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.
In June 1985, when I assumed the presidency of the Federal Reserve Bank of St. Louis, I was impressed to find an institution possessing a unique character, one derived not only from its contribution to economic thought, but also from the traditions of the Federal Reserve System and the responsibilities with which it has been entrusted. I found a staff that takes pride in the Bank and exemplifies our distinctive corporate culture. Discharging many governmental functions, yet required by recent legislation to submit its major operations to the discipline of the marketplace, the Bank, through its staff, exhibits a high dedication to public service combined with a willingness to reexamine and innovate wherever it is possible to provide services that will help the nation's financial system function more smoothly.

Our commitment to serving the changing needs of the District was evident in new programs initiated in 1985. Early in the year, we established an 11-member advisory council, consisting of farmers and businessmen from around the District, to voice the concerns of agriculture and small business. In addition, we hosted seminars in St. Louis and Little Rock that discussed the various guidelines for investing prudently in repurchase agreements using U.S. government securities. Our Community Affairs Office began a series of seminars in December to assist banks and holding companies in devising ways to meet community credit needs. As part of this effort, we are compiling and publishing...
a catalog—to be distributed in 1986—of the hundreds of federal and state programs for funding community redevelopment projects. Though not a new program in 1985, our ongoing commitment to improving the payments mechanism also received a great deal of attention over the year.

Many of the Bank's activities in 1985 are covered in detail in the report that follows. Among the initiatives I consider particularly worthy of attention, however, is the implementation of the initial phases of a District-wide training program for managers and employees. This program includes a long-range managerial development plan, as well as managerial and employee career development seminars. In 1986, we intend to expand these activities with programs on customer awareness, leadership and productivity improvement training. In addition, we will begin a college recruiting program to ensure that we continue to attract top-notch employees. By providing opportunities for our employees to grow personally and to develop a deeper understanding of central banking, we hope to promote the kind of job dedication that will also enhance our relations with our various constituencies.

Once again an outstanding group of directors guided the Bank through the year of public service. We were saddened by the death in June of Patricia W. Shaw, president and chief executive officer, Universal Life Insurance Company, Memphis, Tennessee, who had served ably on the board of directors at the Memphis Branch, one year as chairman. We wish to express our gratitude to several other directors whose terms expired at the end of the year: Donald L. Hunt, St. Louis; D. Eugene Fortson and Shirley J. R. Pine, Little Rock; and Henry F. Frigon, Louisville.

We would also like to welcome back four directors who were either reappointed or reelected to new terms: Robert J. Sweeney and Robert L. Virgil, Jr., St. Louis; Allan S. Hanks, Louisville; and William H. Brandon, Jr., Memphis. New directors joining us in 1986 are: Paul K. Reynolds, St. Louis; Robert C. Connor and James R. Rodgers, Little Rock; Lois H. Gray, Louisville; and Katherine Hinds Smythe, Memphis.

Of the few official changes over the year, two deserve special mention: Jean M. Lovati was promoted to vice president in charge of the Marketing Division, and W. Howard Wells was promoted to assistant vice president at the Louisville Branch.

Against a background of an economy in its third year of expansion, continuing crises in the farm sector, large trade deficits and radical changes in financial legislation either adopted or under consideration, the needs of the Eighth Federal Reserve District continued to change in 1985. The Bank's success in meeting those changes derives from a staff that exhibits the universal characteristics of success: integrity, innovation, and dedication.

We are proud of the people who constitute the Federal Reserve Bank of St. Louis. To underscore this pride, the description of our activities on the following pages is augmented by a focus on a handful of employees who typify our determination to maintain and improve our corporate culture, strengthening in the process our ties to all those whom we serve.

[Signature]

Thomas C. Melzer
President and Chief Executive Officer

January 31, 1986
The U.S. economy in 1985 continued to expand following the 1981-82 recession. After two years of very strong growth, the economy slowed substantially in the first half of 1985, then resumed a slightly faster expansion in the second half. Real GNP, the inflation-adjusted measure of output of goods and services, grew at a 2.7 percent annual rate in the last two quarters of the year, close to the average real growth since World War II.

The expansion, however, has not been evenly distributed. Producers of raw materials and some areas of manufacturing exhibited virtually no growth, while the construction industry and service industries had an excellent year. Despite fears that the expiration of foreign car import quotas would adversely affect U.S. auto producers, they sold 8.2 million units in 1985, compared with average annual sales of 7.4 million units in the previous two years.

Particularly noteworthy was the strong performance of U.S. employment. Despite strong growth in the labor force, the economy was able to provide sufficient opportunities to employ the new entrants into the job market, as well as maintain employment for existing workers. The percentage of the noninstitutionalized population between the ages of 16 and 65 that are employed rose to over 60 percent, which equals or exceeds the previous employment peaks since 1945. As a result, real disposable personal income rose slightly, ending the year at $10,468 per person. Meanwhile, unemployment declined to 6.9 percent.

Inflation, measured by the GNP deflator, averaged around 3.3 percent, the lowest inflation rate since 1967. The decline in inflation was evident in lower interest rates. Corporate AAA bond rates fell from 12 percent in December 1984 to 10 percent at the end of the year; the three-month Treasury bill rate declined from 8 to 7 percent over the same period.

In response to lower interest rates, growth in employment and higher incomes, consumer borrowing and spending continued...
at high levels. On the other hand, the increase in investment in plant and equipment was substantially below its growth rate from 1983 to 1984. While total loans continued to grow at a rapid pace, business loans at commercial banks, after a sharp spurt in February, increased only modestly for the year.

Several areas of economic activity remained matters of concern. Federal government expenditures continued to rise faster than revenues, producing an estimated deficit of $197 billion for the calendar year. The passage of the Gramm-Rudman bill raised the probability that deficits may decline in the future, but the magnitude of this decline still remains subject to speculation.

The United States continued to be the most desired place for investors of the world as foreign investment in U.S. assets remained at a high level. Meanwhile, U.S. residents preferred to invest at home rather than abroad. The resultant increase in the demand for and decrease in the supply of dollars in worldwide markets maintained a generally high price for the dollar in terms of foreign currencies. The value of the dollar reached its peak in February.

In late September, the “Group of Five” nations—France, Germany, Japan, the United Kingdom, and the United States—agreed to intervene in foreign exchange markets to depress the value of the dollar which had already fallen 12 percent from the peak in February to that time. For the entire year, the dollar declined 16 percent. Nevertheless, the dollar’s value was sufficiently high to keep U.S. exports of goods and services from rising and induce a large increase in imports; as a result, the merchandise account deficit rose to $148 billion. While this deficit apparently had little effect on total employment in 1985, it accounted for the uneven economic growth among various sectors of the economy.

The agricultural sector has suffered a multitude of setbacks. Agricultural subsidies both here and abroad resulted in continuing overproduction of agricultural products in the face of falling prices. Thus, real farm income has declined from 1984 despite generally excellent harvests. With the decline in inflationary expectations and falling agricultural product prices, land values declined as well, jeopardizing the collateral underlying the bulk of farm credit.

Monetary policy actions during 1985 were directed toward continuing the economic expansion. M1 growth for the year was 11.6 percent. This growth was substantially above the initial M1 range of 4 percent to 7 percent announced in February, as well as the rebased and widened (3 to 8 percent) M1 range announced in July. M2 and M3, on the other hand, remained within their initially announced growth paths. The discount rate was reduced from 8 percent to 7.5 percent in May; the federal funds rate declined about 30 basis points during the year, ending at around 8 percent in December.
The Eighth Federal Reserve District shares the diversity of the U.S. economy; moreover, through product trade, commodity flows and migration, it is enmeshed with economic activity at a national level. It is no surprise, then, that the moderate growth in the District economy in 1985 was characterized by strong growth in retail sales and weakness in manufacturing and agriculture. Across District states, however, economic conditions varied more widely as greater emphasis on specific industries either helped or hindered their individual performances relative to District and national averages.

Personal income in the District, for example, advanced at a pace slightly less than the national gain. This increase, however, encompasses the strong growth in Tennessee and the weaker performance in Kentucky. The state-by-state discrepancies in personal income ultimately reflect the diversity of performance among key industries and the states that rely more heavily on a narrow and more cyclically sensitive industrial base. Employment in the textile and apparel industries, which accounts for a larger share of total employment in the District than in the United States, for example, fell more than 6 percent in 1985. While the effects of greater competition from textile and apparel imports were felt nationally, the impacts were particularly severe in states like Tennessee, which employs 5 percent of its nonagricultural work force in the industry. Employment in leather products, especially shoes, and the electric and nonelectric equipment industries, also saw employment decline sharply.

Strong employment in other sectors, however, verified the dynamic adjustments taking place in the District economy. Employment in services, of course, reflected national trends and expanded at a 3.1 percent rate. But even within the manufacturing sector, industries such as transportation equipment, and especially motor vehicles and equipment, exhibited strong employment growth. Missouri ranks second only to Michigan in

the assembly of automobiles.

With per capita income in the District paralleling national gains, retail sales grew at a rate near 6 percent, only slightly less than the national pace. Especially robust were automobile sales, which benefited from widespread financing promotions, and purchases of large appliances.

Performance by the District’s banks also echoed most of the national headlines. Generally wider margins between the cost of funds and yields on loans and other assets helped large banks increase their profitability in 1985. Smaller banks, however, saw stable or declining profitability. Where profitability did not improve, larger loan losses and allocations to loan loss reserves were primarily responsible. The move toward interstate banking also proceeded apace in 1985 as most District states introduced legislation that would open their borders, in varying degrees, to banks from other states.

Record harvests for most crops brought some relief to many Eighth District farmers. With the increases in yields more than offsetting price declines, many farmers realized net incomes higher than they had anticipated. Despite these higher incomes, however, many farmers still experienced financial stress because their asset base continued to erode; average land values fell 12 percent in the year ending April 1985. More recent figures, scheduled for release in early 1986, are expected to show further declines in land values, which will hinder the ability of farmers to secure new credit.

Knowing that the District economy will be pulled along national trends gives rise to expectations of moderate overall growth and a continuing realignment of the composition of both output and employment by District industries. Moreover, despite the long-standing decline in manufacturing as a whole, some industries and firms in the District will expand as they find profitable niches in specialized areas of the marketplace.
Lynn Barry

Though economic trends in the District typically reflect the trends in the United States, specific sectors sometimes march to a different beat. Economist Lynn Barry, whose specialty is Eighth District banking, analyzes these trends and, along with two colleagues, publishes her findings in the Bank's regional publications on agriculture, banking and business. Lynn spends much of her time establishing valuable contacts around the District to assist her in tracking local economic trends.

Since late 1982, nonresidential construction in the District has been booming.
In a banking environment undergoing deregulation, the task of the Fed’s commercial bank examiners becomes ever more crucial. That’s where assistant examiner Sue Lacey comes in. Unlike most examiners, Sue spends only about 20 percent of her time on the road, using her background in education instead to develop special programs for Fed examiners. Currently, Sue conducts a three-week orientation program for incoming examiners and has seminars on writing and presentation skills planned for 1986.

The first policy means that all state member banks will be examined annually by either the Federal Reserve or the appropriate state supervisor. Also, many bank holding companies will be inspected at least once a year, and those with significant problems will be inspected more frequently. The second policy 1) establishes criteria for which examination and inspection findings require follow-up meetings with the organization’s board of directors, 2) requires that a summary report of these findings be provided to each director of an institution with a problem or a developing problem; and 3) requires that Reserve Bank officials, at times including the president, become involved in presenting the examination’s findings to the board of directors.

Both policies have common objectives: to help prevent the development of problems at banking organizations and to enhance the effectiveness of the Fed in identifying and dealing with problems that do develop.

In May, the Federal Reserve announced a payments system risk policy, to become effective in March 1986, that calls upon banks to take voluntary steps to reduce, control and monitor daylight overdrafts. To assist institutions in this venture, we hosted seminars in nine locations around the District that recommended ways to reduce the possibility of a settlement failure yet ensure the continued smooth operation of the payments system.
In providing high-quality financial services to Eighth District institutions, the Bank concentrated its efforts in 1985 on the electronic delivery of services. Whether in check processing, securities or the traditional electronic services, the expansion of electronic delivery was a major commitment over the year, as it will be for some time to come. In addition, we continued our efforts to improve the payments mechanism and recover our costs of providing services as mandated by the Monetary Control Act of 1980.

**Automated Clearinghouse (ACH)**

ACH, once again the fastest-growing Fed service, increased its volume approximately 30 percent in 1985. A new feature of this service is a state-of-the-art electronic data delivery system, called an ACH data link, that connects the customer directly to the Fed’s computer. The ACH data link is a quicker, more reliable and more convenient method of transmitting and receiving ACH payment information than the traditional courier delivery of magnetic tapes or paper listings.

**Funds Transfer**

The volume of funds transfers rose once again, from 2.8 million transactions in 1984 to 3.1 million in 1985. In part, this volume increase resulted from the expansion of the number of direct, computer-to-computer hook-ups for financial institutions. The number of customers using FEDNET, our popular dial-up funds transfer network, also increased in 1985, this year by about 50 customers.

Several FEDNET enhancements were made over the year that made the service more convenient to use. One time-saving device allows customers to format any standard, recurring wires and store them for future use. Later, the customer can recall the recurring wire format, enter just the variable information, and process as usual.

Another new feature for 1985 provides for the same-day correction of rejected wire transfers. If our computer rejects a wire for editing or formatting reasons, customers can use this software innovation to call up the wire on the entry screen, correct only the error, and process as usual. This improves upon the previous need to re-key the entire wire.

A third new FEDNET feature assists customers in complying with the Federal Reserve’s new notification requirements for large-dollar check return items. FEDNET can now be used as a vehicle to notify the bank of first deposit of any large-dollar checks being returned.

This year, FEDNET customers who have leased their terminals from us for over a year were offered the option to purchase their equipment and receive credit for their previous lease payments. As of October, over 40 percent of eligible institutions had taken advantage of this offer. Larger institutions, connected to the Fed via a leased IBM 3270 terminal, were also offered a purchase option.

**Check Processing**

The biggest news in check processing in 1985 was the advent of a new program—the Accelerated Return Item Service (A.R.I.S.)—which was created to help depository institu-
tions reduce the cost, time and labor involved in handling returned checks. After successfully piloting this program from mid-1984 to mid-1985, we introduced this service to interested customers in the St. Louis zone. A.R.I.S. automatically reclears small-dollar checks that are returned, reducing the average number of return items a customer handles by about 40 percent and leading to faster funds availability. The Eighth District is the first in the Federal Reserve System to offer this service. In 1986, we will investigate expanding A.R.I.S. to the branch areas.

In September, the Little Rock office became the site for a new group sort service that collects out-of-District checks at a lower price. Little Rock institutions using this service can avail themselves of predominantly one-day availability at 36 of the largest out-of-District collection points in the country.

A major enhancement to the Bank's MICRsort payor bank service was piloted in 1985. This new MICRsort feature provides electronic delivery of critical account information via the data link connections initially established for ACH. With this service enhancement, MICRsort customers will be able to accelerate the reporting of important, time-critical cash management information to their largest corporate clients.

On October 1, the Fed began offering a new menu of services designed to assist institutions in complying with the recently amended Regulation J, which established notification requirements for financial institutions returning large-dollar checks. The Fed now offers three notification options that will help institutions provide information on large unpaid checks quickly, conveniently and cost-effectively.

A final change in the check area in 1985 was the expansion of the boundaries of the St. Louis City check collection zone to reflect more accurately our current metropolitan business area. This expansion provided depositories with an additional eight hours in which to collect funds in the metropolitan area. Since this was a major change for the affected institutions, operational changes were made in stages over the first half of the year.

Though we haven't yet reached the checkless society, analysts tell us we're headed in that direction. To assist District institutions in the transition to the electronics age, Cathy Otten and her staff of seven in the Bank's wire room handle funds transfers for off-line customers within the Eighth District and inform them of any incoming transfers to their accounts. Cathy's area also acts as back-up for on-line customers experiencing computer failure.
Savannah Curry
For many District
institutions, receiv­
ing their Fed cash
letters on time and
in good shape is the
most important busi­
ness of the day. As
senior analyst in
the Payments Di­
vision, Savannah
Curry is the Banlt's
liaison between our
customers and the
couriers that trans­
port these cash
letters. Savannah
monitors check ship­
ments and acts as
troubleshooter for
any transportation
problems, ensuring
that we contribute
to the reduction of
float.

Securities
Since the implementation of the Monetary
Control Act of 1980, the Fed has provided
book-entry transfer services for Treasury se­
curities. On October 1, 1985, an important
change occurred when we began providing
these same services as fiscal agent for the U.S.
Treasury. As a result of this change, the Trea­
sury became responsible for setting prices for
such services. For the most part, this was good
news for depository institutions, as the an­
nounced transaction fees were lower, and
the account maintenance fee and per-issue
fee for Treasury securities were eliminated.
On the other hand, the Treasury now collects
its fees on a daily instead of monthly basis,
which requires institutions to monitor more
closely their account balances with the Fed.
To assist customers in managing their ac­
counts, the Fed developed a special daily
report that provides detailed information on
their Treasury activity and charges.

Cash
Last year, more than 480 million pieces of
currency, with a total dollar value of $5.4 bil­
lion, were processed and delivered to District
depository institutions. To continue to pro­
vide high-quality currency in circulation, we
installed more sophisticated sensors in each of
our high-speed currency sorting machines in
1985. These sensors improve the accuracy
and performance of the machines in detecting
notes that are stuck together, the wrong de­
nomination in a run, or damaged.

Automation
To support its priced and non-priced services,
the Fed's long-range automation program
called for extensive software enhancements
designed to advance electronic communi­
cations between the Fed and our customers.
In addition, in response to customer requests,
we developed in 1985 a redesigned billing
statement for our customers that incorporates
two major changes. For small-volume cus­
tomers, we will eliminate much of the paper­
work by sending monthly statements of their
charges instead of the previous weekly advices. In a second change, we will relieve the larger correspondent banks of the burden of handling individual statements for each of their respondents. Instead, the Fed will take care of forwarding the individual statements to the respondents. Correspondents will receive their own statements, along with a summary sheet of their respondents' charges. These new billing statements, which are also easier to read and reconcile, are scheduled for use in April 1986.

In addition, as part of a Systemwide effort to establish disaster contingency plans, the St. Louis Fed developed and tested a plan to limit the disruption of normal Federal Reserve banking services in the event of various disaster scenarios. The Systemwide plan in 1985 calls for a contingency processing center that will act as a back-up data center for any Fed district that experiences a computer outage. In the Eighth District, a relocation center also was established to act as headquarters in the event the St. Louis office becomes disabled.

In another important area, the Fed has begun to address the financial community's concern for the safety, privacy and integrity of electronically transmitted payment messages. By the end of 1987, the Federal Reserve System intends to have "encryption" capabilities for all of its Fedwire system connections. Our ultimate goal is to ensure that each transaction sent between Fed offices and financial institutions reaches its destination without modification.
# Statement of Condition (in thousands of dollars)

<table>
<thead>
<tr>
<th>Assets</th>
<th>December 31, 1985</th>
<th>December 31, 1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold certificate account</td>
<td>$357,000</td>
<td>$357,000</td>
</tr>
<tr>
<td>Special Drawing Rights certificate account</td>
<td>157,000</td>
<td>170,000</td>
</tr>
<tr>
<td>Coin</td>
<td>26,321</td>
<td>23,901</td>
</tr>
<tr>
<td>Loans to depository institutions</td>
<td>15,130</td>
<td>34,280</td>
</tr>
<tr>
<td>Securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal agency obligations</td>
<td>238,863</td>
<td>240,673</td>
</tr>
<tr>
<td>U.S. Government securities</td>
<td>5,161,926</td>
<td>4,567,795</td>
</tr>
<tr>
<td>Total securities</td>
<td>$5,400,789</td>
<td>$4,808,468</td>
</tr>
<tr>
<td>Cash items in process of collection</td>
<td>828,659</td>
<td>688,274</td>
</tr>
<tr>
<td>Bank premises (net)</td>
<td>18,054</td>
<td>16,864</td>
</tr>
<tr>
<td>Other assets</td>
<td>310,512</td>
<td>202,524</td>
</tr>
<tr>
<td>Interdistrict settlement account</td>
<td>487,132</td>
<td>357,149</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>$7,600,597</td>
<td>$6,658,460</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Reserve notes</td>
<td>$5,795,779</td>
<td>$5,245,595</td>
</tr>
<tr>
<td>Deposits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depository institutions</td>
<td>896,078</td>
<td>575,526</td>
</tr>
<tr>
<td>Foreign</td>
<td>4,200</td>
<td>4,050</td>
</tr>
<tr>
<td>Other</td>
<td>20,876</td>
<td>13,123</td>
</tr>
<tr>
<td>Total deposits</td>
<td>$ 921,154</td>
<td>$ 592,699</td>
</tr>
<tr>
<td>Deferred availability cash items</td>
<td>710,143</td>
<td>652,733</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>66,075</td>
<td>75,539</td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td>$7,493,151</td>
<td>$6,566,566</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital Accounts</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital paid in</td>
<td>$ 53,723</td>
<td>$ 45,947</td>
</tr>
<tr>
<td>Surplus</td>
<td>53,723</td>
<td>45,947</td>
</tr>
<tr>
<td>TOTAL CAPITAL ACCOUNTS</td>
<td>$107,446</td>
<td>$91,894</td>
</tr>
<tr>
<td>TOTAL LIABILITIES AND CAPITAL ACCOUNTS</td>
<td>$7,600,597</td>
<td>$6,658,460</td>
</tr>
</tbody>
</table>
### Income and Expenses (in thousands of dollars)

#### Current Income

<table>
<thead>
<tr>
<th>Description</th>
<th>1985</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on loans to depository institutions</td>
<td>$2,816</td>
<td>$5,252</td>
</tr>
<tr>
<td>Interest on government securities</td>
<td>485,323</td>
<td>474,800</td>
</tr>
<tr>
<td>Earnings on foreign currency</td>
<td>6,398</td>
<td>5,872</td>
</tr>
<tr>
<td>Revenue from priced services</td>
<td>28,018</td>
<td>28,681</td>
</tr>
<tr>
<td>All other income</td>
<td>438</td>
<td>415</td>
</tr>
<tr>
<td><strong>Total current income</strong></td>
<td>$522,993</td>
<td>$515,020</td>
</tr>
</tbody>
</table>

#### Current Expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>1985</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current operating expenses</td>
<td>$55,859</td>
<td>$54,506</td>
</tr>
<tr>
<td>Less expenses reimbursed</td>
<td>(6,067)</td>
<td>(5,439)</td>
</tr>
<tr>
<td>Current net operating expenses</td>
<td>$49,792</td>
<td>$49,067</td>
</tr>
<tr>
<td>Cost of earnings credits</td>
<td>4,988</td>
<td>5,617</td>
</tr>
<tr>
<td>Current net expenses</td>
<td>$54,780</td>
<td>$54,684</td>
</tr>
<tr>
<td><strong>CURRENT NET INCOME</strong></td>
<td>$468,213</td>
<td>$460,336</td>
</tr>
</tbody>
</table>

#### Profit and Loss

**Additions to current net income:**

<table>
<thead>
<tr>
<th>Description</th>
<th>1985</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit on sales of government securities (net)</td>
<td>$2,852</td>
<td>$1,388</td>
</tr>
<tr>
<td>Profit on foreign exchange transactions (net)</td>
<td>33,881</td>
<td>0</td>
</tr>
<tr>
<td>All other additions</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total additions</strong></td>
<td>$36,738</td>
<td>$1,390</td>
</tr>
</tbody>
</table>

**Deductions from current net income:**

<table>
<thead>
<tr>
<th>Description</th>
<th>1985</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss on foreign exchange transactions (net)</td>
<td>$0</td>
<td>$12,280</td>
</tr>
<tr>
<td>All other deductions</td>
<td>585</td>
<td>452</td>
</tr>
<tr>
<td><strong>Total deductions</strong></td>
<td>$585</td>
<td>$12,732</td>
</tr>
<tr>
<td><strong>Net additions or deductions</strong></td>
<td>$36,153</td>
<td>$(11,342)</td>
</tr>
</tbody>
</table>

**Assessment by Board of Governors:**

<table>
<thead>
<tr>
<th>Description</th>
<th>1985</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures</td>
<td>$2,188</td>
<td>$2,246</td>
</tr>
<tr>
<td>Federal Reserve currency costs</td>
<td>5,414</td>
<td>5,039</td>
</tr>
<tr>
<td><strong>Total assessment</strong></td>
<td>$7,602</td>
<td>$7,285</td>
</tr>
<tr>
<td><strong>NET INCOME AVAILABLE FOR DISTRIBUTION</strong></td>
<td>$496,764</td>
<td>$441,709</td>
</tr>
</tbody>
</table>

#### Distribution of Net Income

<table>
<thead>
<tr>
<th>Description</th>
<th>1985</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends paid</td>
<td>$(2,935)</td>
<td>$(2,524)</td>
</tr>
<tr>
<td>Payments to the U.S. Treasury (Interest on F.R. notes)</td>
<td>$(486,053)</td>
<td>$(433,360)</td>
</tr>
<tr>
<td>Transferred to surplus</td>
<td>7,776</td>
<td>5,825</td>
</tr>
<tr>
<td>Surplus, January 1</td>
<td>45,947</td>
<td>40,122</td>
</tr>
<tr>
<td><strong>Surplus, December 31</strong></td>
<td>$53,723</td>
<td>$45,947</td>
</tr>
</tbody>
</table>
## Summary of Operations

<table>
<thead>
<tr>
<th></th>
<th>Number Handled</th>
<th>Dollar Amount (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1985</td>
<td>1984</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1985</td>
</tr>
<tr>
<td>Currency received</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&amp; counted</td>
<td>480,286,000</td>
<td>474,433,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5,386,400</td>
</tr>
<tr>
<td>Coin received &amp; counted</td>
<td>788,544,000</td>
<td>713,397,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>99,400</td>
</tr>
<tr>
<td>Food stamps redeemed</td>
<td>166,627,000</td>
<td>186,838,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>706,800</td>
</tr>
<tr>
<td>Transfers of funds</td>
<td>3,137,600</td>
<td>2,838,784</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,880,549,000</td>
</tr>
<tr>
<td>Checks handled:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government checks</td>
<td>34,832,000</td>
<td>34,458,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>27,891,700</td>
</tr>
<tr>
<td>Postal money orders</td>
<td>130,078,000</td>
<td>118,795,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>9,485,700</td>
</tr>
<tr>
<td>All other</td>
<td>541,273,000</td>
<td>532,987,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>308,787,500</td>
</tr>
<tr>
<td>ACH items handled:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>18,644,000</td>
<td>12,786,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>115,974,000</td>
</tr>
<tr>
<td>U.S. government</td>
<td>14,565,000</td>
<td>12,970,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7,952,000</td>
</tr>
<tr>
<td>Collection items handled:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>coupons paid</td>
<td>170,000</td>
<td>210,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>112,000</td>
</tr>
<tr>
<td>All other</td>
<td>362,440</td>
<td>323,148</td>
</tr>
<tr>
<td></td>
<td></td>
<td>676,100</td>
</tr>
<tr>
<td>Issues, redemptions, &amp;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>exchanges of U.S.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>government securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Definitive</td>
<td>6,986,000</td>
<td>6,771,944</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,641,200</td>
</tr>
<tr>
<td>Book entry</td>
<td>243,840</td>
<td>252,559</td>
</tr>
<tr>
<td></td>
<td></td>
<td>508,676,700</td>
</tr>
<tr>
<td>Loans</td>
<td>1,282</td>
<td>1,944</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,857,900</td>
</tr>
</tbody>
</table>
Senior Management
Thomas C. Melzer
President and Chief Executive Officer
Joseph P. Garbarini
First Vice President and Chief Operating Officer
Administration
Ben C. Wade
Senior Vice President
Financial Services
Martha L. Perine
Vice President and Controller
John W. Drueiding
Assistant Vice President
Leslie F. Schmeding
Assistant Vice President
Human Resources
Patricia A. Tarbutton
Vice President
Judie A. Courtney
Human Resources Officer
Marketing
Jean M. Lovati
Vice President
Kristi D. Short
Marketing Officer
Support Services
William J. Snead
Vice President
Gregory S. Pusczek
General Services Officer
Audit
Richard E. Kay
General Auditor
Michael A. Aguera
Audit Officer
Robert R. Long
Audit Officer
Banking Supervision and Regulation
Harold E. Uthoff
Senior Vice President
Bank Holding Companies
Delmer D. Weitz
Vice President
Harry L. Rea
Assistant Vice President
Dennis W. Blase
Supervisory Officer
Member Banks
Charles R. Halbrook
Vice President
Jerome R. Rodgers
Assistant Vice President
Harold H. Ricker
Supervisory Officer
Legal and Credit
F Garland Russell, Jr.
Senior Vice President, General Counsel and Secretary
Joan P. Cronin
Vice President, Deputy General Counsel and Assistant Secretary
Credit and Community Affairs
Randall G. Sumner
Vice President
Harold E. Slingerland
Credit Officer
Operations
Information Systems
James R. Kennedy
Vice President
Jerome J. McGunnigle
Assistant Vice President
John P. Merker
Assistant Vice President
Frances E. Sibley
Systems Officer
Payments
Robert W. Thomas
Vice President
Walter W. Jacobs
Assistant Vice President
Robert J. Taylor
Assistant Vice President
Jerry J. Calton
Operations Officer
Roger D. Smith
Operations Officer
Valuables Processing
Michael T. Moriarty
Vice President
Edward R. Schott
Assistant Vice President
Darwin W. Stephens
Assistant Vice President
Research and Public Information
Anatol B. Balbach
Senior Vice President
Economic Analysis
Albert E. Burger
Vice President
Keith M. Carlson
Assistant Vice President
R. Alton Gilbert
Assistant Vice President
Dallas S. Barton
Research Officer
Rik W. Hafer
Research Officer
Public Information
Ruth A. Bryant
Vice President
Statistics
Michael E. Trebing
Research Officer
Support
Hillary B. Debenport
Research Officer
Little Rock Branch
John F. Breen
Vice President and Manager
David T. Rennie
Assistant Vice President
Louisville Branch
James F. Conrad
Vice President and Manager
George E. Reiter, Jr.
Assistant Vice President
W. Howard Wells
Assistant Vice President
Memphis Branch
Paul I. Black, Jr.
Vice President and Manager
Anthony C. Cremerius, Jr.
Assistant Vice President