

Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • January 1981

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S.F. RESERVE BANK BROADENS OPERATIONS

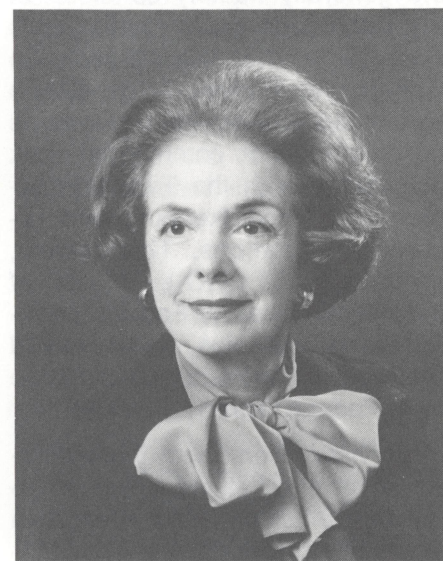
During 1980, the operations of the Federal Reserve Bank of San Francisco began to change dramatically, in response to several historic financial and legislative developments. At the same time, the Reserve Bank continued to provide central-bank services—in the area of checks, coin, currency, fiscal agency, and electronic fund transfers—for a regional economy which again grew at a faster pace than the rest of the nation. The Twelfth District, which is served by five Reserve Bank offices (San Francisco, Los Angeles, Portland, Salt Lake City and Seattle) is the largest Federal Reserve District in terms of both geographic size and industrial activity.

The 1980 combination of high inflation and high interest rates created an expanded workload for many of the Bank's operating departments, not to mention an increased demand for policy analyses by the Bank's research economists. The fiscal department, for one, came under heavy pressure at times from large crowds of individual investors who wanted to take advantage of the record-high interest rates available on government securities. Throughout the spring months, the Bank's staff implemented the Special Credit Restraint program that the Federal Reserve had unveiled on March 14 as part of the government-wide drive to curb speculative inflationary pressures. The Bank's statistical-services department, for example, thereafter became heavily

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Cornell C. Maier



Caroline L. Ahmanson

MAIER, AHMANSON HEAD FED BOARD

The Federal Reserve Board of Governors has renamed Kaiser Aluminum executive Cornell C. Maier as chairman of the board of directors of the Federal Reserve Bank of San Francisco for 1981. At the same time, the Board of Governors redesignated Caroline Leonetti Ahmanson, chairman of the board of Caroline Leonetti Ltd. of Hollywood, as deputy chairman.

Both Maier—board chairman, president and chief executive officer of Kaiser Aluminum and Chemical Corporation of Oakland—and Mrs. Ahmanson are entering their second years in the top two positions with the San Francisco Fed Board. In addition, Maier has been reappointed to a three-year term as a public (Class C) director by the Board of Governors, effective January 1.

Maier became president of Kaiser in 1972 and chairman of the board in 1978. His firm has assets in excess of \$2 billion, and is engaged in a number of businesses—aluminum, industrial and agricultural chemicals, refractories, international commodity trading, and real-estate development—in the United States and 17 other countries.

A native of South Dakota, Maier joined Kaiser Aluminum in 1949, immediately following graduation from the University of California with a degree in electrical engineering. He is a member of the national Business Roundtable, a director of the California Chamber of Commerce, and a member of the board of trustees of the National Urban League.

Mrs. Ahmanson is active in national and regional civic affairs, in addition to serving as chairman of the self-

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involved in the implementation of reporting procedures for nonbank consumer lenders, who were subject to a special deposit requirement under the credit-restraint program.

Supervisory Developments

In the supervisory area, bank examinations and bank holding-company inspections during 1980 confirmed the generally healthy condition of the institutions supervised by this Reserve Bank. During the year, the General Accounting Office (GAO) conducted a review of procedures used to monitor commercial-bank compliance with the Treasury Department's recordkeeping and reporting regulations. This review, part of a broad GAO evaluation of the effectiveness of Federal bank-regulatory agencies, has involved field work in San Francisco and three other Federal Reserve Districts.

Supervisory personnel implemented several initiatives designed to improve efficiency and strengthen examination procedures. These included hosting two conferences on the subject of international examinations. One conference concerned the examiner's role in evaluating "country risk"—the debt-management problems of individual countries—and the second involved discussions with other Federal and state regulatory agencies concerning the Uniform Report of Examination developed by the Federal Financial Institutions Examination Council. Bank staff also improved the examination coverage of Edge Act corporations (firms involved in international trade and finance) by establishing working relationships with the internal-audit teams sent to review Edge corporations by their parent firms located outside this District. In the trust area, Bank staff conducted a joint examination with personnel of the Securities and Exchange Commission (SEC), to compare operating procedures of depository trust institutions with standards defined by the SEC.

The consumer-affairs staff conducted examinations at all state-

member banks, and also at about one-fifth of their branches, in line with an expanded System-wide program designed to achieve broad-based compliance with consumer-protection laws and regulations. The Reserve Bank received numerous individual consumer complaints against commercial banks, but none of the complaints required the Bank to resort to its enforcement powers to compel remedial action. In addition, 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.

Computer Developments

The Bank continued to implement a long-range automation plan during 1980. This plan calls for District-wide standardization of processing for most operations, and the centralization of some activities. Under the plan, all five offices are tied together via a modern computer network controlled from the San Francisco data center. In 1980, the staff installed a standard accounting system in all branches, in a major step toward standardizing District systems. To accommodate the increasing level of automation over the next several years, computer personnel installed a new computer in the San Francisco data center, and made plans to upgrade computers in Los Angeles and Seattle during the first part of 1981. This upgrading was doubly necessary because of the heavy workload created by implementation of the new MCA programs.

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 on completion in 1981 will provide a standardized on-line database servicing 13 offices in the Kansas City, St. Louis and San Francisco districts.

Payments Services

In 1980, as in earlier years, electronic-payments systems continued to expand rapidly. While check-

processing activity increased only one percent, wire funds-transfer volume jumped 27 percent, as District member banks sent several trillion dollars through the Federal Reserve's wire-transfer system during the year. Moreover, a sharp 27-percent gain in volume occurred at automated clearinghouses (ACHs), which move funds by electronically-transmitted payment instructions that take the place of paper checks. To accommodate rapid volume growth and improve operational controls, the Bank consolidated its wire-transfer function in San Francisco during the year. ACH personnel meanwhile installed new software to provide for an automated reconciliation system as a means of reducing operational errors.

In check-processing activity, Bank staff handled 1.5 billion paper checks during the year—a significant deceleration from earlier growth patterns. However, drastic changes in deposit schedules shortened check-processing times and increased pressure on equipment and staff resources. The Bank began to develop a major automation project in the low-speed processing function—which handles nonmachinable deposits and checks rejected for poor encoding, mutilation, improper size, etc.—to replace labor-intensive procedures. Reduction of float (checks credited prior to receiving payment) received high priority during the year, especially in view of the requirement to price float under the Monetary Control Act.

Cash, Fiscal Activities

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 1980. Altogether, it paid 4.9 billion coins and 1.6 billion pieces of currency into circulation during the year. Efficiency in the cash function improved with the installation of more high-speed currency-sorting machines, of which six are now in operation at various District locations. Each machine has an optimum feed rate of 1,200 notes a min-

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FED SELECTS NEW DIRECTORS

Veteran Oregon lumberman John C. Hampton has been designated chairman of the Portland branch of the Federal Reserve Bank of San Francisco, and three other new directors have been appointed to Fed branch boards in Seattle, Salt Lake City and Portland for three-year terms that began in January.

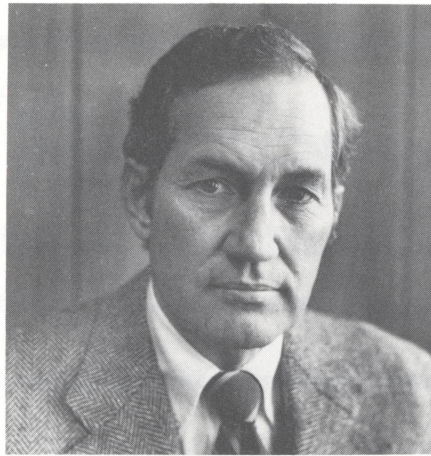
Hampton, chairman of the board and president, Willamina Lumber Company, was appointed to the Portland Board by the Federal Reserve Board of Governors. A longtime resident of Portland, Hampton succeeds lumber executive Loran L. Stewart, who retired from the Portland Fed Board after serving seven years. Hampton currently serves on the boards of Milne Construction Company, Medford Corporation, National Forest Products Association and the Portland Opera Association. He is also past president of Western Wood Products Association.

Directors of the San Francisco Reserve Bank meanwhile appointed William S. Naito to the Portland Board, Lonnie G. Bailey to the Board of the Seattle Fed, and Albert C. Gianoli to the Board of the Salt Lake City Fed.

Naito, vice president of the Norcrest China Company of Portland, replaces Kenneth Smith of the Confederated Tribes of Warm Springs, Oregon. Naito is well known for his involvement in the renovation and preservation of older buildings in downtown Portland. He is a Portland Chamber of Commerce board member and a director of Reed College.

Bailey is executive vice president and chief executive officer of the Farmers and Merchants Bank of Rockford at Opportunity, Washington. He succeeds Rufus C. Smith, board chairman of the First National Bank of Enumclaw (Washington).

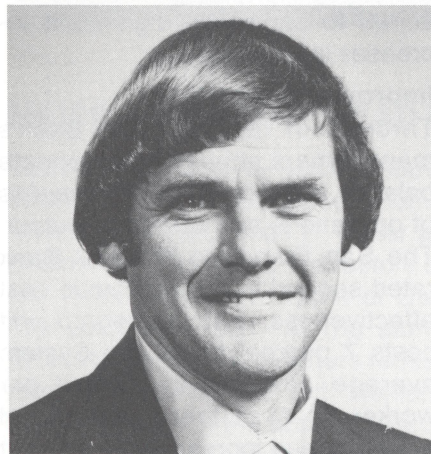
Gianoli, president and board chairman of the First National Bank of Ely, Nevada, replaces Mary S. Knox, board chairman of Idaho State Bank. Gianoli currently serves as treasurer and director of the



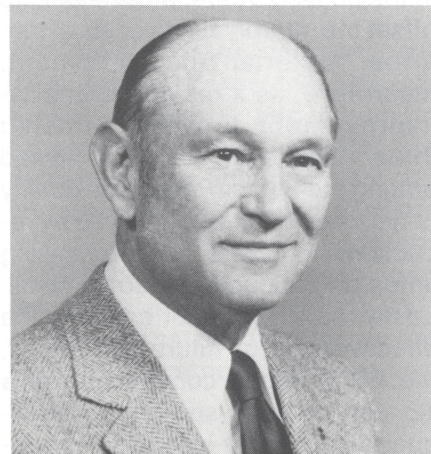
John C. Hampton



William S. Naito



Lonnie G. Bailey



Albert C. Gianoli

LOS ANGELES EDUCATOR NAMED TO FED COUNCIL

Nancy Z. Spillman, a Los Angeles educator, is one of eight new members appointed to the Federal Reserve Board's Consumer Advisory Council. Council members, who represent a broad range of U.S. consumer and creditor interests, advise the Board in the field of consumer-credit protection laws.

Ms. Spillman is a professor of economics at Los Angeles Trade Technical College and director of the college's Center for Economic Education. She edits a national consumer-education newsletter and has been active in the consumer field as a teacher, writer and lecturer.

White Pine Chamber of Commerce, member of the Advisory Committee of the Bristlecone Convention Center of Ely, and director and member of the Legislative Committee of the Nevada Bankers Association. Gianoli also is a member of the American Institute of Mining Engineers, Western Independent Bankers Association, American Bankers Association and Small Business Administration Advisory Council.

Reappointed to new three-year terms on branch boards of directors were Lola McAlpin-Grant, assistant dean of the Loyola Law School, and James D. McMahon, president of the Santa Clarita National Bank, Valencia, at Los Angeles; J.L. Terteling, president, The Terteling Company, Inc., Boise, Idaho, at Salt Lake City; and Virginia L. Parks, vice president for finance and treasurer, Seattle University, at Seattle.

Redesignated as branch Chairmen for 1981 were Harvey A. Proctor, chairman of Southern California Gas Company, at Los Angeles; Wendell J. Ashton, publisher, Deseret News, Salt Lake City; and George H. Weyerhaeuser, president and chief executive officer, Weyerhaeuser Company, at Seattle.

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RESERVE OPERATIONS

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ute, and is capable both of detecting counterfeits and of destroying, on line, those notes which do not meet fitness standards. To improve production capabilities as well as the quality of currency in circulation, the San Francisco and Los Angeles offices both started second-shift processing on the new equipment during the year.

In its role as fiscal agent for the U.S. Government, the Reserve Bank handled substantial amounts of public-debt instruments in the form of savings bonds, marketable Treasury securities and food stamps. Activity in marketable securities increased 52 percent in volume, reflecting strong investor interest in the record-high rates offered on such issues. Moreover, volume rose because of an increase in the redemption of savings bonds, which paid a considerably lower rate of interest than marketable securities. During this same period, the Treasury Department recalled all Series E and H savings-bond stock for replacement with Series EE and HH bonds. This process, which involved reconciliation with over 8,800 issuing agents, was a major effort spanning the entire year.

These developments caused severe processing backlogs during

the first half of the year. The backlogs were overcome by midyear with additional trained staff and enhancements to automated systems. The summer decline in interest rates provided time to react to the rapidly changing securities market. As rates again surged upward in late fall, the Bank was better positioned to cope with significant increases in volume.

Improved Productivity

Throughout the year, the Bank's management struck an appropriate balance between cost-effectiveness of operations and quality of output. The San Francisco Reserve Bank rated second in the System in cost effectiveness, with aggregate unit costs 7 percent below the System average. Productivity (output per worker hour) in these operational activities has increased 74 percent in the past six years, thus helping to offset the sharply rising costs of salaries, material and equipment. Meanwhile, as a result of a quality-improvement program initiated three years ago, the Bank ranked among the System leaders in quality of performance, as measured by reductions in errors and processing times on various operational tasks. Lastly, as a means of assuring the effectiveness of future operations, the Bank began construction of a 12-story 653,000-square-foot headquarters building on San Francisco's Market Street.

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Federal Reserve Bank of San Francisco

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improvement educational organization bearing her name. She serves on the board of directors of Walt Disney Productions and the City of Los Angeles Economic Advisory Council. She has received presidential appointments as a member of the National Council on the Humanities and as an executive-board member of the Peace Corps' National Advisory Council.

On the regional scene, Mrs. Ahmanson serves on the boards of trustees of the California Museum of Science and Industry, the Los Angeles County Museum of Art, the Performing Arts Council of the Music Center, and as vice chairman of the American Association of Museums Trustees Committees. In addition, she serves as vice president of the board of directors of the Los Angeles Area Chamber of Commerce, the board of directors of the Los Angeles World Affairs Council, and the National Committee on United States-China Relations, Inc. She also is a director of the Greater Los Angeles Visitors and Convention Bureau.

