



Central Banker

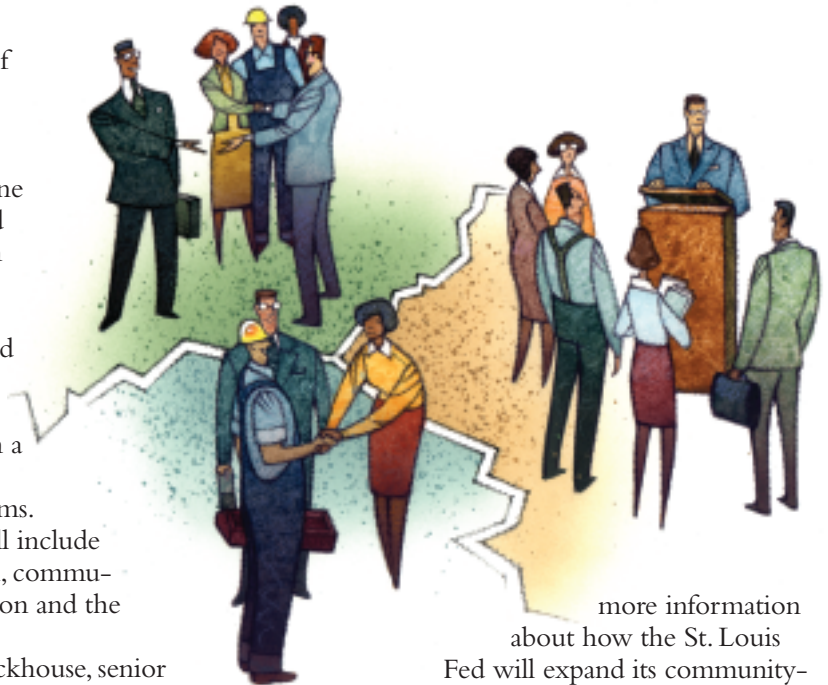
SPRING 2004

News and Views for Eighth District Bankers

St. Louis Fed Announces New Direction for Its Branches

Mary Karr, senior vice president of Legal, Public and Community Affairs, has announced that the three current branch managers—Robert Hopkins of Little Rock, Thomas Boone of Louisville and Martha Perine Beard of Memphis—will remain at the helm of their respective branches after the Eighth District's Cash and Check Restructuring Initiatives are completed this year. As part of their new duties, the branch executives will participate in a new project team to establish a new model for expanding the District's community-oriented programs. The new Branching Out initiative will include such programs as economic education, community affairs, research, banking supervision and the recruitment of branch directors.

In the Feditorial on Page 2, Julie Stackhouse, senior vice president of Banking Supervision and Regulation, discusses how the District will expand its regulatory presence in Memphis later this year. Look for



more information about how the St. Louis Fed will expand its community-oriented programs in the Bank's soon-to-be-released 2003 annual report and on the Bank's web site, www.stlouisfed.org. ■

Financial Institutions Must Convert to Web-Based Reporting

After March 31, the Federal Reserve will discontinue support of all DOS-based FedLine® informational services, including FR 2900 Reporting. Depository institutions that use FedLine to report FR 2900 data are encouraged to convert to Internet reporting using Internet Electronic Submission (IESUB) as soon as possible. For more information, contact Don Wright at (314) 444-8628 or 1-800-333-0810, ext. 44-8628.

Additionally, a new method for submitting Call Report data will be implemented in October. The FFIEC has contracted with the Unisys Corp.

to build a Central Data Repository (CDR) for the collection, validation and distribution of Call Report data. All institutions that file Call Reports will be required to file their data via the Internet using software containing FFIEC edits that validate the institution's data prior to submission.

Institutions will be required to enroll via the CDR web site in order to provide contact information and set up user IDs and passwords. The FFIEC anticipates that institutions will be able to access the new CDR web site by late August or early September—just in time for the Sept. 30 Call Reports.

More information about CDR will be distributed through ED, the St. Louis Fed's e-mail alert system, www.stlouisfed.org/email_alerts/default.html. A full listing of the 2004 regulatory reports submission deadlines can be found at www.stlouisfed.org/banking/FinReg/financial.html. ■

"FedLine" is a registered trademark of the Federal Reserve Banks.



Feditorial

New Regulatory Presence in Memphis Will Increase Access to Fed Examiners

By Julie Stackhouse, senior vice president, Banking Supervision and Regulation

I am pleased to announce that the St. Louis Fed will establish a regulatory presence at our Memphis Branch by midyear 2004. We are the banking supervisor for a growing number of state member banks, and we're also responsible for regulating all bank holding companies within our District—the largest of which are located in Memphis.

Our reason for establishing a Memphis office is simple: We want to improve our visibility and become more accessible to bank holding companies and all of our constituents. I believe we can be more effective as a Mid-South banking supervisor if we establish a physical presence in Memphis. I also believe that better proximity is one small way we can counter the regulatory pressures many banking

organizations—especially small ones—face every day.

Initially, our Memphis office will be staffed with four to five experienced examiners who will relocate from St. Louis. In time, the operation will grow to approximately 10 regulatory professionals.

Our satellite operation will be led by two senior examiners: Mike White and Bill Samisch. Mike will serve as manager of the office, and Bill will serve as the deputy manager. Mike has 15 years of banking and regulatory experience. Among other responsibilities, Mike has been a field examiner, served as central point of contact for two large multibank holding companies and coordinated our District's participation in the Shared National Credit review. Likewise, Bill has more than 12 years of banking and regulatory experience along with significant expertise in the examiner-training field.

In addition to their office management responsibilities, both Mike and Bill will be involved in supervisory and regulatory outreach efforts. We want them to serve as local resources for you, our bankers in the Eighth District, and I certainly hope you feel comfortable contacting them whenever you have a question or concern. ■

Seasonal Credit Is Available for Community Banks

The Federal Reserve offers seasonal credit to help qualifying community banks meet the seasonal needs of their local customers. Community banks that experience yearly fluctuations in their deposits and loans—caused by construction, farming, college or resort activities, municipal financing and other seasonal businesses—frequently qualify.

Banks can use their seasonal credit line either as a primary seasonal funding source or as backstop credit. Once estab-

lished, credit may be drawn down incrementally as needed, and partial and full prepayments are allowed without penalty.

There is no expense involved in setting up or maintaining the seasonal line; however, all Federal Reserve loans must be secured to the Fed's satisfaction, and a flexible, market-based rate is applied to all outstanding loans.

To qualify, an institution must: be in sound financial condition, meet the general requirements of the program, complete an application that includes no more

than three years of monthly deposits and loans, and include the monthly amount of credit it anticipates for the upcoming season.

If you would like to learn more about the program or obtain answers to questions you may have about collateral or the borrowing relationship, call our Credit office at 1-866-666-8316 or send an e-mail to creditoffice@stls.frb.org. For an application and a brochure, visit our web site, www.stlouisfed.org/banking/credit/credit.html. ■

Federal Reserve Helps Treasury Improve Its Electronic Payments Programs



The Federal Reserve is the fiscal agent for the U.S. Treasury, and several Reserve banks play key roles in ensuring that the Treasury's collection and payment systems are as efficient and economical as possible. The Treasury disburses \$1.7 trillion annually for Social Security and veterans' benefits, income tax refunds and other federal payments; it also collects more than \$2.2 trillion in federal revenues and \$2.8 billion in delinquent debts owed to the government. With a daily cash flow of nearly \$50 billion, Treasury uses one of its bureaus, Financial Management Service, as its money manager.

In 1996, Congress passed a law requiring most federal agencies to make their payments by electronic funds transfer (EFT). For fiscal year 2003, 73.7 percent of the government's payment transactions were issued by EFT. Here are some of the programs the Fed has implemented to help improve the Treasury's payment and collection efforts.

Pay.gov

Pay.gov is a web-based system operated by the Federal Reserve Bank of Cleveland that provides electronic methods for collecting federal agency payments. Pay.gov enables:

- an individual or organization to make electronic payments (service or fee) to federal agencies,
- forms, such as applications and bills, to be completed online and transmitted electronically,
- real-time authentication and authorization of payments, and
- transaction reporting to the Treasury.

Federal agencies can use one or all of these services, and Pay.gov processed approximately 450,000 transactions totaling approximately \$2 billion during fiscal year 2003.

Paper Check Conversion

The Cleveland Fed implemented another program, Paper Check Conversion (PCC), which is currently used for making purchases at military department stores and National Park Service gift shops. Countertop terminals scan a check and generate an ACH debit. The check is then cancelled and returned to the customer. About 747,000 items totaling approximately \$391 million were processed electronically through PCC during fiscal year 2003. And in 2004, the Cleveland Fed will begin converting checks sent to Treasury lockboxes to ACH payments.

Stored Value Card

With U.S. military personnel located throughout the world at bases, ships and other locations, it can be very costly for the government to pay and cash their checks. On behalf of the Treasury, the Boston Fed implemented a stored value card program as an alternative to processing over \$2 billion in cash payments outside the United States.

For example, soldiers in all Army, Air Force and Marine Corps basic training receive their pay on stored value cards. Merchant locations on government sites and ships—including stores, vending machines and other service providers—are equipped with stored-value collection terminals so that cardholders can make purchases with their cards.

Electronic Federal Tax Payment System

Businesses and individuals have been reporting and paying their taxes electronically using the Electronic Federal Tax Payment System (EFTPS) since 1996. An Internet version was released in 2001. EFTPS OnLine is secure and available 24 hours a day. It offers users a printable acknowledgement for documenting transactions, the ability to schedule advance payments and access to payment history. More than 4.5 million taxpayers have enrolled in EFTPS, and the IRS received over 17 million tax payments for \$1.36 trillion through this service in fiscal 2003.

A new initiative implemented this January, EFTPS Express Enrollment for New Businesses, will affect all businesses receiving a new Employer Identification Number (EIN). Business taxpayers with a federal tax obligation will be automatically pre-enrolled in EFTPS to make all of their federal tax deposits—instead of receiving paper tax coupons.

Additionally, the Federal Reserve Bank of St. Louis is coordinating a research effort to discover ways to increase the usage of EFTPS. Researchers will survey tax professionals, small businesses and individuals to measure their:

- current awareness and usage of electronic-payment methods,
- perceptions of strengths and weaknesses of the current EFTPS program, and
- reactions to specific EFTPS initiatives that are aimed at increasing usage.

This research will be completed by April, then delivered to the Treasury for analysis. ■

Fed Offers Check Imaging Seminar for Bankers

From now until April 22, the Federal Reserve is sponsoring a free online check imaging seminar for community bank CEOs, presidents and senior managers. The seminar, is titled "Checkmate—You Win!" demonstrates how the FedImageSM product can help banks reduce costs as well as retrieve and research items more quickly.

Participants will need an Internet connection and a Java-enabled web browser. Connections will not work from a handheld PDA. View the seminar online at www.fedimage-checkmateyouwin.com. ■

Check Front Office Is "Here to Serve"

The Check Front Office, a centralized call center for St. Louis and Memphis customers who need assistance with check processing

and adjustments, is kicking off a customer service campaign titled "We're Here to Serve." Unit Manager Kris Dunnagan notes that the office, which originally served only St. Louis customers, has expanded its duties to include Memphis and will soon serve Little Rock customers as well. (Louisville customers will be served by the Cleveland Fed.) As part of the campaign, the unit will send out monthly fliers that list helpful hints and give answers to frequently asked questions. By giving customers easy access to this helpful information, the office hopes to improve customer service.

Financial institutions may reach the Check Front Office from 7:30 a.m. to 5 p.m. Central time by dialing 1-866-433-3227. Look for links to monthly fliers at www.stlouisfed.org/financial/check_ops/about_check.html. ■

Treasury Announces Consolidation of Fed Savings Bond/TreasuryDirect Sites

The U.S. Treasury announced plans Dec. 17 to consolidate the Federal Reserve's TreasuryDirect and Savings Bonds functions to two locations. The transition will take several years, and after the consolidation is complete, Pittsburgh and Minneapolis will provide both Savings Bonds and TreasuryDirect services.

The Treasury's decision is a result of its strategic direction to move to an all-electronic processing environment. As the TreasuryDirect system grows, paper transactions will decrease, which, in turn, will reduce the workload at Federal Reserve processing centers. For more information about TreasuryDirect, visit www.treasurydirect.gov/. ■

"FedImage" is a service mark of the Federal Reserve Banks.

Eighth District Announces Changes to Board of Directors

The Federal Reserve Bank of St. Louis has announced the following changes to its boards of directors, effective Jan. 01, 2004:

- Bradley W. Small, president and chief executive officer of The Farmers and Merchants National Bank in Nashville, Ill., re-elected to a three-year term on the St. Louis Board.
- Rogers Yarnell II, president of Yarnell Ice Cream Co., Searcy, Ark., elected to a three-year term on the St. Louis board.
- Scott T. Ford, president and CEO of ALL-TEL Corp., Little Rock, reappointed to the Little Rock Branch board.
- Raymond E. Skelton, regional president of U.S. Bank, Little Rock, reappointed to the Little Rock Branch board.
- Norman E. Pfau Jr., president and CEO of Geo. Pfau's Sons Company Inc., Jefferson-

ville, Ind., reappointed to the Louisville Branch board.

- Gordon B. Guess, president and CEO of The Peoples Bank, Marion, Ky., appointed to the Louisville Branch board.
- Russell Gwatney, president of Gwatney Companies, Memphis, reappointed to the Memphis Branch board.
- David P. Rumbarger Jr., president and CEO of the Community Development Foundation, Tupelo, Miss., appointed to the Memphis Branch board.

In addition, David W. Kemper, chairman, president and CEO of Commerce Bancshares Inc., St. Louis, was reappointed as the St. Louis Fed's representative on the Federal Advisory Council (FAC). More information can be found on our web site, www.stlouisfed.org/news/releases_2004.html. ■

Why It's Important to Examine Regional Differences When Measuring Bank Asset Quality

By R. Alton Gilbert, vice president and economist, Research

This article is based on research Gilbert discussed in the September issue of *Monetary Trends* and can be found at www.research.stlouisfed.org/publications/mt/20030901/mtpub.pdf.



When bankers measure how well they're doing, they often compare their banks against a national average.

Average measures of bank asset quality, however, can mask substantial regional differences. For instance, during the late 1980s and early 1990s, the average asset quality of banks located in New England, the Southwest region and California was poor compared with banks located in other regions of the nation.

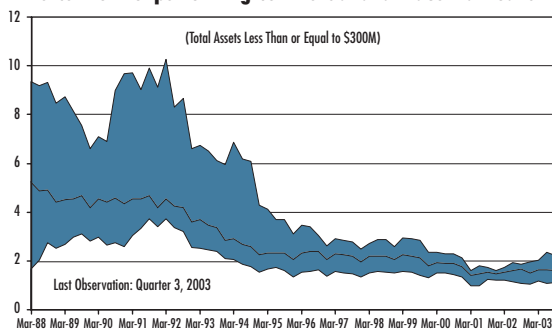
My method of measuring asset quality is to examine the percentage of commercial and industrial (C&I) loans that have been identified as nonperforming (either past due 90 days or more, or classified as nonaccrual). I identify regions as the census divisions (groups of contiguous states). I focus on community banks because my measure of asset quality at community banks is more likely to reflect the economic conditions in the census divisions of their bank's headquarters than would the nonperforming loan ratios of very large banks that have offices located across several census

divisions. A common definition of a community bank involves asset size of \$1 billion or less. I identify relatively small community banks as those with total assets below \$300,000.

The chart on the left illustrates the percentages of C&I loans that were nonperforming for relatively small community banks during the period between March 1988 and March 2003. The shaded area represents the range of average nonperforming ratios across nine census divisions, and the solid line represents the average ratio for these small banks. The decline in the solid line indicates that the banks' average nonperforming loan ratio was higher during the late 1980s and early '90s than during recent years. The range across the census divisions shrank substantially during the second half of the 1990s and did not widen during the recession of 2001 or the following economic expansion. The patterns are similar for the nonperforming C&I loan ratio for larger community banks and for the nonperforming ratio on the total loans of banks in each of these two size groups—above and below \$300 million.

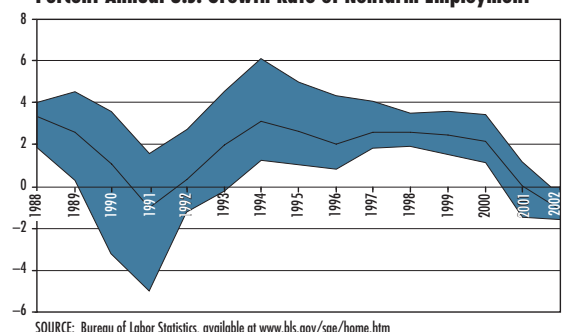
Why has the range of average nonperforming loan ratios across regions of the nation been so small in recent years? One reason appears to have been relatively small differences in the pace of economic activity across regions during recent years. The chart on the right presents the growth rate in nonfarm employment between 1988 and 2003. The shaded area is the range of growth rates across the nine census divisions, and the solid line represents the national growth rate of employment. As one can see, the range of the growth rates for employment narrowed substantially about 1997. The average range of growth rates across census divisions was 4.5 percentage points during 1988-96 compared with 2 percentage points during 1997-2002. Thus, like the range of nonperforming loan ratios across regions in recent years, the range in growth rates of employment has been relatively small in recent years. More information about the condition of banks can be found on our web site, www.research.stlouisfed.org/fred2/categories/83. ■

Percent of Nonperforming Commercial and Industrial Loans



SOURCE: Call Report Data, available from the FRB St. Louis at www.research.stlouisfed.org/fred2/categories/83.

Percent Annual U.S. Growth Rate of Nonfarm Employment



SOURCE: Bureau of Labor Statistics, available at www.bls.gov/sae/home.htm

OutforComment

The following is a Federal Reserve System proposal currently out for comment:

On Jan. 21, the Board of Governors requested public comment on an interagency proposal to revise regulations that implement the Community Reinvestment Act (CRA). The agencies are proposing limited amendments in two areas:

- The definition of "small institution" would be amended to (a) include banks and thrifts with total assets of less than \$500 million and (b) eliminate consideration of an institution's holding company size.
- The proposal would specify when unlawful discrimination, other illegal credit practices, or abusive asset-based lending by a bank or its affiliate might adversely affect the bank's CRA rating.

The agencies also propose enhancements to the loan data they disclose in CRA public evaluations and disclosure statements. A notice of proposed rule making will be published jointly after it has been acted upon by all of the banking agencies with CRA supervisory responsibilities. More information can be found at www.federalreserve.gov/boarddocs/press/bcreg/2004/20040121/default.htm.

Direct all comments to: Jennifer Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th St. and Constitution Ave., N.W., Washington, D.C. 20551. The deadline for comments is March 31. ■

FedFacts

Fed Publishes Online National Business Continuity Guide

The Fed has published an online National Business Continuity Guide, which provides financial institutions with continuity information for all Federal Reserve products and services. The guide is organized by products and services. It provides specific information about:

- steps financial institutions can take to prepare for Federal Reserve business disruption, and
- actions to take during — or immediately following — a Federal Reserve business disruption.

Information in this online guide will be updated periodically, and we recommend that institutions print a hard copy for their records. You may access the guide at www.frbstlouis.org/BizContinuity/index.html. ■

BOG Creates Helpful Resource for Regulatory Reporters

The Fed Board of Governors has created a new web site that contains general information about the types of filings required by the Federal Reserve and how they are processed. For more information, contact Rebecca Roberts at (314) 444-8744 or visit www.stlouisfed.org/banking/FinReg/financial.html. ■

CalendarEvents

UPCOMING FED-SPONSORED EVENTS
FOR EIGHTH DISTRICT
DEPOSITORY INSTITUTIONS

Women's "Money Matters" Workshop

St. Charles, Mo.

March 13, 2004

The theme of this day-long workshop is "Planting Your Financial Future: Seeds for Success." The workshop is designed for women of all ages and income levels and is sponsored by the Federal Reserve Bank of St. Louis, the University of Missouri Outreach and Extension, St. Charles Community College and The Women's Financial Education Coalition. For more information, call Jean Morisseau-Kuni at (314) 444-8646 or visit www.stlouisfed.org/community/conferences.html#march

St. Louis Fed Publishes District Dialogue Schedule

Here is the District Dialogue schedule for 2004:

April 21	Texarkana, Ark.
April 22	El Dorado, Ark.
July 20	Quincy, Ill.
Oct. 4	Jefferson City, Mo.
Oct. 5	Springfield, Mo.

For more information, contact Jill Schlueter Dorries at (314) 444-8818 or 1-800-333-0810, ext. 44-8818. ■



P.O. Box 442
St. Louis, Mo. 63166

Editor: Alice C. Dames
(314) 444-8593
alice.c.dames@stls.frb.org

Central Banker is published quarterly by the Public Affairs Department 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.

FIRST-CLASS
US POSTAGE
PAID
PERMIT NO 444
ST LOUIS, MO