DALLAS FED ROUNDUP

Federal Reserve Bank of Dallas June 1984

Ruling Spurs 'Nonbank' Applications

On March 23 of this year, the members of the Board of Governors of the Federal Reserve System approved the application of U.S. Trust Corp. of New York to convert its Florida subsidiary from a nondepository trust company to an institution that accepts demand deposits and makes consumer loans. Because the institution will not make commercial loans, it is not considered a "bank" for the purposes of the Bank Holding Company Act and thus is not subject to interstate banking limitations established by the Douglas Amendment to that Act.

This action has spurred financial institutions to apply for approval to begin offering similar services nationwide in an effort to skirt the prohibitions on interstate banking. As of April 26, 28 financial institutions had applied to establish 165 institutions nationwide. These figures include Texas banks which had applied for 17 nonbank organizations to be set up around the country. Also as of that date, 11 banking organizations had applied for permission to open nonbanks in Texas, two had applied to open nonbanks in New Mexico and none had applied for nonbanks to be located in Louisiana.

The Bank Holding Company Act defines a bank as an institution that both accepts demand deposits and makes commercial loans. By eliminating one of these services, companies have found a loophole in the system.

Although inroads have been made, interstate banking is not yet a reality in the United States. In recent years, a number of large bank holding companies have staked claims on out-of-state banks in anticipation of changes in the law regarding interstate banking. There are several ways an organization may buy into another bank. The organization may buy 4.9 percent or less of the outstanding common stock of the other bank. Regulatory approval is not required on this type of transaction. Several Texas banks have this type of arrangement with banks in other states. Another method that may be used is to make a maximum investment of 24.9 percent in another bank's equity capital. This investment includes nonvoting stock that is convertible into common stock. Currently this type of stock cannot be converted into common stock until federal and/or state laws are changed. Another type of agreement is the "merger of equals." In this way, organizations agree to make investments in each other with the understanding that when the laws are changed they might reconsider their relationship. In addition, under the current regulatory framework, there are three ways for banking organizations to cross state lines: through previously established grandfather clauses, takeovers of failing institutions and gaining permission from individual states.

National banks have been prohibited from acquiring banks across state lines since the passage of the McFadden Act in 1927. Bank holding companies also have been limited in this way since the Douglas Amendment to the Bank Holding Company Act of 1956.

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ACH Fee Schedule Announced

A revised fee schedule for automated clearinghouse services is currently in effect. The new ACH pricing structure has more components than the old structure, but is more straightforward and parallels closely approaches to pricing that already are widely used by the private sector (*see table*).

CURRENT ACH FEE SCHEDULE

		INTER-ACH	
	INTRA-ACH	Unsorted Deposit	Presorted Deposit
Debits originated	1.5¢	3.0¢	2.5¢
Debits received	0.5	1.0	1.0
Credits originated	0.5	1.0	0.5
Credits received	1.5	3.0	3.0

FIXED ACH FEES

Deposit fees: Tape handling	$3.00 per tape
File processing	$1.00 per file
Receiver handling fees:[1] Nonelectronic	$1.75 per delivery
Electronic[2]	$0.75 per transmission
Telephone advice fees: Telephone advices including ten pieces of information	$2.50
Each additional piece of information	$0.05
Nighttime deposit surcharges: Debits originated	6.0¢
Credits received	3.0¢

1. Receiver handling fees will be assessed once a day per endpoint, when ACH transactions are delivered.
2. Electronic endpoints are defined as endpoints that receive ACH transactions via data transmission or receivers that pick up ACH transactions at the Federal Reserve Bank.

Moreover, the new fee structure more closely reflects the cost of an electronic payment service and encourages greater volumes of ACH payments on both the origination and receipt sides. This is a positive inducement that should be consistent with the goals of all participants in the ACH payments mechanism.

Since passage of the Monetary Control Act of 1980, the Board of Governors of the Federal Reserve System adopted a policy of incentive pricing for the ACH service to encourage development of the ACH mechanism. In April 1982, the Board announced its intention to phase out incentive pricing for commercial ACH services gradually. The Board indicated at that time that fees set in 1985 would reflect the full costs of providing these services. In accordance with the policy, the Board has adopted this fee schedule which is designed to recover 60 percent of the costs of providing commercial ACH services.

The movement from 40 percent to 60 percent cost recovery implies a 50 percent increase in costs and prices. Through operational improvements and economies of scale associated with increased ACH volumes, this fee schedule will provide a systemwide weighted average price increase closer to 25 percent, rather than the 50 percent that was expected.

Committee Discusses Future Roles of ACH

The future role of automated clearinghouses was a topic considered by the Advisory Committee of Financial Institutions when it met at the Federal Reserve Bank of Dallas May 10. The 17-member committee—composed of representatives from commercial banks, savings and loan associations and credit unions—was created to provide a constructive dialogue between the Dallas Fed and financial institutions.

Committee members began their afternoon by attending a luncheon with the Federal Reserve Bank of Dallas' Board of Directors. Afterward, formal presentations on the economy, legislative developments and automated clearinghouses were heard during a meeting with Reserve Bank management and members of the Board of Directors. The members were also provided updates on the Bank's return item pilot program and plans for continued enhancement of the Dallas Fed's RESPONSE communications network.

Assistant Vice President Richard D. Ingram reviewed the development of automated clearinghouses over the past 10 years and recent efforts by the Fed to offer further innovations in the field. He stated that full implementation of the Fed's newest software—ACH 84—should within a year improve the options for data delivery. He also noted that, in one form or another, electronic payments were the wave of the future.

The Advisory Committee of Financial Institutions was created in 1981 and has met on a semiannual basis since that time. Members of the committee provide input to the president of the Dallas Fed and the board members in an effort to keep in touch with financial events around the district. According to Dallas Fed President Robert H. Boykin, "We want to work within the industry in as constructive a manner as we can. We want to work within our regulations—not to use regulations as an excuse not to find a better way." He also stated that "we all have roles to play in the financial structure—not necessarily the same, but complementary."

ATMs: Regrouping and Expanding

What do you do when you need cash late at night or on weekends? Chances are you find the nearest automated teller machine, insert a card, punch in a personal I.D. number and walk away with some cash. The widespread use of ATM machines is rapidly expanding the field of electronic banking and rapidly narrowing the barriers involved in interstate banking.

ATM machines were originally conceived as a means of reducing teller labor costs and offering extended service hours to customers. Recently, the machines have helped financial institutions serve customers nationwide even though they are prohibited from branching nationwide. Barriers to interstate banking are slowly eroding (*see front page article*), and the use of ATMs nationwide has helped spur the movement. The consolidation of networks on a regional and national basis also has helped to reduce the barriers. The year 1983 could be considered one in which local, regional and national networks attempted to consolidate and regroup in light of changes to the financial industry.

For example, last January plans were revealed announcing the linking of the Mpact and Pulse automated teller systems. The agreement was jointly announced by Mercantile Texas Corporation of Dallas, owner of the Mpact system, and Financial Interchange Inc. of Houston, operator of the Pulse system. Sometime this June the link will be completed, giving 4.8 million cardholders access to over 2,200 ATM machines. In addition to their link with Pulse, Mpact's current 1.8 million cardholders also share their system with approximately 40 million other cardholders who can access Mpact machines. The 391 Mpact system member institutions in Texas, Oklahoma and New Mexico also share their system with an additional 847 institutions through a nationwide arrangement where cardholders can access certain machines affiliated with the CIRRUS network, headquartered in Oakbrook, Illinois. Members of the Pulse network have 3 million active cardholders and 773 member institutions. This system is located throughout Texas, Oklahoma and Louisiana.

More than ever before, ATM machines are readily available to people across the United States and worldwide. Beginning in 1973, there were only 1,935 net installed ATMs in the United States. At the end of 1983, there were 48,118 net installed machines. Compared with the 1,935 in 1973, that indicates a 2,387 percent increase in 10 years (*see chart*). These machines handled approximately 6,500 transactions per month per machine in 1983. Of those, 76 percent were withdrawal transactions and 19 percent were deposit transactions. The average deposit is estimated to be approximately $300, with the average withdrawal being around $37. Using yearend 1983 ATM data, 3.75 billion financial transactions (excluding balance inquiries) are being handled by the 48,118 installed machines throughout the United States. These machines accounted for $105.5 billion in ATM withdrawals and $213.9 billion in ATM deposits.

The widespread use of ATMs is a major step toward implementation of other electronic banking innovations such as point-of-sale (POS) terminals, telephone bill paying and home banking. Each of these is designed to provide convenience to consumers and an efficient network of payment for businesses and financial institutions. Although ATMs are the most widely accepted of the new electronic banking innovations, there is a growing interest in the others because of their potential efficiencies in the payments mechanism.

ATM Shipments

Year	Annual	Cumulative	Net Installed
1973	935	1,935	1,935
1974	965	2,900	2,900
1975	1,156	4,056	4,056
1976	1,249	5,305	5,305
1977	2,444	7,749	7,749
1978	2,001	9,750	9,750
1979	4,680	14,430*	13,800*
1980	5,428	19,858*	18,500*
1981	8,456	28,314*	25,790*
1982	11,035	39,349*	35,721*
1983	13,983	53,332*	48,118*

*Cumulative shipments and net installed base began differing in 1979 due to warehousing, replacement and scrapped machines.

Source: Linda Fenner Zimmer.

Energy Economics Seminar Held

On May 3 and 4, 40 economists participated in the Federal Reserve System Conference on Energy Economics held at the Federal Reserve Bank of Dallas. Authors from the Federal Reserve who presented research papers for discussion included Clarence Nelson, Minneapolis; William Testa, Chicago; Stephen Brown, Dallas; Bill Helkie, Board; Jaime Marquez, Board; Mack Ott and John Tatom, St. Louis; Mark Drabenstott, Marvin Duncan and Marla Borowski, Kansas City; David Jay Green, Board; and David Reifscheider, Board. Discussants included Lynn Browne, Boston; Loren Scott, Louisiana State University; Bob Ball and John Bell, Comptroller's Office State of Texas; Mack Ott, St. Louis; Mike Barron, Diamond Shamrock; Ron Schmidt, Dallas; Pat Lawler, Board; Ed McClelland, RepublicBank Corp.; Bob Bever, Texas Oil and Gas; Arnold Baker, Arco; Tom Fomby, Southern Methodist University; and John Trapani, University of Texas at Arlington.

A luncheon address on "The Outlook for World Oil Markets" was delivered by J. L. Koontz, vice president, Economic Analysis, W. R. Grace & Co. The conference topics covered Interregional Transfers of Wealth Caused by an Energy Price Shock; Budget Response of Energy Producing States to Severance Tax; Value of the Dollar and World Oil Demand; Impact of an Oil Market Shock on the Oil Price, International Transmission of Oil Price Effects and the Derivation of Optimal Oil Prices; Cyclical Nature of Oil Prices; Prospects for Development of Oil Shale in the United States; Prices and Inventories in Petroleum Markets—The Residual Fuel Oil Market; and Forecasting the Distribution of Peak Electricity Demand.

Dallas Fed Adopts a School

In 1984, the Dallas Fed joined more than 1,000 other Dallas businesses in pledging their support for the Dallas Independent School District's Adopt-A-School Program. The first event at the Dallas Fed held in conjunction with the program was a poster contest entitled "Banking in the Year 2000." Bank employees voted for their favorite entry submitted by students from Margaret B. Henderson Elementary School—the school designated to the Dallas Fed. The winners, along with their teachers, were invited to a special awards luncheon at the bank with President Robert Boykin on May 1.

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