

Federal Reserve Bank of Dallas May 1983

Martin Predicts Multi-year Recovery

The current gradual economic recovery will most likely continue for several years according to Preston Martin, vice chairman of the Board of Governors of the Federal Reserve System. Martin spoke at a luncheon April 14 before members of the San Antonio business community on the occasion of a joint board of directors meeting of the Federal Reserve Bank of Dallas head office and the San Antonio branch.

"I think there is a good chance this time of a multi-year recovery," Martin said. "Quick recoveries tend to have a short life." Martin went on to say that a

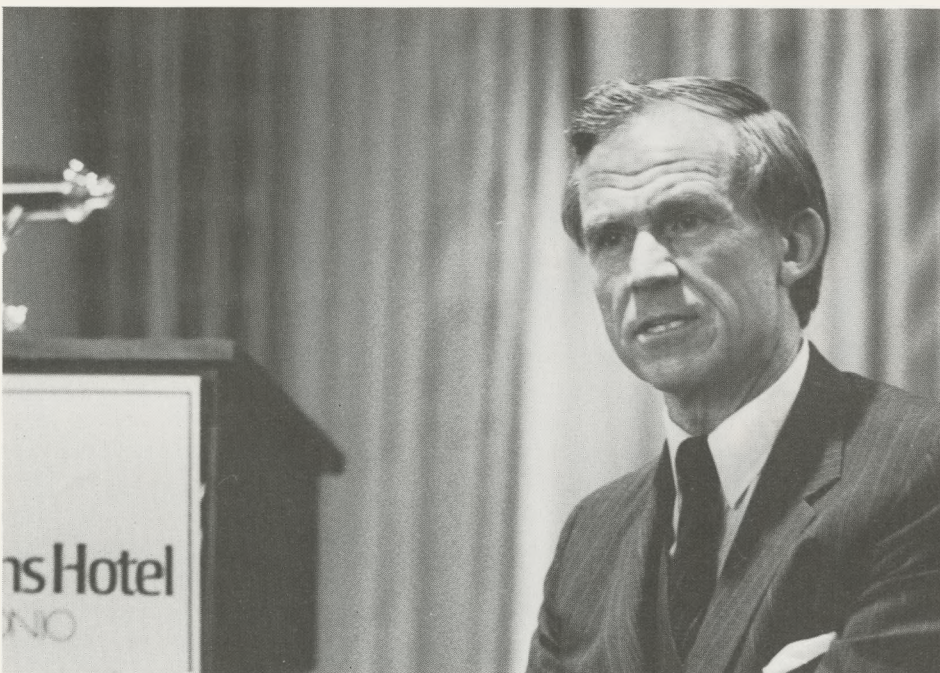
major responsibility of the Federal Reserve is making certain that growth in the money supply supports the ongoing recovery. "This must be well toward the top of the list of Fed priorities," he said. Because the recovery is weak and highly fragile, Martin said, the Fed cannot afford to allow money to expand so slowly that the recovery tops off too soon.

Martin also warned that very large federal deficits create fears of renewed inflation. "We are at least as concerned about the deficits as you (business leaders), maybe more," Martin said. "The deficits get in the way of

our conducting monetary policy." The deficits do have quite a substantial effect on inflation according to Martin.

When asked about the various proposals passing through Congress concerning the Federal Reserve's independence, Martin said he hoped the issue of fighting inflation would not be forgotten. "There has been criticism of the Federal Reserve for 69 years, and it has accelerated in the past 69 days," he stated. "It is our hope that, whatever resolution emerges, the Fed's responsibility to counter inflation will be included. The responsibility of providing economic growth alone will not complete the job."

In his talk before the business community of San Antonio and surrounding areas, Martin emphasized the importance of regional input to Federal Reserve and monetary policy decisions. This input is achieved in part through the liaison provided by members of the boards of directors of Federal Reserve Banks and their branches. "The Fed is fortunate to have regional input to its decision-making process because the nation has a community banking system," Martin said.



Preston Martin believes federal deficits have a substantial effect on inflation.

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Federal Home Loan Bank To Relocate in Dallas

On April 6, members of the Federal Home Loan Bank Board voted to move the Federal Home Loan Bank of Little Rock to Dallas. The board's decision was based, in part, on Dallas' central location in the Ninth District of the Federal Home Loan Bank System and the efficient transportation networks in the area. The Ninth District consists of the states of Arkansas, Louisiana, Mississippi, New Mexico, and Texas.

The Federal Home Loan Bank (FHLB) System was created in 1932 to provide a central credit system for non-bank mortgage lending institutions. The system is governed by a three-member board appointed for four-year terms by the president and confirmed by the Senate. This board, located in Washington, D.C., along with 12 regional federal home loan banks and member institutions, form the FHLB System. Just as nationally-chartered commercial banks are required to be members of the Federal Reserve System, nationally-chartered savings and loan associations are required to join the FHLB System. Qualified state-chartered savings and loans, mutual

savings banks, and life insurance companies may join if they wish. Members of the system own stock in their regional home loan banks and are entitled to borrow funds, elect some members of the banks' boards of directors, and receive dividends.

Federal Home Loan Banks provide members with a facility for depositing excess funds and for the safekeeping and purchase and sale of U.S. Government securities. They also advance funds to members to meet liquidity requirements when there is an unanticipated withdrawal of savings or when seasonal fluctuations occur in the demand for home mortgages.

At the end of 1982, there were 3,556 members of the FHLB System: 3,423 savings and loan associations, 131 mutual savings banks, and two insurance companies. In the Ninth District there are 513 member savings and loans.

The system also supervises and administers the Federal Savings and Loan Insurance Corporation (FSLIC) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

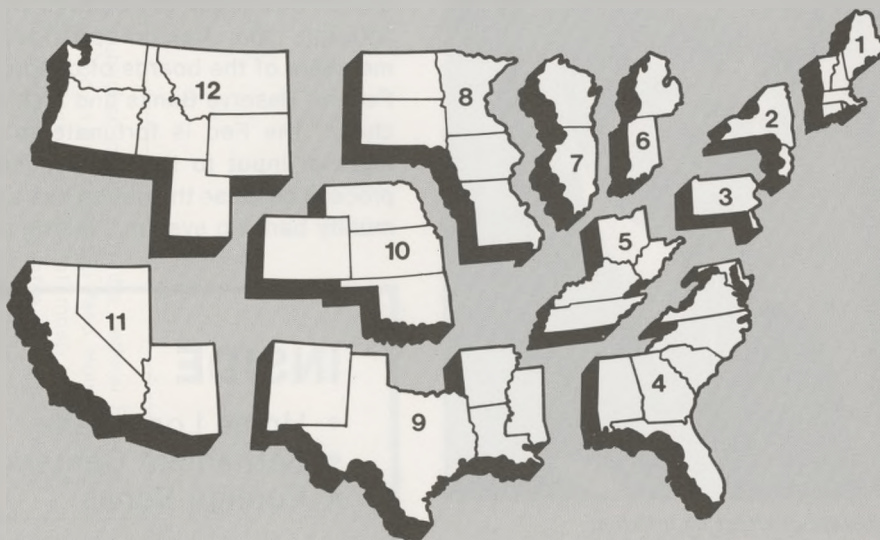
Houston Begins 7 p.m. Option

In conjunction with the new check services fee schedule that went into effect February 24, the Dallas and San Antonio offices of the Federal Reserve Bank of Dallas implemented a new 7:00 p.m. mixed cash letter program. On April 14, the Houston office also began offering the 7:00 p.m. deposit option.

Both mixed cash letters and "other Fed" cash letters will be accepted at the 7:00 p.m. deposit time. A mixed cash letter is one which contains a variety of unsorted checks and which has at least 50 percent of the items drawn on institutions in the Eleventh Federal Reserve District. An "other Fed" cash letter has more than 50 percent of the items drawn on institutions in other Federal Reserve districts.

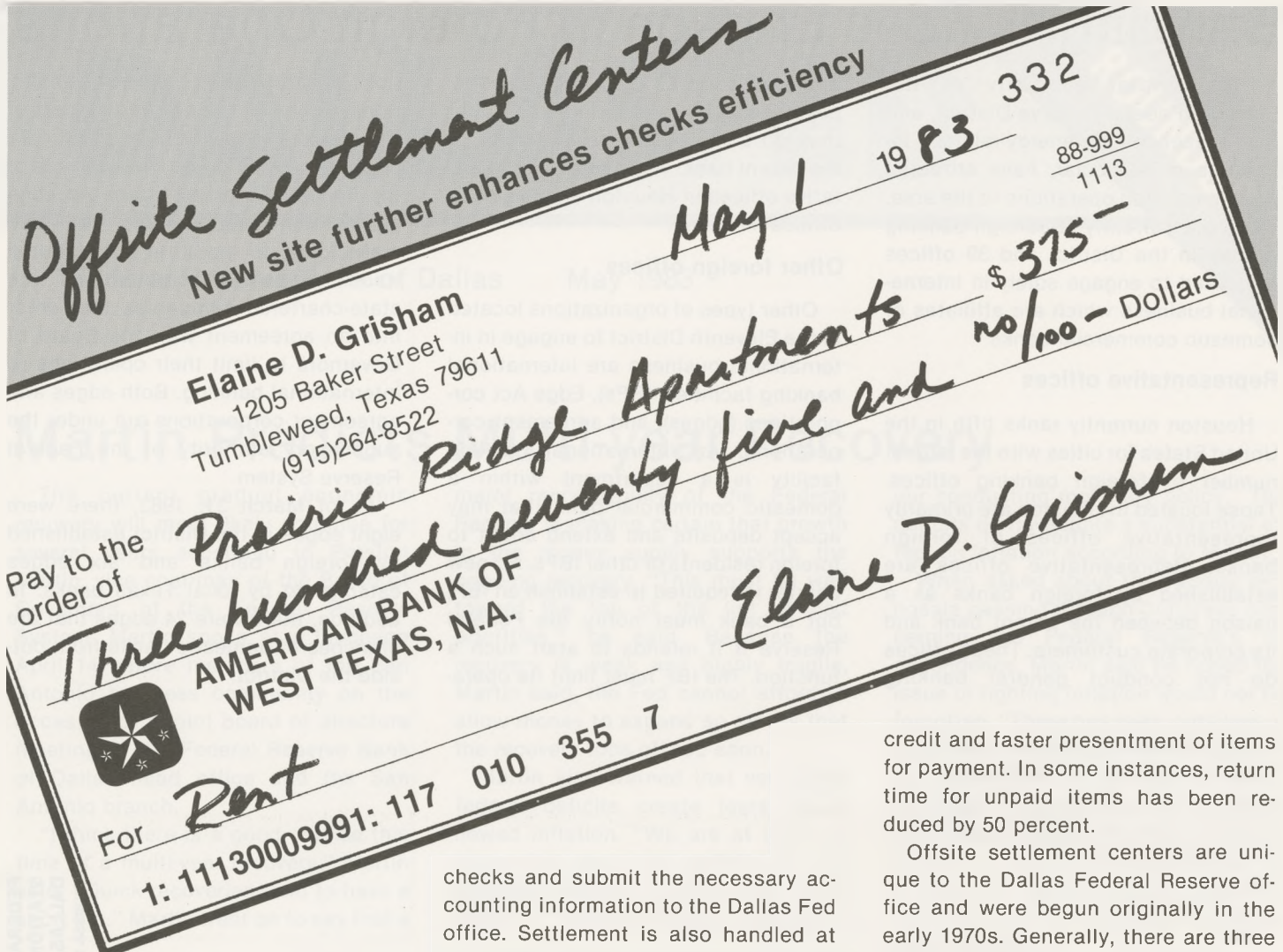
Effective April 18, the cutoff times for local and "other Fed" non-machineable cash letters were extended to the city item cutoff times: 9:00 a.m. in Dallas and Houston, 9:15 a.m. in El Paso, and 9:30 a.m. in San Antonio.

Federal Home Loan Bank District Offices



1. Boston
2. New York
3. Pittsburgh
4. Atlanta
5. Cincinnati
6. Indianapolis
7. Chicago
8. Des Moines
9. Little Rock (Dallas)
10. Topeka
11. San Francisco
12. Seattle

District 2 includes Puerto Rico and Virgin Islands
District 12 includes Alaska, Hawaii, and Guam



On May 15, the Federal Reserve Bank of Dallas will begin operating its fifth offsite settlement center for check processing. The new center will begin operations at a local bank in Abilene which will receive and sort checks for the Fed.

An offsite center is designed to operate somewhat like a "mini" regional check processing center in a remote or "country" area of the Eleventh Federal Reserve District. These offsite centers process checks drawn on financial institutions located in the same geographic area as the center. The area served by the center is determined by check courier routes out of a particular metropolitan area. These cities, known as transportation hub cities, are the primary determinant in selecting the site for an offsite settlement center.

All settlement centers process area

checks and submit the necessary accounting information to the Dallas Fed office. Settlement is also handled at the Dallas office. The offsite cash letters (checks) are processed at a local participating bank and are presented to payor banks along with other cash letters processed at the Dallas office. Unlike other checks, those processed at a settlement center are not sent through the Dallas office for processing, but are handled directly at the participating bank.

Processing in each settlement center is done by the participating bank's employees at night to facilitate overnight turnaround of the checks. This increase in the efficiency of check collection has been a major goal of the Federal Reserve System. By processing these checks locally, financial institutions can receive both faster collection and savings from loss of "float" time. These centers make it more convenient for financial institutions to process checks and offer the advantages of earlier availability of

credit and faster presentment of items for payment. In some instances, return time for unpaid items has been reduced by 50 percent.

Offsite settlement centers are unique to the Dallas Federal Reserve office and were begun originally in the early 1970s. Generally, there are three major classifications of checks processed by the Dallas Fed office—city, regional check processing center (RCPC), and country items. City items are those checks drawn on institutions located in the immediate Dallas, El Paso, Houston, and San Antonio areas. Regional check processing center items are checks drawn on institutions located within approximately a 100-mile radius of Dallas and areas outside the cities of Houston and San Antonio. Country items are drawn on financial institutions in west Texas, northern Louisiana, southeastern Oklahoma and southern New Mexico. The five offsite centers were designed to increase the efficiency of handling checks in "country" areas. The first such centers were open in Shreveport and Monroe, Louisiana, and continue operations today. There are other centers located in Amarillo and Lubbock.

Banking Offices Engage in Foreign Operations

The general economy of the Eleventh Federal Reserve District, and the presence of energy-related industries in particular, have attracted foreign banking operations to the area. There are currently 56 foreign banking offices in the District and 39 offices organized to engage solely in international business which are affiliates of domestic commercial banks.

Representative offices

Houston currently ranks fifth in the United States for cities with the largest number of foreign banking offices. Those located in Houston are primarily representative offices of foreign banks. Representative offices are established by foreign banks as a liaison between the parent bank and its corporate customers. These offices do not conduct general banking

business such as receiving deposits, paying checks, or making loans, but they do solicit business on behalf of the parent bank. There are 51 representative offices in Houston and five such offices in Dallas.

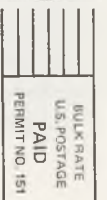
Other foreign offices

Other types of organizations located in the Eleventh District to engage in international business are international banking facilities (IBFs), Edge Act corporations (edges), and agreement corporations. An international banking facility is a department within a domestic commercial bank that may accept deposits and extend credit to foreign residents or other IBFs. No new charter is required to establish an IBF, but a bank must notify the Federal Reserve if it intends to start such a function. The IBF must limit its opera-

tions only to foreign business transactions. Edges were approved as part of the Federal Reserve Act and are chartered by the Board of Governors of the Federal Reserve System. An edge can accept deposits and can also make loans to facilitate international trade. Agreement corporations are state-chartered companies that enter into an agreement with the Board of Governors to limit their operations to international banking. Both edges and agreement corporations are under the supervisory authority of the Federal Reserve System.

As of March 31, 1983, there were eight edges in the District established by foreign banks and six edges established by local Texas banks. In addition, there were 24 edges that are branches of domestic banks from outside the District.

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