FED BANK WIDENS
SCOPE OF OPERATIONS

The Federal Reserve Bank of San Francisco during 1977 provided an expanded package of central-banking services—such as checks, coin, currency, fiscal and electronic funds transfers—for a regional economy which continued to grow faster than the rest of the nation. The Twelfth District, with its five locations in San Francisco, Los Angeles, Portland, Salt Lake City and Seattle, is the largest Federal Reserve District in terms of both population and geographic size. It includes the states of Alaska, Arizona, California, Hawaii (with Guam and Samoa), Idaho, Nevada, Oregon, Utah and Washington, with 34 million people as well as 541 banks and 6,808 banking offices.

During the year, 3 new state member banks, 3 national banks, 27 state non-member banks, and 1 trust company were organized in the District. The number of Federal Reserve member banks increased from 144 to 148 banks, and the number of member-bank offices increased 2 percent to 4,976 offices. This Bank thus registered a net gain in membership in the face of an unfavorable national trend. In this connection, the Bank’s directors played an important role in developing new solutions for the membership problem through the formation of a special directors’ Committee on System Membership. The Committee initiated a comprehensive opinion survey of District member banks, which addressed such key issues as NOW accounts, interest payments on reserves, and the quality of Federal Reserve Bank services.

The number of bank holding companies supervised by the San Francisco Reserve Bank increased, from 71 to 74, over the course of the year. The Bank’s staff analyzed 160 applications to initiate or expand holding-company activities—up from 107 the previous year. The Federal Reserve continued its policy of permitting orderly growth of holding companies by approving applications which will permit soundly financed expansion of financial services, while improving competition and meeting the needs of the public. To strengthen its supervision of bank holding companies and their subsidiaries, the Reserve Bank began conducting annual inspections of all such companies registered in the District, and provided holding company managements with formal reports of the conditions found in these examinations. The Board of Governors subsequently has extended the essential features of this approach to holding company supervision nationwide for larger bank holding companies and/or their credit-granting subsidiaries.

The Reserve Bank discharged its international responsibilities by supervising both the international divisions of state-chartered member banks and the 23 Edge Act Corporations located in the District. (An Edge corporation is a bank or holding-company subsidiary which is authorized to engage in foreign-banking activities from an office located outside the state in which its parent is located.) The Bank’s staff analyzed and processed 45 applications involving new or expanded overseas operations by entities under its supervision. Bank examiners conducted examinations in Europe of one branch office and several subsidiaries of member banks and Edge Act corporations. Staff members also participated in a pilot program, under the System Committee on Foreign Lending, designed to test a proposed new approach for evaluating foreign credits.

The Bank’s Financial Analysis Unit continued to monitor current bank and holding-company developments between on-site examinations, as a means of detecting deteriorating trends and problems at an early stage. To facilitate this activity, the Bank implemented a computer-based surveillance system during the first quarter of 1977. This system was designed to utilize current data reports which the Reserve Bank collects for a variety of other purposes, and it proved capable of rapidly screening these data for evidence of problem situations. The early identification of the need for a complete yet flexible system of this type permitted this Reserve Bank to respond immediately when the Board of Governors mandated the development and implementation of a System-wide “minimal surveillance system.”

The Bank’s Consumer Affairs Unit dramatically increased its scope of operations during 1977, largely in response to a new program instituted by the Board of Governors to achieve broad-based compliance with consumer-protection statutes and regulations throughout the banking industry. Consequently, the Unit added a team of specially trained examiners to conduct consumer-compliance examinations of all state member banks, and in addition, it offered an educational and advisory service to all member banks in the District. The advisory service, provided on site and tailored to each individual bank’s needs, ranges from a brief meeting with commercial-bank personnel to a complete review of a bank’s forms, policies, instruction manuals and other materials affected by consumer-banking laws and regulations.

Following a revision of Regulation B (Equal Credit Opportunity) and an (continued on page 2)
amendment to Regulation Z implementing the Consumer Leasing Act, the Consumer Affairs Unit conducted seminars on the new regulations in all major Western cities. The Unit handled nearly 500 consumer complaints against commercial banks and also responded to over 1,500 inquiries concerning various facets of the consumer-credit laws and regulations.

In its internal operations, the Bank implemented a Planning and Control System (PACS) at the beginning of 1977 to provide an improved approach to budgeting and expense reporting. This accounting system, which was introduced concurrently throughout the entire Federal Reserve System, established a service structure for classification of budgeted and actual expenses. It also introduced the concept of full-costing as well as improved measures of bank performance. At the same time, the Bank installed a revised responsibility accounting and budgeting system, designed to improve accountability for results and reduce the clerical effort below what was required under the former accounting system.

The Computer Services Group, in accordance with its long-range (1977–81) automation plan, adopted the previous year, reorganized the delivery of automation services within the entire San Francisco District. All computers throughout the District were standardized to stabilize hardware costs and to provide commonality between branch offices, which will allow for standardizing current branch computer programs until they are replaced with the centralized systems now being developed. The cornerstone of the long-range automation plan is the centralization of major systems at the San Francisco Data Center, with service to the branches via teleprocessing facilities. Although only in the second year of the plan, efforts to date have been very successful and implemented in a timely manner.

In check-processing activities, Bank staff handled over 1.3 billion paper checks during the year. This represented a sharp increase of 11 percent in commercial-check deposits. The increase was much higher than experienced elsewhere in the country, and resulted mainly from improvements in transportation arrangements and a shift in the use of correspondent-banking channels. Almost all of the checks flowed through the Bank’s network of check-processing centers, which make possible one-day check clearing as well as lower check-handling costs for commercial banks. Check performance benefited considerably from the Bank’s installation of the most advanced computer-software systems and “reader/sorter” machines, which are computer-driven document processors for handling checks. The Bank also made plans to reduce costs by “truncating” Treasury checks; that is, by shipping magnetic tapes and microfilm copies of checks, instead of the original paper checks in bulk, to the Treasury computer-operations center.

In electronic payments activities, District member banks settled $6.3 trillion through the Federal Reserve wire-transfer system—a 16 percent increase over 1976. The Bank instituted a new computer-interface facility which enables member banks to connect their computers directly to this nationwide Fed Wire network. By providing this direct link, the Federal Reserve made it possible for banks to conduct increasingly sophisticated cash-management systems for themselves and their customers. In automated clearinghouse (ACH) activities, District banks cleared 2.2 million commercial items and 15.2 million government items during the year. The number of government items almost quadrupled, reflecting the expansion of the direct deposit of checks (such as social-security checks) under various Federal recurring-payment programs. Despite the increase in the use of checks and electronic transfers, the Bank continued to handle massive amounts of coin and currency, receiving and counting 1.8 billion coins and 1.1 billion pieces of currency during the year.

In its role as fiscal agent for the U.S. government, the Reserve Bank continued to handle substantial amounts of paper— in the form of savings bonds, marketable Treasury securities, and food stamps—while achieving new efficiencies through computer handling of securities. The Federal Reserve and the Treasury Department collaborated during the year to introduce a “book entry” system for Treasury bills. Under this system, Treasury securities are recorded in the accounts of banks or other financial institutions acting as custodians for investors. Instead of an engraved certificate, the purchaser receives a receipt as evidence of purchase.

The Bank’s various offices made notable progress in 1977 in a number of different areas. For example, Los Angeles, Portland and Seattle installed new check systems during the year, and Seattle and Salt Lake City brought new automated clearinghouse operations on stream. Indeed, this District has taken a position of leadership in interconnecting regional ACHs. The San Francisco branch has coordinated the Interregional Pilot Program which switches ACH items between territories.

Salt Lake City was especially successful in bringing new member banks into the System, with four banks now adopting membership. And the Portland office achieved nationwide publicity with its success in persuading large retail chains and supermarkets to increase utilization of the two-dollar bill in making change.
Head Office Board of Directors remains unchanged with nine members.

The Los Angeles Board in 1978 will be headed by Caroline Leonetti Ahmanson—the first woman to serve as a board chairman in the Twelfth District. Mrs. Ahmanson is Chairman of the Board of Caroline Leonetti Ltd., Hollywood, California. Loran L. Stewart was redesignated Chairman of the Portland Board of Directors. Stewart is a Director of Bohemia, Inc., of Eugene, Oregon. At the Salt Lake City Branch, Sam H. Bennion was redesignated Chairman. He is President and Chief Executive Officer of V-1 Oil Company, Inc., Idaho Falls, Idaho. Lloyd E. Cooney was redesignated Chairman of the Seattle Board of Directors. Cooney is President and General Manager of KIRO Radio and Television in Seattle. All of these one-year designations were effective on January 1, 1978.

Three director appointments were made at the Los Angeles Branch. Mrs. Ahmanson was reappointed to a full term as a director. Two new directors were also named. They are James D. McMahon, President of Santa Clarita National Bank, Newhall, California; and Fern Jellison, General Manager of the Social Service Department of the City of Los Angeles.

In Portland, four director appointments were announced. Chairman Stewart was reappointed as a director along with Kenneth Smith, General Manager of the Confederated Tribes of Warm Springs, Oregon. The two new directors at the Branch are Merle G. Bryan, President of Forest Grove National Bank, Forest Grove, Oregon; and Phillip W. Schneider, Northwest Regional Executive of the National Wildlife Federation, Portland, Oregon.

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SALT LAKE CITY announced four director appointments. Mary S. Jensen, Chairman of the Board of Idaho State Bank, Glens Ferry, Idaho, was reappointed. The three new directors are Robert A. Erkins, White Arrow Ranch, Bliss, Idaho; Fred H. Stringham, President of Valley Bank and Trust Company, South Salt Lake, Utah; and Joseph L. Terteling, Chief Executive Officer of J.A. Terteling & Sons, Inc., Boise, Idaho.

Four director appointments were also made at the Seattle Branch. Rufus C. Smith, Chairman of the Board of the First National Bank of Enumclaw, Enumclaw, Washington, was reappointed. The new directors are Merle Adlum, President of the Inlandboatmen's Union of the Pacific, Seattle, Washington; Donald L. Mellish, Chairman of the Board of National Bank of Alaska, Anchorage, Alaska; and Virginia L. Parks, Vice President of Business and Finance, Seattle University, Seattle, Washington.

At this and other Reserve Banks, the boards of 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.

* CONDITION & INCOME REPORTS. Late last year the Federal banking supervisory agencies asked for comment on proposals to revise the Reports of Condition and Income. The proposals were designed to obtain additional financial data from banks with foreign offices and banks with more than $300 million in assets, and were due to become effective with the March 31, 1978, reports. Because more time is needed to evaluate the comments made by banks, the target date for reporting changes has been postponed. A new date for implementation will be announced in the near future.

* CREDIT AMENDMENT. All banks in the Twelfth District have received a proposed revision of Regulation A (Extinctions of Credit by Federal Reserve Banks). The revision involves the eligibility of bankers' acceptances for discount by Federal Reserve Banks. Specifically, the proposal would make bankers' acceptances secured by field-warehouse receipts eligible for discount and as collateral for loans to member banks. Additional information can be obtained by calling the Credit Unit at the bank's San Francisco office: (415) 544-2330.

* INTEREST RATE AMENDMENT. A booklet explaining recent changes in Regulation Q (Interest on Deposits) is available from the Supply Department at any of the bank's branches.

* SUMMARIES OF KEY FED DEVELOPMENTS

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