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Federal Reserve Bank

FEDERAL RESERVE BANK OF ST. LOUIS 1992 ANNUAL REPORT

MAY 14 1993



THE ROLE OF REGIONAL RESERVE BANKS



PRESIDENT'S MESSAGE

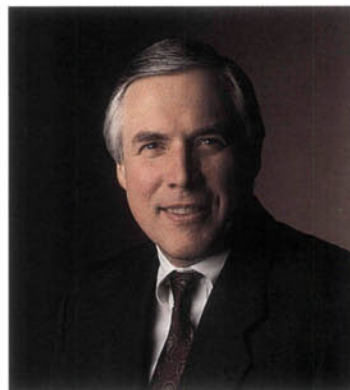
Each year in this space, I thank our retiring directors for their leadership and service to our Bank.

As usual, the Bank has benefited from the guidance and dedication of many outstanding directors.

I would like to express my deepest appreciation to the following:

H. Edwin Trusheim, who served as both chairman and deputy chairman, W. E. Ayres and Frank M. Mitchener, Jr., St. Louis; James R. Rodgers and Patricia M. Townsend, Little Rock; Morton Boyd, Louisville; and Michael J. Hennessey and A C Wharton, Jr., Memphis. Thanks also to Dan W. Mitchell for his years of service as our Federal Advisory Council representative.

In carrying out our role as a regional Reserve Bank, our directors play a crucial part. From the Fed's inception, there was an innate American distrust, almost fear, of centralized power. So to be successful in creating a central bank that would provide a safe, stable banking system, Congress had to ensure that power was dispersed and that, inherent in the Fed's structure, regional interests and the public were represented. Establishing 12 geographically diverse Reserve Banks with individual boards of directors helped Congress achieve its goal of balancing centralized



control, regional representation and the public interest.

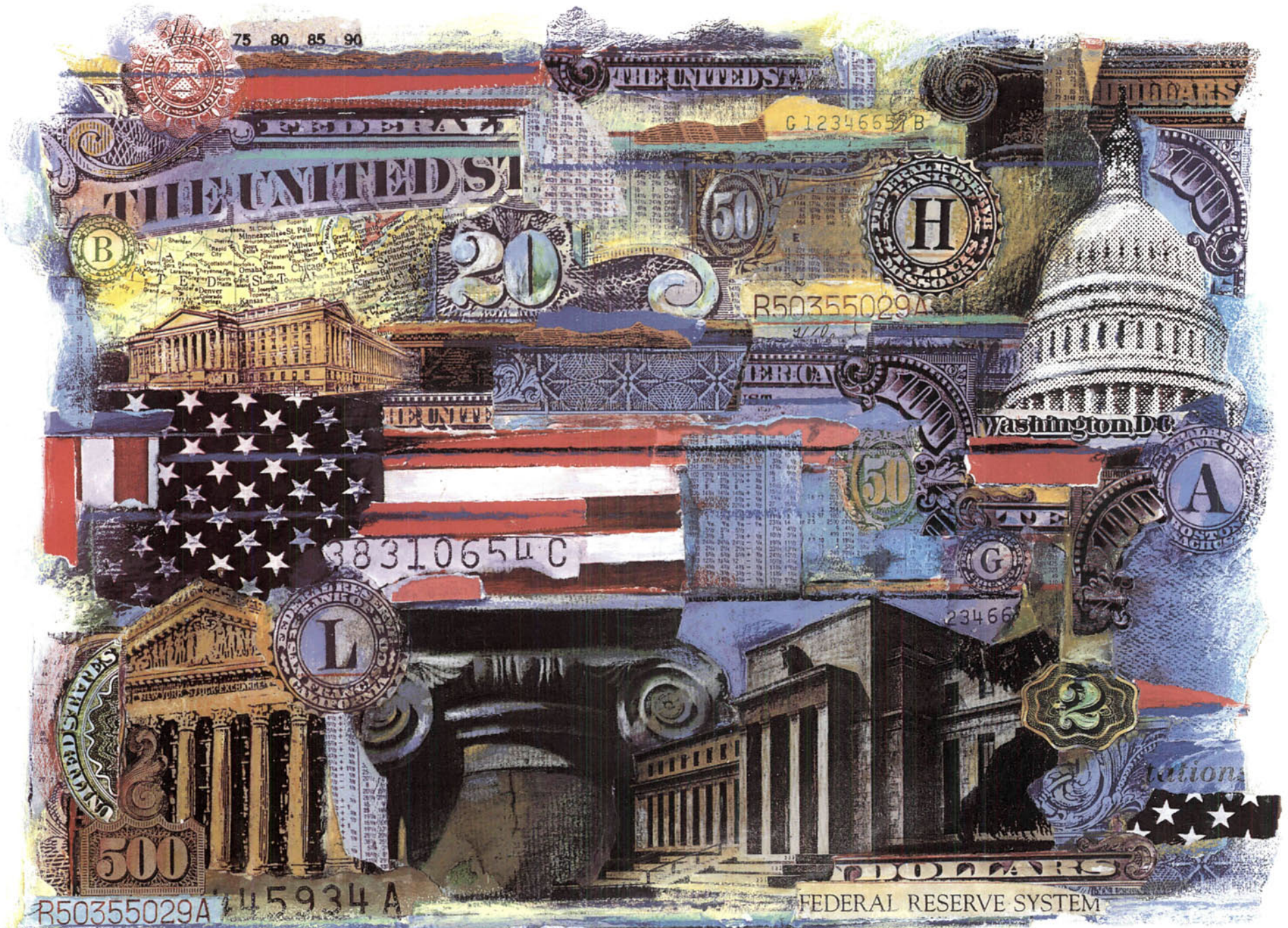
Today, more than 75 years after Congress established the Federal Reserve System, the regional Reserve Banks continue to serve this purpose. They participate in monetary policy-making, supervise and regulate financial institutions, provide financial ser-

vices and act as the government's banker. Through these activities, we ensure that all regions of the country have access to the Federal Reserve, that the nation's diverse regional economic developments and needs are represented and that the public has a voice in central bank affairs. As a result, Fed policy reflects a diversity in thought, real-world views and regional differences as Congress intended.

In the next few pages, we set out to explain the role of the regional Reserve Bank.

A handwritten signature in blue ink, which appears to read "Thomas C. Melzer". The signature is fluid and cursive.

Thomas C. Melzer
President and Chief Executive Officer



WHAT IS THE FED?

There are many phrases used to describe the Fed: a decentralized central bank, a quasi-governmental organization, an organization independent within government. These descriptions reflect the Fed's unusual structure and complex responsibilities.

The Fed's structure can be divided into three entities: the Board of Governors, the regional Reserve Banks and the Federal Open Market Committee (FOMC).

Board of Governors

At the core of the Federal Reserve System is the Board of Governors, or Federal Reserve Board, a government agency that is the Fed's centralized component.

Its members are presidential appointees whose responsibilities include formulating monetary and banking policy.

Regional Reserve Banks

The regional Federal Reserve Banks are the decentralized component of the Fed's structure. A regional Reserve Bank is organized much like a private establishment and carries out the Fed's day-to-day operations.

Federal Open Market Committee

The FOMC unites the Board of Governors and the Reserve Bank presidents in the task of monetary policymaking. The FOMC, the Fed's chief monetary policymaking body, determines which open market transactions the Fed will conduct to achieve its policy goals. Open market operations are the Fed's principal monetary policy instrument.

The three main components of the Federal Reserve System are integral, yet different, parts that complement each other to achieve the System's goals. Of the three, the Reserve Banks are perhaps the least understood. In the following sections, we examine the main responsibilities of a regional Reserve Bank—looking primarily at the Federal Reserve Bank of St. Louis—to see how the Fed's structure, although uncommon, is well suited for its purpose.

THE FEDERAL RESERVE BANK OF ST. LOUIS

<i>Department or Branch</i>	<i>No. of Employees</i>
<i>Administration</i>	<i>353</i>
<i>Audit</i>	<i>22</i>
<i>Banking Supervision</i>	<i>87</i>
<i>Credit and Community Affairs</i>	<i>12</i>
<i>Legal</i>	<i>6</i>
<i>Operations</i>	<i>258</i>
<i>Research and Public Information</i>	<i>88</i>
<i>Little Rock Branch</i>	<i>125</i>
<i>Louisville Branch</i>	<i>135</i>
<i>Memphis Branch</i>	<i>139</i>
<i>TOTAL</i>	<i>1225</i>

THE FED'S THREE MAIN COMPONENTS

BOARD OF GOVERNORS

The Board of Governors comprises seven members, who are appointed by the President of the United States and confirmed by the Senate. A governor's term is 14 years. The Board's chairman and vice chairman are appointed by the President from among the seven governors to serve four-year terms.

In addition to overseeing the activities of Reserve Banks, the Board of Governors has several important responsibilities. In monetary policy, it participates in FOMC discussions, approves changes in discount rates and establishes reserve requirements for depository institutions. The Board also exercises broad supervisory control over various financial institutions, ensuring that commercial banks and bank holding companies operate responsibly and comply with federal regulations and that the nation's payments system functions smoothly. Finally, the Board implements regulations to carry out the mandates of federal consumer credit laws.

The chairman of the Board of Governors reports twice a year to Congress on the Fed's monetary policy objectives, testifies before Congress on numerous other issues and meets occasionally with the President and regularly with the Secretary of the Treasury. Other Board officials are also called to testify before Congress, and they maintain regular contact with other government organizations.

FEDERAL RESERVE BANKS

The Federal Reserve System is divided into 12 districts, each served by a regional Reserve Bank.

A Reserve Bank has its own board of directors, which is drawn from the public and oversees the activities of the organization. The board of directors comprises nine members: six, including the chairman and deputy chairman, serve as representatives

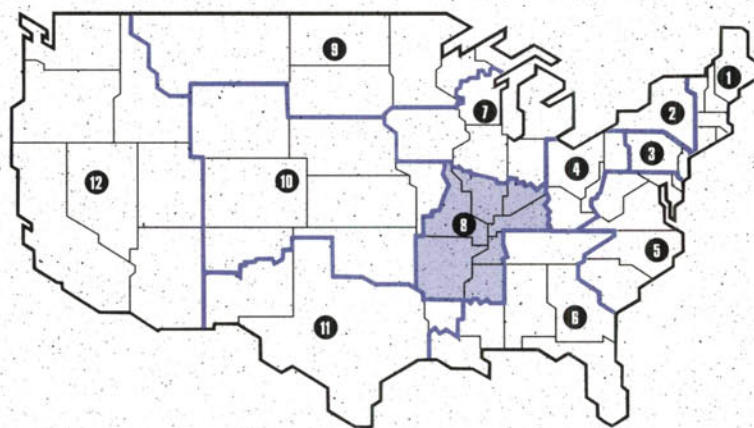
of the public; three serve as representatives of banking. The board of directors imparts a private-like management perspective to the Reserve Bank that emphasizes efficiency and quality. The board of directors, with the approval of the Board of Governors, also appoints the president of the Reserve Bank.

Reserve Banks may have one or more branches. There are 24 branches in the Federal Reserve System, and each branch has its own board of directors.

FEDERAL OPEN MARKET COMMITTEE

The FOMC, a monetary policymaking body, comprises the seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and four other Reserve Bank presidents on a rotating basis. All 12 Reserve Bank presidents participate in FOMC policy deliberations, whether or not they currently are voting members. The FOMC typically meets eight times a year.

THE FEDERAL RESERVE SYSTEM



The Eighth Federal Reserve District comprises the state of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

FORMULATING MONETARY POLICY

When you walk through the St. Louis Fed's Research Department, what you notice first is the relative quiet. A group of economists ambles toward the conference room to brief the president on the economy. Another economist toils away at a PC, working on the third draft of his article on the usefulness of the monetary aggregates. A statistical analyst is on the phone verifying deposit data collected from an Arkansas bank. On the other side of the department, the calm is punctuated by an economist who learns that her article has been accepted for publication in a professional journal.

The Research Department is made up of economists, research assistants, statistical analysts, editors and support staff, all of whom contribute to the Bank's long-term research into economic topics and dissemination of economic information to the public.

These staff members support the Bank president in his role as an FOMC member, publish research for the professional economics community and promote economic literacy in the Eighth District. As such, the work of a Reserve Bank's research department goes well beyond the Federal Reserve System. By contributing to the current economic literature, participating in professional meetings and interacting with the public, Reserve Banks

can have a broad influence on economic thought.

The four main activities of the Research Department include: conducting theoretical and empirical research in banking, monetary policy and macroeconomics; monitoring the national, international and regional economies; collecting economic data; and providing economic information to the public.

Conducting Research

Economists at the St. Louis Fed analyze a wide range of economic data and investigate a broad spectrum of topics. Money-demand analysis, money-stock measurement and the causes and consequences of inflation remain key topics of study, as do foreign exchange, bank structure and regulatory policies.

Research agendas vary from Reserve Bank to Reserve Bank, which fosters a diversity of viewpoints within the System. Some research departments have become well known outside of the Federal Reserve System for their contributions.

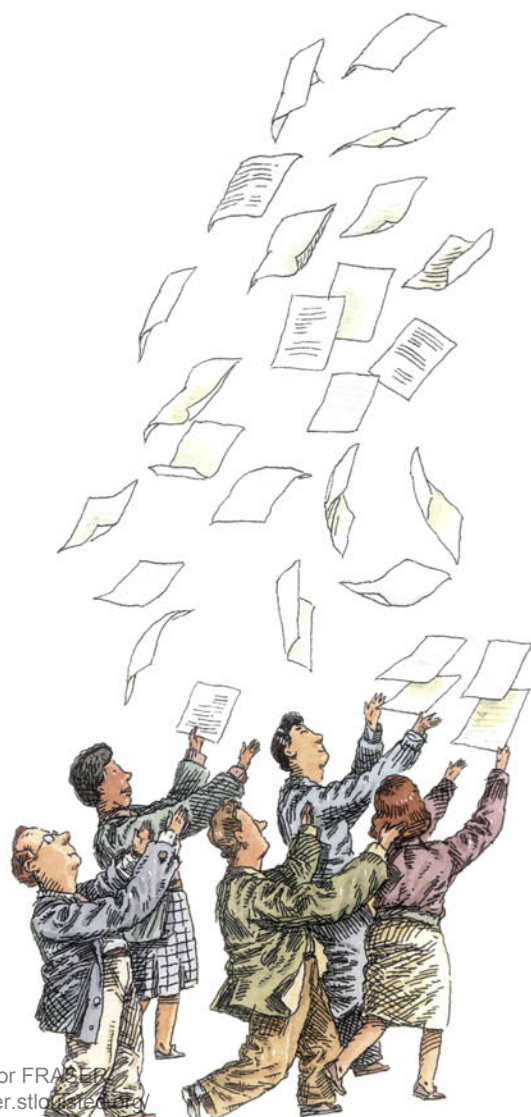
Monitoring the Economy

The U.S. economy is made up of diverse regional economies, each with its own defining characteristics. At any time, for example, credit availability or the demand for business loans may differ markedly among regions, states or cities.

Monitoring its district's economy is therefore another critical

A MONETARIST HISTORY

The St. Louis Fed has a well-known research tradition. Beginning in the late 1950s, it adhered closely to the principles of what is now known as monetarism and was labeled a maverick for its views. Given the independence permitted by Fed structure, however, the St. Louis Fed continued emphasizing the importance of money over interest rates in monetary policymaking, contradicting the conventional wisdom of the time. Today many of these concepts enjoy widespread acceptance.





FORMULATING MONETARY POLICY

function of the regional Reserve Bank. Before each FOMC meeting, Reserve Banks prepare the Beige Book, a report that describes the economic conditions in each of the Federal Reserve districts. The Beige Book, which is used as a backdrop for FOMC discussions, can spot meaningful trends in economic activity before they show up formally in aggregate data. Though the methodology for data collection varies from Reserve Bank to Reserve Bank, the research staff typically relies heavily on informal surveys and anecdotal information in assembling the report.

Anecdotal information about the District economy is acquired in many other ways as well. Both the Bank president and research economists learn firsthand about District economic and banking conditions in day-to-day interaction with the District community—giving speeches, participating in seminars and informational meetings, or talking on the telephone. They also obtain such information at monthly meetings of the boards of directors at each regional Reserve Bank and branch and at twice-a-year meetings of the Economic Advisory Council, which reports on the unique concerns of small business and agriculture.

Collecting Data

Regional research departments are involved

THE THREE TOOLS OF MONETARY POLICY

In implementing monetary policy, the Fed chooses from among the following tools: OPEN MARKET OPERATIONS, or the buying and selling of government securities, are the Fed's most frequently used policy tool.

THE DISCOUNT RATE is the rate Reserve Banks charge depository institutions on loans. Rate changes are initiated by Reserve Bank boards of directors and approved by the Board of Governors.

RESERVE REQUIREMENTS are the regulations governing reserves that depository institutions must hold against their deposits.

extensively in the collection of economic data. Economic statistics are culled from a variety of sources and are used by economists in both current and long-term analyses.

Loan and deposit data from District banks and bank holding companies are arguably the most important statistics Reserve Banks collect. These data are collected directly from financial institutions. Such information is used extensively in analyzing regional and national bank performance, credit demand and other banking topics.

Providing Economic Information to the Public

In addition to collecting data for analytical purposes, a regional Reserve Bank also makes such data available to the public. At the St. Louis Fed, data are made available through the publication of five statistical releases and an electronic bulletin board. The research efforts of economists are published in a bimonthly journal, *Review*, which features articles on national and international economic topics, and a quarterly publication, *The Regional Economist*, which concentrates on information that affects the Eighth Federal Reserve District. Subscriptions to these publications number more than 80,000.

In addition to publications, the Research Department participates in or hosts public programs. Last year the St. Louis Fed president

and economists made more than 150 public presentations, primarily in the Eighth District, for educators, media, and business and community leaders. Finally, economists participate in professional seminars and conferences regularly.

Summary

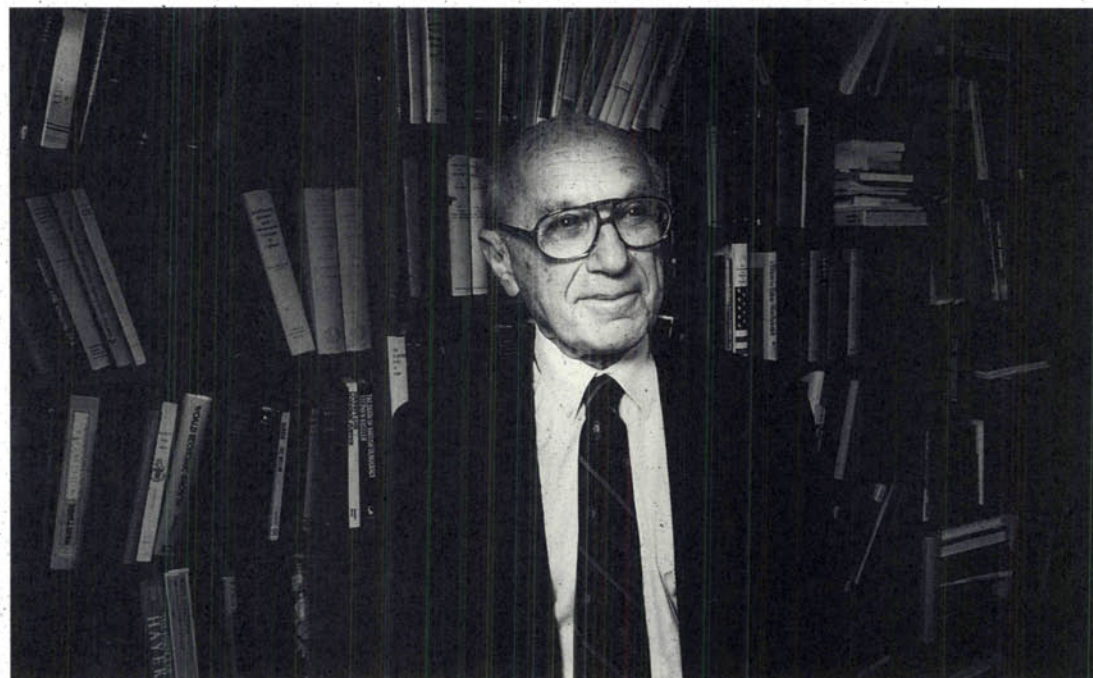
One of the Research Department's key responsibilities is to keep the St. Louis Fed president apprised of current economic trends to help him in his role as a policymaker. By conducting careful empirical research in an institutional framework that permits a free exchange of ideas among Federal Reserve Banks and the Board of Governors, Fed research departments improve the policymaking process. The broad spectrum of policy views that results adds credibility and insight to policy deliberations. In a broader sense, the work of Reserve Bank research departments contributes to the knowledge of other policymakers, economic professionals and the public—potentially influencing long-term economic thought and economic policy.

The Research Department's work on regulatory policy, bank structure and payments issues, together with its insight into the economy, enable the Bank to better understand the issues facing the financial institutions it serves and regulates.

"The most important contributions to the understanding of monetary theory and monetary institutions have not come from Washington . . . The Federal Reserve Bank of St. Louis in the 1950s , '60s and '70s was by far and away the preeminent producer of significant monetary research within the System. More recently several other regional banks, including (the Minneapolis Fed), have joined them and have made important contributions."

*Milton Friedman, Senior Research Fellow,
Hoover Institution, Stanford University*

*Friedman, Nobel prize winner in economics in 1976, is one of the nation's foremost authorities on monetary economics. His quote was reprinted from **The Region**, Federal Reserve Bank of Minneapolis (June 1992).*



SUPERVISING FINANCIAL INSTITUTIONS

It's a typical Monday morning for the Banking Supervision and Regulation Division. A dozen examiners are either on the road or boarding airplanes as they set out for bank examinations or bank holding company inspections throughout the Eighth District. At the Federal Reserve Bank, an equal amount of activity occurs as applications specialists discuss pending merger applications, enforcement examiners review the progress of a troubled institution, and other examiners monitor the condition of District institutions.

With the banking panics of the late 1800s and early 1900s still fresh in their memories, the Fed's founders wanted to create an institution that would be able to contain such financial disturbances. To foster safe, sound and competitive banking practices, they gave the Federal Reserve System responsibility to supervise and regulate the banking system.

The distinction between supervision and regulation is often misunderstood. Bank *regulation* refers to the formulation of laws and guidelines that define a framework for acceptable bank behavior. This responsibility is carried out primarily by the Board of Governors. Bank *supervision* ensures that those regulations are followed by individual banks and is primarily the responsibility of regional Reserve Banks.

Reserve Banks are charged with supervising bank holding companies, state member banks, and certain nonbank corporations. (All national banks are members of the Fed; state-chartered

banks can elect to become members of the Fed.) Reserve Banks are also responsible for the foreign activities of these organizations, as well as the U.S. activities of foreign banking organizations.

The St. Louis Fed, either directly or through bank holding companies, supervises about \$130 billion in banking assets. These assets represent 729 institutions, ranging in size from a \$7 million bankers' bank to a \$23 billion bank holding company and including many holding companies engaged in interstate operations.

Banking Supervision activities can be divided into four areas: examining financial institutions; evaluating applications for merger, expansion, acquisition, change in ownership or new products; providing protection for consumers in financial transactions; and ensuring the stability and liquidity of U.S. financial markets.

Examining Financial Institutions

Bank examinations focus primarily on the prompt identification and containment of banking risk. During annual on-site examinations of state member banks, St. Louis Fed examiners evaluate the quality of a bank's assets, particularly its loans, and review a bank's ability to cover its potential loan losses adequately. Examiners also review a bank's performance in complying with its own internal policies, as well as federal and state laws and regulations.

During on-site inspections of bank holding companies, which own and control most banks, examiners assess whether the condition or activities of the holding company cause undue



SUPERVISING FINANCIAL INSTITUTIONS

risk to its banks. In many inspections, Fed examiners work closely with other supervisors, such as the Office of the Comptroller of the Currency (OCC) for national banks and the Federal Deposit Insurance Corporation (FDIC) for state banks that are not Fed members.

At the end of an on-site review, the lead examiner discusses examination findings with the bank or bank holding company's management and recommends an overall rating that reflects the institution's financial condition. The rating indicates whether the institution is sound enough to withstand fluctuations in the economy or whether it exhibits weaknesses that require corrective action and close monitoring.

Between on-site examinations, Fed analysts monitor financial institutions by examining various bank reports filed with the Fed.

Evaluating Applications

Regional Reserve Banks strive to achieve two objectives when evaluating applications for such things as bank expansions, mergers, acquisitions and the introduction of new products: to ensure that the resulting organization or product will be safe and sound and that the transaction is consistent

A LIAISON BETWEEN BANKS AND THE COMMUNITY

When Congress passed the Community Reinvestment Act of 1977, it charged bank regulators with encouraging financial institutions to meet the credit needs of their local communities, including low- and moderate-income areas. To help achieve these goals, the Board of Governors prompted each Reserve Bank to gather and disseminate information about community credit needs and sources to lenders, community groups, federal agencies, and state and local governments.

At the St. Louis Fed, the Community Affairs Department distributes materials and sponsors District seminars on the various investment and economic development programs in its area. In addition, it facilitates communication among borrower groups, local governments, development organizations and financial institutions, and mediates disputes between bankers and members of the community in applications for merger or acquisition.

with both the law and a competitive banking system.

As with bank examinations, most decisions on application matters are made at the regional level. Last year, for example, the Federal Reserve Board delegated final authority to the St. Louis Fed on 90 percent of the 192 applications that were approved in its District.

Providing Protection for Consumers in Financial Transactions

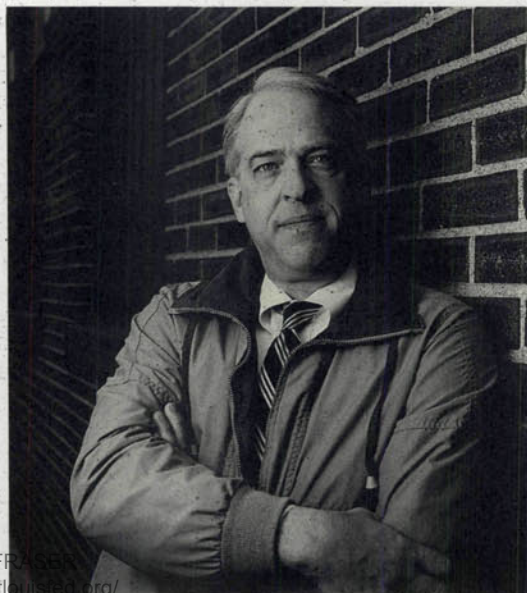
Another goal of banking supervision and regulation is to safeguard consumer interests in lending and deposit transactions. Congress has given broad powers to the Board of Governors to make, interpret and enforce laws that protect consumers from inaccurate disclosure of credit costs or interest rates and discrimination in lending practices. Fed examiners specially trained in consumer compliance laws examine banks for their adherence to such regulations. In the Community Affairs Department, the St. Louis Fed takes a more active role in

helping institutions understand and comply with consumer laws and regulations.

Ensuring the Stability and Liquidity of Financial Markets

One of the Fed's original responsibilities was to act as lender of last resort for the nation's banking system. Through its discount window, the St. Louis Fed provides liquidity to banks so that a shortage of funds at one or more institutions does not disrupt the flow of money and credit in the banking system as a whole. The Fed makes loans to satisfy a bank's short-term needs for funds or its longer-term need to manage seasonal fluctuations in the deposit or credit demands of its customers.

The discount window was originally conceived as the principal instrument of monetary policy. Today it complements open market operations in the day-to-day implementation of policy.



"The Fed has been an invaluable resource to us. A seminar there gave my organization the opportunity to meet people who fund community development projects across the nation. It actually gave you the where, the how and the who to put successful community development projects together."

*John Lussky, Executive Director (acting),
Neighborhood Housing Services
of St. Louis Inc.*

Neighborhood Housing Services is a not-for-profit agency devoted to revitalizing neighborhoods through affordable housing and community development programs.

Summary

St. Louis Fed examiners and supervisory officers have a broad knowledge of District institutions, their business strategies and the markets in which they operate. Thus the regional Reserve Bank's approach to banking supervision reflects an appropriate balance between national and regional policy priorities.

Through its supervision and regulation function, the St. Louis Fed ensures that banks are safe for deposits, able to provide stable payments services to customers and able to respond to changes in the supply of money and credit in a manner consistent with the Fed's objectives for monetary policy.

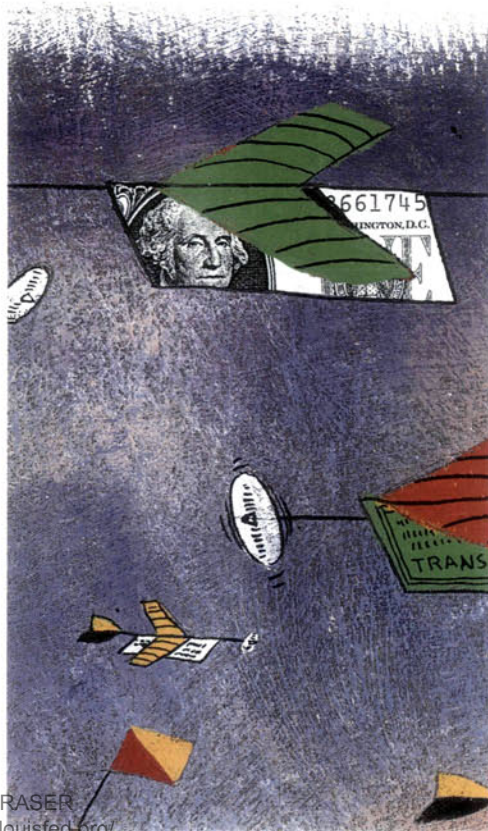


"The St. Louis Fed's seminars offer insight to the local bankers about how a particular community development project has been structured elsewhere in the country and why it's been successful. That kind of information is a whole lot more valuable than a textbook approach. It becomes practical information that's useful."

*Dean Keyes, Vice President, Community Investments, Mercantile Bancorporation Inc.,
St. Louis, Mo.*

At the end of 1992, Mercantile Bancorporation Inc. had assets of \$9.5 billion and operated 38 banks in Missouri, Kansas and Illinois. Mercantile Bank of St. Louis, the lead bank in Mercantile Bancorporation's Community Partnership affordable loan program, has placed more than \$25 million in mortgages in St. Louis during the last three years.

PROVIDING PAYMENTS SERVICES



It's 4:45 a.m. and there's a traffic jam in the Bank's garage. Couriers are arriving to pick up shipments of processed checks for delivery to financial institutions throughout the region. Upstairs in the Check Department, the activity subsides momentarily as night-shift employees start preparing for the next deadline, which is less than two hours away. On another floor, an electronic version of this scenario plays itself out, as institutions retrieve their Fed-processed automated clearing house (ACH) payments through computer links. At a regional Reserve Bank this process of receiving, processing and dispatching payments goes on 24 hours a day.

LANDMARK LEGISLATION

Before 1980, the Fed provided its check, electronic payment and securities services for free but only Fed member banks could use them. The Depository Institutions Deregulation and Monetary Control Act of 1980 required the Fed to offer these services to all U.S. banks, savings and loans, and credit unions, regardless of size and location, and to recover the costs of providing them. The act also established a private-sector adjustment factor to prevent the Fed from having an unfair pricing advantage over private institutions.

When Congress established the Federal Reserve System, it charged the Fed with the critical task of providing a safe and efficient method of transferring funds throughout the banking system. Regional Reserve Banks and their branches carry out this mission, offering payments services to all financial institutions in the United States, regardless of size or location. Hand in hand with that mission is the obligation to improve the payments system through increased efficiencies and technological advances.

Regional Feds offer a wide variety of payments services. They process checks, wire transfers and ACH payments, distribute currency and coin, and provide banking services to the

Treasury. Since 1980, Congress has mandated that Federal Reserve Banks recover the costs of providing many of these services. To fulfill this requirement, the Fed adopted a strict private-sector discipline to deliver high-quality services at low cost.

Regional Reserve Banks work continually to improve the payments system by introducing new services and enhancing old ones. In 1992, for example, the St. Louis Fed began processing checks on Saturday to meet the financial community's needs in its District. The Memphis Branch introduced an



A C H

PROVIDING PAYMENTS SERVICES

innovative check deposit program in its area in 1992 that will enable depositors to reduce their Fed check service fees. Such regional innovations may be adopted by other Federal Reserve Banks, either in an identical form or one tailored to meet their districts' needs. As the needs of local financial communities change, Reserve Banks are often able to respond quickly and contribute to the evolution of the payments mechanism.

Electronic Funds Transfer

Every day billions of dollars are transferred electronically among U.S. financial institutions. The regional Reserve Banks provide two electronic payment services: funds transfer and ACH.

The funds transfer service provides a communications link among financial institutions and government agencies. Funds transfers are originated and received through a sophisticated telecommunications network known as Fedwire, which links all Reserve Banks electronically. Institutions can move their balances at the Fed or send funds to another institution through this network.

ACH provides a nationwide network to exchange paperless payments among financial institutions and government agencies. The ACH accommodates a wide range of recurring corporate and consumer transactions, such as payroll deposit and insurance payments.

Current Fed initiatives will dramatically improve the efficiency and reliability of the ACH

service. The future system will support nearly continuous ACH processing and electronic delivery, and it will give financial institutions greater flexibility in scheduling and choosing a method of originating or receiving ACH payments.

Check Processing

In just one day, the Federal Reserve Bank of St. Louis processes more than 850,000 commercial checks. To handle an increasing volume of checks efficiently, regional Reserve Banks continually evaluate new services and new technology.

The Fed is currently undertaking initiatives to introduce electronics and image technology to check processing. Electronic check services increase the speed of check collection and reduce the costs of processing and transporting paper. Image technology, a method of scanning checks and capturing their images in electronic form instead of on microfilm or paper, could change check processing even more dramatically. The St. Louis Fed is currently piloting a high-speed image capture and archival system for the Federal Reserve System.

Currency and Coin

Regional Reserve Banks are responsible for meeting public demand for currency and coin. The Reserve Banks' primary responsibility in providing this service is to ensure that fluctuations in the demand for currency and coin do not disrupt the banking industry.

Recently, the Miami and New Orleans branches of the Atlanta Fed were called on to increase

the cash supply in Florida and Louisiana during Hurricane Andrew. Because electronic payment and verification networks were destroyed or disabled, many areas affected by Andrew became cash-only societies. Through the prompt action of the local Reserve Banks, however, the cash needs of the public were met and the integrity of the payments system remained intact.

Treasury Services

As the nation's central bank, the Fed provides a variety of services to the U.S. Treasury. Federal Reserve Banks maintain accounts for the Treasury, process government checks, postal money orders and U.S. savings bonds, and collect federal tax deposits.

Reserve Banks also sell new Treasury securities, service outstanding issues and redeem maturing issues. When the Treasury offers new issues of marketable securities to the public, regional Reserve Banks disseminate information about the issues, process orders from customers, collect payments, credit the Treasury's account for the proceeds and deliver the securities. In recent years, the Fed has introduced electronic processing and delivery in many of these services.



"We haven't always used Fed services in the past, but now we basically do everything through the Fed. And if a particular situation comes up, all I do is dial them up and I get the help I need."

*Linda Long, Vice President and Cashier,
First State Bank of St. Charles, Mo.*

First State Bank of St. Charles, which recently marked its 125th anniversary, holds about \$75 million in deposits. First State processes about 80,000 checks a month through the Fed and receives its check data electronically. In addition, it uses the Fed's computer network to process an array of other financial transactions.

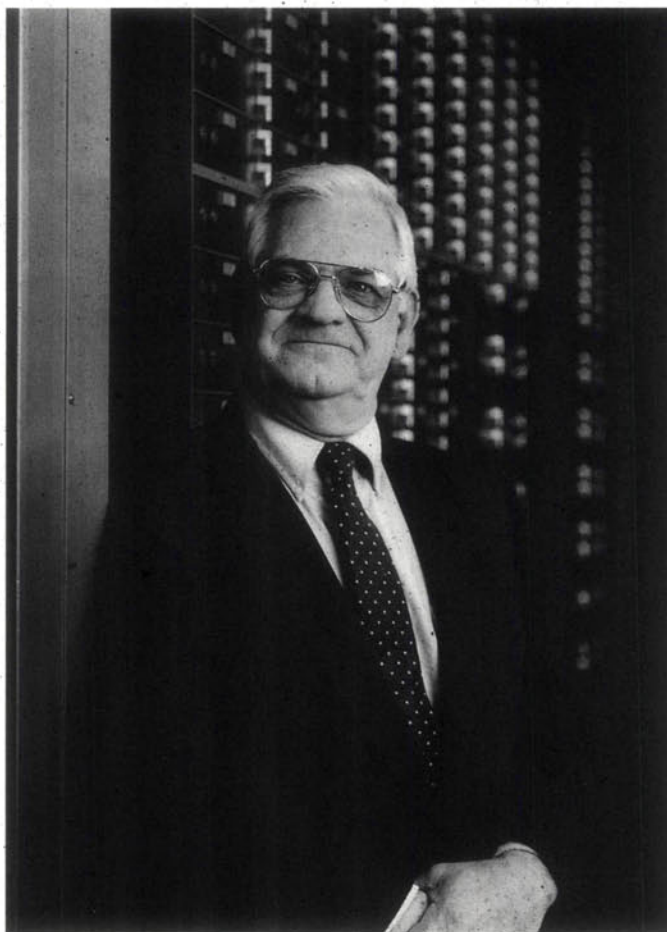
PROVIDING PAYMENTS SERVICES

Summary

Like private organizations, regional Reserve Banks strive to increase their operational efficiency to provide high-quality services at low prices to all financial institutions. In addition, they work to advance payments technology. Together with the Board of Governors, Reserve Banks help develop national payments system policies, such as the recent initiative mandating that all ACHs be electronic. And when nation-

wide policies are approved, regional Banks help financial institutions in their districts implement such policies in the least disruptive way.

Through a Reserve Bank's involvement in payments services, it gains a more comprehensive and sophisticated understanding of banking operations. In addition, the management and customer service skills its employees gain as active participants in the financial services marketplace spread throughout the organization.



"We do all our processing with the Fed because the Fed gives us top-notch services. I've known a lot of the people at the Fed for years. It feels good to be able to call somebody over there and know that they are going to be responsive to whatever I need."

*Ollie Camillo, Senior Vice President,
First Collinsville Bank, Collinsville, Ill.*

First Collinsville Bank, a community-oriented bank, opened for business on July 9, 1990. As of March 1993, its deposits had grown to \$69 million. First Collinsville processes about 20,000 checks a month through the Fed and receives both ACH items and MICRline detail daily through its Fedline connection.

For the past several pages, we have described the three main responsibilities of a regional Reserve Bank — formulating monetary policy, supervising and regulating banks, and providing payments services — and how they are performed. What becomes apparent is not just how important these functions are, but how together they reinforce one another. Contributions in each activity are enhanced by involvement in the others. This interrelationship becomes crucial when considering the Fed's ultimate responsibility: to provide economic and financial stability for the nation. This task can be fulfilled only through the joint efforts of the Fed's monetary policy, supervisory and payments functions working in concert.

The structure of the Fed itself further contributes to carrying out this responsibility. The combination of a centralized board in Washington and 12 decentralized Reserve Banks in touch with economic conditions, financial institutions and the public provides the Federal Reserve with the information and knowledge to do its job effectively. Should a financial crisis arise in any part of the country, a Reserve Bank is close at hand with the discount window, banking and payments system expertise necessary to respond quickly.

Through the combined efforts of the Board, the regional Reserve Banks and the FOMC, the Federal Reserve is in a strong position to make monetary policy, provide a safe banking system, contribute to an effective payments mechanism, and carry out these responsibilities with an understanding of how they will affect both individuals and the economy.

BOARD OF DIRECTORS - St. Louis

John F. McDonnell

Chairman and
Chief Executive
Officer
McDonnell
Douglas
Corporation
St. Louis,
Missouri

Sandra B. Sanderson

President and
Chief Executive
Officer
Sanderson
Plumbing
Products, Inc.
Columbus,
Mississippi

Warren R. Lee

President
W. R. Lee &
Associates, Inc.
Louisville,
Kentucky

Douglas M. Lester

Chairman of the
Board and
President
Trans Financial
Bancorp, Inc.
Bowling Green,
Kentucky

Ray U. Tanner

Chairman,
Director and CEO
Volunteer Bank
Jackson,
Tennessee

Richard E. Bell

President and
Chief Executive
Officer
Riceland Foods,
Inc.
Stuttgart,
Arkansas

Janet M. Weakley *Deputy Chairman*

President
Janet McAfee Inc.
Clayton, Missouri

Henry G. River

President
First National
Bank in
Pinckneyville
Pinckneyville,
Illinois

Robert H. Quenon *Chairman*

Mining
Consultant
St. Louis,
Missouri



BOARD OF DIRECTORS - Little Rock

L. Dickson Flake

President
Barnes, Quinn,
Flake &
Anderson, Inc.
Little Rock,
Arkansas

Barnett Grace

Chairman and
Chief Executive
Officer
First Commercial
Bank, N.A.
Little Rock,
Arkansas

Robert D. Nabholz, Jr.

Chairman

Chief Executive
Officer
Nabholz
Construction
Corporation
Conway,
Arkansas

Mahlon A. Martin

President
Winthrop
Rockefeller
Foundation
Little Rock,
Arkansas

Mark A. Shelton III

President
M.A. Shelton
Farming Company
Altheimer,
Arkansas

Betta M. Carney

President and
Chief Executive
Officer
World Wide
Travel Service
Inc.
Little Rock,
Arkansas

James V. Kelley

Chairman,
President
and CEO
First United
Bancshares, Inc.
El Dorado,
Arkansas



BOARD OF DIRECTORS - Louisville

Thomas E. Spragens, Jr.

President and
Chief Executive
Officer
Farmers
National Bank
Lebanon,
Kentucky

Laura M. Douglas

Legal Director
Louisville and
Jefferson County
Metropolitan
Sewer District
Louisville,
Kentucky

Robert M. Hall

Owner
Hall Family Farm
Seymour, Indiana

Malcolm B. Chancey, Jr.

Chairman of the
Board and CEO
Liberty National
Bank and Trust
Company
Louisville,
Kentucky

Daniel L. Ash

Consultant
Louisville,
Kentucky

John A. Williams *Chairman*

Chairman and
Chief Executive
Officer
Computer
Services, Inc.
Paducah,
Kentucky

Charles D. Storms

President and
Chief Executive
Officer
Red Spot Paint &
Varnish Co., Inc.
Evansville,
Indiana
(not pictured)



BOARD OF DIRECTORS - Memphis

Larry A. Watson

Chairman of the
Board and
President
Liberty Federal
Savings Bank
Paris, Tennessee

Lewis F. Mallory, Jr.

President and
Chief Executive
Officer
National Bank of
Commerce of
Mississippi
Starkville,
Mississippi

Seymour B. Johnson *Chairman*

Kay Planting
Company
Indianola,
Mississippi

Sidney Wilson, Jr.

President
Wilson
Automotive
Group, Inc.
Jackson,
Tennessee

M. Rita Schroeder

President
St. Francis
Hospital
Memphis,
Tennessee

Thomas M. Garrott

Chairman and
Chief Executive
Officer
National
Commerce
Bancorporation
Memphis,
Tennessee

Anthony M. Rampley

President and
Chief Executive
Officer
Arkansas Glass
Container
Corporation
Jonesboro,
Arkansas



**FEDERAL ADVISORY
COUNCIL MEMBER**

Andrew B. Craig, III
Chairman, President and CEO
Boatmen's Bancshares, Inc.
St. Louis, Missouri

**ECONOMIC ADVISORY
COUNCIL**

Carol Barnes
Secretary and Co-Owner
The Missouri Peddlers
St. Louis, Missouri

Brady Deaton
Chair
Department of Agricultural
Economics
University of Missouri
Columbia, Missouri

Allen Franks
Guthrie, Kentucky

Roy H. Hunt
President
Hunt Tractor and Equipment
Louisville, Kentucky

W.K. McGehee Jr.
President
Spurling Fire & Burglar Alarm
Co. & Telecom, Inc.
Fort Smith, Arkansas

Margaret McKee
Friars Point, Mississippi

OFFICERS

Senior Management

Thomas C. Melzer
President and Chief
Executive Officer

James R. Bowen
First Vice President and
Chief Operating Officer

Henry H. Bourgaux
Senior Vice President
Administration and Operations

Joan P. Cronin
Senior Vice President
Banking Supervision and
Regulation

William G. Dewald
Senior Vice President
Research and Public
Information

Vice Presidents

Mary H. Karr
General Counsel

Richard E. Kay
Valuables Processing

Raymond H. Laurence
Payments

Jean M. Lovati
Information Systems

Martha L. Perine
Accounting and Personnel

Kristi D. Short
Electronic Services

William J. Sneed
Support Services

Randall C. Sumner
Credit and Community Affairs

Assistant Vice Presidents

Michael T. Belongia

Keith M. Carlson

Cletus C. Coughlin

Judie A. Courtney

Jeffrey M. Dale

Hillary B. Debenport

R. Alton Gilbert

Walter W. Jacobs

Susan B. McCollum

Jerôme J. McGunnigle

John P. Merker

Michael J. Mueller

Jerome R. Rodgers

Frances E. Sibley

John A. Tatom

Robert J. Taylor

Daniel L. Thornton

Other Officers

Richard G. Anderson

Lynn M. Barry

Bernard E. Berns Jr.

Dennis W. Blase

John W. Block Jr.

Timothy A. Bosch

Martin J. Coleman

Edward A. Hopkins

Robert A. Hopkins

Patricia A. Marshall

Kim D. Nelson

Gregory S. Puszczek

Harold H. Rieker

Harold E. Slingerland

Audit

Michael D. Renfro
General Auditor

Little Rock Branch

Karl W. Ashman
Vice President and Manager

Thomas R. Callaway
Assistant Vice President

David T. Rennie
Assistant Vice President

Louisville Branch

W. Howard Wells
Vice President and Manager

Thomas A. Boone
Assistant Vice President

Thomas O. Short
Assistant Vice President

Memphis Branch

John P. Baumgartner
Vice President and Manager

Anthony C. Cremerius Jr.
Assistant Vice President

Michael R. Sinnett
Operations Officer

STATEMENT OF CONDITION

(thousands of dollars)

	December 31 1992	December 31 1991
ASSETS		
Gold certificate account	\$ 304,000	\$ 328,000
Special Drawing Rights certificate account	168,000	307,000
Coins	25,274	28,685
Loans to depository institutions	5,000	24,725
Securities:		
Federal agency obligations	132,435	160,083
U.S. government securities	7,218,244	7,057,649
Total securities	\$ 7,350,679	\$ 7,217,732
Cash items in process	293,612	275,264
Bank premises (net)	29,797	28,567
Other assets	683,302	852,436
Interdistrict settlement account	5,311,031	(1,609,158)
TOTAL ASSETS	<u>\$ 14,170,695</u>	<u>\$ 7,453,251</u>
LIABILITIES		
Federal Reserve notes	\$ 12,823,759	\$ 6,034,906
Deposits:		
Depository institutions	952,292	913,513
Foreign banks	3,433	3,930
Other deposits	2,644	42,048
Total deposits	\$ 958,369	\$ 959,491
Deferred availability cash items	204,338	255,223
Other liabilities	44,365	72,467
Interdistrict settlement account	0	0
TOTAL LIABILITIES	<u>\$ 14,030,831</u>	<u>\$ 7,322,087</u>
CAPITAL ACCOUNTS		
Capital paid in	\$ 69,932	\$ 65,582
Surplus	69,932	65,582
TOTAL CAPITAL ACCOUNTS	<u>\$ 139,864</u>	<u>\$ 131,164</u>
TOTAL LIABILITIES AND CAPITAL	<u>\$ 14,170,695</u>	<u>\$ 7,453,251</u>

INCOME AND EXPENSES

(thousands of dollars)

	December 31 1992	December 31 1991
CURRENT INCOME		
Interest on loans to depository institutions	\$ 841	\$ 2,525
Interest on government securities	432,402	522,560
Earnings on foreign currency	52,606	65,658
Revenue from priced services	30,873	31,357
All other income	253	495
Total current income	<u>\$ 516,975</u>	<u>\$ 622,595</u>
CURRENT EXPENSES		
Current operating expenses	\$ 72,235	\$ 68,172
Less reimbursables	(10,001)	(8,686)
Current net operating expenses	<u>\$ 62,234</u>	<u>\$ 59,486</u>
Cost of earnings credits	4,141	5,935
Current net expenses	<u>\$ 66,375</u>	<u>\$ 65,421</u>
CURRENT NET INCOME	<u>\$ 450,600</u>	<u>\$ 557,174</u>
PROFIT AND LOSS		
Additions to current net income:		
Profit on sale of government securities (net)	\$ 3,154	\$ 4,177
Profit on foreign exchange transactions (net)	78,088	10,301
All other additions	5	0
Total additions	<u>\$ 81,247</u>	<u>\$ 14,478</u>
Deductions from current net income:		
Loss on foreign exchange transactions (net)	\$ 104,732	\$ 548
All other deductions	105	4
Total deductions	<u>\$ 104,837</u>	<u>\$ 552</u>
Net additions or deductions	<u>\$ (23,590)</u>	<u>\$ 13,926</u>
Cost of unreimbursed Treasury service	(1,669)	(4,274)
Assessment by Board of Governors:		
Expenditures	\$ (3,183)	\$ (2,843)
Federal Reserve currency costs	<u>(7,170)</u>	<u>(7,330)</u>
NET INCOME AVAILABLE FOR DISTRIBUTION	<u>\$ 414,988</u>	<u>\$ 556,653</u>
DISTRIBUTION OF NET INCOME		
Dividends paid	\$ (4,092)	\$ (3,881)
Payments to the U.S. Treasury		
(interest on Federal Reserve notes)	<u>(406,546)</u>	<u>(550,750)</u>
Transferred to surplus	4,350	2,022
Surplus, January 1	65,582	63,560
Surplus, December 31	<u>\$ 69,932</u>	<u>\$ 65,582</u>

**OPERATING
STATISTICS**

Operations	Number		Dollar Amount (thousands)	
	1992	1991	1992	1991
Services to Depository Institutions				
Check Services:				
U.S. government.....	29,988,000	30,369,000	26,414,000	30,029,000
Postal money orders.....	180,904,000	165,332,000	20,188,000	17,716,000
Commercial.....	572,736,000	569,064,000	377,213,000	371,734,000
ACH Services:				
Commercial.....	93,787,000	79,175,000	416,676,458	359,985,657
U.S. government.....	25,227,000	24,399,000	55,074,285	38,345,085
Collection Services:				
U.S. government coupons paid.....	30,459	36,096	14,867	17,492
All other.....	78,367	115,622	248,539	253,715
Currency received and counted.....	740,377,000	692,465,000	9,057,263	8,147,804
Wire transfer of funds.....	3,267,365	3,163,027	3,951,305,000	3,721,547,000
Loans to depository institutions.....	585	1,545	767,000	1,314,000
Services of U.S. Treasury				
Transfer of government securities.....	173,031	154,279	446,756,000	314,291,000
Food stamps redeemed.....	257,792,000	222,487,000	1,248,585	1,119,157

Federal Reserve Bank of St. Louis
Post Office Box 442
St. Louis, Missouri 63166
314-444-8444

Little Rock Branch
Post Office Box 1261
Little Rock, Arkansas 72203
501-324-8300

Louisville Branch
Post Office Box 32710
Louisville, Kentucky 40232
502-568-9200

Memphis Branch
Post Office Box 407
Memphis, Tennessee 38101
901-523-7171