

Federal Reserve Bank
of San Francisco

Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • FEBRUARY 1975

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ELECTRONIC PAYCHECKS FOR 60,000 AIRMEN

Thanks to a new program implemented by the Federal Reserve Bank of San Francisco, about 60,000 Air Force personnel in California and several other Western states never see their paychecks. That's because they're handled electronically.

"For most people, payday still means receiving a check from the boss in person or having it mailed home," says Vice President James Brundy. "But the time-honored paper check is technologically primitive compared with the newer products of the computer age. So each month in Los Angeles and San Francisco, the Fed moves millions of dollars with blips and bleeps and without the usual tons of paper."

Here's how the program works, as pioneered by the U.S. Air Force, the U.S. Treasury and the Federal Reserve System:

Five days before payday, the Air Force Accounting and Finance Center in Denver prepares magnetic tapes with payroll data for thousands of airmen. These tapes are dispatched to a Fed office in Denver, where they are processed and then transported by courier to those Federal Reserve banks now participating in the program.

Once the tapes arrive here in San Francisco, all this payroll information is translated from magnetic spots on tape into money. The data are sorted electronically and the funds are transferred to the financial institutions designated by the payees. At

the bank or savings and loan, each individual's checking or savings account is simply increased by the amount of the paycheck.

What does the new system do that the old one didn't?

"Three significant improvements are speed, safety and substantial cost savings," Brundy said. "The Air Force formerly mailed out millions of paychecks annually to thousands of financial institutions. Not only is mail costly to deliver, but it is subject to loss and delay. The new program substantially reduces the cost of making government payments. Air Force personnel benefit from the program because the system eliminates checks — and therefore the chance of loss by theft or fraud."

Another advantage is the elimination of check clearing and processing. With approximately 30 billion checks being written annually by Americans and the load growing at the rate of 7 percent each year, any system that reduces the clutter of paper is a welcome one.

The program is entirely voluntary. Airmen who wish to have paper paychecks can continue to do so. But already, two out of every five have chosen the new electronic medium, and the Air Force expects nearly 300,000 personnel will take advantage of the electronic-payments program once it is fully implemented.

California is one of five states in the nation where servicemen have this


option. Federal Reserve offices in San Francisco, Los Angeles, Atlanta and Denver now support programs here and in Colorado, Georgia, New Mexico and Wyoming. In 1975 electronic funds systems will be expanded to the nation's other Federal Reserve Banks.

Experts believe that the cashless, checkless society is still a way off. For one thing, some people simply feel more secure with a paper check in hand. Nevertheless, the electronic approach seems to be making headway, and eventually, the Air Force program could become the nucleus for a nationwide electronic-funds system.

Yet there is still provision for those financial institutions that do not own computers. The Fed will continue to make payroll data available on paper forms in addition to tape and punched cards. The paper forms will allow non-automated institutions to process the information manually.

Still the lure of the new technology is almost irresistible when a single reel of magnetic tape can store 14 million characters capable of being retrieved and read in just a few minutes' time. That one reel of tape replaces almost 190,000 checks or a stack of paper 70 feet high.

Brundy summed up the innovative electronic payroll program this way:

"You might say that we at the Fed are now using tape to cut through a tangle of paperwork." 



M. T. Stamper

STAMPER, GARDNER BOARD APPOINTEES

Two new branch directors were appointed by the Federal Reserve Bank of San Francisco to serve two-year terms expiring in 1976.

Malcolm T. Stamper, President of the Boeing Company, was appointed to the Board of Directors of the Seattle Branch and designated as Chairman for 1975. Active in numerous professional and civic organizations, he is Chairman of the

ROGERS REAPPOINTED TO ADVISORY COUNCIL

Harold A. Rogers has been reappointed to the Federal Advisory Council to represent the San Francisco Federal Reserve District on that Federal Reserve advisory body.

Rogers is President of the Peoples National Bank of Washington in Seattle.


As a member of the Federal Advisory Council, Rogers will join prominent businessmen from throughout the nation. The 12-member Council, which consists of one representative from each of the Federal Reserve Districts, meets four times a year in Washington, D.C., with the Federal Reserve System's Board of Governors. The Council confers with the Board on economic and banking matters and makes recommendations regarding System operations and policies.

Rogers is a member of the Executive Committee of Greater Seattle, Inc., and of the Executive Committee of the Central Association of Seattle.




D. P. Gardner

Washington Savings Bond Committee and a member of the Board of Trustees of the Seattle Art Museum.

David P. Gardner, President of the University of Utah, was appointed to the Salt Lake City Branch Board of Directors. He is a member of the National Association of State Universities and Land-Grant Colleges, the Western Athletic Conference and the Salt Lake City Chamber of Commerce. Gardner is also a director for Utah Power and Light Company. 



H. A. Rogers

He is on the Board of Directors of the Seattle Chamber of Commerce, the Seattle Goodwill Industries, and the American National Red Cross. Rogers is also a member of the Seattle Downtown Rotary. Active in banking affairs, his affiliations include the Reserve City Bankers Association and the American Bankers Association. He is a Past-President of the Seattle Clearing House Association. 

TWO FED OFFICERS RETIRE FROM SERVICE

Assistant Vice-Presidents Hal Erne and Richard Lambert retired this month from active service with the San Francisco Fed.




Erne, AVP-Bank and Public Services, served the Fed for 33 years at its Los Angeles Branch. He was responsible for public information and bank relations programs directed at improving communications between the Bank and outside groups, such as banking, business, academic groups and the general public.

He and his wife, Bette, are residents of Covina, California.



As AVP-Data Processing, Lambert had direct supervision of the Data Processing and Computer Operations at the San Francisco head office. He joined the Fed in 1952.

Lambert, his wife, Delores, and their children Lee Ann, Leslie and Lisa, are residents of Petaluma, California. 

FED FINDS CLEAN WAY TO BURN "DIRTY" MONEY

The Federal Reserve Bank of San Francisco will soon be incinerating, without a trace of air pollution, the \$3 million of "filthy" money it destroys on an average work day.

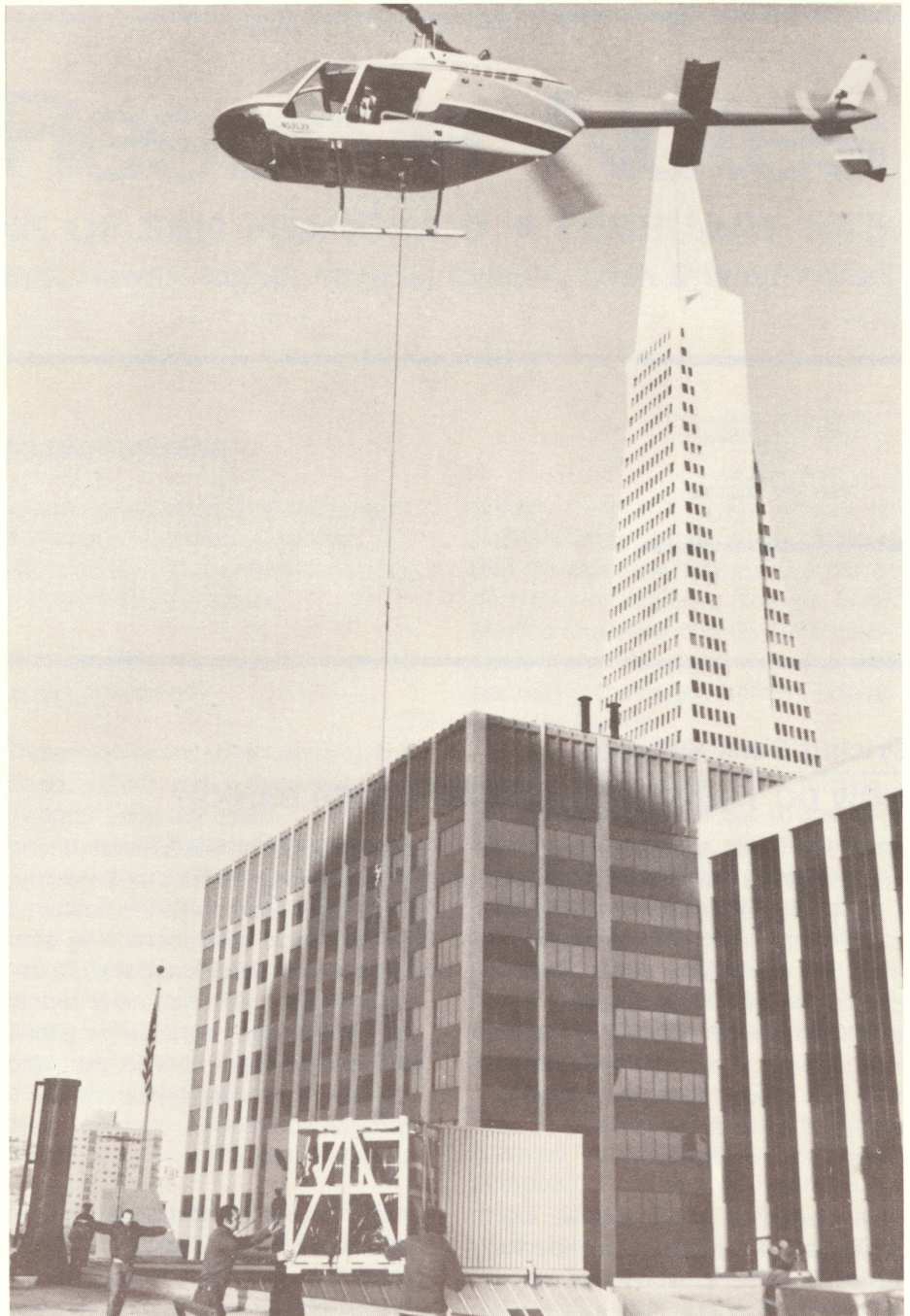
In December it began installing an electrostatic precipitator on the roof of its headquarters office in San Francisco's financial district. The precipitator is designed to trap over 90 percent of the particulate matter found in stack gases. Installation continued through January and was followed by exhaustive tests of the equipment.

"The precipitator appears to have resolved the periodic emission problems cited earlier by the Bay Area Air Pollution Control Board," Assistant Vice President Claude Woessner said. "This should enable us to carry out our duties as agent for the Treasury Department in an environmentally acceptable manner."

Each year the Fed destroys about \$800 million in currency at its San Francisco office. On the average, a \$1 bill lasts only about 18 months before it becomes "unfit" and must be withdrawn from circulation. Then, with tons of other denominations, the unfit currency must be totally destroyed under the close surveillance of the Fed.

An electrostatic precipitator is a filter that works like an electronic magnet. The precipitator utilizes static electricity to attract the bits of dust and unburned particles in stack gases. This residue is then collected from the filters and screens in the equipment.

San Francisco-based TEPCO/ Bar-Boy installed the precipitator and the related equipment for its operation and maintenance. Special blowers for the precipitator were flown in all the way from Chicago. To clean the filters and precipitator equipment, a 135-cubic-foot tank weighing nearly 4½ tons filled, was installed on the roof near the incinerator stack.



A helicopter was called into service to hoist the huge precipitator onto the roof of the Federal Reserve Bank.

For the future, the Reserve Bank will have to find ways of destroying an increasing volume of unfit currency, which may grow by 40 percent between now and 1980. The precipitator meanwhile should meet the San Francisco Fed's immediate requirements for a system that protects air quality, pending the installation of a new large-capacity controlled air incinerator.

"The Fed feels its responsibility to be a good corporate citizen very strongly," Woessner said. "We in-

tend to carry out these responsibilities in a pollution-free manner. Other Federal Reserve Banks throughout the nation are monitoring the progress of our efforts for this reason."

The unique challenge facing the San Francisco Fed was summed up by Woessner this way: "This bank is struggling with the problem of getting rid of what most people spend most of their waking hours trying to accumulate—money." 🏦

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HOW DO YOU STAND AGAINST OTHER BANKS?


A banker looks at his checking account service charges and wonders if they're adequately covering the costs for the rising volume of checks that his customers write. Service charge income is up too, but he's uncertain about whether his profit margin is large enough. It occurs to him that it would be invaluable to compare his operations with those of other banks of his size.

With the Fed's Functional Cost Analysis (FCA) program, this banker wouldn't have to speculate about comparative costs. His FCA report would give him a figure which shows service charge income as a percentage of checking account expense. This would indicate how he was doing relative to comparison banks, and relative to his own year-ago performance.

By most cost study standards, the system is very simple. Most of the information necessary to complete FCA schedules is already available in the bank's existing records. For most banks, data gathering would require from 5 to 20 man-days per year. But as data-collection procedures improve, this time should decline substantially.

FCA is a cooperative effort of the Federal Reserve Banks and member banks across the nation to sustain a uniform bank cost-accounting system. It helps individual banks to develop functional income-and-cost data, so that they can compare their performance from year to year and with other banks each year. FCA is a managerial, audit, training and budgetary tool.

Each FCA report provides comparative data for such functions as demand deposits, time deposits, non-deposit funds, investments, real-estate mortgage loans, instalment loans, credit-card loans, and the activities of trust departments, computer-service departments and non-banking departments. Each participating bank must provide only four or five completed schedules each year. This information generates a 30-to-40 page report containing 3,000 to 6,000 cost figures.

All figures are confidential. A participating bank's figures are never released to a third party in a form in which they can be identified. All data reaching banks and the public are thoroughly buried in averages with data from other banks. 

You can still participate in the San Francisco Fed's 1974 FCA program if you submit your schedule by February 28. For data received after the deadline, individual reports can be prepared. However comparative data will have to be manually selected.

Last year a record 942 banks participated in the study in the Twelve Federal Reserve Districts. Participating banks included 557 with deposits of up to \$50 million, 289 with deposits from \$50 million to \$200 million, and 96 banks with deposits over \$200 million.

For immediate information in California phone 415/397-1137, or from Arizona, Idaho, Nevada, Oregon, Utah and Washington use the Fed's toll-free lines 800/227-4133 or 4143. Ask for Paul Van Etten, Manager of Bank Services.

Schedules can be mailed to:

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P.O. Box 7702
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