Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • JANUARY 1979

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SAN FRANCISCO RESERVE BANK WIDENS SCOPE OF OPERATIONS IN 1978

During 1978, the Federal Reserve Bank of San Francisco provided expanded central-banking services, in the areas of checks, coin, currency, fiscal agency, and electronic funds transfers, for a regional economy which continued to grow faster than the rest of the nation. The Twelfth District, which contains five Reserve Bank offices — 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, Idaho, Nevada, Oregon, Utah and Washington, plus the territories of Guam and American Samoa — and serves 35 million people and 522 banks with a total of 6,457 banking offices.

Declining membership became a problem for the San Francisco Reserve Bank, and for the Federal Reserve System generally. In this District, six state-chartered banks became members, and nine banks went off the membership rolls, mostly because of mergers with other banks. The System nationwide experienced a net loss of more than 50 member banks during the year. As these numbers suggest, it has become increasingly difficult to maintain membership with the existing system of reserve requirements.

In the area of supervision and regulation, the Reserve Bank prepared to take on the new responsibilities which were conferred by the International Banking Act of 1978. The legislation extended Federal control over the branches and agencies of foreign banks operating in this country, and over foreign-bank controlled commercial-lending companies that are engaged in banking activities. Also in the international area, the Reserve Bank made a statistical early-warning system an integral part of its bank-examination procedures, as a means of identifying potential defaults or rescheduling of external debt in countries where District banks have committed substantial financial assets.

The examination staff completed annual on-site inspections of selected domestic bank holding companies and their nonbank subsidiaries. Every effort was made in each case to schedule the Federal Reserve's inspection of the holding company concurrent with the examination of a subsidiary bank or banks. This policy minimizes examination costs for related institutions undergoing examination, and provides a useful division of labor among regulatory agencies in cases where the Federal Reserve is not the primary regulator of the subsidiary bank.

The consumer-affairs staff conducted examinations at all state-member banks, and also at many of their branches, as part of a System-wide program designed to achieve broad-based compliance with consumer-protection laws and regulations. In addition, the staff offered all member banks the services of

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FED ACTS ON REMOTE DISBURSEMENT

The Federal Reserve Board of Governors this month announced a course of action intended to discourage abuses of the check-collection system arising from remote-disbursement practices. At the same time, the Board sent to Congress a status report on Federal Reserve efforts to eliminate the practice.

Remote disbursement involves arrangements between a bank and a customer (frequently a corporation) designed expressly to delay payment of the customer's checks. Under such an arrangement, a bank customer making most of its payments in (for example) Pennsylvania might make payments by checks drawn on a bank in (say) Oregon. Recipients of these checks could suffer a delay in receiving credit in their accounts.

The Board said that remote disbursement could expose both the bank involved and recipients of the remotely disbursed payments to risks of loss during the deliberately prolonged clearing time. In addition, consumers and small businesses, who may not be in a position to negotiate better payment terms, could be denied prompt access to funds due to them.

The Board added that remote disbursement could result in unsafe or unsound banking practices if the customer's funds at the remote disbursing bank are not sufficient to cover the customer's checks — that is, if settlement procedures between the customer and the bank

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BANK OPERATIONS

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specially trained examiners for on-site educational and advisory work in this field. The Reserve Bank received about 500 individual consumer complaints againt commercial banks, and processed more than 100 such complaints which were related to institutions for which it is the primary supervisor.

During 1978, the Bank restructured responsibilities within its San Francisco Office, primarily by forming a Bank Operations Division under Senior Vice President Griffith. The new division encompasses three functions — custody, payments and computer services. This organizational alignment complements the recent formation of District committees for each major operating activity, with representation from each office. Senior officers in San Francisco who have accountability for these major activities provide District-level coordination. The senior officers of the Bank Operations Division also have day-to-day responsibilities at the San Francisco office. Consequently, the Bank now has a central focus of accountability for each major District operation.

The Computer Services Group moved into the second phase of a five-year automation plan, installing essential hardware and software components in accordance with the Bank's basic strategy of centralized on-line processing. Moreover, 1978 saw the beginning of a number of major system-development efforts, which should greatly increase the Bank's level of automation into the 1980's. These efforts, among others, encompassed the Treasury tax-and-loan system, the savings-bond issuing system, the publications mailing list, and the securities-transfer facility.

In check-processing activities, Bank staff handled about 1.4 billion paper checks during the year — a substantial 6-percent increase. This District continued to lead the System in the cost effectiveness of check processing. In addition, this Bank significantly improved the quality of operations, reducing internal errors and delays in processing.

In one major move, the Bank implemented the Treasury-mandated government-check truncation program. ("Truncation" involves shipping magnetic tapes and microfilm copies of checks, instead of the original paper checks in bulk, to the Treasury computer-operations center.) This was a massive undertaking, since this District processes the largest volume of government checks in the System — 134 million in 1978.

In electronic payments activities, District member banks settled $7.9 trillion through the Federal Reserve's wire-transfer system — a sharp 25-percent increase over 1977. In addition, the San Francisco District continued to lead the rest of the country as the largest processor of electronic automated-clearinghouse items. This facility replaces checks and permits automatic payroll deposits as well as bill paying.

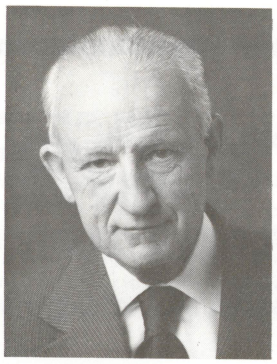
In a major step forward, this Bank and other Reserve Banks participated in the development of a nationwide network which links up some 9,400 banks and 1,500 thrift institutions that currently are members of automated clearinghouse (ACH) associations, along with some 6,000 customer corporations. The 35 ACH's now in operation — one private and the rest Federal Reserve facilities — consist of computers which clear and sort payments instructions recorded on magnetic tapes. The new system requires no new facilities, but instead makes intensified use of existing Federal Reserve computers and wires.

Despite the increase in the use of checks and electronic transfers, the Reserve Bank continued to handle massive amounts of coin and currency, receiving and counting 2.0 billion coins and 1.0 billion pieces of currency during the year. The Bank instituted several major efficiencies in the cash activity during the year. Under one new program, commercial banks deposit excess fit currency in sealed plastic bags, so that the currency then can be paid without the need for Reserve Bank verification and sorting. Under a second program, the Mint now delivers large shipments of coin directly to ordering commercial banks, making it unnecessary for the Reserve Bank to participate in the actual physical shipments and in many cases significantly shortening transportation routes.

The Bank also implemented a cash-management program, which provides for transferring excess fit currency of particular denominations, or excess amounts of unverified currency, from offices with surpluses to offices with shortages. These measures permit maximum use of currency-sorting resources on a District-wide basis, and also help reduce backlogs of unverified currency at all offices.

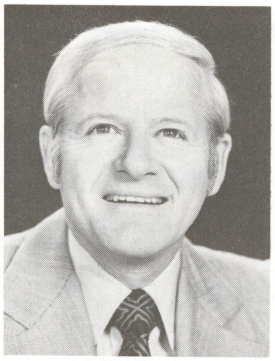
In its role as fiscal agent for the U.S. government, the Reserve Bank continued to handle substantial amounts of paper — in the form of savings bonds, marketable Treasury securities, and food stamps — while achieving new efficiencies through computer handling of securities. During the year, the Bank introduced a program which, through statistical-sampling techniques, permitted substantial efficiencies in the processing of food coupons.

In addition, the Bank implemented the new Treasury-mandated tax-and-loan investment program, whereby the Treasury earns interest by investing its operating cash balances, while paying fees for certain services which it formerly received free from financial institutions. The Bank was also designated the lead bank, on a joint computer resource-sharing project with the Kansas City and St. Louis Districts, to develop a major new computerized system to handle the increasing volume of government-security purchases, sales, transfers and account holdings.



W. J. Ashton

C. L. Ahmanson

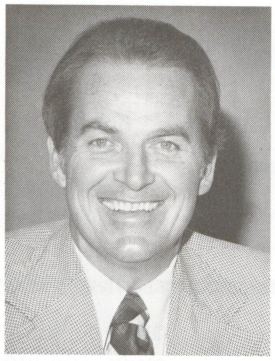


L. E. Cooney

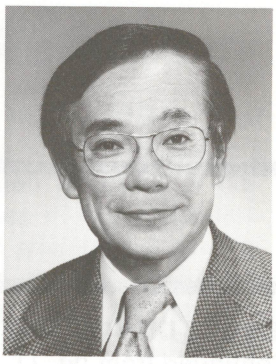
L. L. Stewart

C. M. Berry

J. W. Gustavel



H. J. Mitchell



T. W. Tanaka

BRANCH CHAIRMEN, DIRECTORS NAMED

The Head Office Board of Directors of the Federal Reserve Bank of San Francisco this month named the 1979 chairmen of the boards of directors of the Bank's branches in Los Angeles, Portland, Salt Lake City and Seattle. The Federal Reserve Board of Governors and the San Francisco Board also named a total of five new directors at the various offices.

The Salt Lake City Board in 1979 will be headed by a new director, Wendell J. Ashton. He is publisher of Salt Lake City's *Deseret News*, the largest evening newspaper in the Mountain West. A graduate of the University of Utah, Ashton has received awards in a number of fields, including the Silver Medal (1967) of Printers' Ink and the American Advertising Federation. Among other affiliations, he is President of the Salt Lake Area Chamber of Commerce, President of the Utah Symphony Board, and Vice Chairman of the Utah Bicentennial Commission.

The Los Angeles Board in 1979 will again be headed by Caroline Leonetti Ahmanson — the first woman to serve as a board chairman in the Twelfth Federal Reserve District. Mrs. Ahmanson is Chairman of the Board of Caroline Leonetti Ltd., Hollywood, California. The other reappointed chairmen are Lloyd E. Cooney at Seattle and Loran L. Stewart at Portland. Cooney is President and General Manager of KIRO Radio and Television in Seattle. Stewart is a Director of Bohemia, Inc., of Eugene, Oregon.

At Seattle, one new appointment was made — C.M. Berry, President of Seattle-First National Bank and of its holding company, Seafirst Corporation. Berry is a graduate of Harvard Business School's Advanced Management Program. He is associated — as a director, trustee or advisor — with the Seattle Chamber of Commerce, the Washington State Council on International Trade, the Downtown Seattle Development Association, the Pacific Legal Foundation, the University of Puget Sound, and other civic groups.

The Portland Board includes one new appointee — Jack W. Gustavel, President of the First National Bank of North Idaho (Coeur d'Alene). Gustavel is a graduate of the University of Idaho and of the Pacific Coast Banking School. Among other affiliations, he was a member (1976-77) of the Regional Advisory Committee to the Comptroller of the Currency for the Thirteenth National Bank Region.

Two new director appointments were made at Los Angeles — Harvey J. Mitchell, President of the First National Bank of San Diego County (Escondido), and Togo W. Tanaka, President of Gramercy Enterprises, (Los Angeles). Mitchell is a graduate of Long Beach City College. He is a Past President and Director of the Escondido Chamber of Commerce, as well as a member of the Corporate Finance Council of San Diego. In 1978, he was Vice President of the Independent Bankers Association of Southern California. Tanaka, a graduate of the University of California at Los Angeles, has had a long career in publishing, and is now engaged in commercial leasing and real-estate management through Gramercy Enterprises. He is a member of the Community Redevelopment Agency City Commission, and also of the Industrial Editors Association, the Western Publication Association,

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REMOTE DISBURSEMENT

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are not on an "immediate funds" or "collected balance" basis. This would result in unsecured extensions of credit by the bank to the customer. Such extensions of credit might not be warranted as a matter of loan policy. In the case of small banks, such loans might exceed the legal limit for lending to any one customer.

In its policy statement, the Board said, "The banking industry has a public responsibility not to design, offer, promote or otherwise encourage the use of a service expressly intended to delay final settlement and which exposes payment recipients to greater than ordinary risks. The Board is calling on the nation's banks to join in the effort to eliminate remote disbursement practices intended to obtain extended float."

The Board added that it has no intention to discourage corporate disbursement arrangements with banks that provide for improved control over daily cash requirements, provided that these arrangements do not result in the undesirable effects noted above. "Banks should provide the cash management services needed by their customers through the use of payments methods that facilitate prompt funds availability to payment recipients and that protect banks from unnecessary risk."

The Fed adopted a four-point action plan "to provide incentives to banks to design and use payment methods that are in keeping with the public interest." The first step involves direct telephone or personal contacts between members of the Board, or Reserve Bank Presidents, and the chief executives of banks and bank holding companies believed to be offering remote disbursement services. The Board said that such contacts have been very successful to date in obtaining voluntary bank action to terminate the practice.

The second step involves reviews by bank examiners of settlement procedures between banks and their customers. Bank examiners have been alerted and directed to pay particular attention to the check services offerings of banks to their customers.

The Fed also announced the implementation of a late deposit "package sort" option for check clearance at all Reserve offices. (Package sorted checks are checks sent to the Federal Reserve for collection, pre-sorted and packaged by the name of the banks on which the checks are drawn.) This option is intended to make it possible for banks around the nation to accelerate collection of checks drawn on remotely located collection points.

Finally, the Board said that it is considering regulatory or legislative moves to designate remote disbursement as an unfair banking and business practice. It is also considering moves to change the Federal Reserve credit-availability schedule for remotely disbursed checks or to require final settlement for payments within normal collection times.

DIRECTORS

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and the Japan-America Society of Southern California.

The boards at each of the offices outside San Francisco include seven members who are named either by the Board of Governors or by the Head Office Board. Of the new members, Ashton and Tanaka represent Board appointments, and Berry, Gustavel and Mitchell represent Reserve Bank appointments.

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 regions of the West.

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