DALLASFED ROUNDUP

Federal Reserve Bank of Dallas August 1983

Boykin Notes Strong District Recovery

Increased activity in auto and other retail sales, residential construction, and manufacturing confirm that the recovery in the Southwest is underway, according to Dallas Fed President Robert H. Boykin. Speaking July 26 on the economic recovery in this District, Boykin stated that this area of the country has seen a lessening of the energy and agricultural problems that were evident earlier in the year, and that while depressed conditions continue along the Mexico border, conditions at least do not appear to be getting worse at this time.

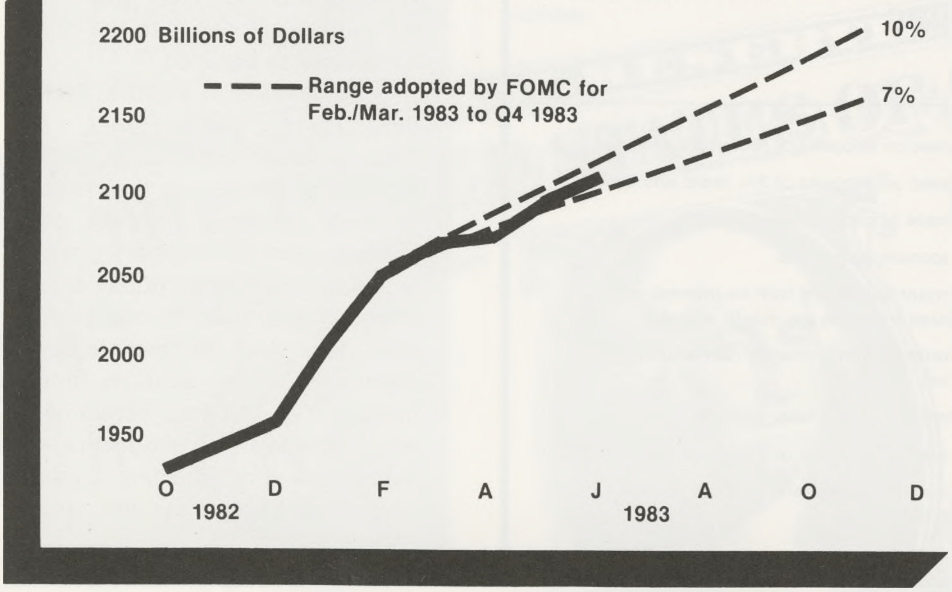
Boykin also reviewed Federal Reserve Chairman Paul A. Volcker's semi-annual testimony before Congress July 20. In his testimony, Volcker stated that economic activity is advancing at a rate significantly faster than was anticipated earlier in the year. The expansion of activity in such areas as residential construction, consumer spending, inventory turnover, and reduction in both the inflation and unemployment rates has helped the economy continue to pull out of the recently-experienced recession.

Volcker also discussed the performance of the economy in the first quarter of 1983 and its projected outlook for 1984. He said that the Federal Open Market Committee will continue to place greater emphasis on the broader monetary aggregates M2 and M3 because of continuing uncertainty associated with M1 due to shifts of funds into new money market deposit accounts.

As a result of those shifts, the committee decided to establish the level of M1 during the second quarter of 1983 as a new base for monitoring future growth. This decision reflects the judgment that the rapid growth over the past several quarters should be treated as a one-time phenomenon. Therefore, the new monitoring range for M1 was set between 5 and 9 percent for the rest of 1983, up from the target range of 4 to 8 percent established in February. The target ranges for M2 and M3 were unchanged from 7 to 10 percent and 6½ to 9½ percent respectively. For 1984, the ranges were tentatively set at 4 to 8 percent for M1, 6½ to 9½ percent for M2, and 6 to 9 percent for M3.

Volcker and Boykin share an optimistic outlook for inflation and employment. Both men, however, stressed the need to reduce federal deficits as the recovery continues. Volcker stated that, if the deficits remain extremely large, they are likely to pose a "threat to both the inflation outlook and the sustainability of a balanced expansion."

Ranges and Actual Monetary Growth for M2



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DIDC Actions to Continue Interest Rate Deregulation

The Depository Institutions Deregulation Committee (DIDC) voted June 30 to remove remaining Regulation Q interest rate ceilings on all time deposit accounts at financial institutions. The ruling, which becomes effective October 1, 1983, states that interest rate ceilings will be removed on accounts with maturities greater than 31 days. Accounts with maturities less than or equal to 31 days will continue to be regulated unless they have a minimum deposit of $2,500.

In summary, the DIDC decided:

- To require an early withdrawal penalty equal to 31 days' interest on time deposits with maturities of one year or less.
- To require an early withdrawal penalty equal to 90 days' interest on time deposits with maturities of more than one year.
- To recommend to Congress that the prohibition on paying interest on demand deposits be repealed.
- To defer action on a proposal to allow businesses to hold interest-bearing accounts with unlimited checking privileges (super NOW accounts).

The five-member panel stated that the new early withdrawal penalties will apply only to deposits made or renewed on or after October 1, 1983. The committee also stated that time deposits of less than $2,500 with maturities of 31 days or less would be subject to the NOW account ceiling of 5¼ percent currently in effect for both banks and thrift institutions.

Deregulation of all interest rate ceilings is one provision of the Monetary Control Act of 1980. That act, which created the DIDC, stated that all ceilings must be eliminated by 1986. The process began in 1981, when ceilings for accounts with maturities greater than four years were eliminated, and was continued in 1982 and early 1983 with subsequent deregulatory actions by the DIDC.

The DIDC is composed of the Secretary of the Treasury, the Comptroller of the Currency, and the chairmen of the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration Board. Some of the DIDC's major decisions are shown in a table which accompanies this article.

MAJOR ACTIONS OF THE DIDC

Effective Date	Action
August 1, 1981	• Interest rate ceilings removed on deposits of four years and over.
May 1, 1982	• Interest rate ceilings removed on deposits of 3½ years and over.
	• 91-day variable rate certificate of deposit authorized.
September 1, 1982	• 7- to 31-day variable rate account authorized.
December 14, 1982	• Money market deposit account authorized with no interest rate ceiling and six preauthorized transfers per month allowed.
January 5, 1983	• Super NOW account authorized with no interest rate ceiling and unlimited transfers allowed.
	• Interest rate ceilings removed on 7- to 31-day account.
April 1, 1983	• Interest rate ceilings removed on deposits of 2½ years and over.
October 1, 1983	• Interest rate ceilings removed on all deposits of 31 days and over or with a $2,500 minimum deposit.

Software Users Group Meets

As the electronic banking age grows in importance and complexity, the personal computer has become an increasingly significant tool of the trade. Just as a computer can perform a variety of functions, there is a variety of software packages designed to deal with those functions. However, new software packages are introduced regularly, making it difficult to know what is best for the needs of financial institutions.

On July 20, the Federal Reserve Bank of Dallas participated in a Software Users Information Conference sponsored by Texas Independent Bank. The conference was designed to bring bankers together so they could share the experiences they have had with the changing computer industry. Those who attended heard representatives from the Dallas Fed, Texas Independent Bank, consulting firms specializing in computer problems, and the Bank Administration Institute.

Dallas Fed Vice President Bill Dusek explained the RESPONSE communications network which is designed to link financial institutions directly with the Fed for access to services.

Todd Jenkins of Whittle, Raddon, Motely, and Hanks, a Chicago-based consulting firm, told the audience that they need to seek unbiased opinions on software and that a users group is a good starting point. He also stressed the need to overcome user fear and to realistically assess all costs—such as time involved in training personnel and developing programs—associated with selecting a particular computer system and software.

Dollars: Reading the Fine Print

Most persons can easily recognize a dollar bill. Its use as a medium of exchange makes it almost indispensable in our daily transactions. Few people, however, know everything about the design of United States currency. The following summarizes important details printed on all paper money.

Most of the currency in circulation—over 99 percent—is Federal Reserve Notes. The government has authorized the 12 Federal Reserve Banks to issue notes in denominations up to $100. Until 1969, denominations up to $10,000 also were issued. The seal to the left of the portrait indicates which of the 12 Reserve Banks issued the note. This seal bears the name and code letter of that bank. For example, the letter K—the eleventh letter of the alphabet—is associated with the Federal Reserve Bank of Dallas and the Eleventh District.

To the right of the portrait is the Treasury Department seal which is overprinted on the face of each note. This seal and the serial numbers are printed in green. Paper money currently in circulation is printed by the Bureau of Engraving and Printing, part of the Treasury Department, in Washington, D.C. While all new currency put into circulation is issued by one of the Reserve Banks, some older notes—called U.S. Notes—were issued directly by the Treasury Department. In this case, the Treasury seal is printed in red rather than green.

No two serial numbers are alike for two bills of the same denomination, type, or series of note. The serial numbers appear in the upper-right and lower-left corners of a bill. A prefix letter, eight numbers, and a suffix letter make up the serial number. On Federal Reserve Notes, the prefix letter corresponds to the issuing Federal Reserve Bank's code letter. This is the letter in the Federal Reserve seal. The notes are numbered in lots of 100 million.

In the lower-right and upper-left corners of a bill are the faceplate numbers which, along with the serial number, can be important aids to law enforcement authorities in the detection of counterfeit bills. In the left corner is the note position letter and a quadrant number which indicate the position of the note on the plate from which it was printed. In the lower-right corner, the note position letter is followed by the plate serial number which indicates the plate from which the note was printed.

The series identification shows the year that the design for the notes was first used. Small changes in the design—such as changes in the signature of the Treasurer of the United States or the Secretary of the Treasury—are designated by a letter below the series year. For example, Series 1977 A means the design was first used in 1977 and was slightly changed one time.

The front side of each denomination of paper currency has a portrait of an American president or statesman, while the reverse side depicts famous buildings, monuments, or ornate numerals. The portraits used for each denomination are: $1—George Washington; $2—Thomas Jefferson; $5—Abraham Lincoln; $10—Alexander Hamilton; $20—Andrew Jackson; $50—Ulysses S. Grant; $100—Benjamin Franklin; $500—William McKinley; $1,000—Grover Cleveland; $5,000—James Madison; $10,000—Salmon Chase.

Securities and Noncash Changes Announced

The Dallas Fed has announced two changes in its securities and noncash collection service areas, both effective in August. The first change involves implementation of a pilot program for the collection of sight drafts, and the second involves a procedural change in joint securities safekeeping operations.

Sight draft pilot

On August 10, the Eleventh Federal Reserve District will implement a pilot program for the collection of sight drafts and other noncash items, having completed a test study with a Dallas credit union involving the collection of automobile sight drafts. All financial institutions will be eligible to deposit such items with the Dallas Fed for collection after the program is implemented.

Automobile sight drafts typically are the most common type of item eligible for the new sight draft collection program. These drafts, which are prepared by automobile dealers, instruct payment for newly-purchased automobiles from the financial institution arranging credit. In addition, the drafts have attached the title to the automobile and other documents to be transferred to the institution. When dealers deposit the sight drafts with their financial institutions, those institutions must obtain collection through the institution which has arranged for the loan.

Financial institutions may choose to have sight drafts collected at a fee of $5 per item by sending them to the Federal Reserve office with a collection form attached. The Fed then sorts the items according to the paying institution and mails the items for collection. After a paid notice is received from the paying institution, the Fed makes debit and credit entries to the appropriate accounts. If the Fed receives payment by check, however, the check first must be collected before credit is given.

Joint safekeeping

On August 1, new joint safekeeping procedures involving financial institutions and State of Texas political subdivisions will be implemented. After that date, the governing body of the subdivision will adopt an agreement by resolution and vest approval authority in one or more representatives of the subdivision through a new joint safekeeping application and signature card. This will eliminate the need for the governing body to meet each time a securities transaction is made.

Securities which belong to financial institutions often are pledged to political subdivisions as collateral for public deposits. Joint application may be made to the Federal Reserve for the safekeeping of such securities.

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