Operations of the Federal Reserve Bank of St. Louis—1976

As the central bank of the United States, the Federal Reserve performs three basic functions: the implementation of monetary policy, the supervision and regulation of member banks, and the provision of various services to the public, the U. S. Treasury, and commercial banks. These operations are conducted through the 12 regional Federal Reserve Banks located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. In addition, 25 branches of the 12 regional banks perform similar functions in territories served by such branches. The Eighth Federal Reserve District is served by the head office in St. Louis and branches in Little Rock, Louisville, and Memphis, and covers a region which includes the state of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee.

Since the formulation and implementation of monetary policy is discussed in other *Review* articles, this article reviews the volume of service functions performed by the Federal Reserve Bank of St. Louis and its branches during 1976. These services include supervising and regulating banks, collecting checks, transferring funds, supplying coin and currency, lending funds, and conducting fiscal agency operations for the Federal Government.

Bank Supervision and Regulation

The Federal Reserve Bank of St. Louis, together with the state banking authorities, has responsibility for the supervision of the 82 state chartered banks in the Eighth Federal Reserve District which have elected to become members of the Federal Reserve System. An annual examination is made of state member banks in order to evaluate their assets, liabilities, capital accounts, liquidity, operations, and management. Attention is also focused on compliance with applicable laws and regulations. Information gathered from such examinations is utilized by banking authorities to direct attention to potential problems or unsatisfactory conditions. Supervision seeks to foster an effective banking system in which the public interest is safeguarded.

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 348 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 1976, the Federal Reserve Bank of St. Louis had jurisdiction over 19 multibank and 77 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. 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 1976, the Federal Reserve Bank of St. Louis received 17 applications to form one-bank or multibank holding companies and 25 applications by holding companies to acquire additional subsidiaries, engage *de novo* in nonbank activities, or establish new locations. Of this total, 33 applications were approved, 1 was disapproved, 1 was withdrawn, and 7 are currently being processed.

Upon formation, bank holding companies are required to register and thereafter to file annual reports with Federal Reserve Banks. These annual reports are

Table I

VOLUME OF OPERATIONS[1]

	Number (thousands)		Percent Change	Dollar Amount (millions)		Percent Change
	1976	1975		1976	1975	
Checks handled[2]	667,678	628,079	+6.3%	$254,357.5	$225,061.2	+13.0%
Transfers of funds	974	816	+19.4	870,732.2	748,395.6	+16.3
Coin received and counted	1,139,960	1,160,485	−1.8	119.2	122.5	−2.7
Currency received and counted	280,948	309,610	−9.3	2,806.9	2,648.1	+6.0
U.S. Savings Bonds and Savings Notes[3]	12,745	11,659	+9.3	743.2	674.2	+10.2
Other Government Securities[3]	481	576	−16.5	68,307.0	40,337.7	+69.3
U.S. Government coupons paid	592	681	−13.1	266.4	267.7	−.5
Food Stamps received and counted	133,019	163,733	−18.8	555.7	567.4	−2.1

[1]Total for the St. Louis, Little Rock, Louisville, and Memphis offices.
[2]Excludes U.S. Government checks and postal money orders.
[3]Issued, serviced, or redeemed.

analyzed by the staff of the Bank Supervision and Regulation Department to verify accuracy and completeness, to ascertain the current 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, discretionary on-site inspections of bank holding companies and their nonbank subsidiaries are conducted by Supervision and Regulation personnel. The purpose of these inspections is similar to that of examinations of member banks.

Check Collection

A major activity of the Federal Reserve System is the collection and clearing of checks drawn on commercial banks. Payment for checks drawn on a member bank is effected by a charge to the reserve account of that bank or the reserve account of a designated member correspondent bank. Checks drawn on a nonmember bank also are collected by a charge to the reserve account of a designated member correspondent bank.

As the economy expanded during 1976, check volume also increased. The Federal Reserve Bank of St. Louis and its Branches cleared 668 million checks totaling $254 billion during the past year (Table I). This represented a 6.3 percent increase in the volume of checks and a 13 percent increase in the dollar value over 1975 levels.

In order to meet the System's goal of increasing the speed of the check payment process, the Federal Reserve instituted a network of Regional Check Processing Centers (RCPC's). Through this network checks are collected overnight, thereby achieving prompt credit and payment for checks. Each of the four offices of the Eighth Federal Reserve District is a Regional Check Processing Center. The zones served by the Little Rock, Louisville, and Memphis Branches have been completely converted to RCPC collection methods. In addition, in order to provide improved check service, 47 banks in Indiana were transferred from the St. Louis Office to the Louisville Branch RCPC, effective February 1, 1976. This transfer of banks affected check operations only.

Electronic Transfer of Funds

Wire transfers have been used for many years and are provided for the purpose of facilitating transfers of bank balances between banks. In this connection, the Federal Reserve and its member banks utilize a computer network for transferring funds nationwide. Through the use of this system, many member banks may render more efficient service to their customers and effect payment for the purchase and sale of Fed funds. Nonmember banks benefit from this service indirectly through correspondent member banks.

Settlement for such transfers are made by debits and credits to reserve accounts. Generally, transfers through this network are for large amounts with no charge levied for transfers of $1,000 or more. Member banks also utilize these facilities to transfer marketable government securities. All four Federal Reserve offices in the Eighth District and 19 commercial banks with a significant volume of transfers are currently on-line. Present plans include the installation of on-line terminals in one bank in Evansville, Indiana, and in another bank in St. Louis, Missouri, increasing the total of on-line banks in this District to 21. Several other banks are considering the installation of terminals. Over 300 member banks nationwide have installed on-line terminals connected to their Federal Reserve District computers. Member banks not having on-line terminals may telephone their transfers to their local Federal Reserve office where the transfers are entered into the system over Federal Reserve Bank terminals.

Terminal installations at the banks are connected to the computer at the St. Louis Federal Reserve office which is the switching center for the Eighth District. Operators of the terminals in the commercial banks can initiate transfers directly from their banks, at which time the transfers are switched automatically through the computer at the St. Louis office through a central switching computer at Culpeper, Virginia to another Federal Reserve District for the account of the receiving commercial bank. Transfers of funds may also be made between member banks in the same District. If the receiving bank is on-line, transfers are switched automatically to that bank's terminal through its Federal Reserve District computer.

By transferring funds electronically, all necessary information for completing the transfer is obtained. Third-party information may be entered to identify the originator and/or the recipient of the funds. Member bank reserve accounts are debited and credited automatically, and banks with on-line terminals receive an immediate record at the conclusion of each transaction. The use of electronic equipment for transfers of funds has reduced the time required for completion of a typical transaction from almost an hour to a matter of only a few minutes.

With the installation of on-line terminals at the 19 District commercial banks, an average of 3,116 transactions per day were sent and received by electronic means, and thus did not require manual processing by Eighth District personnel. This represented 81 percent of total transfers processed.

Volume and dollar amounts of transfers processed by the Eighth District continues to increase. During 1976, 974,000 transfers amounting to $871 billion were completed by the Federal Reserve Bank of St. Louis and its branches. This is a 19.4 percent increase in number and a 16.3 percent increase in value over the previous year.

Federal Recurring Payments

The Air Force payroll has been processed by electronic means since August 1975, and has a current volume of 25,000 payments per month. In 1976, a number of other Federal recurring payments applications were implemented for settlement through the electronic funds transfer system (EFTS). In August, Social Security payments were initiated and a current volume of 216,000 monthly payments is being processed by the Federal Reserve Bank of St. Louis. In October, Air Force Retired payments were implemented for one pilot bank in this District with a monthly volume of 557 payments. Payments for the remaining financial institutions in this District are scheduled to begin in March 1977. Also in October, Revenue Sharing payments were implemented with a current volume of 2,000 payments per quarter. Civil Service Annuity payments and Railroad Retirement payments were both begun in December with monthly payment volume of 4,400 and 3,200, respectively.

Automated Clearing Houses

The Kentuckiana Automated Clearing House (KACHA) operated by the branch office in Louisville, Kentucky, commenced operations in April 1976, and currently is processing a total of about 13,000 commercial debit and credit items monthly. The Mid-America Payments Exchange (MAPEX) operated by the Federal Reserve Bank of St. Louis has been operational since July 1976, but has processed only a few commercial items since that time. The Mid-South Automated Clearing House (MSACHA), which will be operated by the Memphis Branch, is scheduled to begin operations in February 1977.

Coin and Currency

Coin and currency, comprising approximately 25.6 percent of the money stock, are more widely used than demand deposits in consummating small transactions, primarily because of the convenience. Personal checks generally are used for transactions of larger amounts. The Federal Reserve Banks supply virtually all of the coin and currency in circulation to member and nonmember banks. When orders are received for currency and coin from a member bank, its reserve account is charged for the amount of the shipment. Similarly, deposits of currency and coin with the Federal Reserve Banks are credited to the member bank's reserve account. Nonmember banks generally receive or deposit coin and currency through their correspondent member banks. Demand for coin and currency fluctuates greatly, with seasonal changes in retail transactions, vacation and holiday travel, and agricultural production having a substantial impact.

Approximately 281 million pieces of currency valued at $2.8 billion dollars were received and verified at the four offices in the Eighth District during 1976. This was a decline of 9.3 percent in number of pieces, but a 6 percent increase in dollar volume from 1975. The number and value of coins received and verified showed a decline from 1975 levels. Pieces of coin received and counted totaled 1.1 billion amounting to $119.2 million. This represented decreases of 1.8 and 2.7 percent, respectively, from last year's levels. Combined sorting, counting and wrapping of coin and currency at the four offices averaged almost 6.1 million pieces per working day in 1976, down slightly from 1975.

In sorting currency at the Reserve Banks, that which is no longer usable is removed from circulation and destroyed. During 1976, the Federal Reserve Bank of St. Louis and its branches verified and destroyed currency totalling $726 million.

Lending

Three types of credit are made available to member banks in the Eighth Federal Reserve District: short-term adjustment, seasonal, and emergency credit. Member banks may make temporary adjustments in their reserve positions due to deposit losses, unexpected or unusual requests for loans, or other changes encountered by member banks. Member banks which have highly seasonal loan demands may apply to this Bank for seasonal credit. Such loan demands are due primarily to a recurring pattern of change in deposits and loans. Arrangements for this type of credit must be made in advance. Credit for longer periods is also available to member banks to meet emergency conditions which may result from unusual local, regional, or national financial situations, or adverse circumstances where member banks are involved.

During 1976, the Board of Governors of the Federal Reserve System amended Regulation A "Extensions of Credit by Federal Reserve Banks." The amendment provided more flexible and liberal conditions under which member banks, with well-defined seasonal requirements for funds, are permitted to borrow from the Federal Reserve System. The major change in the revised regulation permits member banks to be eligible for seasonal credit from the Federal Reserve even though they maintain a portion of their liquid assets in the form of Federal funds (loans of excess reserves to other banks), so long as such holdings conform to the bank's normal operating experience.

The discount rate is the rate of interest charged by the Federal Reserve Bank on loans to member banks. The level of the discount rate, in relation to other short-term market rates, has an influence on the volume of credit extended by the Federal Reserve Bank. When the discount rate is higher than other market interest rates, member banks usually choose to obtain funds from other sources to make temporary reserve adjustments. When the discount rate is low in relation to other market rates, member banks tend to rely more heavily on the Federal Reserve for funds.

At the start of 1976, the discount rate was 6 percent. The rate was reduced twice during the year, and at year end it was 5.25 percent. Throughout most of 1976, the discount rate was above the short-term interest rates. As a result of this difference in rates, member bank borrowings were low. The daily average of loans outstanding amounted to $2.2 million in 1976, less than half the $5.3 million for 1975. There were 231 loans amounting to $428.9 million to 32 Eighth District member banks by the Federal Reserve Bank of St. Louis during 1976. This is a decline from 1975 when 280 loans totaling $1.1 billion were made to 44 member banks.

Fiscal Agency

As a fiscal agent of the Federal Government, the Federal Reserve Bank performs many services. The United States Treasury's account, through which the Treasury makes payments for various types of Government spending, is maintained in the System. Funds received by the Treasury are deposited into its account at the Federal Reserve Banks or into tax and loan accounts at designated commercial banks. These funds represent mainly receipts from payment of taxes and payment from the sale of Government securities to the public. Balances in the tax and loan accounts are transferred upon call to the account of the Treasury of the United States at Federal Reserve Banks in order for the Treasury Department to have use of the funds.

The Federal Reserve Banks also act on behalf of the Government in marketing Treasury securities. When the Treasury offers new securities, the Reserve Banks prepare and distribute applications and official offering circulars, receive subscriptions from those who wish to buy, allot the securities among the subscribers according to the terms of the offering, collect payment, and make delivery to the purchasers. With funds from the Treasury's account, Federal Reserve Banks pay interest on securities and redeem them at maturity. Reserve Banks also pay interest on and redeem securities of most Government-sponsored corporations.

The Federal Reserve Banks will, as fiscal agent, hold in safekeeping securities pledged to secure Government deposits in tax and loan accounts. Federal Reserve Banks will also hold securities of member banks in safekeeping. United States Treasury and most Government Agency securities are held in book-entry form by the Reserve Banks.

United States Savings Bonds are issued, serviced, and redeemed by the Federal Reserve Banks. In 1976, 12.7 million savings bonds totaling $743 million were handled by Eighth District offices. In addition, marketable Treasury and Government Agency securities in definitive and book-entry form are issued, revised, and redeemed by Federal Reserve Banks. Last year, 409,000 pieces of definitive securities amounting to $15.3 billion and 72,500 book-entry transactions amounting to $53 billion were handled by the Federal Reserve Bank of St. Louis and its branches. Coupons of U. S. Treasury and Agency Securities totaling 592,000 pieces amounting to $266 million were paid by Eighth District offices.

U. S. Government food stamps are also redeemed by Federal Reserve Banks. A total of 133 million food stamps amounting to $555.7 million were received and counted by the Federal Reserve Bank of St. Louis and branch offices during 1976.

Research

The Federal Reserve System, while working closely with other policymaking agencies in the Government, has the primary role in the utilization of instruments of monetary policy. Through representation on the Federal Open Market Committee, Federal Reserve Banks play an important role in formulating System policy.[1] Also, the 12 Federal Reserve Banks contribute to System awareness of local and regional business conditions through the collection of business, monetary, and financial data. Information gathered is used by the President of this Bank in discussions during meetings of the Federal Open Market Committee.

The regional, national, and international economic data collected and processed by this department are made available to the public through its various releases. Analysis of the data serves as the basis of articles appearing in this *Review*. The *Review*, which is published monthly, has a circulation of 43,000 copies and is distributed both nationally and internationally.

The Research Department assists in the bank regulatory function by reviewing the impact of bank mergers and holding company acquisitions on the community to be served.

Bank Relations and Public Information

The Bank Relations and Public Information Department endeavors to establish and maintain personal contact with all banks located in the Eighth Federal Reserve District through a structured visitation program and attendance at various banking functions. An effort is also made to increase public understanding of the functions, responsibilities, and policies of the Federal Reserve System by distributing films and publications, conducting in-house tours, delivering speeches, and conducting seminars. Emphasis is placed on maintaining contact with schools and colleges in this District.

Member banks are kept informed of changes in Federal Reserve regulations and procedures through the visitation program. The Functional Cost Analysis Program offered to member banks is administered by this department. This program provides participating member banks costs by function and permits comparison with banks of similar size. Technical assistance is furnished during the first year to banks desiring to participate in the program. Last year, 52 Eighth District member banks participated in the program.

In maintaining contact with the banking industry and the general public during 1976, the officers and staff members of the Federal Reserve Bank of St. Louis and its branches delivered 255 addresses before bankers, business groups, and educators. The bank was represented at 375 banker, 532 professional, and 195 miscellaneous meetings. Under the bank visitation program, 944 banks were visited. During 1976, 241 groups requested films, and 5,115 visitors toured the four Federal Reserve offices in the Eighth District.

Financial Statements

Assets of the Federal Reserve Bank of St. Louis and its branches amounted to $5.3 billion. This rep-

[1]The Federal Open Market Committee (FOMC) consists of the seven members of the Federal Reserve's Board of Governors and five of the twelve Reserve Bank Presidents. The FOMC directs the purchase and sale of Treasury and Government agency securities on the open market.

Table II

COMPARATIVE STATEMENT OF CONDITION

(Dollar Amounts in Thousands)

ASSETS	December 31, 1976	December 31, 1975
U.S. Government Securities:		
Bills	$1,572,649	$1,417,460
Certificates	—	—
Notes	1,955,859	1,675,830
Bonds	274,192	210,358
TOTAL U.S. GOVERNMENT SECURITIES	$3,802,700	$3,303,648
Loans	300	650
Acceptances	—	—
Federal Agency Obligations	276,987	231,329
TOTAL LOANS AND SECURITIES	$4,079,987	$3,535,627
Gold Certificate Account	466,364	449,371
Special Drawing Rights Certificate Account	50,000	20,000
Federal Reserve Notes of Other Banks	56,631	59,242
Other Cash	26,661	25,419
Cash Items in Process of Collection	321,441	473,744
Bank Premises (Net)	12,668	13,151
Interdistrict Settlement Account	270,478	403,896
Other Assets	63,456	51,301
TOTAL ASSETS	$5,347,686	$5,031,751
LIABILITIES AND CAPITAL ACCOUNTS		
LIABILITIES		
Deposits:		
Member Bank — Reserve Accounts	$ 765,374	$ 740,663
U.S. Treasurer — General Account	573,537	521,866
Foreign	7,778	8,928
Other Deposits	58,153	9,420
TOTAL DEPOSITS	$1,404,842	$1,280,877
Federal Reserve Notes (Net)	$3,592,623	$3,321,416
Deferred Availability Cash Items	249,108	328,733
Other Liabilities and Accrued Dividends	36,009	38,251
TOTAL LIABILITIES	$5,282,582	$4,969,277
CAPITAL ACCOUNTS		
Capital Paid In	$ 32,552	$ 31,237
Surplus	32,552	31,237
Other Capital Accounts	—	—
TOTAL CAPITAL ACCOUNTS	$ 65,104	$ 62,474
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$5,347,686	$5,031,751

resented an increase of 6.3 percent over the previous year (Table II). Increases in U. S. Government securities were largely responsible for this change. About 71 percent, or $3.8 billion, of the Bank's total assets were held in U. S. Government securities. The gold certificate account, cash items in process of collection, Federal Reserve notes of other banks, and interdistrict settlement account amounted to $1.5 billion which represented the remaining assets.

Table III

COMPARATIVE PROFIT AND LOSS STATEMENT

(Dollar Amounts in Thousands)

	1976	1975	Percent Change
Total earnings	$256,795	$231,796	10.8%
Net expenses	36,444	34,083	6.9
Current net earnings	$220,351	$197,713	11.4%
Net additions (+) or deductions (—)	+460	—6,714	—
Net earnings before payments to U.S. Treasury	$220,811	$190,999	15.6%
Distribution of Net Earnings:			
Dividends	$ 1,915	$ 1,845	3.8%
Interest on Federal Reserve Notes	217,582	187,948	15.8
Transferred to Surplus	1,314	1,206	9.0
TOTAL	$220,811	$190,999	15.6%

Total liabilities of the Federal Reserve Bank of St. Louis and its branches amounted to $5.3 billion last year, 6.3 percent higher than the previous year. A principal reason for this change was the increase of $271 million of Federal Reserve notes outstanding. There was an increase in total deposits of 9.7 percent in 1976 to $1.4 billion. Federal Reserve notes, the principal type of currency in circulation amounted to $3.6 billion, representing 68 percent of the Bank's liabilities.

Earnings of the Federal Reserve Bank of St. Louis and its branches increased 10.8 percent in 1976, to $257 million (Table III). After statutory dividends amounting to $1.9 million were paid to member banks and operating expenses of $36 million were covered, $1.3 million was transferred to surplus and $218 million, or 84.7 percent of total earnings, was paid to the Treasury as interest on Federal Reserve notes.