

# Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • NO. 1, 1980

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## S.F. RESERVE BANK WIDENS SCOPE OF OPERATIONS DURING 1979

During 1979, the Federal Reserve Bank of San Francisco provided expanded central-bank services — in the areas of checks, coin, currency, fiscal agency, and electronic funds transfers — for a regional economy which continued to grow at a faster pace than the rest of the nation. The Twelfth District, which contains five Reserve Bank offices (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 it serves 35½ million people and 625 banks with a total of 7,114 banking offices.

During 1979, the Reserve Bank received 142 bank holding-company applications for analysis and processing, along with 58 other applications involving structure changes as well as 33 applications for foreign activities. The applications staff maintained close communication with active holding companies and other applicants, and provided interpretations and advice to those wishing to expand or restructure their operations.

In 1979, the Federal Reserve System as a whole began its first year of operation with a standardized inspection report and

uniform rating system, somewhat along the lines of the inspection program developed earlier by the San Francisco Reserve Bank. This Bank adopted a policy in 1976 of scheduling the inspection of major holding companies concurrently with the examination of their principal subsidiary bank by this or other regulatory agencies. The policy achieves some efficiencies by pooling the knowledge of all of the bank regulatory agencies involved in the supervision of each holding-company family, while even greater savings are realized by the holding companies and banks being examined. The Fed's Board of Governors has formally adopted this policy for implementation System-wide during 1980.

Following a recent System policy change, the Bank established guidelines and implemented procedures permitting member banks to pledge residential mortgage loans and municipal obligations at the discount window, yet retain physical possession of paper representing this collateral. The Bank, a long-time advocate of such "off-premises custody" arrangements, was among the first in the System to institute these procedures. In a related action, the System formally provided for the acceptance of foreign paper as discount-window collateral, in line with procedures adopted at this Reserve Bank several years ago. San  
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A.C. Furth

## FURTH APPOINTED S.F. FED DIRECTOR

Alan C. Furth, President of the Southern Pacific Company, has been appointed a director of the Federal Reserve Bank of San Francisco by the Fed's Board of Governors. Furth will replace Joseph F. Alibrandi, president of Whittaker Corporation, for the unexpired portion of a three-year board term ending December 31, 1981.

Furth, a native of Oakland, has spent his entire corporate career with the Southern Pacific Company. He was appointed Vice President and General Counsel in 1966, Executive Vice President (Law) in 1976, and President of the firm in 1979.

The new Fed director received an undergraduate degree from the  
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## BANK OPERATIONS

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Francisco held more than three-fourths of the foreign collateral pledged at all Reserve Banks during 1979. These policy changes helped expand the pool of collateral available for discount-window borrowings, and reduced the administrative burden associated with banks' pledging of collateral.

The consumer-affairs staff conducted examinations at all state-member banks, and also at about one-third of their branches, in line with an expanded System-wide program designed to achieve broad-based compliance with consumer-protection laws and regulations. In addition, the staff conducted formal advisory programs for member banks, as part of a service in which specially trained examiners provide on-site educational and advisory work. The Reserve Bank received 604 individual consumer complaints against commercial banks, and of that total, processed 138 complaints which were related to institutions for which the Bank is the primary supervisor. Also, the staff received several thousand requests for information from the general public, many of them in response to a series of Bank-produced public-service announcements on consumer regulations, which were shown on a number of television stations in the District.

The Bank continued to implement a long-range automation plan, which calls for District-wide standardization and centralized processing of most operations, with all five District offices tied together via a modern computer network operated out of the San Francisco data center. All offices now have centralized services available in certain areas, such as tax-receipt processing and some savings-bond processing. Major automation projects completed in 1979 included a District-wide central-adjustments system to handle account reconciliations with member banks, a high-speed telecommunications system

which provides better message-switching services between member banks, monitoring programs to help manage check-processing float, and a new system to handle the increased reporting burden associated with banks' foreign-exchange operations.

In a major ongoing project, the Bank continued development work on a sophisticated system to handle the processing of financial reports received from banks and other financial institutions. The increasing number of reports and respondents, in addition to the increasing visibility and sensitivity of the monetary aggregates which are drawn from these data, make completion of this project our highest priority effort.

Data processing and fiscal personnel continued work on the automation of a Treasury-securities inventory and transfer system (called SHARE). San Francisco is the lead district on this project, which will provide a standardized on-line database fiscal-computer application servicing 13 offices in the Kansas City, St. Louis and San Francisco districts. This is the first large-scale joint automation project undertaken within the Federal Reserve System.

In the check-processing activity, Bank staff handled 1.3 billion paper checks during the year — a substantial 6-percent increase. With continued technological and operational improvements, check personnel maintained the highest check-processing productivity in the Federal Reserve System. At the same time, the quality of operations was significantly improved. As a result, internally generated errors which require costly and time-consuming adjustment were reduced by more than 35 percent.

In 1979, as in earlier years, the fastest-growing means of payment was electronic. While check-processing activity increased 6 percent, wire funds transfers increased 23 percent, and automated clearinghouse

(ACH) and government deposit activity jumped 44 percent. In dollar terms, District member banks settled a massive \$8.9 trillion through the Federal Reserve's wire-transfer system during the year. But the sharpest percentage gain occurred at automated clearinghouses, which move funds by electronically-transmitted payment instructions that take the place of paper checks. The Bank expanded ACH operations to a 24-hour per day processing schedule in October, as part of a System effort to attract additional volumes by setting schedules more accommodating to corporate originators.

In cooperation with the Treasury Department, the Bank completed implementation of a government-check truncation program which had been instituted in 1978. Truncation involves shipping magnetic tapes and microfilm copies of checks, instead of the original paper checks in bulk, to the Treasury computer-operations center, enhancing speed and control. This effort was a major accomplishment, as the San Francisco District processes the largest volume of government checks in the System — 124 million in 1979.

Despite the increase in check usage and the rapidly accelerating growth in electronic payments, the Reserve Bank continued to handle substantial amounts of coin and currency in 1979. Altogether, it received and counted 1.9 billion coins and processed 1.4 billion pieces of currency during the year. Currency verification decreased by 45 percent, reflecting several major efficiencies which were adopted in 1978. For example, commercial banks now deposit excess fit currency in sealed plastic bags, so that the currency can then be paid out to the same bank without the need for Reserve Bank verification and counting. In another major advance, the Bank installed three high-speed currency machines in 1979, and will

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## FED APPOINTS L.A. BOARD MEMBERS

The Federal Reserve Bank of San Francisco appointed Bram Goldsmith, Chairman and Chief Executive Officer of City National Bank (Beverly Hills) and Fred W. Andrew, President of Superior Farming Co. (Bakersfield) to the Board of Directors of the Bank's Los Angeles office. Separately, the Federal Reserve Board of Governors appointed Lola M. McAlpin-Grant, Assistant Dean of Law at Loyola Law School (Los Angeles) to the Los Angeles Board, and also reappointed Togo Tanaka, President of Gramercy Enterprises (Los Angeles) to that Board.

Goldsmith attended the University of Illinois, and has been a Director of City National Bank since 1964, and Chairman and CEO since 1975. In the 1952-74 period, he was President of Buckeye Realty and Management Corporation, and Executive Vice President of Buckeye Construction Company.

Goldsmith is a member of the Board of Directors of Cedars Sinai Medical Center, and a Director of Hartfield-Zodys, Inc. He is a member of many civic organizations, and during 1970-74, was National Chairman of United Jewish Appeal.

Andrew, a magna cum laude graduate of the University of Arizona, has been engaged in a number of agricultural pursuits for the past several decades. When he became president of Superior Farming Co. in 1970, the firm had about 3,000 acres in various stages of development. Currently, Superior Farming has 38,000 acres of diversified production in California and Arizona, along with various integrated processing facilities.

Andrew serves as Chairman of the Board of the California Association of Pistachio Producers, as a member of the Advisory Board of California State College (Bakersfield), and as a board

## PUBLICATION NOTE

During 1980, *Federal Reserve Notes* will be published bimonthly instead of every month.

member of the California Association of Winegrape Growers. He is also a past member of the Food and Agriculture Committee of the Chamber of Commerce of the United States.

McAlpin-Grant, who obtained an undergraduate degree from Mt. St. Mary's College and a law degree from Loyola Law School, has been the Assistant Dean of Law at Loyola Law School since 1970. In the period 1966-70, she was Deputy Attorney General for the State of California.

McAlpin-Grant is a director of United Financial Corporation of California, and a member of the Board of Regents of Mount St. Mary's College. She is a member of the Governor's Consumer Fraud Task Force and of the Advisory Board to the Bureau of Automotive Repairs Services. A member of the State and Federal Bars, she has been affiliated with the Women Lawyers Association and the Black Women Lawyers Association, and in 1974-75 was Regional President of Catholic Social Services.

Tanaka, a graduate of the University of California at Los Angeles, has been affiliated with a number of real-estate and publishing enterprises in the past several decades. He is a Director of the Los Angeles Wholesale Produce Market Development Corporation. He is also a director of several Southern California civic organizations, including the Boy Scouts, the American Red Cross, the Crippled Children's Society, Goodwill Industries, and the Methodist Hospital of Southern California.

## FED ORGANIZES CHECK ROUTING GROUP

The Federal Reserve System has organized a "Routing Number Administrator" Group to improve the nation's check-processing capability, with representation from each of the twelve Federal Reserve Banks. The group will work jointly with the American Bankers Association (ABA) and the Rand McNally Company, which serves as an agent for the ABA to review routing-number assignments to depository institutions.

The group's objective is to provide one routing number for each presentment point designated by a paying institution for delivery of cash items for payment. A routing number is the nine-digit number used on checks and electronic payments to identify the payor financial depository institution and the Federal Reserve District through which cash items will be routed for payment.

The jointly designed plan will require institutions needing a routing number to contact Rand McNally, which will then reserve a number. The local Federal Reserve Bank will be responsible for reviewing and approving each request.

The procedure will be the same for new institutions or for those planning a name change, reorganization, consolidation or merger. In addition, institutions which are absorbed by another depository must contact Rand McNally, since the absorbed institution generally will be required to use the routing number of the surviving institution and the merged institution's number will be retired.

For additional information on routing-number procedures, contact the Check Processing Officer of the Federal Reserve Office serving your bank.



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## BANK OPERATIONS

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install three more in 1980. Each machine has an optimum feed rate of 1,200 notes a minute, and is capable both of detecting counterfeits and of destroying, on line, those notes which do not meet fitness standards. Over time, the new equipment will help reduce staff in this labor-intensive activity, and will also improve processing efficiency.

In the coin area, the major activity centered around the release of the Susan B. Anthony dollar coin, which was made available to the public on July 2, 1979. This bank distributed about 65 million coins to District financial institutions, representing one-fourth of the total volume distributed nationwide. Demand for the coin fell off considerably after the initial release. However, the Treasury and Federal Reserve System have continued to promote the coin, maintaining that overall savings of \$50 million a year could be realized by replacing the present pool of dollar bills with Anthony dollar coins.

In its role as fiscal agent for the U.S. Government, the Reserve Bank handled substantial amounts of public-debt instru-

ments in the form of savings bonds, marketable Treasury securities and food stamps. Activity in marketable securities increased 25 percent in volume, reflecting investor attraction to the double-digit interest rates offered on such issues. At the same time, the Bank worked to improve computer handling of securities through such means as the aforementioned joint automation project with the Kansas City and St. Louis Districts.

The Bank completed implementation of the Treasury-designed tax-and-loan investment program. Under this arrangement, the Treasury earns interest by investing its operating cash balances, while paying fees for certain services which it formerly received free from financial institutions. Other changes in fiscal processing included revisions to the savings-bond program. First, the Treasury accelerated payments for savings bonds sold by financial institutions as issuing agents. Second, it announced two new series of savings bonds, EE and HH, to replace the current E and H bonds.

Overall, the San Francisco Reserve Bank operated at the second highest level of cost effectiveness in the System, with

## FURTH APPOINTED

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University of California, Berkeley, and obtained a law degree from the university's Boalt Hall. He was editor of the *Daily Californian* while at the university, and was a member of the Board of Editors of the *California Law Review* at Boalt Hall. He also attended the Advanced Management Program of the Harvard Business School.

Furth is a director and member of the Executive Committee of both the Southern Pacific Company and the Southern Pacific Transportation Company. He also holds directorships with a number of other major industrial firms. In civic activities, he is a trustee of the Pacific Legal Foundation (Sacramento), Samuel Merritt Hospital (Oakland), and Pomona College.

an aggregate unit cost 9 percent below the System average. Productivity (output per worker-hour) in these operational activities has increased 65 percent in the past five years. The Bank achieved this performance while experiencing only slight increases over 1974 unit-cost levels, despite sharply rising costs of salaries, materials and equipment.