

L.O.

Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • MARCH 1975

Serving Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah & Washington

Federal Reserve Bank of San Francisco

MAR 25 1975

LIBRARY

FED ANNUAL REPORT REVIEWS ROUGH YEAR

"One of the most difficult years in its entire history," is how the Annual Report of the Federal Reserve Bank of San Francisco summed up the 1974 experience of the nation — and of the nation's money manager.

In a joint prefatory statement, Chairman O. Meredith Wilson and President John J. Balles said that the nation was forced to deal last year with the thankless combination of an initial accelerating inflation and of decelerating activity late in the year — not to mention a seemingly insoluble energy crisis. Perhaps the economic troubles hit home hardest and most clearly in the job market. In the West, the average unemployment rate rose from 7.2 percent to 8.5 percent over the course of the year. And it promised to get worse. At year-end, 24 of the 34 metropolitan areas in the West were classified as areas of substantial or persistent unemployment.

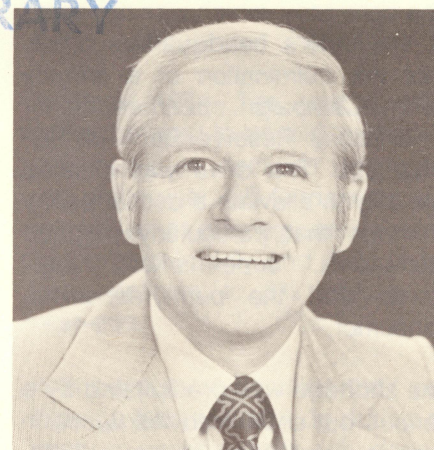
So it was a rough year in the San Francisco District, which encompasses the one-sixth of the national economy on the Western side of the Continental Divide.

"Personal income expanded about \$188 billion—a rise of about 10 percent," the report noted. "But as in the nation generally, the gain was outpaced by an 11-percent rise in consumer prices. Consumer buying (and consumer borrowing) increased at only about half the 1973 pace. This performance reflected

(continued on page 3)



H. A. Proctor



L. E. Cooney

TWO NEW DIRECTORS JOIN BRANCH BOARDS

Two new directors have been appointed to fill unexpired terms on the Boards of Directors of the Los Angeles and Seattle Branches.

Harvey A. Proctor, Chairman of the Board of Southern California Gas Company, was appointed by the Board of Governors of the Federal Reserve System to fill an unexpired one-year term on the Los Angeles Board ending December 31, 1975.

Proctor joined Southern California Gas Company in 1939. In 1971 he was named President and a year later Chairman of the Board. He is also Group Vice President, Oil and Gas, Pacific Lighting Corporation.

He is a fellow of the American Society of Mechanical Engineers, chairman of the Board of Trustees of the Institute of Gas Technology, director of the Los Angeles Chapter of AID, and member of the American Gas Association and of the Pacific Gas Association. He received a BS in mechanical engineering from the University of Colorado.

Lloyd E. Cooney, President and General Manager of KIRO-Radio and Television (Seattle), was appointed by the Federal Reserve Bank to fill an unexpired term on the Seattle Branch Board ending December 31, 1976.

Cooney is also a director of the Bonneville International Corporation, member of the Board of Trustees of the Washington State International Trade Fair and of the Downtown Seattle Development Association, board member of the Washington State Association of Broadcasters and of the Washington Council for International Trade.

He is active in civic affairs and among other duties serves as chairman of the Seattle-King County Convention and Visitors Bureau. Cooney graduated from the University of Utah with a BS degree in political science and has done graduate work in banking and finance at the University of Utah and in broadcast management at the Harvard Business School. 🏛️

DISTRICT-WIDE CAMPAIGN UNCOVERS FIVE MILLION HIDDEN PENNIES

President John J. Balles of the San Francisco Fed and Mrs. Mary Brooks, Director of the United States Mint, presented distinguished service awards last month to 17 bankers, business executives, school administrators and students who led the way in returning five million "hidden" pennies to circulation.

The ceremony, which was observed at the bank's headquarters office, was the culmination of a lengthy Penny Campaign spearheaded by the Federal Reserve Bank of San Francisco. The drive was initiated last July to alleviate a critical penny shortage that particularly plagued restaurants, supermarkets, retail stores—and the penny-conscious consumer.

The shortage was precipitated by a serious but short-lived disruption in copper production in early 1974, which triggered record prices on the world's metal exchanges as well as widespread hoarding by speculators. Further complicating the squeeze was the ingrained tendency of Americans to save and collect pennies in piggy banks, bottles and dresser drawers.

Faced with the magnitude of the shortage, the San Francisco Fed decided to gear up for an all-out campaign to bring missing pennies out of hiding. The Mint estimated that as many as 30 billion pennies nationwide had gone out of circulation.

With the assistance of thousands of banking offices and schools throughout the West, the Fed launched a public-service program asking young and old to bring their excess pennies to the nearest commercial bank. The media gave strong editorial support to the campaign and its slogan: "Pinching Pennies Doesn't Make Cents." Slowly but surely, the pennies began rolling in.

To pay tribute to the efforts of bankers, businessmen and students in

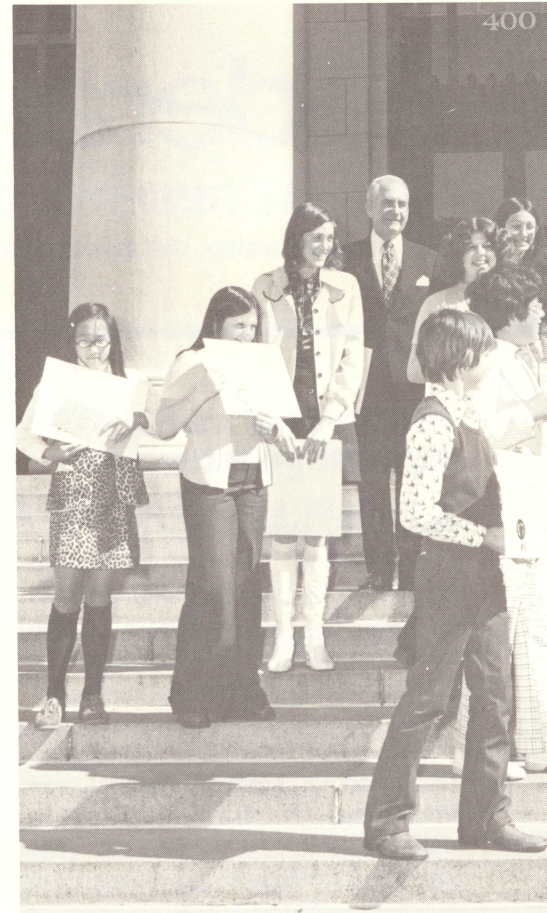
what the Director of the Mint termed "a unique and extraordinarily successful public service program," Mrs. Mary Brooks acted as feature speaker at the awards luncheon sponsored by the San Francisco Fed. Mrs. Brooks said the program represented "the kind of innovative effort other sections of the nation could even now benefit from, in dealing with a penny crunch that is still not completely alleviated."

According to Mrs. Brooks, the campaign conducted in the West could be easily adapted to other areas. The impact could well be a significant reduction in Mint expenditures for stamping out additional pennies that really are not needed.

"Over 60 billion pennies of identical design are already in existence," Mrs. Brooks said. "Recovering 15 billion 'hidden' pennies would save taxpayers \$150 million in production costs and would save almost two years of Mint production. Moreover, the nation would save an irreplaceable resource. In a year, penny production uses up about 33,000 tons of copper."

In presenting the awards, Mrs. Brooks paid tribute to those who made the effort to participate in a voluntary program for the public good. Robert K. Wilmoth, President of Crocker National Bank, received an award from the Director of the Mint in behalf of the bank's employees. Crocker organized the outstanding bank-employee campaign in the Twelfth Federal Reserve District. Its employees turned in nearly 600,000 pennies. The first-place winner in the Crocker campaign was Lee Kothny with 41,000 pennies. Linda Cillis, who turned in over 21,000 pennies, received the second place award.

Hibernia Bank recovered 600,000 pennies after organizing an advertising and marketing campaign directed at its customers. Michael Tobin, Executive Vice President, received an award for the most suc-



cessful customer-oriented program in California.

The award for the outstanding county-wide school campaign was presented to Dr. Richard Fickel, Superintendent of Schools for Santa Cruz County. Over 900,000 pennies were returned to circulation through the Santa Cruz County program.

The award for the outstanding individual school in California was presented to Bayside Middle School in San Mateo. Its students—consisting of sixth, seventh and eighth graders—scoured San Mateo and came up with 60,000 pennies. The top ten student contributors, Principal Daniel Heeke and Assistant Principal Russell Bayley were awarded citations from the United States Mint.


President Balles characterized the Penny Campaign as a "joint effort that underscores in very concrete terms and in convincing fashion how commercial bankers, the Fed, businessmen and students can work



together to accomplish programs in the public interest."

"The campaign was conducted throughout the West," Balles said, "and today we are paying tribute to those whose achievements were truly outstanding. But I also wish to express our gratitude to the thousands of others who willingly gave of their time to make our campaign a real success. They are anonymous but their contributions were invaluable and very real."

While California accounted for nearly half of the five million pennies rounded up during the campaign, other offices of the San Francisco Fed realized significant results in their areas.


Vice President Grant Holman, manager of the Salt Lake City Branch, elicited especially strong support from bankers and schools in Idaho, Utah and Nevada. The Salt Lake City Branch recovered almost two million pennies during the campaign. 

UTAH BANCORPORATION ACQUISITION APPROVED

The San Francisco Federal Reserve Bank announced approval this month for Utah Bancorporation of Salt Lake City to operate a new bank in Ogden, Utah. The new bank will be incorporated as Weber Valley Bank.

Utah Bancorporation is presently a one-bank holding company. Valley Bank and Trust Company, its exist-

ing subsidiary bank, operates 14 offices in Salt Lake County and has total deposits of approximately \$134 million. Utah Bancorporation is the sixth largest of 52 banking organizations in Utah.

The approval was granted by the San Francisco Fed under authority delegated by the Board of Governors of the Federal Reserve System. 

FED ANNUAL REPORT

(continued from page 1)

the severe slump in durable-goods purchases. Total retail sales rose about 6½ percent, but durable sales dropped 2 percent in response to plummeting new-car sales."

Despite the turbulent business and financial scene, Western banks expanded total credit to \$104 billion. Business loans dominated the statistics with a \$3-billion gain, and at year-end they constituted 35 percent of total loan portfolios.

Nevertheless, District banks tightened their lending practices in an effort to slow the expansion and reduce their loan-deposit and capital ratios. As these tightened policies took hold and as the recession deepened, the business lending pace slackened—at first modestly, and then quite steeply. Meanwhile, with the slump in the regional housing market, the mortgage-loan gain fell more than one-third below the business-loan gain after years of dominating regional lending activity.


Liability management came to the fore during the year as Western banks relied more heavily on this means of finding funds than on more traditional asset management. Total deposits rose more than 10½ percent in line with the national pace. Demand deposits rose modestly (about \$500 million), but time-and-savings deposits jumped more than \$9 billion.

Money costs to banks soared during

much of 1974. The cost of bank funds climbed to an all-time high in July and then declined during the rest of the year. CD funds were very expensive, as offering rates reached 12 percent in July and August before declining to 8¾ percent by year-end.

With consumers boosting their savings, as they normally do during recession periods, and with deposit rates again becoming competitive, banks should benefit from an improved inflow of relatively inexpensive savings deposits this year. Moreover, with business capital expenditures probably lagging, a larger pool of corporate funds could become available for investment in CDs. The recent sharp decline in the cost of funds, along with a lagged adjustment in the prime rate, could generate wider profit margins in coming months. But some banks could find their profits limited by a slowdown in loan expansion and by actual loan losses.

In summing up 1974, Wilson and Balles said the extraordinary events of the year placed intense pressures on the financial community. But banks generally handled this pressure remarkably well.

"The banking system performed very creditably in the face of these difficulties," they said. "Serious problems developed at a few banks, but that cannot dim the banking system's overall accomplishment in meeting the essential credit needs of consumers and businesses in this District." 

Phone (415) 397-1137.

San Francisco, California, 94120.
Federal Reserve Bank of San Francisco, P.O. Box 7702,
the Research Information Center, Federal Re-
servation is distributed to commercial banks by
Getz and produced by Karen Rusk. The pub-
lication is distributed to commercial banks by
Federal Reserve Notes is written by Ron

400 Sansome St., San Francisco, CA 94120
**Federal Reserve Bank
of San Francisco**

THIRD CLASS MAIL
U.S. POSTAGE
PAID
PERMIT NO. 752
SAN FRANCISCO, CALIF.

NEW DESCRIPTION OF FED SYSTEM

A completely rewritten edition of *The Federal Reserve System—Purposes and Functions* is now available through the offices of the San Francisco Fed. This publication has been called the “paperback bible” for Fed followers. It covers in seven concise chapters such essentials as monetary policy, the system’s structure, open-market operations, international finance, foreign-currency operations and bank regulatory and supervisory functions.

While primarily a handbook of policy tools, this sixth edition also includes descriptions of economic relationships, market structures and the theoretical underpinnings of central banking.

Single copies of *Purposes & Functions* are available at no charge through any office of the San Francisco Fed. For additional copies contact:

Publications Services
Division of Administrative Services
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

The price for additional copies is \$1 each or, for quantities of 10 or more sent to one address, 75 cents each.



BOOK ENTRY KEEPS ON EXPANDING

There was a time when if the Fed held securities for a bank, it did just that—that is, it held paper certificates in safekeeping. But in a society dominated by paper in the form of checks, reports, securities and countless other things, the Fed eventually decided to eliminate as much of the paper it could by substituting computer accounting entries for the actual paper certificates. The Fed calls this “book entry.”

A recent report by Federal Reserve Banks throughout the nation discloses that the Fed is continuing to make headway in converting marketable government securities held by member banks into book-entry form. By the end of 1974, nearly 70 percent of marketable Treasury securities outstanding had been converted into book-entry form—about \$188 billion out of a total of \$271 billion. Of the remaining \$83 billion of Treasury securities eligible for conversion, about \$76 billion of total marketable Treasury securities are held in bearer form and more than \$6 billion in registered form.

Obligations of other agencies—the Farm Credit Administration, the Farmers Home Administration, the

Federal Home Loan Banks, the Federal National Mortgage Association, the United States Postal Service, and now the new Federal Financing Bank—are also eligible for book-entry procedure. Thus, a total of \$17½ billion of the \$66 billion eligible had been converted as of last August. This is roughly 26 percent of the total.

Conversion to book-entry makes the government-securities market function much more efficiently. There is another highly important consideration. In a recent eight-month period, \$26 million in government securities was reported lost or stolen. And that’s something that can’t happen when you don’t have a paper certificate around to get misplaced.

BANKING TO GET IN ITS LICKS

A commemorative stamp honoring banking has been selected by the Postal Service for issuance at the time of the ABA Centennial Convention in October. The selection was made by an 11-member Citizens Stamp Advisory Committee which annually considers some 5,000 suggestions for commemorative stamps.