



Central Banker

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News and Views for Eighth District Bankers

The St. Louis Fed Is the Model for Treasury Check Consolidation

IN 1997, the Federal Reserve System consolidated its 12 processing sites into eight. Because Treasury checks have continued to decrease, the System decided late last year that further consolidations were necessary. Four Fed banks were chosen to continue this service: St. Louis, Atlanta, Philadelphia and Richmond.

The criteria used for identifying and selecting the four sites were low processing costs and quick turnaround time. After information gathered during the first six months of 2001 was received, the St. Louis office was ranked No. 1 in the System.

Consolidations began during the second quarter of 2002. Here are the milestones:

- In late February, the St. Louis office absorbed the volume from Seattle.
- On March 1, St. Louis absorbed the volume from the Indianapolis, Peoria and Des Moines offices.
- On May 16, the Chicago, Milwaukee, Detroit and Minneapolis offices consolidated with St. Louis.



• On June 21, the final office, San Francisco, will consolidate with St. Louis.

Additionally, in late March, the San Francisco archive system was relocated to St. Louis. It was phased into production April 11.

Before the consolidation began, the St. Louis office processed approximately 2.1 million Treasury items annually. Once the consolidation is complete, the St. Louis office estimates it will process a total of 6.5 million Treasury checks. Regardless, the volume of checks absorbed will not affect turnaround or timeliness of transmissions. ■

Fed Proposes Reforms to Credit Program

The Federal Reserve is requesting public comment on a proposed reform to the discount facility. Under the proposal, a primary credit program would be available to financially sound institutions for short periods, usually overnight.

Initially, the rate for this program would be set at 100 basis points above the intended target federal funds rate. Thereafter, Reserve Bank directors would propose the rate, subject to review and approval by the Board of Governors.

Under the reformed structure, institutions would be allowed to sell in the fed funds market while borrowing, which would limit volatility in the federal funds rate. This replaces the adjustment credit program, which is offered at a below-market rate and requires significant administration to prevent institutions from arbitraging on rate spreads.

The reformed proposal also includes a secondary credit program, which would be offered at 50 basis points above

the primary rate. Such credit would be available—in appropriate circumstances—to institutions that do not qualify for primary credit.

This proposal will have no effect on monetary policy or the process by which the discount rate is set. See our Out for Comment section, which is located on Page 6, for instructions on how to comment on this reform proposal. ■



Fed itorial

What Can Banks Do to Better Manage Their Cash-Handling Practices?

By W. LeGrande Rives, First Vice President of the Federal Reserve Bank of St. Louis

During the past several years, the Fed has experienced a significant rise in currency-related activity. Some banks may be using sweep retail accounts to lower their reserve requirements and thereby reduce currency on hand (i.e., vault cash), while other banks simply have gained a better understanding of currency inventory demands after Y2K.

The Fed's role in distributing currency is to circulate a supply that will sufficiently meet the public's needs, ensure currency quality levels and maintain public confidence in U.S. currency. However, banks' increasing reliance on the Fed's currency services has expanded our role beyond what originally was envisioned in our charter.

When comparing the most recent seven-year currency receipt and payout results (1995-2001), our District recorded a 47 percent increase in currency payout activity and a 31 percent increase in receipt activity. Upon looking at the initial data, it appears this growth is due to a decline in currency recirculation by commercial banks. This results in a considerable duplication of efforts between the Fed and the private sector, largely at public expense.

The Fed will accept an institution's surplus deposits and provide this currency to institutions that have a shortfall. We expect banks, however, to act as intermediaries among their customers—for example, using a commercial customer's deposit to meet the cash demands of walk-in branch or ATM customers. This promotes payments system efficiency because it allows supply and demand to be met with a minimal duplication of efforts.

When banks do not recirculate currency, but rather, deposit and reorder currency through the Fed, the Fed duplicates all of the banks' processing. Although the Fed provides these services to customers free of charge, real costs are incurred when the Fed must reverify, recount and restrap deposits that could have been paid directly to a bank's customers.

What can be done to minimize this growing trend? I believe we need to foster greater currency recirculation within the private sector. By working with our depository institutions, we can realize a more efficient currency-handling environment jointly.

Currently, the System is formulating a policy to address this issue. Our target date for the public comment period is year-end. ■

Fed Discontinues Development of FedLine® for Windows NT®

Recently, the Federal Reserve System made the strategic decision to deliver all future financial services via web-based technologies. For this reason, the Fed has discontinued its development of FedLine® for the Windows NT® operating system.

The Fed shares the popular view that the future of the financial services industry relies on using state-of-the-art, web-based technologies. Ultimately, this direction will:

- allow customers to have flexible access to payment transactions and information-system services;
- enable us to adapt our products to quickly meet our customers'

business needs; and

- fulfill our customers' expectations for providing a secure mechanism whenever they conduct Fed business transactions.

Web-based payments products and services will be developed and introduced on a continuing basis. Currently, several applications are available through FedLine for the Web, including:

- Account Management Information;
 - Cash Services,
 - select Check Services—such as check adjustments and check advice delivery—and
 - Service Charge Information.
- In addition, Reporting and

Reserves are available at www.reportingandreserves.org.

As the Fed makes the transition to providing a full suite of web-based information and transaction services, all of the financial services the Fed currently offers will continue to be available through our existing DOS FedLine product.

If you have any questions about the Fed's strategic direction, or if you would like more information about FedLine for the Web, please contact the Electronic Access Support department at 1-800-333-0861. Regularly updated information also appears on the National Financial Services web site, www.frbervices.org. ■

District's Surveys Provide Important Feedback

Recently, the Eighth Federal Reserve District sent out several surveys. The District is committed to obtaining information from our various constituents so that we can improve our service. "We feel this is the best way to know directly how we are meeting the changing needs of our constituents," says Vice President Jean Lovati, who leads the District's Customer Service Program. Here are some highlights of what the District has learned thus far.

Treasury Relations

At a national level, the Treasury Relations and Support Office and the Customer Relations and Support Office sent surveys to 800 institutions throughout the nation during fourth quarter 2001. Institutions were randomly selected from those that had contacted the TT&L National Customer Service Area (NCSA) in St. Louis during 2001.

Customers were asked to provide feedback on three key areas of TT&L customer service:

- The NCSA,
- TT&L programs (TIP and PATAX), and
- The National PATAX Voice Response Customer Service Area.

Responding were 478 institutions, or 60 percent of those surveyed. More than 90 percent of respondents were either *satisfied* or *very satisfied* with the level of service they received at the NCSA. Customer satisfaction centered on the NCSA staff members' ability to provide accurate information, the responsibility they took for problem solving and their professional courtesy.

TT&L customers also were extremely satisfied with the accuracy and content of their PATAX statements. Likewise, the PATAX Voice Response Customer Service Area also received high marks from customers, with 96 percent of respondents being *satisfied* or *very satisfied*.

Only a few institutions offered specific suggestions for improvement, and most comments were complimentary. Nevertheless, NCSA plans to examine every suggestion and comment carefully, looking for ways to improve the TT&L program and customer service.

"We were pleased to find that, while there are some areas that need improvement, most of the responses were very positive," notes Lovati. "After only a little more than a year, the consolidation is paying off with better customer service and high levels of customer satisfaction."

Financial Services

The District also conducted a survey of financial institutions in the District—the first to be conducted since the 1999 National Customer

Satisfaction Survey. We sought to obtain feedback on the service performance of specific functional areas—Cash, Check, Customer Accounts and Electronic Access Support (EAS)—within each of the District's four offices, the individual account executives across the District and the Bank's written communication pieces, *Central Banker* and *Payments Quarterly*.

More than 2,200 postage-paid survey cards were sent to 1,200 institutions, and more than 370 survey cards, or 16 percent, were returned.

All questions were answered on a five-point scale (1=poor, 2=fair, 3=good, 4=very good, 5=excellent).

The ratings were as follows:

- functional work areas throughout the District: between 3.57 and 3.97,
- written communications: 3.75, and
- account executives: slightly over 4.0.

"These ratings and comments really help us better understand what we do well and what we need to improve," says Assistant Vice President Fran Sibley, "and we're taking this feedback seriously. Now we have specific information—by department and location—which will be used to guide our service improvements this year and next."

Banking Supervision and Regulation

The Banking Supervision and Regulation Division identified four areas as being the most important to our state member bankers:

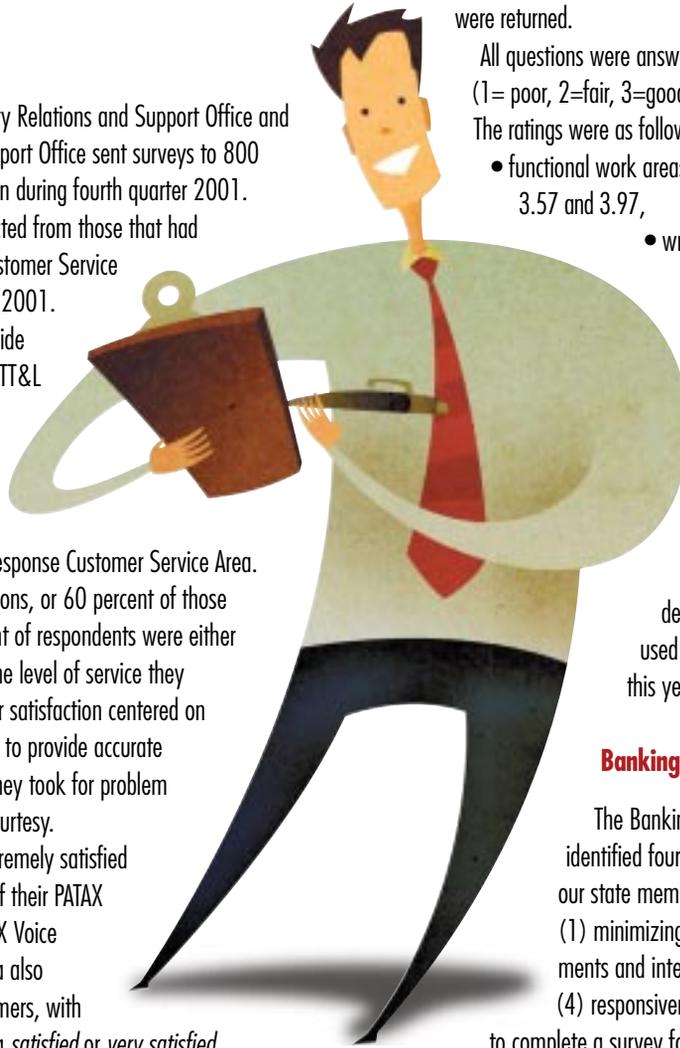
- (1) minimizing burden, (2) consistency in judgments and interpretations, (3) professionalism, and (4) responsiveness. BS&R asked 64 institutions

to complete a survey focused on these issues, and more than 80 percent responded.

"We were very pleased with the response rate. Overall, the feedback we received was very positive—especially regarding professionalism, knowledge and helpfulness of the examiners," states Vice President Kim Nelson. "We plan to assess the many comments and suggestions closely, and we will follow up with our state member banks later this year."

Public Affairs

This summer, the Public Affairs Department will be asking subscribers of the new Electronic Distribution service to tell us what they think about the service. Look for the survey on the Bank's public web site, www.stls.frb.org. ■



Regional Roundup

St. Louis Fed Announces Two Upcoming Training Events

The staff of the Payment Risk Management section will be hosting several Account Management 101 seminars to assist those responsible for managing their institutions' Fed accounts. Topics will include reserve requirements, overdrafts, earnings credits and the Discount Window.

Seminars will be held on the following dates:

June 26 Little Rock
June 27 Memphis
July 12 St. Louis
July 18 Springfield, Mo.

For additional information, please contact Kim West at (314) 444-8847 or 1-800-333-0810, ext. 44-8847.

The Statistics section will be presenting three regulatory reporting workshops that will cover the recent changes to the Call Report, the proposed Regulation W and the new FR Y-10 report. The staff also will demonstrate how to submit the required regulatory reports electronically.

Workshops will be held on the following dates:

July 24 Little Rock
July 25 Memphis
Aug. 7 St. Louis

If you have any further questions, please contact Rebecca Roberts at (314) 444-8744, or 1-800-333-0810, ext. 44-8744. ■

Check Standardization — Two Down, Two More to Go

In April, the Louisville office successfully converted to Check Standardization. In early May, the Eighth District passed the project halfway mark when the Little Rock branch successfully completed its cutover. By the middle of May, the new platform was running smoothly in both offices and deadlines were being met timely.

The Memphis and St. Louis offices are converting this summer, wrapping up one of the largest projects ever undertaken in the Eighth District. ■

Fed Changes How It Supervises Bank Holding Companies

Effective Jan. 1, 2002, the Federal Reserve has revised its supervision program for small, healthy bank holding companies (BHCs). As a result, the Fed will redirect available resources toward both state member banks and large, complex or problem BHCs.

This new approach principally affects holding companies with less than \$1 billion in assets. The most noticeable change is that all existing requirements for on-site inspections have been eliminated for small, healthy BHCs. Under most circumstances, the Fed will perform its supervision utilizing in-house information. The Fed, however, will conduct on-site inspections, full-scope or targeted, to investigate troubling issues or obtain additional information required to assess the company and assign a rating.

As always, our supervision activities will be ongoing. When the Fed receives a regulator's examination report for the BHC's lead subsidiary bank, the Fed will conduct an internal review and assign a bank holding company rating. Furthermore, the supervisory rating assigned to small "non-complex" companies has been simplified. These holding companies will receive only a composite and management rating.

The revisions also promote more flexible use of targeted or limited on-site reviews of holding companies that have consolidated assets between \$1 billion and \$5 billion. These reviews, supplemented by other information, may be used to fulfill the prior requirement to conduct full-scope inspections for institutions in this size range.

If you have questions about these revisions, please contact either Carl Anderson at (314) 444-8481 or David Walker at (314) 444-8764. You also may reach them toll-free by dialing 1-800-333-0810, ext. 44-8481 and 44-8764. ■



Michael T. Owyang is an economist and **Abbigail J. Chiodo** is a researcher associate at the Federal Reserve Bank of St. Louis. This article is based upon the following research article, "Not Your Father's Pension Plan: The Rise of 401(k) and Other Defined Contribution Plans," by Leora Friedberg and Michael T. Owyang, which appeared in the January/February 2002 issue of *Review*.

A Pension for Change

By Michael T. Owyang and Abbigail J. Chiodo

American workers are more mobile than ever, and evidence shows that when employees change jobs, they take their pensions with them. In this article, we will discuss two retirement savings options:

- defined benefit (DB) pensions, which offer a predetermined payoff after a certain tenure, and
- defined contribution (DC) plans, such as 401(k)s.

The accompanying figure shows that during the last two decades, the portion of workers with a DB pension fell from 85 percent (1983) to 40 percent (1998). Overall, pension coverage has fallen; however, of the portion of workers with some kind of retirement program, the fraction of those with a DC plan has jumped from 60 percent (1983) to 79 percent (1998). What is causing this phenomenon, and what does it mean for today's workers?

The typical DB pension is structured so that its value spikes at a predetermined year. When workers retire, they receive an annuity that usually depends on both their final

salary and years of service. Economists have hypothesized that because DB pensions are not portable, they encourage workers to stay in their current jobs until they are eligible to collect full retirement benefits.

Unlike the spikes seen for DB pensions, wealth accrual in DC plans is smooth and age-neutral. DC plans allow workers to determine the rate at which their retirement benefits accumulate, with many employers matching some portion of the employees' contributions.

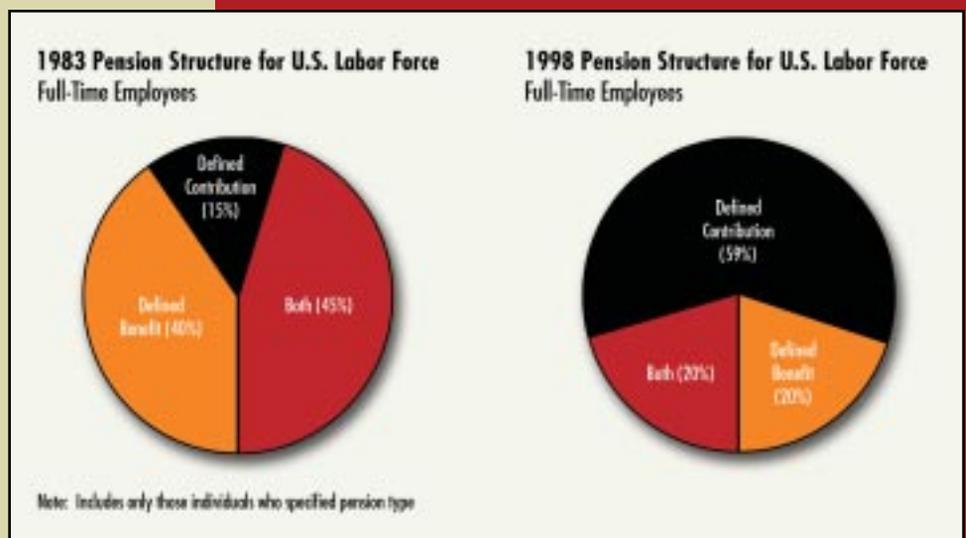
What has caused the migration from DB pensions to DC plans in the last 20 years? Some researchers suggest that while legislation has played a part, economic explanations also are prevalent. Recently, the value of DB pensions as implicit contracts between firms and workers has been greatly reduced. Some studies show:

- 1) DB pensions are more common in larger firms (e.g., manufacturing) and the proportion of workers employed in these industries has declined.
- 2) Changing technology may create a volatile demand for skilled workers, giving these workers lower employment tenures.

What does this imply for the average worker? The portability of DC plans and their unlimited accrual potential might lead to later retirement dates.

In another study, researchers estimated the likelihood at each age that full-time employees voluntarily leave their jobs and retire fully. They predict that more than 80 percent of workers with a DB pension would retire by age 65; if those workers have a DC plan instead, only about 60 percent will retire by age 65. All other things equal, the researchers estimate that (on average) a worker with a DB pension retires 23 months earlier.

Years ago, workers expected to spend their entire careers at a single firm. Perhaps because our current economy is based more on retail and services, rather than manufacturing, today's workers expect to change jobs frequently. Old-style DB pensions are no longer viable as retirement options, because (on average) today's workers will not stay at their employers long enough to receive the maximum payoff. Consequently, DC plans are replacing DB pensions. This gives workers more employment flexibility, but may also lead workers to postpone their retirement by almost two years.



St. Louis Fed Publishes Annual Report

The U.S. economy's ability to rebound from a shock like the terrorist attacks of Sept. 11 is the subject of the St. Louis Fed's 2001 annual report. In April, the report—titled "Equilibrium: How the U.S. Economy Recovers from a Crisis"—was mailed to District financial institutions.

To order additional copies, contact Debbie Dawe at (314) 444-8809, or toll free at 1-800-333-0810, ext. 44-8809. The report is also available on the St. Louis Fed's web site at www.stls.frb.org/publications.

East St. Louis Chosen for Community Development Conference

On Oct. 22-23, the Community Affairs department at the Federal Reserve Bank of St. Louis will be holding a community development

conference at the Jackie Joyner-Kersey Center in East St. Louis, Ill. The conference is co-sponsored by the University of Illinois' East St. Louis Action Research Project.

"Rays of Hope: A New Day for America's Distressed Urban Areas" is intended for a national audience of bankers, investors and community development organizations working in highly distressed areas.

Speakers will include Federal Reserve Board Gov. Mark Olson, St. Louis Federal Reserve Bank President William Poole, National Neighborhood Enterprise founder Robert Woodson, Jackie Joyner-Kersey, Cornell University Professor Ken Reardon and others.

For more information about the conference, contact Matt Ashby at (314) 444-8891, or toll-free at 1-800-333-0810 ext. 44-8891.

You also may send an e-mail to Matthew.W.Ashby@stls.frb.org. ■

OUT FOR COMMENT

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

On May 17, the Federal Reserve Board of Governors requested public comment on a proposal to reform the discount window programs, which provide credit to help depository institutions meet their temporary

liquidity needs. The new discount lending framework would be implemented through amendments to Regulation A, "Extension of Credit by Federal Reserve Banks." Adoption of the proposal would not entail a change in the stance of monetary policy.

Also, although the proposed changes retain the seasonal credit program, the Board is requesting comment on whether a seasonal credit program remains necessary

and, if so, whether the interest rate should be set at the primary discount rate. More information can be found at www.federalreserve.gov/boarddocs/press/bcreg/2002/.

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



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Community Investments Roundtable

AUG. 22—MEMPHIS

Sponsor: Federal Reserve Bank of St. Louis, FDIC, OCC, OTS, HUD and Metropolitan Community Development Partnership. For more information, call Ellen Eubank at (901) 579-2421

St. Louis Community/Lender Luncheon Resource Fair

AUG. 15—ST. LOUIS

Sponsor: Federal Reserve Bank of St. Louis. For more information, call Matt Ashby at (314) 444-8891.