

Federal Reserve Bank of Dallas September 1984

Revised Capital Adequacy Guidelines Proposed

The Federal Reserve Board has requested comment by Sept. 24, 1984, on proposed revisions to its capital adequacy guidelines for state member banks and bank holding companies. The new guidelines would increase the minimum required primary and total capital for all but smaller state member banks and bank holding companies, paralleling capital adequacy requirements currently being considered by the other federal bank regulators.

The Board proposed that all state member banks and all bank holding companies should have minimum primary capital equal to 5.5 percent of total assets and total capital equal to 6 percent of total adjusted assets. For both regional and multinational state member banks and for bank holding companies, the new policy would increase minimum capital requirements by one-half of one percent in minimum primary and total capital requirements.

The new guidelines parallel requirements being considered by other bank regulators.

For community banks and bank holding companies with assets under

\$1 billion, the proposed policy decreases minimum primary capital requirements by one-half of one percent. The minimum total capital requirement for these institutions would not be changed.

In addition, the Board proposed continued use—at a higher level—of its supervisory “zone” standards of appropriate total capitalization. The capital zones apply to all state member banks and bank holding companies, regardless of size. Zone One states that institutions with capital equal to at least 7 percent of total assets would be considered adequately capitalized. Under Zone Two, institutions operating with total capital equal to 6 to 7 percent of their total assets would be considered marginally capitalized, subject to consideration of other financial factors. Zone Three states that banking organizations with total capital that is less than 6 percent of total assets may be considered undercapitalized, in the absence of clear extenuating circumstances.

Generally, the nature and intensity of supervisory action will be determined by a bank’s compliance with the minimum primary capital ratio, as well as by the zone in which its total capital ratio falls. For institutions operating in Zone One, the Board will presume that capital is adequate if the primary capital ratio is acceptable to the Board and is above the 5.5 percent minimum.

For banks operating in Zone Two, the Board will pay particular attention to other financial factors, such as

...the nature and intensity of supervisory action will be determined by a bank’s compliance...

asset quality, liquidity and interest rate risk as they relate to the adequacy of capital.

Banks operating in Zone Three may be considered undercapitalized, absent clear extenuating circumstances. These institutions would be required to submit a comprehensive capital plan that includes a program for achieving compliance with the minimum ratios. They would also be subject to supervisory or administrative enforcement actions or the issuance of a capital directive, and they would generally be subject to denial applications by the Board unless a capital plan that is acceptable to the Board has been adopted.

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Know Your Money: Genuine or Counterfeit?

Counterfeit currency cost the American public \$7.8 million in fiscal 1983, despite the fact that \$63.4 million worth of bogus money was seized before it could be put into circulation. The Cash Department of the Dallas Fed detected 685 counterfeit bills in 1983 with a face value of over \$23,000.

Counterfeiting has been a growing industry since 1958, when authorities seized \$568,000 before it could be circulated, and the loss to the public amounted to less than \$100,000. In 1969, over \$12 million was confiscated and the public loss surpassed \$3 million.

Aided by new technology, counterfeiting is likely to increase even more rapidly in the future. About 98 percent of the money counterfeited is turned out by photo offset printing. Improved methods of photography, highly sophisticated printing equipment and advanced color copying machines are yielding authentic-looking bogus money.

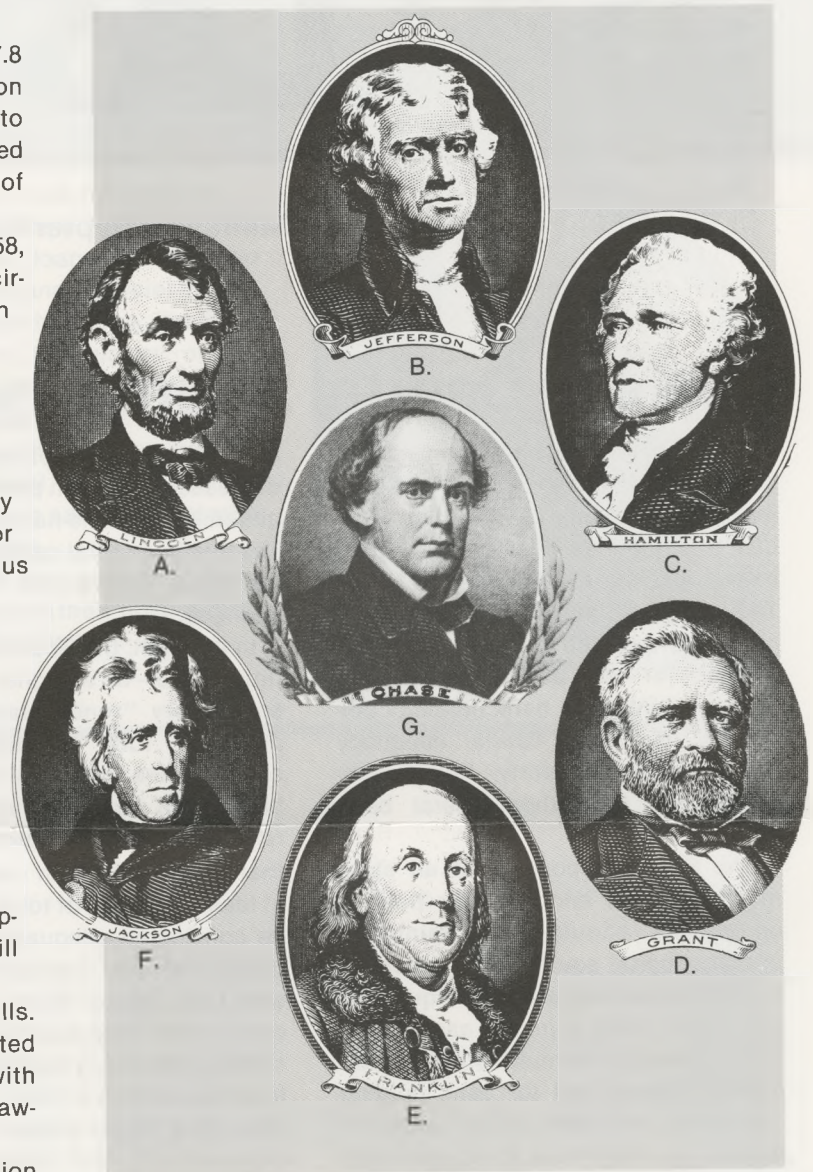
United States currency is printed with engraved intaglio steel plates; no photography enters into the process. Each feature of the design—portrait, lettering, scroll work and geometric lacy patterns—is done by individual artists whose unique styles are difficult to duplicate without a camera.

Most counterfeit bills are detected because of a flaw in the portrait. On genuine currency, the portrait stands out sharply from its background, which is a fine screen of regular unbroken lines. The subject's eyes appear lifelike. In contrast, the portrait on a counterfeit bill may be dull, smudgy, unnatural or scratchy.

The serial number offers other clues to counterfeit bills. The figures on a genuine note are firmly and evenly printed and well spaced. The prefix letter must always agree with the Fed District letter that appears in the seal, whose sawtooth rim must be sharp and even.

Money paper is specially made to provide protection against counterfeiters. Its quality is far higher than paper that is generally available, and the types of paper and ink used in producing the notes are kept secret. Small red and blue threads run through genuine money paper. The threads may be imitated by fine red and blue lines made by a pen.

Another type of counterfeit bill is the raised note. Unlike original counterfeits, raised notes are simply real bills with the dollar amounts changed to a higher number. Raised notes feel like genuine currency—because they are—but the portraits do not match the denomination. Often the backs of these counterfeits have not been altered. One can best avoid accepting a raised note by learning which portrait appears on each genuine denomination.



Twenties are the denomination most often counterfeited, although fake fifties and one hundreds are becoming increasingly common. According to the United States Secret Service, counterfeiters profit from inflation, which causes larger denominations to arouse less suspicion.

If you do get a bogus bill, write your name and the date on the back of the bill so it can be identified later. Second, write down all the details about how you got the bill, who gave it to you, and where and when you got it. Finally, contact the nearest U.S. Secret Service office.

Portraits: A. \$5, B. \$2, C. \$10, D. \$50, E. \$100, F. \$20, G. \$10,000

Cost Study Aids Performance Appraisal

How much is it costing your financial institution to offer a checking account? Banks, thrifts and credit unions can find out the answer to this question by participating in the Functional Cost Analysis (FCA) Survey done each year by the Federal Reserve Bank of Dallas. The FCA service to financial institutions is offered on a nationwide basis only through the Federal Reserve System. The survey examines 13 functional areas of a financial institution for costs, profitability and efficiency. Financial institutions that participate receive 30- to 40-page individual reports showing their cost figures. In addition, the institution receives a nationwide composite report allowing them to compare their performance and costs with institutions around the country. These reports help institutions measure efficiency, structure assets and liabilities, price services and make operational improvements.

The 1983 FCA reports recently have been issued and highlights of the reports include the following. Banks with deposits up to \$50 million saw an average net portfolio yield of 10.414

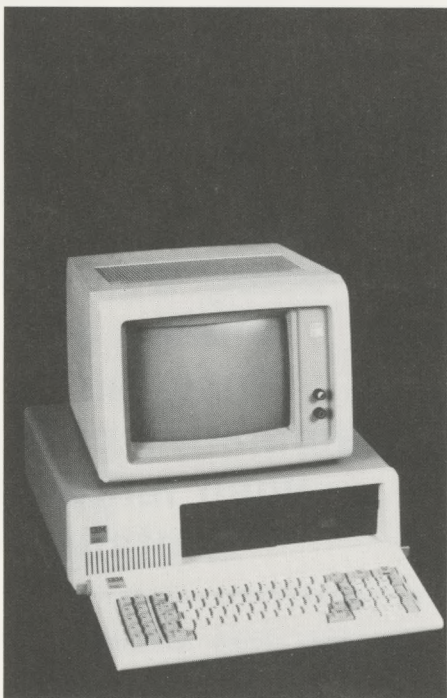
percent in 1983. Banks with up to \$200 million and those with over \$200 million in deposits experienced a 10.622 percent and 10.117 percent average net portfolio yield respectively. The average cost of money for smaller banks was 7.614 percent of available funds, 7.686 percent for mid-size banks and 7.462 percent for large banks. Demand deposit accounts cost smaller banks an average of \$9.50 per month in average operating expenses, mid-size banks \$12.78 per month and large banks \$22.66 per month. The average annual maintenance cost for operating a regular savings account was \$60.61 for a smaller bank, \$73.32 for a mid-size bank and \$74.26 for a large bank.

Savings and loan associations experienced an average net portfolio yield of 10.734 percent for small thrifts, 10.154 percent for mid-size thrifts and 10.294 percent for large thrifts. The average cost of money for small thrifts was 7.614 percent of available funds, 7.686 percent for mid-size thrifts and 7.462 percent for large thrifts. Average operating expenses for a demand

deposit account were \$7.29 per month for small thrifts, \$7.17 per month for mid-size thrifts and \$11.72 per month for large thrifts. Maintaining a regular savings account cost small thrifts an average of \$39.83 in operating costs, a mid-size thrift \$26.92 and a large thrift \$51.51.

Average net portfolio yields for credit unions were 10.981 percent for credit unions with deposits up to \$50 million and 10.682 percent for credit unions with deposits up to \$200 million. The average cost of money for the smaller credit unions was 9.864 percent of available funds and 9.329 percent for larger credit unions. To operate a demand deposit account cost smaller credit unions an average of \$8.65 per month and larger credit unions \$5.47 per month. Maintenance on a regular savings account cost an average of \$23.50 for smaller credit unions and \$20.18 for larger credit unions.

Institutions wishing to participate in the 1984 FCA survey should contact the Corporate Banking Department at the Dallas Fed.



New Options Upgrade RESPONSE Network

The Federal Reserve Bank of Dallas has announced the immediate availability of the IBM personal computer model XT for use in connection with its RESPONSE communication network. This model has the advantage of 512K memory as a standard feature. Whether an institution connects to the Dallas Fed via a model XT, a standard IBM personal computer, a dedicated computer line or a direct computer-to-computer link, the institution will continue to have the same level of services offered on the RESPONSE network. Services currently offered over the network include currency and coin ordering, transferring funds by wire and

receiving interest rates on Treasury bills.

In addition to these services, the Bank has announced two new RESPONSE services to be implemented in October. Treasury tax and loan advices as well as advices of credit availability for mixed cash letters will be offered over the network.

These new services are part of a continuing effort to upgrade the RESPONSE network and provide high-quality services tailored to meet various financial institutions' needs. By utilizing computer links, faster and more accurate delivery of services can be assured.

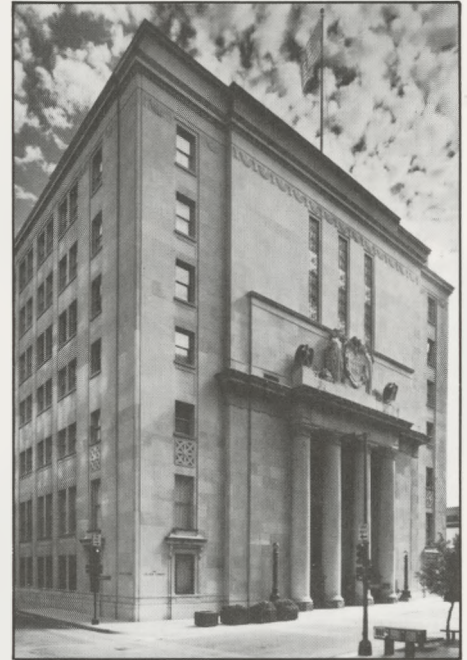
Historic Fed Buildings Can Be Toured

If you've been considering how to introduce new bank employees to the roles the Federal Reserve plays or how to educate high school seniors about economics in the United States, perhaps you should consider taking a tour of the Dallas Fed. Tours are given each Tuesday, Wednesday and Friday at 9:00 a.m. and 1:00 p.m. by appointment. The maximum number allowed per group is 30 people. The tour goes into the cash and check processing areas of the Bank and includes a multimedia slide presentation which describes the role the Federal Reserve plays in providing services to financial institutions, supervising banking organizations and deciding monetary policy directions. Each tour takes approximately 45 minutes and we request that those in your group be at least a senior in high school.

In addition to tours offered at the Dallas Fed, each of the three branches—in El Paso, Houston and San Antonio—give tours on an appointment basis. Please contact the nearest branch office for more information.

If you cannot come for a tour, the Dallas Fed also loans films at no charge to schools and financial institutions in the Eleventh District. The Bank carries films on the history of the Federal Reserve, economics, banking, counterfeit detection, the life of a check and many others. In some cases, a teacher's manual accompanies the film. The Bank also carries videotapes on the same topics.

To arrange to take a tour or view a film, please contact the Public Affairs Department at the Dallas Fed.



The Dallas Fed

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