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# Annual Report

Federal Reserve  
Bank  
of Philadelphia



# Contents

President's Message .....	4
Executive Changes .....	6
Directors .....	8
Officers .....	8
1981: A Year of Change, Challenge and Opportunity .....	10
Statement of Condition .....	12
Earnings and Expenses .....	13
Annual Operations .....	14

# Annual Report

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# President's Message

When I became president early in 1981 I inherited a strong organization. The Bank had a first-rate group of people from top management through the ranks and its facilities were modern and efficient. We were in good shape to face changes, challenges and opportunities and we got a full measure of all three as the year unfolded.

Among the changes were new leadership both in the Bank and on the national level. While the changes I made in the Bank were more in style than in substance, the new Administration in Washington brought sweeping changes in economic and social policies. The role of the Bank in the District changed rather dramatically as it stepped out into the marketplace and engaged in cost and quality competition as a provider of services to financial institutions.

This new status as a competitor, the result of the Monetary Control Act, created the Bank's most important challenges of 1981. We had to price many of our services ranging from wire transfer to check collection and this required making difficult policy decisions and solving complex operating problems. And, of course, once one becomes a competitor the challenge is to be a successful one.

The MCA made the Bank's services available to many new types of institutions such as credit unions and savings and loan associations, and we felt challenged to reach out and communicate with more than 1,500 potential new customers.

Nineteen-eighty-one was a year of record-high interest rates and this created a number of different types of challenges for this Bank. One was to sharpen our research input to the formation of monetary policy; another was to discuss and explain policy at public forums around the District; and still another was to accommodate the large number of savers who lined up to buy high-yielding securities at our tellers' windows. The level of rates had a particular impact on thrift institutions and we instituted new discount window procedures to help them.

In 1981 I saw the opportunity for the Bank to make its operations more cost efficient and to make itself a better place in which to work. I saw the opportunity to increase our knowledge of the regional economy and to expand our influence in the Federal Reserve System. Finally, I saw the opportunity, in both our traditional central bank role and in our new role as a service provider, to make the financial mechanism of the

Third District work better and the regional economy function more smoothly.

Now as a new year begins I must say that I am proud and pleased about the way the Bank met the changes, challenges and opportunities of 1981. My congratulations and thanks to all who helped.

*Edward G. Bochner*

*President*





# Executive Changes

The Federal Reserve Board of Governors in December announced the appointment of Dr. Jean A. Crockett as chairman of the board of this Bank. She is the first woman to hold this post and also is chairman of the finance department and professor of finance at the Wharton School of the University of Pennsylvania.

At the same time, Robert M. Landis, Esquire, partner in the Philadelphia law firm of Dechert, Price & Rhoads, was appointed deputy chairman. Both appointments are for 1982.

The Board of Governors also named George E. Bartol, III, chairman and chief executive officer of Hunt Manufacturing Company in Philadelphia, to a three-year term as a Class C director of this Bank. He fills the seat vacated by John W. Eckman, chairman and chief executive officer of Rorer Group Inc., Fort Washington, Pennsylvania, whose term as a director expired at year-end. Mr. Eckman also served as chairman of this Bank from 1977 to 1981.

Douglas E. Johnson and Richard P. Hauser were elected to this Bank's board in December. Mr. Johnson, chairman and president of Ocean County National Bank, Point Pleasant, New Jersey, was elected a Class A director by medium-sized member banks. Mr. Hauser, chairman and chief executive officer of John Wanamaker in Philadelphia, was elected to a second term as a Class B director by small member banks.

The directors of this Bank reappointed John H. Walther, chairman and chief executive officer of New Jersey National Bank, Trenton, New Jersey, to represent the Third District on the Federal Advisory Council in 1982.

The board of directors approved a number of changes in the Bank's official staff during 1981. Konstanty G. Adack and John D. Johnson were promoted to the newly created position of executive vice president. Mr. Adack is in charge of accounting, computer services, and general administrative services. Mr. Johnson heads cash, check, and fiscal operations.

Six new senior vice presidents also were named: Thomas K. Desch, supervision and regulation; Guy W. Edwards, computer services; James F. Gaylord, human resources; Hiliary H. Holloway, legal division; Alexander A. Kudelich, check operations; and Donald J. Mullineaux, economic research department.

Ronald G. Foley was promoted to vice president in fiscal operations and Lawrence C. Santana, Jr., was named vice president of general administrative services. Robert A. Dobie became assistant vice president in the supervision and regulation department.

Among the new assignments in the official staff, Frederick M. Manning, assistant vice president, assumed responsibility for commercial and

consumer compliance examinations and community affairs in the department of supervision and regulation, and Judith H. Helmuth became operations planning and control officer.

New appointments to the Bank's official staff during the year were: Edward J. Coia, securities operations officer; Barry K. Cummings, data communications officer; Donald F. Doros, applications development officer; Robert H. Klein, electronic payments officer; Louis Sanfelice, bank services officer; and Charles J. Sullivan, Jr., payments support officer.

David P. Eastburn retired as president of the Bank in January, and Samuel J. Culbert, bank services officer, retired in June. Arthur L. Morath and Robert S. Kishel resigned to accept positions elsewhere.

Dr. Jean A. Crockett, the first woman director in the history of the Federal Reserve Bank of Philadelphia, became its first woman chairman effective January 1, 1982. Her appointment was made by the Board of Governors of the Federal Reserve System. A Class C director since 1977, Dr. Crockett served as deputy chairman of the Bank in 1981.

For nearly 30 years, Dr. Crockett has been a member of the faculty of the Wharton School of the University of Pennsylvania, where she currently is professor of finance and chairman of the finance department. A career economist, Dr. Crockett received her undergraduate, master's and doctoral degrees in economics from the University of Chicago and holds a master's degree in mathematics from the University of Colorado. She has written numerous articles and publications dealing with consumption, saving and investment.



*Jean A. Crockett*

# Directors

## **CHAIRMAN**

Jean A. Crockett, Chairman, Professor of Finance  
Wharton School, University of Pennsylvania  
Philadelphia, Pennsylvania

## **DEPUTY CHAIRMAN**

Robert M. Landis, Partner  
Dechert, Price & Rhoads  
Philadelphia, Pennsylvania

George E. Bartol, III, Chairman and Chief Executive Officer  
Hunt Manufacturing Company  
Philadelphia, Pennsylvania

Eberhard Faber, IV, Chairman and Chief Executive Officer  
Eberhard Faber Inc.  
Wilkes-Barre, Pennsylvania

Richard P. Hauser, Chairman and Chief Executive Officer  
John Wanamaker  
Philadelphia, Pennsylvania

Roger S. Hillas, Chairman and President  
The Provident National Bank  
Philadelphia, Pennsylvania

Harry A. Jensen, President and Chief Executive Officer  
Armstrong World Industries, Inc.  
Lancaster, Pennsylvania

Douglas E. Johnson, Chairman and President  
Ocean County National Bank  
Point Pleasant, New Jersey

Donald J. Seebold, President  
The First National Bank of Danville  
Danville, Pennsylvania

## **MEMBER OF THE FEDERAL ADVISORY COUNCIL**

John H. Walther, Chairman  
New Jersey National Bank  
Trenton, New Jersey

# Officers

Edward G. Boehne  
President

Richard L. Smoot  
First Vice President

Konstanty G. Adack  
Executive Vice President

John D. Johnson  
Executive Vice President

Thomas K. Desch  
Senior Vice President

Guy H. Edwards  
Senior Vice President

James F. Gaylord  
Senior Vice President

Hilary H. Holloway  
Senior Vice President and  
General Counsel

Alexander A. Kudelich  
Senior Vice President

Donald J. Mullineaux  
Senior Vice President and  
Chief Economist

Peter M. DiPlacido  
Vice President

Ronald G. Foley  
Vice President



Donald J. McAneny Vice President and General Auditor	James B. Duffy Assistant Vice President	Janice M. Moulton Research Officer and Economist
Lawrence C. Murdoch, Jr. Vice President and Secretary	Stanley J. Forst Automation Planning Officer	Joseph J. Ponczka Examining Officer
Lawrence C. Santana, Jr. Vice President	John M. L. Gruenstein Research Officer and Economist	Aris Protopapadakis Research Officer and Economist
William H. Stone, Jr. Vice President and Lending Officer	Judith H. Helmuth Operations Planning and Control Officer and Assistant Secretary	Edward G. Rutizer Examining Officer
Ronald D. Watson Vice President	Jerry Katz Compensation and Benefits Officer	Louis N. Sanfelice Bank Services Officer
Jack P. Besse Assistant Vice President	Alan L. Kiel Staffing and Development Officer	John B. Shaffer Assistant General Auditor
James M. Cleary Data Processing and Technical Services Officer	Paul E. Kirn, Jr. Assistant Vice President	Charles J. Sullivan, Jr. Payments Support Officer
Edward J. Coia Securities Operations Officer	Robert H. Klein Electronic Payments Officer	P. Viswanathan Assistant Vice President
D. Russell Connor Assistant Vice President	Richard W. Lang Research Officer and Economist	Elizabeth S. Webb Assistant Counsel
Barry K. Cummings Data Communications Officer	Edwin C. Lodge Statistical Officer	
Robert A. Dobie Assistant Vice President	Frederick M. Manning Assistant Vice President, Community Affairs Officer and Assistant Secretary	
Donald F. Doros Applications Development Officer		

# 1981: A Year of Change, Challenge

## January...

This Bank implemented new pricing procedures for its wire transfer and net settlement services. Fees for check collection and automated clearing house services went into effect on schedule in August, and in October for securities and noncash collection services.

First vice president Richard L. Smoot attended the year's first meeting of the System's five-member Pricing Policy Committee. As a member of this Committee and as chairman of the Conference of First Vice President's Committee on Management Systems and Support Services he and key members of his staff were instrumental in developing new procedures to implement the MCA directives.

## February...

Edward G. Boehne assumed the presidency of this Bank on February 1 following the retirement of David P. Eastburn. His election in December capped a three-month search by our board of directors. Ed had been senior vice president and chief economist of the Bank.

A long-range program to increase the efficiency of our cash operations began with the installation of the first automated, high-speed currency counter. By year-end four high-speed counters were in use. Each machine can count and package paper currency at an optimum rate of 1,000 notes a minute, while at the same time detecting counterfeits and destroying, on-line, notes that do not meet fitness standards.

## March...

Thirteen depository institutions established on-line communications with our Fed Wire facilities during the first quarter of the year. This enabled them to originate and execute funds transfers directly via computer terminal. Ninety-one institutions had this capability by year-end an increase of 55, or more than 150 percent, for the year.

## April...

Special operations seminars were begun in cities throughout the District to instruct banks in the new pricing procedures for our services. Changes in Truth-in-Lending regulations as well as on-going regulatory developments were reviewed in detail at a series of 14 workshops conducted for the benefit of member and nonmember banks. The Bank's 36th annual series of field conferences for bankers and bank directors also began in April.

## May...

Transactions in new Treasury securities issues reached a peak and continued at high levels throughout this year of record-high interest rates. Our fiscal personnel handled more than 66,000 individual applications to buy new Treasury bills, notes, and bonds during 1981.

## June...

Our securities-safekeeping function adopted a new automated security transfer system. This service allows banks that are on-line to execute trades, withdrawals and other transactions directly to their portfolio of Treasury and Government agency securities held in safekeeping with us. By the end of the year eight institutions were trading securities on-line.

# ge, & Opportunity

## July...

The Bank's computer facilities were upgraded significantly with the installation of a new Amdahl computer and by an increase in the capacity of our existing computer processing equipment. Both the implementation of MCA programs and volume growth created this need.

## August...

Check processing volumes dropped sharply following the introduction of pricing for our check collection services. This decline in activity was only partially offset by large increases in the presentment of checks in presorted sealed packages as depositing institutions shifted to less costly collection services.

A new borrowing rate for providing extended credit at the discount window was established. The extended credit program is designed to help meet special funding needs of eligible depository institutions.

## September...

We announced a number of improvements in our check services to meet the changing needs of the institutions we serve. Deadlines for depositing checks in the schedule deposit program were staggered to 1:00 a.m., 2:00 a.m., and 3:00 a.m. to give banks additional processing time for the first-pass sort. The 12:01 a.m. RCPC service area was expanded to include the entire Third District, and a new inter-district group sort service was introduced.

## October...

The Bank opened new lines of communication with financial institutions when it called the first meetings of its four advisory boards which represent nonmember commercial banks, mutual savings banks, savings and loan associations, and credit unions. By early December members of each board had met with officials of this Bank to exchange views and discuss issues of mutual concern. Future meetings are scheduled on a semi-annual basis.

## November...

This Bank received its operational ratings for the first half of the year. Our overall operational quality ranked in the top third of all Reserve District Banks. Increases in our aggregate unit costs were kept well below the System average which helped raise the Bank's unit cost standing three places.

## December...

The Board of Governors named Jean A. Crockett to succeed John W. Eckman as chairman of our board of directors effective January 1. Dr. Crockett is the first woman to serve in this capacity.

A new bank examination program was adopted in New Jersey. Each year this Bank will examine half of the state member banks and the state banking authorities the other half, and the groups will be switched annually. The idea is to improve efficiency and provide cost savings to both the regulators and the banks being examined.

# Statement of Condition

<b>ASSETS</b>	December 31, 1981	December 31, 1980
Gold certificate account .....	\$ 531,000,000	\$ 560,000,000
Special drawing rights certificate .....	141,000,000	121,000,000
Other cash .....	19,063,240	18,768,495
Loans and securities:		
Discounts and advances .....	213,165,000	54,540,000
Federal Agency obligations .....	326,573,208	379,421,423
United States Government securities .....	4,571,411,085	5,179,432,849
Total Loans and Securities .....	<u>\$ 5,111,149,293</u>	<u>\$ 5,613,394,272</u>
Other assets:		
Cash items in process of collection .....	399,777,506	424,699,793
Bank premises - net .....	51,583,442	52,815,268
Operating equipment - net .....	8,238,242	6,587,996
All other .....	321,476,223	339,405,368
Interdistrict settlement account .....	-255,365,925	-836,875,912
Total Assets .....	<u><u>\$ 6,327,922,021</u></u>	<u><u>\$ 6,299,795,280</u></u>
<b>LIABILITIES &amp; CAPITAL</b>		
Note liabilities:		
Federal Reserve notes .....	\$ 5,287,526,407	\$ 5,275,904,202
Deposits:		
Reserve accounts of depository institutions .....	664,584,428	575,649,412
U.S. Treasury - general account .....	0	0
Foreign .....	12,122,000	13,884,000
All other .....	9,660,680	9,525,443
Total Deposits .....	<u>\$ 686,367,108</u>	<u>\$ 599,058,855</u>
Other liabilities:		
Deferred availability cash items .....	159,161,850	237,066,863
All other .....	88,893,456	95,857,060
Total Liabilities .....	<u>\$ 6,221,948,821</u>	<u>\$ 6,207,886,980</u>
Capital accounts:		
Capital paid in .....	52,986,600	45,954,150
Surplus .....	52,986,600	45,954,150
Total Liabilities and Capital Accounts .....	<u><u>\$ 6,327,922,021</u></u>	<u><u>\$ 6,299,795,280</u></u>
Earnings credits available to depository institutions* ..	\$ 39,268	

\*New category



# Earnings & Expenses

	1981	1980
Current earnings:		
From U.S. Government securities .....	\$ 549,249,289	\$ 554,382,814
From discounts, advances and miscellaneous sources .....	32,967,007	36,128,609
From services to depository institutions* .....	<u>5,626,703</u>	<u>                    </u>
Total current earnings .....	587,842,999	590,511,423
Net expenses:		
Operating expenses (after deducting reimbursable or recoverable expenses) .....	41,171,010	36,833,895
Federal Reserve currency .....	<u>3,968,335</u>	<u>3,361,000</u>
Total net expenses .....	45,139,345	40,194,895
Current net earnings .....	542,703,654	550,316,528
Additions to current net earnings:		
Gain on foreign currency transactions .....		3,748,629
Miscellaneous nonoperating income .....	<u>458,269</u>	<u>9,319</u>
Total additions .....	458,269	3,757,948
Deductions from current net earnings:		
Assessment for expenses of the Board of Governors .....	2,402,000	2,428,200
Earnings credits used by depository institutions* .....	174,136	
Loss on sales of U.S. Government securities (net) .....	4,874,159	9,141,236
Loss on foreign currency transactions .....	11,627,690	
Miscellaneous nonoperating expenses .....	<u>142,963</u>	<u>413,798</u>
Total deductions .....	19,220,948	11,983,234
Net deductions .....	18,762,679	8,225,286
Net earnings before payment to U.S. Treasury .....	<u>\$ 523,940,975</u>	<u>\$ 542,091,242</u>
Dividends paid .....	\$ 2,798,462	\$ 2,649,084
Paid to U.S. Treasury (interest on Federal Reserve notes) .....	514,110,063	538,877,458
Transferred to Surplus, additions .....	<u>7,032,450</u>	<u>564,700</u>
	<u>\$ 523,940,975</u>	<u>\$ 542,091,242</u>

\* New category

# Annual Operations

## OPERATING STATISTICS

### MILLIONS OF DOLLARS

	1981	1980
Loans to depository institutions . . . . .	\$ 17,192	\$ 58,544
Currency received and counted . . . . .	7,572	6,317
Coin received and counted . . . . .	142	136
Checks handled:		
U.S. Government checks . . . . .	44,420	37,212
Postal money orders . . . . .	301	281
All other . . . . .	342,785	299,003
Collection items handled:		
U.S. Government coupons paid . . . . .	89	90
All other . . . . .	1,611	1,521
U.S. Savings Bonds and Savings Notes issued, exchanged, redeemed . . . . .	1,673	2,011
Other Government securities issued, exchanged, redeemed . . . . .	203,418	168,530
Transfers of funds . . . . .	1,806,570	1,577,011
Food stamps redeemed . . . . .	440	338

### THOUSANDS OF ITEMS PROCESSED

	1981	1980
Loans to depository institutions . . . . .	2,351*	1,850*
Currency received and counted . . . . .	688,500	620,500
Coin received and counted . . . . .	891,800	854,900
Checks handled:		
U.S. Government checks . . . . .	33,900	33,600
Postal money orders . . . . .	6,200	6,500
All other . . . . .	540,700	658,000
Collection items handled:		
U.S. Government coupons paid . . . . .	400	400
All other . . . . .	400	400
U.S. Savings Bonds and Savings Notes issued, exchanged, redeemed . . . . .	18,500	24,100
Other Government securities issued, exchanged, redeemed . . . . .	300	300
Transfers of funds . . . . .	1,600	1,300
Food stamps redeemed . . . . .	134,900	99,000

\*Unrounded data

