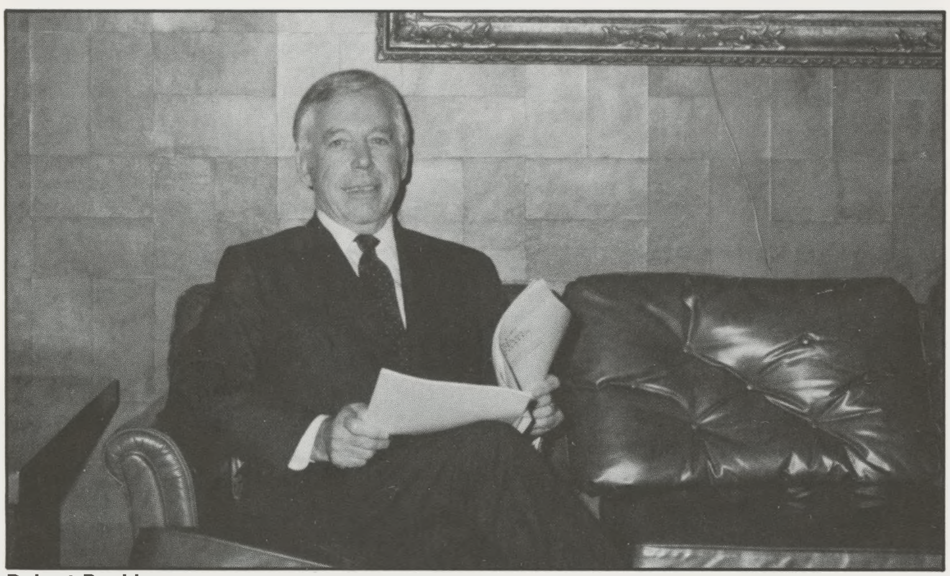
DALLAS FED ROUNDUP

Federal Reserve Bank of Dallas March 1985

Boykin Assesses District Economy

Federal Reserve Board Chairman Paul A. Volcker submitted the Board of Governors' semiannual Monetary Policy Report to the Senate Banking Committee on February 20. The Federal Reserve is required by the Humphrey-Hawkins "Balanced Growth and Full Employment Act of 1978" to submit a written report twice yearly on the state of the economy and the course of monetary policy. Dallas Fed President Robert H. Boykin commented on Chairman Volcker's remarks in last month's "Roundup". In this issue, President Boykin focuses on economic conditions in the Eleventh Federal Reserve District.



Robert Boykin

Q: Is the District economy doing well?

A: Yes, but to a lesser degree than the nation. The recovery has not been quite as strong in Texas as it has for the rest of the country. We still are recovering from a dependence on the struggling energy industry. In the past this area was propped up by energy, which now is a depressant on the Texas economy. Also, agriculture is experiencing difficulty, though the extent of the problems here is not as great as in the Midwest. However, growth in the Dallas/Fort Worth economy probably is exceeding that of the nation. In 1984 Dallas/Fort Worth did substantially better than the nation as a whole.

Q: Last year, you projected a slow, modest, but steady turnaround for the energy industry. Has that happened?

A: The outlook for the energy industry is more in question now. Drilling activity was up at the end of 1984, but that is partly seasonal. The recent drop in oil prices is good news for inflation but puts strain on some sectors of the energy industry. Further, the introduction of new and modern refining capacity abroad has clear implications for the competitiveness of the refining industry in the Southwest. The price of oil is very key, and there is some speculation as to how far it will fall.

Q: What is the greatest strength of the District's economy?

A: The economic base in the District is probably broader than has been recognized. We are a major center for defense contracting: only two states in the country have more prime defense contracts than Texas. High-tech, service and export industries will play a prominent part in the economic growth of our area in the future.

INSIDE

Coins Preserve the Past

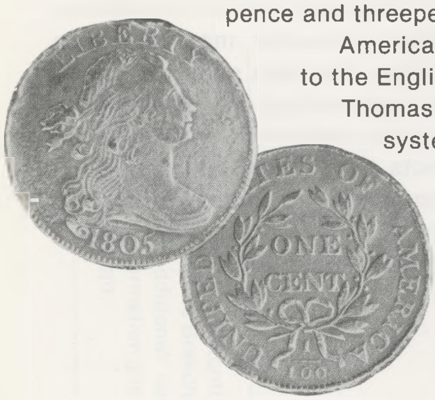
During February, 77,564,000 coins—nearly $11 million worth—were disbursed to commercial banks and other depositories through the head office of the Dallas Fed. Though much has been written about the electronic evolution of the nation's payments mechanism, coins remain an important medium of exchange.

The first coins struck in America were "illegally" authorized by the Massachusetts Bay Colony and, in 1652, were possibly the colonists' first act of defiance against the crown. Hard money was scarce in the New World, with the balance of trade weighted against the settlers, who imported far more goods than they exported. While the colonists engaged in barter or traded Indian wampum, foreign merchants demanded gold and silver, depleting the economy of British coins.

Eight-real coin (1733).

Among the foreign coins circulating in the colonies, a Spanish dollar minted in Mexico City was the most common. Valued at eight reales, this coin was often cut into eight slices—each being known as a "piece of eight." Long after the United States developed its own monetary system, the quarter-dollar coin was referred to as "two bits," a vestige of the Spanish influence.

On May 27, 1652, Massachusetts passed a law establishing a mint to alleviate the money shortage. The coins struck there between 1652 and 1682 all carried the date 1652 to conceal their continuing production from the British authorities. The first coins struck were silver shillings, six pence and threepence.



Large cent (1805). Copper large cents were used as good luck charms, gun sights, gears and weights to hold shut corpses' eyes.

American money was issued in denominations related to the English system until 1792, when Congress adopted Thomas Jefferson's proposals for a decimal monetary system. The first United States Mint produced ten-dollar, five-dollar and two-and-one-half dollar gold pieces; dollars, half-dollars, quarter-dollars, dismes (dimes) and half-dismes in silver; and copper cents and half-cents.

During times of economic crisis, coins were hoarded and coin substitutes were created. Merchants' tokens appeared on a wide scale during the depression of 1837 and again during the Civil War. They became known as "Hard Times tokens" and served both as an inexpensive way to make change and as an advertising vehicle.

Merchants token (1863).

Coins have changed many times since the Coinage Act of 1792. Denominations in use today are the dollar, half-dollar, quarter, dime, nickel and penny. These coins, with the exception of the nickel and penny, originally contained 90 percent silver. Due to a growing worldwide silver shortage, the silver content of coins was eliminated by 1971. In 1981 Congress authorized a change in the composition of the Lincoln cent (adopted in 1909), abandoning the 95 percent copper and 5 percent zinc alloy used for decades, in favor of a copper-plated zinc alloy. The new cent is 97.6 percent zinc and 2.4 percent copper. The Jefferson nickel, adopted in 1938, is made of an alloy of 75 percent copper and 25 percent nickel.

Ten- and twenty-dollar notes issued by the Republic of Texas (1835–1845). Once redeemed, the notes were canceled with knife cuts.

Seasonal Credit Program Modified

The Federal Reserve Board has made two modifications to its seasonal credit program, liberalizing the amounts available for borrowing and adding a temporary, simplified, alternative program. The seasonal credit program provides access to discount window borrowing for institutions that demonstrate recurring financing needs related to seasonal fluctuations in their deposit flows and loan demands.

The changes are designed to ensure that small- and medium-sized agricultural banks can meet temporary liquidity requirements that might arise in accommodating the needs of farm borrowers over the forthcoming planting and production cycle. The modified program to meet seasonal liquidity needs complements loan guarantee actions taken by the administration to help assure a necessary flow of credit to agriculture.

The Board reduced the amount of a bank's net need for funds (computed from past and projected patterns of deposit and loan variations) that must come from the institution's own resources. This deductible has been changed from 4 to 2 percent of the first $100 million in deposits and from 7 to 6 percent of the second $100 million in deposits, while remaining at 10 percent of deposits over $200 million. This change will allow a borrowing institution, especially a smaller one, to obtain a greater portion of its seasonal needs for funds from the Federal Reserve.

In addition, discount officers will be taking a more flexible approach to the administration of the seasonal credit program, particularly in judging whether there are special factors under current circumstances in the farm economy that would modify evaluation of seasonal swings based on historical data.

An alternative, simplified program will be available through September to smaller banks that are actively engaged in agricultural lending and have limited or no access to the national money market. Such banks generally would have less than $200 million in deposits and a ratio of farm loans to total loans greater than 17 percent. Banks with loan-to-deposit ratios of 60 percent or more would be eligible.

For banks that qualify for the temporary program, credit at the discount window would be available to fund one-half of their total loan growth in excess of 2 percent from a base level—either the average for February or for the two weeks just prior to submission of an application. Credit under this program would not exceed 5 percent of a bank's deposits and would be repaid before March 1986.

Exceptions under the program may be made at the discretion of a Reserve Bank for banks that are particularly affected by agricultural credit conditions and that lack ready access to national money markets.

Banks may borrow under either the regular or the temporary seasonal program. They may shift between programs, but may not borrow under both at the same time.

The Board stressed that the discount window would be available on a regular adjustment or extended credit basis where unusual demands developed in local areas as a result of the agricultural credit situation.

The following rates with respect to discounts and advances under the Federal Reserve Act and Regulation A are effective March 8, 1985, at the Federal Reserve Bank of Dallas:

Rates on Discounts and Advances	Per Annum
Basic rate: short-term adjustment credit and regular seasonal credit[1]	*8%*
Temporary seasonal credit	*8½%*
Other extended credit (special circumstances credit and credit for institutions under sustained liquidity pressures)[2]	
First 60 days	*8%*
Next 90 days	*9%*
Thereafter	*10%*

[1]*This is also the discount rate for 90-day commercial paper and other paper eligible for discount.*

[2]*At the discretion of the Federal Reserve Bank of Dallas, in cases where credit is anticipated to be outstanding for prolonged periods and in relatively large amounts, the time period for each rate in the extended credit rate structure may be shortened. This Bank also may apply a flexible rate that takes into account rates on market sources of funds. The flexible rate will not be lower than the basic rate plus one percentage point.*

Performance Report Being Distributed

The September 1984 Uniform Bank Performance Report is now being distributed to all insured commercial banks and is available for sale to the public. Designed for use by bank examiners, financial analysts and bank managers, the quarterly report permits both summary and in-depth analysis of a commercial bank's financial performance.

Copies of individual bank UBPRs may be obtained for $25 each. Quantity discounts are available. The cost to banks requesting additional copies of their UBPRs is $6 per copy. The UBPR User's Guide, revised during 1984, is available for $6. The September 1984 Peer Group Report and the State Average Report are $25 each.

All orders must be sent to UBPR, Department 4320, Chicago, Il. 60673. Please call (202) 389-4131 for ordering assistance.

RESPONSE Changes Benefit Users

The Federal Reserve Bank of Dallas plans several modifications to the dial-up portion of its RESPONSE communications network in 1985. These changes, which are part of the nationwide Federal Reserve automation program, will be implemented in four phases.

In phase one, financial institutions must replace the modems currently in use with ones offering doubled throughput. The new modems, which can be leased or purchased, should be ordered through AT&T Information Systems.

Phase two is the implementation of a new access control system designed to increase data security. Training financial institution personnel is expected to be accomplished through printed materials and through keying transactions in a test environment; it will not be necessary to attend training sessions at the Dallas Fed. There is no cost to users for phase two, which will begin during the second quarter of 1985.

In phase three, a data encryption capability will be added to all personal computers accessing the RESPONSE network. Institutions need to complete implementation of the AT&T Information Systems modem (phase one) as a prerequisite to phase three.

The final phase is the introduction of new applications software. Institutions must have completed phase three before implementing phase four, which begins in mid-1985.

Benefits of the program to financial institutions include increased reliability of data transmission, increased functions with new applications software and a greater level of data security through the new access control system and data encryption capability. The Federal Reserve Bank of Dallas will implement these modifications with the smallest possible amount of cost and operational impact to financial institutions.

Consumer Week

"Consumers Should Know" is the slogan for National Consumers Week, which begins April 22.

In designating the week, President Reagan said that buyers and sellers should recognize the basic rights of consumers—which include choice among products, information to make sound purchases, healthful and safe products, and being heard when products do not meet standards. Schools, community organizations, labor unions, businesses and the media are urged to help further public awareness of consumer issues and services.

A new pamphlet entitled "Consumer Handbook on Adjustable Rate Mortgages," which has been published jointly by the Federal Reserve Board and the Federal Home Loan Bank Board, is now available at the Dallas Fed. Free copies may be obtained by writing Public Affairs, Federal Reserve Bank of Dallas, Station K, Dallas, Tx. 75222.

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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