Hui Guo, *economist,*
Federal Reserve Bank of St. Louis

Despite the Recent Boom, Stockholding Is Still in the Hands of Few

The 1990s were exceptionally good years for stock market investors. The Standard and Poor's 500 index, which measures the value of the largest 500 firms, increased eight years during the decade and climbed 15 percent per year on average. Many observers have noted that the '90s' stock market boom coincided with a surge in the number of households that owned stocks—either directly or indirectly—through mutual funds, retirement accounts and other managed assets. As the accompanying chart shows, the stock market participation rate rose sharply from 32 percent in 1989 to 49 percent in 1998. Did this large influx of new investors propel the decade's stock market boom? Economic theory suggests that if an increase in the number of shareholders spreads stock market risk over a larger pool of investors, then the rate of return required to compensate shareholders for their risks ought to fall. This would cause a one-time increase in stock prices.

It is tempting, then, to argue that the increase in stock market participation played a significant role in the recent boom.

However, a closer examination of the data shows that most new shareholders own a relatively small amount of stocks.

The accompanying chart also reveals that the share of stocks held by the richest 10 percent of American households remained between 78 and 82 percent during the period between 1989-98. This means that aggregate stockholdings remain highly concentrated in the hands of the wealthiest 10 percent. Hence, the argument discussed above does not apply because even though the number of shareholders increased, a relatively small pool of wealthy investors still absorbed most of the risk.

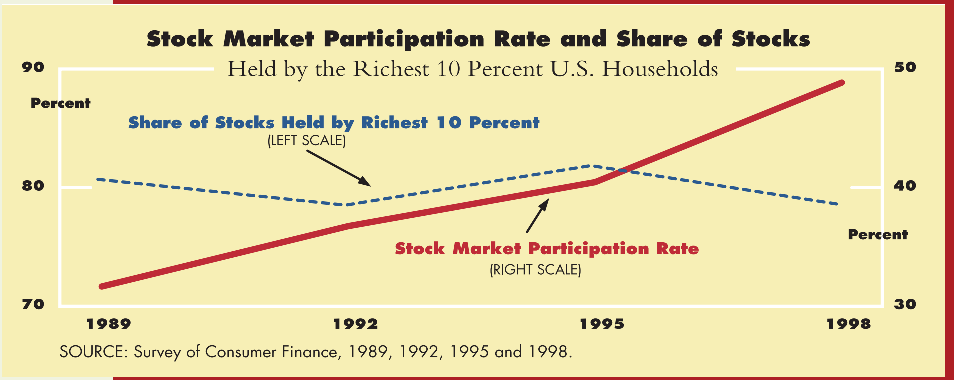
Other explanations for the most-recent stock market boom include:

- The baby-boom generation entered its peak savings years, and boomers' large demand for stocks fueled prices.
- Productivity increased rapidly because of the information-technology revolution.
- Because of the quick growth of mutual funds, American households tended to hold a more-diversified portfolio than before the recent boom.
- Irrational exuberance could have driven the price of stocks above their fundamental values.

However, economists John Heaton and Deborah Lucas argue that none of these factors can explain a significant portion of the 1990s' stock market run-up. Because stock prices have been very volatile throughout its history, the recent boom might be a cyclical deviation from the trend.

It is puzzling that a large fraction of American households continue to own few or no stocks because, on average, stocks have outperformed government bonds by a large margin. In a recent issue of the *Review*, the Bank's economics journal, I discussed several possible explanations.

- First, collecting and processing stock information is costly, and the costs for researching investments may be prohibitive for small investors.
- Second, because volatile housing prices pose a considerable risk, and a home is the most-important asset held by the average household, this risk could lead average workers to invest conservatively.
- Third, stock market returns are volatile in the short run and tend to be negative during business-cycle downturns—just when the average worker faces an increased risk of being unemployed.



SOURCE: Survey of Consumer Finance, 1989, 1992, 1995 and 1998.

One can argue that because of the information-technology revolution, information costs have become less important for making investment decisions. The research clearly indicates that our economy's reliance on labor income and the average worker's home-ownership patterns are the primary reasons why stock ownership remains highly concentrated in the hands of a few wealthy households. Simply put, working people—who face considerable labor-income risk and have a limited ability to borrow—often choose to put their savings into relatively safe assets instead of stocks. ■

This article is adapted from his June 2001 National Economic Trends *article, "Stockholding Is Still Highly Concentrated." For further reading see Heaton, John and Deborah Lucas, "Stock Prices and Fundamentals." NBER Macroeconomics Annual, 1999. Guo, Hui. "A Simple Model of Limited Stock Market Participation." Federal Reserve Bank of St. Louis* Review*, May/June 2001.*

FedFacts

Fed Web Site Explains Credit Card Offers to Consumers

The Federal Reserve has produced a new consumer-information brochure, "Shop: The Credit Card You Pick Can Save You Money." The brochure asks consumers to examine their spending and repayment habits and encourages them to comparison shop for credit.

Consumers learn how to calculate the cost and terms of a credit plan as well as the various formulas lenders use to calculate interest rates, finance charges and outstanding balances. Consumers also will find a glossary of terms, a diagram to help them decipher the information they receive in credit card solicitation materials and a "Credit Card Shopper's Checklist," which includes tips on shopping for a card and evaluating the cards consumers already have in their wallets.

The brochure can be found on the Federal Reserve Board's web site, www.federalreserve.gov/pubs/shop/.

New Video Helps Prevent Identify Theft

As part of the Federal Reserve's ongoing commitment to consumer education, the Boston and San Francisco reserve banks have released a new consumer-education video entitled, "Identity Theft: Protect Yourself." The video details how easily financial information can get into the wrong hands, allowing criminals to unlawfully obtain credit in your name. The video teaches consumers about how to protect themselves through interviews with law-enforcement officials, industry representatives and crime victims. The video also outlines what consumers should do if they suspect that their identity has been stolen.

Copies of the video are available at $7.50 each, which includes postage and handling. Orders should be sent to The Federal Reserve Bank of Boston, Public and Community Affairs Department, ATTN: Identity Fraud Video, PO Box 2076, Boston, MA, 02106-2076. Checks or money orders must be included in the order and be made payable to the Federal Reserve Bank of Boston.

Resources Available for the Self-Employed

The Interagency Workgroup on Microenterprise Development, which includes Community Affairs staff from the Federal Reserve Board of Governors, has produced a new publication, Crossing the Bridge to Self-Employment—A Federal Microenterprise Resource Guide. The publication discusses the various federally funded microenterprise programs that are available, provides case studies of entrepreneurs who have successfully used the programs, and highlights some of the banking regulatory agencies that support microenterprise development. To obtain copies of the publication, contact the Community Development Financial Institute Fund at (202) 622-8401. ■

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CalendarEvents

UPCOMING FED-SPONSORED EVENTS FOR EIGHTH DISTRICT DEPOSITORY INSTITUTIONS

COMMUNITY AFFAIRS MEETINGS

Louisville Community & Lender Luncheon
SEPTEMBER 11—LOUISVILLE
For more information, contact Faith Weekly at (502) 568-9216.

Arkansas Community Investment Symposiums
SEPTEMBER 27—PINE BLUFF, ARK.
OCTOBER 2—JONESBORO, ARK.
For further information, contact Lyn Haralson at (501) 324-8240.

Evansville Community Response Committee Meeting on Brownfields
(formerly Evansville Community & Lender Luncheon)
OCTOBER 18—EVANSVILLE, IND.
For more information, contact Faith Weekly at (502) 568-9216.

Evansville Community Response Committee Meeting on Mixed-Income Housing Development
NOVEMBER 8—EVANSVILLE, IND.
For more information, contact Faith Weekly at (502) 568-9216.

Community Development Forum
OCTOBER 24—QUINCY, ILL.
For further information, contact Diana Zahner at (314) 444-8761.

Memphis Investment Roundtable
NOVEMBER 1—MEMPHIS
For further information, contact Ellen Eubank at (901) 579-2421.

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THE FEDERAL RESERVE BANK of ST. LOUIS

CentralBanker

FALL 2001

News and Views for Eighth District Bankers

Treasury Implements New TT&L Investment Option

On July 2, the U.S. Treasury implemented an investment option for Treasury Tax and Loan (TT&L) participants called Dynamic Investing, which is a new component of the Treasury Investment Program (TIP).

Dynamic Investing provides an opportunity for participants to receive additional Treasury investments, which are not available through the direct investment option. The new program also provides the Treasury with enhanced cash-management capabilities by reinvesting unanticipated receipts on a same-day basis.

Dynamic Investments may be processed for the Treasury by TIP participants each business day from noon until 5 p.m. Eastern time; however, each enrolled financial institution has the option to designate an earlier cutoff time to accommodate its funds-management needs.

To qualify for Dynamic Investing, a financial institution must be a same-day direct investment TT&L participant. Questions about Dynamic Investments should be directed to the TT&L National Customer Service Area at 1-888-568-7343.

The Treasury also is evaluating another TT&L investment option, which would invest funds for a fixed term (usually one week to one month) at a guaranteed rate of interest with participating financial institutions. This option, currently referred to as the Term Investment Option, is in the early stages of development. A pilot program may be implemented as early as December. Updates on term investments will be provided as more information becomes available. ■

New Look, Same Book

This issue of *CB* sports a new look. (Some say it's about time!) We've changed the nameplate to clarify just what the initials *CB* have always stood for: *Central Banker*. We've also enlarged the type size and widened the columns. Finally, we've upgraded the paper and used more color and illustrations.

What's the point? To increase readability and focus attention on the critical news about the Federal Reserve. As you've told us repeatedly, you want up-to-date information about the Fed, but you want it in a short, easy-to-absorb format, accompanied by contact information should you require more information.

Current and back issues of *Central Banker* are available online at www.stls.frb.org/publications/index.html. On this web page, there's also a link to our electronic mailing list where you can sign up for electronic notification of each new issue.

As always, *Central Banker* will continue to cover the full range of Fed news affecting Eighth District bankers. Your feedback is important, and we're eager to hear from you. What topics would you like us to cover? Who else at your institution should receive *Central Banker*? Let us know. You may call or write the *Central Banker* editor, Alice Dames, whose postal and e-mail addresses are listed on the back cover. ■

Feditorial

Financial Literacy—*Can Americans Afford to Be without It?*

By Randall C. Sumner, Vice President Public and Community Affairs

What are the fundamental components of literacy in our society? Few would argue the importance of the three Rs: reading, 'riting and 'rithmetic, but what about financial literacy and money management? We think that more must be done to teach Americans financial-management skills, and that the education process needs to start as early as possible—preferably elementary and secondary schools.

For those not equipped with sound financial knowledge, the consequences can be enormous. When young people are not taught basic financial-management skills, they often wind up as adults making devastating financial decisions that can take years (or a lifetime) to overcome.

Financial literacy empowers consumers to make choices that will contribute to their well-being. It empowers them to create household budgets, initiate savings plans, make strategic investment decisions for their children's education or their retirement, and evaluate the broad array of products that are offered by financial-service providers.

Studies show that poor financial-management education has kept some lower-income families and minority groups from fully benefiting from economic expansion. Nowhere is this problem more clearly illustrated than by abusive-lending practices that target specific neighborhoods or vulnerable segments of the population. Such practices result in unaffordable payments, equity stripping and foreclosures.

As part of our ongoing efforts to promote financial literacy, our District is participating in a number of initiatives. They include: Fed Challenge, an economic education competition for high-school students; Making Sense of Money and Banking, a course for teachers; and resource fairs on home buying and credit for employees at each of our four offices. Also, our Community Affairs staff recently conducted a review of financial-literacy programs throughout the Eighth District. Many of those programs will be shared in an upcoming issue of *Bridges*, our Community Affairs newsletter.

Overall, our nation's evolving economic and financial systems have been highly successful in promoting economic growth and higher standards of living for the majority of our citizens. But we need to remain further to engage those who have not been able to participate fully. ■

Fed Updates District Telephone Systems to Improve Customer Service

As part of the ongoing initiative to improve customer service, the St. Louis Fed is making changes to its telephone systems. The Bank recognizes that customers have a reason to contact a variety of work groups, and some of these groups are located only in a particular Branch office. These changes will make it easier for callers to reach the correct Bank employees regardless of where they are located in the District.

In July, the Little Rock Branch converted to the same telephone system as the St. Louis office. By late 2002, the Memphis and Louisville branches will upgrade their telephone systems, creating a unified communication channel within the District.

The first round of improvements has created some dialing changes for any Bank customer calling the Little Rock Branch's main number. None of the Branch's main or direct-dial telephone numbers are changing; however, customers who reach the Little Rock auto attendant must now enter a *six-digit* extension to reach their party rather than the old three-digit extension. St. Louis also will convert to six-digit dialing in September.

When fully implemented, the system will allow seamless call transfers between Branch offices and make it easier for customers to reach the right person.

Additionally, the new system will have Caller ID, which will allow service representatives to identify the originating phone number of the customer who is calling.

Specific dialing instructions were included in the Services Directory mailed to Little Rock customers in June. For more information about the District's new telephone system and how the conversion may affect your dialing patterns, please contact Jim Albenesius at (314) 444-8375, or 1-800-333-0810, ext. 44-8375. ■

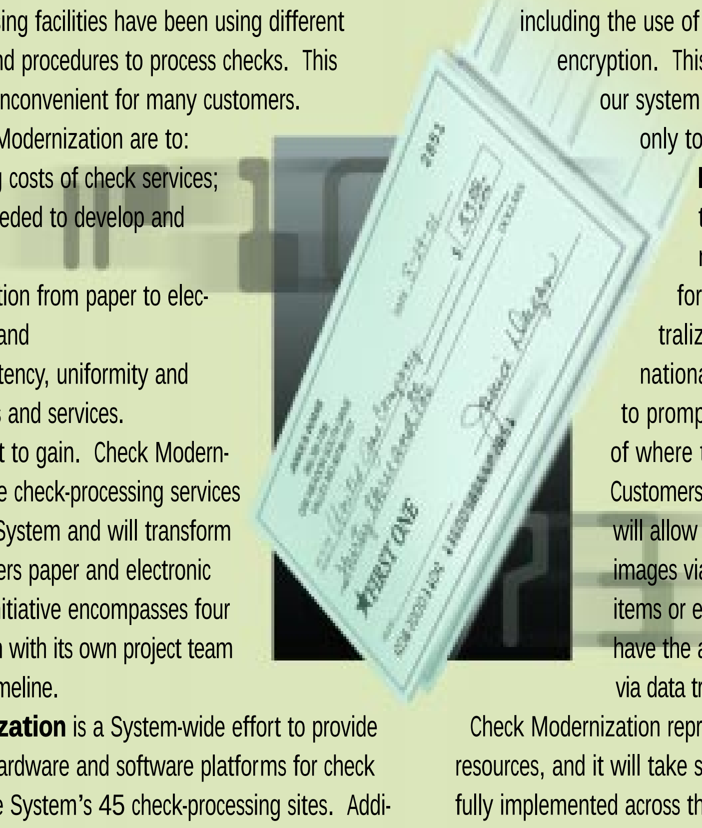
Going Modern: Fed Brings Check-Processing Systems into the New Millennium

In order to stay competitive in the check-processing market and anticipate—rather than react to—industry needs, technology and the legislative environment, the Federal Reserve System is undertaking an extensive initiative called Check Modernization.

Despite the popularity of electronic payment systems such as ACH, check volumes continue to grow. Additionally, because of bank deregulation and consolidation, many financial institutions now process their checks at multiple Federal Reserve facilities. Many of these check-processing facilities have been using different hardware, software and procedures to process checks. This inefficiency has been inconvenient for many customers.

The goals of Check Modernization are to:

- reduce the ongoing costs of check services;
- reduce the time needed to develop and roll out new products;
- facilitate the transition from paper to electronic check services; and
- improve the consistency, uniformity and quality of our products and services.



Customers have a lot to gain. Check Modernization will standardize check-processing services across the entire Fed System and will transform the way the Fed delivers paper and electronic check services. The initiative encompasses four separate projects, each with its own project team and implementation timeline.

Check Standardization is a System-wide effort to provide consistent, standard hardware and software platforms for check processing at all of the System's 45 check-processing sites. Additionally, the new platforms will enable all Fed sites to eliminate redundant activities, adapt more easily to volume fluctuations, adopt new technologies, develop and roll out new products in a timely manner and improve long-term processing efficiency.

Enterprise-Wide Adjustments will move check adjustments to a common software platform. Once implemented, processing sites will be able to process adjustments on a shared platform across all Reserve banks. Financial institutions will have a more-streamlined process for submitting automated adjustment requests, and adjustment cases will be resolved more quickly and accurately.

FedLine® for the Web is a new Web-based electronic access and delivery channel for check services. Check products currently offered on DOS FedLine® will be available on the new, secure Internet platform. New check services for the Web will be introduced over time. Using a standard Internet browser and an Internet service provider, financial institutions will have the flexibility of accessing check services from any PC in any location. The Federal Reserve's web server will employ state-of-the art security, including the use of digital certificates of authority and encryption. This will ensure safe and secure access to our system and delivery of sensitive information only to authorized individuals.

Image Services System is a project that will establish a standard, centrally managed hardware and software platform for check imaging, along with a centralized national archive for images. This national archive will allow any Reserve office to promptly retrieve any check image, regardless of where the check was processed originally. Customers also will be given new options, which will allow them to quickly access their own digital images via the Internet. They may look for single items or entire batches of checks. They also will have the ability to receive bulk delivery of images via data transmission, magnetic tapes and CD-ROMs.

Check Modernization represents a significant investment in System resources, and it will take several years before all of the projects are fully implemented across the country. Some efforts, such as standardizing platforms, are being installed one-by-one at each of the Reserve offices. The Enterprise-Wide Adjustment system is the front-runner project, with installation well under way nation-wide. The Eighth District will be fully converted by year-end. Check Standardization will begin next year in the District and will continue to be implemented on a staggered schedule. Conversion to the Image Services System will follow approximately four months after the Check Standardization project is complete.

The Business Development office will provide financial institutions with ample notice for all local cutover activities. If you have any questions about the Check Modernization, please visit the national Financial Services web site, www.frbservices.org; under "Service Information," select "check." You also may contact Cheryl McCarthy at (314) 444-8459, or 1-800-333-0810, ext. 44-8459. ■

Regional Roundup

St. Louis Check Department Improves Customer Service

In an effort to provide better customer service, the St. Louis Check Department has formed a Check Front Office. This office is staffed by two employees who answer all check-related customer calls, including those about: missing and late cash letters, adjustment cases and cash letter availability, plus "how-to" calls relating to check deposits and adjustments.

Before the St. Louis Front Office was established, check-related calls were fielded by various staff members in the Check and Business Development departments. Customers often were transferred numerous times before they got the answer they needed. Now, Check customers have a single point of contact; this new office is knowledgeable in all areas of Check operations to provide fast service.

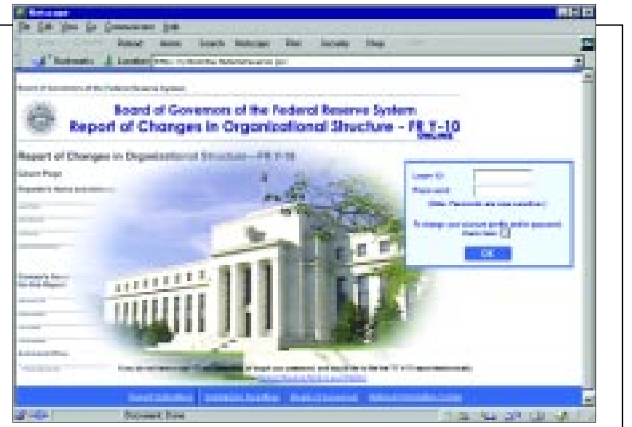
Front Office staff members will attempt to answer and resolve all inquires during the first call. On some occasions, they may forward a service ticket to another employee; but generally, the person who answers the call will be the one responsible for following up with the customer. Financial institutions may call the Front Office's toll-free number at 1-866-433-3227. ■

Fed to Produce Three More Credit Scoring Brochures

At the beginning of 2001, the first two (of five) installments of the System's credit scoring brochures were produced and distributed by the District's Community Affairs Department. These two brochures are: "Credit Scoring Overview" and "Credit Scoring Model Development and Maintenance." The remaining three brochure topics are: "Third-Party Brokers;" "Staff Training, Loan Pricing and Data Accuracy;" and "Overrides and Second Review Process." The Fed will distribute the remaining three brochures, still under development, within the next 12 months.

Electronic copies of the two completed brochures can be found on the Bank's web site, www.stls.frb.org/caffairs/index.html. Anyone wishing to receive hard copies of the two articles, together with an introduction and folder for the series of credit scoring brochures, should contact Linda Aubuchon at (314) 444-8646. ■

Reserve Board Creates New Form to Reduce Respondent Burden



The Federal Reserve Board of Governors has finalized the new "Report of Changes in Organizational Structure" (FR Y-10), which replaces the existing "Report of Changes to Investments and Activities Reported by Top-Tier Financial Holding Companies, Bank Holding Companies and State Member Banks" (FR Y-6A).

FR Y-10 is designed to reduce respondent burden by increasing the threshold for investments and streamlining the method of reporting percentage ownership for nonbanking investments. Eighth District bank holding companies should have received copies of the new report form and instructions in August. FR Y-10 became effective Sept. 1. Therefore, institutions should now report any structure changes that occur on this new form.

To assist with filing the new FR Y-10, a new Internet application is available for electronic reporting. The application, "FR Y-10 Online," makes reporting easier. It also ensures accuracy by providing an online replica of the report, as well as electronic wizard functionality, which populates the report based on questions and answers. Institutions can electronically submit reports and receive immediate confirmation upon receipt at the Federal Reserve. These features are just a few of the many benefits that electronic reporting offers.

If you have any questions regarding the FR Y-10 report form or FR Y-10 Online electronic submission, please contact Joan Boelter at (314) 444-8627, or 1-800-333-0810, ext. 44-8627. You also may visit FR Y-10 Online at https://y10online.federalreserve.gov. ■