

Federal Reserve Bank of Dallas November 1985

Coupons Collected at Feds

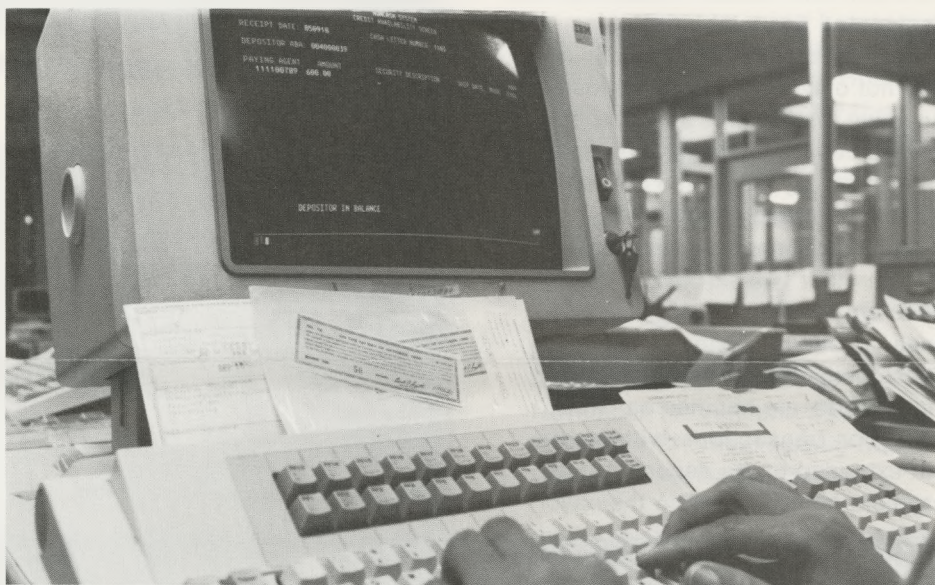
Suppose a local independent school district needs additional operating funds. In order to raise capital, they decide to hold a bond election. After the type of bond is decided and coupons are issued, what happens to them?

In many cases, upon maturity, they are collected by Federal Reserve Banks' Securities Departments. This service provided by the Federal Reserve is known as noncash coupon collection. As a result of the Monetary Control Act, coupon collection became a priced service and includes handling both deposits and withdrawals, clipping and presenting coupons to the paying agents, crediting the owning institution's account, and providing statements each time activity occurs in the account.

Prior to the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) which went into effect in January 1983, municipalities could sell bonds in bearer (tangible) form as a means to raise capital for various projects when deemed necessary.

Since the sale of these bonds to the public allows the municipality to raise the capital needed to fund its projects, the bonds are sold at par (face) value usually in increments of \$5,000. Tax-exempt interest on these bonds also makes them a popular security bought among investors.

In the pre-TEFRA era, interest was represented by coupons attached to the bearer instrument. Those coupons were payable semi-annually and represented a dollar value to their



Operators enter coupon data into the terminal daily to balance and record cash letters. The Dallas Fed receives approximately 8000 coupons per month.

presenter. The dollar value of each coupon depended on the interest rate paid on that particular securities "issue" and its par value.

Since ownership of bearer securities and coupons cannot be determined other than by physical possession, custody arrangements are essential. The Federal Reserve Banks offer an efficient and secure safekeeping service for financial institutions and record ownership, as well as pledging instructions. The Feds then clip the attached coupons when due and automatically forward them to paying agents for collection.

A number of depository financial institutions (DFIs) deposit their clipped and packaged items with the Fed

each day. The Fed will then provide the customer with a predetermined credit availability date and handle the presentment of those clipped items to various paying agents. Through this method of collection, paying agents receive fewer cash letters from holders of a particular issue since clipped items going to a paying agent

(Continued on page 2)

INSIDE

■ HOLIDAY SCHEDULE

■ FCA REPORTS

Coupon Collection, continued

under one coupon collection letter are combined. This process reduces both transportation and float costs.

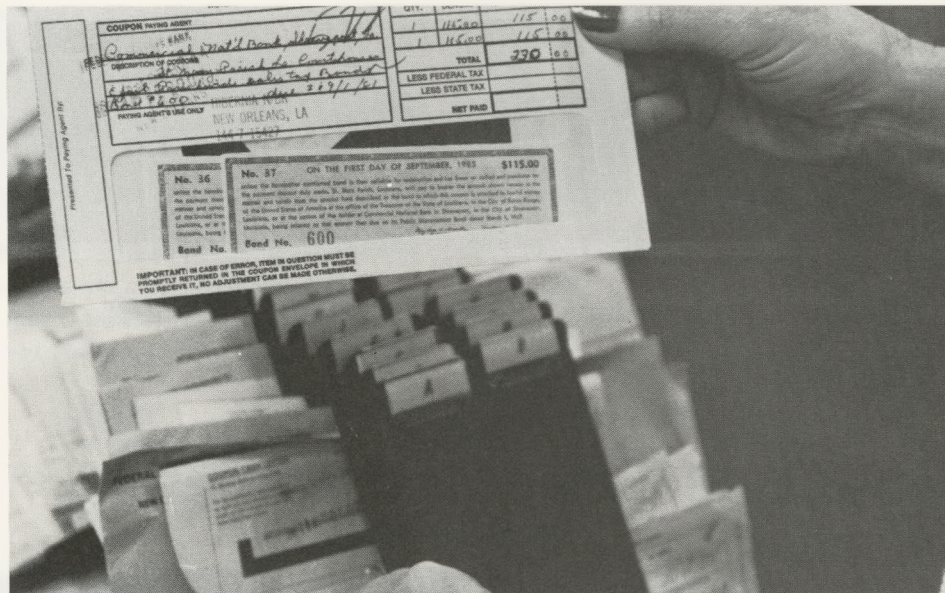
Coupons detached from the bonds are credited to depositors one day after their maturity. This accounting function is computer-driven by an automated safekeeping system and serves to eliminate the potential for carrying float. Since paying agents for a particular issue of securities are designated financial institutions, the Federal Reserve is in an ideal position not only to credit the depositing financial institution's account, but also to debit the paying agent's account, thereby aiding the payments mechanism which takes place.

Municipal bonds themselves and certain other types of debt obligations are handled through the non-cash collection service policy also. These obligations, which include sight drafts, are handled as "true" collection transactions, with credit not extended to the depositor until payment is received from the payor institution.

Coupon collection fees are as follows:

Local coupons from in-district DFIs\$3.00
Local coupons from out-of-district DFIs 3.50
Inter-district coupons	
Fine sort 3.25
Mixed sort 4.50

Questions concerning collection should be addressed to Lola Lewis, (214) 651-6379 or Nancy Barton, (214) 698-4248.



Within 24 hours of receipt, coupons are sorted, processed and mailed out to respective paying agents.

Current FCA Statistics

	1983	1984
Average net portfolio yield*		
for BANKS with deposits under \$50 million	10.414%	10.828%
for BANKS with deposits up to \$200 million	10.622%	11.131%
for BANKS with deposits over \$200 million	10.117%	11.311%
for SAVINGS & LOANS		
- Large thrifts	10.294%	10.293%
- Mid-size thrifts	10.154%	10.362%
- Small thrifts	10.734%	11.157%
for CREDIT UNIONS with deposits up to \$60 million**	—	10.710%
for CREDIT UNIONS with deposits over \$60 million**	—	10.925%
Average cost of money***		
BANKS		
- Large	7.462%	8.611%
- Mid-size	7.686%	8.163%
- Small	7.614%	8.240%
SAVINGS & LOANS		
- Large	7.462%	9.851%
- Mid-size	7.686%	9.417%
- Small	7.614%	10.699%
CREDIT UNIONS		
- Large	9.329%	9.426%
- Small	9.864%	9.372%

* Figures are percentages of portfolio.

** Classifications for credit unions changed. Last year, average net portfolio yields on credit unions were for those up to \$50 million and up to \$200 million, and over \$200 million.

*** Figures are percentages of available funds.

Holidays Scheduled for 1986

To be open, or not to be open? This question faces many financial institutions when it comes to Martin Luther King's birthday.

Designated by the United States Congress as a new federal holiday in 1985, many employees were anticipating being off work on King's birthday (the third Monday in January). This may be true for some; however, the Dallas Fed observes only those banking holidays designated as such by the Texas Legislature. And Martin Luther King's birthday is not on its list of holidays for 1986.

Banks wishing to observe King's birthday as an optional holiday may do so in accordance with statutory procedure. The bank's board of directors must pass a resolution designating the additional day or days it will close. The resolution must be posted in a conspicuous place within the bank at least 15 calendar days prior to the designated day or days, and another copy must be filed with the Commissioner, Department of Banking, 2601 North Lamar, Austin, Texas 78705.

Texas banks wishing to close this year on Tuesday, December 24, or

Tuesday, December 31, must use this same procedure described above.

The holiday schedule for banks in New Mexico is identical to the one printed here for Texas; however, to add additional holidays, bank officials would have to amend banking laws in that state.

In Louisiana, the Banking Institute sets the schedule for the holidays and those observed in 1986 will include January 1 (New Year's Day), July 4 (Independence Day), September 1 (Labor Day), November 27 (Thanksgiving Day), and December 25 (Christmas Day). In order to get additional bank holidays approved, a mayor or elected official must proclaim a specific day a holiday. Then, the board of directors at any specific financial institution must adopt a resolution observing the holiday. The resolution must be certified, copied, and sent to the Banking Institute. Also, an announcement specifying the bank's closing must be published in the local newspaper prior to the holiday.

Savings and loan associations and credit unions in all three states have no statute specifically listing holidays

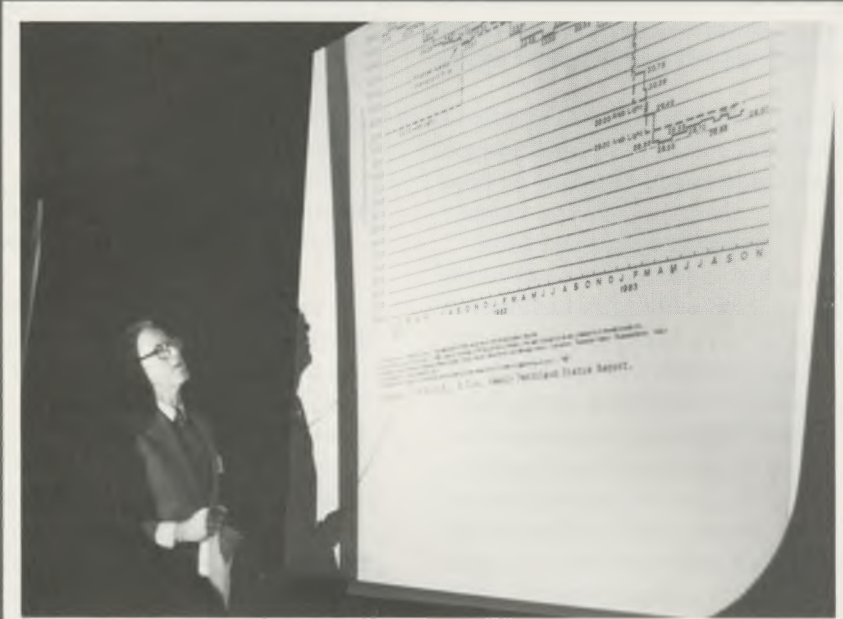
they must observe.

If a financial institution in this District notifies the checks department at the Dallas office or a branch office of its holiday schedule, it will not be charged for the Fed's cash letter presented on the day it is closed and the Dallas Fed is open. The charge will be made on the next day both are open. The notice can be on Fed form TR-385 or a copy of the board's resolution will suffice.

Holiday Schedule for 1986

The Federal Reserve Bank of Dallas and its branches in El Paso, Houston and San Antonio will observe the following holidays in 1986 by being closed on the dates listed below.

January 1, *New Year's Day*
February 17, *President's Day*
May 26, *Memorial Day*
July 4, *Independence Day*
September 1, *Labor Day*
October 13, *Columbus Day*
November 11, *Veterans Day*
November 27, *Thanksgiving Day*
December 25, *Christmas Day*



“Energy” was the topic of the Dallas Fed’s most recent conference which was sponsored by the Research Department at the Fairmont Hotel in Dallas on October 3 and 4.

FCA Reports Released

Functional Cost Analysis (FCA) reports for 1984 have recently been released by the Federal Reserve Bank of Dallas. The FCA program provides financial institutions with a detailed cost accounting service. FCA is a free service and is available to all types of financial institutions. Financial institutions that participate in the pro-

gram receive an individual 30- to 40-page report that examines 14 functional areas of financial institutions for costs, profitability and efficiency.

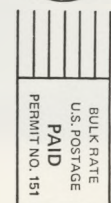
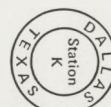
In addition to individualized reports, Texas and nationwide composite reports are also produced. These reports allow participants to compare their performance with other financial

institutions of similar deposit size and functional activity levels.

Financial institutions wishing to participate in the 1985 FCA program should contact the Corporate Banking Department at (214) 651-6370 or (214) 698-4285.

	\$50 MM or less	\$10-60 MM	\$50-200 MM	\$60 MM or more	\$200 MM or more
Cost of demand deposit account/month					
Commercial Banks	\$9.86		\$15.11		\$18.96
Savings & Loans	\$11.33		\$7.56		\$10.76
Credit Unions		\$6.07		\$7.30	
Cost to make an installment loan					
Commercial Banks	\$71.30		\$106.52		\$114.02
Savings & Loans	\$273.25		\$110.51		\$119.26
Credit Unions		\$31.86		\$40.12	

FEDERAL RESERVE BANK OF DALLAS
STATION K
DALLAS, TEXAS 75222
ADDRESS CORRECTION REQUESTED



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. Editor: Dione Arteau