

Annual Report

1983

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**Federal Reserve Bank
of San Francisco**

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The Federal Reserve Bank of San Francisco is one of twelve regional Reserve Banks which, together with the Board of Governors in Washington, D.C., comprise the nation's central bank. The Federal Reserve Bank of San Francisco serves the Twelfth Federal Reserve District, which includes Washington, Oregon, California, Arizona, Nevada, Utah, Idaho, Alaska, Hawaii, Guam and American Samoa.

As the nation's central bank, the Federal Reserve is responsible for determining and carrying out our nation's monetary policy. It also is a bank regulatory agency, a provider of wholesale priced banking services, and the fiscal agent for the United States Treasury.

The Annual Report of the Federal Reserve Bank of San Francisco provides a review of the western central bank's roles in carrying out these System responsibilities against the background of the major economic, legislative, regulatory and administrative developments in 1983.

From the Boardroom



John J. Balles
President

Caroline Leonetti Ahmanson
Chairman of the Board

Alan C. Furth
Deputy Chairman

The national economic recovery in 1983 was welcome news after the deepest recession since World War II. Real gross national product grew 6.2 percent over the year; impressive gains were made in employment and further inroads were made against inflation. Consumer spending was a leading contributor to the recovery, aided in the first part of the year by housing and by business spending on equipment. By year-end, the unemployment rate had dropped to 8.2 percent from its recession peak of 10.8 percent recorded in December 1982. Inflation declined for the second straight year, as the increase in the average level of prices of all goods and services produced in the U.S. fell from 4.4 percent in 1982 to 4.1 percent. This improvement was all the more remarkable when compared to the average inflation rate of 9.4 percent for 1980-1981.

Further economic expansion is expected in 1984 with real GNP forecast to grow between 4 and 5 percent. However, continued large federal budget deficits contributing to high real (inflation-adjusted) interest rates in the United States may limit the recovery of certain sectors of the economy. In 1983, the adverse effects of high real interest rates were most evident in an unusually large deficit in our foreign balance on goods and services. A large capital inflow from abroad, attracted by high real interest rates in the U.S., pushed up the foreign exchange value of the dollar and hurt U.S. exports while at the same time encouraging imports much more than is typical at this stage of a business recovery. There also were indications that the housing industry may have felt the effects of high real rates in the last quarter of 1983 when new housing starts tapered off significantly.

For monetary policy, the challenges in 1983 involved maintaining an anti-inflationary stance in the face of high federal deficits and interna-

tional financial strains, while at the same time promoting continued economic expansion. The challenges were made more difficult by the uncertainty caused by the impact of financial deregulation and other factors on the character of the monetary aggregates, and by the unusually sharp decline in the velocity of M1 in the early part of the year. In response, less emphasis was placed on M1 as a guide to policy and the targets for the other monetary aggregates were adjusted as the FOMC sought to cope with the increased uncertainty facing it.

Because federal deficits are forecasted to stay extraordinarily high throughout the 1980s (estimated to remain close to 5 percent of GNP based on current tax and spending programs), they pose one of the major issues facing economic policymakers for the next few years. Indications of the deficit crowding out spending on exports already have appeared, and concern grows that business spending on plant and equipment and spending on housing also will suffer. Continued large deficits therefore show signs of squeezing our major sources of comparative advantage in world markets, productivity and a rising standard of living.

In addition to the responsibility for making monetary policy, the Federal Reserve also plays an important role in the nation's payments mechanism. In 1980, the Congress passed the Monetary Control Act to promote greater efficiency in the payments mechanism by mandating access to Federal Reserve services at explicit prices for all depository institutions subject to reserve requirements. Last year, the Federal Reserve completed its last major pricing of services when it incorporated the cost of check float into new check collection fee schedules.

In this District, the mandate has fostered close scrutiny of service levels, costs, and price structures

throughout the industry as the Federal Reserve continues to encourage the efficiency of payments services both for the benefit of the consumer and to fulfill its public interest responsibilities.

For the Federal Reserve Bank of San Francisco, two major 1983 management objectives—cost-containment and automation—combined with a strong consumer relations program helped the Bank provide high quality, cost-effective services. Moreover, these efforts allowed the Bank to propose a 1984 budget only 4.6 percent higher than that of 1983.

The Bank's commitment to meeting the future needs of the District took tangible form in the dedication of a new headquarters building in San Francisco on March 2. Since then, the San Francisco Bank also embarked on a conceptual design for a new building to house operations in Los Angeles. In both cases, existing activities had outgrown the original facilities and "state-of-the-art" technology was needed to improve services. Automation efforts also are evidence of the Bank's orientation toward the future. In 1983, they included major computer upgrades, enhancements to intra-district communications systems, and active participation in System-wide efforts, such as that to implement an automated system for handling securities, developed at this Bank. Combined, the Bank's and System's efforts will help the Federal Reserve meet the goal of improving the nation's payments mechanism.

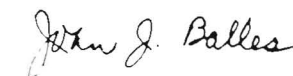
Management benefited greatly during 1983 from the broad-based experience and judgment of the Bank's directors at its headquarters office and at its four branches. The directors provided guidance on major management decisions and planning goals. In addition, they supplied information on economic and financial conditions to support the Federal Reserve's formulation of monetary policy. Today, 37 public-

spirited men and women serve as directors, representing a great variety of public and business interests from many areas of the West. We are grateful to all of these individuals and to those who completed terms as directors during 1983. They are: Ole R. Mettler (President and Chairman of the Board, Farmers & Merchants Bank of Central California, Lodi, California) and J. R. Vaughan (Senior Member, Richards, Watson, Dreyfuss & Gershon, Los Angeles, California) at our San Francisco office; James D. McMahon (President and Chief Executive Officer, Western United National Bank, Los Angeles, California) at Los Angeles; J. L. Terteling (President, The Terteling Company, Inc., Boise, Idaho) of Salt Lake City; and Virginia L. Parks (Vice President for Finance and Treasurer, Seattle University, Seattle, Washington) at Seattle.

Finally, we wish to express our appreciation to the officers and staff whose efforts and dedication made 1983 a success. Their challenge was to consolidate the changes mandated by the Monetary Control Act and to develop an approach to meeting the long-range needs of the Twelfth District's financial community.



Caroline Leonetti Ahmanson
Chairman of the Board



John J. Balles
President

National Scene

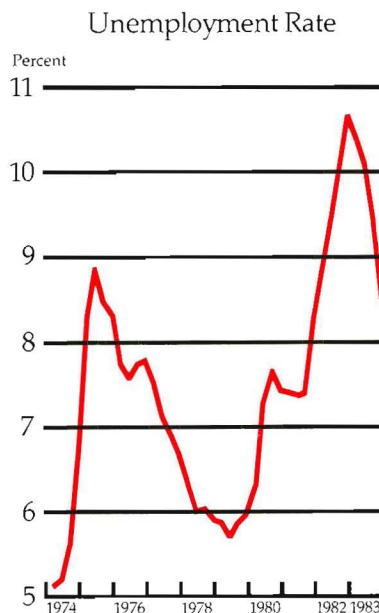
The year just ended marked the first full year of recovery from the deepest recession since World War II. The recovery was characterized by strong consumer spending, housing, and business investment in equipment. Nevertheless, it was not typical of past business cycle upturns. The combination of a non-inflationary monetary policy and large federal deficits resulted in high "real," or inflation-adjusted, interest rates that depressed the export sector, stimulated imports and may have dampened interest-sensitive sectors of the economy. By year-end, there were indications that the dampening effect may have begun to materialize in the housing industry which, up until then, had recovered significantly from its recession low.

Progress Through the Year

The economic recovery, as measured by growth in the real Gross National Product (GNP), began modestly in the first quarter of 1983 but grew more robust in mid-year. From the fourth quarter of 1982 to the fourth quarter of 1983, real GNP rose 6.2 percent, or only slightly less than the 6.8 percent average of the first years of the five business cycle upturns since the early 1950s.



Improvements in employment were impressive, while further gains were made in reducing inflation. By the fourth quarter, total employment had increased 3.5 percent, or 3.4 million jobs, from its low point the year before. This is 45 percent more than the typical increase for the same stage of a recovery. Combined with slower growth in the labor force, employment gains allowed the civilian unemployment rate to drop to 8.2 percent by December, down sharply from the 10.8-percent cyclical high in December 1982.

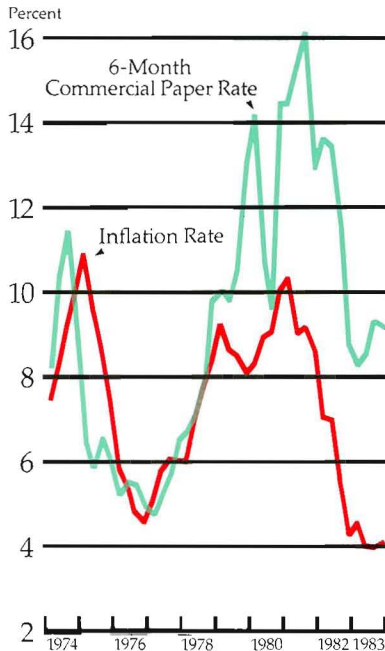


Inflation in 1983 declined for the second straight year. The average level of prices of all goods and services produced in the United States, measured by the GNP implicit price deflator, increased 4.1 percent over the four quarters of 1983 compared with 4.4 percent in 1982. These rates represented a remarkable improvement over the average 9.4-percent inflation rate for 1980 and 1981. Consumer prices showed even more improvement, increasing just over 3 percent in 1983, or less than a third their average rate of increase in 1980 and 1981.

Consumer spending, housing and business spending on equipment led the recovery

Consumer spending was a leading contributor to the recovery in 1983. Despite its slow start in the first quarter, consumer spending by mid-year surpassed the average increase at the same stage of past business recoveries. Housing and business spending on equipment also were exceptionally strong. By the fourth quarter, residential construction spending was about 40 percent above the level a year earlier compared with an average first year advance of only 25 percent. The pickup in business equipment spending was a welcome surprise. By the end of 1983 it had increased 20.4 percent in real terms, compared with the comparable average cyclical advance of 9.5 percent.

6-Month Commercial Paper Rate and Inflation

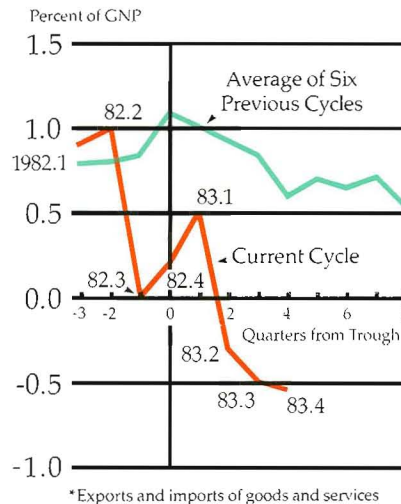


In contrast, both the foreign sector and business spending on structures were much weaker in 1983 than the historical norm. Spending on business structures, adjusted for inflation, usually increases by the final quarter of the first year of recovery but, at the end of 1983, these expenditures were still slightly below their level a year earlier.

The weakest sector in 1983 was our foreign trade in goods and services. Typically, weakness in the international balance on goods and services develops during the early stages of economic recovery. The export-import chart illustrates this pattern by comparing the average difference between exports and imports of goods and services (as percent of GNP) from six previous business upturns and the present recovery. An upswing in the U.S.

usually causes domestic income to grow faster than incomes abroad, spurring a greater demand for imports that outstrips the demand for exports; the foreign balance consequently declines. The U.S. balance on exports and imports of goods and services, however, has been much weaker than normal during this recovery, deteriorating from a \$5.6 billion surplus in the fourth quarter of 1982 to a \$18.7 billion deficit by the end of 1983. The unprecedented weak performance of the foreign sector is due to the high value of the U.S. dollar in foreign exchange markets and, to a lesser degree, the unusually slow pace of economic recoveries abroad. A high value for the dollar made U.S. exports less competitive in world markets and the prices of foreign goods and services more attractive to U.S. residents. As a result, growth in U.S. exports lagged while our imports surged.

Exports Minus Imports* and the Business Cycle

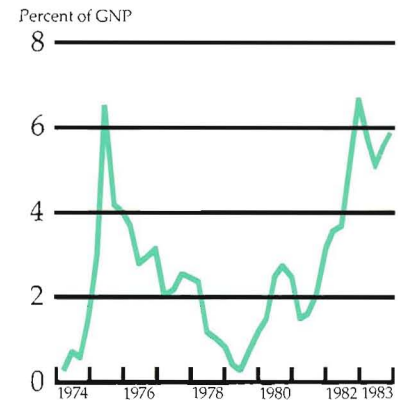


* Exports and imports of goods and services

Not a Typical Recovery

Past recoveries typically have seen more balanced growth among the major economic sectors than the present one. The peculiarities of 1983 were due to a mixture of expansionary fiscal policy and anti-inflationary monetary policy that have resulted in high "real", or inflation-adjusted, interest rates.

Federal Deficit as Percent of GNP



Expansionary fiscal policy in the form of large federal government deficits placed upward pressure on interest rates during 1983. Measured on a unified budget basis, the federal deficit was \$195.3 billion for fiscal 1983, or approximately 85 percent of available net savings from the private sector and state and local governments. According to the Congressional Budget Office, the projected deficits for the 1980s will average close to \$200 billion through 1986, or 5 percent of GNP, even as the economic expansion proceeds.

Treasury borrowing to finance these deficits competes with private credit demands and tends to keep interest rates high. High interest rates, in turn, discourage spending by business and households, thereby ensuring that enough resources are transferred from the private sector to meet the federal government's larger demands. The impact of federal deficits falls heavily on interest-sensitive spending such as housing, consumer durables and business capital investment, although in 1983 the effects on consumer and business spending were offset in part by the final 10 percent cut in personal income tax rates, and by the accelerated depreciation allowances provided in the Economic Recovery Act of 1981.

The toll of high real interest rates was most prominent in 1983 in the unusual weakness in our foreign

account mentioned earlier. High real U.S. interest rates attracted capital funds from abroad which pushed the dollar's value significantly above the level consistent with the difference in price levels between the United States and its major trading partners. The competitive position of U.S. relative to foreign goods and services deteriorated, producing the marked decline in our international balance on goods and services described above. In 1983, this problem reached record proportions.

The International Debt Situation

Weakness in the export sector of the economy also was aggravated by the international debt crisis as several less developed countries (LDCs) adopted austerity measures to meet international debt repayment obligations. Designed to cut back imports to bolster foreign exchange earnings, these measures resulted in a drop in U.S. exports to Latin America — the region hardest hit by the debt crisis — of 23 percent between 1981 and 1982.

Resolving international debt problems depends on continued cooperation and a sustained economic recovery

Some progress was made toward defusing the LDC debt crisis in 1983. A restructuring of the public debts of Mexico and Brazil was accomplished and progress toward the same goal has been made for other large LDC borrowers. In addition, a substantial increase of over \$30 billion in the International Monetary Fund's resources and an increase of about \$11 billion in the General Arrangements to Borrow provided that agency with larger funds for loans to countries with severe international payments difficulties. The authorization for the \$8.4 billion increase in the U.S. contribution was coupled with provisions to tighten controls over U.S. bank lending abroad;

these provisions were broadly consistent with the proposals made in April by the three federal banking agencies — the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Reserve.

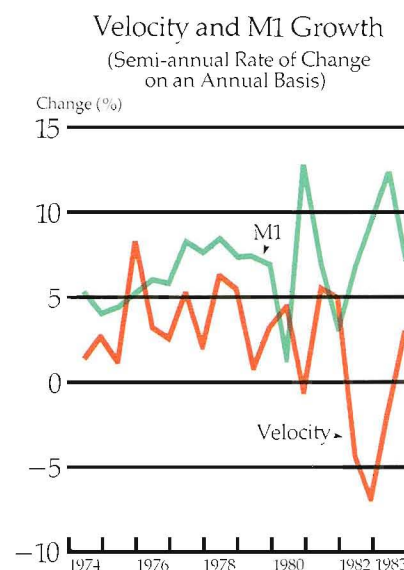
Problem areas remain, however. Brazil has had trouble operating within the terms of agreement for its IMF loans, and the Philippines is experiencing both capital flight and difficulties in gaining new credits from commercial bankers concerned with political instability in that country. A sharp decline in 1983 in international bank lending, particularly by moderate-sized banks, increased the burden on the larger banks, governments and international lending agencies. Finally, continued high U.S. real interest rates exacerbated the liquidity problems of LDCs because the interest cost of a significant part of their debt is tied to U.S. rates.

Further progress in resolving the LDC debt problem will continue to depend upon cooperation among the LDCs, banks, and international agencies, and on a sustained economic recovery both here and in other industrialized nations.

Monetary Policy

In 1983, the Federal Reserve continued to pursue an anti-inflationary policy that, at the same time, would promote the economic recovery then underway. As the year began, monetary policy faced a number of important challenges. A primary challenge was to provide the basis for an economic recovery without re-awakening fears that monetary policy had become inflationary. The problems of designing an effective monetary policy were made especially difficult because of uncertainties about the impacts of continued high federal budget deficits and international financial strains on the economy.

Another area of uncertainty concerned the method by which the Federal Reserve has implemented monetary policy, namely, the targeting of monetary aggregates. Financial deregulation in the form of the new Money Market Deposit Account (MMDA) introduced in December 1982 and the debut of the Super-NOW in January 1983 raised questions as to how movements in the monetary aggregates should be interpreted as the public adjusted its portfolio to the new accounts over the year.



In addition, there was considerable concern about the continued usefulness of M1 as a policy guide given the surprising decline in its velocity in 1982. At the time, the decline raised concerns that financial deregulation and other factors had fundamentally changed the character of M1. M2 and M3 also had unusual velocity declines, but their declines were less pronounced in relation to normal cyclical patterns.

The Federal Reserve responded to these two sources of uncertainty about the aggregates by making some adjustments to its monetary targeting over 1983. First, the Federal Open Market Committee, the major monetary policy arm of the Fed, decided to place less than the usual weight on the narrow transactions aggregate M1, which in recent years often has served as the primary intermediate target. This decision was carried over from the October 1982 meeting when the Committee began de-emphasizing M1. At its February 1983 meeting, the FOMC established a *monitoring range*, instead of a target range, for M1 of 4 to 8 percent from the fourth quarter of 1982 to the fourth quarter of 1983.

The new deposit instruments also affected the target ranges for the broader monetary aggregates. For example, it was widely expected that the introduction of MMDAs would cause funds to flow into M2 and temporarily distort its growth. The impacts of the new instrument were expected to be especially large in the first quarter of 1983 and to persist throughout the year. The FOMC's reaction was to establish a target range for M2 from a base of February-March of 1983 to the fourth quarter of 7 to 10 percent. The Committee also established a target range of 6½ to 9½ percent for M3 from the fourth quarter of 1982 to the fourth quarter of 1983, and a monitoring range of 8½ to 11½ percent for total domestic non-financial debt over the same period.

The decline in velocity that occurred in 1982 carried over into the first quarter of 1983 although it appeared that this phenomenon was largely over by mid-year. In retrospect, this decline seems to have been the result in part of the drop in inflation in early 1982, and a subsequent decline in nominal short-term interest rates in the latter part of the year. To a lesser extent perhaps, the velocity decline was related to increases during the recession in precautionary demands for short-term financial assets, including the NOW accounts in M1. At mid-year, the FOMC moved the base of the M1 monitoring range forward to the second quarter of 1983, and established a new (higher) 5 to 9 percent range that extended to the fourth quarter of the year.

Continued massive deficits threaten to undermine our standard of living

At year-end, two of the monetary aggregates, as well as total debt, were within their ranges for 1983. M1 finished slightly above the midpoint of its range, M2 marginally below its midpoint. M3 ended the year just above the upper boundary of its target range.

The Outlook

The economic expansion is expected to continue in 1984 with real GNP growing between 4.0 and 5.0 percent. The unemployment rate is expected to decline moderately over the year, but will remain above the levels that would indicate a build-up of inflationary pressures. Inflation in 1984 therefore should be up only modestly over 1983 barring any substantial food or energy price increases.

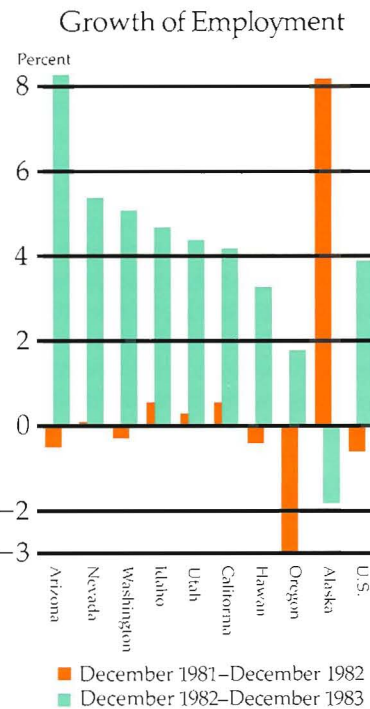
Based on current tax and spending programs, large federal deficits are projected to continue into the future. According to the Congressional Budget Office, they will grow from 3.0 percent of GNP in 1984 to 4.6 percent by 1989; this compares with an average of 2.0 percent during the 1970s. These structural deficits, so-called because they will persist despite continued recovery in the economy, will absorb an unusually large share of the nation's output over the decade. Much of this transfer of resources from the private to the public sector will come at the expense of housing, investment in business plant and equipment and the foreign trade sector (that is, lower exports and output in the import-competing sectors). Thus, the continued massive deficits threaten ultimately to undermine U.S. competitiveness, productivity and standard of living.

Western Scene

The Twelfth District's economy, although slow to begin its recovery, grew with increased vigor as 1983 progressed. In keeping with the national pattern, gains in employment first came mainly from a turnaround in the demand for interest-sensitive spending, particularly housing. Rising consumer spending also provided a major stimulus for the regional economic recovery as consumers sharply increased their outlays for all retail goods and services, but especially for durable goods.

Employment Gains

One key indicator of the strength of the West's recovery was a 4.3-percent rate of employment growth over the course of the year that surpassed the nation's performance. Arizona was the star performer with employment growth of just over 8 percent, but employment in Utah, Washington, Idaho, Nevada and California also grew faster than the national average. As of December 1983, the unemployment rates in Arizona and California had dropped well below the national average, while in Utah the unemployment rate remained below the national average, as it had during the 1981-82 recession. Only in Hawaii, Oregon and Alaska was employment growth over the course of 1983 below the national average. Oregon's poor performance was due to the renewed weakness which developed in national homebuilding and related industries in the second half of 1983. Hawaii showed signs of significant improvement late in the year and its unemployment rate in any event remained below the national average as it had during the 1981-82 recession.



Recovery's Progress

The states in the Pacific Northwest were among the first to bounce back from the recession as the turnaround in national housing boosted employment in local construction, lumber and other housing-related industries. This early strength provided a major impetus to the Twelfth District's recovery although the slowdown in western and national housing activity which began after August adversely affected Oregon's economy.

In the second quarter of 1983, the recovery began to boost basic materials industries such as chemicals and paper, and spread to capital goods industries such as non-electrical machinery. At the same time business capital spending began to revive, the demand for consumer durables continued to pick up, spurring employment in both retail trade and automobile manufacturing. And the rise in personal income throughout the nation spurred tourism in the West, particularly Hawaii, helping to give that state the lowest unemployment rate in the region.

The aerospace and electronics industries became major sources of strength to the regional economy as 1983 progressed. Because the West is home to numerous military bases and many of the nation's leading aerospace and electronic equipment manufacturing firms, the region benefitted throughout the year from the higher level of Federal government defense spending. In Hawaii, this stimulus took the form of increased expenditures for military payrolls and local purchases. Other states — including California, Washington, Arizona and Utah — experienced an increase in the Federal government's demand for aerospace equipment, including aircraft, missiles and electronic products.

Aerospace and electronics industries were major sources of strength

Employment in the aerospace and electronics industries accelerated in the second quarter of 1983, when business demand for electronics products picked up. The only exception was in Washington, where declining backlogs in commercial aircraft orders reduced aerospace payrolls throughout the year. At year-end, however, there was optimism that the continued gains in defense business would combine with growing commercial aircraft orders to halt future layoffs.

Western mining, agriculture and energy industries showed persistent weakness

Persistent Weaknesses

Despite the general strength of the region's recovery, some sectors showed unusual or persistent weakness. Western producers of copper, lead and zinc — located mainly in the Intermountain states — continued to operate at low levels of capacity utilization because of excess worldwide production of their products. In Arizona, Utah, Nevada and Idaho, a declining demand for gold and silver caused a drop in metal mining and processing industry employment.

Abundant supplies and relatively low prices for energy products reduced coal production and synthetic fuel development in Utah, while opposition to the construction of nuclear plants continued to depress uranium mining in that state. Cutbacks in oil drilling and exploration activity, caused by a drop in the world price of oil, hurt Alaska, which also suffered from weakness in logging and fish processing industries.

In agriculture, lower farm operating costs were offset by bad weather and a fall in exports. On balance, net farm income rose only slightly. The continued weakness in both the mining and agricultural sectors kept western rural communities depressed in comparison with metropolitan areas as 1983 drew to a close.

The Outlook

Further progress seems assured for the western economy in 1984, with the gains matching the national performance. Increased defense and business capital spending should increase employment in the West's capital goods industries. Further boosts in consumption expenditures as disposable income continues to rise should help the retail trade, service and tourist-related industries. Exports of agricultural products also may rise as foreign economies strengthen.

The huge increase in housing promises to make homebuilding less of a stimulus in 1984 although Western housing starts may rise moderately. Unless homebuilding activity improves further, Oregon's recovery could prove vulnerable because of its heavy dependence on the lumber industry. Prospects for significant recovery in the West's metal and energy mining operations are not promising. On balance, however, the West should do as well as the nation in 1984.

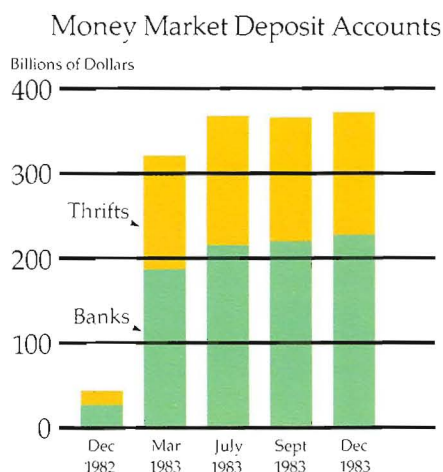
Western Banking

The effects of major legislation enacted in 1980 and 1982 combined to create a new operating environment for the banking industry in 1983. Deposit deregulation was the most important, but broader thrift lending and holding company powers also changed the banking environment by effectively placing savings and loan associations in direct competition with banks for almost the entire array of retail banking services. Moreover, a new rash of efforts to expand bank holding company activities, as well as to establish "nonbank" banks (institutions that either take deposits or make commercial loans, but not both), highlighted aggressive competition in the market for financial services.

Deposit Deregulation

Deregulation of deposit rates hit western banks and S&Ls with full force in 1983. The introduction of the Money Market Deposit Account (MMDA) in mid-December 1982 and the Super-NOW in January 1983 gave depository institutions the authority to offer "market" rates on deposits of \$2,500 or more. Then, in October, deregulation of all time deposits with original maturities greater than 31 days left only a small portion of banks and S&Ls deposits subject to rate regulation. Billions of dollars flowed into the unregulated accounts, restructuring the balance sheets of depository institutions in the process.

The banking industry emerged as the clear leader in the MMDA battle in the West and in the nation, largely because it offered higher yields and bonuses in the initial weeks than S&Ls, mutual savings banks, and credit unions. By year-end, western banks alone held more than \$51 billion in MMDAs, or about 21 percent of their total domestic deposits. In contrast, western thrifts lost total retail savings market share to commercial banks, but were able to attract significant net inflows with



the account. Western S&Ls garnered \$35 billion in MMDA deposits — over one-fifth of all their deposits. The money market funds, on the other hand, lost not only market share, but also suffered significant net outflows of funds.

As much as one-third of bank and thrift funds flowing into MMDAs were "new" funds that enabled these institutions to reduce their reliance on "purchased funds" such as large denomination negotiable CDs, fed funds and repurchase agreements. Large CDs outstanding at western banks, for example, declined from 32 percent to 20 percent of their liabilities. The success of the MMDAs, however, was not costless, as District banks and S&Ls reported a \$14 billion decline in the lower-cost passbook savings deposits.

Slow Loan Growth

The influx of MMDA funds sent banks and S&Ls scrambling to find profitable lending opportunities in 1983. Consumer credit provided the most attractive lending market as many western banks made a concerted effort to promote their installment loan and credit card products. Boosted by the rise in consumer spending on durable goods, banks experienced the first sustained increase in consumer lending since 1979.

The residential mortgage market showed considerable strength despite a rise in mortgage rates in the late spring and early summer. S&Ls extended the lion's share of mortgage credit in the West, as their mortgage loans outstanding grew by 17 percent in 1983. Western banks' real estate loans outstanding, by contrast, grew only 3 percent, although this figure understates banks' origination activity since most of their fixed rate mortgage loans were sold in the secondary market.

By contrast, improvement in corporate cash flows and better terms in debt and equity allowed many corporations to reduce their dependence on short-term bank borrowing. Overall, weak demand for business credit limited the domestic loan growth of western banks to a sluggish 5-percent rate, well below the moderate 8.5-percent rate for banks nationwide. Foreign loan portfolios also contracted slightly as lesser developed countries (LDC) continued to face problems servicing their debts. Western S&Ls fared much better overall; their loan portfolios grew by 19 percent because of the pickup in mortgage lending and their broader consumer lending powers.

Earnings

On balance, banks and S&Ls enjoyed a reduction in their overall cost of funds because of lower interest rates in 1983. S&Ls managed to show positive aggregate earnings of \$1.1 billion in 1983 despite the lingering effects of poor loan quality and interest rate mismatches. Loan losses at banks, however, placed a significant drag on their earnings growth. Deterioration in the quality of LDC, housing, and energy-related loans, in particular, resulted in a 60-percent increase in loan loss provisions in this District, with the problem much more severe at some banks than others. Nevertheless, most western banks posted increases in earnings over the level in 1982.

A new banking environment in 1983 was highlighted by aggressive price competition

A primary source of earnings growth for banks in 1983 was the sharp 25 percent increase in fee and fiduciary income. Banks raised fees to recoup the cost of providing heretofore "free" services, particularly deposit services, and expanded the array of financial services offered.

Supervisory and Credit Services

Developments in this Reserve Bank's supervisory, regulatory, and credit activities confirmed the generally healthy condition of banks and banking organizations in the Twelfth District in 1983. But despite improved earnings for most institutions, many individual banks continued to be troubled by the effects of the recession that ended in late 1982, although their problems were less severe than banks in the rest of the country.

Conditions at 16 of the 137 commercial banks and bank holding companies examined by this Reserve Bank warranted formal corrective programs. These institutions suffered from depressed earnings and problems with liquidity brought on by a combination of the legacy of the 1981-82 recession and regional problems with asset quality, especially poorly performing western real estate, energy-related, and international loans. Such conditions hit small commercial banks hardest, with more such banks failing nationally in 1983 than 1982.

The economic environment, poor loan quality, and a federal funds rate that exceeded the discount rate for most of 1983 led a post-war record number of institutions to seek accommodation at the discount window. Although most borrowed for short-term adjustments, 23 of the 102 borrowing institutions sought credit for extended periods to meet seasonal or more acute liquidity strains. In general, institutions continued to pledge large balances of collateral to secure potential borrowings, and, at the end of 1983, the five offices in this District held \$18.5 billion collateral in total.

The San Francisco Reserve Bank continued successfully to coordinate examination efforts with related state and federal regulatory authorities in such programs as the Alternating Examination Program and the Extended Examination Cycle Program. These efforts have resulted in greater cooperation, coordination and significant cost-savings for all involved.

The Bank's examination policies also continued the trend toward focusing on the internal audit procedures of depository institutions. This approach extended into credit services as exemplified by the Qualified Loan Review Program. Implemented in late 1982, this program qualifies institutions to pledge certain types of customer paper as collateral for advances at the discount window and for Treasury Tax and Loan deposits without the Reserve Bank's prior analysis and approval of the financial condition and creditworthiness of the pledging institution's customers. Instead, the Reserve Bank, along with the appropriate other supervising agency, judges the institution's financial soundness and loan review program.

For all examinations in 1983, this bank used the new Commercial Bank Report of Examination adopted by the Board of Governors near the end of 1982. The new report was designed to reflect current conditions and practices in the industry by incorporating additional emphases on interest rate sensitivity and items recorded off the balance sheet, revised definitions and guidelines relating to capital adequacy, end-of-quarter financial statements, and extensive peer group comparisons.

The San Francisco Reserve Bank also embarked on a long-term objective to improve the efficiency and quality of administrative functions in its supervisory, regulatory and credit services by automating activities that permit the cost-effective application of computer technology. This effort is a response to the increasing volume and complexity of regulatory data as the financial industry continues to expand and diversify.

Examples of new developments within the banking industry were most evident in the types of bank holding company (BHC) applications processed in 1983. BHC formations continued at a brisk pace although their number declined after rising in each of the last three years. In 1983, however, the complexity of applications submitted increased, as did the number of BHC applications to expand non-banking operations and to acquire additional banks. Although many applications dealt with thrift and loan companies, consumer finance, and insurance underwriting, more significant for the structure of banking in the future, were applications to engage in recently approved activities such as discount brokering and the selling of futures contracts.

Banking organizations also continued to expand their international banking facilities and Edge Corporation operations, as 20 of the former were established or approved and 3 of the latter were established in 1983. In addition, the Bank Export Services Act, passed by Congress in 1982, produced applications by seven banking organizations to establish Export Trading Companies in the Twelfth District. These new companies will strive to promote export growth by offering such services as marketing assistance, freight forwarding, and insurance and financing of all types of domestically produced goods and raw materials.

In the area of consumer education and protection, most complaints to which the consumer affairs unit responded concerned unregulated matters such as service charges and deposit disputes typically involving automatic teller machines, while most regulatory inquiries fell under the Truth-in-Lending regulation. Consumer affairs also maintained its outreach activities by providing speakers to banking and credit association seminars, offering the Educational and Advisory Service to state member banks to help them understand and comply with consumer laws and regulations, and developing community contacts. Community contacts provide information for examinations of compliance with the Community Reinvestment Act. They also help the Bank identify and evaluate community development programs it may be able to assist. Examples include the Neighborhood Housing Services and Bay Area Residential Investment and Development Groups, which have the common objective of developing affordable housing through a partnership of community representatives, local governments and financial institutions; the Reserve Bank's role is to facilitate communication among the different parties.

Administrative Objectives

During 1983, the focus of the administration of the San Francisco Federal Reserve Bank shifted from completing the many operational changes mandated by the Monetary Control Act of 1980 to one of fully adapting to the changes that occurred in the transition, and planning for the future. The dedication of the Bank's new headquarters office in San Francisco on March 2, 1983 signified, in a sense, both a commitment to the long-range needs of the Twelfth District's financial community, and recognition of the fundamental changes in the Federal Reserve System's approach to some of its traditional roles. Specifically, the Congressional mandate to price Reserve Bank services to recover costs, and to ensure open access to those services, led this Bank to emphasize state-of-the-art facilities for service delivery and cost-containment to make those services efficient and marketable.

Cost Containment

The Twelfth District's emphasis on containing costs permeated all parts of the budget process and resulted, in 1983, in internal reallocations of resources and new initiatives to dampen the upward trend in expenses. A key element in cost-containment was the adoption of an automation strategy that has yielded both additional control over the investment of resources in computer equipment and efficiencies in operations amenable to automation. This Reserve Bank also revised medical and hospital insurance plans for employees and achieved additional savings in new armored carrier contracts and new staffing methods for currency processing.

Overall, the San Francisco Bank's cost-containment efforts held 1984 expenses to \$114,383,000 (within budget) and allowed the Bank to propose a 1984 budget only 4.6 percent higher than that of 1983.

Facilities Planning

Completion of the Federal Reserve Bank of San Francisco's new headquarters facility capped several years of effort in planning and construction. To meet the changing and growing needs of the Twelfth District, the building was designed to facilitate automation to improve Bank services.

Increased use of computer technology is the key

Employees formerly housed in several different locations, many in leased spaces, were brought together under one roof with enough space for expansion. Life-support and electrical systems complement the Bank's computer-assisted operations, and high-security space should accommodate growth in cash and fiscal agency operations through the next 30 years. The new building's data center contains facilities for additional processors, storage media, and telecommunications equipment, and its new telecommunications control center employs the latest control and switching technology.

In addition to housing the Reserve Bank's administration and banking services, a portion of the new building is dedicated to public education in economics. An extensive exhibition, called *The World of Economics*, is housed in the building's lobby. Consisting of twenty-three separate exhibits that range from a mural depicting the development of economic theory to computer games that permit the participant to simulate the management of fiscal and monetary policy, the multimedia exhibition is open to the public every weekday.



New headquarters building in San Francisco

In June of 1983, the Board of Governors authorized the Bank to proceed on the conceptual design of a new building for its Los Angeles Branch office. Existing operations already have outgrown the Los Angeles facility built in 1929 and expanded in 1953. Moreover, primary mechanical and electrical building systems are outdated, and special facilities, such as the cash vaults, are inadequate.

The proposed new building, on a site adjacent to the old, will provide for all existing operational needs of cash, checks, and computer services and for their expansion in the foreseeable future. The new building also will have a back-up source of power and other critical systems for emergencies. In sum, the new facility will help the Branch meet the challenge of supplying effective and efficient banking services to one of the nation's fastest growing communities.

Automation Efforts

The Federal Reserve Bank of San Francisco's commitment to automation efforts has resulted from emphasizing the quality of service performed at the lowest cost consistent with modern management techniques, applicable technology, and security. In addition, the Bank views the increased use of computer technology as a key means of fulfilling its public interest responsibility to promote improved payments services in the financial industry.

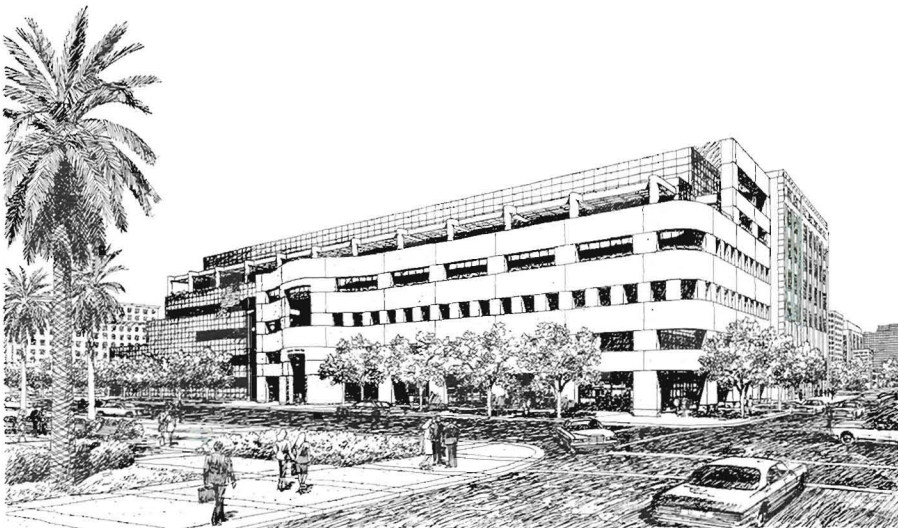
Planning, implementing and developing resource-shared applications systems (that is, those systems for which the costs of development are shared by Reserve Banks) as part of the Federal Reserve System's Automation Program was the major emphasis of the Reserve Bank's computer services staff in 1983. Last year, Bulk Data and Administrative Message systems were successfully implemented and plans were completed to implement the Funds Transfer, Customer Information and Automated Clearing House (ACH) resource-shared system late in 1984 or early in 1985, and the Integrated Accounting System in 1985.

As the developer of the highly successful SHARE system for automated securities handling, this Bank continues its leadership role within the Federal Reserve System Automation Program. The SHARE system has been installed at a number of Reserve Banks, including St. Louis, Dallas and Kansas City, and is nearing final installation in Chicago. Installations in 1984 are planned for Cleveland, Boston and Atlanta. Moreover, the Twelfth District was chosen to be the developer of the System's resource-shared Statistical Data Reporting System—STAT. STAT will build on the Microdata Processing Efficiencies (MIPE) system developed by San Francisco, and initial availability is planned for early 1985.

A commitment to the long-range needs of the Twelfth District's financial community

The Bank also retained its leadership role in establishing nationwide automation policy through the participation of senior management in the two national committees that set the direction for the System's automation programs; many of the Bank's senior technical staff also serve on various national task forces.

Internal automation efforts included completing a major computer upgrade program for the San Francisco data center with the installation of a new central processor. Branch computers were upgraded in Los Angeles and Salt Lake City, and Portland and Seattle will see similar upgrades early in 1984. Installation of the new equipment in San Francisco in the first quarter of 1984 for check processing support will enable all offices to process checks under a standard operating environment.



Proposed new Los Angeles Branch

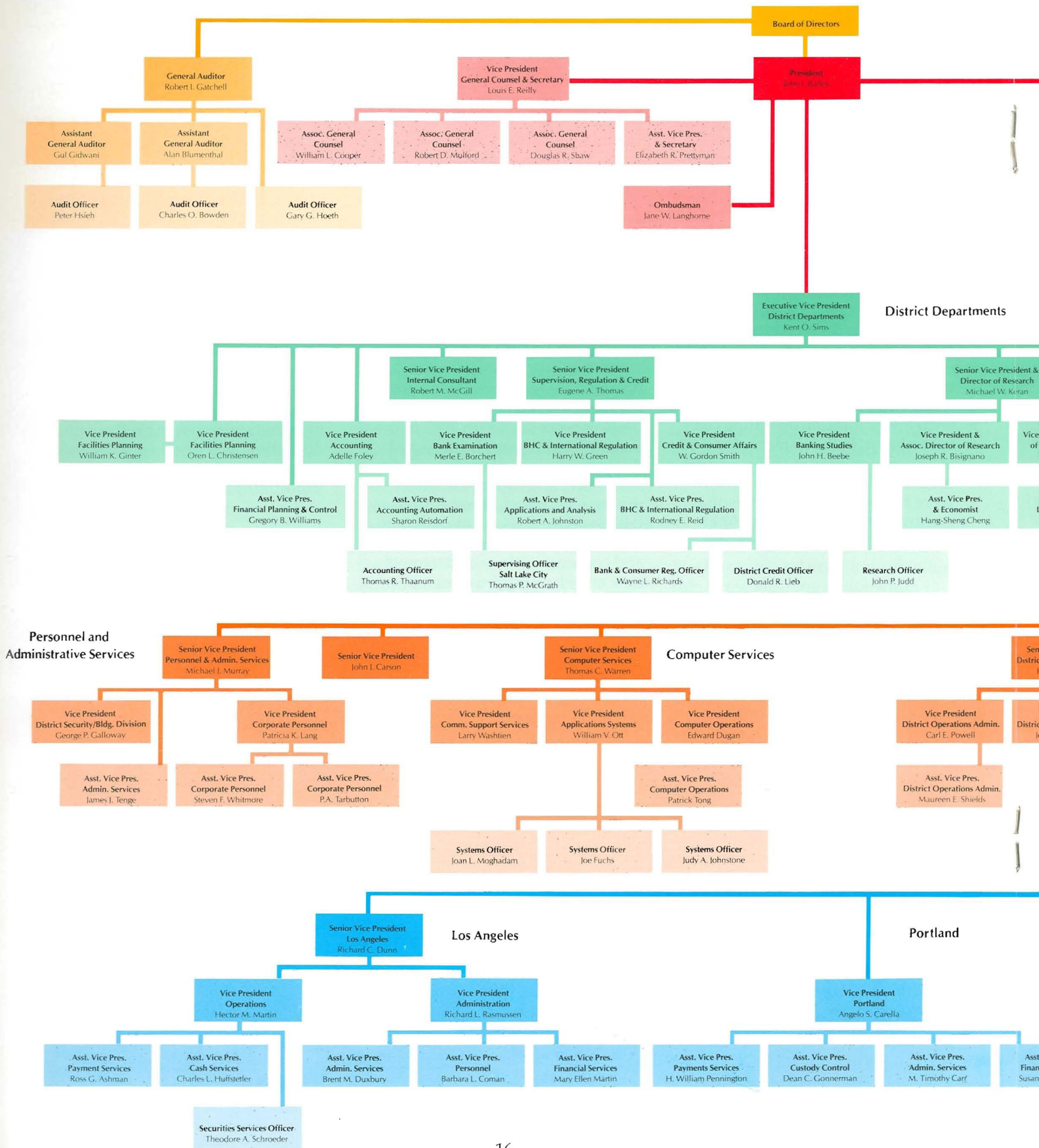
This will lead to reduced operating and support costs as well as a uniform check product and a common base for backing up our District-wide processing.

In 1983, the Bank installed a new chargeback system to support the allocation of all District data processing costs on the basis of the actual use of resources. This system is now a major factor in understanding and monitoring resource use, and in developing cost-based prices for computer services.

The new intradistrict communications network (SPINE), targeted for completion by mid-1984, uses state-of-the-art telecommunication technology to provide improved service with lower internal operating costs to the Bank. In the latter part of 1983, all older terminals in financial institutions connected to our network were replaced with new personal computers as part of this project.

The San Francisco Bank also has placed a major emphasis on curtailing the future growth of automation costs. It has embarked on a strategy of using the microprocessor to provide users with increased automation support at smaller incremental costs. This technology, which complements the use of large data base oriented processors and which has been highly successful in customer networks for electronic access to services, will be a fundamental aspect of future automation strategies. In addition, the Bank continues to analyze the capacity of existing processors and to tune their performance for better service.

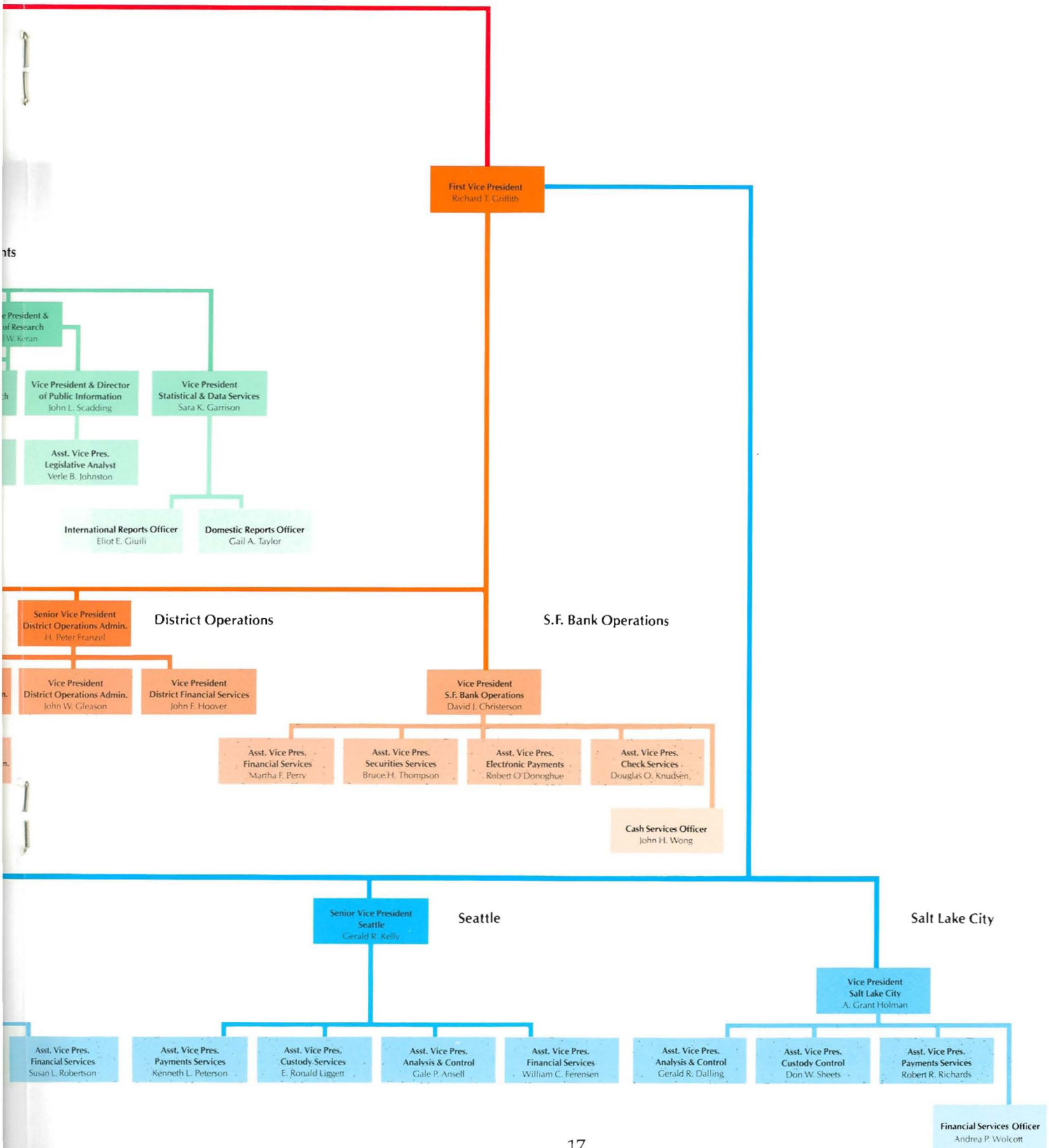
As part of ongoing efforts to support the Bank's services, several major projects were started in 1983 in the areas of contingency backup and disaster recovery planning, quality assurance, and security enhancements. Combined, these efforts will position the Bank to maintain a leadership role in automation and communications and to meet new and changing business requirements in a cost-effective and responsive manner.



Federal Reserve Bank of San Francisco

Organization Chart

February 1, 1984





Branch Operations

(Shown from left to right, standing)

Richard C. Dunn, Senior Vice President, Los Angeles

Angelo S. Carella, Vice President, Portland

H. Peter Franzel, Senior Vice President, District Operations Administration

David J. Christerson, Vice President, San Francisco Operations

(seated)

Gerald R. Kelly, Senior Vice President, Seattle

Richard T. Griffith, First Vice President

A. Grant Holman, Vice President, Salt Lake City

Priced Payments Services

When Congress passed the Monetary Control Act (MCA) of 1980, it sought not only to promote greater competition in financial markets through deregulation, but also greater efficiency in the payments mechanism. It did the latter by mandating access to Federal Reserve services at explicit prices for all depository institutions subject to reserve requirements. The pricing of payments services was to be phased in over different periods of time depending on the service involved. In 1983, the Federal Reserve completed its last major pricing of services by incorporating the cost of check float into new check collection fee schedules.

The Federal Reserve Bank of San Francisco has responded to the mandates of the Monetary Control Act by instituting strict cost-containment measures, pursuing efficiencies from automation, and by continually improving the quality of its services in response to the needs of the financial community in the nine western states it serves.

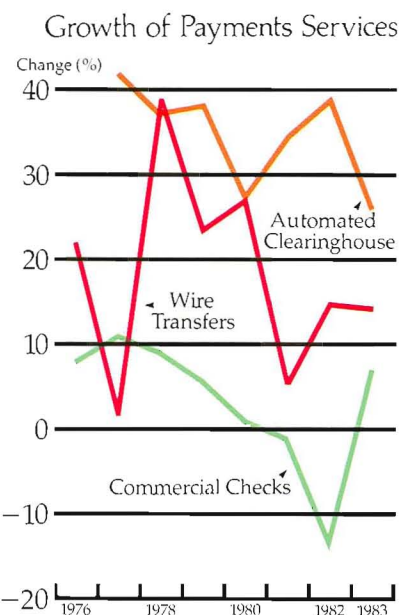
The Twelfth Federal Reserve District is the most populous in the System. It is also the largest in terms of geographic size and industrial activity. This western region has a population of over 38 million people spread over five different time zones. Within this area, large commercial banks tend to look to the Federal Reserve for highly automated services, compatible with their internal operating systems, while smaller institutions often seek more specialized, labor-intensive services. Furthermore, the needs of depository institutions vary by location and the circumstances of their local environment.

One key means by which this Reserve Bank learns of and responds to the needs of more than 4,000 depository institutions is through the activities of service-oriented officers and account managers in its five offices. These members of our staff are responsible for developing and maintaining customer relationships with institutions in their separate zones. Their efforts are coordinated centrally in the San Francisco headquarters office through District Financial Services. This unit conducts market research and Districtwide service information programs such as a series of brochures, produced in 1983, designed to explain each of the Federal Reserve's services.

In total, about 250 new customer relationships were established in 1983, and approximately 700 institutions in the Twelfth District now use Reserve Bank services. Through the knowledge gained from these relationships, this Reserve Bank continues to enhance its priced payments services.

Check Services

In terms of the resources used, the San Francisco Reserve Bank's largest priced payments service is check processing. In the latter half of 1983, due to a number of Systemwide improvements, the Twelfth District handled the largest volume of checks of any District in the Federal Reserve System.



New System programs implemented in check services last year included noon presentment, several product enhancements and improvements to the Federal Reserve's transportation network. In combination, these programs resulted in more favorable deposit deadlines and a one-day improvement in the collection time of approximately thirty percent of the items handled by the Federal Reserve System. After the implementation of new deposit deadlines, the Federal Reserve expanded its check sorting equipment to accommodate the reduced amount of time available for processing. In addition, the System developed a national monitoring system to track delivery and credit performance on individual cash letters so that check float can be appropriately assigned to depositors.

Funds Transfer

The Twelfth District's online funds transfer service continued to grow in 1983, especially with the increasing popularity of the microcomputer-based service—FedLine. This bank continued to install FedLine terminals and, in the process, increased the total number of customers accessing our services through dial-up computer connections to approximately 450.

Strong customer relations help to identify and respond to the needs of financial institutions

At first, FedLine was developed to allow a wider range of subscribers to transfer funds directly through the Federal Reserve's communications system—Fedwire. During 1983, the Bank expanded its capabilities further to allow customers to place orders for currency and coin, and made substantial progress toward providing customers with the ability to request accounting information through FedLine. In addition, the terminal device used by leased line electronic access customers was changed to a microprocessor for compatibility with FedLine. The change also provides better service to leased line customers.

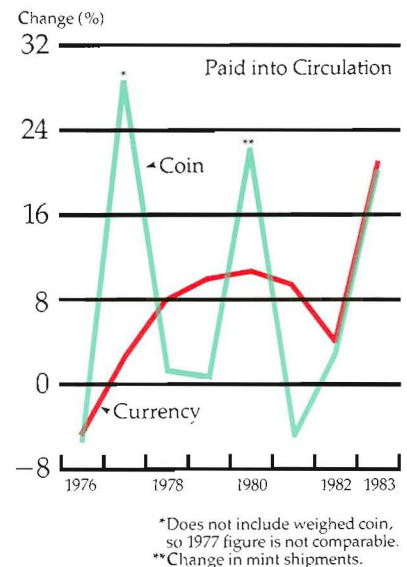
Automated Clearing House

The Bank's Automated Clearing House (ACH) service remained an important and rapidly growing service in 1983. ACH consists of the exchange and delivery of electronic payments items. In 1983, a new program to handle Corporate Trade Payments was implemented in June, and night cycle processing was extended to all types of transactions. For 1984, the Bank plans to continue working with the private sector to develop and expand the ACH further. While incentive pricing has been employed as a means to encourage rapid growth in this electronic service, the cost recovery target for this service has increased annually. Starting at 40 percent in 1983, the target will be raised 20 percent in each subsequent year. By 1986, the Federal Reserve System plans to have phased in full recovery of all costs for ACH service. This challenges Reserve Banks to maintain low costs while identifying opportunities for stimulating wider acceptance of efficient electronic payments.

Cash and Securities Services

The Federal Reserve System plays an important role in meeting the financial community's needs for cash and Treasury securities services. The demand for coin and currency throughout the Twelfth District remained high in 1983 despite growth in the use of other payments services. The Federal Reserve circulates new Federal Reserve notes, withdraws unfit bills from circulation, and accommodates transfers of denominations among financial institutions. Coin also is collected, counted and redistributed by the Federal Reserve System. While the transportation of currency and coin is priced, processing and related activities are provided as a government service. During 1983, cash ordering was added to FedLine service to enable financial institutions to order cash deliveries promptly and easily.

Growth of Cash Services



This Bank also provides a variety of securities services to financial institutions in the Twelfth District, including safekeeping and transferring of book-entry securities, purchase and sale of Government securities, and collection of noncash items. The pricing of book-entry securities services has prompted initiatives to reduce costs, foremost among which is a reconfiguration of our data communications network.

Summary of Operations

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Custody Services				
Cash Services				
Currency paid into circulation	1,556,278	1,700,557	1,767,236	1,925,085
Coin paid into circulation	4,895,306 ¹	4,649,901	4,779,409	5,078,150
Securities Services				
Savings Bonds original issues	1,327	1,136	995	1,235
Savings Bonds redemptions processed*	372,420	402,885	339,820	285,420
Other Treasury original issues	231	232	182	116
Food coupons processed	274,058	318,497	313,761	333,512
Payments Mechanism Services				
Check Processing Services				
Commercial checks processed	1,406,489	1,393,822	1,210,143	1,226,778
Fine sort bundles processed*	804,248	1,201,909	2,619,403	3,367,031
Government checks processed	106,470	103,154	101,310	96,136
Return items processed	21,833	22,431	23,952	24,707
Electronic Funds Transfer Services				
Wire transfers processed	4,883	5,143	5,882	6,674
Automated clearinghouse transactions processed	41,298	55,483	76,944	91,838
Discounts and Advances				
Total discounts and advances*	1,092	1,821	1,281	1,234
Number of financial institutions accommodated*	67	106	105	108

*Number (not in thousands)

¹ Unusually high volume of payout due to implementation of direct mint shipments to banks



Management Committee

(Shown from left to right, standing)

John J. Carson, Senior Vice President

Thomas C. Warren, Senior Vice President, Computer Services
(seated)

Richard T. Griffith, First Vice President

John J. Balles, President

Kent O. Sims, Executive Vice President, District Departments

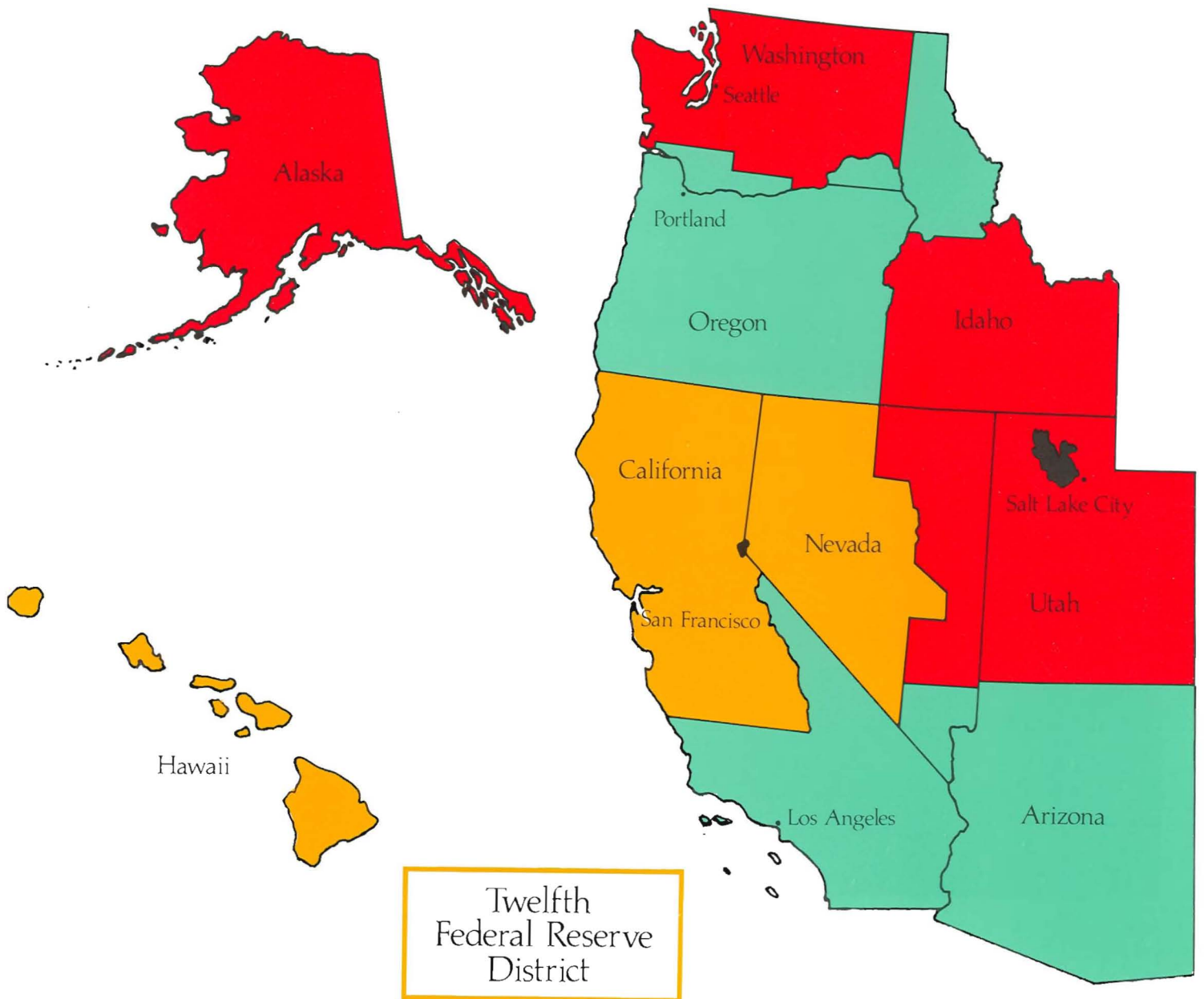
Services to Government Agencies

The Federal Reserve System provides a diverse array of services to the Treasury Department as well as other government agencies. These services fall into three overall categories: management of the public debt; processing of government payments; and maintenance of the nation's currency and coin supply. Due to its large size, the Twelfth District is a major provider of government services.

The Federal Reserve acts as the conduit between private "issuing agents" of government financial instruments and the Treasury Department. It also accommodates requests from individuals for purchasing certain government tenders, primarily Treasury bills. The demand for savings bonds and Treasury bills has proved to be quite elastic with respect to interest rates. New competitive programs and stable rates in 1983 caused savings bonds volume to hold steady at 1982 levels, and Treasury issues to decline substantially. As an agent for the Treasury, the Fed also concentrates Treasury Tax and Loan deposits from collecting financial institutions and businesses.

The Federal Reserve System also acts as agent for the federal government in making transfer payments to individuals. These government payments to individuals are made in three ways: electronically, through food coupons, and through Treasury checks. The federal government's use of electronic payments through the Automated Clearing House (ACH) has accelerated in recent years and promises continued growth in the future. In 1983, government payments represented 75 percent of Federal Reserve ACH volume. The Fed collects, sorts, cancels and destroys food coupons after circulation. It also collects all government checks for payment, forwards accounting data to the Treasury, and ships checks to selected storage sites. The Twelfth District is the country's largest processor of government checks. To make these operations more efficient, this Bank has integrated them into its overall processing capability for electronic and paper payments systems.

As mentioned earlier, an important function of the Federal Reserve is to make coin and currency available to financial institutions. The processing of coin and currency is provided as a government service. In 1983, the San Francisco District automated major portions of the counting and sorting of bills. For this purpose, it added three new high-speed currency processing units to the eleven already in place at the Branch offices. These high-speed processing units detect counterfeit money and destroy unfit or mutilated currency, thereby improving the quality of the currency in circulation. The San Francisco Bank also is cooperating with other Reserve Banks in efforts to develop even more efficient and effective "second generation" currency processing equipment.



Directors

The central-bank functions of the Federal Reserve are handled through a nationwide network of 12 Federal Reserve Banks and their 25 branches, under the policy guidance, coordination and general supervision of the Board of Governors in Washington, D.C. The Head Office of the Federal Reserve Bank of San Francisco has a nine-member Board of Directors. Each of the Bank's other offices at Los Angeles, Portland, Salt Lake City and Seattle has a seven-member board.

Federal Reserve directors bring management expertise to the task of overseeing Reserve Bank operations. They also provide first-hand information on key economic developments in various areas of the District, complementing the Bank's internal research efforts. In addition, Board members give advice on the general direction of monetary policy, especially with regard to the Bank's discount rate. The Head Office Board has specific responsibility for initiating changes in the discount rate, subject to review and approval by the Board of Governors.

Head Office

**Chairman of the Board and
Federal Reserve Agent**
Caroline Leonetti Ahmanson
Chairman of the Board
Caroline Leonetti Ltd.
Hollywood, California



Ahmanson

Deputy Chairman
Alan C. Furth
Vice Chairman
Santa Fe Southern Pacific
Corporation and
President
Southern Pacific Company
San Francisco, California



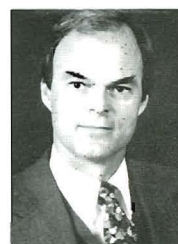
Andrew

Fred W. Andrew
Chairman of the Board,
President and Chief
Executive Officer
Superior Farming Company
Bakersfield, California



Furth

Rayburn S. Dezember
Chairman
Central Pacific Corporation
Bakersfield, California



Eccles

Spencer F. Eccles
Chairman, President and
Chief Executive Officer
First Security Corporation
Salt Lake City, Utah



Dezember

John C. Hampton
Chairman, President and
Chief Executive Officer
Willamina Lumber Company
Portland, Oregon



Tanaka

Togo W. Tanaka
Chairman
Gramercy Enterprises
Los Angeles, California



Hampton

George H. Weyerhaeuser
President and Chief
Executive Officer
Weyerhaeuser Company
Tacoma, Washington



Young

Robert A. Young
Chairman of the Board and President
Northwest National Bank
Vancouver, Washington



Weyerhaeuser

Federal Advisory Council Member
Joseph J. Pinola
Chairman of the Board
First Interstate Bancorp
Los Angeles, California



Pinola



Brown



Goldsmith



Mitchell



Schwaegler



Dockson



McAlpin-Grant



Tooley

Los Angeles

Chairman of the Board

Bruce M. Schwaegler
President
Bullock's-Bullocks Wilshire
Los Angeles, California

Thomas R. Brown, Jr.
Chairman of the Board
Burr-Brown Corporation
Tucson, Arizona

Robert R. Dockson
Chairman and Chief
Executive Officer
California Federal Savings and
Loan Association
Los Angeles, California

Bram Goldsmith
Chairman of the Board
City National Bank
Beverly Hills, California

Lola McAlpin-Grant
Attorney
Los Angeles, California

Harvey J. Mitchell
President and Chief
Executive Officer
Escondido National Bank
Escondido, California

William L. Tooley
Managing Partner
Tooley & Company,
Investment Builders
Los Angeles, California

Portland

Chairman of the Board

Paul E. Bragdon
President
Reed College
Portland, Oregon



Bragdon

Herman C. Bradley, Jr.
President and Chief
Executive Officer
Tri-County Banking Company
Junction City, Oregon



Bradley

Carolyn S. Chambers
President
Chambers Cable Com., Inc.
Eugene, Oregon



Chambers

John A. Elorriaga
Chairman and Chief
Executive Officer
United States National Bank
of Oregon
Portland, Oregon



Elorriaga

Jack W. Gustavel
President and Chief
Executive Officer
The First National Bank
of North Idaho
Coeur d'Alene, Idaho



Gustavel

William S. Naito
Vice President
Norcrest China Company
Portland, Oregon



Naito

G. "Johnny" Parks
Northwest Regional Director
International Longshoremen's &
Warehousemen's Union
Portland, Oregon



Parks



Bailey



Mallott



Philip



Ellis



Birkholz



Nordstrom



Truex

Seattle

Chairman of the Board

John W. Ellis
President and Chief
Executive Officer
Puget Sound Power & Light
Company
Bellevue, Washington

Lonnie G. Bailey
Executive Vice President and
Chief Operating Officer
Farmers and Merchants Bank
of Rockford
Spokane, Washington

Carol Birkholz
Managing Partner
Laventhol & Horwath
Seattle, Washington

Byron I. Mallott
President and
Chief Executive Officer
Sealaska Corporation
Juneau, Alaska

John N. Nordstrom
Co-Chairman of the Board
Nordstrom, Inc.
Seattle, Washington

W.W. Philip
Chairman, President and
Chief Executive Officer
Puget Sound Bancorp
Tacoma, Washington

G. Robert Truex, Jr.
Chairman
Rainier Bancorporation and
Rainier National Bank
Seattle, Washington

Salt Lake City

Chairman of the Board

Wendell J. Ashton
Publisher
Deseret News
Salt Lake City, Utah



Ashton

John A. Dahlstrom
Chairman of the Board
Tracy-Collins Bank and
Trust Company
Salt Lake City, Utah



Dahlstrom

Lela M. Ence
Executive Director
University of Utah Alumni
Association
Salt Lake City, Utah



Ence

Albert C. Gianoli
President and Chairman
of the Board
First National Bank of Ely
Ely, Nevada



Gianoli

Fred C. Humphreys
President and Chief
Executive Officer
The Idaho First National Bank
Boise, Idaho



Humphreys

David Nimkin
Executive Director
Salt Lake Neighborhood Housing
Services, Inc.
Salt Lake City, Utah



Nimkin

Robert N. Pratt
President
White River Shale Oil
Corporation
Salt Lake City, Utah



Pratt

Comparative Statement of Account

(Thousands of Dollars)

	December 31,	
	1982	1983
Assets		
Gold certificate account	\$ 1,233,000	\$ 1,182,000
Special Drawing Rights certificate account	518,000	518,000
Other cash	78,347	81,178
Loans to depository institutions	2,800	23,305
Federal Agency obligations	1,129,600	1,096,249
United States Government securities:		
Bills	6,879,306	8,345,211
Notes	7,915,801	8,107,233
Bonds	2,345,411	2,639,318
Total United States Government securities	17,140,518	19,091,762
Total loans and securities	18,272,918	20,211,316
Cash items in process of collection	1,783,155	1,477,963
Bank premises	103,914	106,422
Operating equipment	22,848	30,350
Other assets:		
Denominated in foreign currencies	945,296	608,520
All other	418,700	438,043
Interdistrict Settlement Account	- 702,277	1,273,952
Total assets	22,673,901	25,927,744
Liabilities		
Federal Reserve notes	15,730,215	19,930,151
Deposits:		
Total depository institutions—reserve accounts	4,717,959	4,009,671
Foreign	34,440	24,750
Other deposits	81,716	52,001
Total deposits	4,834,115	4,086,422
Deferred availability cash items	1,396,541	1,130,877
Other liabilities	265,766	298,710
Total liabilities	22,226,637	25,446,160
Capital Accounts		
Capital paid in	223,632	240,792
Surplus	223,632	240,792
Total liabilities and capital accounts	22,673,901	25,927,744

Earnings and Expenses

(Thousands of Dollars)

	December 31,	
	1982	1983
Current Earnings		
Discounts and advances	\$ 8,691	\$ 9,111
United States Government securities	1,978,747	1,910,065
Foreign currencies	70,551	45,176
Income from services	38,341	52,279
All other	918	1,443
Total current earnings	2,097,248	2,018,074
Current Expenses		
Total current expenses	116,726	114,383
Less reimbursement for certain fiscal agency and other expenses	7,741	8,485
Net expenses	108,985	105,898
Cost of earnings credit	0	4,724
Profit and Loss		
Current net earnings	1,988,263	1,907,452
Additions to current earnings		
Profit on sales of United States Government securities (net)	10,677	2,656
All other	0	35,545
Total additions	10,677	38,201
Deductions from current net earnings		
Loss on foreign exchange transactions (net)	24,536	75,289
All other	2,459	0
Total deductions	26,995	75,289
Net additions (+) deductions (–)	– 16,318	– 37,088
Earned credits used by depository institutions	– 1,294	0
Assessments by Board of Governors		
Board Expenditures	– 10,147	– 11,734
Federal Reserve currency cost	– 0	– 16,143
Net earnings before payments to United States Treasury	1,960,504	1,842,487
Dividends paid	13,053	13,949
Payments to United States Treasury (interest on Federal Reserve notes)	1,933,119	1,811,378
Transferred to surplus	14,332	17,160
Surplus January 1	209,300	223,632
Surplus December 31	223,632	240,792

San Francisco Office

P.O. Box 7702, San Francisco, California 94120

Los Angeles Branch

P.O. Box 2077, Terminal Annex, Los Angeles, California 90051

Portland Branch

P.O. Box 3436, Portland, Oregon 97208

Salt Lake City Branch

P.O. Box 30780, Salt Lake City, Utah 84125

Seattle Branch

P.O. Box 3567, Terminal Annex, Seattle, Washington 98124

This report was prepared by the staff of the Federal Reserve Bank of San Francisco: produced by Karen Rusk; graphics designed by William Rosenthal; edited by John L. Scadding and Gregory J. Tong. Assistance provided by Economic Research; Supervision, Regulation and Credit; District Operations; Accounting; and Computer Services.

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San Francisco, California 94120

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