DALLAS FED ROUNDUP

Federal Reserve Bank of Dallas April 1984

New Check Program Targets High Dollar Items

On April 23, the Federal Reserve Bank of Dallas will implement a new premium check collection service. This new service represents the second phase of a major plan by the Federal Reserve System to improve the efficiency of the nation's payments system and to speed up the collection of checks.

The program, known as the high dollar group sort, will allow immediate credit for certain non-city items, and return items will be processed more quickly due to faster presentment. In addition, this premium service also will provide significant improvements in deposit deadlines and is especially designed for the collection of high dollar items. The program also has the potential to yield greater net benefits to collecting institutions as a result of increased earnings associated with improved availability and lower net collection costs.

Initially, all presentment points with daily average presentments—of at least $10 million—generated from outside the local Reserve office territory will be included in the program. Other endpoints may be added at a later date.

Along with this new program, several new payor bank services have been standardized to provide the support necessary for the successful implementation of the high dollar group sort program. The Dallas Fed will make available timely account total information to allow payor institutions to continue efficient cash management services for their corporate customers. In addition, a magnetic tape of all checks received in a high-speed cash letter can be provided to payor institutions. Other options include telephone notification of account totals, adjustments and reject totals.

Improving the efficiency of the payments system is a continuing goal of the Federal Reserve System. The high dollar group sort program is the second phase of a project specifically designed to improve efficiency. The first phase was implemented in 1983 when the Federal Reserve implemented a uniform noon presentment time—and corresponding later deposit times and improved availabilities—for city checks. As a result of this first phase, checks with a total daily average value of approximately $2 billion are being collected one day earlier than before. An estimated $1 billion will be added to this figure with the implementation of the high dollar group sort program.

The high dollar group sort program will speed up check processing at the Fed.

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Council Appointee

The Federal Reserve Bank of Dallas has selected Nat S. Rogers, chairman of the board of First City Bancorporation of Texas, Inc., and chairman of the Executive Committee of First City National Bank of Houston, as the Eleventh District representative on the Federal Advisory Council for 1984. This council is composed of individuals from the 12 Federal Reserve districts who meet with the Board of Governors in Washington to discuss issues relevant to economic, credit and banking conditions.

Active in the banking community, Rogers has served as a director for the Houston branch of the Dallas Fed and as president of the American Bankers Association.

Redemption Process Easier for Food Coupons

The second phase of a project designed to improve the food coupon redemption process will take effect April 1 for the Dallas, Houston and San Antonio offices and May 1 for the El Paso office of the Federal Reserve Bank of Dallas.

The second phase is part of a joint project to improve the food coupon redemption process begun in January 1983 between the Food and Nutrition Service and the Federal Reserve System. Phase one, which went into effect at that time, required depositing institutions to forward all redemption certificates to the Federal Reserve office serving that institution along with the food coupon deposit, but did not require redemption certificates to balance the total deposit. This procedure will remain in effect under the second phase as well.

Phase two will require institutions to use a new deposit document which is preprinted with the depositing institution's name, address and nine-digit routing code. This document, which will be supplied by the Reserve Bank, is designed to be read by an optical scanner to insure accuracy and reduce processing time.

For further information on the program, please contact the Cash Department at local Reserve bank offices.

Reserves: An Important Supply of Funds

Most financial institutions are required to maintain a percentage of customer deposits in an account under the Federal Reserve's control. These deposits, known as reserves, previously were required only of banks who were members of the Federal Reserve System. With the passage of the Monetary Control Act of 1980, most financial institutions were required to begin holding reserves with the Federal Reserve. Institutions gradually have been phasing-in their reserve requirements—if they previously had not been required to hold reserves—or phasing-down the percentage of reserves held if they already were required to do so.

Banks who were already members of the Federal Reserve System completed their phase-down in September 1983. Other institutions, including savings and loan associations and credit unions, still are in the process of phasing-in their reserve requirements.

Some elements of reserve requirements change periodically. The 3 percent requirement for net transaction accounts, such as demand deposits and share draft accounts, increases at the beginning of each calendar year. Initially, $25 million was set as the level of transaction accounts against which an institution must maintain a 3 percent reserve requirement. Since 1980, that figure has increased and was $28.9 million as of December 29, 1983 (*see box*). Another requirement that can change yearly is the level of liabilities that are exempt from reserve requirements. In 1982, the first $2 million of reservable liabilities had a zero percent reserve requirement. As of January 12, 1984, that level increased to $2.2 million.

By increasing or decreasing the amount of funds available to institutions to meet their reserve requirements, and by setting reserve requirement percentages, the Fed can influence the amount of funds available for expansion of the money supply through loans, investments and deposits.

Reserve requirements of financial institutions

Type of deposit and deposit interval	Percent
Net transaction accounts	
$0 to $28.9 million	3
Over $28.9 million	12
Nonpersonal time deposits (by original maturity)	
Less than 1½ years	3
1½ years or more	0
Eurocurrency liabilities	
All types	3

Mortgages Follow Adjustable Rate Trend

Adjustable rate mortgages, whose rates vary with changes in market interest rates, are gaining in popularity. As interest rates have become more stable, investors have beome more willing to base their home mortgages on a fluctuating rate. These types of mortgages currently account for about 50 percent of all mortgages sold in the United States (*see table*). The advantage to the consumer in purchasing a home with an ARM is that rates typically are lower because the individual shares the risk of rising interest rates with the lender. Lenders like to make these types of loans because sharing the risk lowers their exposure to fluctuations in interest rates.

Rates on adjustable rate mortgages can be based on interest rate indexes, on a national or regional index that measures the rate of inflation or on the rate of change in disposable consumer income. The index selected must be readily available to, and verifiable by, the borrower and beyond the control of the lending association. Often to insure consistency and to provide a standard so loans easily can be resold if necessary, institutions tie rates on ARMs to indexes reported by the Federal Reserve System. ARMs are commonly based on either the rate of return on Treasury bills or on a "constant maturity" rate. These indexes meet the requirements of being readily available to consumers as well as serving as measures of interest rate activity and the cost of funds for institutions.

Adjustments to the interest rate shall correspond directly to the movement of an interest-rate index

There are three types of Treasury securities—bills, notes and bonds—and eight categories of Treasury constant maturities. Treasury bills come in three types of maturities; three-month, six-month and one-year. Treasury notes are securities with a maturity of two to 10 years, and Treasury bonds have maturities of 10 years or more. A Treasury constant maturity is an index determined by the Treasury Department through a survey of five U.S. government securities dealers. Only actively-traded issues are used in the index. For example, a survey will determine what rate would be paid if the Treasury were to sell a new security with a particular maturity. A yield curve is then plotted, with the horizontal axis showing the maturity date and the vertical axis measuring the yield. Constant maturity rates are then read from that curve. The categories for constant maturities are one-, two-, three-, five-, seven-, 10-, 20-and 30-year rates.

A consumer purchasing a home with an adjustable rate mortgage should consider how often the rate changes to reflect market conditions. Rates on ARMs can increase or decrease according to prearranged terms. For example, they may change immediately according to interest rate fluctuations or they may change every three to five years. Exactly when the rate on the mortgage changes is established in response to the type of loan a consumer is qualified for and financial need. For protection, consumers should shop around for favorable terms, paying attention to limits on rate increases permitted per year and over the whole term, and limits on payment increases.

The Board of Governors of the Federal Reserve System has two statistical releases that report the rates on Treasury securities and Treasury constant maturities in addition to federal funds, commercial paper and secondary market certificate of deposit rates. These releases come out on a weekly and monthly basis, and are called an H.15 and G.13 respectively. To receive these releases, please contact the following: Publications Services, The Board of Governors of the Federal Reserve System, Washington, D.C., 20551. Each week, the Dallas Fed provides information on the latest Treasury bill auction through a recorded telephone message (*see box*).

Telephone numbers for interest rate recorded message

Treasury bills

(214) 651-6177 Dallas
(214) 263-1093 Metro
(800) 442-7390 Texas
(800) 527-9208 National

Treasury notes and bonds

(214) 651-6384

Percent of homes sold with an adjustable rate mortgage

1983	New homes	Previously occupied homes
Jan	35	36
Feb	29	28
Mar	30	29
Apr	23	31
May	30	28
Jun	37	30
Jul	27	26
Aug	24	36
Sept	42	46
Oct	44	52
Nov	46	56
Dec	49	56

Source: Federal Home Loan Bank Board *Journal*, February 1984

Dallas Fed Hosts Consumer Credit Seminar

The Dallas Fed recently hosted a seminar on consumer credit for approximately 40 local secondary school teachers. The seminar, held in early March, was co-sponsored with the North Texas State Center for Economic Education—a nonprofit educational organization offering educators professional assistance in teaching methodology and curriculum development. The NTCEE sponsors a wide variety of programs geared toward better economic understanding for both educators and community organizations.

Topics for the seminar included a profile of the American consumer and discussions on consumer laws such as the Equal Credit Opportunity Act and the Fair Credit Billing Act. Most of the legislation discussed was passed in the 1970s in an effort to protect consumer's rights from unfair credit practices.

Consumer credit education is generating increased interest among educators.

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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