

Federal Reserve Bank of Dallas July 1982

## New Procedures To Help Reduce Float

The Dallas Fed has announced new procedures in its payments mechanism area designed to improve the Bank's operations and service, and to improve the nation's payments mechanism. These changes, along with a planned restructuring of the Federal Reserve System's Interdistrict Transportation Network, will reduce the amount of time it takes the Fed to clear checks.

In order to reduce as much as possible the amount of Federal Reserve float in the payments mechanism, the System has a stated objective of matching credit availability with collection experience. Float occurs when the Fed gives credit to a depositing institution before it is able to collect the funds. Future explicit pricing of Federal Reserve float is required by the Monetary Control Act of 1980, and many of the Fed's current activities are designed to minimize the impact of such explicit pricing.

### Wire chargebacks

Beginning July 19, new procedures for processing interdistrict return items and cash letter adjustments of \$50,000 and over will be initiated nationwide. Information on such items will be automatically wired to its destination using the Federal Reserve Communications System.

This wire chargeback procedure will allow a Fed office receiving a large return item to debit the endorsing institution's account on the same day.

### Federal Reserve Float - 1981 (millions of dollars)

	Jan.	Feb.	Mar.	Apr.	May	June
Month-End	2,280	1,545	3,261	2,156	2,542	2,506
Monthly Average Of Daily Figures	4,161	3,755	2,925	3,195	3,085	3,474
	July	Aug.	Sept.	Oct.	Nov.	Dec.
Month-End	1,251	2,229	2,811	1,690	2,177	1,762
Monthly Average Of Daily Figures	3,176	2,796	3,206	3,285	3,320	3,608

Presently, interdistrict return items are accepted for immediate credit even though they may not be presented to the endorsing institution for one or two days.

Interdistrict adjustments will be handled in a similar manner. A cash letter adjustment advice will be sent to an institution the same day the account is debited or credited. Telephone notification of adjustments will be given the same day the transaction is posted to the account.

### City item presentment

Beginning August 1, most Federal Reserve Banks will adopt a uniform presentment time of 12 noon for city

items. This step will allow Fed offices to offer later deposit deadlines and to collect the majority of city items the same day they are received.

Federal Reserve offices in the Eleventh District will advise the affected institutions if changes in current conditions require that presentments be made as late as 12 noon.

## INSIDE

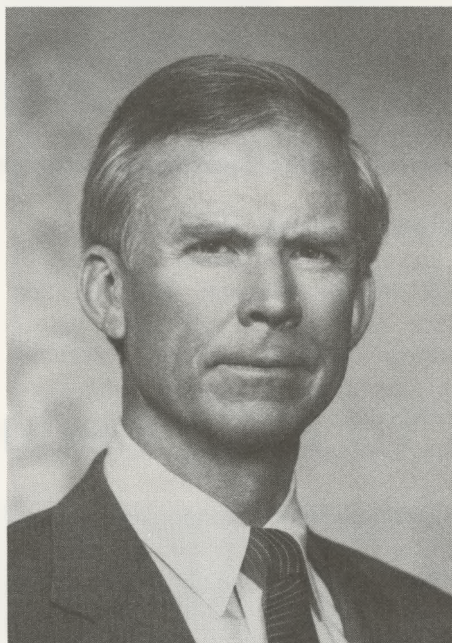
- New Publications
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# Preston Martin Appointed Board Governor

The Board of Governors has a new member. On March 31, Preston Martin was sworn into office by Chairman Paul Volcker. His 14-year term of office began February 1, 1982, and he will serve as vice chairman for a term of four years.

During his career, Martin founded and organized the Sears affiliate, Seraco Enterprises. Seraco is a holding company that supplies capital and management planning for five real estate and financial subsidiaries. Martin is currently a member of the board of directors of Sears Roebuck and Co.

Martin is a member of the President's Commission on Housing and is a former member of the Federal Home Loan Mortgage Corporation Advisory Committee. He also served as chairman and chief operating officer of the Federal Home Loan Bank Board



Preston Martin

from 1969-72. He served under then-Governor Ronald Reagan as his first Savings and Loan Commissioner in 1967-69.

The seven members of the Board of Governors are appointed by the President and are confirmed by the Senate. Not more than one member of the Board may be selected from any one of the 12 Federal Reserve Districts. Martin was appointed from the Twelfth Federal Reserve District (San Francisco) by President Reagan on January 11 and was confirmed by the Senate March 30.

Martin, a resident of California, graduated from the University of Southern California (B.S., 1947; M.B.A., 1948) and Indiana University (Ph.D., 1952). He was appointed to replace Frederick H. Schultz whose term expired January 31.

## Penalty Lifted After Flooding

The Federal Reserve Board of Governors recently granted a temporary suspension of the Regulation Q penalty for early withdrawal of time deposits. This action was taken in response to the flooding that occurred in Wichita County, Texas. The Board's action permits a member bank, wherever located, to pay a time deposit before maturity without imposing a penalty. However, the depositor must provide a signed statement fully describing the property or other financial loss as a result of the flooding and the statement must be approved and certified by an officer of the bank.

The suspension has been made retroactive to deposits withdrawn on or after May 25, 1982, and will remain in effect until 12:00 midnight November 25, 1982.

## Publication Begins in July For Economic *Highlight* Series

Starting this month, a series of new publications will be issued by the Federal Reserve Bank of Dallas. The three new releases will deal with energy, agricultural, and industrial and financial issues within the Eleventh Federal Reserve District. Each newsletter will be distributed on a quarterly basis, with one appearing each month.

The first newsletter, *Energy Highlights*, will be out in July, followed by *Agricultural Highlights* in August, and *District Highlights* in September.

*Energy Highlights* will discuss oil production, refinery capacity, drilling activity, rig count, and gas production. Also included will be the Texas Energy Industry Employment statistics gathered by the U.S. Bureau of Labor Statistics. Currently, the Bureau only publishes the data for the energy industry as a whole. *Energy Highlights* will publish data as it relates specifically to Texas.

*Agricultural highlights* will incor-

porate data gathered for the "Quarterly Survey of Agricultural Credit Conditions." The newsletter will break down the general data into 15 specific regions to offer a more detailed and accurate analysis of each individual agricultural region.

*District Highlights* will deal with issues and topics of concern to the Eleventh Federal Reserve District. Current events, financial data, unemployment figures, and the labor outlook for the District will be discussed, as well as a review of the Consumer Price Index for the U.S., Dallas, and Houston.

The newsletters will follow the basic format of *Roundup*—a four page self-mailer. Each will be designed to be read by anyone with an interest in the particular topics covered. Statistical data, charts and tables are planned for display on the inside pages, with discussion of current issues on the front and back pages. Coordination of all three newsletters will be done by Senior Economist Leroy Laney.



# ACH Witnesses Rapid Growth

The volume of automated clearinghouse items processed by the Federal Reserve System has increased dramatically over the past several years. The number of items processed totaled almost 300 million in 1981, with approximately 112 million commercial items and 188 million government items processed. The volume growth of ACH items processed since 1977 is shown in a graph accompanying this article.

Currently, about 60 percent of all ACH transactions are originated by the U.S. Government. This type of ACH item has been growing at a rate of 15 to 20 percent annually for the past few years. The other 40 percent of ACH items are private sector, or commercial, items, with the majority of these initiated by large insurance firms. During each of the past few years, commercial ACH volume has almost doubled, growing at the rate of 80 to 90 percent per year.

The dollar amount associated with commercial ACH payments is already far greater than that associated with government ACH items. Industry experts believe that commercial volume will eventually surpass government volume as well.

An automated clearinghouse pro-

cesses and delivers electronic debits and credits which serve as alternatives to paper checks. The majority of ACH transactions are recurring payments. These include automatic credits such as the direct deposit of payroll amounts, Social Security payments, and other government payments, and automatic debits such as the automatic payment of utility bills, insurance premiums, and mortgage payments.

Instead of issuing checks or sending bills, a company using ACH compiles the necessary payment instructions on magnetic tapes and delivers these tapes through its financial institution to an ACH facility. The ACH makes new tapes for each financial institution affected by the transactions and delivers them so that the proper individual accounts may be debited or credited. Settlement takes place in accounts at Federal Reserve Banks.

With one exception, the 32 local ACHs are operated by Reserve Banks and administered by local ACH associations. The New York ACH is the only private sector ACH. The ACH concept developed regionally at first, but the regional associations were linked later to establish a nationwide network and to allow interregional transactions.

## Board Outlines Phase-Out of ACH Subsidy

The Federal Reserve Board has announced plans to phase out "incentive pricing" of automated clearinghouse services by 1985. Announcement of this program came in a recent letter from Board Governor Lyle E. Gramley to Senator John H. Chafee, chairman of the Subcommittee on Consumer Affairs of the Senate Banking, Housing and Urban Affairs Committee.

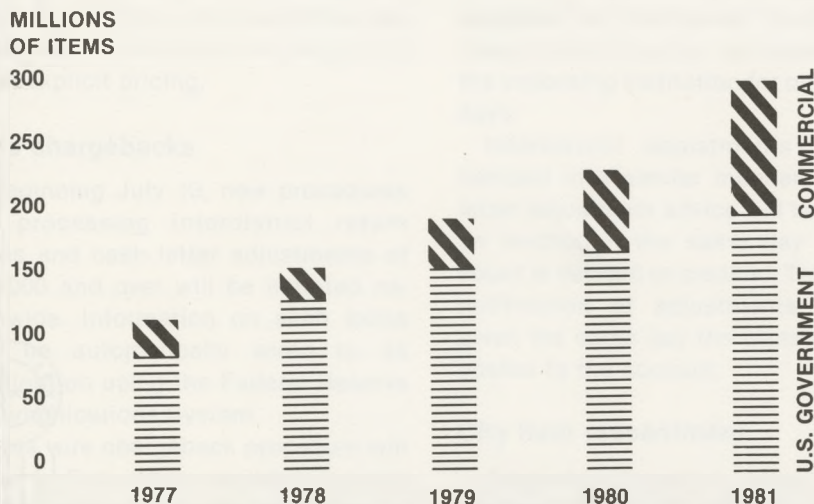
Gramley stated that ACH prices will be increased in stages to allow for a smooth transition to full-cost pricing. New ACH prices to be announced later in 1982 will be 40 percent of current Fed costs plus a private sector adjustment factor which takes into account imputed taxes and financing costs which would have been incurred by a private firm. The ratio of ACH prices to current costs will be increased to 60 percent in 1983, 80 percent in 1984, and 100 percent in 1985. The current subsidized ACH prices are one cent for local items and one and one-half cents for interregional items.

When the Federal Reserve Board originally established its ACH prices following passage of the Monetary Control Act of 1980, Gramley said, ACH was still in a developmental stage and needed to grow. "Consequently, the Board established an incentive pricing policy for ACH operations to encourage this growth to the point where economies of scale could be realized," Gramley stated.

Gramley said in his letter that the Board feels the private sector will benefit from the knowledge of when the Fed will begin full-cost pricing of ACH services. The marketplace will be able to evaluate the costs and benefits of ACH and whether competitive private sector ACH facilities are feasible. If so, the Fed's announcement will allow for the development of business plans.

The phase-out of ACH incentive pricing was chosen over an abrupt change to full-cost pricing so that ACH users would not revert to paper checks. "We believe such an action would jeopardize the future of a cost effective and efficient service," Gramley said.

**Volume of ACH Items Processed by the Federal Reserve System**



# Boykin Speaks on Devaluation

As part of the Bank's continuing efforts to conduct meetings with business and community groups, Carlos Zuniga, director of the San Antonio Branch, recently hosted the San Antonio Branch Board of Directors meeting in Laredo. Robert H. Boykin, president of the Federal Reserve Bank of Dallas, was the honored guest and speaker at the luncheon.

## Short-term impact

Boykin addressed the recent devaluation of the peso and its impact on trade between the United States and Mexico, particularly its affect on this area of the country. In his speech before leaders of business and industry in the Laredo area, Boykin stated that "the recent peso devaluation had rather dire consequences for the border cities. Retail establishments on this side of the border suffered drastic reductions in sales, and

tourism from Mexico also suffered. More generally, exports to Mexico have declined following the devaluation of the peso.

## Long-term effects

"Nevertheless, the Mexican devaluation of the peso was both a necessary and desirable development for the longer run. The devaluation was necessary to keep Mexican goods competitive in world markets. And, of course, Mexico's 'in bond' assembly industry should benefit rather substantially from the devaluation. It will be in a much better competitive position as a result of the devaluation.

"So, while the short-term consequences were rather severe on this side of the border, in the long run it will lead to a stronger Mexican economy which, of course, is in the best interest, not only of Mexico but the United States as well."

# FCA Seminars

The Dallas Fed will conduct eight functional cost analysis seminars during July to explain FCA to new participants and to help institutions which participated in 1981 understand and interpret their individual reports. Seminars for new participating banks will be held as follows:

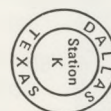
Lubbock	Wednesday, July 7
El Paso	Thursday, July 8
Houston	Tuesday, July 13
San Antonio	Wednesday, July 14
Dallas	Tuesday, July 20
Shreveport	Thursday, July 29

Banks which participated in 1981 may attend one of the above seminars if they wish.

In addition to the above meetings, a seminar will be held in Dallas July 21 for 1981 participants, and another will be held in Dallas July 23 for savings and loan associations and credit unions. Additional information may be obtained by contacting Senior Technical Assistance Representative Jerry Bramlett in the Department of Communications, Financial and Community Affairs.

Roundup is published monthly by the Federal Reserve Bank of Dallas and its Branches at El Paso, Houston, and San Antonio. Additional copies of most issues and subscription information are available from the Department of Communications, Financial and Community Affairs.

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