

## Cash Services Changes on the Way



On May 4, 1998, the Uniform Cash Access Policy will go into effect, ironing out the inconsistencies that currently exist across Reserve Bank cash services. This consistency will become increasingly important

as a greater number of depository institutions establish a presence in multiple Fed Districts after interstate branching commences on June 1, 1997.

The policy allows for:

- each depository institution with a banking presence in a Fed territory to receive free cash access for up to 10 endpoints. Free cash access is defined as one deposit and one order per week for each of the 10 designated endpoints.
- free cash access for large endpoints where volumes exceed a 50 bundle threshold, provided the local Fed's bundle standard is satisfied. For an institution to receive free cash access beyond the 10 designated endpoints, all endpoints must

meet the high bundle threshold.

- Reserve Banks to offer additional access to cash services above the free level, provided the access is priced. Each Reserve Bank will establish its own prices for additional cash access. The minimum access fee will be \$20 per deposit or order.
- a one-year window for compliance following mergers or acquisitions.

Reserve Banks will be working closely with depository institutions to identify issues affecting them during the transition to the new policy. If you have questions about the changes, contact either Gladys Butler at (314) 444-8330 or Sharon Bragg at (314) 444-8325.

## Feds Cut ACH Prices Again

For the third time in the last five months, the St. Louis Fed, along with the other 11 Reserve Banks, will reduce prices on its Automated Clearing House service.

The most recent round of ACH price cuts will take effect May 1, 1997, resulting in a two-tiered pricing structure. The fee for ACH items contained in files of 2,500 or more items is 0.7 cents

per item, with a file fee of \$6.75. The fee for ACH items contained in files of 2,500 or fewer items will be 0.9 cents per item, with a file fee of \$1.75.

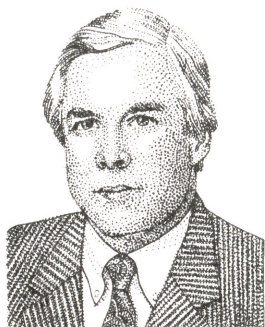
Paul Connolly, product director for the Reserve Banks' retail payments services, says that the price cuts are possible because of the improved efficiencies brought about by centralization of the Fed's ACH processing.

He estimates that many ACH originators will experience a 30 percent drop in per-item costs, with lower-volume customers enjoying price reductions of 10 percent.

The ACH price reductions are part of the Reserve Banks' continuing efforts to increase the electronic initiation of payments.

# Feditorial

## Guaranteeing a Healthy Economy



Thomas C. Melzer

Since the fourth quarter of 1982, the record of economic performance in the United States has been truly impressive: 58 quarters of expansion and just three quarters of contraction (the '90-91 recession), making it the most cyclically stable period in history. During this 15-year period, the CPI has dropped from double-digit rates to about 3 percent, where it has hovered for the last five years. We're now in our sixth year of the current economic expansion, a testament, I believe, to the beneficial effects of having kept inflation relatively low and stable.

The question now is, how do we keep it going? How do we guarantee a steadily growing, low-inflation economy that will last beyond the tenure of the current Federal Reserve chairman or the service of current Federal Open Market Committee members?

To me, the answer is simple: We commit publicly to what got us here—the pursuit of price stability. We announce our goals based on a long-term price stability objective and establish a timetable for achieving them. And we answer to Congress for our measurable successes and failures.

Ultimately, keeping prices stable, or inflation low, is the only thing the Fed can influence over the long term and, thus, is the only objective for monetary policy that makes any sense. But without establishing this goal officially—and making ourselves accountable for its achievement—we invite short-term political pressure into the conduct of monetary policy and risk squandering our success. In my mind, that's a risk that the American people shouldn't want us to take.

*Thomas C. Melzer is president of the Federal Reserve Bank of St. Louis.*

### Fed Joins Forces with Treasury on EFT 99

The Federal Reserve System, NACHA and the Treasury Department have undertaken a combined effort to educate bankers, businesses and consumers about the 1996 legislation that requires electronic disbursement of almost all government payments by Jan. 1, 1999.

The Treasury's effort to implement the legislation is called EFT 99, the letters standing for the words "Electronic Funds Transfer," which is the method the Department will use to disburse the estimated 380 million payments issued by government agencies like the Social Security Administration

and the Department of Defense each year.

The three organizations will kick off their educational campaign by mailing a brochure titled, "Are You Ready?" to chief operating officers at more than 20,000 financial institutions nationwide. The brochure is intended to help prepare bankers to meet the needs of the millions of federal benefit recipients and businesses that will soon be looking for electronic payment services.

The organizations will also use a range of other educational vehicles, including direct mail, seminars, video news releases, public service announcements, speeches, trade shows and press conferences.

Kathleen Paese, ACH officer at the St. Louis Fed, says that EFT 99 will have two beneficial effects on financial institutions: a reduction in internal operating expenses associated with processing the current volume of paper-based government payments and a likely increase in the commercial market for electronic payments once awareness of the method's convenience and efficiency is established.

If you have questions about EFT 99, or would like more information, call Cheryl McCarthy at (314) 444-8459.

## Why Does Bank Performance Vary Across States?



Michelle Clark Neely

**D**uring the 1980s, U.S. commercial banks failed in numbers not seen since the Great Depression. Unlike those of the Depression, however, bank failures in the 1980s were concentrated in just a handful of states. Although the number of failures has since dropped to fewer than 10 per year—just six banks failed in each of the last two years—regional differences in bank earnings persist.

How much do bank earnings vary across states? Quite a bit. In 1987, for example, state-level ROA ranged from a low of -4.10 percent in Alaska to a high of 4.33 percent in Nevada. In fact, in a typical year during 1980-95, the dispersion of bank earnings *across states* was roughly twice the dispersion of average U.S. bank earnings *across years*.

Why do bank earnings vary so much across states? Not surprisingly, differences in local economic activity play a major role. Indeed, differences in per capita income among states widened during the 1980s and declined somewhat in the early 1990s, mirroring the variation in state-level ROA. And statistical tests indicate that state-level bank earnings are strongly affected by state-level per capita income growth.

However, the tests also indicate that state-level per capita income may be an imperfect gauge of state-level economic performance, since it does not appear to adequately capture the economic shocks that affect measures like commercial bank earnings. In New England in the early 1990s, for example, commercial bank earnings

declined largely because of a sharp drop in real estate values—a drop that had only a modest impact on per capita income in the area.

External shocks can also substantially affect state-level bank earnings. In both 1987 and

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**The key factor appears to be regional economic differences.**

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1989, U.S. money center and large regional banks set aside millions, and in some cases billions, of dollars from then-current earnings to bolster loan loss reserves in anticipation of charge-offs of mostly Latin American LDC debt. These provisions had a substantial negative effect on the reported earnings of the banks that made them. For example, without its six money center banks, New York would have posted a state-level ROA of -0.05 percent in 1987, instead of the -0.66 percent it actually posted.

**S**tate-specific bank laws and regulations have also contributed to variation in state-level bank earnings. Some states, for example, have enacted legislation that permits, or even encourages, entry by nonbank and limited purpose banks, like credit card banks. In the 1980s and early 1990s, states like Delaware, Nevada and South Dakota, which encourage entry by such banks, almost consistently recorded state average ROA figures that far exceeded the average for all states. When these

specialized banks are excluded from earnings calculations, the overall variation in state level earnings is reduced slightly.

**A**lthough factors like the LDC debt loan loss provisions and limited purpose banks explain a portion of the variance in state-level earnings in the 1980s, the key factor appears to be regional economic differences. While it remains to be seen whether the advent of nationwide interstate branching in mid-1997 will lessen the dependence of banks on local economic conditions for their profitability and survival, if history is any indication, the impact could be limited. For years, banks have been able to diversify their loan portfolios geographically through loan sales and participations and by entering into regional reciprocal and nationwide interstate banking compacts. Although some large banking organizations have taken advantage of these opportunities, others have opted to stay close to home, capitalizing on local business relationships instead.

The most likely outcome, then, would seem to be an industry comprised of banks with extensive interstate operations and those with geographically limited operations. Both types of institutions appear to have a role to play in U.S. banking markets of the future.

*Michelle Clark Neely is an economist in the Research Division at the Federal Reserve Bank of St. Louis.*

*A longer version of this article, co-authored with research officer David C. Wheelock, will be published in the March/April issue of the St. Louis Fed's Review.*

# Regional Roundup

OUT FOR

## COMMENT

■ **Request for public comment on a proposal to extend the examination frequency cycle for certain small, well-managed banks. Comments due by April 14, 1997. [Docket No. R-0957]**

■ **Request for public comment on proposed amendments to Regulation D and Regulation I to define the location of a depository institution to facilitate interstate branching. Comments due by April 18, 1997. [Docket No. R-0963]**

■ **Request for public comment on a proposal to adopt uniform regulations to implement Section 109 of the Riegle-Neal Interstate Banking and Branching Act of 1994. Comments due by May 2, 1997. [Docket No. R-0962]**

*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.*

### HMDA Reporting Threshold Raised

Banks holding less than \$28 million in assets as of Dec. 31, 1996, will not have to collect and report Home Mortgage Disclosure data in 1997. The interim rule is an amendment to Regulation C and became effective on Feb. 1 of this year. The previous reporting threshold was \$10 million.

### CAMEL Expanded

On Jan. 1, 1997, the Fed began examining state member banks for an additional safety and soundness component—sensitivity to market risk. The new market risk component is designed to reflect the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices can adversely affect an institution's earnings or economic capital. The new component has transformed the familiar CAMEL rating system into the CAMELS rating system. To receive a list of questions and answers on the revised rating system, contact Kim Braun at (314) 444-8891.

### Windows® Version of Fedline Coming

A Windows-based version of Fedline is being developed to capitalize on the advances in PC technology since Fedline began 10 years ago. The new version will be released in two stages with the most commonly used applications, such as Accounting Services and Funds Transfer, issued in 1998. The remaining applications will follow within a year. The Windows version of Fedline may require a more

powerful PC configuration than your institution currently has. To find out the minimum hardware requirements for the upcoming version, call (314) 444-8711 or 1-800-333-0861.

### Accounting System Changes Explained

The accounting system changes the Fed is implementing to support interstate branch banking structures will be outlined in a series of overview sessions scheduled for April. The accounting changes, which are expected to be in place by Jan. 1, 1998, will enable institutions to organize their accounting transactions into one master account, with optional subaccounts. For more information on these account structure changes, or dates, times and locations of the overview sessions, contact Jeff Dale of Customer Relations at (314) 444-8400.

### New HMDA Software Available

The new HMDA data entry software for calendar year 1997 was distributed to HMDA reporters in mid-December 1996. In addition to collecting 1997 data, the new Windows-based software allows reporters to convert and store 1996 data that were recently reported. If you have not yet received the HMDA software, contact the HMDA Assistance Line at (202) 452-2016 or send an Internet

e-mail message to [hmdahelp@frb.gov](mailto:hmdahelp@frb.gov).

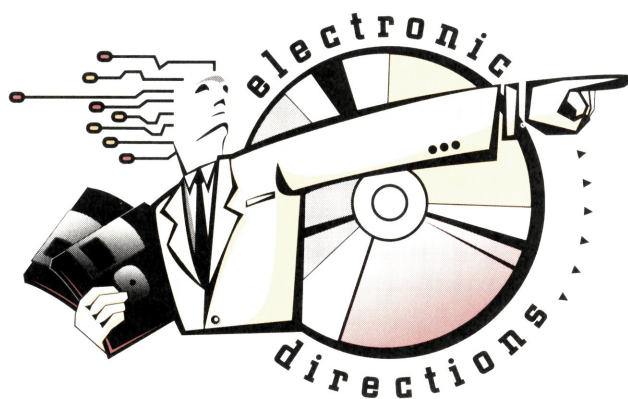
### NBES Info Sessions Planned

This spring, the St. Louis Fed will be holding Fedline training sessions for bankers on NBES, the National Book-Entry System. NBES is the new nationwide, centralized securities application that the Federal Reserve System has been phasing in across its 12 Districts since 1996. It will provide institutions with improved contingency capabilities, as well as overall flexibility. The St. Louis Fed's conversion to the new software is scheduled for July 19, 1997. Institutions will be contacted with training dates and sites in the next few weeks.

### UBPRs Released

The December 1996 Uniform Bank Performance Report is now being distributed to all insured commercial banks and FDIC-insured savings banks. The quarterly UBPR permits both summary and in-depth analysis of financial performance and trends. The December '96 UBPR data is also available on computer tapes, which contain bulk data for banks, peer groups and states. Bankers can obtain a copy of a UBPR by phone at 1-800-945-2186 or by Internet at [UBPR@FDIC.gov](mailto:UBPR@FDIC.gov).





## Sound Bytes

“Standing still in the electronic world is moving backward.”

—former banker and Federal Reserve governor John LaWare, in an American Banker commentary

It's been just over a year since the Federal Reserve System joined forces with the National Automated Clearing House Association and the Social Security Administration to encourage the use of direct deposit among financial institutions, corporations and consumers nationwide.

Now that the organizations' multi-phase campaign has officially concluded, the Reserve Banks are keeping the ball rolling through local initiatives.

For the St. Louis Fed, this has meant co-hosting, along with the Treasury Department, a series of educational seminars on the new federal law that requires nearly all payments issued by the Treasury to be made electronically by Jan. 1, 1999.

Bill Harron, president of Harrison County Bank in Palmyra, Ind., attended the Louisville Branch meeting. Harron says it helped increase his awareness of the “sheer volume” of electronic government payments that will be hitting banks in just two years. Harron says that ACH origination is the next goal for his bank. “We have several school accounts, so we think they may be good candidates for direct deposit,” Harron says.

# Direct Deposit

*This is the first in a series of articles covering electronic payment forms and the Fed's efforts to promote them over paper-based methods.*

Delores Davis, ACH coordinator at First Security Bank in Searcy, Ark., says her institution has been originating ACH transactions for several years now and “volume seems to be growing constantly.” Still, she says, informational seminars like the one co-sponsored by the Fed, help her to better understand the direction the banking industry is headed in. “I was glad we went, we really got a lot out of it,” she said. “I appreciate that they're in Little Rock, too.”

The bread and butter of the Eighth District's effort to increase direct deposit use is the visits made by ACH account executive Andy Lueckenhoff. In the 10 months he's been the District's designated direct deposit contact, Lueckenhoff says he's seen interest in the electronic payment form grow.

“A lot of the bankers I talk to appear to be enthused about electronic payments,” Lueckenhoff said. “When I talk to them, I can kind of see them thinking, ‘If I don't do something, I might lose a customer.’ And when I visit them the second time—four or five months later—a lot of them have done something.”

Even so, Lueckenhoff says, many area bankers have yet to seize the ready-made opportunity that direct deposit presents. “The Eighth District has a lot of room to grow,” he says. “We're one of the lowest ones in terms of volume.”

## The Paper Trail

George W. Mitchell, who died this past January at the age of 92, was well-known for his role as Federal Reserve Board vice chairman. What many don't know about him is the unofficial title he held: “the father of electronic payments.” Gov. Mitchell earned this title through his unflinching devotion to the promotion of electronic payments. He had the most success with direct deposit.

In June 1974, he requested that the first nationwide ACH program be set up by the end of the summer so that Air Force employees could receive their payroll payments electronically. In September, the program began. For his next trick, Gov. Mitchell convinced the Board of Governors to require all 12 Reserve Banks to implement ACH operations.

For these electronic endeavors—and countless others—the National Automated Clearing House Association named its annual Payments System Excellence Award after him.

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

### Humphrey-Hawkins Goes Online

The full text of Alan Greenspan's semiannual Humphrey-Hawkins testimony before Congress is now available on the Internet. The testimony can be found on the Federal Reserve Board's home page, which is at [www.bog.frb.fed.us/BOARDDOCS/TESTIMONY/](http://www.bog.frb.fed.us/BOARDDOCS/TESTIMONY/).

Because of its online availability, the report will no longer be mailed out to all Eighth District institutions; however, printed copies are available by calling (314) 444-8810 or 1-800-333-0810, ext. 8810.

### Your Chance to Chat with Tom Melzer

Bankers interested in obtaining St. Louis Fed President Thomas C. Melzer's perspective on current

policy issues are invited to attend either of two District Dialogue meetings scheduled for April. At the meetings, Melzer will introduce the new Memphis Branch manager, Martha Perine. In addition, St. Louis Fed research director Bill Dewald will speak on current economic conditions. In addition, Kim Nelson, a vice president in Banking Supervision & Regulation, will also speak on Eighth District banking trends.

The April 23 meeting, for Memphis region bankers, will be held at the Memphis Branch. It will begin with registration at 4:15 p.m., followed by presentations and a reception. The April 24 meeting, for western Kentucky and northern Tennessee bankers, will be held at the Hampton Inn in Union City, Tenn. It will begin with registration at 4:30 p.m.,

followed by presentations and dinner. Both meetings will adjourn at roughly 7:15 p.m. For more information, contact Bernie Berns at 1-800-333-0810, ext. 8321.

### Payments Primer Now on the Internet

The Emerging Payments Primer, which is a series of educational booklets on emerging payment products produced by the Federal Reserve System, is now available on the Internet at [www.bos.frb.org/finance/empaymts/index.htm](http://www.bos.frb.org/finance/empaymts/index.htm). The series covers: electronic currency, home banking services, computer purchases via the Internet, debit cards and electronic benefits transfers.

### District Dialogues

April 23 - Memphis, Tenn.  
April 24 - Union City, Tenn.

For more information on the District Dialogue meetings, contact Bernie Berns at (314) 444-8321.



■ [www.stls.frb.org](http://www.stls.frb.org) ■



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