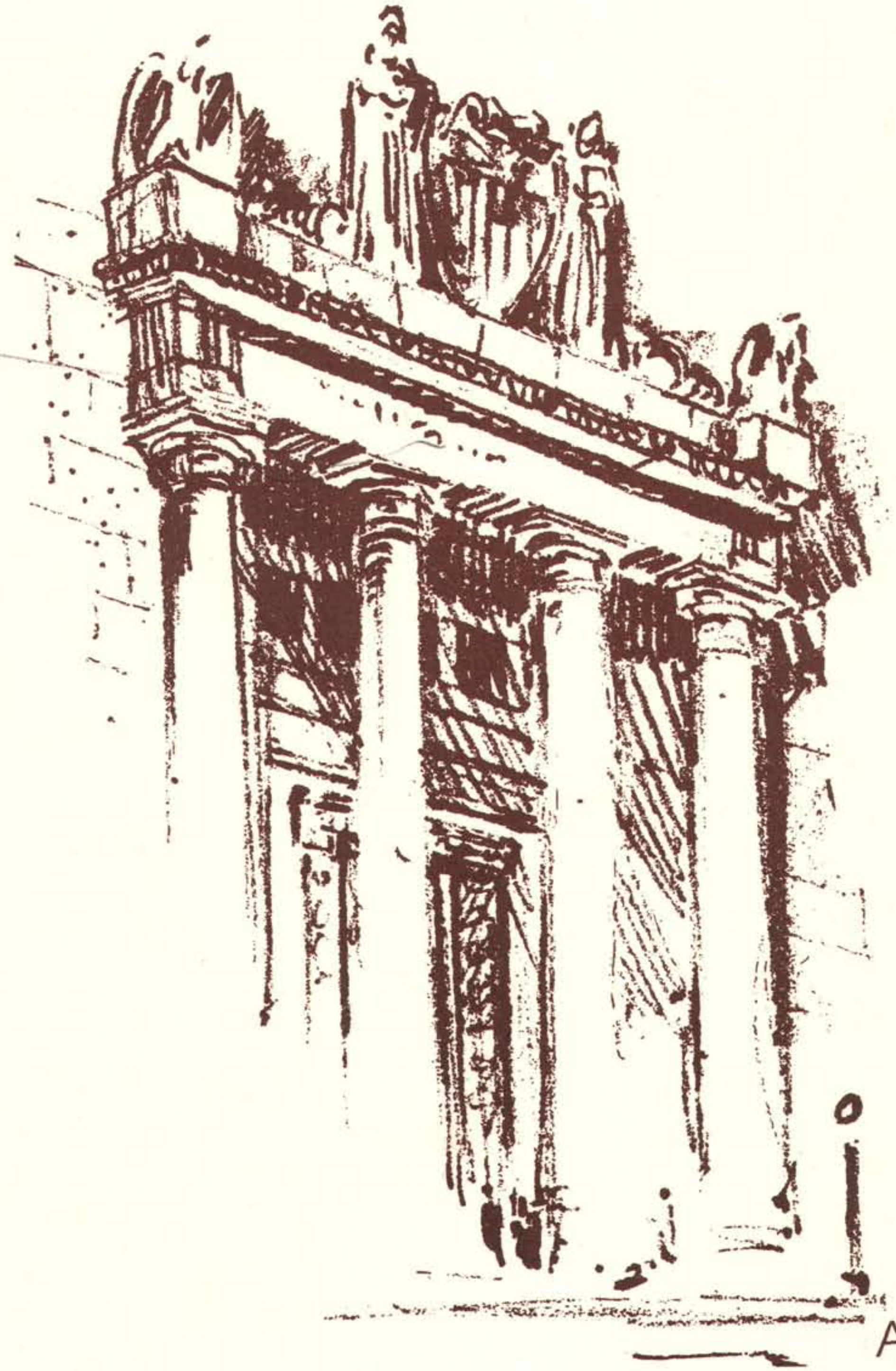
Federal Reserve Bank



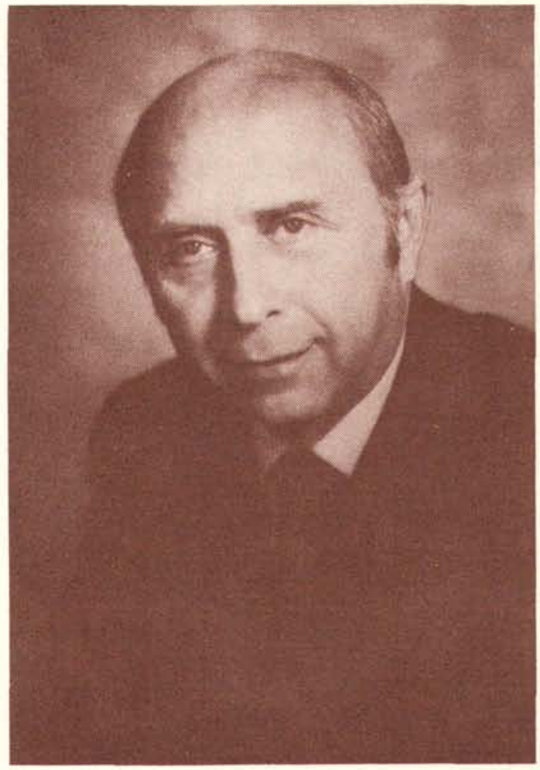
# of Dallas

El Paso
Houston
San Antonio

1977
ANNUAL REPORT

Contents

Ernest T. Baughman, President, Federal Reserve Bank of Dallas



Irving A. Mathews, Chairman of the Board, Federal Reserve Bank of Dallas

To Banks in the Eleventh Federal Reserve District:

In discussions last summer between the Committee on Membership of the Board of Directors of the Federal Reserve Bank of Dallas and representatives of banking associations in Texas, Oklahoma, Louisiana, and New Mexico, I became aware that we had not done an adequate job of familiarizing bankers in the District with some of our services. Frankly, that surprised me. I thought bankers knew all about the Federal Reserve. But upon checking into the matter, I found many bankers that were not knowledgeable about the Fed's seasonal loan program, its safekeeping services, and even its check collection services, to name a few.

This report is an attempt to more fully inform bankers about Federal Reserve services. I urge you to read it. The report may tell you more than you want to know about the Federal Reserve in the Eleventh District. On the other hand, it may touch only lightly on something that is interesting or useful to you. If you have questions after reading this report, write or call me. Better yet, invite me to your bank or community to give a public accounting on the Federal Reserve. I'll welcome the opportunity.

Sincerely yours,

Ernest T. Baughman

ERNEST T. BAUGHMAN
President

Services — What's Available to You

Check Processing

Americans write 35 billion checks a year, and it is anticipated that this number will double by 1986.

Almost 800 million checks were processed in the Eleventh District during 1977.

One responsibility given the Federal Reserve System when it was first established in 1913 was to improve the collection of checks. Much progress has been made in this area through the joint efforts of the commercial banks and the Federal Reserve. Check collection remains a high priority service. Last year, almost $14 million was spent on check collection in the Eleventh District, which was about 45 percent of our total operating expenses.

During 1977, we processed almost 800 million checks—an increase of about 8 percent over 1976. On average, we process daily about 950,000 city checks, 1,700,000 RCPC checks, and 550,000 checks drawn on banks outside the District. This volume requires more than 250 employees working on a 24-hour basis, an impressive array of specialized electronic machinery, and contracts with transportation companies linking us to the 1,537 banks in the District as well as to the other 36 Federal Reserve offices throughout the Nation.

At no charge, a member bank may deposit checks payable outside its city directly with its Federal Reserve Bank or Branch. The Federal Reserve processes the checks, presents them for collection, and credits the proceeds to the member's reserve account.

Most checks are collected "overnight," and the proceeds are available the day after deposit. Other checks are "same day" or "two day" items. Funds availability varies, of course, with the location of the bank on which a check is drawn.

Unfortunately, not all checks are paid upon presentment. An essential feature of the Fed's check clearing system is returning these unpaid cash items quickly. This is especially important in the Eleventh District since unpaid

Linking the 33 automated clearinghouses operated by the Federal Reserve into a nationwide system has been proposed by the Board of Governors. Concerning the proposal, the Board said "We hope to encourage the use of electronic fund transfers as a more efficient and less costly alternative to check payments."

checks are more numerous in the Southwest than in most regions of the country. A daily average of 52,000 items was returned unpaid to Federal Reserve offices in this District in 1977—up 13 percent from 1976. Since returned items require special handling, each one costs as much as handling about five regular checks.

The total number of checks written increases every year and if the recent annual growth rate continues, the number will double by 1986. This prospect provides a continuing challenge to both the Federal Reserve and commercial banks. We are constantly on the alert for new technology and procedures to expedite check collection and reduce costs.

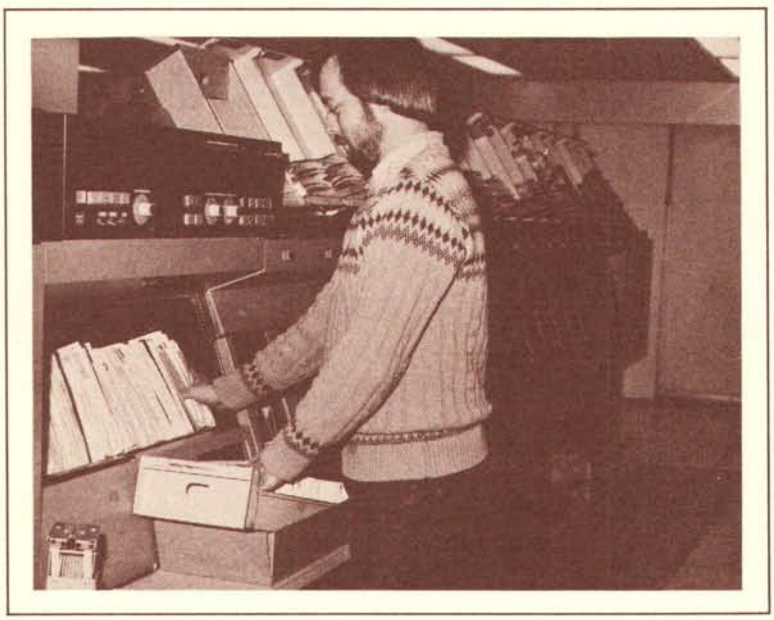
As we see it, there are two ways to improve the payments mechanism—one, develop more efficient ways to handle checks, and two, develop more convenient and cheaper ways to make payments. We are working on aspects of both approaches.

One improvement was the establishment of Regional Check Processing Centers (RCPC). With the cooperation of commercial banks, we organized the first RCPC in the District in 1972. RCPC zones have been expanded and now include areas approximately 150 miles around Dallas and 100 miles around San Antonio. All of the Houston territory outside Harris County is served by RCPC. These RCPC facilities have greatly increased our ability to collect checks overnight.

Another improvement was the establishment of the North Louisiana Settlement Center in 1976. Under this arrangement, two banks in Shreveport and two banks in Monroe receive and process items drawn on Eleventh District Louisiana banks in much the same way as the Federal Reserve does. Transportation time is reduced considerably, and overnight credit is granted to Eleventh District Louisiana banks participating in this program. A similar arrangement is under consideration for banks in West Texas.

Another change in 1977 of particular interest to small banks was an increase in the average number of unsorted cash items allowed in mixed cash letters. One-day credit is granted to member banks that have a daily average of no more than 5,000 items—increased from 2,000—excluding food stamps and checks payable in the same town as the sending bank.

We also see opportunities for cost savings and better payments service through greater use of electronic payments. Federal Reserve Banks have been transferring funds electronically for more than 50 years. In the District, the Federal Reserve Bank has cooperated with commercial banks in recent years to establish the SouthWestern Automated Clearing House Association, and as agent for the Association, processes and collects the ACH items. During 1977, a monthly average of about 600,000 electronic images representing a total of over $200 million were processed in the Eleventh District. Approximately 90 percent of this volume was government payments, and this volume is expected to increase. The volume of private payments is also expected to increase rapidly as nationwide service becomes available. The Board of Governors of the Federal Reserve System has proposed the linkage of automated clearinghouses into a nationwide system. Currently, local clearinghouse associations clear and settle electronic payments within their respective



An average of 2 million checks are processed daily on machines like this one at the Head Office.

regions. Under the proposal, ACH transfers could be made nationwide. As a result, direct deposit of payrolls, utilizing ACH facilities, is expected to develop rapidly, as are a number of other types of payments.

Improving Treasury check processing is another area of innovation. Since June 1976, the Federal Reserve Bank of Dallas has been pilot testing a Treasury check truncation program. Treasury checks are "truncated" in the sense that the paid checks are no longer delivered back to the Treasury. Instead, check information is recorded on magnetic tapes and microfilm which are sent to the Treasury for processing, storage, and retrieval. The major advantages of the truncation program when implemented nationwide in 1978 will be a reduction in Treasury expense, acceleration of Treasury check processing, and much faster response on adjustments. It is this latter feature that will be noticed by commercial banks.

In the longer term, the Treasury check truncation program could have important implications for commercial banking. Truncation of commercial bank checks may become feasible, and the System is currently cooperating with the American Bankers Association in a study of this issue.

This discussion of our check collection service and some of the recent and proposed changes necessarily has been sketchy. We are aware that the operating circulars which describe the service in detail are numerous, technical, and sometimes difficult to interpret. Therefore, we are working on a simplified statement of policies and practices affecting the collection of checks, which will be available in mid-1978.

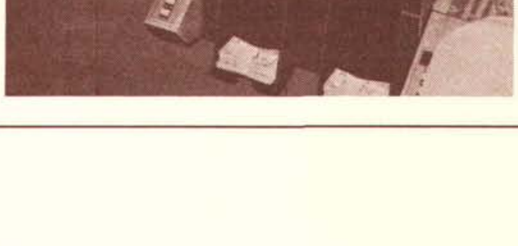
Currency and Coin

Issuance of the $2 bill was designed to save the Federal Reserve System about $27 million and the Treasury nearly $8 million during the first five years of use.

Nearly all member banks obtain their supplies of currency and coin from the Federal Reserve, and hence, are familiar with this service. Currency and coin is provided without charge to member banks and at cost to nonmembers. Bankers place their orders either by phone or mail. Deliveries and return currency shipments are scheduled giving consideration to banks' needs and distance from a Federal Reserve office. City banks are served twice a week and country banks once a week or once every two weeks. Special service can be arranged to meet unusual needs.

Last year, we shipped $3.76 billion of currency and coin to banks—an increase of 10 percent over 1976—in 388,000 shipments. The number of incoming shipments was much

The REI high-speed currency-processor counts, sorts, and verifies currency.



In 1977, 370 million bills, totaling about $3.5 billion, were counted and sorted in the Eleventh District.

smaller—49,000—but the dollar volume was nearly as large—$3.65 billion.

All incoming currency and coin is verified and sorted. Fit currency is packaged for recirculation, and unfit currency is destroyed.

In 1977, the Dallas Bank and its Branches sorted and counted about 370 million bills, totaling about $3.5 billion; about 900 million coins, totaling about $110 million. The volume of currency processed increased 5 percent over 1976, and the volume of coin processed increased almost 9 percent.

The Cash Departments at the Federal Reserve offices in the District employed about 100 people last year. High security handling of currency and coin involves costs for vaults, security personnel, and armored carriers. The expenditures in the cash operation, including purchase of new currency and coin, were almost $6.3 million or 18 percent of total operating expenses.

Counting, sorting, and packaging currency and coin has always been a labor intensive operation, but this is now changing. Nearly 15 years ago, the Federal Reserve System began studying the possibility of fully mechanizing currency processing. About five years ago, the relevant technology became available and potentially cost effective. Development contracts were negotiated with a number of manufacturing firms, and subsequently, testing began on some high-speed currency processors. The Fed wants a machine that will quickly and efficiently count, sort, and verify currency, then package the fit and destroy the unfit currency. Other high priority goals are increased security and reduced costs. In November 1975, Recognition Equipment, Inc., installed a prototype REI Mark II high-speed currency-handling machine in the Cash Department of the Dallas Reserve Bank for testing and further development. Machines of other manufacturers are in development and being tested at other Reserve Banks.

The REI machine is a fascinating product of modern technology. It "takes in" notes at a rate up to 50,000 per hour, and as it propels them along a track, each note is counted and checked for validity, fitness, and denomination. The fit notes are strapped in 100-note packages for recirculation, and the unfit notes are shredded and sold as waste. Counterfeits are detected and turned over to the Secret Service. Any notes the machine cannot "read" are rejected and processed by hand. And through all this, detailed records are generated so each bank's deposit is verified and auditors and examiners can follow every step of the trail.

One benefit of the new high-speed currency processor will be better and more consistent quality of recirculated currency. You may have noticed some deterioration in the quality of currency we have shipped in past months. This is because we have been counting some currency of small denominations with new medium-speed processors, which permit some worn or dirty bills to be returned to circulation. As the Reserve Banks shift currency processing to the new high-speed machines, this problem should be eliminated.

A large part of the expense of maintaining currency quality relates to the \$1 bill. Its average life after being put in circulation is about 18 months. Nearly 3 billion \$1 bills are in circulation, which represents about 50 percent of total currency in circulation. Printing, shipping, and processing so many \$1 bills is expensive for the Federal Reserve and the Treasury. It costs about \$18 to produce a thousand bills, regardless of denomination. In an effort to reduce expenses, a \$2 bill was introduced in 1975. Replacing \$1 bills with \$2 bills was estimated to save the government about \$35 million over the first five years. However, the \$2 bill has not gained acceptance among bankers or their customers, and most of them sit idle in our vaults.

Another proposal to reduce expenses associated with the \$1 bill is to place a small \$1 coin in circulation. This has been under consideration for some time. Since coins rarely wear out, it would be less expensive in the long run if a coin were to displace the \$1 bill.

In order to reduce transportation expenses, we have encouraged coin swapping between member banks within the same city in some areas. The local transportation costs are paid by the Federal Reserve Bank to avoid shipping expense to and from Federal Reserve offices. Coin swapping arrangements between member banks are now in effect in Lubbock, Wichita Falls, Shreveport, San Angelo, Fort Worth, Abilene, and Arlington.

Wire Transfer

The dollar volume of wire transfers of funds in the Eleventh District last year was almost $2.5 trillion.

Member banks may transfer funds quickly from one part of the country to another on the Federal Reserve Wire System.

Utilizing the Federal Reserve Communications System, a member bank may transfer funds from its reserve account to another member bank anywhere in the country in a matter of minutes. In 1977 in the Eleventh District, 1,734,781 transfers were made involving almost $2.5 trillion.

Transfers are initiated by a telephone call to our wire transfer section. There is no charge for transfers of $1,000 or more. A number of larger banks in the District have installed on-line terminals which enable them to send and receive funds more expeditiously. The Federal Reserve pays circuit and line costs for on-line terminals. Transfers initiated on such terminals flow through the Federal Reserve computers, and appropriate accounting entries are made without any "hands on" action by our staff. On-line banks have the advantage of receiving immediate advice of all incoming transfers. Thirty-five banks are now on-line with the Federal Reserve wire transfer system in the Eleventh District, and more banks are being added.

Banks may also use the Federal Reserve Communications System to transfer U.S. Government and government agency securities. Currently, 16 banks in the District have securities transfer capability in their on-line linkup with the Federal Reserve communications network. In 1977, 45,460 wire transfers of securities amounting to over $125 billion were made through Federal Reserve offices in the Eleventh District.

A plan to improve wire transfers of funds among banks has been proposed by the Federal Reserve Board. Under the proposal, member banks could use their reserve accounts to settle wire transfers conducted on BankWire. BankWire is a communications network owned by an association of commercial banks which provides interbank data communication services between about 200 banks throughout the country.

Fiscal Agent

The Federal Reserve System has responsibility to provide a number of financial services. Some of these are in areas where the Congress wanted improvements at the time it was considering the Federal Reserve Act and some result from the Federal Reserve's role as fiscal agent of the U.S. Government.

Federal Reserve Banks provide safekeeping facilities for the securities of member banks.

The Federal Reserve is fiscal agent for the U.S. Treasury and as such, services the public debt and maintains an effective market in Treasury securities. In performing these functions for the Treasury, the Fed also provides certain services to member banks, including safekeeping and the purchase and sale of securities.

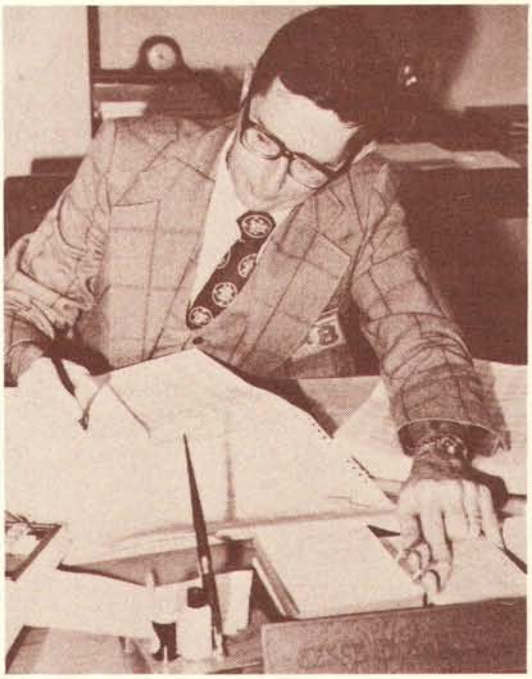
Member banks outside Federal Reserve cities may safekeep their securities at their Federal Reserve Bank or Branch without charge. Practically any type of security, including those of the Treasury, government agencies, and municipalities, may be held in safekeeping and serviced by our Securities Department. Interest is collected and credited to the owning bank's reserve account. An "Automatic Credit Plan" went into effect in April 1977 for banks that keep municipal bonds in our vaults. Under the plan, interest is credited to the owning bank according to an availability schedule rather than upon actual receipt of the interest by the Federal Reserve. The owning bank receives credit in one day if coupons are payable in Dallas and in two days if payable outside of Dallas.

Securities kept in our safekeeping are readily available to collateralize Treasury Tax and Loan accounts or loans from the discount window, and for sale, exchange, transfer, or redemption as desired.

Upon the request of a member bank, the Federal Reserve will purchase or sell U.S. Government or government agency securities. Several competitive bids are obtained and the most favorable price available in the market is executed.

Loans

Loan policies and procedures at Federal Reserve Banks have been updated and streamlined. Impressions handed down from someone's experience 50, 20, or even 10 years ago may no longer be relevant.



Our loan department made loans totaling $4.2 billion to member banks in the Eleventh District.

The most important responsibility given to the Federal Reserve at the time it was organized was the discounting of commercial paper. It was through this process that the Federal Reserve was to provide an elastic currency for the country. The discount function, originally conceived to be the heart of monetary policy, has long since been substantially displaced in this role by Federal Reserve open market operations—the purchase and sale of government securities in the open market. Nonetheless, the discount function is still important to member banks because it assures them of access to credit irrespective of general credit conditions.

In 1977, 58 member banks in the Eleventh District received 476 advances from the Federal Reserve for a total amount of about $4.2 billion. These numbers increased substantially over 1976, but were still small, reflecting the generally easy credit conditions.

Prior to 1973, relatively short-term adjustment credit was the only type of credit, besides emergency credit, regularly available from the Federal Reserve. In April 1973, a seasonal credit program was initiated, and it was liberalized in 1976 to enable more banks to qualify.

In 1977, about 70 percent of the member banks in the Eleventh District were eligible for the seasonal credit program. However, few banks used it, reflecting in part the generally easy credit conditions of last year. In view of the current low levels of grain and cattle prices, rising agricultural costs, and the relatively high volume of agricultural loans in some areas of the District, the demand for seasonal credit in 1978 is expected to increase.

Seasonal credit is available for extended periods to member banks that experience annual recurring needs for funds about the same time each year. It is particularly useful for small banks in rural, agricultural areas. Seasonal credit can help a bank provide adequate year-round liquidity for its community by making it easier to cope with strong seasonal pressures.

Adjustment credit is available to a member bank to meet temporary requirements for funds or to cushion more persistent outflows of funds during an orderly adjustment of the bank's assets and liabilities. Besides adjustment and seasonal credit, two other types of credit are available to member banks under unusual circumstances relating to either a particular bank or area.

The law requires that all loans be collateralized and that loans bearing the regular discount rate be secured by U.S. Government or federal agency obligations, or eligible commercial or agricultural paper. Other collateral which is acceptable to a Reserve Bank may be used to secure loans but at a rate at least one-half of 1 percent above the basic discount rate. The Federal Reserve has proposed to the Congress that this penalty rate be eliminated and that all collateral acceptable to a Federal Reserve Bank incur the same discount rate. This would further simplify our loan procedures.

Supervision and Regulation

The Federal Reserve Bank of Dallas has the responsibility of supervising 32 multibank and 68 one-bank holding companies in the Eleventh District.

Improvement of the supervision of banking was one of the responsibilities assigned to the Federal Reserve when it was organized. Significant changes are continually being made in this area. We are attempting to provide highly qualified examiners, to explore new examination and monitoring techniques, and to schedule concurrently the principal on-site examination and the various special-purpose examinations which are now required.

Over the years, the Congress has passed a great deal of legislation affecting banks, and responsibility for interpreting and implementing much of it has been given to the Federal Reserve. In recent years, the Fed has been given responsibility to write regulations implementing a number of the consumer protection laws. Reflecting the complexity of the underlying laws, the diversity of interests affected, and the large number of credit activities involved, these regulations have been admittedly complex. To help banks comply with the regulations and to inform consumers of their legal rights, a Consumer Affairs Section has been organized in our Bank Supervision and Regulations Department.

The Consumer Affairs staff conducts seminars for bankers throughout the District, provides speakers on the various consumer regulations, answers inquiries, provides interpretations, and visits with member banks to discuss compliance procedures required by consumer regulations.

Much interest has also been exhibited during recent years in one-bank holding companies. The Congress has assigned to the Federal Reserve the responsibility of administering the Bank Holding Company Act of 1956. Our Holding Company Supervision Department is responsible for the processing of applications under the Act, for the supervision and inspection of bank holding companies, and for other activities related to this growing trend in bank ownership in the Eleventh District.

Laws and regulations are constantly evolving with changing circumstances so an ongoing opportunity and need exist to eliminate the obsolete, to simplify the complex, to improve weaknesses, and to reduce administrative and compliance burdens. In this respect, bankers have a responsibility to call our attention to problem areas in the laws and regulations. Especially useful are specific suggestions for changes that would make the regulations more understandable, and hence, more manageable to the regulators, the regulated, and the public.

Other Services

"Functional Cost Analysis is one of the best things the Fed ever did; I wouldn't be without it."

Gene Adams
President of the First National Bank of Seymour
Director of Federal Reserve Bank of Dallas

Effective, profitable banking requires an awareness of the costs, revenues, and profits of each banking service. Many bankers do not have this information readily available, and even if they had it for their own bank, they would not have performance yardsticks with which to compare it.

Since 1966, the Federal Reserve Bank of Dallas has provided a Functional Cost Analysis (FCA) Program for member banks. FCA provides a comparative analysis of profitability and cost effectiveness of 12 major banking activities.

To participate, banks submit cost, volume, and income data covering the year's activities. Much of the required information is available from regular bank reports.

After the data are processed at the Federal Reserve Bank, each participating bank receives its individual report containing detailed cost figures for each of its banking functions. Comparisons are made with the preceding year and with banks of similar size and deposit structure. Break-even analyses and personnel efficiency measures are also included in the reports.

Information from participating banks is received at the Federal Reserve Bank in February; individual bank reports are produced and sent to participating banks in April. Federal Reserve technical analysts are available to assist member banks in interpreting the results for their bank. It is expected that in 1977, approximately 75 banks in the Eleventh District participated in the program.

The Federal Reserve Bank also undertakes economic research and public information activities. Our Research Department regularly collects banking, business, and agricultural data on the Southwest. Much of this is published regularly, and most of that which is not, is available to bankers and others on request.

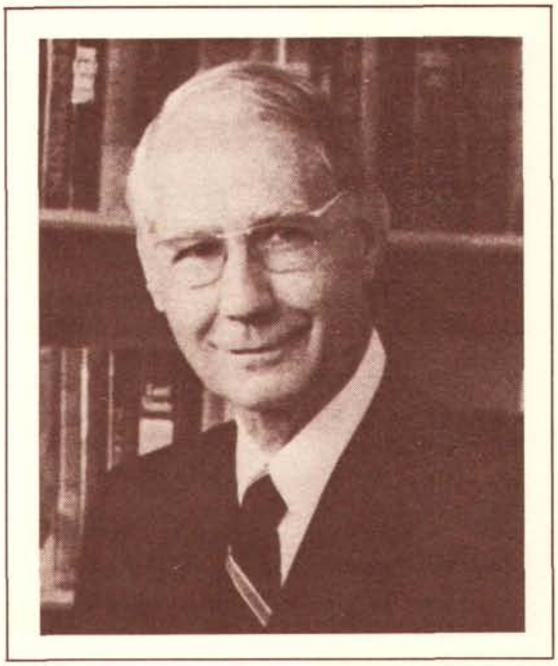
The Bank's management and professional staff is available to speak on economic and banking subjects at banking and civic functions.

In subject areas where we have expertise, we can assist with seminars or workshops to serve informational needs and interests of bankers and others in the District.

In Perspective

The demand for financial services will continue to expand. In this respect, financial institutions in the District have shown a commendable capacity to adjust to changing needs and opportunities. Further adaptation will be called for if economic opportunities are to be realized fully. It will be the ongoing responsibility of the Federal Reserve System and the Federal Reserve Bank of Dallas to provide along with sound monetary policy, financial and regulatory services that will facilitate achievement of the country's broad economic goals — full employment, price stability, and balance in international payments. Your advice and support in these undertakings in 1977 has been much appreciated and it is solicited in 1978 and succeeding years.

Membership



Frank Junell, Class A Director, Federal Reserve Bank of Dallas, Membership Committee

Membership in the Federal Reserve System has been declining and is a matter of increasing interest and concern. Since 1946, when 49 percent of all banks in the United States were members, membership has now declined to about 39 percent. Significantly, the proportion of all bank deposits held by member banks declined during this period from 86 percent to 74 percent. Trends in the Eleventh District were similar. These figures do not capture the full flavor of the erosion of membership because national banks are required to be members. State banks, for which membership is optional, have increasingly chosen nonmember status. Of the 1,700 banks chartered by the various states during 1970 to 1977, only about 600 decided to join the Federal Reserve System. During the same period, 403 member banks withdrew from membership. Moreover, large state banks have increasingly chosen nonmember status.

The Board of Directors of the Federal Reserve Bank of Dallas views these trends as serious developments. A Directors' Committee on Membership was appointed in 1977, consisting of Dr. Charles Beaird, Chairman, Shreveport, Louisiana; Gene Adams, Seymour, Texas; and Frank Junell, San Angelo, Texas. The Committee was directed to study all factors affecting membership. The Committee decided it needed to obtain the views of bankers throughout the Eleventh Federal Reserve District. The leadership of the state banking associations of Louisiana, New Mexico, Oklahoma, and Texas were invited to discuss with the Membership Committee the recent trends in membership, causes of these trends, and what, if anything, should and could be done about them.

In these discussions, it was quickly and unanimously agreed that a strong, viable, broadly based Federal Reserve System is in the best interest of banking and the country. It was agreed further that effective monetary policy requires a substantial degree of independence for the Nation's central bank and that such independence is more likely to be maintained if a broad representation of banks of all sizes, types, and geographic areas takes an active interest in the Federal Reserve System. Finally, it was agreed that cost was the most important reason for the decline in membership.

One key question, then, is how to reduce the cost of reserve requirements to a level at which all banks that favor a strong, effective

Charles T. Beaird, Deputy Chairman, Federal Reserve Bank of Dallas, Membership Committee

Gene D. Adams, Class A Director, Federal Reserve Bank of Dallas, Membership Committee

central bank can afford to be members. There are a number of alternatives. The cost of membership could be largely eliminated by reducing reserve requirements to very low levels. This view is consistent with studies at the Federal Reserve Banks of Boston, New York, and Kansas City. However, this would dilute the effective control of money and credit conditions.

The inequity of laying the cost of monetary control on one sector of the financial community could be eliminated by extending reserve requirements uniformly and equitably to all institutions that provide payments services. This has been proposed by the Federal Reserve, but has not received wide support in the financial community or the Congress.

The cost of reserve requirements could be reduced or eliminated by paying interest on required reserve balances held at the Federal Reserve Banks. This approach is included in a legislative proposal currently before the Congress. The major objections are that it would reduce the earnings of the Federal Reserve Banks paid to the U.S. Treasury and would be viewed by some as a government subsidy to member banks.

Another way to reduce costs would be to authorize banks to hold all or part of their required reserves in specified government securities or other earning assets. The effects would be similar to a reduction in reserve requirements.

Study of membership inequities continues at the Reserve Banks, the Board of Governors, and the Congress. It is imperative and highly probable that action will be taken soon.

Banking leaders in the District, in assessing other elements of the membership question, emphasized that banks lack sufficient information to evaluate the cost effectiveness of Federal Reserve services. This report is one response to their findings.

It was also suggested that Federal Reserve services should be simplified and streamlined. During recent months, the management of every department at the Federal Reserve Bank of Dallas and the Branches at El Paso, Houston, and San Antonio has reviewed its operations to identify procedures that could be changed to provide better services or easier access to them to member banks.

Board of Directors

Seated left to right: Gerald D. Hines, Charles T. Beaird, Irving A. Mathews, Margaret S. Wilson. Standing left to right: Robert H. Stewart, III, Stewart Orton, Gene D. Adams, Frank Junell, Thomas W. Herrick

Federal Reserve Banks have a board of nine directors — three Class A and three Class B directors elected by the large, medium, and small member banks in the District; and three Class C directors appointed by the Board of Governors. Class A directors are elected by the member banks to be representative of the stockholding banks and, as a matter of practice, are usually active officers of member banks. Class B directors are elected by the member banks to represent the public with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor, and consumers. Class C directors are appointed by the Board of Governors to represent the public with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor, and consumers. Neither Class B nor Class C directors may be officers, directors, or employees of a bank, and Class C directors are prohibited from being stockholders of any bank. All directors are selected without discrimination on the basis of race, creed, color, sex, or national origin. Terms of all the directors are three years, with one term in each class of directors expiring at the end of each year.

The Chairman and Deputy Chairman of the Board of Directors are designated by the Board of Governors from the Class C directors and the Chairman serves also as Federal Reserve Agent, the Board of Governors' representative in the District. He maintains control of currency until released to the Reserve Bank to be put in circulation as orders from commercial banks are filled.

Each Branch—El Paso, Houston, and San Antonio—has a seven-member Board of Directors, three of whom are appointed by the Board of Governors and four of whom are appointed by the Board of Directors of the Federal Reserve Bank of Dallas. Those appointed by the Board of Governors are persons actively engaged in commerce, agriculture, some other industrial pursuit, or the practice of a profession, and may not be officers, directors, or employees of any bank. Of those appointed by the Board of Directors of the Dallas Bank, three are usually bankers and one is a person who is actively engaged in commerce, agriculture, or some other industrial pursuit. All Branch Directors must reside within the territory served by the Branch.

A list of the directors of the Federal Reserve Bank of Dallas and its Branches at El Paso, Houston, and San Antonio as of December 31, 1977, is shown on pages 20-21.

The officers of the Federal Reserve Bank and Branches are appointed and their salaries determined by the Board of Directors within ranges approved by the Board of Governors. Appointment of the Reserve Bank President—the Bank's Chief Executive Officer—and First Vice President is subject to the approval of the Board of Governors.

The Boards of Directors of the Federal Reserve Banks of Dallas, Atlanta, and St. Louis annually elect a member and an alternate member of the Federal Open Market Committee (FOMC). The elected member and alternate member are selected from the Presidents and First Vice Presidents of those Banks. The FOMC, which is composed of the seven members of the Board of Governors and five elected representatives of the twelve Reserve Banks, meets periodically and establishes open market policy for the Federal Reserve System.

The Board of Directors appoints annually a representative from the District to the Federal Advisory Council. The Council, which consists of representatives of each of the twelve Federal Reserve Districts, meets at least four times each year to advise the Board of Gover-

El Paso Branch Board. Seated left to right: George V. Janzen, Josefina A. Salas-Porras, Gage Holland, Wayne Stewart. Standing left to right: Arnold B. Peinado, Jr., A. J. Losee, Reed H. Chittim nors on matters of interest to the Board and any other matters the Council believes should be brought to the Board's attention. Ben F. Love, Chairman of the Board and Chief Executive Officer, Texas Commerce Bank, National Association, Houston, served as a member of the Federal Advisory Council representing the Eleventh Federal Reserve District during 1977, and he was succeeded by James D. Berry, Chairman of the Board and Chief Executive Officer, Republic of Texas Corporation, Dallas, effective January 1, 1978.

Every 14 days, the Board of Directors establishes the rates of interest on Reserve Bank loans to member banks, individuals, and corporations other than member banks, subject to review and determination of the Board of Governors. Likewise, every 14 days at each regular meeting of the Board of Directors or its Executive Committee, there is submitted for ratification a report showing the Bank's borrowing activities since the last report.

In addition to these specific matters, the directors have the responsibilities generally ascribed to bank directors and, along with the Board of Governors, provide general surveillance of the Federal Reserve Bank.

Houston Branch Board. Left to right: P. K. Stubblefield, Bookman Peters, Gene M. Woodfin, Seth W. Dorbandt, Alvin I. Thomas, Nat S. Rogers. Not shown in picture: Jereome L. Howard

San Antonio Branch Board. Seated left to right: Pete Morales, Jr., Marshall Boykin III, Richard W. Calvert. Standing left to right: Pat Legan, Leon Stone, John H. Holcomb, Ben R. Low

Changes in Directors

At the Head Office, the Board of Governors redesignated Irving A. Mathews, San Antonio, Chairman of the Board and Federal Reserve Agent and Charles T. Beaird, Shreveport, Deputy Chairman for the year 1978. The Board of Governors reappointed Irving A. Mathews for an additional three-year term as a Class C director, effective January 1, 1978. The member banks in the District reelected Frank Junell (Class A), San Angelo, and Gerald D. Hines (Class B), Houston, for additional three-year terms beginning January 1, 1978.

At the El Paso Branch, the Board of Governors appointed Chester J. Kesey, Partner, Kesey Bros. Enterprises, Pecos, Texas, as a director of that Branch for a three-year term beginning January 1, 1978, succeeding Gage Holland, Alpine, Texas, whose term expired. The Board of Directors of the Federal Reserve Bank of Dallas appointed Claude E. Leyendecker, President, Mimbres Valley Bank, Deming, New Mexico, to a three-year term as a director of the El Paso Branch, effective January 1, 1978, succeeding Wayne Stewart, Alamogordo, New Mexico, whose term expired.

At the Houston Branch, the Board of Governors reappointed Gene M. Woodfin, Houston, for an additional three-year term as a director of that Branch, effective January 1, 1978. The Board of Directors of the Federal Reserve Bank of Dallas appointed J. Earl Williams, Director, Institute of Labor and Industrial Relations, University of Houston, Houston, to a three-year term as a director of the Houston Branch, effective January 1, 1978, succeeding Seth W. Dorbandt, Conroe, whose term expired.

At the San Antonio Branch, the Board of Governors appointed John J. McKetta, Jr., E. P. Schoch Professor of Chemical Engineering, The University of Texas, Austin, as a director of that Branch for a three-year term beginning January 1, 1978, succeeding Marshall Boykin III, Corpus Christi, whose term expired. The Board of Directors of the Federal Reserve Bank of Dallas appointed John H. Garner, President and Chief Executive Officer, Corpus Christi National Bank, Corpus Christi, to a three-year term as a director of the San Antonio Branch, effective January 1, 1978, succeeding Leon Stone, Austin, whose term expired.

Directors

December 31, 1977

Federal Reserve Bank of Dallas

Irving A. Mathews	(Chairman and Federal Reserve Agent), Chairman of the Board and Chief Executive Officer, Frost Bros., Inc., San Antonio, Texas
Charles T. Beaird	(Deputy Chairman), Publisher, **Shreveport Journal,** Shreveport, Louisiana
Gene D. Adams	President, The First National Bank of Seymour, Seymour, Texas
Thomas W. Herrick	Cattle and Investments, Amarillo, Texas
Gerald D. Hines	Owner, Gerald D. Hines Interests, Houston, Texas
Frank Junell	Chairman of the Board, The Central National Bank of San Angelo, San Angelo, Texas
Stewart Orton	President, Foley's, Division of Federated Department Stores, Inc., Houston, Texas
Robert H. Stewart, III	Chairman of the Board, First International Bancshares, Inc., Dallas, Texas
Margaret S. Wilson	Chairman of the Board and Chief Executive Officer, Scarbroughs Stores, Austin, Texas

El Paso Branch

Gage Holland	(Chairman), Owner, Gage Holland Ranch, Alpine, Texas
Josefina A. Salas-Porras	(Chairman Pro Tem), Executive Director, BI Language Services, El Paso, Texas
Reed H. Chittim	President, First National Bank of Lea County, Hobbs, New Mexico
George V. Janzen	El Paso, Texas
A. J. Losee	President, Losee & Carson, P. A. (a lawyers' professional corporation), Artesia, New Mexico
Arnold B. Peinado, Jr.	Partner, AVC Development, El Paso, Texas
Wayne Stewart	President, First National Bank in Alamogordo, Alamogordo, New Mexico

Houston Branch

Alvin I. Thomas	(Chairman), President, Prairie View A&M University, Prairie View, Texas
Gene M. Woodfin	(Chairman Pro Tem), Chairman of the Board and Chief Executive Officer, Marathon Manufacturing Company, Houston, Texas
Seth W. Dorbandt	Chairman of the Board, First National Bank in Conroe, Conroe, Texas
Jerome L. Howard	Chairman of the Board and Chief Executive Officer, Mortgage and Trust, Inc., Houston, Texas
Bookman Peters	President, The City National Bank of Bryan, Bryan, Texas
Nat S. Rogers	President, First City National Bank of Houston, Houston, Texas
P. K. Stubblefield	Chairman of the Board, Victoria Bank & Trust Company, Victoria, Texas

San Antonio Branch

Marshall Boykin III	(Chairman), Senior Partner, Wood, Boykin & Wolter, Lawyers, Corpus Christi, Texas
Pete Morales, Jr.	(Chairman Pro Tem), President and General Manager, Morales Feed Lots, Inc., Devine, Texas
Richard W. Calvert	Chairman of the Board, National Bank of Commerce of San Antonio, San Antonio, Texas
John H. Holcomb	Owner-Manager, Progreso Haciendas Company, Progreso, Texas
Pat Legan	Owner, Legan Properties, San Antonio, Texas
Ben R. Low	Vice President, Commerce North Bank, National Association, San Antonio, Texas
Leon Stone	President, The Austin National Bank, Austin, Texas

Federal Advisory Council Member

Ben F. Love	Chairman of the Board and Chief Executive Officer, Texas Commerce Bank, National Association, Houston, Texas

Officers

DECEMBER 31, 1977

Ernest T. Baughman
President

Robert H. Boykin
First Vice President

George C. Cochran, III
Senior Vice President

Harry E. Robinson, Jr.
Senior Vice President

Tony J. Salvaggio
Senior Vice President

Robert A. Brown
General Auditor

Joseph E. Burns
Vice President

Ralph T. Green
Vice President and Senior Economic Adviser[1]

C. J. Pickering
Vice President

W. M. Pritchett
Vice President

George F. Rudy
Vice President and General Counsel

Thomas R. Sullivan
Vice President

E. W. Vorlop, Jr.
Vice President and Controller

John C. Blake
Assistant Vice President

J. A. Clymer
Assistant Vice President

Forrest E. Coleman
Assistant Vice President

Arnold L. Hayes
Assistant Vice President[2]

Richard D. Ingram
Assistant Vice President and Assistant Secretary

Larry J. Reck
Assistant Vice President

Thomas H. Rust
Assistant Vice President

Neil B. Ryan
Assistant Vice President

Jesse D. Sanders
Assistant Vice President

Sammy T. Schulze
Assistant Vice President

Robert Smith, III
Assistant Vice President and Secretary

T. E. Spreng
Assistant Vice President

E. A. Thaxton, Jr.
Assistant Vice President

Carla M. Warberg
Assistant Vice President and Assistant Controller

Millard E. Sweatt, Jr.
Assistant General Counsel

Adrian W. Throop
Research Officer

C. L. Vick
Assistant General Auditor

El Paso Branch

Fredric W. Reed
Vice President in Charge

Joel L. Koonce, Jr.
Assistant Vice President

Houston Branch

J. Z. Rowe
Vice President in Charge

Sammie C. Clay
Assistant Vice President

Vernon L. Bartee
Operations Officer

C. O. Holt, Jr.
Operations Officer

San Antonio Branch

Carl H. Moore
Vice President in Charge

Thomas H. Robertson
Assistant Vice President

Thomas C. Cole
Operations Officer

Robert W. Schultz
Operations Officer

1 Retired as of December 31, 1977.

2 Leon W. Cowan, Vice President, resigned effective March 25, 1977 to accept a position as Executive Vice President of a commercial bank. Effective April 1, 1977, Mr. Hayes was elected Assistant Vice President and assumed supervision of the Regulations Department.

Statement of Condition

	December 31 1977	1976
Assets		
Gold certificate account	**$ 455,761,300**	$ 420,435,200
Special Drawing Rights certificate account	**48,000,000**	46,000,000
Federal Reserve notes of other Banks[1]	**—**	218,342,208
Coin[2]	**12,490,901**	—
Other cash	**—**	21,374,602
Loans and Securities:		
Loans	**23,900,000**	1,937,000
Federal agency obligations	**400,194,000**	322,689,000
U.S. Government securities	**5,045,971,000**	4,430,078,000
Total loans and securities	**5,470,065,000**	4,754,704,000
Cash items in process of collection	**887,588,775**	806,060,718
Bank premises	**11,537,528**	11,660,735
Operating equipment[3]	**—**	2,993,827
Other assets	**97,052,188**	72,182,698
Interdistrict settlement account	**290,303,728**	359,136,915
Total Assets	**$7,272,799,420**	$6,712,890,903
Liabilities		
Federal Reserve notes in actual circulation	**$4,071,753,548**	$3,702,248,269
Deposits:		
Member bank — reserve accounts	**1,922,220,415**	1,713,142,757
U.S. Treasury — general account	**452,959,410**	572,289,012
Foreign	**15,439,200**	13,199,200
Other	**34,150,904**	36,731,901
Total deposits	**2,424,769,929**	2,335,362,870
Deferred availability cash items	**602,336,081**	523,267,376
Other liabilities	**57,494,562**	41,604,788
Total Liabilities	**$7,156,354,120**	$6,602,483,303
Capital Accounts		
Capital paid in	**$ 58,222,650**	$ 55,203,800
Surplus	**58,222,650**	55,203,800
Total Capital Accounts	**$ 116,445,300**	$ 110,407,600
Total Liabilities and Capital Accounts	**$7,272,799,420**	$6,712,890,903

[1] Effective January 1, 1977, Federal Reserve notes of other Banks were merged into the liability account for Federal Reserve notes.

[2] Beginning January 1, 1977, the coin previously reflected in the "Other cash" account was reported as "Coin" and the remainder of "Other cash" was reflected in "Other assets".

[3] Beginning January 1, 1977, "Operating equipment" was transferred to "Other assets".

Earnings and Expenses

	December 31 1977	1976
Current Earnings		
Loans	$ 2,723,562	$ 475,491
U.S. Government securities	332,863,131	311,643,884
Foreign currencies	156,692	1,581,130
All other	36,858	37,928
Total Current Earnings	$335,780,243	$313,738,433
Current Expenses		
Current operating expenses	$ 30,594,164	$ 29,725,121
Assessment for expenditures of Board of Governors[1]	—	2,333,400
Federal Reserve currency	3,282,154	3,960,348
Total	33,876,318	36,018,869
Less reimbursement for certain fiscal agency and other expenses	1,984,865	1,694,581
Net Expenses	$ 31,891,453	$ 34,324,288
Profit and Loss		
Current net earnings	$303,888,790	$279,414,145
Additions to current net earnings:		
Profit on sales of U.S. Government securities (net)	—	1,654,866
All other	1,483,426	108,644
Total additions	1,483,426	1,763,510
Deductions from current net earnings:		
Loss on sales of U.S. Government securities (net)	2,511,669	—
Loss on Foreign Exchange (net)	8,197,523	1,404,150
All other	151,129	112,246
Total deductions	10,860,321	1,516,396
Net additions or deductions (—)	—9,376,895	247,114
Assessment for expenditures of Board of Governors[1]	2,666,700	—
Net earnings before dividends and payments to U.S. Treasury	291,845,195	279,661,259
Dividends paid	3,411,215	3,206,262
Payments to U.S. Treasury (interest on F.R. notes)	285,415,130	273,148,947
Transferred to surplus	3,018,850	3,306,050
Surplus, January 1	55,203,800	51,897,750
Surplus, December 31	$ 58,222,650	$ 55,203,800

[1] Assessment for expenditures of Board of Governors was reflected in current expenses in 1976 and deducted from net earnings in 1977.

Volume of Operations

Federal Reserve Bank of Dallas
Head Office and Branches Combined

Loans
Currency received and counted
Coin received and counted
Checks handled:
  U.S. Government checks
  Postal money orders
  All other[2]
Collection items handled:
  U.S. Government coupons paid
  All other
Issues, redemptions, and exchanges
  of U.S. Government securities
Transfers of funds
Food stamps redeemed

[1] Packaged items handled as a single item are counted as one piece.
[2] Exclusive of checks drawn on the F.R. Banks.

Number of Pieces Handled[1]		Dollar Amount	
1977	1976	**1977**	1976
476	187	**4,228,661,540**	593,889,000
364,420,192	346,920,424	**3,499,314,100**	3,205,658,350
864,737,974	794,557,830	**114,474,533**	104,798,232
46,827,394	48,498,034	**23,779,176,262**	23,982,336,102
9,849,051	10,961,031	**474,292,897**	505,858,065
796,315,257	739,448,798	**360,046,900,966**	304,324,958,777
191,112	229,504	**124,662,586**	144,611,770
243,536	130,613	**252,655,383**	250,436,812
12,356,007	12,238,573	**91,382,954,992**	96,837,011,114
1,766,467	1,402,719	**2,420,549,418,434**	1,943,679,452,931
108,785,207	121,418,203	**446,281,276**	496,215,549

Eleventh Federal Reserve District