Operations of the Federal Reserve Bank of St. Louis – 1975

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THE operations of the Federal Reserve System are conducted through the Board of Governors and a network of 12 Federal Reserve Banks located in districts across the country. The Federal Reserve System provides a variety of services for member commercial banks, the United States Government, and the public. Federal Reserve Banks clear and collect checks, transfer funds, distribute coin and currency, and extend credit to member banks. They supervise and regulate member banks and bank holding companies. As bankers for the Federal Government, Federal Reserve Banks carry the principal checking accounts of the United States Treasury and market Treasury securities.

The Federal Reserve Bank of St. Louis serves the Eighth Federal Reserve District, which includes all of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee. Branch offices of the St. Louis Federal Reserve Bank are located in Little Rock, Louisville, and Memphis. This article reviews the functions and operations of the St. Louis Federal Reserve Bank and its branches during 1975.

Bank Supervision and Regulation

The Federal Reserve Bank of St. Louis, along with the state banking authorities, has responsibility for the supervision of the 84 state chartered banks in the Eighth Federal Reserve District which have elected to become members of the Federal Reserve System. Bank supervision is concerned essentially with the safety and soundness of individual banks. To ensure solvent and effective banking institutions and adherence to bank laws and regulations, each Federal Reserve Bank conducts field examinations of member banks within its district. These examinations involve an evaluation of the banks' assets and liabilities as well as their capital and liquidity positions and an appraisal of the capabilities of their managements.

Although they have authority to examine all member banks, Federal Reserve Banks generally do not examine national banks, which are required to be members of the Federal Reserve System. Primary responsibility for examination and supervision of national banks, which number 344 in the Eighth District, lies with the office of the Comptroller of the Currency. The Federal Deposit Insurance Corporation (FDIC), along with respective state banking authorities, examines state nonmember banks that are insured by the FDIC. Noninsured banks are examined only by state authorities.

Federal Reserve Banks also supervise bank holding companies. At the end of 1975, the Federal Reserve Bank of St. Louis had jurisdiction over 19 multibank and 71 one-bank holding companies. Prior approval must be obtained from the Federal Reserve System for bank holding company formations and for acquisitions of additional banks and permissible nonbank subsidiaries. Applications for holding company formations and for acquisitions of additional subsidiaries are analyzed by the Bank Supervision and Regulation Department along with the Legal and Research Departments. In the analyses, these departments consider the history, financial condition, and prospects of the institutions, and evaluate the quality of management. They also assess the legal aspects of the proposal and its likely effects on banking and nonbanking competition. During 1975, the Federal Reserve Bank of St. Louis processed 19 applications to form one-bank or multibank holding companies and 20 applications by holding companies to acquire additional subsidiaries, engage *de novo* in nonbank activities, or establish new locations.

Upon formation, bank holding companies are required to register and thereafter to file annual reports with Federal Reserve Banks. These annual reports are analyzed by the staff of the Bank Supervision and

Table I

VOLUME OF OPERATIONS[1]

	Number (thousands)		Percent Change	Dollar Amount (millions)		Percent Change
	1975	1974		1975	1974	
Checks handled[2]	628,079	614,104	2.3%	$225,061.2	$210,413.3	7.0%
Transfers of funds	816	614	32.9	748,395.6	691,202.7	8.3
Coin received and counted	1,160,485	1,292,669	—10.2	122.5	127.8	—4.1
Currency counted or weighed[3]	309,610	291,841	6.1	2,648.1	2,434.1	8.8
U.S. Savings Bonds and Savings Notes[4]	11,659	11,422	2.1	674.2	668.2	0.9
Other Government Securities[4]	576	674	—14.5	40,337.7	28,326.2	42.4
U.S. Government coupons paid	681	646	5.4	267.7	257.9	3.8
Food Stamps received and counted	163,733	180,365	—9.2	567.4	427.7	32.7

[1]Total for the St. Louis, Little Rock, Louisville, and Memphis offices.
[2]Excludes U.S. Government checks and postal money orders.
[3]Beginning in 1974, some currency has been verified by weighing without counting.
[4]Issued, serviced, or redeemed.

Regulation Department to verify accuracy and completeness, to ascertain the financial condition of the holding company and its subsidiaries, and to determine compliance with applicable laws and regulations. Examination reports submitted to the primary Federal supervisory agency of the respective bank subsidiaries are also analyzed by the Federal Reserve Bank to determine the overall condition of such subsidiaries. In addition, the Bank conducts discretionary on-site inspections of bank holding companies and their nonbank subsidiaries. The purpose of these inspections is similar to that of examinations of member banks.

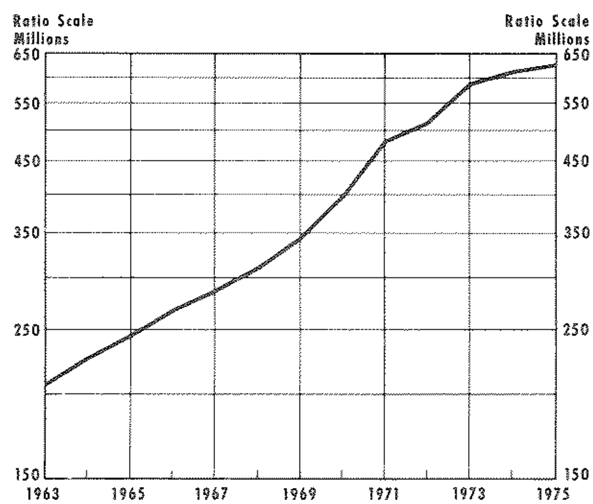
Check Collection

Checks drawn on commercial banks can be cleared through facilities maintained by the Federal Reserve System. Settlement for the checks collected is made by entries to member banks' reserve accounts at Federal Reserve Banks. To increase the speed of the payments process, the Federal Reserve System has instituted a network of Regional Check Processing Centers (RCPCs). Through this network checks are processed overnight, thereby achieving prompt credit and payment for the items. Each of the four Eighth District Federal Reserve offices serves an RCPC area.

Banks deposit checks at RCPCs according to specific time schedules. Personnel at the RCPCs process the checks overnight, deliver them to the paying banks, and obtain payment by an automatic charge to the reserve accounts of Federal Reserve member banks. Checks drawn on member banks are paid on the day of presentment by charges to their reserve accounts or to the reserve accounts of correspondent member banks. Similarly, payment for checks drawn on nonmember banks is effected on the same day the checks are presented for payment by an authorized reduction in the reserve accounts of correspondent member banks. Most of the dollar volume of checks cleared in the Eighth District is accomplished through this overnight system.

The number and dollar amount of checks handled by the Eighth District Federal Reserve offices increased slightly in 1975 (Table I). During the year, 628 million checks with a value of $225 billion were cleared through the four offices, an increase of 2.3 and 7 percent, respectively, over the volumes handled in 1974. The dollar amount of checks cleared has increased steadily since 1970 at an annual rate of 10.2 percent. The quantity of checks, on the other hand,

Number of Checks Handled*



*Excludes U.S. Government checks and postal money orders.

increased at a 6.9 percent annual rate between 1971 and 1975. This represents a deceleration in the growth of the quantity of checks cleared from an 11.2 percent rate in the previous eight years.

Electronic Transfer of Funds

The Federal Reserve Banks make available to member banks a computer-based communication system which can be used to transfer funds from one part of the country to another. Through the Federal Reserve Communications System, member banks may transfer funds to other member banks for their own accounts or for their customers. These electronic transfers of funds are made through debits or credits to member banks' reserve accounts. No charge is made for transfers of $1,000 or more. The System's communication facilities are often used by member banks to transfer marketable Government securities or to lend their excess reserves to other banks for temporary reserve adjustments.[1] Nonmember banks have access to funds transfer services through correspondent banks which are members of the Federal Reserve System.

The size of the communication network in the Eighth District has continued to increase. At the beginning of 1975, three commercial banks in St. Louis and two in Memphis, plus the Louisville, Memphis and St. Louis Federal Reserve offices were already equipped with on-line terminals. During the year, on-line terminals were installed at the Little Rock branch plus an additional 14 commercial banks in the Eighth District. Of these commercial banks, five are located in the Little Rock zone, four in the Louisville zone, four in the St. Louis zone, and one in the Memphis zone. Thus, all four Federal Reserve offices and a total of 19 commercial banks in the Eighth District are currently on-line.

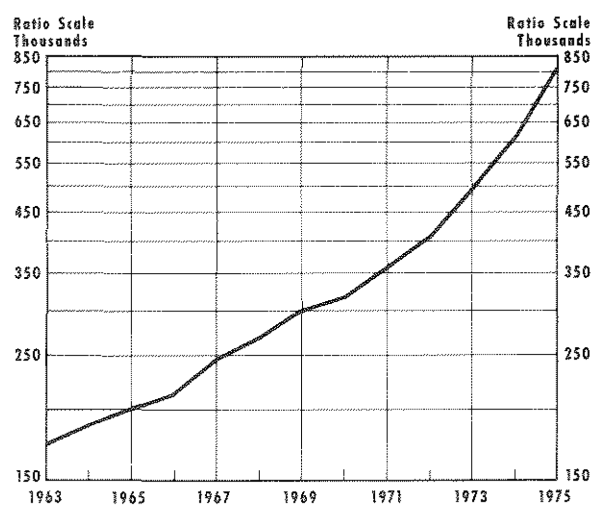
The terminals are linked directly to the computer at the St. Louis Federal Reserve Bank which serves as the communication and switching center for the entire Eighth District. Through the terminals, the on-line commercial banks are able to initiate funds transfers directly from their offices instead of telephoning or teletyping the information to the St. Louis Reserve Bank for transmission. The transfers are then switched automatically by computer from the Federal Reserve Bank of St. Louis through a central switching unit to the Federal Reserve office of the receiving commercial banks with no direct involvement by Federal Reserve personnel. If the receiving bank is also on-line, the transfer is again automatically switched by computer to that bank through its Federal Reserve office without being handled by the personnel at that office.

In processing a transfer of funds, the computer records the accounting data and other information needed to complete the transaction. This information is then used to update member banks' reserve accounts. Banks with on-line terminals receive an immediate record of each transaction.

Since the installation of on-line terminals at the 19 district commercial banks, an average of 2,857 transactions per day sent and received are no longer handled by Eighth District Federal Reserve personnel, reducing the number of transfers handled by District personnel by 78 percent. Automated switching through these terminals has reduced the time for completion of a typical funds transaction from nearly an hour to only a few minutes.

The number and value of transfers facilitated by the four Eighth District offices continues to increase swiftly. This year, 816,000 transfers of funds, with a value of $748 billion, were made by the St. Louis Federal Reserve Bank and its branches. This is a 33 percent increase in the number and an 8 percent increase in the value of 1974 transfers. Since 1973, the number of transfers has increased at an annual rate of 28.5 percent and the dollar value has risen at a 23.4 percent rate. While the quantity of transfers handled by the four Eighth District offices is still far below the quantity of checks cleared, the dollar value

Number of Transfers of Funds



[1]The market which brings banks together for the borrowing and lending of excess reserves is called the Federal funds market.

of funds transferred has surpassed the value of checks handled. Since 1968, the dollar volume of funds transferred has grown at a 23.7 percent annual rate.

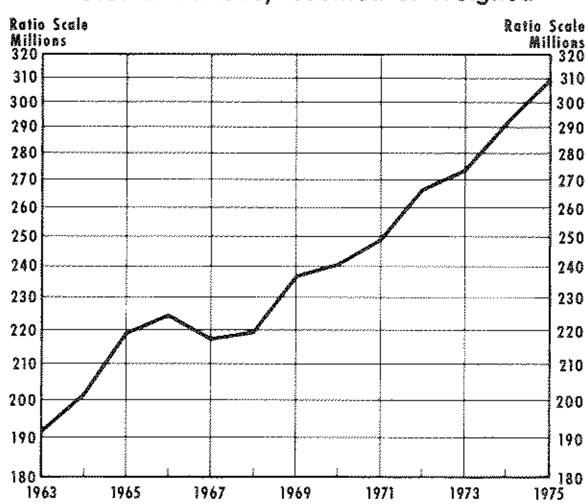
In August 1975, the Federal Reserve Bank of St. Louis implemented the payment of Air Force payroll by electronic means. Payment data on magnetic tape are received twice a month and sorted at the Reserve Bank, which then forwards the data to receiving banks by magnetic tape or paper listings. Settlement is made through credits to the reserve accounts of member banks. Payments made in December, 1975, for example, totalled 21,458 and were transferred to 987 banks. Three of these banks, whose 9,098 items represented 42.4 percent of total payments in December, receive their Air Force payment data on magnetic tape.

Coin and Currency

Virtually all coin and paper currency move into and out of circulation through Federal Reserve Banks. Coin and paper currency play an important role in settling relatively small financial transactions, and currently account for approximately 25 percent of the nation's money stock.

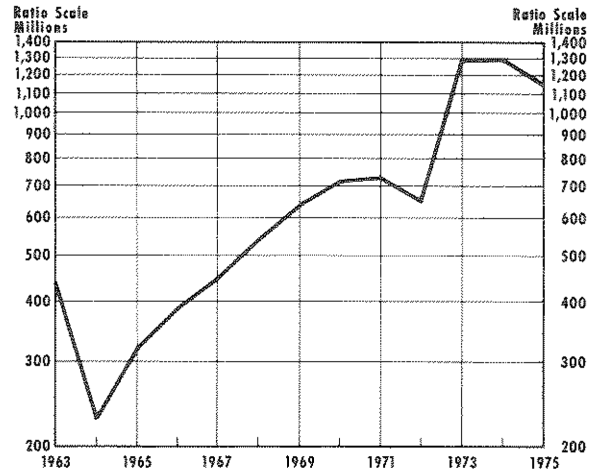
There are seasonal fluctuations in circulating currency which reflect, in part, changes in retail trade, travel, and variations in agricultural production. Currency demand rises, for example, during the intensified shopping period before Christmas and just before certain holidays such as Easter and the Fourth of July. To meet the public's demand for cash, member banks hold stocks of coin and currency which are

Pieces of Currency Counted or Weighed*



*Beginning in 1974, some currency has been verified by weighing without counting.

Number of Coins Received and Counted



maintained through orders from Federal Reserve Banks. These orders are charged by the Federal Reserve Banks to the member banks' reserve accounts. When the stocks of currency on hand exceed desired levels, member banks forward the excess to their Federal Reserve Banks for credit to their reserve accounts. Member banks generally service the demand for currency of nonmember banks.

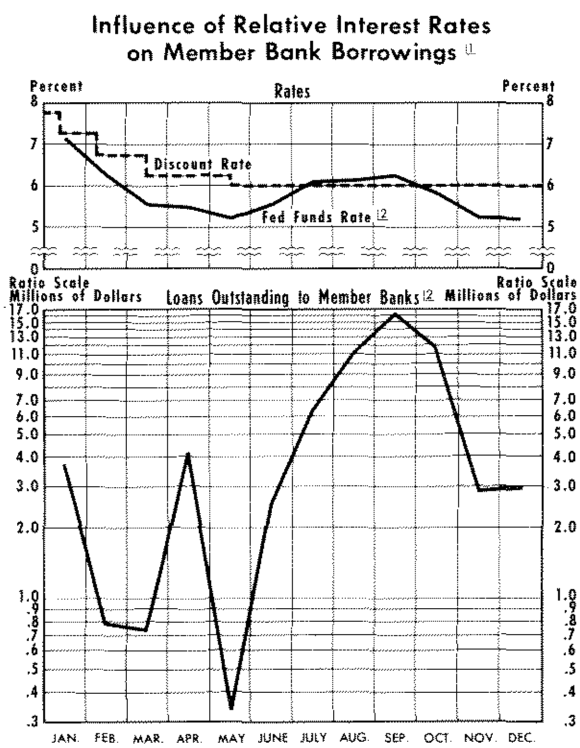
During 1975, about 310 million pieces of currency with a value of $2.6 billion were received and counted or weighed by the four Eighth District offices. This represents increases of 6.1 percent in number and 8.8 percent in dollar volume from 1974. Both the number and value of coins received and counted are down from the 1974 levels. Pieces of coin received and counted totalled 1.2 billion in 1975, amounting to $122.5 million, decreases of 10.2 and 4.1 percent, respectively, from 1974. Despite these declines, combined sorting, counting, and wrapping of coin and currency at all four offices averaged over 6.7 million pieces per working day in 1975.

Paper currency is sorted at the Reserve Banks and that which is no longer usable is removed from circulation and destroyed. During 1975, the Federal Reserve Bank of St. Louis and its branches verified and destroyed currency totalling $865 million.

Lending

The Federal Reserve Bank provides three types of credit to member banks: short-term adjustment, seasonal, and emergency credit. Short-term adjustment credit is extended as banks seek funds to make temporary adjustments in their reserve positions due to unexpected or unusual increases in loan demand, deposit losses, or other portfolio changes encountered by the individual banks. Seasonal credit is extended to those eligible member banks, usually small in size, which have highly seasonal loan demands. Such demands arise from a recurring pattern of movement in deposits and loans. Banks must arrange for this type of credit in advance. During 1975, five banks in the Eighth District made use of this seasonal borrowing privilege. Federal Reserve credit is also available for longer periods to aid member banks in meeting emergency situations which may result from unusual local, regional, or national financial developments, or from adverse circumstances involving particular member banks. No emergency loans were made in 1975.

The interest rate at which member banks borrow from the Federal Reserve Banks is called the discount rate. The volume of credit extended by the Federal Reserve Banks is influenced by the level of the discount rate in relation to other short-term market interest rates. When the discount rate is higher than alternative market interest rates, member banks are reluctant to borrow from the Federal Reserve to make temporary reserve adjustments. They may choose, instead, to obtain funds from the Federal funds market or through markets for other short-term instruments.



[1] Discount rate and loan data for Federal Reserve Bank of St. Louis.
[2] Monthly averages of daily figures.

On the other hand, when the discount rate is low relative to market rates, Federal Reserve lending is likely to increase as member banks take advantage of the cheaper rates. Member banks which borrow from the Federal Reserve under emergency situations are charged a special interest rate which is higher than the discount rate just described.

The discount rate at the start of 1975 was 7.75 percent; it was lowered four times and stood at 6 percent at year-end. The discount rate remained above short-term market interest rates throughout most of the year. Accordingly, member bank borrowings were low, with the daily average of loans outstanding at $5.3 million. This is a substantial decrease from 1974, when the discount rate remained below other market rates and outstanding loans averaged about $55 million. During 1975, the St. Louis Federal Reserve Bank made 280 advances, amounting to $1.1 billion, to 44 Eighth District member banks. This compares with the 2,164 advances totalling $11.1 billion to 111 member banks in 1974.

Fiscal Agency

The Federal Reserve Banks perform a variety of services for the Federal Government in acting as its fiscal agent. As bankers for the Government, Federal Reserve Banks carry the principal checking accounts of the U.S. Treasury, through which the Treasury makes payments for all major types of Government spending. The Treasury receives funds directly into its accounts at Federal Reserve Banks or through deposit accounts, called tax and loan accounts, at approved commercial banks. Such funds are received mainly from the payment of taxes and the sale of Government securities to the public. Funds initially deposited in tax and loan accounts are transferred periodically to the Treasury's accounts at Federal Reserve Banks in order to maintain a balance large enough to meet all of the Treasury's near-term payments.

The Federal Reserve Banks also act on behalf of the Government in marketing Government securities. When the Treasury offers new securities, the Reserve Banks receive subscriptions from those who wish to buy. Reserve Banks then allot the securities among the subscribers according to instructions from the Treasury, collect payment, and deliver them to the purchasers. With funds from the Treasury's accounts, the Federal Reserve Banks pay interest on securities and redeem them at maturity. Reserve Banks also pay interest on and redeem the securities of most Government sponsored corporations.

As fiscal agent, Federal Reserve Banks hold in safekeeping the securities pledged by commercial banks to secure Government deposits in tax and loan accounts. In addition, Reserve Banks will also hold other securities in safekeeping as a service to member banks. U.S. Treasury and most Government Agency securities are held in the form of book-entries in the records of the Reserve Banks. Other securities, such as municipal bonds, are held in physical form in the vaults of the Federal Reserve Banks.

Federal Reserve Banks issue, service, and redeem U.S. savings bonds. During 1975, 11.7 million savings bonds with a dollar value of $674 million were issued, serviced, or redeemed by the St. Louis Federal Reserve Bank and its branches. Also, 576,000 other Government securities totalling $40 billion were issued, serviced, or redeemed, and 681,000 Government bond coupons totalling $268 million were paid by these offices.

As fiscal agents, Federal Reserve Banks also redeem U.S. Government food stamps. A total of 164 million food stamps totalling $567 million were received and counted by the four Eighth District Federal Reserve offices in 1975.

Research

Through its collection of business, monetary, and financial data, the Research Department of the Federal Reserve Bank of St. Louis analyzes economic conditions on a regional, national, and international level. These analyses are used by the President of the Bank in making monetary policy recommendations at meetings of the Federal Open Market Committee and in providing information to the public.[2]

Economic data and analyses on recent developments are available to the public through the Research Department's 10 weekly, monthly, and quarterly publications. The *Review*, with a monthly circulation of 42,000, incorporates much of the analytical research undertaken by the Research staff.

In addition to these functions, the Research Department engages in studies of bank market structure. These studies include review and analysis of proposed bank holding company acquisitions and bank mergers. The particular emphasis of the Research Department's analysis is the expected effects of the proposed acquisitions and mergers on competition and on meeting the convenience and needs of the area to be served.

Bank Relations and Public Information

The Federal Reserve Bank of St. Louis strives to maintain personal contact with member banks through its visitation program. Through this program, the St. Louis Bank keeps member banks informed of changes in Federal Reserve regulations and procedures and

Table II

COMPARATIVE STATEMENT OF CONDITION

(Dollar Amounts in Thousands)

	December 31, 1975	December 31, 1974
ASSETS		
U.S. Government Securities:		
Bills	$1,417,460	$1,437,167
Certificates	—	—
Notes	1,675,830	1,564,002
Bonds	210,358	128,351
TOTAL U.S. GOVERNMENT SECURITIES	$3,303,648	$3,129,520
Discounts and Advances	$ 650	$ 2,100
Acceptances	—	—
Federal Agency Obligations	231,329	183,812
TOTAL LOANS AND SECURITIES	$3,535,627	$3,315,432
Gold Certificate Account	$ 449,371	$ 517,979
Special Drawing Rights Certificate Account	20,000	15,000
Federal Reserve Notes of Other Banks	59,242	47,993
Other Cash	25,419	21,197
Cash Items in Process of Collection	473,744	420,998
Bank Premises (Net)	13,151	13,560
Interdistrict Settlement Account	403,896	—
Other Assets	51,301	36,961
TOTAL ASSETS	$5,031,751	$4,389,120
LIABILITIES AND CAPITAL ACCOUNTS		
LIABILITIES		
Deposits:		
Member Bank — Reserve Accounts	$ 740,663	$ 828,804
U.S. Treasurer — General Account	521,866	154,696
Foreign	8,928	9,860
Other Deposits	9,420	18,737
TOTAL DEPOSITS	$1,280,877	$1,012,097
Federal Reserve Notes (Net)	$3,321,416	$2,969,610
Deferred Availability Cash Items	328,733	305,965
Other Liabilities and Accrued Dividends	38,251	41,384
TOTAL LIABILITIES	$4,969,277	$4,329,056
CAPITAL ACCOUNTS		
Capital Paid In	$ 31,237	$ 30,032
Surplus	31,237	30,032
Other Capital Accounts	—	—
TOTAL CAPITAL ACCOUNTS	$ 62,474	$ 60,064
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$5,031,751	$4,389,120

MEMORANDA: Contingent liabilities on acceptances purchased for foreign correspondents decreased from $33,415,000 on December 31, 1974 to zero on December 31, 1975.

[2]The Federal Open Market Committee consists of the seven members of the Board of Governors of the Federal Reserve System and five of the twelve Reserve Bank Presidents, four of which serve on a rotating basis. It directs the purchase and sale of Treasury and Government agency securities on the open market by the Federal Reserve System.

Table III

COMPARATIVE PROFIT AND LOSS STATEMENT
(Dollar Amounts in Thousands)

	1975	1974	Percent Change
Total earnings	$231,796	$229,890	0.8%
Net expenses	34,083	32,732	4.1
Current net earnings	197,713	197,158	0.3%
Net additions (+) or deductions (−)	−6,714	−2,414	—
Net earnings before payments to U.S. Treasury	$190,999	$194,744	−1.9%
Distribution of Net Earnings:			
Dividends	$ 1,845	$ 1,764	4.6%
Interest on Federal Reserve Notes	187,948	191,433	−1.8
Transferred to Surplus	1,206	1,547	−22.0
TOTAL	$190,999	$194,744	−1.9%

provides assistance if questions arise. The Bank Relations and Public Information Department makes available to all member banks in the Eighth District the Federal Reserve Functional Cost Analysis Program. This program enables a participating bank to measure its profitability by comparing its cost and revenue figures with System-wide average figures of participating banks. The Functional Cost Analysis program makes possible comparisons by size of banks and particular functions. Last year, 50 banks in the Eighth District participated in this program.

It is also through this department that the Bank maintains contact with the public. During 1975, the officers and staff members of the St. Louis Federal Reserve Bank and its branches delivered 302 addresses before groups of bankers, businessmen, and educators. The Bank was represented at 469 banker, 500 professional, and 308 miscellaneous meetings. Under the bank visitation program, 1,121 banks were visited. During 1975, 228 groups requested films, and 5,352 visitors toured the four Federal Reserve offices in the Eighth District.

Financial Statements

At the end of 1975, assets of the St. Louis Federal Reserve Bank and its branches totalled $5 billion, an increase of 14.6 percent from the previous year (Table II). Increases in Federal agency obligations and in U.S. Government notes and bonds were largely responsible for the increase in total assets. Approximately 66 percent, or $3.3 billion, of the Bank's total assets were held in U.S. Government securities. The remaining assets, which include the gold certificate account, the special drawing rights certificate account, Federal Reserve notes of other banks, and interdistrict settlement account, amounted to $1.7 billion.

Total liabilities of the four offices of the St. Louis Federal Reserve Bank increased to $5 billion in 1975, 14.8 percent higher than the year-earlier figure. A major source of this change was the increase of $367 million in U.S. Treasury deposits held at the Bank. Total deposits rose 26.6 percent in 1975, to $1.3 billion. Federal Reserve notes, the principal type of circulating currency, amounted to $3.3 billion, 66.8 percent of the Bank's total liabilities.

Federal Reserve Banks' earnings result mainly from interest on Government securities, loans to member banks, and other investments. The portion of the Federal Reserve System's earnings allocated to the St. Louis Bank and its branches increased 0.8 percent in 1975, to $232 million (Table III). After statutory dividends of $1.8 million were paid to member banks and operating expenses of $34 million were covered, $1.2 million was transferred to surplus and $188 million, or 81.1 percent of total earnings, was paid to the Treasury as interest on Federal Reserve notes.