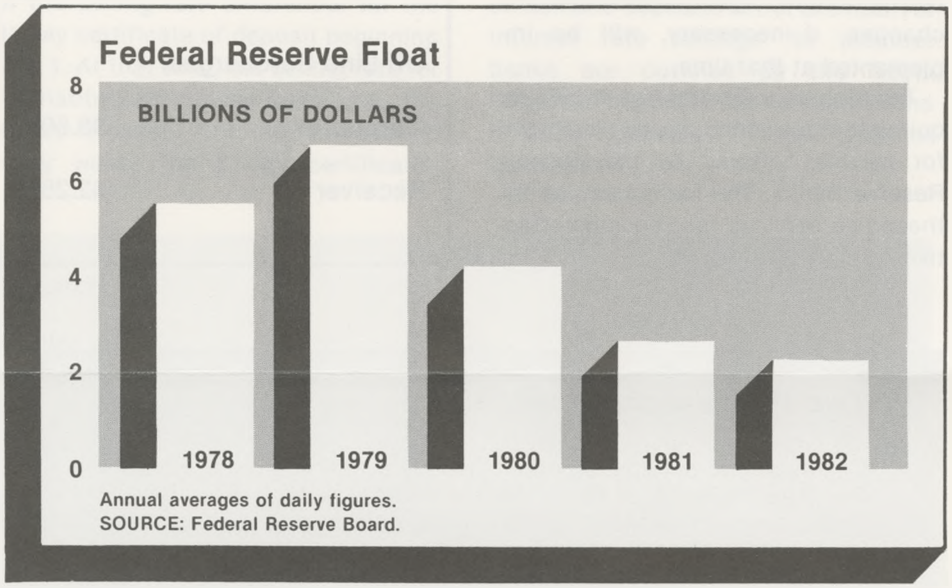
DALLAS FED ROUNDUP

Federal Reserve Bank of Dallas April 1983

Board Approves Float Reduction Programs

The Federal Reserve Board of Governors has approved a program designed to reduce and price Federal Reserve interterritory check float and holdover check float. Federal Reserve float is the value of checks for which the Fed has given credit to financial institutions depositing checks for collection, but for which the Fed has not yet received payment.



Annual averages of daily figures.
SOURCE: Federal Reserve Board.

Interterritory float

Interterritory float occurs primarily as a result of interdistrict transportation delays. The interterritory check float portion of the program will be implemented on July 1, 1983. On that date, all Reserve Banks will offer fixed and fractional availability crediting options with various methods of payment for float. Current fixed availability, whereby credit is given to institutions according to a predetermined schedule, will be continued. Fractional availability, whereby partial credit is given to institutions based on the Fed's actual past delivery experience, will be introduced as a new crediting option. All interterritory check deposits will be processed in order of receipt and will be subject to the same crediting procedures regardless of whether they are processed at the sending or receiving Federal Reserve office.

Holdover float

Holdover float occurs when a Reserve Bank receives a check shipment by its deposit deadline, but is unable to process it for collection on a timely basis. Generally this float occurs as a result of sharp daily fluctuations and check processing equipment malfunctions. The pricing of holdover float will be phased in from February 24 through October 1, 1983. During this phase-in period, the cost associated with holdover float will be gradually incorporated in the cost of check services until, on October 1, the cost of all holdover float will be added to the cost of check services.

For several years, the Federal Reserve System has been taking action to reduce float. Steps previously taken to reduce float have included later deadlines for presentment of checks and improved availability and efficiency in the Federal Reserve's Interdistrict Transportation Network. The chart accompanying this article shows that, in 1979, daily average Federal Reserve float was $6.7 billion. By the end of 1982, that figure had been reduced to $2.3 billion. Implementation of float pricing is expected to make further substantial reductions in daily float averages.

INSIDE

No Change in Transfer, Net Settlement Fees

The Federal Reserve Board has announced that there will be no increase in the fee schedules currently charged for wire transfer of funds and net settlement services.

The current fee schedules for these services, printed in a table accompanying this article, were put into effect April 29, 1982. Because revenues from these services are currently sufficient for covering the costs of providing the services, the Board decided not to change the fee schedules for the year 1983. Changes to these schedules will be re-evaluated again in 1984 and any changes, if necessary, will be implemented at that time.

The Monetary Control Act of 1980 required that fee schedules be developed for services offered by the Federal Reserve Banks. The fee schedules for these two services first became effective January 29, 1981.

1983 FEE SCHEDULE

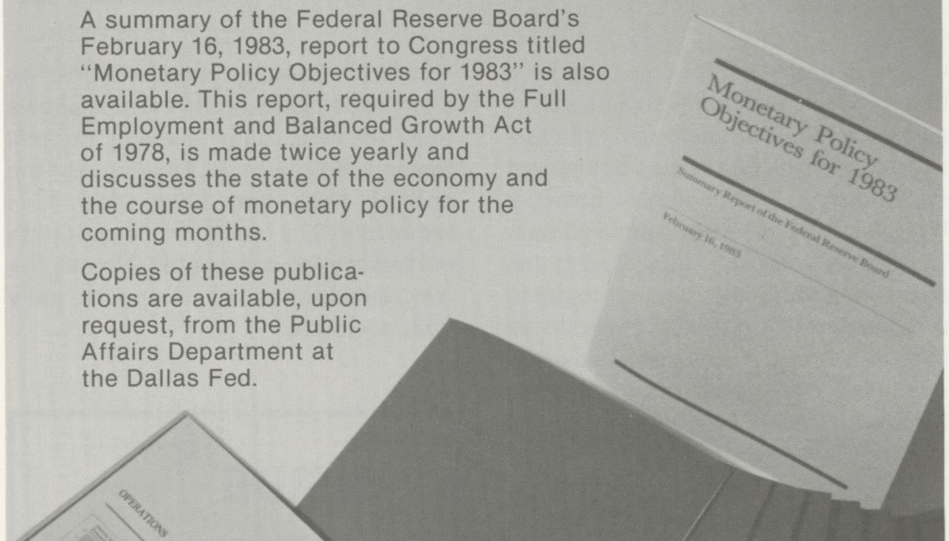
Wire Transfer of Funds		**Net Settlement**	
On-Line Transfer:			
Originator	$0.65	Settlement Entries	$1.30
Receiver	$0.65		
Off-Line Surcharges:			
Originator	$3.50	Per Settlement	$5.00
Receiver	$2.25	Telephone Advice	$2.25

Two Publications Available

Copies of two publications are currently available from the Dallas Fed. The 1982 Annual Report for the Federal Reserve Bank of Dallas provides financial and operating data for the year as well as background information on Federal Reserve endeavors in the areas of operations, supervision, and monetary policy.

A summary of the Federal Reserve Board's February 16, 1983, report to Congress titled "Monetary Policy Objectives for 1983" is also available. This report, required by the Full Employment and Balanced Growth Act of 1978, is made twice yearly and discusses the state of the economy and the course of monetary policy for the coming months.

Copies of these publications are available, upon request, from the Public Affairs Department at the Dallas Fed.



Prices Announced

A new fee schedule for book-entry Treasury securities will become effective for all Federal Reserve Banks April 28, 1983. The fee schedule has been revised to recover the costs of providing the services and to add a monthly fee for each issue held in an account. Prior experience has shown that the costs of maintaining a book-entry account are directly related to the number of issues held in that account. For example, accounts with a large number of issues are more costly to maintain than accounts with only a few issues. Addition of a per-issue fee will more accurately reflect the costs of maintaining a multiple issue account.

The transaction fee for on-line origination has been increased from $2 to $3 per transfer at all Federal Reserve Banks except New York. Fees for off-line originations and receipts at all Feds are now priced at $10 per transfer. The account maintenance fee has been established at $15 per account per month, with a 50¢ charge per month for each issue in an account.

Deposit Accounts to Change in April, May

Several modifications to existing time deposit instruments offered by commercial banks and savings and loan associations will take effect during April and May as part of an overall interest rate deregulation plan announced last year by the Depository Institutions Deregulation Committee (DIDC). The committee decided in its March 1 meeting that the plan should be implemented as originally announced March 22, 1982.

According to the plan, on April 1, 1983, the term to maturity for the 3½-year or longer ceilingless time deposit will be reduced to 2½ years or longer. Other characteristics of this time deposit category will remain the same. Also on April 1, the term to maturity for the 2½-year to less than 3½-year "Small Saver" certificate will be reduced to 1½ years to less than 2½ years. The interest rate ceiling for these certificates will be indexed to the 1½-year yield on Treasury securities announced by the Treasury every two weeks instead of the 2½-year yield which was used previously. Other characteristics of the accounts will remain unchanged, including the 25 basis point differential between the rate banks and savings and loans may pay.

The DIDC's plan calls for elimination of the ceiling rate differential for the 91-day certificate of deposit beginning May 1. At that time, the ceiling rate for all institutions will be indexed to the 91-day Treasury bill rate announced every week. The 91-day certificates were first authorized by the DIDC May 1, 1982, with the stipulation that the interest rate differential remain in effect for a one-year period only.

The major features of accounts with variable interest rate ceilings and of accounts not subject to interest rate ceilings are summarized in the table accompanying this article. In addition to these account instruments, other types of time deposit accounts, savings accounts, and regular NOW accounts are subject to fixed interest rate ceilings. The payment of interest on demand deposits is not allowed. All interest rate ceilings for member banks are outlined by the Fed's Regulation Q and in similar regulations of other agencies for other types of institutions.

MAJOR CHARACTERISTICS OF DEPOSIT INSTRUMENTS

Deposit Accounts Subject to Variable Ceiling Rates

	91-day Certificate	6-month Money Market Certificate		1½-year to less than 2½-year Small Saver Certificate
Index rate	91-day T-bill rate	182-day T-bill rate or 4-week average, whichever is greater		1½-year yield on Treasury securities
Commercial bank ceiling	Index rate (after May 1, 1983)	Index rate plus .25 or 7.75%, whichever is greater		Index rate minus .25 or 9.25%, whichever is greater
Thrift ceiling	Index rate	Index rate:	Ceiling:	Index rate or 9.50%, whichever is greater
		7.25% or below	7.75%	
		Above 7.25%, but below 8.5%	Index rate plus .5	
		8.5% or above, but below 8.75%	9.00%	
		8.75% or above	Index rate plus .25	
How often changed	Every week	Every week		Every two weeks
Minimum denomination	$2,500	$2,500		None
Early withdrawal penalty	Loss of earned interest	Loss of three month's interest		Loss of six month's interest
Compounding allowed	No	No		Yes
Negotiability allowed	Yes	No		No
Transactions allowed	No	No		No

Deposit Accounts Not Subject to Interest Rate Ceilings

	"Super NOW" Account	Money Market Deposit Account	7-31 day Deposit Account	2½-year or longer Time Deposit
Minimum denomination	$2,500	$2,500	$2,500	None, but a $500 denomination required
Early withdrawal penalty	N/A	N/A	Yes	Loss of six month's interest
Compounding allowed	N/A	N/A	Yes	Yes
Negotiability allowed	N/A	N/A	No	Yes
Transactions allowed	Unlimited	6 preauthorized per month, no more than 3 by check or draft	No	No

Wallace Speech Addresses EFT Growth

The incentive to develop new and more effective electronic funds transfer (EFT) systems will vary directly with the level of interest rates according to William H. Wallace, first vice president of the Dallas Fed. Speaking before executive seminars at Golembe Associates, Inc. in Houston, Wallace stated that, as the time value of money increases, the desire to collect and invest it faster becomes a very powerful motive. "Therefore, some of the explosive growth we have seen in interbank transfers will moderate to a certain degree as a result of a less inflationary environment and lower interest rates," Wallace said.

Wallace went on to say, however, that less expensive EFT technology, changing attitudes on the part of the consumer, and more expensive alternatives to EFT will tend to make such systems more attractive and will contribute to a significant growth in EFT over the next several years.

The areas of interbank transactions, including the Federal Reserve's Fedwire system, and automated clearinghouse networks are two aspects of EFT which have witnessed extensive development and growth. Wallace also cited corporate cash management, where EFT has enabled corporations to expedite the collection, concentration, and investment of funds as well as control disbursement to manage float, as a significant EFT development. Check truncation will emerge within the next three to five years and will have the potential of improving the payments system primarily through elimination of the costly task of transporting paper, Wallace said.

Wallace also addressed a few "flags of caution" which he feels must be discussed in conjunction with EFT. These include inherent risks in electronic payments that are not present in traditional techniques such as instantaneous and irrevocable transactions, potential disruption of systems due to power outages or computer breakdowns, and fraudulent use of EFT systems. Adequate monitoring mechanisms and advance preparation are necessary to prevent these types of problems, Wallace said.

The Federal Reserve System is particularly interested in another issue, that of the impact EFT might have on monetary policy. "From the standpoint of central banking, these developments will certainly make the definition of the money supply more difficult, and the volatility of whatever we define as money will make it considerably more difficult to control," Wallace said. "We believe on balance, however, that the advantages that EFT offers from the standpoint of efficiency justify our meeting these issues head-on and resolving them."

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 Public Affairs Department.

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