Fed Adopts New Billing System

Beginning October 1, the St. Louis Fed implemented a new billing system designed to standardize the processing of account charges for priced services at Reserve Banks across the nation. Soon, Fed customers will receive their first summary statements in the revised format.

The Federal Reserve’s standardized paperwork will make accounting processes easier, particularly for financial institutions with banks or branches in several Federal Reserve districts. The new statements are easy to read and will be processed the same as in the past.

St. Louis was the ninth Federal Reserve District to implement this new billing system. The remaining target dates for nationwide implementation are as follows:

- May 1992—all 12 districts fully implement the new billing system.
- End of 1992—all 12 districts use standard product codes.

For more information about the Fed’s billing services, please call Dan Horton or Gerry Gray at 1-800-333-0869.

HMDA Data Now Out

Beginning November 1, all financial institutions in the Eighth District will be sharing information on their home mortgage and home improvement lending activities with the public.

In September, you should have received a copy of your Home Mortgage Disclosure Act (HMDA) statement. In accordance with the passage of FIRREA in 1989, this statement must be made available to the public 30 days after receipt at your institution’s home office and at one office in each metropolitan statistical area (MSA) you serve.

Copies of individual institution reports, as well as aggregate data for all HMDA-covered institutions in an MSA, will be kept for public inspection at 12 central repository sites throughout the Eighth District. For information on the repository in your area, call Jackie Himmelberg in the Public Information Office at (800) 333-0810, ext. 8311.

The disclosure statements track information on all applications for mortgage and home improvement loans at a lending institution, including the personal characteristics of the applicants such as race, sex and income. (See related story on page 2.)

Non-depository mortgage lenders are also covered by the new public disclosure law.

Autumn 1991

News and Views for Eighth District Bankers
November 1 has arrived—the day all lenders’ mortgage and home improvement lending activities are made available to the public. Because of the public’s potential interest in this information, you should be prepared to respond to questions about your HMDA report.

Your HMDA statement tells you what disparities exist in your loan approval rates in a particular geographic area. It also tells you to whom, based on sex, race and income, you tend to loan and to whom you tend to deny loans.

HMDA data, however, does not prove discrimination in mortgage lending. Your HMDA statement does not disclose, for example, why a loan was approved or disapproved, or why disparities exist in your lending patterns. It does not disclose an applicant’s debt-to-income ratio or creditworthiness.

HMDA data also gives only a partial view of a lender’s record for meeting the overall credit needs of its community.

Is there any good that comes with HMDA?

A few things. First off, your HMDA statement tells you where your customers are and describes them. It also tells you who isn’t your customer—identifying potential new markets.

This information can also prove to be useful in determining how your mortgage lending program fits in with your Community Reinvestment Act record.

Finally, it enables you to learn more about your competitors.

In short, what is most important about HMDA is that you understand what the data means and that you help your community do the same.

If you need more information on HMDA, please give me a call in the Office of Community Affairs at (314) 444-8644.

Randall C. Sumner is vice president of Credit and Community Affairs at the Federal Reserve Bank of St. Louis.

Institutions Respond to FCA

"FCA is hot," says Customer Support Officer Bernie Berns. "At the St. Louis Fed alone, 68 institutions will participate in 1991 and more than 60 others have expressed interest in the service. On a system level, more than 500 institutions have bought into FCA and 300 others are considering participation. This bodes well for the product because larger numbers of participants provide a better data pool."

FCA (Functional Cost and Profit Analysis) is the Federal Reserve’s recently enhanced cost accounting program. FCA participants submit information to the Fed, including income, expense and volume data for various functional areas. In return, they receive an individual annual report detailing performance and peer comparisons. The FCA report helps to price products, control costs and evaluate operations. The yearly FCA service is $150 and includes a 1991 national average report.

In addition to the 1990 national average report, a Midwest average report is now available. It includes data from 85 banks in 12 states. (See table for a small piece of the Midwest report.)

Customers interested in obtaining an average report or becoming an FCA participant may reach John Lorentz or Flora Arnon toll-free at 1-800-333-0810 or (314) 444-8322.

**Effective Interest Rates at Midwest Banks**

<table>
<thead>
<tr>
<th>Product</th>
<th>1989</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Checking</td>
<td>5.09%</td>
<td>4.90%</td>
</tr>
<tr>
<td>Regular Savings</td>
<td>5.03</td>
<td>5.05</td>
</tr>
<tr>
<td>Money Market Deposit Accounts</td>
<td>6.30</td>
<td>6.12</td>
</tr>
<tr>
<td>Retirement Accounts</td>
<td>8.21</td>
<td>8.04</td>
</tr>
<tr>
<td>CDs under $100,000</td>
<td>7.94</td>
<td>7.90</td>
</tr>
<tr>
<td>Time over $100,000</td>
<td>8.65</td>
<td>8.03</td>
</tr>
<tr>
<td>Other</td>
<td>8.43</td>
<td>7.27</td>
</tr>
<tr>
<td>Average Rate Paid</td>
<td>7.21%</td>
<td>6.94%</td>
</tr>
</tbody>
</table>
Will The “Credit Crunch” Sabotage the Recovery?

During recessions, some economic analysts typically focus on the growth of reserves and the money stock in predicting both the start and the strength of the economic recovery. In the current recession, however, many analysts are paying far more attention to bank loans in assessing the recovery’s prospects. What’s going on here?

According to the new analysis, bankers, under pressure from government supervisors, are refusing to lend, causing a credit crunch. Will the economy recover? Not unless they start lending again.

Let’s take a look at some loan numbers to see if this theory makes sense. So far in 1991, commercial bank loans have indeed dropped, after growing modestly in the previous year (see accompanying table).

Two small chinks in the armor appear, however. First, most news stories about the credit crunch emphasize how difficult it is to obtain a real estate loan from a commercial bank. As you can see from the table, real estate loans are about the only bright spot in current bank lending patterns, rising at a 3.1 percent rate through August of this year, while other loan categories fell. Thus, attributing the overall decline in bank loans to a lack of lending for real estate appears to be a mistake. Still, if you believe the credit crunch story, the prospects for economic recovery look grim.

A second inconsistency in the credit crunch theory is the sharp decline in interest rates this year. If lenders were insisting on tighter credit standards, the reduced supply of loans would tend to put upward pressure on rates.

What of the more traditional methods of predicting the recovery? The growth of reserves and the money stock in 1991 imply a far brighter economic outlook. As the table shows, adjusted reserves increased at a 7.4 percent annual rate since December of last year, substantially above its 2.3 percent increase in 1990. M1, likewise, has grown quite a bit faster so far this year.

The growth of both reserves and the money stock reflect the expansionary policy actions of the Federal Reserve. If you believe these indicators important in predicting the recovery, you can begin to rest a little easier at night.

Which is a better indicator, money or bank credit? We’ll probably know for sure by next year, but here are some things to consider in the meantime:

* The decline in bank loans may simply reflect a decline in the demand for credit, due to the recession.

* Even if supervisors have caused banks to reduce their lending because of higher standards of loan quality, we should remember that banks are only one source of credit for businesses. In recent years, banks’ share of credit provided to businesses has fallen sharply to about 15 percent.

* At the same time, the share of business loans in the United States by foreign banks, which are subject primarily to supervision by foreign governments, has risen rapidly.

These factors combine to make the credit crunch theory a muddled one. The weight of evidence favors the monetary predictors of recovery.

Even if supervisors have caused banks to reduce their lending because of higher standards of loan quality, we should remember that banks are only one source of credit for businesses.

R. Alton Gilbert is an assistant vice president at the Federal Reserve Bank of St. Louis.
Fed Improves Reliability of Telecommunications Network

In September, the St. Louis Fed increased its ability to ensure uninterrupted communications with customers. The Fed signed up for SecureNet, a new telecommunications service from Southwestern Bell. SecureNet, in effect, transmits two signals simultaneously over diverse routes. Any breaks in the primary signal are instantly detected and automatically bypassed in favor of the second signal. This includes voice signals, as well as electronic data and funds transfers.

In addition, because the service uses optical fiber instead of copper, it adds a layer of security to the communications. Optical fiber is impossible to tap into.

Weather Confounds Farmers, Reduces Seasonal Borrowing

Extreme weather conditions have affected District crop prospects this year. In the spring, excessive rains delayed row crop plantings in most areas and caused considerable damage to the wheat crop. (Some states had their smallest wheat crop in several years.) Then, for much of the summer, drought conditions persisted.

This combination has hurt yield prospects for most crops—particularly corn and soybeans. Some areas, however, still look good: Arkansas is expecting bumper rice and cotton crops, and Kentucky is expecting a good tobacco crop. Extreme weather swings are partially responsible for a decline in the amount of credit extended under the District's seasonal borrowings program. With many farmers unable to get their 1991 crops planted because of the weather, the demand for agricultural credit declined. At the end of September, 90 District banks had borrowed a total of $705 million, down from $957 million by 117 District banks one year ago. Both the number of District banks using the seasonal borrowing program and the amount of credit extended under the program have declined markedly since 1988, when 137 banks were extended almost $3 billion in seasonal borrowings.

TT&L Customers Receive Help

Institutions participating in the Treasury Tax and Loan program now have a choice of two automated systems to help them manage their TT&L accounts. Fedline and EDITH both allow customers to input Advice of Credit information into their accounts directly. Almost 600 customers use one of these systems to help eliminate the fees charged for late delivery of Advice of Credit paper notices to the Fed. Patsy Guerrettaz, supervisor at American National Bank in Vincennes, Indiana, says, "TT&L Fedline is easy to use and explain to my employees. It's economical and I really like it."

Fedline and EDITH also provide information about TT&L withdrawals, which depositors and correspondents can use to manage their reserve positions. Recently, the Treasury mandated that all Note Option participants limit their TT&L account balances on the Fed's books. Any funds in excess of these "maximum balances" are automatically withdrawn and charged to reserve accounts on the day the Advice of Credit information is received. These withdrawals are made without notification; Fedline and EDITH, however, make it possible for customers to monitor these accounts.

The Treasury also moved up the date on which interest must be paid or late fees imposed, depending on the type of institution. Beginning with the October 1991 reporting cycle, the Fed will collect interest and late fees on the second business day of the next reporting cycle. For example, fees for the October cycle will be paid to the Treasury on November 8.

Since interest and late fees cannot be calculated until the close of business on the first day of the next reporting cycle, it is not possible to mail notice of the impending charges. Both Fedline and EDITH have this information available by 8 a.m. on the Friday on which the charge will be made. Thus, both services can help customers manage their TT&L accounts.
The Shrinking Savings and Loan Industry

With commercial banks actively participating in the clean-up of the savings and loan industry, many are wondering what the banking terrain will look like once these efforts are completed. In the Eighth District, a dramatic picture is emerging: according to available data, District S&Ls hold 29 percent fewer deposits than they did a little more than two years ago, when FIRREA was enacted.

FIRREA, as you may recall, authorized the Federal Reserve Board to permit a bank holding company to operate and acquire a savings association, regardless of its location or financial condition.

With FIRREA, Congress also established the Resolution Trust Corporation (RTC) whose primary function is to close, sell and otherwise resolve insolvent thrift institutions. Once an association is deemed insolvent or imminently insolvent by the Office of Thrift Supervision (the thrifts' primary regulator), it is placed into the RTC’s conservatorship program. Institutions in conservatorship remain open, but are operated by the RTC until a sale can be arranged. Any assets and liabilities not sold are held in receivership until final disposition.

On June 30, 1989, before the enactment of FIRREA, our District reported 211 savings and loan associations with assets of $36.3 billion and deposits of $29.2 billion (see table). As of September 30 this year, those numbers declined to 163 S&Ls declining 53 percent. Likewise, deposit dollars declined 29 percent. FIRREA has accounted for most of this shrinkage through RTC-assisted closings of 44 thrifts. The remaining associations, for the most part, were merged with other S&Ls.

Of the 44 closed, 33 were acquired by commercial banks, six were picked up by other thrifts, two were divided between commercial banks and thrifts, and three were liquidated. These 44 associations reported assets of approximately $7.3 billion and deposits of approximately $8.6 billion at the time of closing. Commercial banks acquired about 91 percent of the deposits up for sale.

Arkansas recorded the most District RTC closings at 17. Illinois was second with 15. Indiana was the only District state that reported no RTC closings.

At the national level, the RTC has closed 430 savings and loan associations through June 30, 1991. Of this total, 253 were acquired by commercial banks.

As of September 30, 1991, three District S&Ls remain in the RTC’s conservatorship program. An additional 11 report equity to assets of 3 percent or less, making them potential targets for the program. Assuming these 14 institutions, which reported aggregate assets of approximately $1.5 billion, will eventually be acquired by commercial banks, the savings and loan industry in the District would suffer an estimated total shrinkage of 36 percent in assets and 34 percent in deposits since FIRREA was enacted.

<table>
<thead>
<tr>
<th>District Region</th>
<th>No. of Thrifts</th>
<th>Total Asset</th>
<th>Total Deposits</th>
<th>No. of Thrifts</th>
<th>Total Assets</th>
<th>Total Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arkansas</td>
<td>36</td>
<td>$6,122</td>
<td>$5,608</td>
<td>20</td>
<td>$2,572</td>
<td>$2,306</td>
</tr>
<tr>
<td>Illinois</td>
<td>48</td>
<td>4,169</td>
<td>3,607</td>
<td>34</td>
<td>1,971</td>
<td>1,804</td>
</tr>
<tr>
<td>Indiana</td>
<td>21</td>
<td>2,779</td>
<td>2,411</td>
<td>20</td>
<td>2,782</td>
<td>2,468</td>
</tr>
<tr>
<td>Kentucky</td>
<td>24</td>
<td>4,871</td>
<td>3,971</td>
<td>21</td>
<td>4,704</td>
<td>3,945</td>
</tr>
<tr>
<td>Mississippi</td>
<td>17</td>
<td>1,020</td>
<td>832</td>
<td>13</td>
<td>508</td>
<td>452</td>
</tr>
<tr>
<td>Missouri</td>
<td>52</td>
<td>13,946</td>
<td>10,308</td>
<td>46</td>
<td>9,261</td>
<td>7,568</td>
</tr>
<tr>
<td>Tennessee</td>
<td>13</td>
<td>3,354</td>
<td>2,442</td>
<td>9</td>
<td>2,559</td>
<td>2,095</td>
</tr>
<tr>
<td>Total</td>
<td>211</td>
<td>$36,261</td>
<td>$29,179</td>
<td>163</td>
<td>$24,352</td>
<td>$20,638</td>
</tr>
</tbody>
</table>

1Aggregate assets and deposits are reported as of the most recent financial data available as of March 31, 1991.
2This column also reflects new S&Ls that have opened since 1989.
**FedFacts**

**Extended MICR Service Available**

A new payor bank service—Extended MICR—will capture the MICR line detail from a customer’s checks and deliver it as presentment, either electronically or on magnetic tape. The physical items are held for three days before being returned to the paying institution to facilitate return item processing. The Fed will microfilm the items upon request. Extended MICR is already available at all four District offices. Contact your account executive or local check department for further information.

**Check Deadlines, Availability Improved**

Beginning October 7, the St. Louis Office improved two of its check deadlines. The early mixed deadline (forward & returns) moved from 8:30 p.m. to 9:00 p.m., while the early consolidated deadline moved from 9:45 p.m. to 10:15 p.m.

Mixed or other Fed depositors who can make our new early mixed deadline will now be able to collect Kansas City country items the next day. Current customers will receive one day better availability on all 1011, 1012, 1019, 3011, 3012 and 3019 items in their mixed cash letters. Other institutions with a large volume of Kansas City country items may now find the early mixed deadline attractive.

**New Software Supports the Revised FR2900**

The Fed is now taking orders for CRRCALC version 3.1, a new software that incorporates recent changes to the Report of Transaction Accounts, Other Deposits and Vault Cash. The software, developed by the Chicago Fed, is more efficient and user-friendly. It allows you to perform reserve calculations, enter and store deposit data and produce the FR2900 report for submission to the Fed. The cost of the program is $15. To order, please send your check made payable to the Federal Reserve Bank of St. Louis to our Financial Accounting Unit. Please specify 3.5" or 5.25" diskette.

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**Calendar**

**Upcoming Fed-sponsored Events for Eighth District Depository Institutions**

**November 6**
Regional Economic Forum
Greenville, Mississippi

**November 7**
Regional Economic Forum
El Dorado, Arkansas

For more information on these meetings, please call (314)444-8320.

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