instalment loan advertising.

Redirected advertising to functions with the highest profit potential.

Certain portions of the workpapers for the 1967 report can only be completed after the books are closed, but there is much that can be done before the end of the year, such as distribution of salaries and other expenses, item counts, etc. We trust that you already have much done on your 1967 workpapers.

There is one change to take into consideration when preparing your 1967 workpapers:

Federal Funds sold and bank borrowings will be adjusted only on banks submitting monthly balance sheets. To indicate which type of balance sheet you are submitting, please add an Item 75 (Schedule D) with a small rectangular box opposite the item number. Insert the figure "1" if your balance sheet on Schedule C reflects a daily average or "0" if it represents a monthly, semi-monthly, weekly, or other type.

We are enclosing a booklet, Performance Characteristics of High Earning Banks, which will be of special interest to the bankers who participated in 1966 and will emphasize the cost study's usefulness to all 1967 participants. A comparison of the performance of your bank against the achievements of the high earning banks that most closely resemble your bank's structure should be rewarding.

Should any problems arise in completing the 1967 workpapers, please contact us: Area Code 214 - RI2-3271, Extension 370 or 240.

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