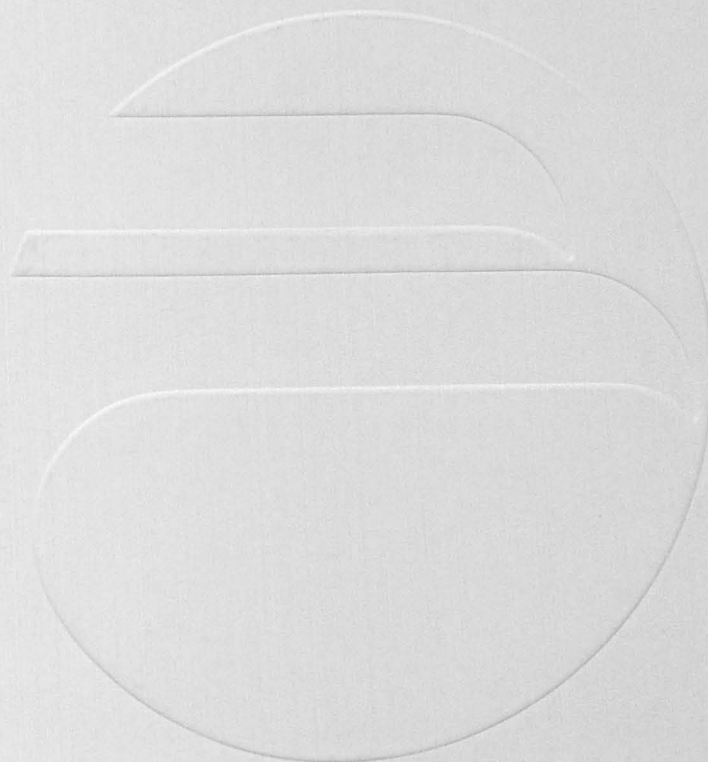


FEDERAL RESERVE BANK OF PHILADELPHIA

ANNUAL REPORT 1982



Federal Reserve Bank of Philadelphia
Annual Report 1982

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Throughout much of its history the Federal Reserve provided free services, mostly to member banks. By 1982 the System was charging fees for those services that are not unique responsibilities of a central bank and making them available to all depository institutions. During the year this Bank was adjusting its operations and policies to this new "pricing" environment.

This Report highlights a number of our most important services, as now constituted, and some of the people who keep them operating efficiently.

PRESIDENT'S MESSAGE

I believe that 1982 will be remembered as one of the most challenging years in the seven decades of the Federal Reserve.

Monetary policy had to walk a narrow line between nourishing recovery from a prolonged recession and stirring up fears of renewed inflation. The difficulty of this task was increased by deregulation and the changes it brought in depository instruments. Nevertheless, heartening progress was made against inflation and interest rates came down dramatically. Even though unemployment was at post-war highs, the elements of recovery seemed to be in place as the year ended.

Legislation, both on the state and national levels, had particular impact on this Bank in 1982. Delaware's law encouraging out-of-state holding companies to set up banks there resulted in the birth of 12 such institutions. Pennsylvania passed a new liberalized branching law and many major holding companies announced intentions to merge. Since Reserve Banks examine all bank holding companies and approve their mergers these new state laws increased substantially the workload of our Supervision and Regulation Department.



The Monetary Control Act of 1980 required the Federal Reserve to price services and make them available to a broad base of potential users. Congress also charged us to match the costs and revenues from priced services and this Bank undertook a variety of cost containment measures ranging from new extensive automation through an increased work week to old fashioned vigilance. In order to become more sensitive to meeting the needs of our customers, we created a Business Planning and Development Department in 1982. It combined existing activities such as field visits with special functions such as market research and pricing analysis.

Although it is too early to say how successful the Bank will be in its new pricing environment, I am confident that we are making significant progress. One of the things that pleases me most is the way thinking and attitudes have changed and our employees have stretched out to become more sensitive and service oriented.

I believe that 1982 also will be remembered as the year this Bank sharpened its organizational focus and enhanced the strengths, talent and flexibility needed to make the most of our challenges.

Edward G. Boehne
Edward G. Boehne
President

CHECK SERVICES

Since its inception, the Federal Reserve System has worked to make the nation's payments mechanism more efficient. A major objective all along has been to reduce the time required to process and collect checks and make funds available for use as early as possible. We continue to strive for these goals.

The Federal Reserve Bank of Philadelphia offers a full line of check programs for the processing, collection, and settlement of checks drawn on depository institutions throughout the Third District and the nation.

Our service options range from a mixed cash letter service, which allows depository institutions to deposit checks with little or no pre-sorting, to a fine-sort program, which requires a significant amount of sorting before checks can be deposited ready for presentation to the payor institution.

Depository institutions select the appropriate check services based on their volume, location and sorting capabilities. A series of pick-up points around the District are used to transport checks to our processing facility.

In response to market demands and to improve the payments mechanism, the Federal Reserve



The Federal Reserve's Automated Clearing House network is a way to make payments with magnetic tape and electronic transmission instead of paper checks. Led by commercial payments entries, ACH transactions in the Third District increased 30 percent in 1982.

First vice president Richard L. Smoot (seated), executive vice president John D. Johnson (right), and senior vice president William H. Stone, Jr., (left) are part of the management team that is guiding the Bank in its new business environment.



System developed a number of major improvements in its check services during 1982. These changes, which are to be implemented in early 1983, will allow the Federal Reserve to collect many more checks overnight than has been possible previously, while allowing depositing institutions to deliver their checks to us at a later hour. These improvements should be most significant for depositors attempting to collect checks drawn in other reserve districts.

Such service improvements were

made possible by a restructuring of the Federal Reserve's interdistrict transportation system (ITS). ITS is an air transportation network comprised of private carriers under contract to deliver checks among Federal Reserve offices. It has been redesigned into a network of hub and spoke cities which greatly expedites nationwide check clearing by making efficient use of air transportation.

In addition to its conventional check collection services, the Federal Reserve also operates a

nationwide network for clearing electronic payments between financial institutions. Automated Clearing Houses provide a means for exchanging debit and credit entries on magnetic tape or by on-line transmission. Recurring items such as social security and other government payments, commercial payrolls, mortgage payments, utility bills, and insurance premiums can be processed through ACH. Third District ACH volume surged by 30 percent in 1982 to a record 13.5 million entries.

CASH SERVICES

As a central bank one of our responsibilities is to insure that the public, through its depository institutions, has a sufficient supply of currency and coin to meet its transaction needs. To accomplish this, our Cash Department pays out new and reusable currency and coin to depository institutions and accepts for deposit those amounts which exceed immediate needs.

This Bank's currency processing volumes doubled in the last five years and productivity in processing and recirculating currency has improved significantly. In 1982, we completed a two-year program to replace manual sorting and counting equipment with new high-speed automated systems. Seven currency processors, designed by Recognition Equipment Incorporated, were installed and now are being used to process about two-thirds of our currency volume. This proportion will increase gradually to include all currency.

Notes speed through the special REI sensors at a rate of 20 per second. Each note in a deposit is counted and checked for denomination, genuineness and fitness. Any wrong denominations and counterfeits are sorted out, and those notes not fit for reuse are automatically destroyed. Notes that can be reused



are packaged for recirculation.

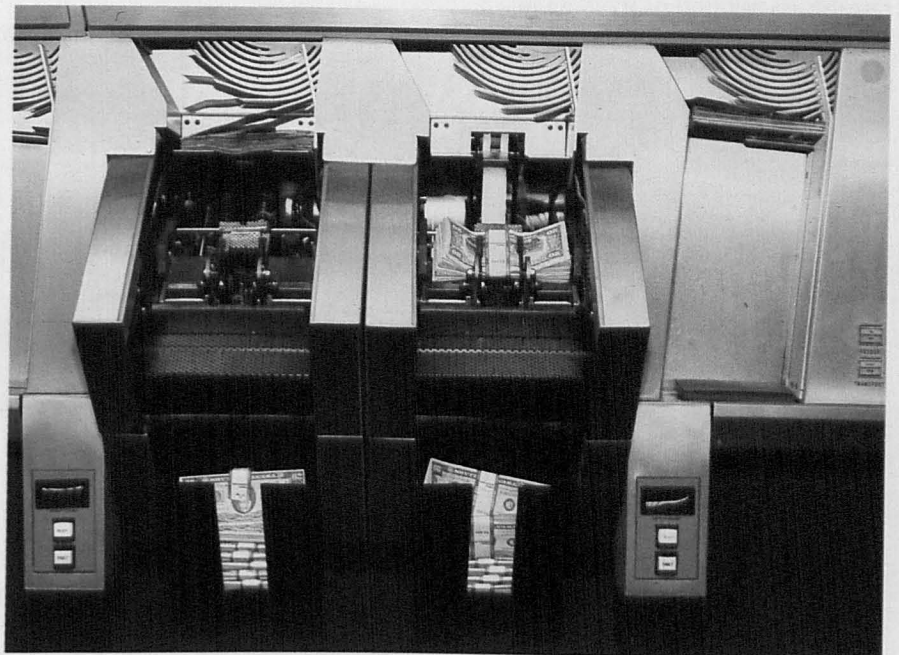
These new systems not only have expanded our processing capabilities, but they have greatly improved the efficiency of currency destruction by automatically shredding unfit notes. Because of their higher level of quality control, the machines will improve the quality of currency that is put back into circulation. This is of particular benefit to the public in general and to depository institutions that make widespread use of automated teller machines which require a consistent and high quality currency to function properly.

The procedures of issuing, sorting and verifying currency are performed for the public good and therefore are not priced. Only the costs incurred by this Bank in contracting with private armored carriers to transport cash to and from depository institutions are

subject to pricing. Fees for this service were initiated in January 1982; it was the last of our major services to be priced.

As 1982 ended, our cash personnel were exploring new ways to improve our services including offering a wrapped coin service and the expansion of our quality assurance programs.

High-speed, automated currency processors are replacing manual equipment to provide greater efficiency in our fast-growing currency operations. The new systems will have the added benefit of improving the quality of currency that is returned to circulation.



WIRE TRANSFER SERVICES

The Federal Reserve wire transfer services can be a vital tool in managing a financial institution's cash and reserve positions. By means of FedWire, funds can be transferred in minutes from an account with the Fed to the account of another depository institution in this or another Federal Reserve District. Each business day more than 200,000 wires totalling over \$350 billion are transferred over FedWire in the nation.

Transfers can be originated in one of two ways: off-line, using the telephone, or on-line, using either a terminal device linked to the Federal Reserve's communication switches or by a computer-to-computer link. On-line transfers require no manual processing en route. This enhances quality and, for institutions with sufficient transfer volumes, reduces operating expenses.

The pricing of wire transfer services has had very little discernible effect on demand during the two years since it began. Demand has been growing in the 20 percent range in recent years and this trend continued in 1982. The volume of transactions handled through our wire transfer facilities grew from 1.6 million in 1981 to 2.0 million in 1982, or by 25 percent. The dollar value of these transactions

This is our new communications network controller which will be operational in 1983; it is designed to provide improved and expanded communications services to Third District depository institutions. The new message switch facility will interface with the Federal Reserve's expanded FRCS-80 communications network.

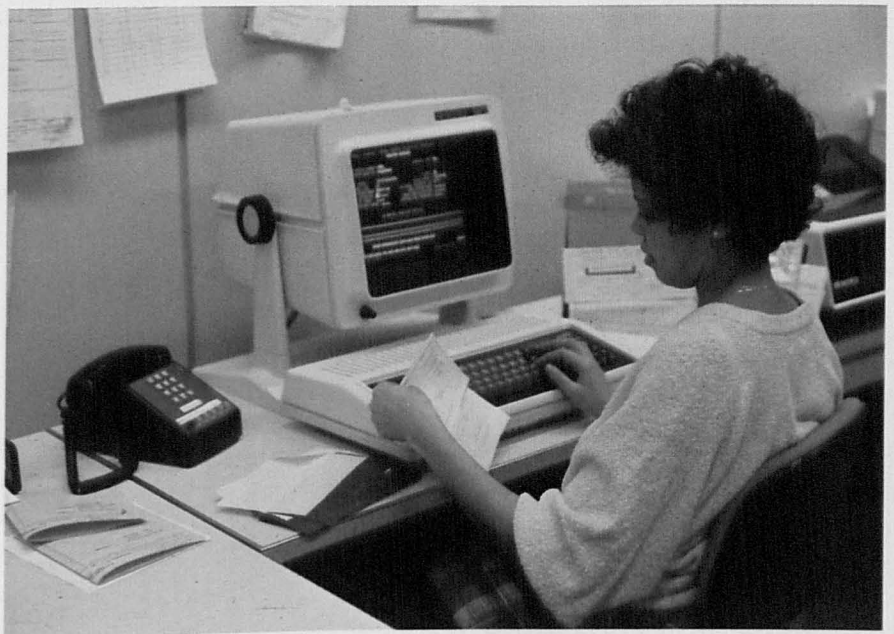


increased 26 percent in the same period.

To insure that the Federal Reserve can continue to serve the growing funds transfer needs of the financial community, the System in 1982 unveiled a new and advanced communications network known as FRCS-80. The previous FedWire system, which had been in operation since 1970, transmitted all transfers through a single switching center located in Culpeper, Virginia. FRCS-80 utilizes a series of interconnected communications processors which connect each Federal Reserve Bank with two or more other Reserve Banks.

At this Bank a new communications network controller, which will allow us to operate with the new expanded Systemwide communications network, will be operational in 1983. These technological changes will enable us to deliver more and better services to our wire transfer customers in the future.

Funds and securities can be transferred anywhere in the country over the Federal Reserve's nationwide communications network. Demand for FedWire services has grown rapidly in recent years and more and more Third District institutions are gaining on-line access to the network.



SECURITIES SERVICES

The Philadelphia Reserve Bank offers a wide range of securities services. Functions performed as an agent for the U. S. Treasury are not generally priced, while services provided for the convenience of depository institutions have carried fees since October 1981.

The Federal Reserve Banks act as the Treasury's agent in issuing, servicing and redeeming U. S. Government bills, notes and bonds. Declining interest rates during 1982 caused some slackening in the demand by individuals for new Treasury bills. However, a major effort to automate the Bank's savings bond processing function is expected to produce substantial efficiencies in that area in the years ahead.

Through the Bank's trading facilities an institution can buy or sell fixed-income securities in the secondary market either for its own account or on behalf of its customers. This service was expanded in 1982 to include the purchase and sale of corporate and municipal securities; prior to this time trading was limited to Treasury and Government Agency obligations only. Our trading desk obtains three or more quotes to get the best possible price. Completed transactions are debited or credited to the institution's reserve or clearing account at this Bank and

This Bank will buy or sell fixed-income securities in the open market and maintain them in safekeeping for depository institutions; such services are available at a fee. There is no charge for functions performed in our capacity as fiscal agent for the U.S. Treasury.





When interest coupons on securities held here in safekeeping mature, they are clipped and presented for payment.

the securities are deposited to or withdrawn from its safekeeping account here.

Institutions also may elect to hold securities—both their own and their customers'—in safekeeping at the Bank. These facilities are available for general safekeeping requirements or for holding against Treasury tax and loan accounts, public funds deposits and discount window borrowings.

The form in which a safekeeping account is held depends primarily on the type of securities involved. Municipal and corporate

instruments are stored in definitive (certificate) form in automated retrieval files in our vault. As interest coupons on these instruments mature, the Bank presents them for payment and makes the appropriate entries to the depository institution's reserve or clearing account.

Treasury and Government Agency obligations are held only in book-entry form or by means of a computer entry in our records. Interest on these instruments is automatically credited when it comes due, as is the face value when the instrument matures.

In 1982 the Bank inaugurated a new automated securities system which enables users to exercise a maximum degree of control over their book-entry accounts. With the new system, institutions that are linked to this Bank with electronic message terminals are able to deposit and withdraw securities directly from their accounts, transfer securities to other depository institutions, and receive immediate confirmation of all transactions. The system eliminates the need for dealing with intermediaries which makes these transactions more immediate and secure.

BUSINESS PLANNING AND DEVELOPMENT

As is appropriate in a new business environment, the Bank reviewed its management structure and processes in 1982 and made some modifications. Many of these changes should put us in a better position to develop and deliver services that are responsive to market needs.

One important organizational change was establishment of the Business Planning and Development Department headed by senior vice president, Ron Watson. This new department combined activities previously performed by Operations, Planning and Research and the Bank Services departments, and added new responsibilities for marketing.

Under Ron's direction this new organization was divided into three areas: (1) business planning and development which is responsible for strategic planning, new product development and quality assurance; (2) marketing services which encompasses market research and communications; and (3) financial services which includes the account management program and customer services.

The Bank also acquired special new expertise. A vice president with extensive experience in the private sector, Terry O'Brien, was



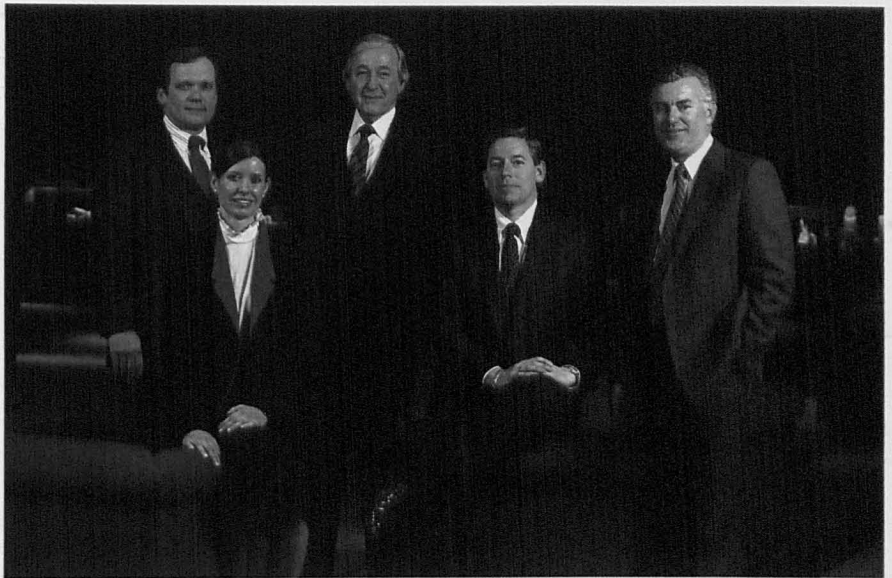
Ron Watson (seated) was named senior vice president in charge of the newly formed Business Planning and Development Department in 1982. The Bank's customer service effort was given new strength with the appointment of vice president Terry O'Brien (left).

The Bank's new logo will appear on our communications and printed materials.



appointed to oversee our marketing and financial services efforts, and additional personnel were brought in to provide specialized skills in these areas.

Among the projects already undertaken by the marketing group has been the development of a unified identification program for the Bank. This includes the design of a new Bank logo which you see here, and on the cover of this report. The logo eventually will appear on all of the Bank's communications and printed materials.



Through their one-to-one contact with financial executives, account managers provide the personal link between this Bank and depository institutions. Shown here (left to right) are our account managers Ed Fox, Ann Dwyer, Ed Ellis, Craig Obeck, and Pat Donahue.

In the new Business Planning and Development Department, Mary Labaree is manager of the marketing support division and Bill Herbst oversees the financial services and customer services functions.



DIRECTORS

Chairman

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

Deputy Chairman

Nevius M. Curtis, President and Chief Executive
Officer
Delmarva Power & Light Company
Wilmington, Delaware

George E. Bartol, III, Chairman
Hunt Manufacturing Company
Philadelphia, Pennsylvania

JoAnne Brinzey, Cashier and Chief Executive Officer
First National Bank at Gallitzin
Gallitzin, 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
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

Member of the Federal Advisory Council

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

January 1, 1983

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

Donald F. Doros
Senior Vice President

James F. Gaylord
Senior Vice President

Hiliary H. Holloway
Senior Vice President and
General Counsel

Alexander A. Kudelich
Senior Vice President

Donald J. Mullineaux
Senior Vice President and
Chief Economist

William H. Stone, Jr.
Senior Vice President

Ronald D. Watson
Senior Vice President

Peter M. DiPlacido
Vice President

James B. Duffy
Vice President

Ronald G. Foley
Vice President

Stanley J. Forst
Vice President

Richard W. Lang
Vice President and
Associate Director of Research

Donald J. McAneny
Vice President and
General Auditor

Lawrence C. Murdoch, Jr.
Vice President and Secretary

Terence B. O'Brien
Vice President

Lawrence C. Santana, Jr.
Vice President

Jack P. Besse
Assistant Vice President

James E. Burns
Financial Accounting Officer

James M. Cleary
Technical Services Officer

Edward J. Coia
Assistant Vice President

Barry J. Cummings
Data Communications Officer

Robert A. Dobie
Assistant Vice President

John M. L. Gruenstein
Research Officer and Economist

Judith H. Helmuth
Operations Planning and
Control Officer

Eugene E. Hendrzak
Statistical Officer

Jerry Katz
Compensation and Benefits Officer
and Assistant Secretary

Alan L. Kiel
Staffing and Development Officer

Robert H. Klein
Assistant Vice President

Thomas B. Lambinus
Budget Officer

Frederick M. Manning
Assistant Vice President,
Assistant Secretary,
and Community Affairs Officer

Janice M. Moulton
Research Officer and Economist

Joseph J. Ponczka
Examining Officer

Aris Protopapadakis
Research Officer and Economist

Edward G. Rutizer
Examining Officer

Louis N. Sanfelice
Assistant Vice President

John B. Shaffer
Assistant General Auditor

Ronald P. Sheldon
Data Services Officer

Charles J. Sullivan, Jr.
Assistant Vice President

Vish P. Viswanathan
Assistant Vice President

Elizabeth S. Webb
Assistant Counsel

January 1, 1983

EXECUTIVE CHANGES

The Federal Reserve Board of Governors designated Robert M. Landis, partner in the Philadelphia law firm of Dechert Price & Rhoads, to be Chairman of the Board of the Philadelphia Reserve Bank for 1983. He succeeded Dr. Jean A. Crockett, professor of finance at the Wharton School of the University of Pennsylvania in Philadelphia, whose term as a director expired at year-end.

Nevius M. Curtis, president and chief executive officer of Delmarva Power & Light Company, Wilmington, Delaware, was named Deputy Chairman for 1983. Mr. Curtis also was appointed to a three-year term as a Class C director of this Bank.

An election for two directors was held in the fall. JoAnne Brinzey, cashier and chief executive officer of The First National Bank at Gallitzin, Gallitzin, Pennsylvania, was elected a Class A director by small member banks in the Third District. She succeeded Donald J. Seebold, president of The First National Bank of Danville, Danville, Pennsylvania. Eberhard Faber, IV, chairman and chief executive officer of Eberhard Faber

Inc., Wilkes-Barre, Pennsylvania, was elected to a second consecutive term as a Class B director by large member banks.

The Board of 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 1983. Mr. Walther also served in this capacity in 1981 and 1982.

The following changes in the Bank's official staff were made in 1982. Donald F. Doros was promoted to senior vice president of computer services. William H. Stone, Jr., was named senior vice president of check operations; he had been vice president of bank services. Ronald D. Watson was appointed to the new position of senior vice president for business planning and development. Terence O'Brien joined the Bank's official staff in October as vice president for marketing.

Edward J. Coia moved up from securities officer to assistant vice president in the fiscal operations

department. In check operations, Robert H. Klein and Charles J. Sullivan, Jr., were promoted to assistant vice president. Eugene E. Hendrzak moved up from manager to statistical officer in the accounting department.

In November the following promotions were announced to become effective January 1, 1983. James B. Duffy was named vice president of cash operations; Richard W. Lang was promoted from research officer to vice president and associate director of research; and Stanley J. Forst was promoted to vice president, automation planning, in the computer services department. New appointments to the official staff were James E. Burns, financial accounting officer; Thomas P. Lambinus, budget officer; and Ronald P. Sheldon, data services officer in computer services.

Assistant vice presidents D. Russell Connor and Paul E. Kirn, Jr., and statistical officer Edwin C. Lodge retired from Bank service, and Guy H. Edwards resigned his position as senior vice president of computer services.

FINANCIAL SUMMARY

STATEMENT OF CONDITION

ASSETS	December 31, 1982	December 31, 1981
Gold certificate account	\$ 554,000,000	\$ 531,000,000
Special drawing rights certificates	225,000,000	141,000,000
Other cash	13,379,786	19,063,240
Loans and securities:		
Discounts and advances	100,470,000	213,165,000
Federal Agency obligations	297,836,122	326,573,208
United States Government securities	4,519,356,629	4,571,411,085
Total Loans and Securities	\$4,917,662,751	\$5,111,149,293
Other assets:		
Cash items in process of collection	299,075,089	399,777,506
Bank premises—net	51,170,428	51,583,442
Operating equipment—net	7,884,894	8,238,242
All other	334,446,700	321,476,223
Interdistrict settlement account	363,665,237	— 255,365,925
Total Assets	<u>\$6,766,284,885</u>	<u>\$6,327,922,021</u>
LIABILITIES & CAPITAL ACCOUNTS		
Note liabilities:		
Federal Reserve notes	\$5,560,027,923	\$5,287,526,407
Deposits:		
Reserve accounts of		
depository institutions	815,918,349	664,584,428
U.S. Treasury—general account	0	0
Foreign	8,610,000	12,122,000
All other	21,204,701	9,660,680
Total Deposits	\$ 845,733,050	\$ 686,367,108
Other liabilities:		
Deferred availability cash items	172,841,270	159,161,850
All other	68,101,342	88,893,456
Total Liabilities	\$6,646,703,585	\$6,221,948,821
Capital accounts:		
Capital paid in	59,790,650	52,986,600
Surplus	59,790,650	52,986,600
Total Liabilities		
and Capital Accounts	<u>\$6,766,284,885</u>	<u>\$6,327,922,021</u>

EARNINGS AND EXPENSES

	<u>1982</u>	<u>1981</u>
Current earnings:		
From U.S. Government securities	\$524,668,313	\$549,249,289
From discounts, advances and miscellaneous sources	28,640,328	32,967,007
From services to depository institutions	<u>14,867,390</u>	<u>5,626,703</u>
Total current earnings	\$568,176,031	\$587,842,999
Net expenses:		
Operating expenses (after deducting reimbursable or recoverable expenses)	45,509,325	41,171,010
Federal Reserve currency	4,524,082	3,968,335
Cost of earnings credits*	<u>1,392,678</u>	<u>174,136</u>
Total net expenses	<u>\$ 51,426,085</u>	<u>\$ 45,313,481</u>
Current net earnings	\$516,749,946	\$542,529,518
Additions to current net earnings:		
Gain on sales of Government securities	2,806,247	(4,874,159)
Miscellaneous nonoperating income	<u>631</u>	<u>458,269</u>
Total additions	\$ 2,806,878	\$ (4,415,890)
Deductions from current net earnings:		
Assessment for expenses of the Board of Governors	2,579,800	2,402,000
Loss on foreign currency transactions	6,134,101	11,627,690
Miscellaneous nonoperating expenses	<u>46,687</u>	<u>142,963</u>
Total deductions	\$ 8,760,588	\$ 14,172,653
Net deductions	5,953,710	18,588,543
Net earnings before payment to U.S. Treasury	<u>510,796,236</u>	<u>523,940,975</u>
Dividends paid	\$ 3,393,998	\$ 2,798,462
Paid to U.S. Treasury (interest on Federal Reserve notes)	500,598,188	\$514,110,063
Transferred to Surplus, additions	<u>6,804,050</u>	<u>7,032,450</u>
	<u>\$510,796,236</u>	<u>\$523,940,975</u>

*New category, in 1982. The 1981 Annual Report showed this item as a deduction from current net earnings under the caption "Earnings credits used by depository institutions."

SUMMARY OF OPERATIONS

OPERATING STATISTICS

MILLIONS OF DOLLARS	1982	1981
Loans to depository institutions	\$ 20,309	\$ 17,192
Currency received and counted	8,923	7,572
Coin received and counted	147	142
Checks handled:		
U.S. Government checks	49,388	44,420
Postal money orders	306	301
All other	315,351	342,785
Issues, redemptions and exchanges of		
U.S. Government securities	789,506	205,091
Transfers of funds	2,267,636	1,806,570
Food stamps redeemed	443	484

THOUSANDS OF ITEMS PROCESSED

Loans to depository institutions	1,750*	2,351*
Currency received and counted	780,200	688,500
Coin received and counted	907,100	891,800
Checks handled:		
U.S. Government	34,300	33,900
Postal money orders	6,200	6,200
All other	605,900	655,600
Issues, redemptions and exchanges of		
U.S. Government securities	14,200	18,800
Transfers of funds	2,000	1,600
Food stamps redeemed	118,600	134,900

*Unrounded data



FEDERAL
RESERVE BANK OF
PHILADELPHIA

Ten Independence Mall, Philadelphia, PA 19106