DALLASFED ROUNDUP

Federal Reserve Bank of Dallas July 1983

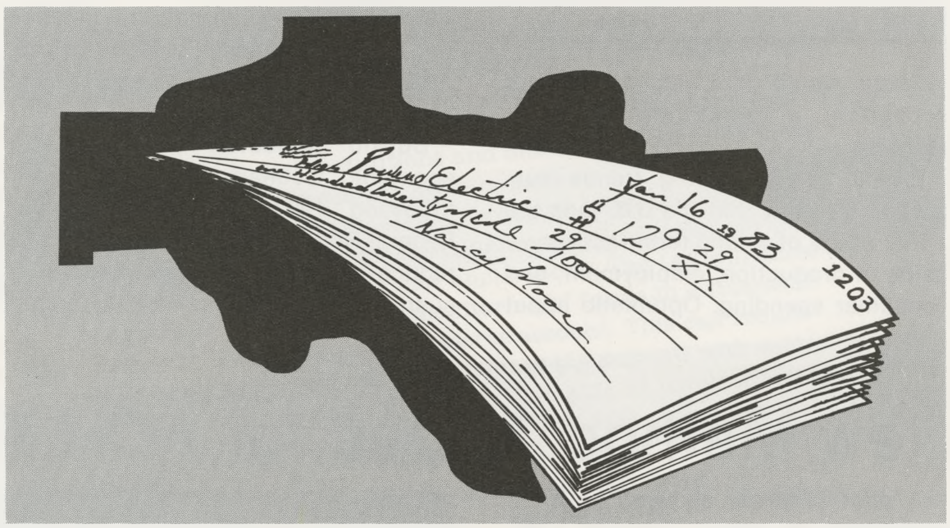
Fractional Availability to Begin July 1

Eleventh District Federal Reserve offices will initiate a fractional availability method to price interterritory check float beginning July 1. This new program is one step toward implementation of an overall float reduction and pricing plan approved by the Board of Governors in March.

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. Interterritory float occurs primarily as a result of interdistrict transportation delays.

To implement fractional availability, Fed offices in the Eleventh District will defer partially the availability of credit for those checks which are drawn on institutions located in other Federal Reserve territories. This will involve only items in mixed or "other Fed" cash letters. Each office has developed a fraction or percentage which represents the average on-time performance for delivery of checks to other Federal Reserve offices and which will be used to determine how much credit will be deferred. These fractions are 96 percent for the Dallas office, 96 percent for El Paso, 95 percent for Houston, and 94 percent for San Antonio. Nonmachineable items in mixed and other Fed cash letters will be deferred two days.

Fractional availability will be applied in the following manner. An institution might, for example, deposit a mixed cash letter at the Houston office containing $10,000 in "immediate" other Fed items, $10,000 in "one-day" other Fed items, and $1,000 in nonmachineable items. That institution would receive immediate credit for $9,500 (95 percent) of the immediate other Fed items and would receive one-day deferred credit for the remaining $500. The institution would receive one-day deferred credit for $9,500 of the one-day other Fed items and would receive two-day deferred credit for the remaining $500. The institution would receive two-day deferred credit for the $1,000 of nonmachineable items.



Additional Federal Reserve float reduction or pricing programs are scheduled to be implemented later in the year. Availability of credit will be deferred one day for interterritory return items beginning in August 1983. Float arising from midweek closings and nonstandard holidays will be reduced or priced in October 1983 by any of three options approved by the Board of Governors. These include deferring credit one additional day, eliminating the posting of funds on days an institution is closed, or pricing float by including its cost in regular check collection fees. Intraterritory transportation float and other remaining categories of check float also will be priced in October by adding their costs to regular check collection fees.

INSIDE

Boykin Optimistic About Economy in 1983

The nation has a good chance of attaining the kind of economic environment hoped for since the fight against inflation began in 1979, Dallas Fed President Robert H. Boykin said in remarks to data processing executives at a June 17 luncheon. He also indicated that a noninflationary U.S. recovery would go a long way toward supporting a world-wide economic recovery.

The main threat to the U.S. economy is huge budget deficits.

Boykin cited ongoing trends supporting the view that the U.S. is in the initial stage of a long-term recovery—gains in production, employment, and consumer spending. Optimistic about the outlook for inflation, he noted stability in both consumer and producer price indexes during the first quarter of 1983.

There is every reason to believe a relatively inflation-free recovery will continue through 1983, Boykin said. Past post-war recovery periods support the feasibility of this growth pattern.

"The main threat to a strong U.S. recovery in the coming years is the possibility that huge budget deficits will encourage an inflationary monetary policy," according to Boykin. He sees the chance of a sharp deterioration in international finance as a remote possibility since efforts already are underway to extend and restructure foreign debt.

Boykin projected an optimistic economic scenario for the years following 1983. He said that the Federal Reserve's rigorous program to reduce inflation has made possible a sustainable growth in real economic activity over the next three to five years. Gradual declines in unemployment and interest rates and further gains against inflation also represent realistic expectations.

Regarding the recent and rapid growth in the U.S. money supply, Boykin said, for the most part, this represents a change in the kinds of assets people are holding as opposed to a new net flow of money from the Fed.

Our rigorous program to reduce inflation has made possible a sustainable growth in real economic activity.

"It now seems to me," he concluded, "that we are in a position to enjoy the fruits of our labor over the past four years."

New Method Tested for ACH Trade Payments

A pilot program allowing selected businesses to make corporate trade payments electronically through automated clearinghouses (ACHs) was implemented by the Federal Reserve System in June.

Currently, only a limited number of corporations are participating in the program, but the number of originators and recipients is expected to increase gradually during the course of the pilot program. Officials expect the program to be fully phased in by the end of this year, at which time the use of ACH for corporate trade payments will be available to any company wishing to use the service.

Until implementation of this new program, ACH services were used primarily for consumer payments such as salaries, insurance premiums, and mortgage payments.

The interim fee schedule associated with the pilot program accompanies this article.

CORPORATE TRADE PAYMENTS
INTERIM FEE SCHEDULE

Intra - ACH	
Debits originated	4.5¢
Credits received	4.5¢
Each addenda record after the first 15	0.1¢

New York Intra- ACH	
Debits originated	1.5¢
Credits received	1.5¢

Inter - ACH	
Debits originated	7.5¢
Credits received	7.5¢
Each addenda record after the first 15	0.2¢

New York Inter - ACH	
Debits originated	4.5¢
Credits received	4.5¢
Each addenda record after the first 15	0.1¢

Effective June 2, 1983

Department Focuses on Automation

The need to develop more efficient use of computer and communication networks has been increasing rapidly over the past years throughout the Federal Reserve System. In response to this need, a special department was created by the System's Committee on Automation and Communication Services chaired by Dallas Fed First Vice President William H. Wallace. The department is designed to address problems associated with computer and communication networks and find solutions that can be applied on a System-wide basis.

Known as the Automation Program Office (APO), the department is headquartered at the Dallas Fed and is comprised of approximately 30 full-time employees. Although Dallas is the only Federal Reserve Bank to have an Automation Program Office, individuals from the other 11 Federal Reserve offices and the Board of Governors also participate in the coordination of research and development efforts to implement uniform and consistent procedures throughout the System. According to Jay K. Mast, senior vice president over the department, APO personnel serve as "automation consultants to the System".

Currently, the department is involved with such projects as standardizing the computer hardware and operating software in the Federal Reserve System, establishing uniform operating systems and procedures, and installing a system known as Bulk Data which will allow all Reserve Banks to send files between offices electronically. Coordination of these activities on a System-wide basis will help facilitate the efficient transfer of funds and Treasury securities, produce accurate and timely accounting information, and report current statistical and financial information.

Although the APO works to help the Federal Reserve System develop more efficient procedures, financial institutions also will receive benefits through services offered to them. One project, the Funds Transfer System, will provide institutions more efficient funds transfer capability. The system will allow multiple independent transactions over the same electronic connection. For example, in a single financial institution, two separate departments could perform separate transactions and be treated as separate stations. They also will have the capacity to inquire about activities by account and by operator, as well as each terminal's daily balance. In addition, the Funds Transfer System will eliminate the need to create a completely new transfer for each recurring transfer. This system is scheduled to be operative by mid-1984.

In addition to the Funds Transfer System, the APO is assisting in implementing an integrated system known as SHARE for book-entry and definitive Treasury securities processing. Already in operation in four Reserve Banks including Dallas, the system has two types of communication levels. One allows communication between the Federal Reserve Banks and financial institutions and one allows communication between the Reserve Banks.

An Integrated Accounting System (IAS) and Automated Clearinghouse-84 (ACH-84) are two additional new applications. The IAS will allow continuous monitoring of funds in a financial institution's reserve account. This can reduce overdrafts by updating the account with each message processed. The ACH-84 involves a complete overhaul of existing ACH processing software to allow "flow processing". In this way, an institution can get data processed as it is collected rather than having to wait for all items to be processed.

The APO also plans to introduce a statistical reporting and retrival system which will make available call report information, bank holding company information, and Board of Governors statistical releases on a more timely basis. This system and the other new systems will tie into the Federal Reserve Communications System for the Eighties (FRCS-80), a data communication network introduced last year. Utilizing this existing network will help the Federal Reserve System provide additional services more efficiently.

Eventually, those financial institutions connected to FRCS-80 through the Dallas Fed's RESPONSE network can be directly linked to the systems proposed by the APO. On-line service through RESPONSE includes connection to the Fed through personal computers, dedicated computer lines, or direct computer-to-computer links depending upon a financial institution's volume of transactions.

Credit Union Service New to Fed

"An important change took place in our relationship to the financial industry with the passage of the Monetary Control Act in 1980," stated Dallas Fed First Vice President William H. Wallace in an address before the Louisiana Credit Union League in Shreveport on June 17. Under this law, all financial institutions offering transaction type accounts were required to hold reserves with the Fed, and access to Fed services was broadened to encompass those institutions.

New service aspect

The MCA thrust the Fed into a prominent service role. Not only was the Fed to implement priced services, but those services were to be fully competitive with private sector providers of the same services. "It was clearly the intent of Congress," Wallace commented, "that our services be given a fair market test, and that we remain in those areas of service in which our presence serves the public interest and in which we recover our costs."

Benefits of MCA

"Although the MCA did place some rather restrictive provisions upon us, we view it as a very good piece of legislation," said Wallace. The Federal Reserve System was given more effective control over the flow of money and credit through the new reserve requirements. "Secondly," he added, "it was a significant step in the direction of deregulation, and this we felt was needed because the financial industry for years has been an over-regulated industry." Wallace also said that, to a degree, the law placed financial institutions on a more level playing field in that it opened up the full realm of competition for financial services to all types of institutions.

Service adaptations

Wallace stated that the Federal Reserve Bank of Dallas already is doing business with credit unions in the Eleventh District and is experiencing a good reception. Some Fed services have been specifically tailored to meet the needs of relatively small institutions—services such as a mixed cash letter deposit option, dial-up terminals to access wire and securities transfers, a coin wrapping service, the anticipated reduction of minimum order requirements for currency and coin, and acceptance of unencoded items in check operations.

"Other options are under consideration," concluded Wallace. "We believe that we can fulfill one of our primary objectives which is to improve the efficiency of the U.S. payments system."

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FEDERAL RESERVE BANK OF DALLAS
STATION K
DALLAS, TEXAS 75222
ADDRESS CORRECTION REQUESTED