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THE FEDERAL RESERVE BANK of ST. LOUIS

CentralBanker

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News and Views for Eighth District Bankers

The St. Louis Fed Welcomes Julie L. Stackhouse

The board of directors of the Eighth Federal Reserve District has named Julie L. Stackhouse as senior vice president of the Bank Supervision & Regulation (BS&R) Division. Stackhouse has almost two decades of experience with the Federal Reserve. She arrived in St. Louis on Oct. 1. She replaces Joan Cronin, who retired in July.

In 1980, Stackhouse graduated summa cum laude from Drake University with a bachelor of science degree. She joined the Kansas City Fed as an examiner and quickly rose up the ranks. By 1989, she was promoted to vice president in BS&R.

Stackhouse left the Kansas City Fed in 1995 and moved to Minnesota, where she spent five years raising her two children. During this period, she held a variety of volunteer positions, including:

• chairing the local Economic Development Commission,

• serving as a board member of the Arts and Humanities Council, and

• leading her children's scout troops.

In 2000, Stackhouse rejoined the Fed serving as a vice president in Minneapolis. Her responsibilities included managing the discount window, payments system risk, statistical reporting and the community affairs sections of BS&R. Other responsibilities included serving as the Ninth District's representative on the Fed's subcommittee on credit, reserves and risk management.

Stackhouse plans to continue her volunteer work in St. Louis. Her interests include working with the emerging immigrant populations and promoting financial literacy. In the Feditorial (see page 2), read what Stackhouse has to say about corporate responsibility and the role the Fed plays in maintaining a stable banking system and the public's trust. ■

System Introduces Several New FedLine Services

During the last half of 2002, several innovative services became available on FedLine® for the Web:

DTF Archive: In November, the Fed implemented the Documents-To-Follow (DTF) Archive. The DTF Archive is an electronic adjustments database containing images of documents such as checks. Now, adjustment cases and all supporting documentation are stored in one location. In addition to facilitating adjustment research and resolution process online, the DTF Archive also gives web customers online access to 12 months of historical adjustment activity.

FedACH℠ Information Services: Introduced earlier this fall, FedACH Information Services enables institutions to track, research and account for their FedACH activity via the web. This service encompasses the information-gathering functions available on DOS-based FedLine but with greater functionality and flexibility. Navigation is improved, data are easier to find and information is accessible to more customers.

FedImage℠ Services: This fall, FedImage Services, a product suite that provides institutions with a total image management solution, became available in Louisville and Little Rock. In 2003, FedImage services will be rolled out in St. Louis and Memphis.

For more information on these services or FedLine for the Web, contact your account executive or visit www.frbservices.org. ■

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"FedACH" and "FedImage" are service marks of the Federal Reserve banks.

Feditorial

Corporate Governance and Bank Examinations Further the Goal of Market Trust

By Julie L. Stackhouse, Senior Vice President, Banking Supervision and Regulation

"Corporate responsibility" and "corporate governance" are relatively new terms that have become quite popular following the sudden collapse of Enron. Stockholders, the general public and government officials were outraged by Enron's collapse and the wave of corporate accounting scandals that quickly followed. The ensuing national debate resulted in the enactment of the Sarbanes-Oxley (Corporate Responsibility Reform) Act on July 30, 2002.

As we have seen, weak corporate governance can result from many factors, including a lack of accounting transparency and substantial overreliance by boards of directors on the decisions of management. Historically, investors have depended on the diligence of outside auditors to independently verify the financial position of the firm and temper such risks. As the collapse of Enron illustrates, however, conflicts of interest[1] within auditing firms can disable safeguards and, in turn, weaken business practices and threaten investor trust.

Currently, more than 20 corporations are under investigation for corporate-accounting scandals. Yet, the number of publicly traded commercial banks facing such scandals has been small. Why? No one knows for sure, but one difference is clear: Commercial banks are subject to an extra layer of independent oversight because of the bank examination process.

Through the risk-focused examination process, bank examiners complement the function of independent auditors. Bank examiners:

- test the oversight of boards of directors and senior management;
- assess the adequacy of policies, procedures and limits;
- confirm the existence of adequate risk, measurement, monitoring and management information systems; and
- verify the existence of comprehensive and effective internal controls.

Bank examiners also operate under a strict code of ethics and do not engage in consulting activities with the banks they supervise. As a result, there are no conflicts of interest, and a bank examiner truly can offer an independent assessment of a bank's risks.

Regulators are responsible for furthering the stability of the banking system. Effective corporate governance and oversight by bank supervisory agencies support this objective by encouraging safe and sound banking practices. This, in turn, helps to build and maintain the public's trust. ■

[1] *The important conflicts of interest are not really between management and auditors, but inside the auditing firms themselves.*

Serving the Unbanked through Tax Assistance

The Earned Income Tax Credit (EITC) is a refundable federal tax credit that helps low-income workers increase their financial stability. Its goal is to reduce taxes for workers, supplement wages, make work more attractive than welfare and encourage the unbanked to open savings accounts.

The credit can be as high as $4,008. To qualify, taxpayers must have an income of less than:

- $10,710–no children,
- $28,281–one qualifying child, or
- $32,121–more than one qualifying child.

The General Accounting Office estimates 25 percent of the tax credit dollars owed to working families go unclaimed every year. In the Eighth District, the Internal Revenue Service estimates that an additional 10 to 20 percent of eligible taxpayers do not file for EITC refunds because they either do not know about the credit or how to file for the refund. To reverse this trend, the IRS is actively assisting organizations that wish to establish Volunteer Income Tax Assistance (VITA) sites.

VITA sites, which are staffed primarily by volunteers, assist low-income workers by helping them prepare and file their tax returns for free. This ensures that eligible workers receive their EITCs along with other federal and state tax credits. VITA also can be used to connect low-income families to asset-building opportunities and to help them avoid predatory lenders.

In Louisville, the Louisville Asset Building Coalition created eight neighborhood-based VITA sites during the 2002 tax-filing season. Similar initiatives have started in Memphis, St. Louis and Arkadelphia, Ark. More information about this program can be found in the Autumn issue of Bridges, www.stlouisfed.org/publications/br/2002/c/pages/4-article.html. ■

U.S. Treasury Breaks New Ground with Electronic Payments

The U.S. Treasury is working aggressively to convert its checks to electronic payments, such as ACH. Not only does the Treasury save more than 50 cents on each payment converted from check to ACH, the recipient and the payer also benefit from the improved speed, convenience and safety of an electronic payment.

Currently, the Treasury's Financial Management Service (FMS)—the division that issues and collects federal government payments—has several initiatives under way that will influence how some financial institutions receive and submit federal government payments:

Electronic Tax Payments–Several years ago, the Treasury introduced the Electronic Federal Tax Payment System (EFTPS), a free, convenient service that allows businesses and individuals to pay all of their federal taxes via PC-software or a voice-response system. Last year, the Treasury also introduced EFTPS-OnLine, which allows businesses and individuals to enroll, schedule and make payments, print payment receipts, view payment history and cancel payments through the Internet.

Currently, the Treasury requires businesses with an annual federal tax liability of $200,000 or more to use EFTPS; however, businesses of all sizes and many individuals often choose EFTPS because of its superior convenience over paper-based alternatives. Many institutions are actively offering EFTPS to their business customers as a way to decrease the amount of paper-based federal tax coupons they process. This move has been very successful. During the Treasury's 2001 fiscal year, businesses and individuals made more than 61 million tax payments worth $1.5 trillion through EFTPS.

Pay.gov–Individuals and companies use Pay.gov as an e-commerce Internet portal to government agencies, with a primary focus on payment transactions to the government. From June 2001 through August 2002, more than $1.7 trillion was collected on 53,000 transactions through Pay.gov.

Pay.gov offers several payment alternatives, such as:
- ACH debits or credits,
- credit cards and
- Fedwire® payments.

Paper Check Conversion–Designed to facilitate a more efficient and reliable collection method, the paper check conversion process converts paper checks presented at government locations to ACH debits. More specifically, check conversion technology entails:
- scanning a paper check;
- capturing the financial institution and account information; then
- converting that payment to an electronic transaction.

During the Treasury's fiscal year that ended Sept. 30, 105,000 checks totaling $51.8 million were collected through the paper check conversion.

Direct Deposit–From the beginning, the Treasury has been a leading advocate of direct deposit, and the Treasury continues to promote this service to individuals receiving federal payments. During its 2001 fiscal year, the Treasury disbursed 71 percent of its 947 million payments electronically, up from 50 percent during the 1995 fiscal year.

Federal benefit payments account for 81 percent of all federal payments, with Social Security Administration (SSA) and Supplemental Security Income (SSI) payments accounting for the majority of these benefit payments. While 78.5 percent of SSA and 49.7 percent of SSI payments are made electronically, the largest volume of payments still made through paper check consists of federal benefit payments and tax refunds.

ETA–Through its research, the Treasury found that a significant portion of federal benefit recipients do not have a bank account even though they receive their benefits via check. To encourage these recipients to open bank accounts and receive electronic payments, the Treasury developed its low-cost Electronic Transfer Account (ETA). Anyone who receives a federal benefit, wage, salary or retirement payment now can open an ETA.

ETAs are offered through a network of financial institutions nationwide, referred to as ETA providers. Some basic features—such as the $3 maximum monthly charge—are standard, regardless of the ETA provider chosen. To compensate for this price ceiling, the Treasury reimburses ETA providers $12.60 for each ETA they open.

These initiatives demonstrate the Treasury's commitment to reaching its goal of 100 percent electronic collections and disbursements. To learn more about ways your institution can actively participate in these electronic services, please visit these web sites:
- FMS, www.fms.treas.gov/
- EFTPS, www.eftps.gov/
- ETA, www.eta-find.gov/ ■

RegionalRoundup

Resource Are Available to Combat Identity Theft

Identity theft crimes are on the rise. Several resources are available to help consumers protect themselves.

One important resource is the U.S. government's central web site, which includes information about how to protect yourself, how to file a complaint, federal and state laws, and current frauds and scams. That web site address is www.consumer.gov/idtheft/index.html.

Additionally, in conjunction with the interagency Identity Fraud Task Force, the Boston and San Francisco Feds have released a video titled, "Identity Theft: Protect Yourself." Copies of the video are available for $7.50 each, including shipping and handling.

Send orders and payment requests to the Federal Reserve Bank of Boston, ATTN: Identity Fraud Video, PO Box 2076, Boston, MA, 02106-2076. Your payment must accompany your order request. Please make checks or money orders payable to the Federal Reserve Bank of Boston. ■

State Quarter Program Heats Up Locally

The Kentucky commemorative quarter—the first quarter in the Eighth District—was released in 2001. During 2002, the Eighth District saw a flurry of activity with the release of the Tennessee, Indiana and Mississippi quarters.

Three more District quarters will be unveiled in 2003. The Illinois quarter will be available in early 2003, with Missouri and Arkansas—the last state in our District—being released toward the end of the year.

This pattern of heightened activity in our District is purely coincidental. The U.S. Mint is releasing the commemorative quarters in the order each state joined the union. ■

Take a Virtual Tour of the Board of Governors

If you've ever wanted to take a tour of the Federal Reserve Board of Governors but never had the opportunity, you can find a link to a virtual tour on the St. Louis Fed's web site, www.stlouisfed.org/about/system.html. This virtual tour includes photos of the Board's buildings and art collection along with an architectural history of the Eccles Building. ■

ED Reviews Are in—Two Thumbs Up!

The St. Louis Fed recently conducted an online survey about ED, the Bank's electronic distribution service. Nearly 300 customers responded, and the results suggest that ED customers overwhelmingly favor receiving electronic mail over paper mailings.

Bank customers were asked to rate the service. According to the results, over 90 percent said that:

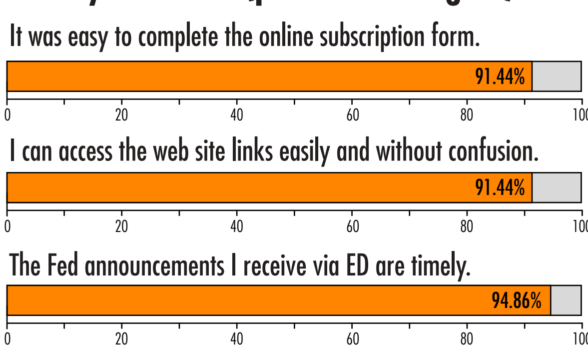
- it's easy to sign up for ED,
- the service is easy to use and
- the announcements are timely.

Customers also were extremely satisfied with the customer service they received whenever they asked for help.

Respondents were given the chance to suggest improvements. Some customers said that they'd like to receive more Research-related data through ED, as well as have access to certain forms and transaction services. The Bank is evaluating these suggestions. New features and enhancements will be added in the future.

Reminder: On Oct. 1, the Bank discontinued paper mailings for all announcements and materials that are included in the e-mail alert notification service. If you wish to sign up for ED, simply go to www.stlouisfed.org and look for "E-Mail Alerts." If you have any questions about the service, contact Tracie Mueller at (314) 444-8810 or 1-800-333-0810, ext. 44-8810. ■

Survey Statistics (percent who agree)



Deposit Insurance Reform: Is It Déjà Vu All Over Again?

Mark D. Vaughan (foreground) is the supervisory policy officer in the Banking Supervision and Regulation Department, and **David C. Wheelock** is an assistant vice president in the Research Division of the Federal Reserve Bank of St. Louis. A longer version of this essay appears in the October 2002 edition of *The Regional Economist.*

When Congress goes back to work, deposit insurance reform will once again be on the agenda. Although the bills considered in the last session would change the program in several ways, no proposed change has sparked more controversy than hiking the coverage ceiling to $130,000 per account from $100,000.

Among the proponents of a higher coverage ceiling are community bankers. During the '90s, large banks merged at a record pace—realizing sizable efficiency gains and putting intense cost pressure on smaller institutions. At the same time, community banks lost consumer loans and retail deposits to tax-exempt credit unions.

Community bankers argue that a higher ceiling would give them a better shot at luring large household deposits, retirement accounts and municipal deposits away from larger banks. These bankers contend that raising the ceiling is only fair because:

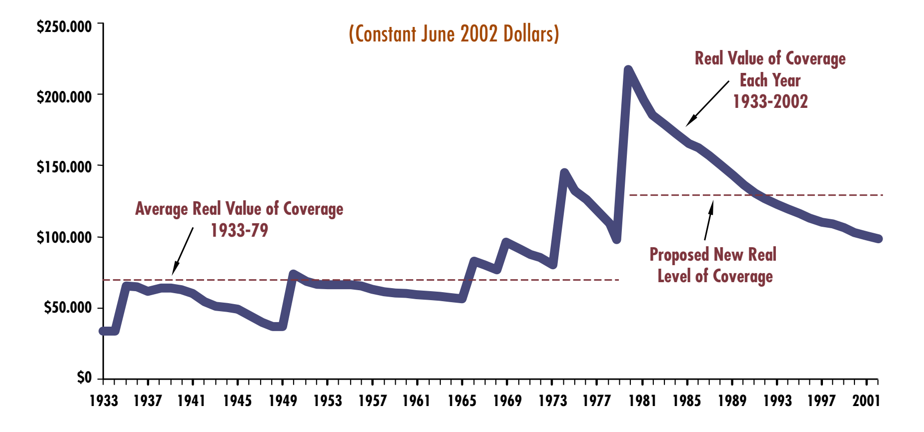
- large banks have traditionally enjoyed "too-big-to-fail" status, which effectively extends coverage to all deposits; and
- inflation has eroded the real value of coverage considerably since 1980—to compensate for 22 years of inflation, the ceiling would have to rise to $218,000.

Opponents of a higher coverage ceiling argue a different point: Raising the deposit insurance ceiling could encourage banks to take more risks. Increased deposit insurance allows risk-taking banks to draw incrementally more heavily on funding that carries little or no interest premium or penalty for excessive risk taking. In turn, the higher risk could put the taxpayers—who ultimately stand behind the program—at a greater chance of loss. Opponents point to the thrift debacle that followed the last increase in the coverage ceiling, which occurred in 1980.

There are several reasons why we feel the current deposit insurance ceiling needs to be maintained:

- First, the current ceiling already provides much more than $100,000 in coverage. For example, by using joint and multiple individual accounts, a family of four can insure up to $3.2 million at a single institution.
- Second, the case for inflation indexing depends on the base year chosen. If the starting point is the 1935 ceiling ($5,000), rather than the 1980 ceiling ($100,000,) the current cap should be reduced to $65,954.
- Finally, if subsidies to large banks and credit unions put community banks at a competitive disadvantage, it might be better to eliminate those subsidies rather than introduce more distortions.

Inflation-Adjusted Coverage Ceiling on Federal Deposit Insurance



Many economists and policy-makers warn that theory and experience argue against boosting the coverage ceiling, and they suggest a cautious approach. As Yogi Berra phrased George Santayana's warnings about the lessons of history—it may be déjà vu all over again. ■

FedFacts

Memphis Expands Its Role with Food Coupons

This year, the Memphis Branch became one of two sites in the Fed System for processing food coupons. Eventually, all Reserve banks will send their coupons via registered mail to either Memphis or the Richmond Fed.

The Fed was motivated to consolidate this service for two reasons:

1. Processing food coupons has become increasingly expensive.

2. The use of paper food coupons has fallen because more benefit recipients are using Electronic Benefits Transfer (EBT).

EBT enables recipients who do not have an account at a financial institution to establish a deposit-only account exclusively for receiving state benefits. Recipients use a debit card to draw upon their benefits, instead of receiving and using paper food coupons.

Memphis was chosen as one of the two sites because of its excellent record of accurate and timely coupon processing. In 1999, Memphis assumed responsibility for processing coupons for the St. Louis and Little Rock offices. Last April, Memphis also started processing Louisville's coupons. This experience has positioned Memphis to take on its expanded role for the System, which will benefit Eighth District customers. ■

U.S. Treasury Creates Two Valuable Consumer-Protection Resources

The increasing availability of low-cost, full-color, digital-imaging products has led to a surge in counterfeiting. To combat these efforts, the U.S. Treasury has created a program called Against Digital Counterfeiting of Currency (ADC). ADC includes an ad hoc panel of government representatives from various Treasury offices, the U.S. Secret Service, the Bureau of Engraving and Printing, and the Federal Reserve Board.

ADC collaborates with computer and copier companies throughout the world. The program's efforts include detecting equipment used in counterfeiting, preventing equipment and software from being able to copy and/or scan currency, and identifying and prosecuting criminals. To learn more about the ADC program, visit www.ustreas.gov/adc/.

The U.S. Treasury also has created a "Frauds, Phonies and Scams" web site to educate the public about sellers who falsely claim their financial products are issued or backed by the U.S. government. These scams have been directed at banks, charities, companies and individuals. To learn how you and your customers can protect yourself, visit www.treasuryscams.gov/. ■

CalendarEvents

UPCOMING FED-SPONSORED EVENTS FOR EIGHTH DISTRICT DEPOSITORY INSTITUTIONS

A Shared Future, Part II

DEC. 10, 2002—LOUISVILLE, KY.

On Jan 1, 2003, Louisville and Jefferson County will merge into one governmental entity. How will this affect community and economic development in the area? Speakers will discuss the topic and the role the new Louisville/Jefferson County Metro government will play.

For information or to register, call Faith Weekly at (502) 568-9216 by Dec. 5, 2002.

THE FEDERAL RESERVE BANK of ST. LOUIS

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

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

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