Security-Enhanced Currency To Be Introduced

Within the next few weeks, if you look very carefully, you may notice a few additions to the $100 note.

The Treasury and the Federal Reserve, late last month, announced the gradual introduction of security-enhanced currency, beginning with the Series 1990 $100 note early this fall.

Essentially, the security-enhanced note contains two new features—the microprinting of “United States of America” around the portrait and a polyester security strip, with “USA 100” printed in an up-and-down pattern that is visible only when held up to the light.

The enhancements have been added to keep one step ahead of copier technology and to deter counterfeiting.

The security-enhanced currency will be put into circulation by the Federal Reserve System. New and existing currency will co-circulate without recall. Both will be legal tender.

The St. Louis Fed sent detailed information to all District financial institutions at the end of July.

Real Estate Loan Ratios as of March 31, 1991

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Eighth District</th>
<th>U.S. Peers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>4.69%</td>
<td>11.37%</td>
</tr>
<tr>
<td>Nonfarm, nonresidential</td>
<td>3.36%</td>
<td>5.09%</td>
</tr>
<tr>
<td>Farmland</td>
<td>2.23%</td>
<td>2.85%</td>
</tr>
<tr>
<td>One-to-four family</td>
<td>1.09%</td>
<td>1.51%</td>
</tr>
<tr>
<td>Home equity lines of credit</td>
<td>0.74%</td>
<td>0.83%</td>
</tr>
<tr>
<td>Multifamily</td>
<td>2.90%</td>
<td>6.00%</td>
</tr>
</tbody>
</table>

*Loans 90 days or more past due or in nonaccrual status
**U.S. banks with average assets of less than $15 billion

Bank real estate loans, the bane of bankers in 1990, have caused less hardship in the Eighth District than elsewhere. Analysts cite the District’s relative concentration of residential as opposed to commercial real estate loans as a reason for lower real-estate-related losses.

Newly available data support this view. Ratios constructed from aggregated call report data show that the residential real estate loans largely favored by District banks—single-family mortgages and home equity loans—have lower delinquency rates than commercial real estate loans.

In addition, District banks have lower nonperforming loan ratios in all categories of real estate loans than their U.S. peers. The difference is most pronounced in construction and multifamily loans, where District banks average less than half the nonperforming ratios of their national peers.

These new data became available with the March 1991 call report.

For more information, contact the Cash Department, (314)444-8330, or the Public Information office, (314)444-8310.
Express Yourself: The Importance of the Public Comment Process

How often have you pored over a new Fed regulation, operating procedure or priced service announcement and thought that it would have benefited from some “real world” advice?

And, how often have you ignored Fed proposals out for public comment because you’re convinced Washington pays little attention to the opinions of bankers in the hinterlands?

In this issue of CB, we introduce a new column, “Out For Comment,” that will list Federal Reserve System proposals out for comment at the time of publication.

We are adding this feature, first, as a reminder of the current proposals out for comment and their deadlines. But, second, we want more people to become aware of the public comment process and to participate in it. Eighth District bankers have traditionally had relatively low participation in the public comment process, and we would like that to change.

The public comment process is the best way for bankers to influence policy. The comments received are read and considered and can directly affect the outcome of proposals.

We realize it is impossible for you to comment on every proposal, but we urge you to comment on those issues on which you have a strong opinion.

We also understand the extensive time required to sift through the appropriate documents—which are often long and complex—and draft a persuasive response. We can only point out, though, that you can add a real-life dimension to policymaking.

So, next time you glance at a public comment announcement, take a second look and consider letting us know what you think. Effective service from the Fed requires your input.

James R. Bowen is the first vice president of the Federal Reserve Bank of St. Louis.

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How Bankers’ Comments Have Affected Fed Proposals

As the Editorial above points out, comments from bankers can reshape Fed policies. Here are just three examples from the priced services area:

• In 1988, the Fed’s proposal on same-day settlement met with overwhelming opposition. A review of the public comments revealed that the 2 p.m. presentment deadline was causing concern. A modified proposal for same-day settlement went out for comment that included an 8 a.m. presentment deadline. Respondents to our proposal for measuring daylight overdrafts in June 1989 voiced the concern that the proposal would disrupt cash management practices, without reducing payment system risk. A modified proposal, issued in January this year, provides for credit during the business day for checks and ACH transactions, as well as other off-line transactions.

• The all-electronic ACH proposal issued for public comment last December was modified to eliminate a financial incentive in the form of a transaction surcharge. The change was made after commenters argued that transaction fees should continue to be based solely on cost, consistent with the Monetary Control Act.

Thus, for the price of a postage stamp, institutions have made their opinions known. Take a look at the new “Out For Comment” column. If you want your voice heard on a proposal—but no longer have a copy of it—please call (314)444-8444, ext. 501, and we’ll rush you one.
State and Local Fiscal Woes: What Do They Mean For Commercial Bankers?

When Bridgeport, Connecticut, declared bankruptcy in June and New York City and the state of New Jersey laid off thousands of government workers shortly thereafter, the brows of commercial bankers across the nation started furrowing. What happened? Could it happen here? Commercial bankers have good reason to worry: their holdings of state and local bonds make the weakening fiscal position of these government entities a big concern.

In the Eighth District, a combination of tax law changes and economic developments induced bankers to decrease their holdings of state and local bonds throughout the 1980s. Nonetheless, at year-end 1990, holdings of such bonds were 16 percent of their securities holdings and 4.3 percent of their total assets. The proliferation of state and local government budgetary crises now raises concern about the creditworthiness of these borrowers.

A recent report by the National Conference of State Legislatures highlights the mounting fiscal problems. The worst of these appear to be in New York, California and New England.

Problems, however, exist for many states in the Eighth District. The projected deficit for fiscal year 1991 as a percentage of the original budget for states in our region was: Missouri-5.5%; Mississippi-5.2%; Tennessee-4.8%; Illinois-3.9%; Indiana-1.8%; Arkansas-0.4%; and Kentucky-zero.

Except for Kentucky, every state government in the District will have to cut spending, raise taxes or both to eliminate their deficits. In late June, such cuts began, as Missouri Governor John Ashcroft vetoed $50 million of spending and announced additional spending cuts (which can be reinstated if revenue picks up) of $150.5 million.

The fiscal problems of state and local governments can be traced to many factors. One is the national business cycle. As the national economy expands, most state and local economies also expand. The expanding economic activity usually means more government revenue and less spending on certain social service programs. On the other hand, in a recession like the one that began in July 1990, tax and nontax receipts decline, falling below expectations, while spending for some social services tends to rise.

Compounding these business cycle problems have been pressures, since the mid-1980s, to increase state and local spending on education, public infra-

structure (roads, bridges, sewer and water facilities), health care for the needy and prisons. Making matters even worse, federal aid to state and local governments has shrunk.

Simply put, governments to day are facing particularly difficult choices. While raising taxes may help balance the budget or fund public services, these same taxes may deter economic growth by inhibiting businesses and households from locating or remaining in the area. Thus, the tax base may ultimately shrink because of high taxes.

On the other hand, such an effect may be mitigated if the higher taxes go for certain types of public services, such as education and infrastructure, that can lead to long-term economic growth.

Many analysts expect the spending cuts and higher taxes enacted by state and local governments to prolong the recession and decrease the strength of the recovery. Because commercial bank performance is tied to the strength of the economies in which they do business, how state and local governments respond to their fiscal problems will very likely affect bank performance for some time to come.

Cletus C. Coughlin is a research officer at the Federal Reserve Bank of St. Louis.
Federal Reserve Bank of St. Louis

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Federal Reserve Bank of St. Louis

Regional Roundup

OUT FOR

COMMENT

The following are Federal Reserve System proposals currently out for comment:

■ The Federal Reserve, along with the OCC and the FDIC, issued a request for public comment on the supervisory definition of highly-leveraged transactions (HLTs). Comments are due by August 26 (Federal Reserve Docket R-0734).

Direct all comments to William Wiles, Secretary of the Board, Board of Governors of the Federal Reserve System, 20th and Constitution Avenue, N.W., Washington, D.C. 20551. For copies of proposals out for public comment, contact the St. Louis Fed’s Public Information Office at (314) 444-8444, ext. 501.

Fed Speakers Bureau Expanded

In an effort to reach new audiences, one of the St. Louis Fed’s long-standing public services—its speakers bureau—has recently been expanded.

The Fed is offering educational presentations to depository institutions, schools and community organizations in the Eighth Federal Reserve District. The purpose of the presentations is to provide a better understanding of the Federal Reserve System and its role in the economy.

Topics range from current banking issues and the economic outlook to the revolution in electronic payments. Presentations typically last about an hour and include ample opportunity for discussion.

To ensure availability of a speaker, requests should be made at least one month before the speaking engagement. When possible, speakers will travel to conduct a presentation.

If you would like more information on the speakers bureau, please contact the Office of Public Information at (314) 444-8421, or (800) 333-0810.

FR2900 on Fedline Scheduled for Early ’92

The Fed will add a new free service to Fedline in the first quarter of 1992. Weekly reports to the FR2900, “Report of Transaction Accounts...” will be able to transmit their reports electronically over Fedline. As an added benefit, Fedline users can receive reserve requirement estimates for current and future periods.

More detailed information will be sent to current FR2900 reporters in December. In the meantime, call Patty Goessling at (314) 444-8596 if you have questions.

If you currently are not a Fedline customer, but are considering the opportunity, call the customer support office at (800) 333-0869.

Customers Rate Fedline® Highly

In a nationwide survey, Fedline customers rated the service 4.88 out of a possible high of 6.00 for overall satisfaction.

The survey, mailed late last year to more than 2100 customers, received 944 responses. In general, the longer a respondent had been a Fedline customer, the higher the satisfaction rating. Medium-to-small-sized institutions rated Fedline slightly higher than those with more than $1 billion in deposits.

Several Fedline software functions received high ratings. Customers were happiest with the Fedline sign-on and security features. Also rated highly were ease in moving between Fedline services, menus and functions, Fedline’s assistance tools (function keys and windows), and the speed with which Fedline creates, verifies and queues transactions for transmission.

The two most frequently mentioned problems were slow response/processing time and Fedline communication errors. While the majority of respondents reported “never or rarely” having these problems, about 39 percent reported a problem in these areas at least monthly.

Of the services offered on Fedline, the funds transfer service had the highest satisfaction rating at 5.23. Satisfaction ratings for other Fedline services were: 5.04 for return check notification, 4.98 for TT&L, 4.84 for ACH, 4.80 for securities transfer and 4.74 for savings bond ordering.

The most desirable future enhancements, according to respondents, were: receiving and sending document images with Fedline, multi-tasking within Fedline and multi-tasking between Fedline and other software. (Multi-tasking means performing several tasks simultaneously, for example, printing an incoming wire transfer while working in another software package.)

The survey’s customer feedback will help focus the Fed’s efforts at improving and developing future enhancements to Fedline.
When the Federal Reserve System proposed, in December 1990, the conversion to an all-electronic ACH (AEACH), bankers endorsed the initiative. With this endorsement, bankers seemed to agree that all-electronic ACH processing would ultimately mean improved reliability and timeliness of ACH delivery, more flexible processing schedules, reduced credit risk, greater security and improved contingency processing.

With the final AEACH deadline less than two years away—July 1, 1993—does it make sense to convert now or wait till later? Let’s take a brief look at two major benefits of early conversion: cost savings and access to additional services.

To begin, institutions that convert to electronic ACH delivery will realize an immediate savings in tape and paper delivery fees (currently $5.25 per delivery or $4.50 per messenger pick-up) and the $6.00 tape-deposit fee paid by ACH originators.

Even greater savings will result after January 1992 when significant fee increases—50 to 100 percent—take effect to recover the increased costs of off-line ACH origination and receipt.

Savings to ACH participants that convert now will again increase in January 1993 when off-line deposit and delivery fees may further increase.

Second, an early conversion to Fedline will provide immediate access to additional Fed services. Such services include funds transfer, book-entry securities, MICR information, check autocharges, reserve account statements, TT&T, advice entries and savings bond ordering.

Conversion will also improve the integrity of ACH items. Transmissions to and from Reserve Banks are secured through data encryption, and electronic delivery of ACH items will also eliminate postal or courier delays or lost information due to bad weather or natural disasters.

For those financial institutions that receive a small number of ACH payments and can’t justify an electronic connection, the AEACH initiative offers an alternative. ACH items can be sent to their correspondent or data processor for posting.

If you’d like to know more about the all-electronic ACH initiative, or if you’re interested in attending an informational workshop or registering for on-site training, please call Kathy Paese in our Electronic Services office at (800) 333-0810 or (314) 444-8706.

Conversion by September 30, 1991. An institution that commits to an electronic connection by this date will not be assessed the 1992 off-line deposit and delivery fee increase.

Financial institutions converting to all-electronic ACH now can reap big benefits and get a jump on the future.
### FedFacts

**New Mixed Deposit Deadline in Memphis**

On July 15, the Memphis Branch introduced a 7:30 p.m. mixed deposit deadline that provides next-day availability for items drawn in five additional "other Fed" cities and seven "other Fed" RCPCs. At the same time, Memphis lowered the per-item fee for other Fed items from $.052 to $.050, giving depositors better availability at a lower price. For more information, call David Garavelli or Travis Smith at (901) 523-7171, ext. 365 or 203.

**New Payor Bank Service Fees in Louisville**

The fees for magnetic tape and electronic transmission of MICRLine data at the Louisville Branch have been changed to $.002 per item. This represents a $.001 per-item reduction for electronic delivery, but a corresponding increase for magnetic tape delivery. Those institutions currently using this service via Fedline or bulkdata should see a substantial savings as a result of this change. Institutions that previously did not use the service because of cost may now find it more attractive. For more information, call Ralph Ising or Ron Hadorn at (502) 568-9200, ext. 224 or 290.

**Payroll Savings Bond Orders Offered on Fedline**

In a few weeks, depository institutions will be able to submit their orders for payroll savings bonds to the St. Louis Fed as they do now for over-the-counter bonds—on Fedline. To simplify the process of issuing payroll bonds, the Fed developed a PC-based software package, called BOS (Bond Ordering System), that creates files which can be transmitted through Fedline. The software is free and will be available in late August. For more information, call our Savings Bonds Unit at (314) 444-8705 or (800)333-0867.

**St. Louis Fine Sort Inclusion Fee Reduced**

In response to customer requests, the Fed lowered its fine sort inclusion fee from 2 cents to 1 cent per item for institutions in the St. Louis zone. As a result, payor bank services are now more affordable than ever before. For more information, please call your account executive at (800)333-0869 or the Check Department at (800)333-0810, extension 8463.

### Calendar

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Location</th>
<th>Event Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 19, 20</td>
<td>Lake of the Ozarks, MO</td>
<td>&quot;Rural Community Development Lending&quot; sponsored jointly by the Kansas City and St. Louis Feds</td>
</tr>
<tr>
<td>September 10</td>
<td>Little Rock, AR</td>
<td>All-Electronic ACH Workshops:</td>
</tr>
<tr>
<td>September 11</td>
<td>Memphis, TN</td>
<td></td>
</tr>
<tr>
<td>September 13</td>
<td>Oxford, MS</td>
<td></td>
</tr>
<tr>
<td>September 17</td>
<td>Mount Vernon, IL</td>
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</tr>
<tr>
<td>September 18</td>
<td>Louisville, KY</td>
<td></td>
</tr>
<tr>
<td>October 8</td>
<td>Springfield, MO</td>
<td></td>
</tr>
<tr>
<td>October 9</td>
<td>St. Louis, MO</td>
<td></td>
</tr>
<tr>
<td>October 10</td>
<td>Quincy, IL</td>
<td></td>
</tr>
</tbody>
</table>

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