Small Business Loans Are Majority of Business Loans At District Banks

Data from the June call reports confirm what Eighth District bankers have known all along: Small business lending is important to District banks. Small business loans—commercial, industrial and nonfarm, nonresidential real estate loans less than $1 million—comprised 68 percent of all business loans at Eighth District banks in late June. About 60 percent of those loans were for $100,000 or less. At U.S. peer banks—those with $15 billion or less in average assets—small business loans averaged 56 percent of business loans, with 49 percent of those loans for $100,000 or less.

As expected, the number of small farm loans was also high: Those for amounts of $500,000 or less totaled 96 percent of agricultural loans at District banks and 90 percent of agricultural loans at U.S. peer banks. This new annual reporting requirement is the result of a FDICIA mandate that regulatory agencies monitor the availability of credit to small businesses and farms.

District Banks Thriving In '93

At a midyear checkup, Eighth District bank earnings were growing at a healthy pace in '93. Net income and interest margins have increased while nonperforming loans and loan losses have decreased—a trend that started early last year and resulted in record earnings for District banks.

For the first half of '93, District banks posted a return on average assets (ROA) of 1.29 percent, slightly ahead of the national peer average of 1.24 percent. With District nonperforming loans at 1.08 percent of total loans and net loan losses at 0.40 percent of total loans, these measures are at their lowest levels in years and are well below the national peer averages of 1.99 percent and 0.72 percent, respectively.

As a result of strong earnings, District equity grew by 7.6 percent, and asset growth equaled 2.9 percent during the first half of the year. The volume of loans outstanding increased more than 6 percent, with the majority being loans secured by real estate.

* National peers are U.S. banks with less than $15 billion in average assets. As of June 30, 1993, all District banks met this criterion.
Will FASB 115 Provide A Better Measure Of Bank Capital?

FASB 115—the new accounting standard for investment securities that becomes effective for fiscal year 1994—is intended to strengthen financial reporting. But we will not know for some time whether its adoption will provide a more meaningful measure of bank capital.

The standard establishes a new equity account that reflects changes in the fair value of the portion of a bank's securities classified as “available for sale.” The federal banking agencies adopted FASB 115 for use in call reports last August. Soon, they will request comment on whether the new equity account should be included in supervisory measures of capital adequacy.

In adopting the standard, the agencies were guided by FDICIA, which requires that regulatory accounting standards be “no less stringent than GAAP.” At the same time, FDICIA also requires that the standards “foster effective supervision,” but some aspects of FASB 115 do not promote supervisory abilities for the investments accounts. Indeed, the new standards limit a bank’s flexibility to manage its liquidity and interest rate risk.

For example, securities in the “held to maturity” account may not normally be sold to fund deposit outflows, transferred to other investment accounts or hedged against interest rate risk without tainting the classification of the remaining securities in that account. If banks respond to these limitations by classifying a majority of a bank’s securities portfolio as “available for sale,” the new equity account may reflect significant volatility from quarter to quarter. This result, combined with a fragmented approach to fair value accounting—which leaves other earning assets and the remainder of the balance sheet unaffected—makes it unlikely that capital will be stated any more precisely than before.

In a broader sense, FASB 115 is evidence of a public policy that addresses bank investment practices by expanding public accounting standards rather than by allowing examiners to apply supervisory policies with judgment.

Joan P. Cronin is a senior vice president at the Federal Reserve Bank of St. Louis.

1992 National, District FCA Average Reports Available

The 1992 Functional Cost and Profit Analysis (FCA) National Average Report and, for the first time ever, the 1992 Eighth District States Commercial Bank Average Report, are now available to District bankers.

The national FCA report, which contains earnings and cost data from 321 commercial banks across the country, is broken down into three deposit size groups. It features an explanation of FCA along with historical banking statistics. The data is presented in three sections: an executive summary, an overall analysis and the product analysis.

The new District report contains earnings and cost data for 106 commercial banks located in Arkansas, Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee arranged in the same manner as the national FCA report.

These reports are free for FCA participants; other institutions can obtain copies for $100 each. To order either report, or to learn how your bank can participate in the FCA program, please call Flora Armon at (314) 444-8667, John Lorentz at (314) 444-8322, or toll-free at (800) 333-0810, ext. 8667 and 8322, respectively.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis
Does An Independent Central Bank Benefit the Economy?

In recent years, many countries have adopted legislation to remove their central banks from government control. The most notable example of this is New Zealand, but other countries such as Canada and Chile have followed suit to some degree.

The move has also been driven by the effort among European Community (EC) countries to establish a common currency. To do so, governments of the EC countries are required to grant their central banks independence.

Why has the idea of central bank independence become so popular? Many believe it's because countries with independent central banks enjoy better economic performance than countries whose central banks are subject to more governmental control. The evidence of this, however, is mixed.

Some economists contend that the economic performance of the major industrialized countries is directly related to the independence of their central banks. Specifically, countries with highly independent central banks have had lower inflation rates over time than countries with more dependent central banks. Evidence shows that this low inflation was achieved without sacrificing economic growth.

These studies, however, do not necessarily prove that creating an independent central bank will automatically provide economic benefits to a country. One problem is that the studies generally look at central bank charters to measure independence; they do not consider the amount of independence a central bank enjoys in practice. For example, a central bank may not be legally obligated to abide by the wishes of the government in making its policies, but it may in practice choose to do so.

In addition, the studies equate independence not simply with an absence of government interference, but with a commitment to price stability. Thus, they may in essence be stacking the deck—finding that a central bank with a legal commitment to price stability is more likely to achieve low inflation than a central bank without such a commitment.

Other economists argue that the existence of an independent central bank is not the only key to establishing sound monetary policy. They emphasize that the credibility of monetary policy is not dependent on the central bank alone, but on the overall macroeconomic program of the government and the central bank. If the policies of these two conflict, it increases uncertainty about the future course of the economy; if policymakers cooperate, such uncertainty may be reduced.

It is naive to think that simply providing a central bank with legal independence is going to bring about price stability. In fact, no study using legal measures of independence has found that central bank independence leads to lower inflation in developing countries.

What we do know is that if the central bank and the government are both committed to price stability, it is more likely that this goal will be met. This may explain why Germany and Japan both have sustained periods of low inflation even though the German Bundesbank is viewed as one of the most independent central banks in the world, while the Bank of Japan is seen as subject to government control.

When it comes down to it, countries with an aversion to inflation may formalize this aversion by creating an independent central bank, but it may be this aversion itself—and not the independence of the central bank—that is the primary causal factor behind low inflation.

Patricia N. Pollard is an economist at the Federal Reserve Bank of St. Louis. For more information on this topic, see the July/August issue of Review, the St. Louis Fed’s bi-monthly research publication which you can receive by calling (314) 444-8880.
Regional Roundup

Bankers Are Advised To Ensure Accuracy of Reporting
Recently, the Federal Reserve began monitoring for accuracy and completeness of periodic regulatory and HMDA reports. To be sure your reports are accurate, follow these tips:

1) **Automate.** Many automated reporting programs include built-in quality edits.
2) **Read instructions.** Keep abreast of reporting changes and maintain up-to-date instructions.
3) **Start early.** Start preparing the reports as soon as loan records, general ledger and daily statements are available.
4) **Review.** Have an officer review the report to see that it is correct and complete.
5) **Be neat.** Reported information must be legible.
6) **When in doubt, call.** For more information about HMDA reporting, call (314) 444-8532. For information about bank holding company or call reports, call (314) 444-8599. Outside the St. Louis area, call (800) 333-0810, exs. 8532 and 8599, respectively.

**Fed’s Electronic Payments Service Now Supported In Richmond**
Customers may not have even noticed the transition when the St. Louis Fed transferred its wire and securities transfer applications to the Federal Reserve’s consolidated data center in Richmond, Va., in late October.

The transition took place two weeks ahead of schedule, thanks to the cooperative efforts of numerous Eighth District financial institutions that helped the Fed test the applications over many weekends.

As always, the Fed’s wire and securities transfer applications will continue to be serviced at your local Reserve office.

**St. Louis Office To Co-Sponsor Community Development Effort**
CEOs of St. Louis area banks are invited to become part of the St. Louis Business Development Fund’s Community Development Corporation (CDC), an organization being formed to promote lending opportunities in the St. Louis area.

Through this multi-lender CDC, financial institutions and others will be able to make loans to small businesses that are unable to obtain financing from conventional sources. Participation also helps banks meet CRA objectives.

Area bankers interested in the CDC are invited to attend either of two remaining introductory meetings to be held at the St. Louis Fed Nov. 12 and 15. For more information about the CDC, call Glenda Wilson at (314) 444-8517.

**New Check Prices, Deadlines and Services At The St. Louis Office**

Effective Sept. 13, the St. Louis office announced lower check prices for almost all forward collection products. Depositors now pay a lower per item fee on all City, RCPC and Country items, even when depositing them in a mixed cash letter. Per item prices also were cut on the City RCPC, Country and High-Dollar group sort products. Fine sort per item fees have been lowered for City, RCPC and Country deposits.

In addition to lowering prices, the St. Louis office introduced new deposit deadlines for Regular, Fine Sort and Group Sort Country items.

Also new is a product called QuikSort. This product offers same-day credit at a 2:30 a.m. deadline for all St. Louis Zone items for a $4 cash letter fee ($5 for out-of-zone customers) and per item fees of 1.6 cents for City, 1.7 cents for RCPC and 2.9 cents for Country. QuikSort offers later deadlines, less sorting requirements and attractive prices in one cash letter. This is especially attractive to out-of-zone depositors who might have had trouble meeting our previous deadlines.

For more information on these or any of our Check products, contact Customer Support at (314) 444-8680 or toll free at (800) 333-0869.
Fed’s New Cash Management Service Alerts Customers To Fed Account Activity

It’s 9:30 a.m. You’re pouring your second cup of coffee when the modem on your Fedline® terminal rings. The sound reminds you that you have instant access to a host of Fed account information at the touch of a button.

Welcome to the advantages of the Fed’s new Cash Management Service (CMS), a new on-line accounting service that provides up-to-date information on your Fed account activity or your respondents’ activity.

CMS, which will be available to District account holders in January 1994, can help financial institutions make more informed investment decisions by giving you valuable information about your available investment dollars. On-line delivery of the information is confidential and secure since all transmissions are encrypted.

The main benefit of CMS is its convenience. Mid-morning and mid-day balance broadcasts will be sent automatically via Fedline or computer interface links to CMS customers at predetermined times after key transactions have been posted. Customers who subscribe to the Fed’s free Dial-Out service are also then automatically notified as soon as their reports are available.

The basic Cash Management Service provides detailed, easy-to-read information about an account holder’s own account activity. The mid-morning adjusted account balance report—available by 10 a.m. CST—contains opening balance information, cash letter debits and credits for the previous night’s check activity, all previously deferred maturing transactions, adjustments and return item activity, and ACH debits and credits available for the day.

The mid-day adjusted account balance report, available by 2 p.m. CST, contains all of the information from the morning report plus your debits and credits for check and ACH activity that were not available for inclusion in your earlier report. This report includes high-dollar group sort debits and credits, as well as credits for early city deposits and interdistrict shipments.

Correspondent banks may also receive aggregate summaries of respondents’ activities or detailed breakdowns of their individual respondents’ activities. CMS reports may be sent to multiple electronic endpoints, including different locations within your institution, your respondent, your data processing center or your bank holding company.

In addition to offering convenience, the Cash Management Service can also save you time. “CMS will help customers reduce the number of inquiries they make to obtain their cash position,” says Hillary Debenport, assistant vice president at the St. Louis office.

“As sophisticated as today’s marketplace is, I think that any tool that can help you better manage your cash position is a real benefit,” says George Winter, trust officer at First National Bank of Clarksdale, Miss., and a prospective CMS customer. And he’s not alone. In a recent sampling of individuals who make investment decisions at Eighth District banks regularly—primarily cashiers and controllers—three out of four told us they would pay the $55 monthly fee to subscribe to the basic service.

Eighth District account holders will receive more information on the Fed’s Cash Management Service later this year. In the meantime, if you have questions about CMS, call Danee Appel at (314) 428-4289 or toll-free at (800) 333-0810, ext. 4289. For more information about the free Dial-Out service, available today, call Electronic Access Support at (800) 333-0861.
Noncash Services Consolidated At Cleveland, Jacksonville

Effective Sept. 1, 1993, the noncash collection service previously provided by the Louisville Branch of the St. Louis Fed is now handled by either the Cleveland Fed or the Jacksonville Branch of the Atlanta Fed, depending on the location of your bank.

The noncash consolidation did not affect U.S. Treasury or Agency securities or coupons, which continue to be serviced at your local Fed office.

You’ve Got Our Number

That is, you’ve got our number if you’ve received the St. Louis Fed’s updated directory of services and staff.

The new directory combines the St. Louis Fed’s main and branch offices, contains an expanded index and features a new tab format to make it easier to use.

For extra copies of the directory, call Anne Guthrie at (314) 444-8810 or toll-free at (800) 333-0810, ext. 8810.

Memphis Community Profile On Its Way

Later this month, the St. Louis Fed’s community profile of Memphis, Tenn., will be distributed to CRA officers at Memphis financial institutions.

The report provides an analysis of census and HMDA data for the Memphis MSA and focuses on the community’s credit needs as identified through interviews with community organizations, government officials and Memphis residents. Descriptions of local government and nonprofit programs helping to address these community needs are also included.

To obtain an extra copy of this or similar profiles of St. Louis, Mo., or Evansville, Ind., call Judy Armstrong at (314) 444-8646.

Telephone Tenders Taken Here

Effective Nov. 1, the Fed announced a provision to accept tenders via telephone for U.S. Treasury auctions.

As announced in the Fed's new Operating Letter No. 23, the tenders will be accepted only under special emergency circumstances, such as power failures and equipment or communication failures. The submitter must have authorization to submit electronic or paper tenders.

For more information, contact the Treasury Direct department at your local Reserve office.

Calendar

1994 Legal Holiday Schedule for the Eighth Federal Reserve District

<table>
<thead>
<tr>
<th>Day</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday</td>
<td>January 17</td>
</tr>
<tr>
<td>Monday</td>
<td>February 21</td>
</tr>
<tr>
<td>Monday</td>
<td>May 30</td>
</tr>
<tr>
<td>Monday</td>
<td>July 4</td>
</tr>
<tr>
<td>Monday</td>
<td>September 5</td>
</tr>
<tr>
<td>Monday</td>
<td>October 10</td>
</tr>
<tr>
<td>Monday</td>
<td>November 11</td>
</tr>
<tr>
<td>Thursday</td>
<td>November 24</td>
</tr>
<tr>
<td>Monday</td>
<td>December 26</td>
</tr>
</tbody>
</table>

CB is published quarterly by the Public Information Office of the Federal Reserve Bank of St. Louis. Views expressed are not necessarily official opinions of the Federal Reserve System or the Federal Reserve Bank of St. Louis.