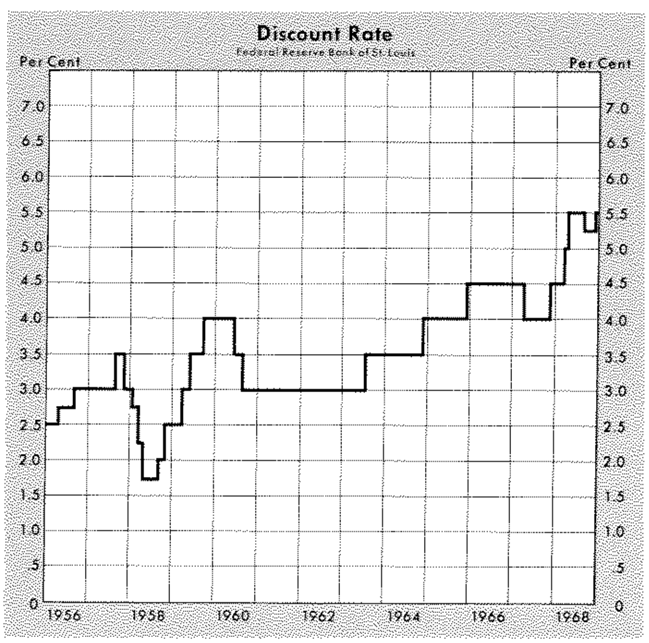
Operations of the Federal Reserve Bank of St. Louis—1968

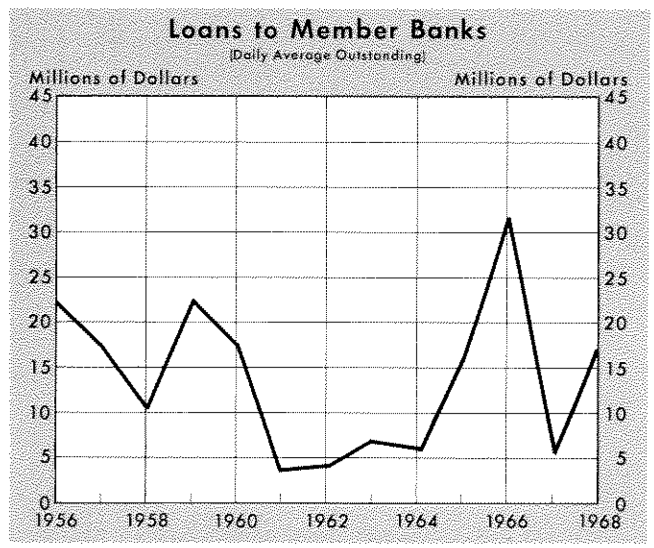
THE FEDERAL RESERVE BANK OF ST. LOUIS is part of the Federal Reserve System, which includes the Board of Governors in Washington, D.C., the 12 Federal Reserve Banks, and their 24 branches. The Eighth Federal Reserve District includes all of Arkansas and portions of Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee. In addition to the head office, branch offices are located in Little Rock, Louisville, and Memphis.

The operations of the Federal Reserve Bank of St. Louis and its branches fall principally within three functional areas: participation in the formulation and administration of monetary policy; supervision of certain commercial banks; and provision of a variety of services for the public, the United States Government, and commercial banks. These areas are closely interrelated, and specific activities of the Bank may serve more than one function. For example, member bank borrowing from the Federal Reserve is one of the privileges of membership, and extension of such credit involves some aspects of supervision, while establishment of the discount rate is a part of monetary policy formulation.

Lending and the Discount Rate

Member banks and, under certain circumstances, others may receive credit assistance from Federal Reserve Banks through advances and discounts. Advances are the usual form of credit to member banks, and the only form of credit to others. Nevertheless, a custom has developed of referring to Reserve Bank lending as discounting, and the interest charge applicable to such lending as the discount rate. The discount rate is established by directors of each of the twelve Reserve Banks, subject to review and determination by the Board of Governors. The rate was adjusted four times during 1968. It was increased from 4½ to 5 per cent in March and to 5½ per cent in April. The discount rate was then reduced to 5¼ per cent in August, but restored to 5½ per cent in December.[1]





Borrowing by member banks from the Federal Reserve Bank of St. Louis during 1968 rose sharply from 1967 levels but remained substantially below the level of 1966. Average credit outstanding to Eighth District member banks was $17 million, compared with $6 million in 1967 and $32 million in 1966.

A Federal Reserve System Committee has made a number of proposals for the redesign of the discount

[1]Under present law, when a member bank borrows from its Reserve Bank on collateral other than U.S. Government obligations or limited types of paper that meet certain "eligibility" requirements, it must pay interest at a rate one-half of 1 per cent higher than the Reserve Bank's normal discount rate. The Board of Governors has recommended legislation that would permit a member bank, in appropriate circumstances, to borrow on any collateral satisfactory to its Reserve Bank without the necessity of paying a "penalty" rate of one-half of 1 per cent.

mechanism.[2] The chief objective of the proposals is to stimulate use of the discount window for the purpose of facilitating short-term adjustments in bank reserve positions. According to the Committee report, a more liberal and convenient mechanism should enable individual member banks to adjust to changes in fund availability in a more orderly fashion and, in so doing, lessen some of the causes of instability in financial markets without hampering overall monetary management.

Two major and interrelated changes included are: (1) more objective definitions of terms and conditions for discounting; and (2) inclusion of several complementary arrangements for borrowing, each designed to provide credit for a specific need. As a result of these changes the Federal Reserve System anticipates a generally higher level of borrowing by member banks. However, a higher level of borrowing does not necessarily imply a corresponding increase in total reserves, since increased borrowing can be offset by smaller System holdings of securities.

The first of these changes would be accomplished by introducing specific quantity and frequency limitations on certain types of borrowing by member banks, and by increasing reliance on the discount window through consistently maintaining the discount rate at levels reasonably close to rates on alternative instruments of reserve adjustment. These proposals are designed to permit a clearer and more unequivocal communication of discounting standards and limitations to member banks, and to help insure uniformity of window operation among districts and among banks.

The proposed redesign contains varied arrangements by which the Federal Reserve would provide short-term adjustment credit, seasonal credit, and emergency credit. Short-term adjustment credit is further divided into a "basic borrowing privilege" and other adjustment credit. The former provides credit on an automatic basis within specified limits on amount and duration to all member banks meeting specified conditions; the latter is available, under administrative control, to meet needs larger in amount or longer in duration than can be accommodated under the basic borrowing privilege. Seasonal credit would be provided to accommodate recurring demands as determined by observed seasonal patterns, for such amounts and duration as the applying member bank demonstrates a need. Credit would continue to be provided to member banks in general or isolated emergency situations and — in its role as lender of last resort to other sectors of the economy — the Federal Reserve would stand ready, under extreme conditions, to provide credit assistance to financial institutions other than member banks.

[2] See "Report of a System Committee," *Reappraisal of the Federal Reserve Discount Mechanism*, Board of Governors of the Federal Reserve System, July 1968.

Research

Research activities at the Federal Reserve Bank of St. Louis are directed toward national and regional business and financial problems. Analyses are conducted of both current and longer run basic stabilization issues. Also, economic developments in the Eighth Federal Reserve District are measured and interpreted. Such analyses are used to assist the President of the Bank in discharging his responsibilities as a participant in the deliberations of the Federal Open Market Committee, and in formulating his recommendations to the Bank's Board of Directors. In addition, the research staff engages in activities to provide economic information to the public. This is accomplished through publication of this *Review* and other recurring releases which are available to the public without charge.

Supervision and Examination

The Federal Reserve System is one of the agencies responsible for supervising commercial banks, with the objective of fostering and maintaining a sound banking system.

A major supervisory responsibility is evaluation of the assets, operations, policies and effectiveness of management of the banks subject to review. Examinations provide the basic information which enables each supervisory authority to help prevent or correct situations that might adversely affect the economy or the general public interest. Supervision by the Federal Reserve Bank of St. Louis is exercised principally through examination of state member banks. All state member banks in the district were examined in 1968.

Other supervisory functions of the Federal Reserve System include admission of state banks to membership in the System, approval of the establishment of branches, approval for merger or absorption of other banks by state member banks, and granting permission to establish registered bank holding companies and for such companies to acquire stock in banks. Much of the investigation involved in these supervisory functions is conducted at the Reserve Banks. In addition, authority to approve domestic branches of state member banks and certain other supervisory functions is delegated to Reserve Banks.

Table 1

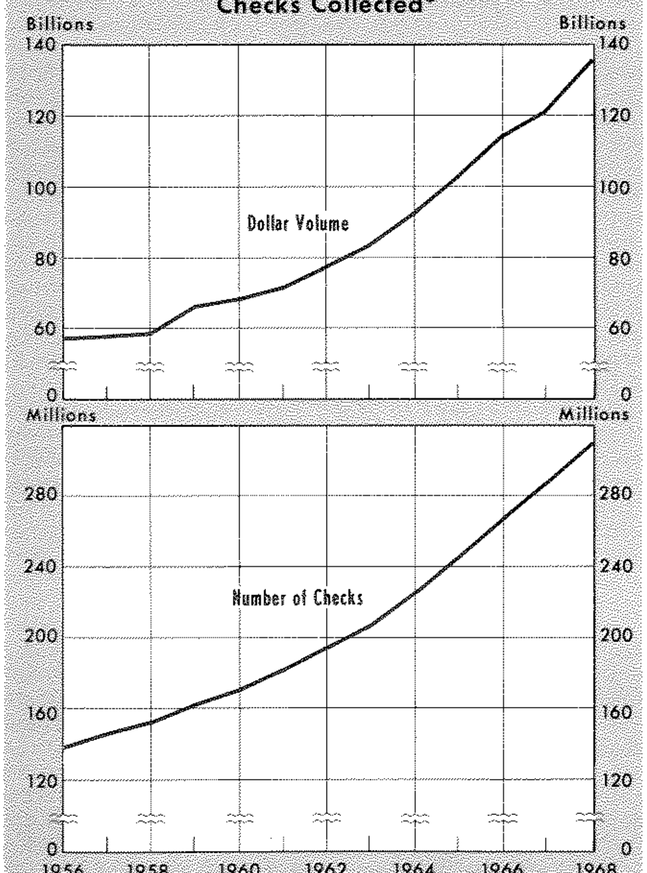
VOLUME OF OPERATIONS[1]

	Dollar Amount (Millions) 1968	1967	Per Cent Change 1967-68
Checks collected[2]	135,737.9	120,860.0	12.3
Noncash collection items	556.2	524.1	6.1
Coin counted	58.2	48.0	21.3
Currency counted	1,577.5	1,514.7	4.1
Transfers of funds	169,173.1	147,057.5	15.0
U. S. Savings Bonds handled[3]	600.2	626.8	—4.2
Other Government securities handled	20,250.3	16,232.8	24.7
U. S. Government coupons paid	157.2	166.9	—5.8

	Number (Thousands) 1968	1967	Per Cent Change 1967-68
Checks collected[2]	311,416	286,069	8.9
Noncash collection items	882	868	1.6
Coin counted	539,162	445,359	21.1
Currency counted	219,297	217,358	0.9
Transfers of funds	268	247	8.5
U. S. Savings Bonds handled[3]	10,608	9,864	7.5
Other Government securities handled[3]	690	603	14.4
U. S. Government coupons paid	724	759	—4.6

[1]Total for the St. Louis office and the Little Rock, Louisville and Memphis branches.
[2]Excludes Government checks and money orders.
[3]Issued, exchanged, and redeemed.

Checks Collected*



*Excludes Government checks and postal money orders.

Service Operations

Among its service operations, the four offices of this bank maintain facilities for the collection and clearing of checks and other items, furnish currency for circulation, handle the legal reserve accounts of member banks, and act as a fiscal agent for the Government. Most of these service operations at the bank's offices increased in 1968, reflecting the growth in economic activity in the Central Mississippi Valley.[3]

Collection Items

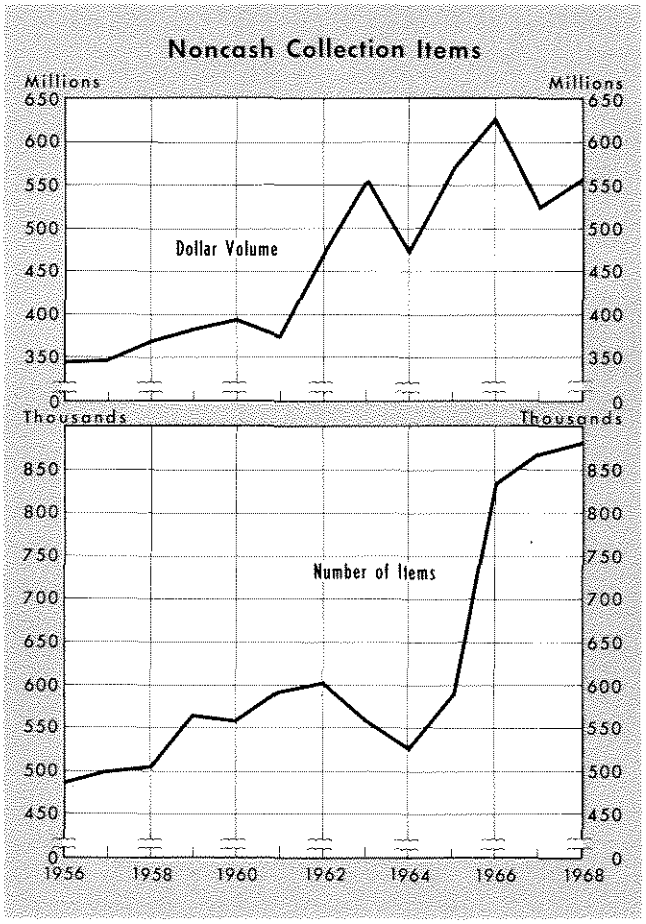
Federal Reserve Banks participate in collecting checks and provide a mechanism through which commercial banks settle for the checks collected. These activities facilitate the use of demand deposits by individuals, businesses, and governments in making payments. The four offices of this bank receive checks from district member banks, other Federal Reserve offices, and Government agencies for collection. In order to increase the speed of collections, the Reserve Bank in some cases receives checks directly from member banks of other Federal Reserve Districts. Checks received are either drawn on banks in the Eighth District that remit at par,[4] par-remitting banks in other districts, or the United States Treasury.

The number of checks collected through the four offices of the bank rose from 286 million in 1967 to 311 million in 1968, an increase of 8.9 per cent. Reflecting both the greater number of checks and their larger average size, dollar volume rose to $136 billion, 12 per cent above a year earlier.

In addition to maintaining facilities for check collection, Federal Reserve Banks handle numerous

[3]For an analysis of economic trends in the region, see the January 1969 issue of this *Review*.

[4]All checks collected and cleared through the Federal Reserve Banks must be paid in full by the banks on which they are drawn, without deduction of a fee or charge, that is, they must be payable at par. National banks and state member banks must remit at par as a condition of membership. In addition, most state non-member banks agree to remit at par.

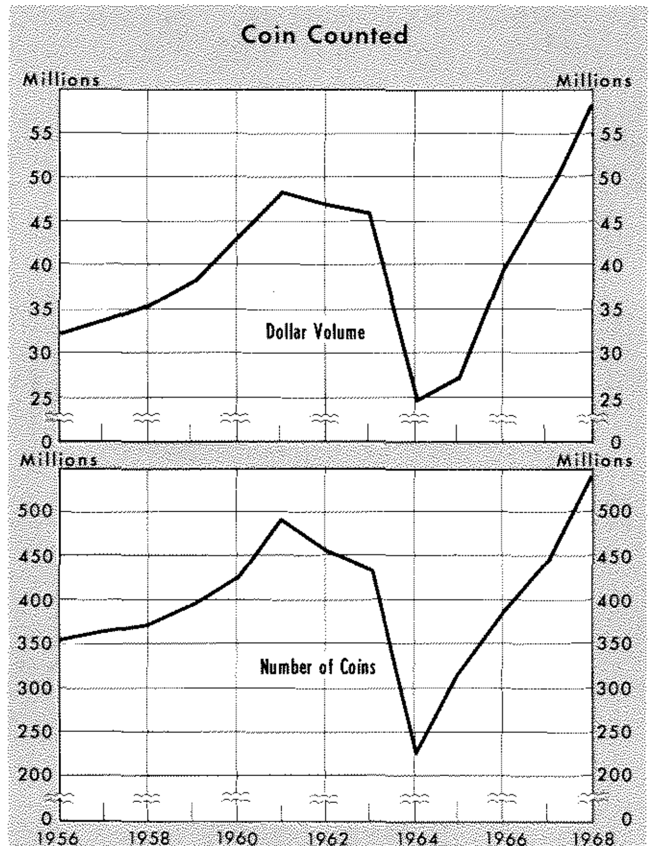


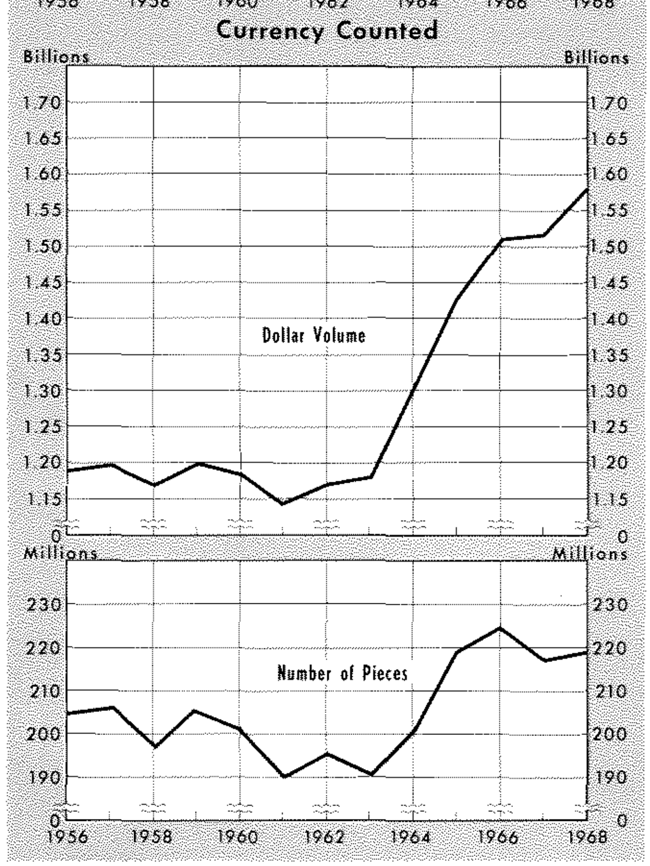
other, noncash items for collection, such as drafts, promissory notes, bonds and bond coupons. The number of noncash collection items rose 1.6 per cent from 1967 to 1968 while their dollar value rose 6.1 per cent.

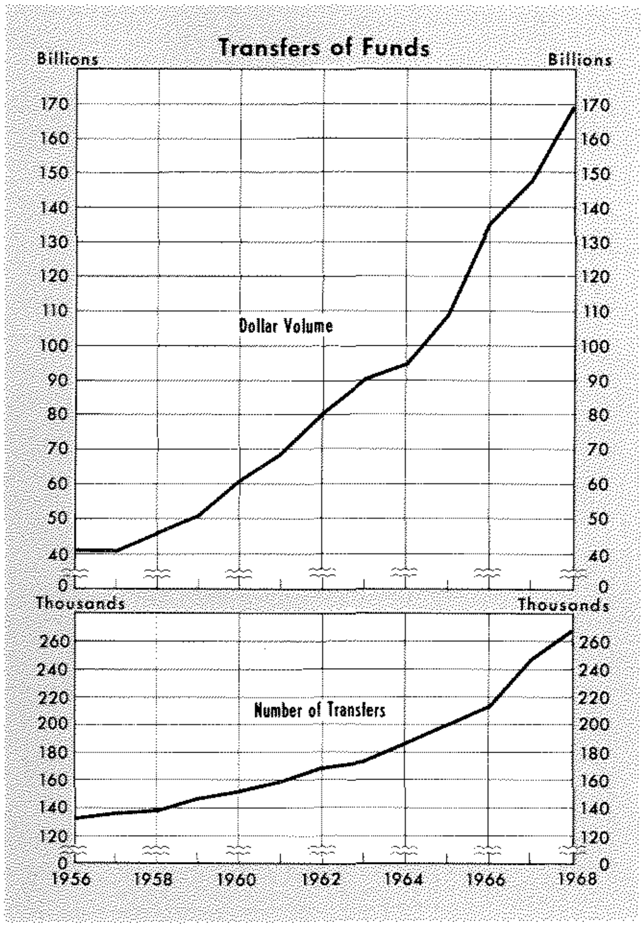
Money Operations

Just as individuals and businesses obtain coin and currency from commercial banks by withdrawing deposits, member banks obtain coin and currency by withdrawals from their accounts at the Reserve Banks. Nonmember banks may obtain coin and currency from member banks or directly from Reserve Banks, with charges made to a designated member bank's reserve account. When commercial banks receive an excess of coin and currency from their customers, it may be deposited in the Federal Reserve Bank, where it is counted and sorted and the usable money is redistributed.

Coin handling rose sharply in 1968, continuing the rapid increases of the previous three years. The number of pieces counted totaled 539 million, up from 445 million in 1967 and 227 million in 1964 (a year of severe coin shortage). The dollar value of coins handled also has risen sharply, totaling $58 mil-







lion in 1968, compared with $48 million in 1967 and $25 million in 1964.

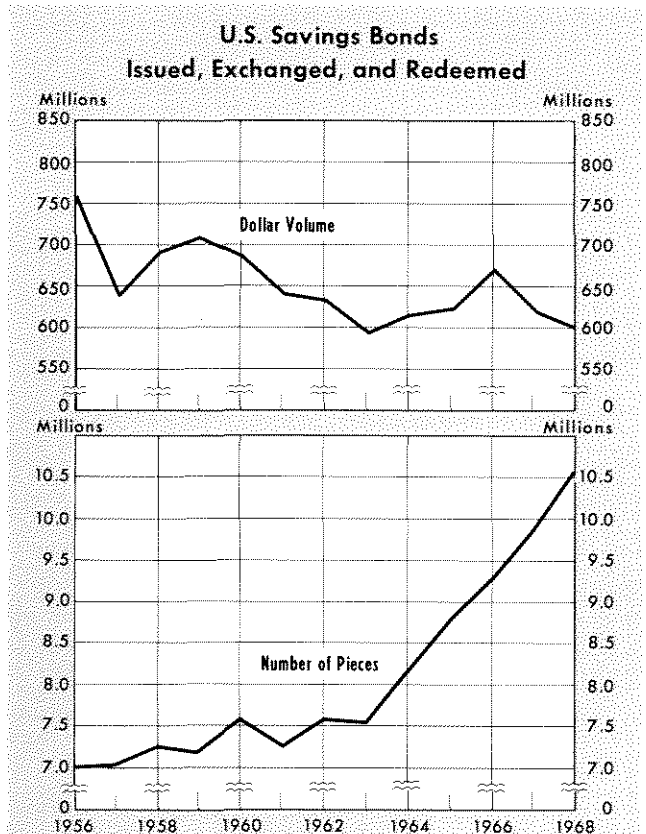
A total of 219 million pieces of currency were handled in 1968, 1 per cent above the previous year. The dollar value of currency handled totaled approximately $1.6 billion, an increase of 4.1 per cent from a year earlier.

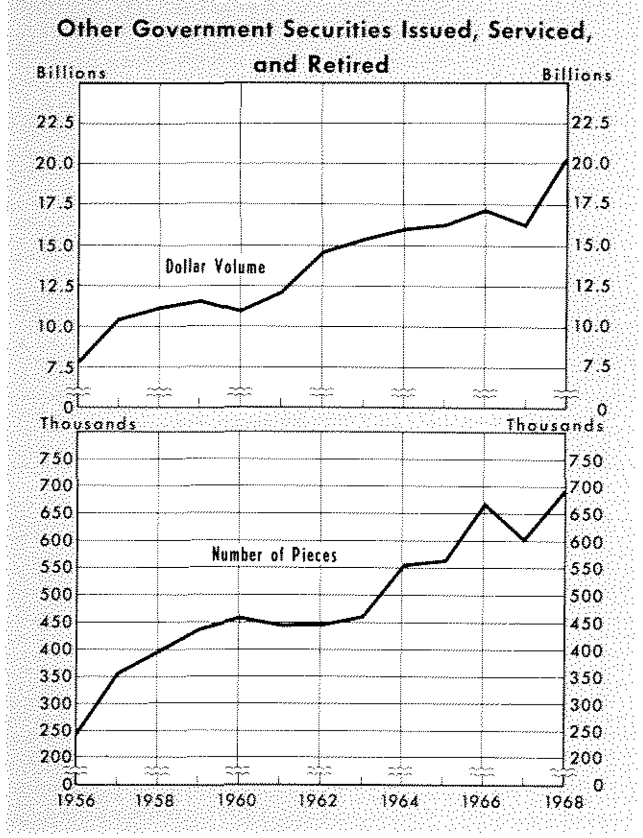
Transfers of Funds

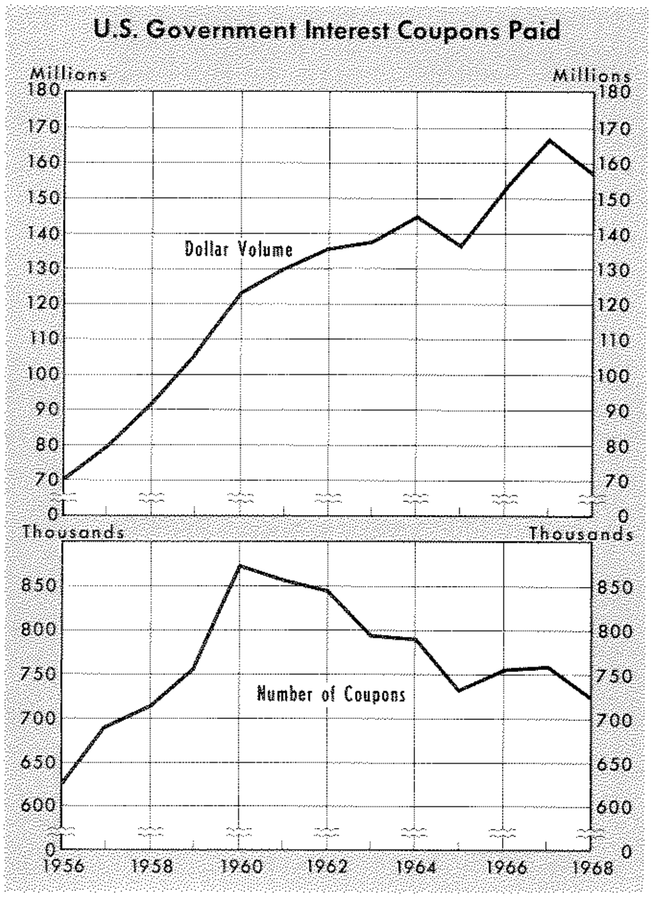
Wire transfers of funds are largely movements of member bank balances between Federal Reserve Banks. Such transfers result primarily from transactions in the Federal funds market, check collection settlements, and transfers in connection with U.S. Treasury obligations. The number and dollar value of such transfers have risen sharply in recent years. This bank participated in 268 thousand transfers in 1968, 8.5 per cent above the previous year. Dollar value, totaling $169 billion in 1968, was up 15 per cent.

Fiscal Agency Operations

Each Federal Reserve Bank acts as depository and fiscal agent of the United States Government. In this capacity the Reserve Banks carry the principal check-







ing accounts of the Treasury, issue and redeem Government securities, administer the Treasury tax and loan accounts of commercial banks, and perform other Government financial duties.

The four offices of this bank issued, exchanged or redeemed 10.6 million United States Savings Bonds valued at $600 million in 1968. The number of savings bonds handled rose 7.5 per cent from 1967 to 1968, although the dollar value fell 4.2 per cent. Other Government securities issued, serviced, or retired totaled 690 thousand, which was 14 per cent above a year earlier, while dollar value rose 25 per cent to $20 billion.

Statements

Total assets of the Federal Reserve Bank of St. Louis were $2.9 billion on December 31, 1968, an increase of 3.4 per cent from a year earlier. Most of the rise in assets was due to increased holdings of U.S. Government securities, which resulted from the operations of the System Open Market Account. These open market operations, which are the major instrument of monetary policy, are authorized by the Federal Open Market Committee and are undertaken at the Federal Reserve Bank of New York by the Committee's agent. Although the securities remain at the New York bank, each Reserve Bank participates in the holdings and earnings of the System Account.

Net earnings before payments to the United States Treasury increased to $84 million in 1968, up 31 per cent from a year earlier. This sharp rise in earnings was due to larger holdings of loans and securities, as well as much higher interest rates on these assets, while expenses increased only moderately. After dividends to member banks and increases in surplus to equal paid-in capital, net earnings are set aside for the U.S. Treasury as interest on Federal Reserve notes. Such payments totaled $81 million in 1968, up 30 per cent from a year earlier.

Table II

COMPARATIVE STATEMENT OF CONDITION
(Thousands of Dollars)

ASSETS	December 31, 1968	December 31, 1967
Gold certificate reserves	352,955	437,041
Federal Reserve notes of other banks	33,010	34,379
Other cash	24,589	33,588
Discounts and advances	770	1,100
U. S. Government securities	1,868,829	1,768,480
Uncollected items	573,768	500,594
Other assets	95,438	76,250
Total Assets	2,949,359	2,851,432
LIABILITIES AND CAPITAL ACCOUNTS		
Federal Reserve notes (net)	1,676,649	1,569,186
Deposits:		
Member banks — reserve accounts	783,570	726,684
U. S. Treasurer — general account	599	70,721
Other	16,086	39,312
Deferred availability cash items	414,762	394,394
Other liabilities and accrued dividends	13,693	10,435
Total capital accounts	44,000	40,700
Total Liabilities and Capital Accounts	2,949,359	2,851,432

Table III

COMPARATIVE PROFIT AND LOSS STATEMENT
(Thousands of Dollars)

	1968	1967
Total earnings	97,649	77,024
Net expenses	13,962	12,868
Current net earnings	83,687	64,156
Net addition (+) or deductions (—)	+291	+56
Net earnings before payments to U. S. Treasury	83,978	64,212
Distribution of Net Earnings:		
Dividends	1,273	1,208
Interest on Federal Reserve notes	81,055	62,402
Transferred to surplus	1,650	602
Total	83,978	64,212