The Federal Reserve Bank of St. Louis

ANNUAL REPORT 1983

THE FEDERAL RESERVE BANK of ST. LOUIS

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The Federal Reserve Bank of St. Louis, one of 12 regional Federal Reserve Banks in the United States, serves the Eighth Federal Reserve District. The Eighth District comprises the state of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee. In addition to the head office in St. Louis, there are three branch offices located in Little Rock, Louisville and Memphis.

On The Cover:
The Bank's new logo

Theodore H. Roberts (left), president, and W. L. Hadley Griffin, chairman of the board.

This is the first annual report of the Federal Reserve Bank of St. Louis. Since passage of the Monetary Control Act of 1980, we serve a broader constituency, including thrift institutions and non-member banks. We are now required to recover the cost of operating services provided to all depository institutions. With a change in senior management and a new orientation to the marketplace, we felt it appropriate to report on important developments at the Bank in 1983.

There is clearly a new dimension to our service for depository financial institutions. We have made an unqualified commitment to excellence. Starting with an attitude of customer responsiveness, we have developed new products and improved the quality of existing services. Our efficiency has been enhanced by a major investment in technology. We aim to make our services the standard for a competitive market.

On money and monetary matters, this Bank has long enjoyed a reputation for distinctive research. We intend to continue that emphasis and build on it. Concurrently, we are expanding our regional economic studies in order to identify and analyze business, agricultural and financial trends and developments in the Eighth Federal Reserve District.

Meanwhile, the supervision of banking has become more challenging under continuing deregulation, particularly in periods of economic stress such as we have recently experienced. New unregulated competitors and deposit interest rates approaching market levels have intensified earnings pressure on banks, placing a higher premium on good management. In this environment, our focus is the early identification of bank asset quality problems or earnings deterioration and the maintenance of adequate capital and liquidity.

As we enter a new year, we can look back at 1983 as a period when a broadly based economic recovery turned into a genuine expansion. Considerable progress was made in reducing both inflation and unemployment. Problems remain, particularly in the agricultural and export sectors of the economy, but clearly there is sufficient momentum to assure further economic gains this year despite the slower growth that is typical of this stage of the business cycle. The management of monetary policy will apparently again be complicated by the continuation of an extraordinarily large federal deficit.

On January 31, 1983, Lawrence K. Roos retired as president of this seventy-year-old institution after serving with distinction for seven years. In particular, he was an articulate spokesman for the monetary viewpoint traditionally associated with the Bank. A special debt of gratitude is owed also to Armand C. Stalnaker, who was a director for six years and provided able leadership as chairman of the board for five years. He was succeeded as chairman on January 1, 1983, by W. L. Hadley Griffin. Ronald Terry, chairman, First Tennessee National Corporation, Memphis, also made a significant contribution by representing the Eighth Federal Reserve District for three years as a member of the Federal Advisory Council, serving as president of that organization in 1983. He was succeeded as our representative by William H. Bowen, chairman, First Commercial Bank, N.A., Little Rock.

As you can see, the past year has been an interesting one for the Federal Reserve Bank of St. Louis. The details of the year's events unfold on the following pages.

Theodore H. Roberts
President and Chief Executive Officer

February 1, 1984

Customer Service representatives spend about 80 percent of their time outside the Bank, presenting the full range of Fed services to District depository institutions.

The Bank's Information Center provides data to keep Marketing and other staff abreast of changing market conditions.

The Federal Reserve Bank of St. Louis made significant commitments during 1983 to reinforce its relationships with District depository institutions on every level. This, in essence, is what the new dimension is all about.

In April and May, top officials of the Bank participated in seminars for chief executive officers of depository institutions throughout the District. More than 1,000 representatives of depository institutions attended these seminars.

The pace of change was set with the development of two divisions—Marketing and Customer Services.

The Marketing Division is charged with analyzing the service needs of Eighth District depository institutions, then designing products to fill them. One example of this process was the development in 1983 of FEDNET, an innovative new dial-up wire transfer network that has stimulated an enthusiastic customer response.

The Customer Services Division is charged with handling customer inquiries, complaints, or requests for information about Fed services. This division added personnel during the year in an effort to achieve the highest degree of customer satisfaction.

While these two divisions are the focus of change, the renewed emphasis on service is now reflected throughout the organization. To ensure this, the Bank in 1983 implemented a customer awareness program for its employees that taught specific techniques for listening and responding to customers. This program was part of an ongoing effort to redirect employee viewpoints and concerns to the outside. Our corporate identity program, including a new logo, symbolizes this more externally oriented attitude.

These and other changes have improved our ability to provide high quality services at a reasonable price. We also, however, have expanded our involvement in other areas.

We have greatly expanded our publication of timely and useful economic information with the birth of three new publications covering Eighth District business, banking and finance, and agriculture. These publications are part of an effort by the Research and Public Information Department to extend to Eighth District readers the same reliable analysis of this region that it has traditionally provided for the nation.

Several major official changes were made during 1983. Theodore H. Roberts took office as president and chief executive officer of the Bank on February 1, 1983. Also during the year, Joseph P. Garbarini was promoted to first vice president, while Martha L. Perine was named vice president and controller, and Randall C. Sumner and Michael T. Moriarty were promoted to vice presidents in the Banking Supervision and Regulation Department, and Cash and Securities departments, respectively. In addition, James E. Conrad was promoted to vice president and manager of the Louisville Branch, and Paul I. Black, Jr., to vice president and manager of the Memphis Branch.

The decision of the Federal Reserve to switch to contemporaneous reserve accounting in early 1984 prompted the St. Louis Fed to devise a plan to help District institutions prepare for the change. During the month of November, Bank staff traveled to seven District cities to explain how the changes will affect District institutions.

In short, we have placed renewed emphasis on a strongly customer-driven attitude. The goal: better products, better services and better relationships with Eighth District depository institutions.

Marketing personnel discuss various new products and services that the Bank will offer in 1984.

The Customer Service staff inside the Fed handle most customer inquiries over the telephone.

Bank staff members train customers in the use of FEDNET, an electronic communications service that employs desktop personal computers.

Telecommunications equipment operators in the busy wire room form the nerve center of the Fed's wire transfer service.

Check Processing

We took a number of steps in 1983 to hold down the cost of check processing while offering the fastest possible availability on check funds. In addition, efforts are continuing to offer institutions more services and greater flexibility in choosing check processing services.

Availability was improved throughout the Federal Reserve System as a result of the restructuring of the Interdistrict Transportation System (ITS) hub-and-spoke arrangement. In the Eighth District, for example, one-day availability on Regional Check Processing Center endpoints increased 5 percent, and later deposit deadlines were offered on 47 percent of city endpoints and 69 percent of RCPC endpoints.

The pricing of Fed float in mid-1983 marked the start of a combination of efforts to reduce float, including the use of additional transportation at peak times to collect checks. These and other aggressive moves to reduce float will lower the cost of check processing for all depository institutions.

New payor bank services were offered in 1983. In one of these services, the Fed provides payments information needed to support cash management products for customers.

And a wide range of check-sorting operations is now in place, giving institutions the flexibility to choose among various price, deadline and sorting alternatives. The St. Louis Fed processed over 550 million checks last year with a dollar value of almost $350 billion.

Advanced computer equipment provides support for all Fed services.

In addition to conventional paper check services, we also provide Automated Clearing House services. Recurring payments such as government payments or commercial payrolls can be processed through a nationwide ACH network. ACH was the fastest-growing area of Fed services last year. Volume increased 25 percent from 16-1/2 million to nearly 21 million items. We now offer innovative ACH services such as cash concentration debits to move funds through this network even more quickly.

Wire Transfer

Wire transfer, already one of the most valuable Federal Reserve services for District depository institutions, continued to grow during 1983. Wire transfer volume registered over 2-1/2 million transfers.

Several changes were begun or completed during the year to ensure that wire transfer will remain an efficient and reliable service.

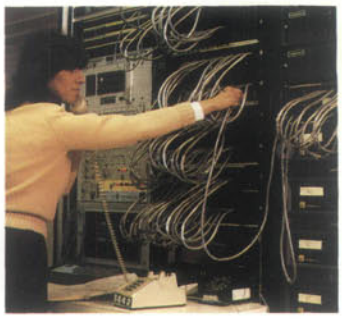
The Federal Reserve Communications System (FRCS-80)—a technologically advanced, decentralized communications network—became fully operational in 1983, providing increased capacity and improved reliability. This network replaced the FRCS-70 system which routed all transfers through a central switching center in Culpeper, Virginia. FRCS-80 allows most transfers to be transmitted directly to their destination, eliminating the transfer to a switching center.

A variety of check services keeps the Bank's check-sorting equipment operating round-the-clock, six days a week. Each sorter can process more than 100,000 checks an hour.

In addition to this improvement at the System level, we installed a new communications switching system specially adapted to handle wire transactions through FEDNET, our new dial-up on-line wire transfer network.

Under this network, depository institutions can utilize a desktop computer to send wire transfer messages, an arrangement that combines the advantages of the latest microcomputer technology with time and cost savings to the customer. FEDNET is the beginning of a major effort to bring more and better electronic services to more depository institutions.

In a move to reduce off-line costs while maintaining high quality, all off-line wire operations were consolidated at the St. Louis office during the year.



The Network Operations staff monitors the District electronic communications network, responding quickly to line or equipment problems.

Armored carriers deliver bags of currency and coin from depository institutions every morning, then pick up bags for return delivery in the afternoon.

Cash

As a public service, the Federal Reserve Bank issues, sorts and verifies currency and coin free of charge. Institutions are charged only for the transportation fees involved in moving cash to and from depository institutions. Last year, more than 420 million pieces of currency, with a total dollar value of over $4.7 billion, were processed and delivered to District depository institutions. In addition, we processed nearly 660 million pieces of coin at a dollar value of $84 million.

The mission of our Cash Department is to provide high quality currency and coin in the receiving, processing and shipping functions.

In order to place high quality currency in circulation, nearly 100 percent of incoming currency is processed through the latest available recognition and sorting equipment. Currency deemed unfit for circulation is automatically shredded.

High-speed currency sorters count and verify the fitness of currency at the rate of 50,000-70,000 bills an hour.

Securities

In securities services, we continued to build on our reputation for fast availability on coupon collections. The noncash collection section provides one-day availability on most city items and as few as four-days availability on other coupons. The Securities Department handled more than 150,000 noncash collection transactions last year and over six million total items.

Financial institutions' deposits are "strap-counted" before being sent to the high-speed sorters.

Because of a reduction in costs, the past year saw a substantial drop in some fees for securities services, while a high quality of service was maintained. In addition to coupon collection, we offer safekeeping for securities owned by institutions or their customers. Municipal and corporate securities are held as physical certificates in vaults, while U.S. Treasury and government agency securities are kept in book-entry form.

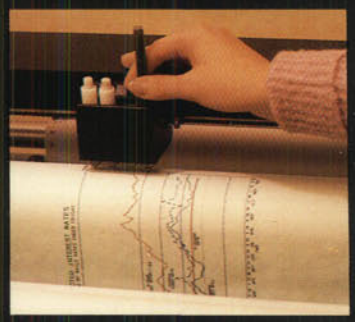
In the near future, more definitive securities may be converted to book-entry form to provide greater security, easier payment, and more efficient safekeeping and recordkeeping. Meanwhile, we continue to seek the best alternatives for storing and servicing customer securities.

Automation

To support its priced and non-priced services, the St. Louis Fed has begun an aggressive long-range automation program. The 1983 phase of this program called for extensive upgrading of both hardware and software. We installed new primary and back-up mainframe central processing units and modernized direct data access storage at St. Louis and all three branches. New software operating systems were also installed during the year at all four locations.

Advanced electronic communications will be in the forefront of future automation developments, giving District depository institutions access to a wide range of Fed services.

Securities are kept in definitive form (above) or in book-entry form on a computer.



A digital plotter turns numbers into charts for the Bank's widely distributed economic publications.

The Research Department holds regular briefings on current economic developments in the national and regional economy.

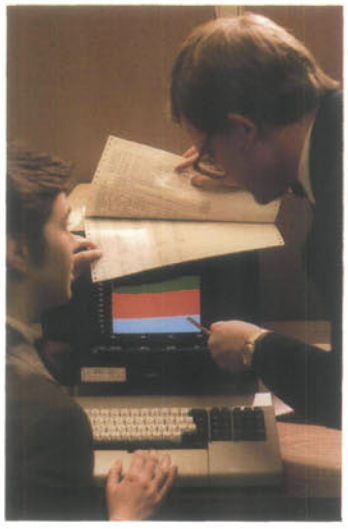
Nineteen eighty-three was a year of widespread economic recovery: output of goods and services expanded at a 6.1 percent rate, inflation continued its decline, averaging only 4.1 percent for the year, and the unemployment rate plummeted from 10.4 percent in January to 8.2 percent by the year's end.

Moreover, the recovery is broadly based—the housing industry is making substantial gains, output in the automobile industry is approaching previous peaks, sales of consumer goods have increased at record rates, and the purchases of producer equipment have exceeded all expectations. Only agriculture and the export industries have failed to share in the recovery; these have been negatively affected by the surprisingly strong value of the dollar in foreign exchange markets and the delayed and weaker recovery abroad.

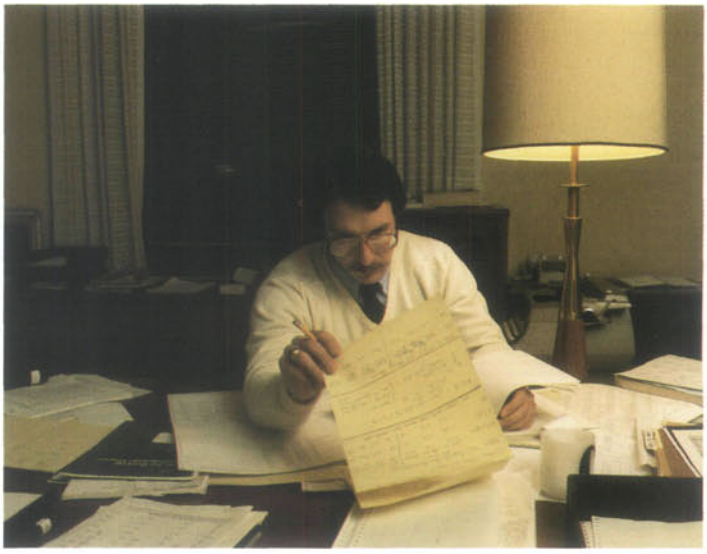
In view of the strength of the recovery, the financial sector exhibited remarkable stability. Long-term interest rates rose only about 1½ percent, while short-term rates increased by about 1 percent. Declining inflationary expectations, low demand for commercial and industrial loans, and net foreign capital inflows appear to have offset the substantially increased demand for credit by the U.S. Treasury.

The Federal Open Market Committee, because it expected distortions in money supply measures resulting from the introduction of Money Market Deposit Accounts and Super NOWs, continued to de-emphasize M1 as a target of monetary policy. Instead, it placed greater weight on the growth of the broader monetary aggregates, M2 and M3. M1 grew at a 15.4 percent annual rate from January through June, then slowed to a 2.6 percent rate for the remainder of the year. This slower growth brought M1 for the year within the FOMC's "monitoring range" of 5 percent to 9 percent established in July. Meanwhile, the discount rate remained at 8.5 percent throughout the year, while the federal funds rate rose slowly from 8.50 to 9.50 percent. The growth in the new accounts was, indeed, substantial: MMDAs attracted $372.5 billion during the year and Super NOWs rose by $37.5 billion.

While the movements in the Eighth District's economic activity generally paralleled those of the nation, the recovery was somewhat slower. The unemployment rate remained from 1.0 percent to 1.5 percent higher than the national average, although personal income rose at a somewhat faster rate. Some industries, such as machinery and transportation equipment, showed particularly strong gains toward the end of the year; employment at auto assembly plants was 50 percent higher than in 1982.



Bank analysts continually monitor the nation's money supply.



Economists spend much of their time analyzing the effects of monetary policymaking decisions.

Construction contracts also were 50 percent higher than their 1982 average, and the number of housing permits virtually doubled.

Perhaps the principal weak spot in the District was agricultural output. The drought, which hit the corn and soybean producing states particularly hard, reduced corn yields by about 14 percent and soybean yields by nearly 10 percent. In combination with the Payment-in-Kind program, the drought reduced corn production 60 percent from its 1982 level; soybean production was 40 percent below the amount produced in 1982. This decline exceeded that in agricultural states outside the Eighth District.

We expect the recovery to continue into 1984, although at a slower rate. Since the long-run average growth of the U.S. economy is around 3.5 percent, output cannot continue to grow at substantially higher rates indefinitely. The degree of the slowdown, however, will depend on current and future monetary expansion. Slow monetary growth will exacerbate the slowdown, while rapid growth will delay it somewhat. On the other hand, too rapid an expansion of the money stock will fuel inflationary expectations and push up interest rates.

The current expansion should continue to be broadly based and, given the accelerating recovery abroad, even bring the export industries back to life. How long the recovery will last and whether inflation will remain low or begin to rise depend both upon good luck and good policy in 1984.

Analysts in the Banking Supervision and Regulation Department meet weekly to discuss new bank holding company applications filed with the St. Louis Fed.

Each holding company to be visited during the year is flagged on a map of the District.

For depository institutions in the Eighth Federal Reserve District, 1983 will be remembered as a year of change and challenge.

Perhaps the broadest trend of the year was the continuing move by District institutions toward a more competitive posture. With few exceptions, banks, savings and loan institutions, and credit unions took significant steps to increase their ability to compete in the new marketplace still taking shape.

The shift to a more competitive stance became apparent as institutions increasingly made use of aggressive marketing and innovative deposit instruments. Other trends included an increased emphasis on the reduction of interest-rate risk through asset/liability management and variable-rate lending.

While District institutions did not enter new lines of business at the rate some may have expected, one new service offering—discount brokerage—consolidated its popularity in 1983.

Changes in the industry as a whole were more pronounced than changes within individual institutions. The formation of new bank holding companies continued at a high rate. The number of one-bank holding companies in the Eighth District increased 35 percent, from 297 to 401, between November 1982 and November 1983. And the number of multibank holding companies increased 31 percent, from 32 to 42, over the same period. Bank holding company mergers showed a significant increase, and the number of subsidiary banks of multibank holding companies increased 22 percent, indicating a continued high rate of acquisition.

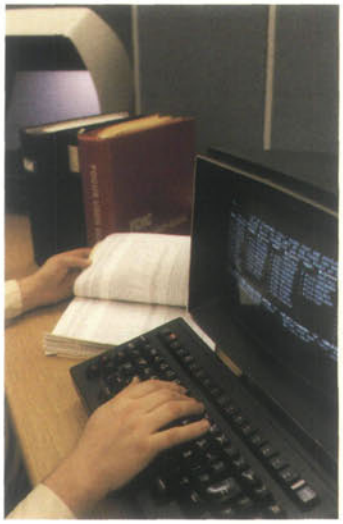
In total, the number of bank holding companies in the District increased 35 percent to 443 as of the end of November. Both the formation of bank holding companies and the number of acquisitions and mergers are expected to remain at high levels, spurred on by economic forces and by legislative changes. Important new legislation, both federal and state, has been enacted during the last two years, and more legislation is expected in the future.

To handle the greatly increased work load for holding company applications and supervision personnel, the St. Louis Fed added staff in the holding company area during 1983 and made better use of microcomputer technology in analyzing holding company applications and related functions.

Similar moves are being made in the banking supervision function. Computer programs have been developed that permit better use and more accurate analysis of the information made available by depository institutions.

Much of the economic information generated during 1983 was not particularly good news for depository institutions. The effects of the severe recession of 1982 lingered into 1983, holding loan demand at low levels for much of the year and hindering improvement in non-performing loan positions. A large number of agricultural banks in the District were hurt, along with their farm customers, by the summer drought. And the deregulation of deposit interest rates and increasing competition on all fronts increased the cost of doing business in 1983. Despite these conditions, the year passed without a major bank failure in the District, and the industry, on the whole, weathered a difficult year without major upheaval.

The future, as always, presents a scenario of continued change and challenge. The trends in evidence during 1983, particularly in terms of bank holding company activity, seem likely to continue. The economic outlook is much improved from early 1983. But there is little doubt that the issues that came to the forefront in 1983 will continue during 1984 to demand the attention of both District depository institutions and the St. Louis Fed.



Computerized data bases are used extensively in analyzing bank merger and acquisition applications.

Supervision staff members discuss the financial soundness of each bank and bank holding company.

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Alan C. Wheeler
Assistant General Auditor

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Assistant Vice President

Memphis Branch

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Vice President and Manager
Anthony C. Cremerius, Jr.
Assistant Vice President

STATEMENT OF CONDITION

Assets	December 31, 1983	December 31, 1982
Gold certificate account	$ 468,000,000	$ 418,000,000
Special Drawing Rights certificate account	170,000,000	170,000,000
Coin	22,447,327	25,423,711
Loans to depository institutions	92,825,000	87,550,000
Securities:		
Federal agency obligations	245,033,434	300,871,420
U.S. Government securities	4,267,387,980	4,565,414,152
Total securities	$4,512,421,414	$4,866,285,572
Cash items in process of collection	678,497,720	677,679,437
Bank premises (net)	15,555,042	14,628,875
Other assets	227,523,313	265,560,851
Interdistrict settlement account	0	741,566,570
TOTAL ASSETS	$6,187,269,816	$7,266,695,016
Liabilities		
Federal Reserve notes	$4,873,441,625	$4,629,490,139
Deposits:		
Depository institutions	474,844,993	476,823,362
Due to other Federal Reserve Banks—collected funds	0	1,389,899,733
Foreign	4,200,000	6,090,000
Other	11,280,067	19,017,909
Total deposits	$490,325,060	$1,891,831,004
Deferred availability cash items	579,252,538	602,244,591
Other liabilities	67,443,446	66,969,982
Interdistrict settlement account	96,563,147	0
TOTAL LIABILITIES	$6,107,025,816	$7,190,535,716
Capital Accounts		
Capital paid in	$ 40,122,000	$ 38,079,650
Surplus	40,122,000	38,079,650
TOTAL CAPITAL ACCOUNTS	$ 80,244,000	$ 76,159,300
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$6,187,269,816	$7,266,695,016

VOLUME OF OPERATIONS

	Number of Pieces Handled		Dollar Amount (thousands)	
	1983	1982	1983	1982
Currency received and counted	424,075,000	418,707,000	$ 4,757,800	$ 4,462,200
Coin received and counted	659,967,000	538,728,000	84,200	72,700
Food stamps redeemed	200,543,000	181,018,000	827,700	684,000
Transfers of funds	2,670,334	2,640,075	$2,795,485,000	$2,753,070,200
Checks handled:				
U.S. government checks	35,673,800	36,761,000	$ 26,923,800	$ 27,085,000
Postal money orders	6,191,000	5,888,000	423,800	400,000
All other	550,071,000	531,500,000	341,970,200	324,652,000
ACH items handled:				
Commercial	8,844,000	6,433,000	$ 35,972,500	$ 19,494,200
U.S. government	11,984,000	10,117,000	5,375,600	4,070,900
Collection items handled:				
U.S. government coupons paid	267,000	330,000	$ 122,400	$ 135,500
All other	161,923	111,022	267,200	212,800
Issues, redemptions, and exchanges of U.S. government securities:				
Definitive	6,330,181	7,689,296	$ 8,091,400	$ 10,704,500
Book entry	229,935	223,681	336,038,500	223,545,300
Loans	1,124	1,865	$ 4,047,500	$ 6,788,900

EARNINGS AND EXPENSES

Current Earnings	1983	1982
Interest on loans to depository institutions	$ 3,044,091	$ 6,129,624
Interest on government securities	452,105,131	534,237,701
Earnings on foreign currency	7,666,265	12,495,072
Revenue from priced services	24,479,271	19,113,403
All other earnings	326,068	442,937
Total current earnings	$487,620,826	$572,418,737
Current Expenses		
Current operating expenses	$ 53,806,039	$ 53,147,416
Cost of earnings credits	3,063,683	498,783
Federal Reserve currency	5,514,625	0[1]
Total current expenses	$ 62,384,347	$ 53,646,199
Less expenses reimbursed or recovered	(4,042,018)	(3,282,981)
Current net expenses	$ 58,342,329	$ 50,363,218
CURRENT NET EARNINGS	$429,278,497	$522,055,519
Profit and Loss		
Additions to current net earnings:		
Profit on sales of government securities (net)	$ 668,104	$ 2,822,073
All other additions	26,283	1,410
Total additions	$ 694,387	$ 2,823,483
Deductions from current net earnings:		
Loss of foreign exchange transactions (net)	$ 12,776,327	$ 4,338,754
All other deductions	56,608	23,094
Total deductions	$ 12,832,935	$ 4,361,848
Net additions or deductions	(12,138,548)	(1,538,365)
Assessment for expenses of Board of Governors	$ (1,996,900)	$ (1,802,800)
NET EARNINGS AVAILABLE FOR DISTRIBUTION	$415,143,049	$518,714,354
Distribution of Net Earnings		
Dividends paid	$ (2,344,760)	$ (2,285,427)
Payments to the U.S. Treasury (interest on F. R. notes)	(410,755,939)	(515,818,077)
Transferred to surplus	2,042,350	610,850
Surplus, January 1	38,079,650	37,468,800
Surplus, December 31	$ 40,122,000	$ 38,079,650

[1]Prior to 1983, Federal Reserve currency costs were reported in current operating expenses.

FINANCIAL SUMMARY

VOLUME OF OPERATIONS

	Number of Pieces Handled		Dollar Amount (thousands)	
	1983	1982	1983	1982
Currency received and counted	424,075,000	418,707,000	$ 4,757,800	$ 4,462,200
Coin received and counted	659,967,000	538,728,000	84,200	72,700
Food stamps redeemed	200,543,000	181,018,000	827,700	684,000
Transfers of funds	2,670,334	2,640,075	$2,795,485,000	$2,753,070,200
Checks handled:				
U.S. government checks	35,673,800	36,761,000	$ 26,923,800	$ 27,085,000
Postal money orders	6,191,000	5,888,000	423,800	400,000
All other	550,071,000	531,500,000	341,970,200	324,652,000
ACH items handled:				
Commercial	8,844,000	6,433,000	$ 35,972,500	$ 19,494,200
U.S. government	11,984,000	10,117,000	5,375,600	4,070,900
Collection items handled:				
U.S. government coupons paid	267,000	330,000	$ 122,400	$ 135,500
All other	161,923	111,022	267,200	212,800
Issues, redemptions, and exchanges of U.S. government securities:				
Definitive	6,330,181	7,689,296	$ 8,091,400	$ 10,704,500
Book entry	229,935	223,681	336,038,500	223,545,300
Loans	1,124	1,865	$ 4,047,500	$ 6,788,900

The Federal Reserve Bank of St. Louis

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