

Federal Reserve Bank of Dallas December 1985

## Reducing payments system risk

Implementation of the Federal Reserve Payments System Risk Policy prompted the Federal Reserve Bank of Dallas to host several daylight overdraft seminars recently. The seminars were held in Dallas, El Paso, Houston, and San Antonio to make financial institutions more aware of what can be done to reduce daylight overdrafts.

Daylight overdrafts result when a financial institution moves more funds out of a reserve or clearing account at the Fed than there are in the account, or when its outgoing transfers (sends) on a private funds transfer network such as CHES or CHIPS exceed its incoming transfers (receives). Typically, daylight overdrafts are covered by incoming transfers by the end of the business day, but many depository institutions nevertheless overdraw their accounts during the day for large amounts.

Daylight overdrafts create a substantial risk for the financial system. If an institution is unable to settle a daylight overdraft on a private

network at the end of the day, other institutions may find their own positions at risk. The Federal Reserve's concern has been the domino effect on a large number of institutions which could result from a failure by one institution to settle a daylight overdraft (net debit) position on a private network and the resulting implications for the stability of the financial system.

The situation is somewhat different with daylight overdrafts on Fedwire. If an institution cannot make a Fedwire daylight overdraft good at the close of business, the Federal Reserve Bank absorbs the loss; however, completed Fedwire transfers will not be reversed as to receiving institutions, thus preventing a domino effect.

The Board of Governors of the Federal Reserve System, after extensive study, agreed on a voluntary program to reduce daylight overdrafts. Depository institutions will voluntarily limit daylight overdrafts across all payments systems (Fedwire and any private networks) by establishing a

maximum daylight overdraft (called a sender net debit cap) based on a self-assessment of creditworthiness, operational controls, and credit policies.

Jim Stull, vice president of the Federal Reserve Bank of Dallas and moderator of one of the Dallas seminars, said, "The voluntary approach was strongly urged by the industry, but if it does not meaningfully address the risks, the Board of Governors has made it clear they will reconsider other options, such as a regulation to impose explicit daylight overdraft limits."

Preliminary results of the self-assessment process (including preliminary sender net debit caps) are due to the Federal Reserve Banks by December 31, 1985. Final caps (with board of directors' approval) are due by February 28, 1986.

While Stull served as moderator, a panel answered questions during the seminar. The panel included (from left of picture) Earl Anderson, assistant vice president from Supervision and Regulation; Larry Ripley, assistant vice president over the Electronic Payments Division of Payments Mechanism; Robert Hankins, assistant vice president from Supervision and Regulation; and Robert Feil, manager of the Reserve Maintenance and Federal Accounts Divisions of Financial Planning and Control.



Panel discussion at a recent daylight overdraft seminar.

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# Chinese bankers visit Fed

Five officials from the People's Bank of China visited the Dallas/Fort Worth area November 14-17 under the sponsorship of the Federal Reserve Bank of Dallas. The People's Bank of China serves as the central bank of the People's Republic of China and its billion-plus population. Their visit to this country, arranged by Federal Reserve Board Chairman Paul A. Volcker, was aimed at familiarization with central banking operations techniques used by their United States counterparts.

The group, which included Li Xiang Rui, president of the People's Bank Shanghai branch, Zhou Zhengging, president of the Beijing branch, Wang Wei, president of the Hubei branch; and Fan Di and Liu Zhaobin, research officers, met with senior officials of the Federal Reserve Bank of Dallas and RepublicBank Dallas.

Robert D. Rogers, president and chief executive officer of Texas Industries, Inc., Dallas, and chairman of the Federal Reserve Bank of Dallas' Board of Directors, presided over a luncheon for the Chinese central bankers, while Drew Hogwood, assistant vice president of the Public Affairs Department, coordinated sightseeing activities around Dallas and Fort Worth for the visitors.

Recapping the visit, Hogwood stated, "Li expressed regret that the length of their visit did not permit them to see the many other faces of the Dallas Fed's territory in Texas, Louisiana, and New Mexico. The group members confessed that they were most pleasantly surprised by the genuine friendliness and hospitality of Americans."

Prior to their arrival in Dallas, the five Chinese officials visited the Board of Governors headquarters and the Federal Reserve Banks of New York and Minneapolis. Before returning to China on November 21, they visited the Federal Reserve Bank of San Francisco.



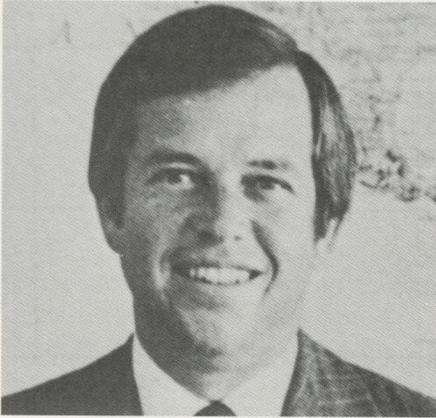
Chinese bankers discuss banking policies with George Cochran, senior vice president, while visiting the Dallas Fed.

**Although the other Federal Reserve Districts will be closed to observe Martin Luther King's birthday, the Federal Reserve Bank of Dallas and its Branch offices in El Paso, Houston, and San Antonio will be open on Monday, January 20, 1986.**

**The Eleventh Federal Reserve District follows the holiday schedule set by the Texas Legislature which does not list that day as a holiday for 1986.**

**Should your institution wish to close that day, submit the resolution from your board of directors, signed by the president of the institution to the Commissioner, Department of Banking, 2601 North Lamar, Austin, TX 78705, and also, post signs 15 days prior to the holiday to alert customers.**

# Dallas Fed officials assist in study



**Rogers**

Robert D. Rogers, chairman of the Dallas Fed's board of directors and Lyne H. Carter, vice president of the Operations Analysis Department, the Facilities Services, Management and Records Department, and Protection Department, played key roles in the recent study of the Dallas County Criminal Justice System.

Rogers, who is president and chief executive officer of Texas Industries, Inc., also serves as chairman of a nine-member advisory board that oversees Dallas United and was instrumental in its formation.

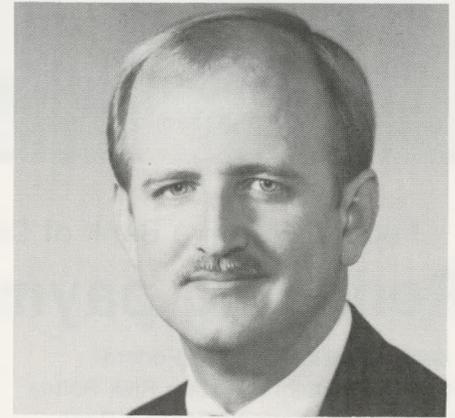
Dallas United, a volunteer civic group, is a program in which private

businesses lend executives on a full-time, cost-free basis to a local public authority. It was created one year ago and is jointly sponsored by the Dallas Chamber of Commerce and the Dallas Citizens Council. Its goal is to help a particular public agency operate its departments and programs more effectively.

Invited by Dallas County to do its first study on the criminal justice system in March, a Dallas United task force began phase one which involved a step-by-step documentation of the most critical operations in the criminal justice system.

The second phase of the study, which Carter worked on, began in July. This team developed the findings done by the first group and reported ways officials could streamline the operations of the criminal justice system in reducing costs to the county for jail inmate housing, speeding trails for those incarcerated and reducing the need for expansion of jail space.

Dallas United made 22 recommendations designed to reduce unnecessary jail spending and improve the efficiency of the criminal justice system. The leaders of the criminal



**Carter**

justice system completely endorsed these recommendations and pledged to put them in place at the earliest possible time. Estimated net savings totaled over \$5 million per year. Also, the recommendations would defer capital costs of from eight to 19 million dollars.

In addition to his work on the task force, Carter serves as secretary to the Federal Reserve System's Conference of Presidents (chaired this year by Dallas Fed President Robert H. Boykin) and secretary to the Fed's Conference of First Vice Presidents (chaired by the Dallas Fed First Vice President William H. Wallace).

## NEWS BRIEFS

### **Fedwire Schedule Changes**

The Board approved two modifications to the Fedwire operating schedule which will become effective January 1, 1986.

The deadline for interdistrict third party wire transfers has been changed from 4:30 P.M. to 5:00 P.M. Eastern time. Also, Fedwire will begin opening no later than 9:00 A.M. Eastern time.

### **Regulation B Revised**

The Board approved final revision to Regulation B—Equal Credit Opportunity—which will assist creditor compliance and increase protection for credit applicants. Though the final

revisions became effective December 16, creditors may continue current procedures until October 1, 1986.

### **Regulations G, T, and U Amended**

Amendments have been made by the Board of Governors of the Federal Reserve System to Regulations G, T, and U—Securities Credit Transactions.

To obtain a copy of the amendments or Circular 85-114 announcing the changes, contact Tony West in the Public Affairs Department at (214) 651-6289. For further interpretation of these changes, contact the Legal Department at (214) 651-6171.

### **Regulation AA Updated**

The Board of Governors of the Federal Reserve System has issued a revised pamphlet to Regulation AA, effective January 1, 1986.

Previously, the Regulation consisted of one subpart on consumer complaints. The second subpart added guidelines for the credit practices rule which covers topics such as unfair credit-contract provisions, and unfair or deceptive practices involving co-signers.

For revised copies of Regulation AA, contact the Public Affairs Department at (214) 651-6289. For interpretation of any or part of the revision, contact the Legal Department at (214) 651-6171.

## To improve supervisory process...

# Board increases examinations

Recent bank failures across the United States prompted the Federal Reserve Board to issue guidelines to strengthen Reserve Bank supervision of state member banks and bank holding companies. The policies will increase frequency of Federal Reserve examinations, which are conducted by examiners from Federal Reserve Banks' Supervision & Regulation Departments.

The early identification and correction of weaknesses is the predominant goal behind issuance of these policies.

In addition, the Federal Reserve Board issued a policy statement on the payment of cash dividends by state member banks and bank holding companies that are experiencing financial difficulties.

As a part of the program to strengthen banking operations, the policy statement addresses the prac-

tices of supervisory concern by institutions that are experiencing earnings weaknesses, other serious problems or that have inadequate capital. Specific areas of concern are payment of dividends 1) not covered by earnings, 2) from borrowed funds, and 3) from unusual or nonrecurring gains.

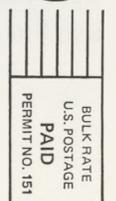
The Board recommended any organization experiencing these financial pressures should not maintain a level of cash dividends that exceeds its net income, that is inconsistent with its capital position or that can only be funded in ways that may weaken its financial health.

In its attempt to upgrade the supervisory process, the Board's guidelines will include tightened prudential standards, improved cooperation between Federal and state banking departments and strengthened examination staffs created through improved ex-

aminer training programs.

Implementation of these policy guidelines is expected by January 1, 1986.

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