District Banks Outperform Peers in 1991

Despite a sluggish economy, Eighth District banks performed well in 1991, surpassing their national peers in key measures of profitability and asset quality.

Return on average assets (ROA) for District banks equaled 0.93 percent in 1991, substantially higher than the 0.67 percent return posted by their national peers.* The primary reason for the stronger showing was lower loan losses and associated expense provisions.

Unlike banks in the Northeast or on the West Coast, which were hurt more by the weakened economy, the generally conservative nature of District banks provided a buffer against the 1991 downturn. At year-end, for example, nonperforming loans represented just 1.68 percent of total loans for District banks, compared with 2.90 percent for U.S. peers. District banks also increased their loan loss reserves to 102 percent of nonperforming loans. This compared favorably to the national peer group average of 81 percent. Banks here also reported net loan losses equal to only 0.74 percent of loans compared with 1.33 percent for the U.S. peers.

*National peers are U.S. banks with less than $15 billion in average assets. As of December 31, 1991, all District banks met this criteria.

While the District is not completely out of the economic doldrums, a stream of good news indicates recovery is taking hold. Consumer spending appears to be picking up, and lower interest rates and warm weather have spurred homebuilding.

Although not reflected in official statistics yet, employment appears to be stabilizing too, with fewer layoffs being announced than in previous months. In fact, a number of manufacturers have announced hiring plans. Some of the District's good news comes at the expense of other regions. Several firms from other parts of the country have announced plans to move their operations to Eighth District cities. For example, about 1,000 jobs will be created by the movement of two manufacturing firms—a piping firm and a medical equipment maker—to Little Rock and St. Louis.

Meanwhile, northeast Mississippi is poised to become the Silicon Valley of the Mid-South with the news that an aerospace firm will open a plant to build engines for the space shuttle in 1994. That company's move has already induced a number of smaller high-tech firms to set up shop in the area.
The Continuing Viability Of Eighth District Community Banks

In the Eighth District, community banks are often fixtures in our neighborhoods—part of both the urban and rural landscape. With the recent mergers of some of the nation’s largest banking institutions—for example, Security Pacific and Bank of America, C&S/Sovran and NCNB—many have speculated, however, that the future of these neighborhood institutions looks grim.

Although their numbers have declined in our District, community banks remain a viable and needed resource. In 1991, community banks still accounted for about one-third of our District’s total banking assets. What’s more, of the 10 new District banks that opened for business during the past year, eight were community banks.

These numbers do not surprise me. As it turns out, when it comes to profitability, bigger is not always better.

Community banks are some of the District’s strongest and most resilient. In 1991, District community banks averaged only a slightly lower ROA—three basis points—than all District banks.

And their equity-capital-to-assets ratios averaged almost 150 basis points higher than the District average.

In the 1980s, District banks of all sizes declined in profitability. But mid-sized banks, which include most community banks, fared better than both the very smallest and very largest banks.

In our Bank’s 1991 annual report, “The Future of Community Banking,” we conclude that predictions of the demise of the community bank are premature. The latest bank performance statistics, out in April 1991, support this conclusion.

Many Eighth District community banks have found their niche—despite deregulation and cost disadvantages. If such banks continue to do what they do best—support their local economies by providing basic banking and personal service—they will remain an integral part of our region’s banking culture.

Thomas C. Melzer is president of the Federal Reserve Bank of St. Louis. To request a copy of our 1991 annual report, please call the Public Information Office, (314) 444-8320.

Fed Now Accepts Financial Reports Electronically

To make it easier for institutions to submit financial reports, the St. Louis Fed is now accepting reports electronically. The new service eliminates paperwork and avoids the cost and time involved in mailing or faxing.

Currently, we can accept data electronically for the following depository institution reports:

- FR2900 (Report of Transaction Accounts, Other Deposits and Vault Cash),
- FR2950/51 (Report of Certain Eurocurrency Transactions),
- FRY9C (Consolidated Financial Statements),
- FRY9LP (Parent Company Only Financial Statements).

To submit your FR 2900 and 2950 electronically, you will need Fedline® version 2.30.20 or higher. This version allows you to enter, save, and transmit your data, as well as print off a copy for your own records. Another option in this version of Fedline allows you to calculate your estimated reserve requirements for both the current and future maintenance periods.

To submit the FRY9C or FRY9LP electronically, you will need vendor-supplied software, a microcomputer that meets minimum Fedline compatibility standards, Fedline hardware and software, and Fedline version 2.30 or higher.

To learn more about submitting your FR 2900 electronically, please call Joan Boelter of the Statistics Section at (314) 444-8627. For the FRY9C/LP reports, call Robin Miller at (314) 444-8554. Both can be reached toll-free at 1-800-333-0810, ext. 8627 and 8554, respectively.
Rising Unemployment Rates—Good Times Ahead?

We are all well-rehearsed nowadays to respond to rising unemployment rates with a frown. Obviously, if the unemployment rate goes up, something must be wrong in the economy. Conversely, we respond to news of falling unemployment rates with much fanfare.

Unfortunately, taken alone, the unemployment rate can be a poor indicator of what is happening in the economy. To get a better picture, one should view the unemployment rate as part of a bigger package that includes such information as the number of people employed and unemployed.

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This package reveals not only more about the economy, but more about how individuals view the economy.

Let’s look at what happened earlier this year. The accompanying table shows the number of civilians who were employed or unemployed, as well as the unemployment rates for January and February 1992. The most notable observation is that the unemployment rate increased 0.2 percentage points between January and February. What caused this increase? The answer lies in the other data.

We can see that the civilian labor force grew by approximately 300,000 people. This growth reflects the combined effects of changes in the number of employed persons and changes in the number of unemployed persons. Employment declined by about

<table>
<thead>
<tr>
<th>U.S. Employment Data</th>
<th>February</th>
<th>January</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment rate</td>
<td>7.3</td>
<td>7.1</td>
</tr>
<tr>
<td>(percent of labor force)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civilian labor force*</td>
<td>126.3</td>
<td>126.0</td>
</tr>
<tr>
<td>(millions of persons)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>117.0</td>
<td>117.1</td>
</tr>
<tr>
<td>Unemployment</td>
<td>9.2</td>
<td>8.9</td>
</tr>
</tbody>
</table>

*Figures may not add due to rounding.

100,000 people during this period. Those people who lost their jobs had two options: become unemployed or leave the labor force completely. Suppose all 100,000 become unemployed, partially contributing to the increased unemployment rate. Of the 300,000 newly unemployed persons in the table, we still have not accounted for 200,000 of them. Where did they come from?

Most likely, these people are re-entering the labor market, after losing their jobs at some earlier time and leaving the labor force completely. They left the labor force, perhaps, because they felt there were no opportunities in the market worth pursuing. Today, however, prospects have apparently brightened because they are confident enough to re-enter the market and look for work. This re-entering has resulted in our observation that the total number of unemployed persons increases because they are actively looking for jobs.

—Adam M. Zaretsky is an economist at the Federal Reserve Bank of St. Louis. For more information on this topic, see the March 1992 issue of Pieces of Eight, the St. Louis Fed’s regional quarterly which you can receive by calling (314) 444-8809.
Security-Enhanced $50s Being Shipped
Perhaps you've noticed. New security-enhanced $50 notes are now being issued.

The new $50s have the same security features as the $100 notes issued in 1991: a polyester security thread visible only when held to the light, and microprinting around the portrait on the bill. As with the $100 note, the $50s will serve as replacement notes for unfit bills in circulation.

The remaining denominations—except for the one dollar bill—are scheduled for production in three to five years.

Consumer Compliance Handbook Available
A new handbook designed to help banks comply with consumer protection laws and regulations is now available.

The handbook provides easy-to-read summaries of the Fair Housing Act, the Home Mortgage Disclosure Act, the Community Re-investment Act, Truth in Lending, Consumer Leasing, Electronic Funds Transfer, Expedited Funds Availability, Unfair or Deceptive Practices and Fair Credit Reporting. Included are examination procedures used by the Fed and an examiner's checklist.


Are We Headed For Another Drought?
As we wrap up another planting season, Eighth District crop prospects are mixed. The U.S. Dept. of Agriculture initially forecasted larger corn, cotton and rice acreage, but smaller wheat and soybean acreage in the District; a myriad of unforeseen events, however, are yet to play themselves out.

Two factors could significantly alter the equation for this crop year: the first is "El Niño," an irregularly occurring weather phenomenon that produces abnormal rainfall in parts of the world; the second is last year's volcanic eruption in the Philippines. Although all scientists do not agree about this, the combination of an El Niño and a volcanic eruption have caused—or at least contributed to—the 1983 and 1988 droughts in the United States. Whether they will precipitate a drought this summer is unknown. One of the early signals meteorologists look for, however, has already occurred: heavy winter rains in California, where February’s rainfall was 50 percent above normal.

Major Credit Card Terms Available
A comprehensive list of credit card terms from more than 150 of the largest credit card issuers in the nation is available from the Federal Reserve. Published by the Federal Reserve Board, this report contains information ranging from annual percentage rate (APR) to annual fees to grace periods. The report is compiled every six months.

For a subscription to the report, send a check for $5 payable to BGFRS Publications Services, Stop 138, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. A copy of the report is also available at the St. Louis Fed’s library.

Lines Humming at the Fed’s On-line Database
Since April 18 of last year, when the St. Louis Fed introduced FRED®, its on-line economic database, FRED hasn’t had a moment’s peace. From Belleville, Illinois, to Bahrain, more than 1,700 people have accessed FRED’s data, including callers from 13 foreign countries.

Because of the demand for FRED’s services, an additional phone line was added last year to alleviate busy signals. At the same time, several new data series were added, bringing the total to 290. All data published in the St. Louis Fed’s U.S. Financial Data, Monetary Trends and National Economic Trends are now available on FRED. "Update" files have been added, enabling users to download only the last few observations of data in certain series, instead of the entire historical file.

Responding to user comments, we continue to modify FRED. In the past few weeks, for example, 10 historical daily and 30 historical weekly series have been added. These include the corporate AAA bond rate and the three-month T-bill rate, dating back (daily) to the early 1970s.

There is no charge for FRED’s services—pay only for the phone call. FRED can be accessed through a modem by dialing (314) 621-1824. For more information, call Tom Pollmann at (314) 444-8562.

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Changes to Treasury Auction Process Continue

The U.S. Treasury has made several changes to the auction process over the past six months to streamline operations and ensure the integrity of reported data. To date, the Treasury has:

- expanded the eligibility of all registered government securities brokers and dealers to bid for their customers;
- implemented an autocharge agreement among the bidder, a financial institution, and the Fed as a method of payment for securities awarded; and
- increased the maximum amount for non-competitive bids on notes and bonds to $5 million.

In addition to these changes, the Treasury is now placing greater emphasis on the single-bidder guidelines. A single bidder is defined as one or more entities or individuals who, because of their affiliation, have the potential to act together. Single bidders—for example, family members, investment agents or institutions acting as fiduciary for "managed" accounts—are subject to a maximum award for each auction.

The distinction between "directed" and "managed" accounts is now an important one. With a directed account, the customer provides specific investment direction; the institution merely acts on behalf of the customer. Each directed account by itself must meet the single-bidder guidelines.

With a managed account, the customer provides no investment direction. Such accounts are pooled together, with the total subject to the single-bidder guidelines. What this means is that institutions with managed accounts may realize a decrease in the amount of eligible securities that they can purchase in a single auction.

In another change, bidders cannot submit non-competitive and competitive bids for their own account in the same auction.

Further revisions from the Treasury are forthcoming, including new tender forms, disclosure statements and other tools designed to clarify responsibilities for those involved in the auction process.

Finally, to streamline the operation, bidders will soon be able to submit tenders electronically through Fedline®, a PC connection to the Fed. The Eighth District plans to make this capability available by August.

Fed Tour Program Welcomes Bankers

As our officers travel around the District calling on banks, they hear quite often of bankers who have never been to a Federal Reserve Bank. For many, the sight of vast quantities of currency and coin being put into circulation, as well as millions of checks being sorted and billions of dollars being transferred electronically, is worth the trip.

Visitors to the St. Louis Fed see our Cash, Check, Electronic Funds Transfer operations and more, while being familiarized with Fed history and its role in today's economy.

In the Cash Department, guides show how currency is counted, how counterfeit bills are detected and what's in the vault. The life of a check is traced while visitors view the Fed's high-speed check-clearing machines, which operate six days a week, 24 hours a day.

Group tours for up to 42 people are offered as a public service to depository institutions, senior citizen groups, schools, community organizations and the general public. Tours depart at 9:30 a.m. and 1:30 p.m. every Monday through Friday. A tour lasts approximately 45 minutes, but can be varied to suit the interest of your group.

To ensure availability, please reserve your tour at least three weeks in advance. If you'd like more information on the tour program or other educational programs offered by the St. Louis Fed, please contact Debra Bangert, Public Information, at (314)444-8421 or 1-800-333-0810.

Tours are also offered at the Little Rock, Louisville and Memphis branches.
All-Electronic TT&L Deadline Nears
The Eighth District has set a deadline of December 31, 1992, for all TT&L participants to submit advices of credit electronically.

If you are currently sending advices of credit by mail, carrier or fax, you will need to convert to either Fedline® (a PC connection) or EDITII® (a telephone voice response system) by this date. For more information, please call Customer Support at 1-800-333-0869.

District Offers Low Dollar Truncation
All four District offices now offer a new low dollar option to our check truncation service. With low dollar truncation, the Fed captures MICRLine detail from one or more selected checking accounts and delivers the detail, as presentment, electronically or on magnetic tape.

Cash Ordering Soon Available on Fedline
Later this year, District banks will have a choice of two options to use when ordering and shipping cash to and from the Federal Reserve. Currently, customers must use our voice response system, EDITII, to handle cash transactions with the Fed. A Fedline option, tentatively scheduled for fourth quarter 1992, will provide banks with an alternative method.

Return Item Reclearing Service Enhanced
The Little Rock and Louisville branches recently announced two additional dollar amount thresholds for the reclearing service. With the current service, the Fed automatically reclears items of $100 or less returned for the first time because of "not sufficient funds" or "uncollected funds." There is a daily fixed fee of $2.50, which includes the first 20 eligible items, and $.10 for each additional item.

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Fed To Conduct Contingency Tests
To help us attain our goal of uninterrupted service to our customers in an emergency, the Fed will conduct contingency tests with District institutions the weeks of June 21-27 and September 6-12.

We will test with at least one bank for each type of electronic connection. Our Electronic Support Department will be contacting banks asking them to participate, but volunteers are welcome. To volunteer, please call Susan Hackney at (314) 444-8504.