

Disaster recovery plan . . .

System establishes Contingency Plan

The Federal Reserve System has established a Contingency Processing Center (CPC) in Culpeper, Virginia, to provide back up processing for the Transfer of Funds, Securities, ACH (Automated ClearingHouse), and Accounting Systems. These are the most critical applications handled systemwide and any lapse in processing of these applications would impact the nation's economy. Any of the twelve Reserve Banks could use the CPC facility should the need arise.

Frank Kuban, manager in Data Services and task force coordinator of the Contingency Plan at the Dallas Fed, says careful steps are taken to "Copy crucial information (that directly affects the nation) to magnetic tapes and take that information off site each night."

The CPC is capable of handling the processing load of any District's failed computer center. Each Fed creates backup tapes and deposits them offsite at regular intervals in order to avoid the loss of a large volume of data, should a disaster take place. For the same reason, copies of software, documentation, and contact lists are stored offsite also.

Should a Reserve Bank's data center be determined inoperable for an extended period, data processing personnel would travel immediately to

the CPC facility and reestablish computer operations from the CPC. If only the data center were disabled, Operations personnel would remain at the Head Office and work from terminals connected to the CPC computer.

However, if the entire building were disabled, Reserve Bank personnel would relocate to the District's relocation facility, which is usually a branch office, where working terminals are connected to the CPC. In the Eleventh District, the Houston Branch has been set up to serve as the Operations relocation facility. The depository institutions which are normally linked to the Head Office are relinked to the CPC facility through dial-up connections.

Many types of disaster, such as fire, tornado, terrorist activity, etc. could cause the loss of computer facilities. The major idea behind the origination of the CPC is to insure continuity of operations and avert any serious business loss caused by the unavailability of the business' computer facilities.

How does the CPC involve DFIs?

If a disaster occurred, the disabled Reserve Bank staff would notify their District's depository financial institutions (DFIs) and the media. In a major disaster, television and radio would

be used to communicate emergency plans, in a fashion similar to public emergency announcements.

Reserve Banks will also be storing a "disaster letter" at one of their branch offices. The letter will be sent from the branch to depository financial institutions, should the Head Office experience a contingency situation.

Both wire transfer of funds and the securities applications are run on the computer at the CPC. Reserve Bank personnel in the home District would manage the operation from working terminals connected to the CPC in Culpeper. On-line depository financial institutions would be contacted and given any information needed to resume operations through the CPC. Reserve Bank personnel may request DFIs to retransmit any data sent between the time of the last checkpoint and the time the computer outage occurred. By connecting with the CPC, depository financial institutions could send and receive transfer of funds

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A look at Texas economy . . .

Inman cites vital investments

Higher taxes will be needed now to help lay the foundation for a healthy state economy in the 1990s, said Admiral Bobby R. Inman at a recent luncheon for San Antonio business-people. The luncheon followed a joint meeting of the boards of directors of the Federal Reserve Bank of Dallas and the San Antonio Branch. Inman—chairman of the board, president and chief executive officer of Microelectronics and Computer Technology Corporation (MCC) in Austin—is the deputy chairman of the Dallas board.

“We are going to have to make the investments now to produce the human resources and infrastructure that will be necessary to carry the technology push in the 1990s,” stated Inman. He cited worrisome attitude changes among political leaders that Texas may not be willing to overcome problems in making investments for

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the future—such as tax increases that would benefit education. Inman went on to say that Texas’ pro-business image is a myth if it is based on the lack of a state corporate tax and income tax, although he prefers more consumption-based taxes such as the sales tax.

“Fundamentally, I’m optimistic for the state’s capacity to compete but

the real issue is: ‘Are we going to compete?’ You don’t compete by cutting back,” he asserted. “The pro-business image also is a myth if more Texas cities institute electric rates that favor residences and hurt businesses and industries. That sends a signal of no equitability.”

Inman listed six key technology-driven industries that Texas must be ready to attract:

- Telecommunications: Fiber optics use is growing to make digital communications the new standard.
- Microelectronics: In 10 years, a computer chip the size of a thumb-nail will have up to 100 times the power of a personal computer today. New chips probably will be able to compute items simultaneously rather than sequentially.
- Aerospace: Growth in aerospace will improve reconnaissance and inaugurate manufacturing in zero or low gravity.
- Materials: It is conceivable that the development of new, light weight materials competing with steel will allow manufacturing and construction in more environments including space and ocean technologies.
- Energy: Although the United States is losing its lead in nuclear energy technology, it will maintain and improve its superiority in fuel cells and fossil fuel recovery techniques.
- Biotechnology: Health care advances should be followed by new applications revolutionizing agriculture.

“Texas needs more college students learning new technologies and creating new applications,” said Inman. “We also must provide broader education experience at the secondary levels so that people who do not go on to college will be ready



Admiral Bobby R. Inman is the deputy chairman of the Dallas Offices’ Board of Directors.

for careers that involve an automated work place.”

Accordingly, Inman criticized what he considered a slow response to the collapse in energy prices. He stressed that Texas must learn that energy no longer will be the sector providing additional jobs and paying the state’s bills.

NOTE:

The Board of Governors announced a change in the discount rate on July 11, 1986, to 6 percent from 6½ percent.

Home loans rise slightly

The U.S. Department of Housing and Urban Development (HUD) released in mid-May the results of its latest survey of market conditions for fixed rate, long-term, level payment home loans as well as interest rates for home construction funds.

The survey found that the national average yield on secondary market transactions involving HUD/FHA Section 203(b) loans rose slightly from those of the previous month. The national average yield was based on the most active commitments transacted for loans in that section.

On May 1, 1986, these commitments were for loans bearing a contract rate of 9.50 percent, as in

the previous month. The national average secondary market yield on 9.50 percent HUD/FHA Section 203(b) loan transactions was 9.80 percent, a slight rise of three basis points from April 1, 1986, average yield of 9.77 percent.

Compared with the 99 percent response rate on April 1, 1986, the proportion of HUD field offices indicating generally adequate funds for financing this type—Section 203(b)—of home mortgage was 95 percent on May 1, 1986.

The average rate for conventional loans for new homes on May 1, 1986, was 9.99 percent, down seven basis points from 10.06 percent on April 1.

Recovery, cont.

and securities transactions with only minor variations from normal procedure.

For the ACH applications, ACH personnel would relocate to the CPC because of the magnetic tape orientation of the ACH system. Reserve Bank personnel would request current cycle input files or remakes of these files from local DFIs. Files from the branch offices would also be shipped to the CPC. On-line depository financial institutions would be instructed to transmit and receive ACH files via the CPC. Once at the CPC, ACH files destined for interregional exchange would be transmitted over the Federal Reserve Communications System (FRCS-80) as usual.

Accounting in support of transfer of funds, book-entry securities, and ACH can also be managed from the CPC. Pricing and billing activities may not be supported during the outage, but rather, charges would accrue and DFIs would be billed after normal operations resumed. Branch offices would distribute end-of-day statements for local customer depository institutions. Other financial statements would be transported via courier from the CPC.

In an emergency situation, Reserve Banks will rely on their branch offices or other Districts to process checks. The CPC will not be involved in check processing services, except to process the accounting data provided by the branch offices.

The establishment of the CPC by the Federal Reserve System and the preparations and testing of emergency procedures by the Reserve Districts represent major steps in the Systems' ongoing effort to provide as high a level of automation services as possible. With the CPC, it is now possible to limit the impact of a major disaster.

Average Interest Rates on Conventional First Mortgages*

Area	New Home Loans		Existing Home Loans	
	May 1 1986	May 1 1985	May 1 1986	May 1 1985
Northeast	10.83%	13.53%	10.83%	13.53%
Middle Atlantic	9.88	12.97	9.88	12.99
Southeast	9.72	12.94	9.73	12.96
North Central	9.86	12.87	9.86	12.88
Southwest	9.94	12.94	9.94	12.91
West	9.88	12.96	9.88	12.96
United States	9.99%	13.01%	9.99%	13.01%

Average Interest Rate for Home Construction Financing*

Area	FHA Insured		Conventional	
	May 1 1986	May 1 1985	May 1 1986	May 1 1985
Northeast	11.44%	14.07%	12.28%	14.19%
Middle Atlantic	10.59	12.61	10.59	12.75
Southeast	10.36	12.69	10.36	12.69
North Central	10.45	13.19	10.78	13.47
Southwest	10.61	12.52	10.68	12.63
West	10.87	12.87	10.87	12.84
United States	10.70%	12.92%	10.90%	13.07%

* As published by the U.S. Department of Housing and Urban Development.

Board amends Regulation J

The Board of Governors approved a change to Regulation J to permit Federal Reserve Banks to handle, as cash items, items drawn on financial institutions in foreign countries.

Reserve Banks will contract with domestic correspondent financial institutions to collect foreign items for the Federal Reserve. Foreign collection will only be offered to institutions using regular check collection services of the Federal Reserve and may not be offered by all Reserve Banks.

In addition to this change on foreign collection, the Board made a few other amendments to Regulation J. Changes are as follows:

- Starting in 1987, banks which voluntarily close on nonstandard

holidays will have to choose whether they want to accept a debit for checks that would have been presented to them or pay for the value of the float.

- Beginning April 1, 1987, the Fed will modify the procedures used to recover float generated in ACH operations due to nonstandard holiday closings by both originating and receiving institutions.
- That a uniform proposed two-year limitation period be adopted for actions against Reserve Banks for alleged mishandling check collections and wire transfers. However, the change would not go into effect until Jan. 1, 1990, in order to give state legislatures time to

enact a similar change. NOTE: This change does not relate to reduction in statute of limitations on mishandled items.

- That Reserve Banks are not liable for consequential damages involving wire transfer transactions.
- That breach-of-endorsement warranty suits be defended by prior endorsers, at the request of the Reserve Bank.
- That a permanent rule was set regarding holiday schedules for large-dollar return item notification requirements. NOTE: Reserve Banks have **deleted** the rule that fixed-day holidays falling on Saturdays be previous Fridays.

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