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News and Views
for
Eighth District Bankers

St. Louis Fed Comments On CRA Proposal

The interagency CRA proposal issued for public comment last December attempts to strengthen lending performance and the

supervisory framework for CRA, but the St. Louis Fed says the proposal falls short of the mark.

In its comment submitted to the Federal Reserve Board in late March, the St. Louis Bank identified key areas of the proposal that should be changed before the proposal can be considered good public policy.

In general, the revised CRA must recognize the differences in the ways banks market, price and extend credit in local communities. Also, the revisions should make CRA more understandable and its consequences more predictable.

Among the St. Louis Fed's specific recommendations:

- Allow each institution to be evaluated against its own delineation; abandon the use

of the flawed market share test, which could contradict the goals of CRA and force banks to bid against each other for the best ratings.

- Use both quantifiable as well as qualitative measures of an institution's lending record.

- Instead of a universal 60 percent loan-to-deposit ratio, use an alternative measure that takes into account conditions that vary across local communities.

(continued on next page)



District Bankers Have Reason To Smile

As bank analysts predicted, 1993 turned out to be another record year for the nation's banks, including those in the Eighth Federal Reserve District.

Return on average assets (ROA) surged to 1.27 percent in 1993 at District as well as U.S. peer banks.* U.S. peer banks

exceeded and District banks nearly achieved the industry benchmark of 15 percent return on average equity (ROE).

Unlike in 1992, falling interest rates—and rising net interest margins (NIMs)—were not the major driving forces for the record profits last year. In fact, the NIM actually declined one

basis point at U.S. peer banks and rose just four basis points at District banks. In 1993, it was improvements in asset quality and, to a lesser extent, net noninterest margins (NNIMs) that elevated ROA and ROE.

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Feditorial

Whatever Became Of The Checkless Society?



James R. Bowen

Twenty years ago, payments system experts predicted that by now we'd be living in a so-called checkless society—abandoning paper checks for debit cards and other electronic payment methods.

Despite the technological advances made in the industry, we're obviously not there yet.

Are we still headed in this direction? And more important, is this the right direction? I believe the answer to both of these questions is yes.

Consider this: Electronic payments take nearly a quarter of the time to collect as paper payments, significantly reducing the float between the payor and payee. To be sure, the float inherent in paper payments benefits individual payors. But the payments system as a whole does not benefit; rather, it is exposed to an increased risk of uncollected funds. Any time we can reduce float—such as by switching to a faster electronic payment method—we reduce the risk, and the entire payments system ultimately benefits.

Second, electronic payments are more efficient

than paper payments. Some of the studies on payment methods indicate that electronic payments cost less than half as much to issue and collect as checks, primarily because transportation and paper handling costs are eliminated. These studies also claim that even a partial shift to automated payments options like ACH could save the country as much as \$8 billion in resources.

Although our ACH service is our fastest-growing service, the checkless society may still be quite some time away. To make meaningful progress, financial institutions must take the lead in learning more about their electronic payment options and informing their customers about the benefits of using automated payments. Given the technology available today, and the attendant benefits, there's little reason not to pursue the more efficient electronic forms of payment.

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

CRA Proposal

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- Exempt institutions that report HMDA data from reporting under CRA.

- Use enforcement actions only as a result of specific inappropriate conduct—such as proven discrimination—not as a result of the examination rating.

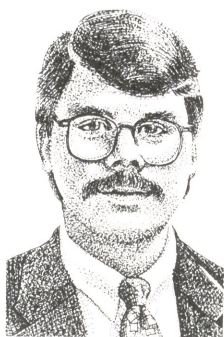
The St. Louis Fed's statement also identifies a significant

policy issue raised by the reform effort: CRA does not apply to other credit-extending organizations such as credit unions, nonbank mortgage companies and insurance companies. As such, it is unlikely that the broader goal of the reform initiative—increasing credit to low- and moderate-income areas—can

be achieved if the reform proposal makes it more difficult for covered institutions to compete in the marketplace.

With many policy issues yet to be ironed out, regulators are now questioning whether a final ruling on CRA will be ready by its July 1994 deadline, particularly if the revised proposal is sent out for a second

round of public comment. To ensure a thorough analysis of any proposed changes, the St. Louis Fed, in its comment to the Board, favors the additional comment period.



Michael R. Pakko

Are Fears Of Inflation Warranted?

Inflation has been in the news again recently, but reports on the subject have seemed disturbingly contradictory.

Current measures of inflation indicate that price increases remain subdued. On the other hand, recent policy actions by the Federal Reserve and some market-based indicators of expectations suggest that potential inflationary pressures should be of concern.

At its meetings in February and March, the Federal Open Market Committee (FOMC) voted to "increase slightly the degree of pressure on reserve positions." An additional move was announced in mid-April. Some have suggested that the Fed was premature in ordering these "pre-emptive strikes," contending that they reflect an inordinate obsession with inflation. Others have concluded that the Fed must be seeing signs of inflationary pressures that have eluded other analysts. Each of these extreme characterizations can be misleading.

The Fed's monetary policy actions ultimately have their most significant impact on the trend or long-run rate of inflation. To say that the Fed is obsessed with inflation is to suggest an unwise or dangerous preoccupation. In reality, the Fed's focus on inflation reflects a recognition that its primary responsibility is to help foster an environment of price stability—and in so doing, to provide a setting that allows the achievement of sustainable economic growth, free from the distortions and dislocations that inflation engenders.

More important, it is well known that the Fed's actions

affect economic activity with a lag. History has shown that the failure of policy to anticipate inflationary forces results in the need for even stronger measures when they emerge as a present danger. To wait until signs of accelerating inflation appear in current data is to have waited too long.

Are there really signs of accelerating inflation on the horizon? In addressing this question, one must recognize that no one has a crystal ball. Economists have identified a number of potential indicators of future inflation, but none of these is perfect.

The monetary aggregates—traditionally important indicators of policy—have provided conflicting signals, and evidence suggests that the relationships between the aggregates and economic activity have departed from their historical patterns.

Though some suggest the Fed was premature in ordering pre-emptive strikes, others conclude the Fed sees signs of inflationary pressures that elude other analysts.

Other indicators, such as long-term bond yields and commodity prices, can provide information on inflationary pressures and expectations; however, they are subject to alternative interpretations. Recent increases in bond yields suggest that financial market participants are concerned about the possibility of higher inflation, but that doesn't mean that it will actually occur. Some commodity

price indices have recently shown increases, but the price of one key commodity, crude oil, has remained fairly low.

Some economists also look to the economy's capacity utilization for signs of wage and price pressures. It is possible that as the current expansion develops, price increases might accompany strengthening economic activity. Yet recent research suggests that this cyclical relationship may not be as robust as previously believed, particularly in the presence of vigorous international competition.

Finally, we can look to the stance of policy itself. The monetary base and total bank reserves had been growing rapidly for some time, and the federal funds rate had been quite low, particularly in relation to the inflation rate. These settings may have been appropriate as the economy emerged from recession, but there is a danger of remaining in an accommodative posture for too long. As the expansion develops, it is appropriate to modify policy accordingly, lest the Fed's own policy stance become a contributor to inflationary pressures.

Current favorable readings on prices do not guarantee that inflation will remain in check. However, while it would be a mistake to ignore the possibility of accelerating inflation in the future, neither is that outcome inevitable.

Michael R. Pakko is an economist at the Federal Reserve Bank of St. Louis.

Regional Roundup

OUT FOR

COMMENT

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

■ **Proposals to simplify Regulation E, which implements the Electronic Funds Transfer Act, and revise the staff commentary. Comments due by May 31, 1994. (Docket Nos. R-0830 and R-0831, respectively.)**

Direct all comments to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th St. and Constitution Ave., N.W., Washington, D.C. 20551. For copies of proposals out for comment, contact Anne Guthrie at (314) 444-8810.

Danger: Outdated Contingency Plans Can Be Disastrous

Recently, we heard about two banks in our District that encountered computer problems and looked to their contingency plans for what to do next. To their dismay, no backup was immediately available because their contingency plans were out of date.

As a reminder, contingency plans should be evaluated regularly. For more information, the Fed issues a general information packet about establishing contingency plans, including a list of what to include and which agencies can offer additional help.

For a copy, call Jim Gagen at (314) 444-8754.

1993 Annual Report Focuses On CRA

It's been more than 16 years since CRA was adopted, yet today regulators are still contemplating how best to carry it out.

To learn more about what the St. Louis Fed has been doing to help bankers meet CRA objectives, read the Bank's 1993 Annual Report. It describes the activities of our Community Affairs Office and how this office serves as a bridge between bankers and the community to foster partnerships in community development.

The Reports should have arrived on the desks of Eighth District CEOs a week or two ago. You can receive an extra copy by calling the Public Information Office at (314) 444-8809.

Fed Moves Computer Applications To Dallas

The St. Louis Fed completed a major milestone in its automation consolidation effort May 1 when it moved data processing operations for most of its applications to a Consolidated Processing Center at the Dallas Fed. The applications, which include ACH, Accounting, Treasury Tax

and Loan, Credit Discount and FR 2900 reports, will continue to be supported by Eighth District staff.

The transition to the Dallas site should be a transparent one for Fed customers, thanks to the host of customers who helped test the applications. If you do experience any delays or difficulty with your connections, please call Electronic Access Support at (314) 444-8711 or (800) 333-0861.

District Bankers

(continued from front page)

In more good news, both net loan losses and nonperforming loans declined at District and U.S. peer banks, resulting in significantly lower loan loss provisions. Despite declines in provisions, District banks as a group now report more than \$2 in loan loss reserves for every dollar of nonperforming loans on their books.

Profitability ratios also got a

boost from noninterest sources of revenue. At both sets of banks, increases in overhead expenses were more than offset by gains in noninterest income as banks continued their push to derive more earnings from fees and nontraditional bank products, like mutual funds.

** U.S. peer banks are those with less than \$15 billion in average assets. As of Dec. 31, 1993, all District banks met this criteria.*

Another Good Year For District Banks

	1993	1992
ROE	14.89%	13.92%
ROA	1.27	1.14
NIM	4.52	4.48
NNIN	1.98	2.03
LLP	0.26	0.43

Survey Says...*CB* Readers Rate Newsletter Highly

The surveys have been tabulated, and we're pleased with the outcome. "Keep up the good work," "good format," and "keep it short and in laymen's terms; no regulatory mumbo jumbo" were a few of the comments our readers shared in the *CB* readership survey mailed with the last newsletter. Here's what else we learned.



Three-quarters of our *CB* audience are presidents/CEOs; others described themselves as operations officers, cashiers, compliance officers and consultants.

Overall, most of you consider *CB* valuable to you as District bankers. On a scale of one to five, with five being the highest, more than 70 percent gave *CB* a four or five rating, indicating that we're covering the topics you want to read about.

Not only is *CB* well-rated, but it is also well-read. Eighty-nine percent of you regularly read *CB* either cover-to-cover or at least half of each issue. Some of the more popular features you noted include Fed news stories, Editorials and economic articles.

Many of you also mentioned topics for which you'd like to see expanded coverage. Topping that list was supervision and regulation issues, followed by the Eighth District and national economy, and Eighth District banking conditions. We'll try to enhance our coverage of these topics in future issues.

One of the most valuable insights we gained from this

survey is that many of our readers do not receive—and may not even be aware of—other Fed publications that address some of the very issues on which bankers want additional coverage. Having learned this, we've written an accompanying article that identifies some of the publications that will further help bankers obtain the information they want.

Your comments about *CB* have been helpful to us as we strive to maximize the value of this newsletter for our readers. As always, we welcome any other suggestions for improving *CB*. Just call Sue McCollum of the Public Information Office at (314) 444-8688.

More Fed Publications That Might Interest *CB* Readers

Several years ago, *CB* was introduced to improve communications between the Fed and senior management at District institutions. Our recent survey confirms that, although we have been fairly successful in meeting your overall informational needs, many of you would like additional information on specific topics.

According to the survey, few *CB* readers receive any of our *CB*-spinoff newsletters, which may be just what you're looking for. They include:

- *Supervisory Issues*, a bimonthly newsletter that provides bankers with information on supervisory and regulatory matters, including proposed and final regulations, and policy guidelines.
- *Community Affairs*, a semiannual newsletter written for community affairs compliance officers and community organizations. This spinoff profiles successful economic development strategies and helpful hints for meeting CRA compliance.
- *The Check Exchange*, a quarterly newsletter for check operations staff in the St. Louis zone which contains technical tips and hands-on information on the Fed's payment services.

In addition, the Fed publishes a quarterly economic magazine called *The Regional Economist*, which focuses on national economic issues from an Eighth District perspective.

If you or anyone in your bank would like to receive any of these publications, or if you have questions about other publications available to bankers, please call our Public Information Office at (314) 444-8808 or (314) 444-8809.

FedFacts

Calendar

Upcoming Fed-sponsored Events for Eighth District Depository Institutions

St. Louis Office Enhances Check Reclearing Service

Subscribers to the St. Louis zone's Return Item Reclearing Service can now pick from three dollar thresholds—\$100, \$200 or \$500—under which the Fed will automatically reclear all items being returned for insufficient or uncollected funds. This service will allow banks to collect additional items days faster.

The \$3 daily fixed fee now includes the first 25 items reviewed under the designated threshold; additional items will be charged a separate per item fee: 12 cents per item with the \$100 threshold, 13 cents with the \$200 threshold and 14 cents with the \$500 threshold.

For more information, contact your account executive or Customer Support at (314) 444-8680 or (800) 333-0869.

TT&L Now Available Over Fedline

Attention Fedline customers:
Did you know you can receive

your TT&L activity and cycle statements on-line over your local printer? This will provide you with more timely account information. Just contact the Treasury Tax and Loan department of the St. Louis Fed at (314) 444-8510 and request that your daily activity and monthly cycle statements be sent automatically over Fedline.

Louisville Community Profile Released, Profiles Available On-Line

The fourth in a series of Eighth District community profiles—this one of Louisville—has just been mailed to bankers and community groups. The profiles identify local credit needs and programs available to help meet those needs.

In related news, text of profiles already published—St. Louis, Evansville and Memphis—are now available on-line from the St. Louis Fed's electronic bulletin board FRED (Federal Reserve Economic Data). The service is free, you pay only for the call.

FRED can be accessed through a modem by dialing (314) 621-1824, file directory 28.

If you have questions about this service, please call Tom Pollman at (314) 444-8562.

Big Savings On Weekend Check Deposits

The St. Louis Office has just enhanced two of its weekend check collection services.

Depositors now have until 10 p.m. on Saturdays to deposit Preprocessed Other Fed items at the reduced price of 4.1 cents per item. For additional savings, consider sorting your Other Fed checks into one or both of our Other Fed Group Sorts for only 3.7 cents per item with the same 10 p.m. deadline.

For more information on how to prepare the Preprocessed Deposit or to learn which endpoints are in the Group Sorts, contact your account executive or Customer Support at (314) 444-8680 or toll-free at (800) 333-0869.

Check Services Seminar

May 20 - St. Louis, Mo.

Economic Forum

June 16 - St. Louis, Mo.

For more information about these meetings, please call Linda Moser at (314) 444-8320.



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