

DALLAS FED

ROUNDUP

Federal Reserve Bank of Dallas September 1982

FCA Indicates Rise in 1981 Check Costs

The cost to process a check increased 18.1 percent between 1980 and 1981 for those banks which participated in the Dallas Fed's functional cost analysis program. The recently-published 1981 District Bank Averages indicate that the average cost to process a transit item rose to 7.724 cents in 1981 from 6.538 cents in 1980.

The FCA reports, which provide a break-down of average costs, income and expense data by size of institution, show that banks with deposits in the \$50 to \$100 million range were the hardest hit by check processing cost increases in 1981. For this group of banks, the average cost to process a

transit item increased 32 percent, from 6.190 cents to 8.169 cents, and the average monthly cost to maintain a demand deposit account increased 33.2 percent, from \$3.10 to \$4.13.

Earnings per demand deposit account were generally down in 1981 due to increased costs. The average monthly net loss on each account for all participating banks was \$7.61, up 58.2 percent from \$4.81. However, after credit for income on funds deposited in the bank's portfolio was applied to demand deposit account earnings, net earnings generally increased. The monthly net earnings per account after portfolio credit increased 22 percent

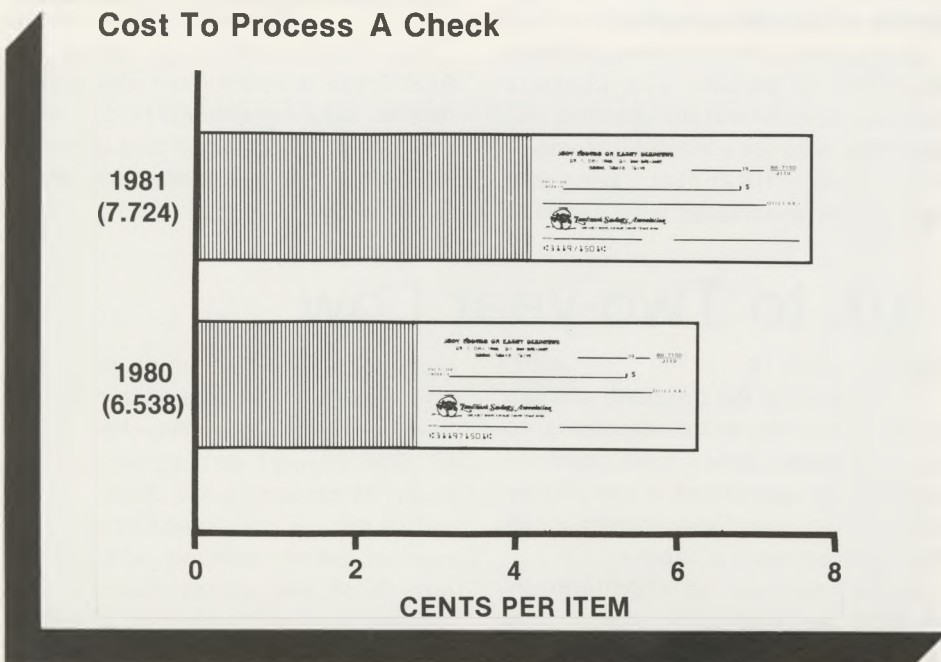
for all size categories, from \$16.44 to \$20.05 in 1981. This was primarily the result of higher interest rates in 1981. The average net portfolio yield for participating banks increased from 10.539 percent in 1980 to 13.245 percent in 1981.

Once again, banks in the \$50 to \$100 million range were the hardest hit in demand deposit account losses. The average net loss per account per month was \$8.36, up 165.4 percent from \$3.15. Net earnings after portfolio credit, however, increased 21.9 percent for these banks, from \$17.89 to \$21.80 per account per month.

In addition to various demand deposit account information, the FCA reports provide income and expense data for 12 other functions within a financial institution. For example, the reports indicate the average cost to make an instalment loan, the average cost to process a savings account deposit, and ratios which measure personnel efficiency, among thousands of other cost figures.

FCA is based on balance sheet and income statement information which the participating institutions submit to the Dallas Fed.

Cost To Process A Check



INSIDE

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Food Coupons New to S&Ls

Insured savings and loan associations are now permitted to redeem food coupons for authorized retailers and wholesalers.

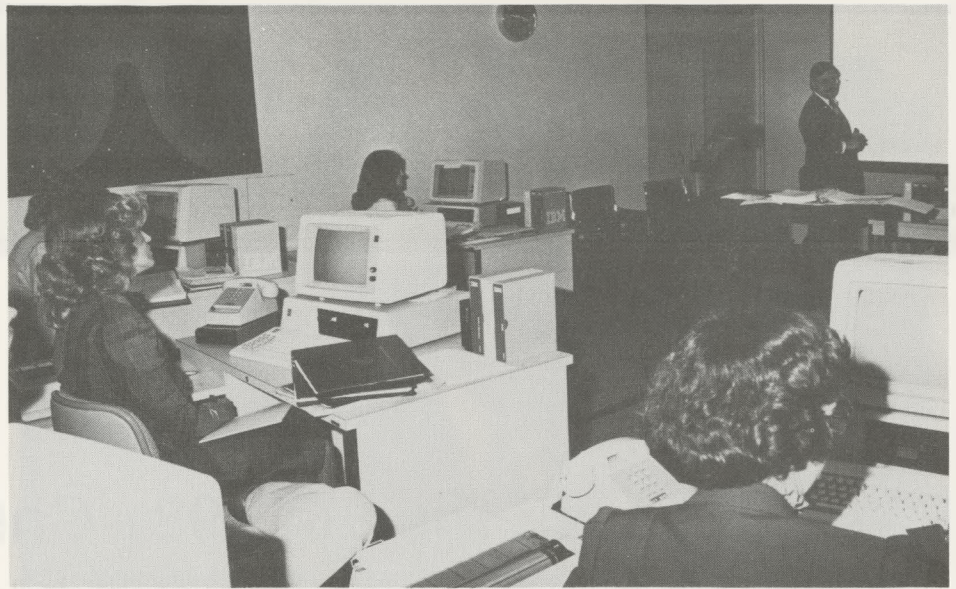
Recently, an amendment was passed to the Food and Nutrition Service regulations making it possible for insured savings and loans to offer this service.

Any insured savings and loan can apply to the Department of Agriculture for authorization and may establish an account for deposits at the Federal Reserve Bank of Dallas.

Further information about Federal Reserve food coupon services may be obtained from the Cash Department.

Summary Available

A summary of the Federal Reserve Board's July 20, 1982, report to Congress titled "Monetary Policy Objectives for 1982" is currently available upon request to the Department of Communications, Financial and Community Affairs. The report is the final one this year by Chairman Volcker on the state of the economy and the course of monetary policy for 1982.



Bob Boyanton of the Dallas Fed explains the wire transfer process.

Class Aids RESPONSE Users

In order to provide instructions for operating the IBM personal computer, the Dallas Fed is holding training sessions for its RESPONSE program participants.

In May, the Federal Reserve Bank of Dallas announced a new service in the RESPONSE communications network program. This service allows smaller financial institutions to connect directly with the Fed's district and nationwide communications network through the use of the IBM computer.

During each one-day class, trainees learn how to perform wire transfers and receive reserve statement information. They also are exposed to some of the many financial program capabilities associated with personal

computers. The sessions conclude with a tour of the Dallas Fed's computer center so users of the personal computer can get a better idea of what happens when a transaction takes place.

The growing use of micro computers in banking has enabled smaller financial institutions to improve their operating and marketing effectiveness.

For further information about the RESPONSE program itself please contact Mr. Dick Ingram at (214) 651-6212, and for information regarding the training sessions please contact Mr. Vance Smith at (214) 698-4322.

Discount Rate Falls to Two-year Low

On August 27, the basic discount rate at the Federal Reserve Bank of Dallas was reduced to its lowest level in two years. The discount rate—the interest rate the Fed charges financial institutions for borrowing funds—was lowered to 10 percent from 10.5 percent. This reduction was the fourth time the rate had been lowered since July 20. The 10.5 percent rate was ef-

fective August 13.

A reduction in the discount rate can come about as a reinforcement to other monetary policy tools, such as open market operations. It can also be reduced because money market conditions warrant such a change.

Recent declines in short-term interest rates, especially the federal funds rate, helped spur the latest

reductions. The Fed funds rate—the rate institutions charge each other on loans of excess reserves—had fallen to 10.38 percent on August 13 from nearly 15 percent in late June.

This decline, combined with a reduction in credit demand and slower growth of the money supply, contributed to the four half-point reductions since July.

Fed Statement Outlines Checks Changes

The Federal Reserve issued a statement July 29 to provide an overview of current Fed System pricing policy and requested comment the following week on the initial steps toward implementing new procedures discussed in the statement.

The Fed's pricing policy statement was delivered by E. Gerald Corrigan, president of the Federal Reserve Bank of Minneapolis and chairman of the System Pricing Policy Committee, who discussed the Federal Reserve's experience during the first year of pricing and indicated future plans for priced services activities.

Check Services

Comment was requested by the Federal Reserve Board August 4 on a proposal outlining later deposit times for certain types of checks and 12 noon presentment for city items, initial steps toward modifying the System's check processing and collection procedures and thus toward improving the speed and efficiency of the nation's payments mechanism. The proposal explained that 12 noon would be the uniform earliest final presentment time, and that many checks would continue to be presented according to current arrangements. Comment is requested by September 20.

In addition to these proposed changes, Corrigan explained that a major reconfiguration of the Fed's Interdistrict Transportation Network, now underway, would greatly accelerate the check collection process. This network is the method the Fed uses to move checks between Federal Reserve offices around the country.

The proposed check service changes would allow 50 to 70 percent of interdistrict items to be collected and credited within one day, thereby accelerating by 24 hours the collection of items valued at between \$1.6 and \$2.6 billion per day, Corrigan said. This accelerated collection also would allow financial institutions to receive earlier availability for their deposits.

Pricing Techniques

Corrigan's statement continued by explaining revisions in the method to be used for pricing Federal Reserve services in the future. The revised pricing technique will recognize that the value of a particular service might be different from its cost and will take into account prevailing market practices.

The extent to which this new pricing flexibility will be used, however, is limited. The most important and widespread use of the technique, Corrigan said, will be reflected in prices

for certain types of cash letter deposits where the Fed has made major improvements in availability and has thereby vastly enhanced the value of the service. Preliminary new check prices were announced the week of August 23.

Federal Reserve Float

In his statement, Corrigan announced further plans for the reduction of Federal Reserve float. The Fed will continue to emphasize operational improvements in an effort to reduce float during the remainder of 1982, he said. In 1983, however, new crediting procedures for interterritory cash letters and explicit pricing of remaining float will be considered. The Fed's proposed float reduction plan is summarized in the table accompanying this article.

Corrigan also outlined near term pricing initiatives for other Federal Reserve services. Plans for an electronic check collection program that had been under consideration by the Fed will be discontinued, he said.

Throughout his statement, Corrigan emphasized that the Federal Reserve System's continuing objective is to enhance the efficiency of the payments mechanism in a manner consistent with the Fed's overall public responsibilities. "We are very much inclined to the view that we should seek to maintain a viable, operational presence in the payments business primarily because we believe that presence is consistent with the goal of improving the efficiency and effectiveness of the payments mechanism," he said.

SUMMARY OF PROPOSED SYSTEM FLOAT REDUCTION PLAN FOR 1982/1983

Approximate Target Date	Proposed Action
September 1982	Charge payor institutions for cash letter presentments on mid-week closings.
September 1982	Wire advice for return items equal to or greater than \$50,000.
September 1982	Wire advice of adjustments equal to or greater than \$50,000 (short-term measure). Automate adjustment process (long-term measure).
January 1983	Change crediting procedures for interterritory cash letter deposits.
Early 1983	Eliminate or price holdover float.
Early 1983	Eliminate or price intraterritory transportation float.
Early 1983	Eliminate or price noncheck float.

The full text of Corrigan's statement is contained in Federal Reserve Bank of Dallas Circular No. 82-89, and the proposed modifications to check collection services are contained in Circular No. 82-100. Both are available upon request to the Department of Communications, Financial and Community Affairs.

Directors Meetings Held at Dallas Fed

The Federal Reserve Bank of Dallas regularly invites boards of directors from Eleventh District financial institutions to hold their meetings at the Fed.

During each visit, the directors attend a luncheon with members of the Fed's management staff. Following lunch, they meet with members of senior management and are given a presentation on the current state of the economy by a member of the Bank's research staff. After the visiting institution's board meeting is held, the board members are taken on a tour of the facilities.

These meetings give the directors a chance to learn more about Federal Reserve services and also help the Fed keep in close contact with the needs of the financial community.



W. W. Jones, Jr. (second from left), President of City National Bank of Sulphur Springs, meets Senior Vice President Tony Salvaggio, Economist Jim Hoehn, and Senior Vice President Joe Burns of the Federal Reserve.

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