

# Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • SEPTEMBER 1975  
Serving Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah & Washington

## REGULATORY AGENCIES ACT ON PROBLEM BANKS

Federal regulatory agencies asked Congress earlier this month for a broad extension of authority to overcome problem-bank situations. In a letter to Congress, Federal Reserve Chairman Arthur Burns noted a number of recent instances in which supervised banks violated various provisions of law. "The violations in question were a type that could have an adverse effect on the safety or soundness of the banks, and no effective remedy has existed for such violations."

The proposed law would make it easier than under existing legislation to force out negligent bank administrators, and would force quicker compliance with cease-and-desist orders by allowing regulators to fine violators up to \$10,000 a day. Under existing (1966) legislation, agencies have the power to order a financial institution to cease a questionable practice, as well as the power to remove bank officers guilty of dishonest acts.

But in his letter to Congress, Chairman Burns noted that it is often difficult and time-consuming to prove that a suspect bank official has engaged in an act of personal dishonesty. "The present law thus effectively bars removal of individuals who have repeatedly demonstrated gross negligence in the operation or management of a bank, or a willful disregard for the safety and soundness of the bank, but who cannot be shown to have exhibited personal dishonesty."

Chairman Burns said that the agen-

## JENSEN APPOINTED TO SALT LAKE CITY BOARD

Mary K. Jensen, Chairman of the Board of the Idaho State Bank in Glens Ferry, Idaho, has been named a Director of the Salt Lake City Branch of the Federal Reserve Bank of San Francisco.

She is the first woman to be appointed a Director by the Salt Lake City Branch, and is among the first women directors in the entire Federal Reserve System. Mrs. Jensen will fill the unexpired term of Joseph Bianco, recently retired Boise banker.

"We look forward to working with Mrs. Jensen on the challenges that face banking," said Vice President Grant Holman, who is officer in charge of the Branch. "With her extensive experience, she will contribute substantially to the advancement of effective banking in our District."

Mrs. Jensen is the mother of five children, but has found time to be active in innumerable community organizations in addition to her banking activities. She has served on the

cies would use the fining authority selectively. In each case, the regulators would take into account the financial resources and good faith of the person or bank charged with a violation, as well as the gravity of the violation and the history of past violations. "We would hope that such a remedy would have to be used infrequently, if at all."

In addition to the fining and removal authority, the proposed legislation would extend regulations to prevent bank officials from using their posi-



**M. K. Jensen**

Glens Ferry School Board and the Girl Scouts of America Council, and was president of the county 4-H Council. Mrs. Jensen also manages the 12,000-acre Pitchfork Ranch at King Hill, Idaho. This year she was elevated to the Southern Idaho Livestock Hall of Fame, one of the first women to achieve this honor.

A graduate of the University of Idaho, Mrs. Jensen is a member of the American Bankers Association and the Idaho Bankers Association, and is a past-member of the legislative committee of the Idaho Bankers Association. 🏛️

tions to gain a business advantage, would permit use of cease-and-desist proceedings against bank officials even in cases where the bank is not named, and would give the Fed authority to order a bank holding company to divest a subsidiary.

The proposed problem-bank legislation was drafted jointly by the Federal Reserve Board of Governors, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency. 🏛️

## REPORT ON. . . THE NORTHERN BRANCHES

Last month *Federal Reserve Notes* took a look at the two branches serving the southern section of the Twelfth District—San Francisco and Los Angeles. This article turns northward to the other three branches, located in Portland, Salt Lake City and Seattle. Together these branches serve the entire states of Alaska, Idaho, Oregon, Utah and Washington, and part of Nevada. All branch operations are under the supervision of Senior Vice President Gerald R. Kelly.

When the Federal Reserve Bank of San Francisco first opened its doors in 1914, it was comprised of one lonely office with 21 employees to serve the vast stretches of the Twelfth District. To say its manpower and capabilities were spread rather thin is the highest form of hyperbole. After all, the nine states of the Twelfth District make up an area that is roughly one-fourth the land area of the United States.

It was not too surprising then that several branches were established fairly early in the Bank's operations. In 1917, offices were opened in Portland, Seattle and Spokane, and a year later in Salt Lake City. Paradoxically, the first branch to open (Spokane) was also the only one ever to be closed. In 1936, because of economic reasons and shifting demographic patterns, its operations were transferred to Seattle and Portland.

The Portland branch operated in rented quarters until 1951, when it moved into a four-story office complex on Stark Street. Vice President Angelo Carella was recently named officer in charge, replacing Vice President William M. Brown, who retired after a career spanning almost 40 years. Reporting to Carella are Assistant Vice President H. William Pennington, who is responsible for Analysis and Control (including Budget and Expenditures, Central Adjustments, Data Processing and Personnel); Maynard C. Peterson, Assistant

Vice President—Administrative Services; and M. Timothy Carr, Operations Officer.

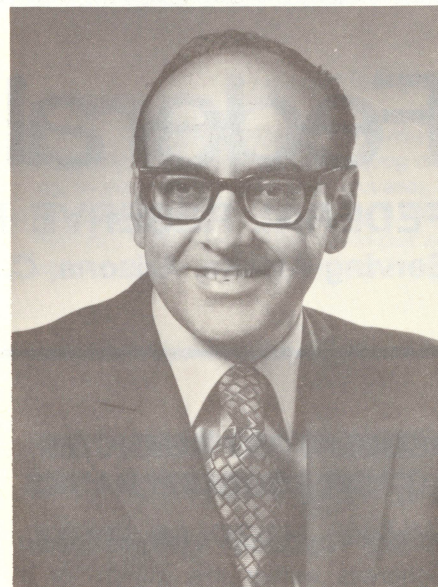
The Portland branch serves over 500 commercial banking offices and a population of more than 2½ million. Its service area encompasses the 10 northernmost counties in Idaho, 10 southern counties in Washington and all of Oregon.

As the central banker for this vast area, the 172 employees of the Portland branch carry out an extensive range of services. In 1974 the branch sorted over \$375 million fit and unfit Federal Reserve notes, sorted and counted nearly \$13 million in coin, processed 130 million checks representing nearly \$30 billion, issued, exchanged and redeemed about \$1½ billion in government securities and electronically transferred over \$125 billion in funds.

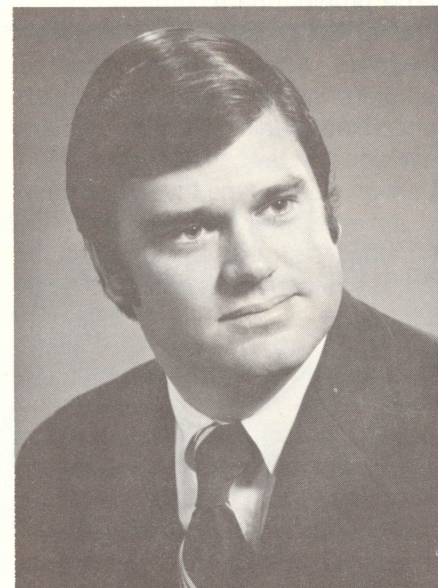
Carella, who formerly served in a number of headquarters positions, recently said, "One of the most striking transitions in shifting from a department officer to the officer in charge of a branch is the need to adopt a much larger view. The branch's foremost consideration must be to act in the public interest, even when such a decision means taking on a heavier workload or temporarily inconveniencing an operating department."

Like Portland, the Seattle branch has been serving the Northwest for 58 years. Since 1951 it has had its own six-story building in the heart of the city. The Seattle branch serves some 805 commercial banking offices and a population of more than 3½ million.

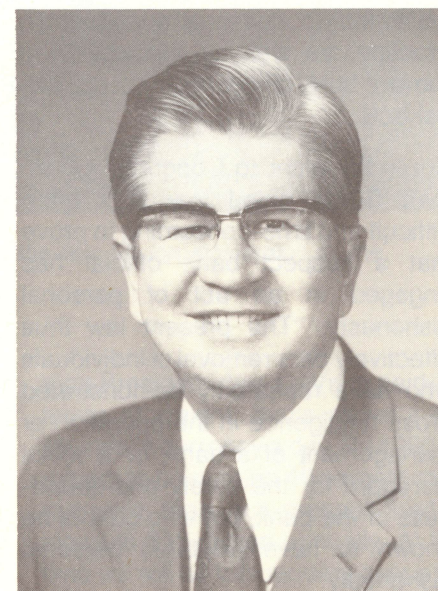
Vice President James J. Curran is in charge of the branch. He was recently appointed to replace Paul W. Cavan, who retired after a career with the Fed spanning 46 years. Curran oversees a staff of 194 that services what he calls one of the "most innovative and progressive banking regions in the nation. The branch covers Alaska and most of Washington. In the rugged



**A. S. Carella**



**J. J. Curran**



**A. G. Holman**

reaches of these two states bankers have to be acclimated to a very competitive environment."

Curran's team of officers includes Assistant Vice President Parker R. Smith, in charge of Administrative Services; Assistant Vice President E. Ronald Liggett, who heads Operations; and Analysis and Control Officer A. Richard Tidwell.

Last year the Seattle branch sorted and counted over \$617 million in currency and \$16 million in coin, processed over 150 million checks representing \$45 billion, issued, exchanged and redeemed nearly \$19 billion in government securities, and electronically transferred over \$480 billion.

In summing up the magnitude of operations in the Seattle Branch, Curran said the challenge is to dedicate branch resources to a commitment of providing services when and where they're needed. "After all," Curran emphasized, "you could comfortably fit some entire Federal Reserve Districts into our territory—with room to spare."

When it comes to breadth of operations, Salt Lake City operations are equally striking. The branch covers a land area of over 180,000 square miles, or more than the total Eastern seaboard from Maine to Virginia, which cuts across four Federal Reserve Districts. The branch encompasses 34 counties in Idaho, three counties in Nevada and all of Utah. In this territory are some 433 banking offices and a total population of about 2 million.

However, operations began inauspiciously enough, as Vice President A. Grant Holman, officer in charge of the branch, recounts. "The Salt Lake City branch was first housed in a secluded area on the second floor of a leased building," Holman said. "Two officers were sent from San Francisco in 1918 to organize the branch, and with the help of an initial staff of 16 clerks operations commenced with resources of close to \$5 million."


As the area expanded and prospered, the Fed grew too to keep pace with the quickened pace of business. The relentless demand for more space forced the branch to relocate several times, but it finally found a permanent home in 1958 with the completion of a four-story stronghold in downtown Salt Lake City. There are now 152 employees in this operation.

Reporting to Holman are Assistant Vice President of Analysis and Control, H. Peter Franzel; Assistant Vice President Don W. Sheets, who is in charge of Administrative Services; and Operations Officer J.W. Williams, Jr.

"One measure of our sharply expanded workload has been the stepped-up activity in check collections," Holman said. "In 1973 this branch processed about 80 million checks approximating about \$20 billion in funds. Last year we processed close to 130 million, and the total value of checks processed doubled to nearly \$43 billion."

In addition, the branch in 1974 sorted and counted about \$13 million in coins and \$340 million in currency, and issued, exchanged and redeemed \$700 million in government securities. During the same period it transferred over \$94 billion via the Federal Reserve's wire network.

What is Holman looking forward to in the future?

"The major challenge stems from the resurgence of a strong and vigorous economy," Holman said. "We expect a relatively large influx of both people and industry to our area, especially in view of the nation's vast energy and mineral-resource requirements. For commercial bankers and the Fed the implications are clear. We must stand ready with a robust financial infrastructure, so that our economy can transform billions of dollars of capital into vitally needed raw materials, products and services." 

## FED APPROVES BILL-PAYING SERVICE


Beginning this month, member banks are empowered to offer a bill-paying service to their customers through the preauthorized transfer of funds from savings accounts.

Member banks are permitted to make third-party payments for their customers on all types of transactions except bank overdrafts. Previously the only allowable bill-paying service related to payment on the principal, interest or other charges for real-estate loans. The new authorization amends the Fed's Regulation Q governing the payment of interest on deposits to give member banks broad authority to design and offer bill-paying services.

In most cases, such a service may be based upon a written contract between the bank and the depositor. The transfer may be accomplished by means of an internal bank transaction or by means of a bank check sent to the creditor or his bank. The depositor gives the bank the names of those organizations or individuals to whom funds are to be transferred, indicating either the specific amount or the maximum amount to be paid, as well as the frequency of payment.

Subsequent additions to the "bill-paying list" or changes in instructions could be communicated to the bank in person, in writing or by telephone.

The Board emphasized that member banks may apply their own innovative approaches in devising bill-paying services, as long as the plans are within System guidelines. However the System will monitor the development of such services, and additional regulations and guidelines may be issued at some future time. Member banks were advised to maintain data on accounts subject to third-party payment authorizations in a form that would permit such deposits to be readily identifiable.

The Federal Deposit Insurance Corporation has proposed similar changes in regulations applying to banks under its jurisdiction. 

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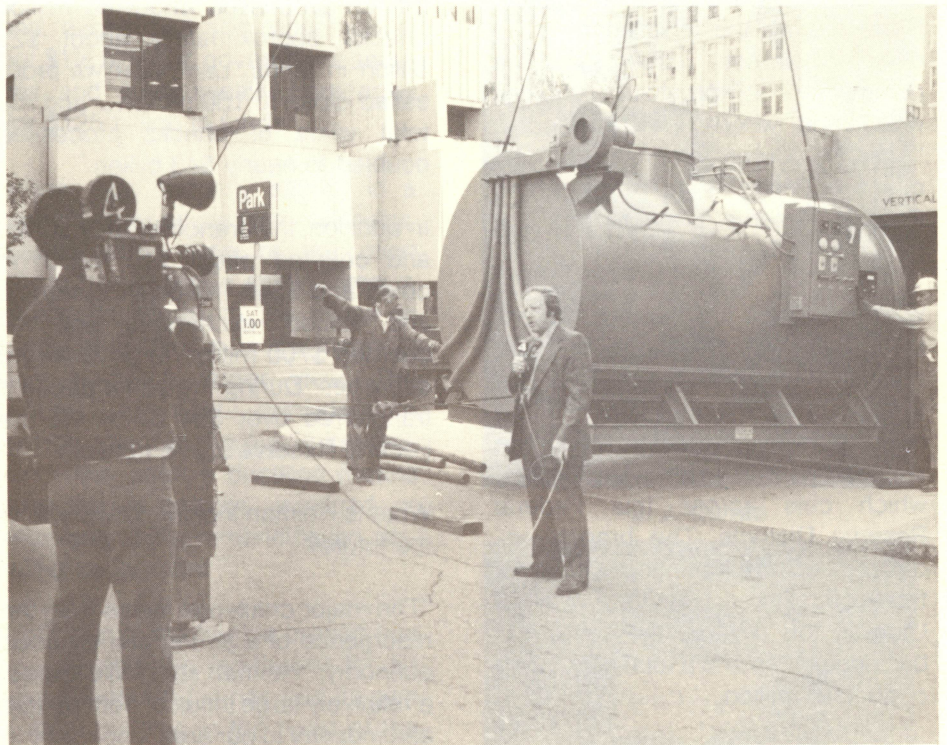
## Federal Reserve Bank Of San Francisco

### SMOKELESS INCINERATOR BURNS MILLIONS

A new destruction facility that turns about \$3 million of unfit currency into ashes on an average working day is now in operation at the Fed's San Francisco office. The facility is designed to help the Bank burn worn-out currency in an environmentally acceptable manner and at extremely high volume rates.

The heart of the facility is a 20-ton incinerator about two-stories high. The gas-fed incinerator has a rated capacity of nearly 700 pounds an hour for Type O Waste. Currency is categorized as Type O waste, which puts it in the same class with such proletarian items as paper, cardboard and cartons.

The Fed receives currency from the Treasury Department's Bureau of Engraving and Printing in Washington, D.C. Currency is injected into the marketplace through the commercial banking system by the Fed to meet the demands of businessmen, commercial enterprises and the general public. Like everything else, money wears out or becomes "unfit" in the terminology of the nation's money manager. On the average, a \$1 bill



An NBC-TV team is shown taping a report on the new 20-ton incinerator as the construction crew lowers it into place.

lasts only about 18 months before it becomes unfit. This unfit currency is withdrawn from circulation when it is returned to the Fed by commercial banks, and it is then totally destroyed under strict surveillance procedures.

"In 1975 this office may destroy close to \$1 billion in unfit currency," Senior

Vice President Wes DeVries said. "In terms of weight, that's about 1,400 pounds of currency a day. By 1980 we expect to be burning 40 percent more currency than our present load or close to \$1½ billion annually. At that time we will be incinerating over a ton of currency a day." 🗑️