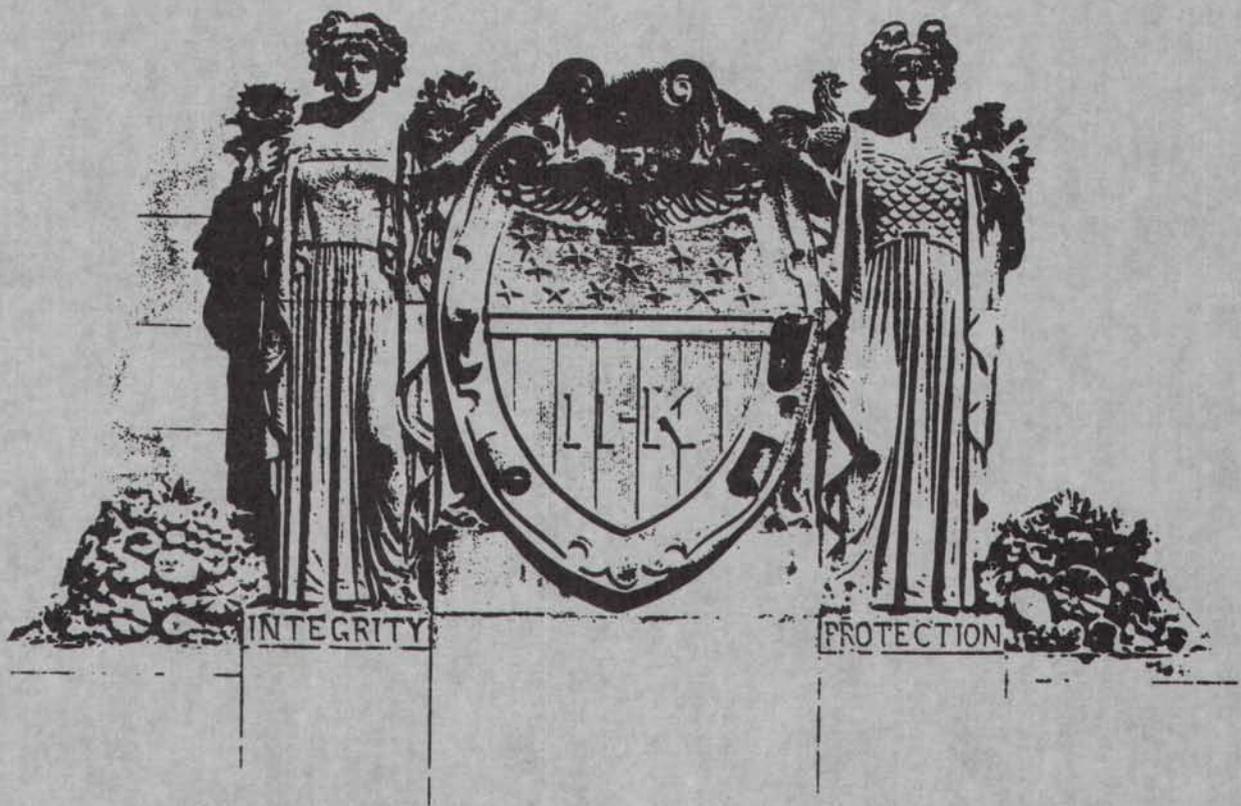


Federal Reserve Bank of Dallas



Annual Report 1979



To Member Banks in the Eleventh Federal Reserve District:

1979 was an active year in the Eleventh Federal Reserve District. Production was at high levels in both industry and agriculture. Drilling activity for oil and gas was stepped up. Economic growth was boosted by continued in-migration of both firms and families as well as the strong demand for the region's major products and services. Labor markets have been tight, and job-hopping has been widespread, especially in the larger metropolitan areas.

Financial institutions have responded to, and contributed to, the region's continued rapid economic development, while also adapting to the ongoing flow of regulatory changes. Bank examinations and holding company inspections have become much more comprehensive and, in some respects, more detailed as well. The structure of banking has continued to change, although probably less than it appears on the surface. New charters have been issued by both the State authorities and the Comptroller of the Currency; multibank holding companies have acquired additional banks; and a large number of one-bank holding companies have been organized. Banking service levels, competition, profitability and "soundness" all appear to have moved positively.

Monetary policy during 1979 was designed to restrain the growth of money and bank credit and to slow the pace of inflation. The first was achieved, albeit somewhat erratically; the latter was not.

Monetary growth was very slow in the first quarter of 1979, very strong in the second and third quarters, and moderate in the fourth quarter. Bank credit, on the other hand, increased strongly during the first three quarters and slowed to a moderate pace only in the fourth quarter following strident policy actions taken early in October.

Interest rates were fairly stable during the first half of 1979, softened perceptibly around mid-year, and then rose sharply beginning in July-August. By year-end, yields on money market instruments had settled back from their October peaks, but yields on AAA corporate bonds had moved above their October-November highs. The bank prime rate, at 15¼ percent, was down by one-half point from its November peak.

The monetary policy actions in October were taken in an environment of greater-than-expected strength in economic activity, accelerating inflation, declining exchange value of the U.S. dollar, and, as noted above, excessively strong growth rates for money and bank credit. The actions included an increase of one percent, to 12 percent, in the Federal Reserve Banks' discount rates, imposition of an additional reserve requirement of 8

percent on acquisitions of "managed liabilities" above the amounts held in a base period for large banks, and a basic change in method of conducting open market operations, with Federal funds permitted to seek market-determined levels while the Federal Reserve directs its efforts to achieve desired monetary growth by influencing the growth of total reserves.

These policy measures had the desired effects of slowing both monetary and bank credit growth rates in the fourth quarter and imparting greater stability to the exchange value of the dollar. Similar results had been achieved for a number of months following a somewhat similar package of policy actions in November 1978, excepting that growth of bank credit continued unabated.

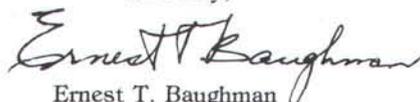
Inflation, however, has gained additional momentum, augmented by foreign as well as domestic developments. It has proved more difficult to constrain than was generally believed possible. The constraining policies, therefore, have been inadequate and have been the subject of ongoing review and reevaluation. Generally, it is believed the right medicine has been prescribed. If that view is correct, the dosage must have been inadequate. Clearly, the restraint of inflation will remain high on the list of problems to be addressed in 1980.

The rising volumes of checks, currency, wire transfers, and supervisory and regulatory activities have required some increase in staff at the Federal Reserve offices in the District in 1979. Attention has been directed to achieving and maintaining appropriate service levels as well as close control of expenses. Your comments and suggestions during the year have been helpful in this respect, and I would encourage you to continue to bring to our attention any instances where a better balance may be struck between service and expense.

Your continuing interest in matters related to Federal Reserve membership is appreciated also. The Congress continues to grapple with this many-faceted issue and, hopefully, will be able to resolve it soon in a way that serves the needs of effective monetary policy and equity among all financial institutions engaged in providing payments services.

In this report are presented the usual financial statements for this Bank, the directors and officers of each office, and brief comments on the major services provided. We will welcome any inquiry or suggestions you may have on these or other matters as we move through 1980.

Sincerely,


Ernest T. Baughman
President

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Monetary Policy: 1979 in Retrospect

Monetary policy in 1979 was designed to foster financial conditions conducive to moderate economic expansion, slowing inflation, and a degree of stability in the exchange value of the dollar in international money markets. Besides monetary policy, the economy was affected by many other factors such as government spending and taxing decisions, a usually low consumer savings rate and instability abroad.

In February 1979 the Federal Open Market Committee pursuant to the full Employment and Balanced Growth Act of 1978, sometimes referred to as the Humphrey-Hawkins Act, established the following ranges within which they expected the yearly growth of the monetary aggregates to fall: M_1 , 1½-4½ percent; M_2 , 5-8 percent; M_3 , 6-9 percent; and bank credit, 7½-10½ percent. The range for M_1 reflected an estimate that the shifting of funds from demand deposits to ATS accounts and NOW accounts would depress M_1 growth relative to normal by around 3 percentage points. These ranges were reviewed and reaffirmed at midyear.

In the fall it became clear that the effect of ATS and NOW accounts on money supply growth was to depress it by about 1½ percent rather than 3 percent. Consequently, the

1½-to 4½-percent range translated into an equivalent range of 3 and 6 percent. The actual growth experienced for the targeted aggregates, fourth quarter 1978 to fourth quarter 1979, were: M_1 , 5.5 percent; M_2 , 8.4 percent; M_3 , 8.2 percent; and bank credit, 15.9 percent.

Responding to instability in the foreign exchange markets which threatened the value of the dollar and to accelerating growth in the money supply measures, the Federal Reserve on October 6 made changes in all of the primary tools for monetary control. In recent years the Federal Open Market Committee had fixed a relatively narrow range within which Federal funds would trade on a weekly average basis. Open market operations were conducted to keep the interest rate within the range, and sometimes the result was undesired growth in bank reserves. Under the new procedures the Federal funds rate will be allowed to fluctuate over a wide range. Greater emphasis will be placed on control of bank reserves, which affect bank credit and money supply growth.

Member banks which are short of reserves may borrow from their Federal Reserve Bank. The discount rate, at which member banks borrow, had been increased from 9.5 percent in January 1979 to 11 percent in September 1979. As part of the October 6 program, the

rate was raised to 12 percent from 11 percent to discourage borrowing. Moreover, the Board indicated that the discount rate would be managed flexibly to control member bank borrowing.

Another part of the October 6 program was the establishment of an 8-percent marginal reserve requirement on increases in "managed liabilities". "Managed liabilities" include large time deposits (\$100,000 and over with maturities of less than one year), Eurodollar borrowings, repurchase agreements against U.S. Government and federal agency securities, and Federal funds borrowings from a nonmember institution. These "managed" liabilities grew over \$17 billion in the three months prior to October and contributed a significant part of the funds used by the banks to expand credit and the money supply over that period. The marginal reserve requirement is intended to raise the cost of this source of funds to the banking system and thereby restrain the growth of bank credit.

The Federal Reserve, in February 1980, reported to the Congress long term targets for money supply growth, fourth quarter 1979 to fourth quarter 1980. They used new definitions of money stock data. After exhaustive study, the Board announced monetary data

definitions to be used in the conduct of monetary policy would consist of: M_1A which equals currency plus demand deposits (net of foreign demand deposits); M_1B which equals M_1A plus other checkable deposits (including ATS, NOW, share drafts and mutual savings bank demand deposits); M_2 which equals M_1B plus overnight repurchase agreements (RP's) issued by commercial banks, Eurodollar overnight deposits at Caribbean branches of U.S. banks, money market mutual fund shares, savings and small time deposits at all depository institutions; and M_3 which equals M_2 plus large time deposits at all depository institutions, and term RP's issued by commercial banks and savings and loan associations. These measures are intended to more broadly cover the liquidity provided by the financial sector and the Federal Reserve System.

In general the 1979 growth of these new monetary aggregates did not slow as much as the System's old money measures. However with Federal Reserve policy now more directly focused on monetary growth and total reserves and the Federal funds rate more free to respond to market forces, and the new money growth rates targeted for slower growth in 1980, the monetary restraint on inflation is expected to be more effective.

Directors



Head Office Board. Seated left to right: Stewart Orton, Gerald D. Hines, Paul A. Volcker (Chairman of the Board of Governors), Irving A. Mathews, Ernest T. Baughman (President of the Federal Reserve Bank of Dallas). Standing left to right: Frank Junell, Kent Gilbreath, Robert H. Boykin (First Vice President of the Federal Reserve Bank of Dallas), Gene D. Adams, Lewis H. Bond, J. Wayland Bennett.

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

Gerald D. Hines

(Deputy Chairman), Owner, Gerald D. Hines Interests,
Houston, Texas

Gene D. Adams

President, The First National Bank of Seymour,
Seymour, Texas

J. Wayland Bennett

Charles C. Thompson Professor of Agricultural Finance
and Associate Dean, College of Agricultural Sciences,
Texas Tech University, Lubbock, Texas

Lewis H. Bond

Chairman of the Board and Chief Executive Officer,
Texas American Bancshares Inc., Fort Worth, Texas

Kent Gilbreath

Professor of Economics,
Department of Economics and Finance,
Baylor University, Waco, Texas

Frank Junell

Chairman of the Board,
The Central National Bank of San Angelo,
San Angelo, Texas

Stewart Orton

Chairman of the Board and Chief Executive Officer
Foley's, Division of Federated Department Stores, Inc.,
Houston, Texas

Margaret S. Wilson

Chairman of the Board and Chief Executive Officer,
Scarbroughs Stores, Austin, Texas



El Paso Branch Board. Seated left to right: Josefina A. Salas-Porras, A. J. Losee, Paul A. Volcker (Chairman of the Board of Governors), Ernest T. Baughman (President of the Federal Reserve Bank of Dallas), Chester J. Kesity. Standing left to right: Joel L. Koonce, Jr. (Vice President in Charge of the El Paso Branch), Charles A. Joplin, Claude E. Leyendecker, Arthur L. Gonzales.

El Paso Branch

A. J. Losee

(Chairman), Shareholder, Losee, Carson, & Dickerson, P.A. (a lawyers' professional corporation), Artesia, New Mexico

Chester J. Kesity

(Chairman Pro Tem), C. J. Kesity Enterprises, Pecos, Texas

Arthur L. Gonzales

President, First City National Bank of El Paso, El Paso, Texas

Charles A. Joplin

President, Security National Bank of Roswell, Roswell, New Mexico

Claude E. Leyendecker

President, Mimbres Valley Bank, Deming, New Mexico

Arnold B. Peinado, Jr.

Partner, AVC Development, El Paso, Texas

Josefina A. Salas-Porras

Executive Director, BI Language Services, El Paso, Texas



Houston Branch Board. Seated left to right: Ernest T. Baughman (President of the Federal Reserve Bank of Dallas), Paul A. Volcker (Chairman of the Board of Governors), Jerome L. Howard. Standing left to right: Raymond L. Britton, Ralph E. David, J. Z. Rowe (Vice President in Charge of the Houston Branch), Granville M. Sawyer.

Houston Branch

Gene M. Woodfin

(Chairman), Chairman of the Board and Chief Executive Officer, Marathon Manufacturing Company, Houston, Texas

Jerome L. Howard

(Chairman Pro Tem), Chairman of the Board and Chief Executive Officer, Mortgage and Trust, Inc., Houston, Texas

Raymond L. Britton

Labor Arbitrator and Professor of Law, University of Houston, Houston, Texas

John T. Cater

President, Bank of the Southwest National Association, Houston, Texas

Ralph E. David

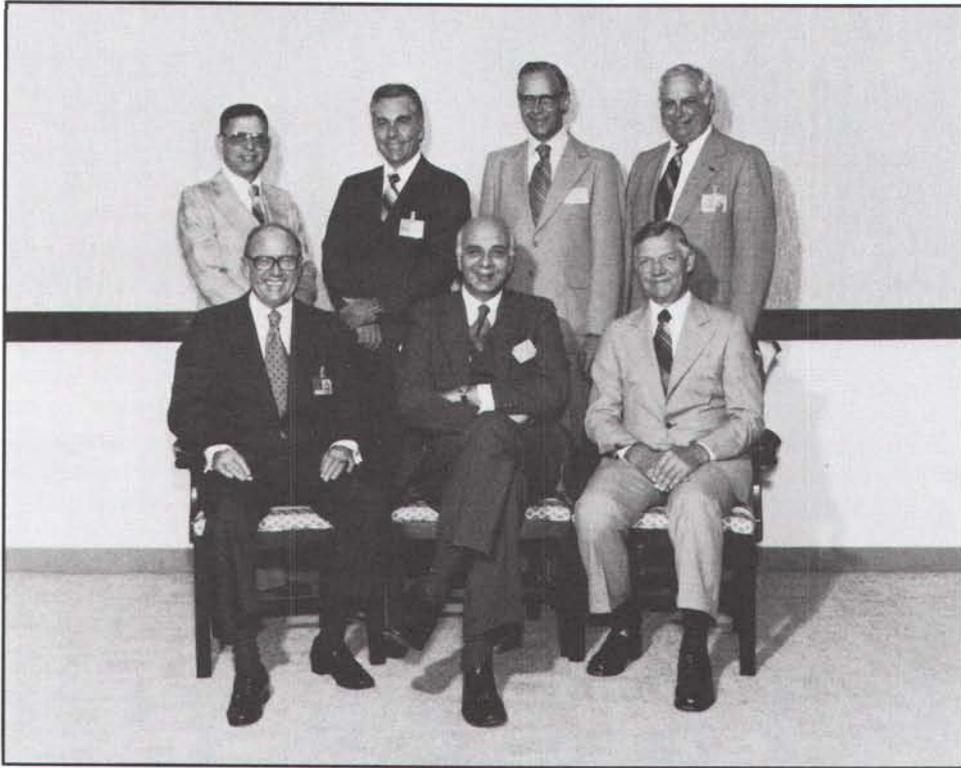
President, First Freeport National Bank, Freeport, Texas

Granville M. Sawyer

President, Texas Southern University, Houston, Texas

P. K. Stubblefield

Chairman of the Board, Victoria Bank & Trust Company Victoria, Texas



San Antonio Branch Board. Seated left to right: Pat Legan, Paul A. Volcker (Chairman of the Board of Governors), Ernest T. Baughman (President of the Federal Reserve Bank of Dallas). Standing left to right: Carlos A. Zuniga, Ben R. Low, Carl H. Moore (Vice President in Charge of the San Antonio Branch), John H. Garner.

San Antonio Branch

Pat Legan

(Chairman), Owner, Legan Properties, San Antonio, Texas

Carlos A. Zuniga

(Chairman Pro Tem), Zuniga Freight Services, Inc.,
Laredo, Texas

Charles E. Cheever, Jr.

President, Broadway National Bank, San Antonio, Texas

John H. Garner

President and Chief Executive Officer, Corpus Christi
National Bank, Corpus Christi, Texas

John H. Holcomb

Owner-Manager, Progreso Haciendas Co.,
Progreso, Texas

Ben R. Low

President, National Bank of Commerce, Kerrville, Texas

Changes in Directors and Officers

Directors and Council Member

Head Office Board Irving A. Mathews, Chairman of the Board and Chief Executive Officer of Frost Bros., Inc., San Antonio, Texas, was redesignated Chairman of the Board for 1980 by the Board of Governors. Gerald D. Hines, Owner, Gerald D. Hines Interests, Houston, Texas, was redesignated Deputy Chairman for 1980. Margaret S. Wilson, Chairman of the Board and Chief Executive Officer of Scarbroughs Stores, Austin, Texas, was reappointed a Class C Director for a three-year term beginning January 1, 1980.

Member banks in the Eleventh District elected two new directors to begin three-year terms effective January 1, 1980. Robert D. Rogers, President of Texas Industries, Inc., Dallas, Texas, succeeded Stewart Orton, Chairman of the Board and Chief Executive Officer of Foley's, Division of Federated Department Stores, Inc., Houston, Texas. John P. Gilliam, President and Chief Executive Officer of the First National Bank in Valley Mills, Valley Mills, Texas, succeeded Gene D. Adams, President of The First National Bank of Seymour, Seymour, Texas.

During the year, Kent Gilbreath, Professor of Economics, Department of Economics and Finance, Baylor University, Waco, Texas, was elected in a special election to fill a vacancy created by the appointment of Gerald D. Hines to a Class C Director before his term as a Class B Director had expired.

El Paso Branch Board A. J. Losee, Shareholder, Losee, Carson, & Dickerson,

P.A., Artesia, New Mexico was reappointed by the Board of Governors, and Arthur L. Gonzales, President of the First City National Bank of El Paso, El Paso, Texas, was reappointed by the Federal Reserve Bank of Dallas to the El Paso Branch Board, both for three-year terms.

Houston Branch Board Jerome L. Howard, Chairman of the Board and Chief Executive Officer of Mortgage and Trust, Inc., Houston, Texas, was reappointed to the Houston Branch Board for a three-year term by the Board of Governors.

Will E. Wilson, President and Chief Executive Officer of the First Security Bank of Beaumont, N.A., Beaumont, Texas, was appointed for a three-year term by the Federal Reserve Bank of Dallas, succeeding P. K. Stubblefield, Chairman of the Board of Victoria Bank & Trust Company, Victoria, Texas.

One vacancy exists on the Houston Branch Board effective December 31, 1979 due to the resignation of Granville M. Sawyer, former President, Texas Southern University, Houston, Texas.

San Antonio Branch Board Pat Legan, Owner, Legan Properties, San Antonio, Texas, was reappointed to the San Antonio Branch Board for a three-year term by the Board of Governors.

George Brannies, President of The Mason National Bank, Mason, Texas, was appointed for a three-year term by the Federal Reserve Bank of Dallas, succeeding Ben R. Low, President of the National Bank of Commerce, Kerrville, Texas.

Lawrence L. Crum, Professor of Banking and Finance, The University of Texas at Austin, Austin, Texas, was appointed a director by the Board of Governors effective January 1, 1980 to fill the unexpired portion of a three-year term ending December 31, 1980, vacated by John J. McKetta, Jr., E. P. Schoch Professor of Chemical Engineering, The University of Texas at Austin, Austin, Texas.

Federal Advisory Council Member

James D. Berry, Chairman of the Board and Chief Executive Officer of the Republic of Texas Corporation, Dallas, Texas, was reappointed by the Board of Directors of the Federal Reserve Bank of Dallas for a one-year term as a member of the Federal Advisory Council to represent the District.

Officers

Head Office Official changes during 1979 at the Head Office included:

Arnold L. Hayes, Assistant Vice President, resigned.

Anthony J. Montelaro was elected to succeed Hayes as Assistant Vice President.

W. M. Pritchett, Vice President, retired.

Adrian W. Throop, Assistant Vice President, resigned.

John C. Blake, Assistant Vice President, retired effective January 1, 1980.

Uzziah Anderson was elected to Chief Examiner of the Bank to succeed Blake.

El Paso, Houston, San Antonio Branches There were no official changes during the year at the Branch Banks.

1979 Earnings

Gross current earnings of the Federal Reserve Bank of Dallas were \$554.3 million in 1979, current expenses were \$38.5 million, leaving current net earnings of \$515.8 million.

Net earnings, after additions, deductions and assessments, and before payments to the Treasury, totaled \$504.9 million. Of this, \$496.3 million was paid to the U.S. Treasury as interest on Federal Reserve notes. Statutory dividends of \$3.9 million were paid to member banks and \$4.6 million was added to surplus. The Federal Reserve pays to the Treasury all net earnings in excess of the statutory dividend to member banks and additions to surplus to bring it to the level of paid-in capital.

Assessment for expenditures of the Board of Governors amounted to \$2.9 million. There was an \$8 million net deduction in the profit and loss account mainly because of a \$.2 million net loss on foreign exchange operations and a net loss of \$8.2 million on transactions

in U.S. Government securities. The Federal Reserve buys and sells Government securities and foreign exchange for the purpose of implementing national monetary policy. The transactions are not designed to earn a profit, however, earnings of the Federal Reserve System are derived primarily from U.S. Government securities acquired through open market purchases.

Current expenses at \$38.5 million were up 12 percent over 1978, largely due to increases in the volume of checks and currency processed. The number of employees was up 3.4 percent.

1979 Operations

Cash

The new Susan B. Anthony dollar coin was introduced on July 2, 1979 as a cost-savings measure for the U.S. Treasury. Because of its ten-fold service life advantage over the dollar bill, it was believed the coin would significantly reduce the Treasury's cost of producing money and the Federal Reserve Banks' currency processing costs. While the initial acceptance of the coin was favorable, this quickly changed and very few of the coins are now in circulation. During June and July, \$7,963,000 was delivered on request to banks in the Dallas head office area, but during November and December, \$144,000 more of these coins were received than paid out. A total of \$16,905,000 Susan B. Anthony coins have been paid out by the four offices in the District.

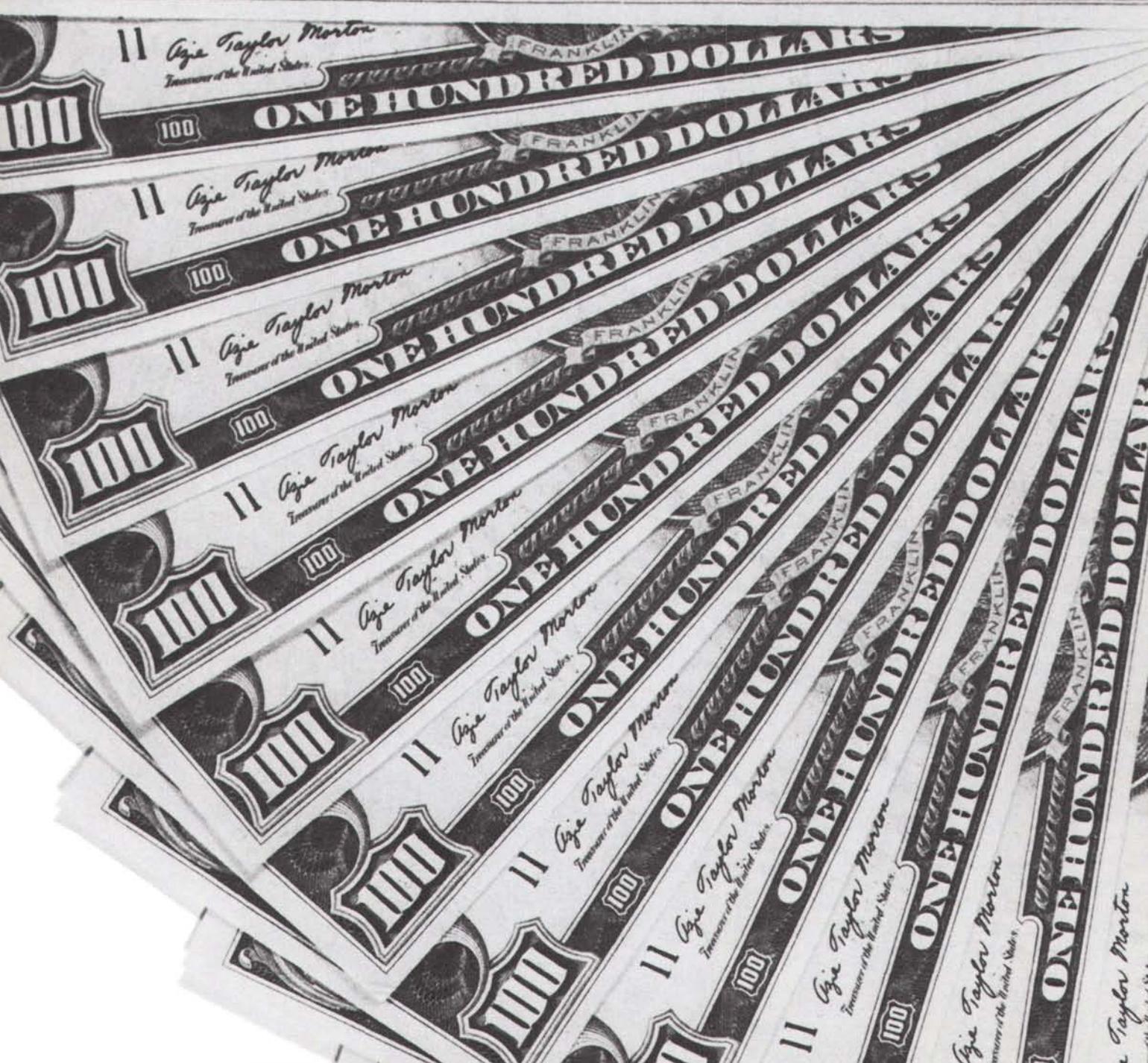
The reason most often given for the unfavorable response by the public has been the size of the coin. Although 9 percent larger and 43 percent heavier than a quarter and distinguished by a raised 11-sided border, the dollar coin is frequently mistaken for a quarter.

Also introduced to reduce usage of one dollar bills and cut Treasury expenses, the \$2 bill has continued to have a low level of acceptance during 1979 as well. The \$2 bill represented only .33% of the total notes paid out by the Federal Reserve Bank of Dallas in 1979. During the year, 567,000 \$2 notes were received and 663,500 were paid into circulation, a net payment of 96,500 \$2 notes.

Adaptation continued in 1979 to the conver-

sion to high speed currency processing implemented during 1978. Extensive training of personnel was required to develop the skills needed to operate the automated currency verifying, counting, sorting, packaging, and destruction systems. Because of the conversion to high speed currency processing, the quality of currency of \$5 denominations and higher classified as "fit" and put back into circulation has improved substantially over previous years. All denominations above \$5 are handled on the high speed equipment. Because of the large percentage of unfit \$1 bills received, they run poorly on the high speed equipment and are consequently handled manually. As a result, the quality of \$1 bills being circulated is not as good as other denominations. Procedures providing closer examination of the bills have been put in place to improve the quality of \$1 bills being recirculated. Widespread use of the Susan B. Anthony dollar coin would help to reduce processing problems associated with the \$1 note.

Federal Reserve transportation costs for currency, coin and checks will be increased in some areas of the country as a result of a decision in a suit brought against the Federal Reserve Bank of Richmond the result of which is to place vendors of services to Federal Reserve Banks under the Services Control Act. This requires them to pay wages and fringe benefits equal to or above levels determined by the U.S. Department of Labor.



Bank OF DALLAS
Martha Sue Bentley
Five and no cents

National Bank of Commerce
National Bank of Commerce of Dallas, Dallas, Texas 75201

in the Order of ABC Office Supply Company

Thousand Five Hundred

January 26, 1980
\$ 350.00
DOLLARS

February 22, 1980
\$ 25.00

Bill R. Jones
9120 Custer Rd.
Dallas, Texas 75208

FIRST CITY BANK
OF DALLAS
ONE MAIN PLACE DALLAS, TEXAS 75202

PAY TO THE ORDER OF

Neal & Ryan Taylor Construction Co.
117 S. Blackwood Rd.
Dallas, Texas 75231

Nine hundred

MetroBank OF DALLAS
PAY TO THE ORDER OF Automated Electric Comp
One Hundred Seventy-seven and 80/100

Date 2-25-80
\$ 65.32
Dollars

Mrs. W. L. Wilson

Mr. or Mrs. W. L. Wilson
120 S. Peach Street
Dallas, Texas 75211

Pay to the Order of Exxon
National Bank of Commerce
National Bank of Commerce of Dallas, Dallas, Texas 75201

For \$ 65.32

FIRST CITY BANK
OF DALLAS
ONE MAIN PLACE DALLAS, TEXAS 75202

PAY TO THE ORDER OF

Bank of Commerce
Commerce of Dallas, Dallas, Texas 75201

in the Order of ABC Trucking
hundred fifty and

Mercantile Bank
Mercantile National Bank at Dallas
PO Box 225415, Dallas, Texas 75265

PAY TO THE ORDER OF Sanger Harris
Twenty-five

Checks

Over 1 billion checks were handled by the Federal Reserve Bank of Dallas and Branches during 1979, a volume increase of 10 percent.

Return items handling is a particular problem. The ratio of returned checks to total checks handled by the Federal Reserve Bank of Dallas was the second largest among all Federal Reserve offices, apparently because of unusually widespread use of checks in the area. For every 1000 checks processed by the Federal Reserve System nationwide, 12 were returned. In the Dallas territory, more than 18 of every 1000 checks processed are returned, many because of insufficient funds in the account to pay the check. The handling of those checks is a costly and time consuming operation.

Procedures were instituted during 1979 to expedite return item processing. The items had been processed on old fashioned proof machines, in use in this bank since 1946. Conversion to an automated system was begun during 1979.

The automation process utilizes MICR technology, balances the items, generates return item advices and detail listings and creates debit and credit entries to member banks' reserve accounts. The system will provide improved service to member banks by more timely processing of the return items and greater accuracy.

The level of check collection float continued to be of concern during 1979 and further efforts were made to reduce it. Float results when the Federal Reserve has paid checks received from member banks for collection before receiving payment from the banks on which the checks are drawn. Float is of concern because checks should generally be collected within the prescribed time schedule and large daily variations in float affect the predictability of monetary aggregates and the Federal Reserve's ability to achieve monetary policy objectives. Also, since Federal Reserve float adversely impacts Treasury revenues and is viewed as "free" credit extended by the Federal Reserve Banks, reduction of float has become a politically encouraged goal.

Float also becomes an area of interest should the Federal Reserve be required to price its ser-

vices. If priced at current interest rates, high levels of float could substantially increase check collection prices.

Attention has been directed during 1979 to changes in check processing which would expedite the movement of checks through the system. Direct-send delivery performance has been improved and transportation routes have been adjusted to insure cash letter delivery timeliness. Computers with larger check processing capacity were ordered in 1979 and installed early in 1980. Float analysis was initiated at the head office and each of the branches.

Daily Return Item Volume
Eleventh Federal Reserve District

	1979	1978	% Increase
Average Number of Return Items	65,279	54,373	20
Average Number of Checks Processed	3,804,009	3,406,717	12
Return Items as a Percent of Checks Processed	1.72%	1.60%	

The Board of Governors adopted a policy to discourage remote disbursement—the use of remote banks by businesses to delay presentation of checks. The Board is concerned that some remote disbursement plans may constitute unsafe and unsound banking. The primary risk is that the practice could lead to unsecured extensions of credit by the remote banks. In addition, the practice may delay funds availability, and deprive suppliers and consumers of timely use of funds owed to them.

Loans

Borrowing by member banks from the Federal Reserve Bank of Dallas increased in 1979. Daily average borrowings in the District were \$128.5 million, up 21 percent from 1978. The total number of loans made during

the year was up 16 percent to 1,304 loans. A total of \$11.5 billion was loaned, an increase of 33 percent.

During the year, 57 banks borrowed under the seasonal credit program which provides a prearranged line of credit to banks that experience a drain of funds about the same time each year. The daily average of seasonal borrowing was \$28 million.

Discount window policy was changed during the year to expand the types of collateral acceptable for loans and to permit some of the borrowing banks to retain collateral on their own premises. Loan participations are now acceptable as collateral to secure borrowings. Member banks in Oklahoma, New Mexico, and Texas may be authorized to hold in their possession certain types of collateral through the off-premises custody arrangements rather than transfer the collateral to the Federal Reserve Banks. (Louisiana law precludes use of off-premises collateral arrangements.) The change makes it convenient for member banks with a need for additional collateral to use one-to-four family residential mortgages held in their possession to secure discount window borrowings. Commercial and agricultural paper, including loan participations, and Group 1 municipal securities are also eligible for off-premises custody arrangements. The arrangements are particularly useful for banks borrowing for adjustment credit, or short-term purposes. Currently 15 banks are using the arrangements ranging in size from \$87 million in deposits to over \$5 billion.

ACH

An automated clearing house (ACH) provides a means by which electronically recorded payment instructions, received from or through a member bank can be conveyed and acted upon by the relevant financial institution. Settlement is made by crediting or debiting a member bank's reserve account at the Federal Reserve Bank. Payments made through ACH's take the place of checks. For example, an employer may transfer payroll instructions through an ACH and cause funds to be moved

from his account in a bank to the accounts of his employees in the same or other banks.

The volume of funds transferred through ACH's continued to grow during 1979. The expansion in volume is largely attributable to the 30 percent increase in government payments. Stepped-up marketing efforts by participating banks and businesses brought an increase in the number of private sector originators of electronic transfers but this part of ACH is still in its infancy. Facilities are in place to process a large volume of commercial payments but the volume is still relatively small. This Bank processed 11,501,996 electronic images during the year, largely governments. New additions to the government payments processed through ACH's included those for Marine and Army retirement and SBA, VA, and WDC salaries.

To handle the increased volume and to provide more timely service to consumers, financial institutions and corporations using ACH facilities, the operation was increased to three shifts, operating 24 hours daily. A schedule change was installed which provides financial institutions an additional five hours for initiating interregional debit and credit transfers such as direct deposit of payroll and preauthorized bill payments.

An extended processing cycle for cash concentration debits using ACH facilities was initiated to make the service more useful to corporate treasurers. Those are debits which are originated by or for a corporation or government entity, typically to collect funds from the proceeds of the day's business, deposited at other financial institutions by the corporation's or government's branches, franchises, or agents.

Although the extended cycle was implemented very late in the year, the volume of debits handled increased to over a 1.2 million annual rate nationwide by January 1980. The change also enables commercial banks participating in ACH to process both government and commercial items during the daytime cycle. Previously, government items had been processed during the nighttime only.

A large volume increase is necessary to obtain maximum cost effectiveness in ACH. Presently, only three banks in the District have direct data links with the ACH. In an environ-

ment of increasing energy problems, this type of arrangement will become more desirable as a means to reduce transportation costs. An increase in the overall volume of ACH transactions will utilize presently existing capacity to reduce per item costs and provide operating efficiencies for the users of the ACH.

Fiscal Agent

The Federal Reserve is the government's banker and, as such, performs a variety of functions for the Treasury. Among these are servicing the Treasury's checking account by making and receiving payments for the Treasury, assisting in the sale, transfer, and redemption of securities, and handling U.S. Savings Bonds and food coupons.

Plans for the first major revision in the U.S. Savings Bond Program were initiated by the Treasury in the early part of 1979. This conversion from Series E and H to Series EE and HH bonds, respectively, was effective January 2, 1980. The new issues contain changes in issue price and the length of time to maturity of the bonds. The transmittal of paid savings bonds was decentralized from the Dallas office during 1979. Each of the District's bond paying agents may forward their paid bonds and transmittals to the Federal Reserve Branch

matured coupons are handled by procedures similar to those used to clear millions of checks each day. By the use of bulk processing rather than individual handling of coupons and giving provisional credit on an automatic preset time schedule, the efficiency of coupon processing is greatly increased. The number of accounting entries and reconciliation problems are decreased also.

Revisions to the computer software used by this Bank in handling the Treasury Tax and Loan program provide tax depositories with additional investment cycle information. The investment statements now reflect all of the tax deposit and withdrawal information on each cycle statement and enable commercial banks to manage their TT&L accounts more effectively.

Holding Company

One-bank holding companies were organized in increasing numbers in 1979. This bank received 83 applications for prior approval to form one-bank holding companies compared to 46 in 1978. At year end 1979, there were 170 such companies in the District, 60 percent more than one year earlier. Deposits of the bank subsidiaries of one-bank holding companies grew 33 percent to \$4.8 billion, approximately 6.5 percent of total District deposits.

The major reason for most one-bank holding company formations is reduction of Federal income taxes. Interest payments to service the debt incurred by a holding company to acquire a bank's stock are totally tax deductible, whereas interest deductions by an individual are generally limited to \$10,000 a year. Also, if a consolidated income tax return is filed, dividends from the bank to the holding company are not taxed as such income would be if the dividends were paid to individual stockholders. The spread of one-bank holding companies has a potential to favorably impact banking in the District. Because the holding company saves taxes, it can redirect cash to the servicing of its debt and, at the same time, reduce the dividends needed from its subsidiary bank. This allows the bank to retain

Securities Held In Safekeeping

As of December 31 (In Millions)
Eleventh Federal Reserve District

	1979	1978	% Increase
Tangible securities	\$ 3,586.7	\$ 3,257.2	10.1
Book-entry securities	\$15,531.9	\$12,795.5	21.4
Total	\$19,118.6	\$16,052.6	19.1

serving their geographic region thereby facilitating more timely payment to member banks.

On October 9, 1979, "cash processing" of matured corporate and municipal coupons was initiated. Under this new procedure, the

more earnings, augment its capital, and become a stronger institution.

The number of multibank holding companies in the District continued to increase during 1979. Seven applications for formation of an MBHC were received. The number of MBHC's increased from 36 to 43 during the year. These 43 MBHC's have 319 subsidiary banks which hold 54 percent of the District deposits. This is up from 274 MBHC subsidiary banks with 51 percent of deposits in 1978. Excluding deposits of the lead bank in each company, multibank holding companies account for 23 percent of District deposits. Deposits controlled by MBHC's increased 14 percent during the year to \$39.7 billion.

Supervisory and Regulatory Activities

Passage of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA) by Congress in late 1978 caused significant changes to be made to Regulation O, Loans to Executive Officers of Member Banks, and Regulation L, Management Official Interlocks, and the enactment of two new regulations, Regulation S, Reimbursement to Financial Institutions for Assembling or Providing Financial Records, and Regulation E, Electronic Funds Transfer. These required the development of more comprehensive and more complex examinations and generated a heavy volume of circulars and requests for interpretations. Additionally, FIRA spawned the Change in the Bank Control Act which added the processing of a new form of application involving changes in control of state member banks and bank holding companies. The processing of other types of applications became more complex due to the requirements of the Community Reinvestment Act.

Passage of the International Banking Act by Congress in late 1978 caused a complete rewriting of Regulation K, International Banking Operations. To date the impact of this legislation has been minimal. It is anticipated that as a result of the legislation, the number of

Edge Act Corporations in the District will increase significantly placing greater demands on the field examination staff.

Consumer Affairs

Consumer regulatory activity increased during 1979 continuing a trend which has been evident the past two years. The increase is attributable to Congressional action and Board of Governor implemented changes in existing regulations and examinations.

Wire Transfer of Funds Volume for the Eleventh District (In Millions)

	1979	1978	% Increase
Dollar volume of transfers	\$3,378,483.1	\$2,768,417.0	22
Number of transfers	2.7	2.1	27

Use of the Federal Reserve's wire transfer system continued to increase in 1979. On-line linkage was added to 15 member banks bringing the total banks in the District in the on-line Transfer of Funds system to 60.

Numerous activities at the Federal Reserve Bank of Dallas are designed to provide the member banks and public with comprehensive information about regulatory and consumer affairs and developments. Seminars, speeches, articles, pamphlets, and individual bank visits all are used extensively to disseminate information. Consumer complaints involving state member banks are also processed by the Federal Reserve.

DUE DATE, AND TO PAY INTEREST ON THE PRINCIPAL SUM FROM THE DATE HEREOF, AT THE RATE SPECIFIED HEREON. THIS NOTE AND INTEREST COUPONS ARE PAYABLE AT THE DEPARTMENT OF THE TREASURY, WASHINGTON, D.C., OR AT ANY FEDERAL RESERVE BANK OR BRANCH. THIS NOTE IS ONE OF A SERIES OF NOTES, AUTHORIZED BY THE SECOND LIBERTY BOND ACT, AS AMENDED, ISSUED PURSUANT TO THE DEPARTMENT OF THE TREASURY CIRCULAR REFERRED TO HEREON, AND IS NOT SUBJECT TO CALL FOR REDEMPTION PRIOR TO MATURITY. THE INCOME DERIVED FROM THIS NOTE IS SUBJECT TO ALL TAXES IMPOSED UNDER THE INTERNAL REVENUE CODE OF 1939, WHETHER FEDERAL OR STATE, BUT IS EXEMPT FROM FEDERAL ESTATE TAXES, WHETHER FEDERAL OR STATE, OR BY ANY LOCAL TAXING AUTHORITY. THIS NOTE IS NOT SUBJECT TO SECURE DEPOSITS OF PUBLIC MONIES. IT IS NOT PAYABLE IN PAYMENT OF TAXES.

THE UNITED STATES OF AMERICA
FOR VALUE RECEIVED PROMISES TO PAY TO THE BEARER THE SUM OF
ONE HUNDRED THOUSAND DOLLARS



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12 5/8%
TREASURY NOTE
SERIES Y-1981
DATED OCTOBER 31, 1979
DUE OCTOBER 31, 1981
CUSIP 912827 KA 9
INTEREST PAYABLE APRIL 30 AND OCTOBER 31
CIRCULAR No. 24-78

SECRETARY OF THE TREASURY

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Statement of Condition

	December 31	
	1979	1978
Assets		
Gold certificate account	\$ 450,831,600	\$ 508,703,700
Special Drawing Rights certificate account	86,000,000	57,000,000
Coin	28,887,272	16,574,290
Loans and Securities:		
Loans	134,386,000	93,311,400
Federal agency obligations	447,637,724	409,873,947
U.S. Government securities	6,336,266,736	5,683,242,130
Total loans and securities	6,918,290,460	6,186,427,477
Cash items in process of collection	1,519,720,827	1,066,060,307
Bank premises	11,942,766	11,538,951
Other assets	280,592,123	216,948,553
Interdistrict settlement account	329,175,362	439,119,495
Total Assets	<u>89,625,440,410</u>	<u>88,502,372,773</u>
Liabilities		
Federal Reserve notes in actual circulation	85,959,282,609	84,964,322,827
Deposits:		
Member bank—reserve accounts	2,460,524,294	2,480,644,974
U.S. Treasury—general account	84,941,583	162,141,932
Foreign	17,342,000	11,553,900
Other	60,748,932	33,726,990
Total deposits	2,623,556,809	2,688,067,796
Deferred availability cash items	797,770,170	643,279,596
Other liabilities	110,011,322	81,075,054
Total Liabilities	89,490,620,910	88,376,745,273
Capital Accounts		
Capital paid in	67,409,750	62,813,750
Surplus	67,409,750	62,813,750
Total Capital Accounts	<u>\$ 134,819,500</u>	<u>\$ 125,627,500</u>
Total Liabilities and Capital Accounts	<u>89,625,440,410</u>	<u>88,502,372,773</u>

Earnings and Expenses

	1979	1978
Current Earnings		
Loans	\$ 13,324,291	\$ 8,079,987
U.S. Government securities	536,863,656	426,605,080
Foreign currencies	3,982,165	110,626
All other	<u>116,308</u>	<u>60,488</u>
Total Current Earnings	8554,286,420	8434,856,181
Current Expenses		
Current operating expenses	36,462,330	32,396,187
Federal Reserve currency	<u>4,572,524</u>	<u>4,084,786</u>
Total	41,034,854	36,480,973
Less reimbursement for certain fiscal agency and other expenses	<u>2,549,037</u>	<u>2,145,141</u>
Net Expenses	\$ 38,485,817	\$ 34,335,832
Profit and Loss		
Current net earnings	515,800,603	400,520,349
Additions to current net earnings:		
All other	<u>700,943</u>	<u>130,832</u>
Total additions	700,943	130,832
Deductions from current net earnings:		
Loss on sales of U.S. Government securities (net)	8,182,764	6,733,067
Loss on Foreign Exchange (net)	211,829	28,823,876
All other	<u>308,331</u>	<u>105,515</u>
Total deductions	8,702,924	35,662,458
Net additions or deductions (-)	-8,001,981	-35,531,626
Assessment for expenditures of Board of Governors	2,947,500	3,021,300
Net earnings before dividends and payments to U.S. Treasury	504,851,122	361,967,423
Dividends paid	3,931,557	3,618,600
Payments to U.S. Treasury (interest on F.R. notes)	<u>496,323,565</u>	<u>353,757,723</u>
Transferred to surplus	4,596,000	4,591,100
Surplus, January 1	<u>62,813,750</u>	<u>58,222,650</u>
Surplus, December 31	<u><u>\$ 67,409,750</u></u>	<u><u>\$ 62,813,750</u></u>

Volume of Operations

Federal Reserve Bank of Dallas Head Office and Branches Combined

	Number of Pieces Handled ¹		Dollar Amount	
	1979	1978	1979	1978
Loans	1,304	1,120	11,464,646,798	8,612,982,800
Currency received and counted	424,689,000	396,006,527	4,213,271,372	3,680,747,200
Coin received and counted	914,461,000	856,960,087	132,104,450	123,222,883
Checks handled:				
U.S. Government checks	42,696,000	44,218,786	26,356,606,850	25,963,009,977
Postal money orders	9,575,000	9,543,454	624,066,833	566,010,577
All other ²	965,591,705	882,279,125	450,507,988,798	416,127,295,932
Collection items handled:				
U.S. Government coupons paid	147,338	144,877	80,430,250	89,190,196
All other	126,110	133,767	236,480,530	163,251,069
Issues, redemptions, and exchanges				
of U.S. Government securities	14,631,773	13,222,826	96,349,953,257	99,236,974,129
Transfers of funds	2,682,553	2,163,441	3,378,483,145,280	2,772,657,127,313
Food stamps redeemed	99,903,373	116,884,140	447,965,294	447,290,518

¹Packaged items handled as a single item are counted as one piece.

²Exclusive of checks drawn on the F.R. Banks.

Officers

Federal Reserve Bank of Dallas

Ernest T. Baughman	President
Robert H. Boykin	First Vice President
Joseph E. Burns	Senior 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
C. J. Pickering	Vice President
George F. Rudy	Vice President and General Counsel
Neil B. Ryan	Vice President
E. W. Vorlop, Jr.	Vice President and Controller
J. A. Clymer	Assistant Vice President
Forrest E. Coleman	Assistant Vice President
Billy J. Dusek	Assistant Vice President
Richard D. Ingram	Assistant Vice President and Assistant Secretary
Anthony J. Montelaro	Assistant Vice President
Larry J. Reck	Assistant Vice President
Mary M. Rosas	Assistant Vice President
Thomas H. Rust	Assistant Vice President
Jesse D. Sanders	Assistant Vice President
Sammy T. Schulze	Assistant Vice President
Phillip E. Sellers	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
Uzziah Anderson	Chief Examiner
Millard E. Sweatt, Jr.	Assistant General Counsel
C. L. Vick	Assistant General Auditor

El Paso Branch

Joel L. Koonce, Jr.	Vice President in Charge
Robert W. Schultz	Assistant Vice President

Houston Branch

J. Z. Rowe	Vice President in Charge
Vernon L. Bartee	Assistant Vice President
Sammie C. Clay	Assistant Vice President
C. O. Holt, Jr.	Assistant Vice President

San Antonio Branch

Carl H. Moore	Vice President in Charge
Thomas C. Cole	Assistant Vice President
Thomas H. Robertson	Assistant Vice President

January 1, 1980



Historic Landmark Designation

The Federal Reserve Bank of Dallas was designated an historic landmark by the City of Dallas on May 10, 1979, reflecting both the design of its headquarters building and its role in the development of the area. According to the Historic Landmark Preservation Committee, the functions and responsibilities of the Federal Reserve Bank of Dallas made it an important factor in the economic development of the city, while its distinctive features are significant representations of architectural style.

The choice of Dallas as the site for the Federal Reserve Bank reflected its cultural and economic growth and foreshadowed the importance that finance, trade, and commerce would continue to have in the development of the city. The site for the Federal Reserve Bank building was purchased in 1918 at a cost of \$145,000, after the Bank had been housed in several other buildings. The cornerstone was laid on April 2, 1920; the building was occupied during December 1920 to March 1921 and has been in continuous use since. The exterior of the building is of white Bedford stone with a granite base. The elaborate ornamentation above the doors was set in rough stone and carved after being placed.

The Beaux Arts School of Architecture, which emphasized the revival of classical forms, provided the basis for the style used by the architects, Graham, Anderson, Probst and White of Chicago. The monumental style is

said to reflect the solidity and permanence of the institution through the emphasis on the frontal facade, the monumental portico, and visual strength.

An addition was made to the building in 1939-40, designed by the architect, Grayson Gill of Dallas, in which decorative emphasis was reduced and modernity influenced the design. This addition provides an example of the subtle changes that occurred in architectural philosophy during those times. A second addition was made around 1960 in which the mid-line cornice was removed for fear of structural failure. The physical metamorphosis over the years reflects the evolution of design philosophies and changing priorities.

As the building has evolved, the activities within the Bank have grown and changed. Automation now plays an important role in the operations of the Bank—in processing checks, handling currency and coin, transferring funds among banks, and keeping track of the daily transactions between the Bank and its 800 member banks. As the economy of the area has grown and the financial industry has become more sophisticated, the services provided to the commercial banks have expanded. The information assembled and analyzed by the Bank's Research Department has become more comprehensive and more complex. Changes in the financial environment have given the Bank new responsibilities in bank supervision and regulation and in consumer financial matters.