



# Central Banker

FALL 2004

*News and Views for Eighth District Bankers*

## Federal Reserve To Close More Check Processing Sites

The Federal Reserve announced in early 2003 the restructuring of its check operations, and the initial reduction—from 45 to 32 check-processing sites—will soon be completed. This August, the Fed announced that nine additional facilities will transfer their work to other locations, further reducing the number of Fed check-processing sites to 23 by early 2006. No Eighth District sites are affected by this announcement.

This decision will further reduce costs and increase efficiency, while still allowing the Fed to provide access to high-quality check-processing services nationwide. The facilities affected are listed in the box.

More information about the Fed's check restructuring initiative can be found on our web site, [www.stlouisfed.org](http://www.stlouisfed.org), and the national financial services web site, [www.frb-services.org](http://www.frb-services.org). In the Feditorial on Page 2, Mary Karr, senior vice president of Legal, Public and Community Affairs, discusses

what the Eighth District is doing to reach out to communities that no longer have check- and cash-processing sites.

Offices Closing Check Sites	Offices Acquiring Check Volume
Boston	Windsor Locks, Conn.
Columbus, Ohio	Cleveland
Birmingham, Ala.	Atlanta
Nashville, Tenn.	Atlanta
Detroit	Cleveland
Oklahoma City	Dallas
Houston	Dallas
Portland, Ore.	Seattle
Salt Lake City	Denver

## Federal Reserve Standardizes Account and Service Relationships

The Federal Reserve is standardizing the way financial institutions establish account and service relationships. The new procedure is designed to:

- help improve the account-relationship process,
- enhance the Fed's ability to verify authorized individuals and
- expedite the processing of customer requests.

In addition to the Master Account Agreement, banks will be required to submit several documents, including: "Resolutions Authorizing an Institution to Open and Maintain Accounts and Use Services" and "The Official Authorization List." These documents will serve as the foundation for establishing each institution's authority to engage in business with the Fed and for identifying their authorized personnel.

The notifications were mailed to all Eighth District Federal Reserve account holders July 6, and the documents must be

returned by Oct. 1. Upon receipt, the new board resolutions will not supersede resolutions authorizing institutions to:

- borrow from and pledge collateral to the Fed,
- engage as a TT&L depository, and
- request certain levels of daylight overdraft capacity and net debit caps on Fed bank accounts.

Moreover, the new official authorization list will *not* replace any existing service-specific authorizations. After Oct. 1, however, only those individuals whose names appear on the official authorization lists may request changes to these service-specific authorizations. In addition, these new forms must be in place before institutions can begin using FedLine® Advantage, which will be introduced later this year.

If you have any questions, please contact Norman Broska at 1-800-333-0810, ext. 44-4775, or (314) 444-4775. ■



## Feditorial

### Branching Out: A New Direction for Our District

By Mary Karr, senior vice president, Legal, Public and Community Affairs

The Federal Reserve Bank's operating businesses continue to evolve, yet one thing remains constant: We need information about the local economy from our directors and other community leaders, such as you, to support our monetary policy mission. What is changing is how we reach out to you, our constituents.

As the Eighth District "branches out," we are adding a variety of new informational and technical resources that support:

- community development,
- economic and financial education,
- small business and
- other areas related to our mission.

You'll be seeing a greater Fed presence at events held in our branch cities. For example, this September, Federal Reserve Gov. Edward M. Gramlich is one of the keynote speakers at the International Urban Planning and Environment Association's sixth international symposium in Louisville. We've also just announced a new speaker series in Little Rock titled "Seizing Opportunities for Improving Local Communities," and we'll be hosting a small-business conference in Memphis during spring 2005.

Our commitment to the entire District remains strong, and our focus will not rest solely on our branch cities. We're also branching out to other communities and regions. Two of our recent publications profiled several areas in the "Kentuckiana" region, and we plan to feature more communities like these.

We've also begun new partnerships with local universities and other Reserve banks. We sponsored an economic education workshop this summer in Starkville, Miss., with the Atlanta Fed, the Mississippi Council on Economic Education, and Mississippi State University's Center for Economic Education and Financial Literacy. Since neither the St. Louis Fed nor the Atlanta Fed has a branch in Mississippi, we felt it was time that we reached out to educators in this state. The workshop was very well-attended. We'll be back!

These are just a few of the exciting things we have planned. In the coming months, you'll be hearing more about our Branching Out initiative through announcements on our web site and in our print publications. Our new outreach programs will bring the best results to the most people through your active participation and feedback. Please tell us how we can better serve you by writing me at our new e-mail address, [BranchingOut@stls.frb.org](mailto:BranchingOut@stls.frb.org). ■

### St. Louis Fed Releases Online Training Course for Bank Directors

Do the directors of your board understand the mechanics of bank analysis? Would you like to help them better fulfill their responsibilities? Community bank directors often face a dilemma when they elect new outside directors. These individuals are often leading citizens, but without experience in banking. Yet, they are expected to identify issues with the bank's performance at an early stage, before more costly measures or regulatory action are needed.

To reduce regulatory burden and to help bank directors learn

the basics of the boardroom, the St. Louis Fed's Center for Online Learning has created a free web-based course titled *Insights for Bank Directors: A Basic Course on Evaluating Financial Performance and Portfolio Risk*. This online course is based on a proven facilitator-led program developed by Forest Myers and Jim Hunter in the Supervision and Risk Management division of the Kansas City Fed.

*Insights for Bank Directors* is written in plain English and is designed to be interactive. The course uses videos and sample

reports from a fictional bank to raise practical, on-the-job issues that bank directors may face.

Participants can work at their own pace, choosing the topics they want to learn more about. New directors can go through the course sequentially, while more experienced directors can use the course as a refresher or reference tool.

Participants need a computer and Internet access to take the course. To learn more, visit our web site, [www.stlouisfed.org/col/director](http://www.stlouisfed.org/col/director). ■

# Federal Reserve Takes a Lead Role in Supporting Check 21

In less than two months, the nation will enter a new era of payments when the Check Clearing for the 21<sup>st</sup> Century Act, called Check 21 for short, takes effect Oct. 28. Check 21 allows banks that process checks—including the Fed—to convert paper checks into electronic images, which can then be cleared electronically and presented as images or as a “substitute check”—a paper print-out of the image that has the same legal standing as the original paper check.

Since the act was passed by Congress last year, the Fed has been actively preparing its check operations for the new processing environment. All Reserve banks are receiving the same standardized hardware and software to handle Check 21 services. Additionally, all Fed offices will be equipped with special printers to print the documents that will serve as substitute checks for banks unable to receive image cash letters.

Financial institutions, on the other hand, don't have to make these types of preparations immediately because the Check 21 legislation is voluntary. Banks that aren't in a position to accept image cash letters can ask for substitute checks, and there is currently no pending deadline requiring them to convert to electronics. However, for those financial institutions that plan to take advantage of electronic collection and return capabilities, the Fed will offer a full range of check processing solutions.

## The New Check 21 Product Suite

When the law becomes effective Oct. 28, the Fed will roll out three new product offerings designed to help financial institutions take advantage of the opportunities afforded by Check 21. These services—FedForward<sup>SM</sup>, FedReturn<sup>SM</sup> and FedReceipt<sup>SM</sup>—will enable banks to deposit and receive image cash letters just as easily, or more so, than paper cash letters. The services feature multiple deadlines to support various customer schedules and capabilities, identical fees and deadlines nationwide, and tiered pricing.

The *FedForward* product suite is designed to help bankers clear dollars faster, reduce transportation and processing costs, streamline backroom operations and extend deadlines. The product suite includes a robust offering of image cash letter deposit deadlines and a large-dollar cull service for paper deposits.

The *FedReturn* product suite will help bankers transform their



inbound and outbound returns processing operations to reduce risk, streamline backroom operations, improve quality and speed up the returns process. The product suite will include an image cash letter deposit service and, in the second quarter of 2005, derived returns and early return information to the bank of first deposit.

Financial institutions will also be able to take advantage of *FedReceipt* services, where the Fed will truncate paper items earlier in the collection process and provide customers with image cash letters in place of paper ones.

## Savings and Benefits for All

Although the payments landscape won't change overnight, the ability to process image cash letters will, over time, encourage new technologies that improve the efficiency of the nation's check collection system and reduce its cost. The Fed has chosen to take a leadership position in the implementation of Check 21, providing new products and services while partnering with banks to show them how to most effectively use these innovations. It's a role we plan to continue in the years to come as we fulfill our mission to foster a safe and efficient payments system. ■

## Fed Releases New Version of ReserveCalc™

A new release of **ReserveCalc™** was deployed July 26. This new release contains some functionality enhancements that current users have requested, including:

- Point-in-Time Reserve Requirement and Reserve Position Reports
- Individual As-Of Adjustment Detail
- Pass-Through Reserve Requirement View

For additional information regarding **ReserveCalc**, visit

[www.reportingandreserves.org](http://www.reportingandreserves.org), then click **ReserveCalc**. Once there, you can select the Test Drive to see how the application works and discover the valuable information it provides. For those who have not yet signed up, you'll also find enrollment information.

If you have any questions or need additional information, contact Tammie Stumpf at (314) 444-8565 or 1-800-333-0810, ext. 44-8565, or Lynn Neal at ext. 44-7371. ■

## St. Louis Fed Announces New Community Development Speaker Series

Three well-known experts on revitalizing ailing communities will present the inaugural speeches for the St. Louis Fed's first Community Development Speaker Series, "Seizing Opportunities for Improving Local Communities." Members of the audience are invited to meet the speakers at a reception after each lecture. The fee is \$90 for the series or \$40 per lecture. For more information, visit [www.stlouisfed.org/community/Speakers\\_Series.htm](http://www.stlouisfed.org/community/Speakers_Series.htm). ■

## Federal Reserve Board and FFIEC Propose New Rules for Bounce-Protection Programs

For several years, bounce-protection programs have been the center of controversy. Regulators are concerned about misleading and abusive lending practices because consumers may not have accurate and/or complete information to make informed decisions. Consumer advocates and others compare the programs to payday loans and argue they should be regulated as such. Bankers, on the other hand, have embraced these programs because they address a customer need and also provide fee income with less supervision, maintenance and cost than traditional overdraft-protection plans.

Previously, institutions automated the payment of overdrafts by treating the overdrafts as lines of credit covered under Regulation Z; however, the new program will not be considered a line of credit. Recently, third-party vendors have developed software packages, which may market a new program that promotes fee income by encouraging consumers to use the service as a line of credit.

To address these concerns, both the

Board and the FFIEC recently published guidance for public comment, and comments for both were due Aug. 6.

The Board proposed amendments to Regulation DD to regulate bounce-protection programs. These revisions state that depository institutions offering overdraft payment services must provide more complete information about these services. Depository institutions would be required to:

- provide account-opening disclosures and other marketing materials that describe in detail how fees may be triggered,
- provide the total dollar amount of overdraft and returned-item fees on periodic statements and year-to-date totals, and
- prohibit certain advertising practices.

The proposed FFIEC guidance includes best practices addressing the marketing and operation of bounce-protection programs, which affect safety and soundness aspects and consumer issues. ■

# The Costs and Benefits of Light Rail

By Thomas A. Garrett, senior economist



Each day, millions of commuters, tourists and students rely on regional rail transit as their primary source of transportation to and from city centers. More than 50 cities in the United States currently provide rail transit as part of their regional public transportation. Nationwide, regional rail systems logged over 900 million vehicle miles and 24 billion passenger miles in 2002. In comparison, bus service amassed 1.8 billion vehicle miles and 19.5 billion passenger miles, and private automobiles logged 1.6 trillion vehicle miles and 2.5 trillion passenger miles.

But light rail is growing.

Over the past several decades, the rapid expansion in city suburbs and a more environmentally conscious public have led city officials to believe that light rail can help alleviate traffic congestion and pollution. In addition, dozens of metropolitan areas across the country also see rail transit as a form of public transportation that can encourage economic development—if light-rail stations are strategically placed and city officials and private developers cooperate with one another.

The four greatest perceived benefits from light rail are:

- reducing traffic congestion,
- reducing pollution,
- increasing property values and fostering economic development, and
- providing a means of transportation for the poor.

## *The Cost of Providing Light-Rail Systems*

Our research finds that light rail is cost-inefficient compared to using private automobiles. Additionally, the burden

This article is part of a larger report titled *Light-Rail Transit in America: Policy Issues and Prospects for Economic Development*, which can be found at [www.stlouised.org](http://www.stlouised.org).

for most light-rail costs is placed on America's taxpayers—even those who don't ride light rail.

**Construction costs:** Most light-rail systems receive federal subsidies that cover a large portion of the construction costs. The remaining construction expenditures are paid through earmarked tax revenues or bond issues—paid by future tax revenues.

**Operation expenses:** Fare revenues only cover a small portion of operating costs; therefore, most light-rail systems across the country require hundreds of millions of dollars per year in taxpayer subsidies in order to operate. Specifically, fare revenue covered less than 30 percent of light-rail operating costs for three cities: 28.2 percent, St. Louis; 21.4 percent, Buffalo; and 19.4 percent, Baltimore.

## *Benefits of Light-Rail Transit*

Let's look at two familiar issues.

**Traffic congestion and pollution:** Light rail may only provide a short-run solution to traffic congestion and pollution. In order to permanently alleviate unwanted traffic congestion and pollution, policymakers must address the root cause of both, the inefficient pricing of roadway usage.

Traffic congestion and pollution exist because the costs of driving automobiles are artificially low. Although car owners must pay to purchase, insure and maintain their cars, they do not pay for the pollution and congestion they impose on others. To permanently reduce traffic congestion and pollution, policies must be enacted—such as, implementing toll roads or increasing gas taxes—that force drivers to bear the full cost of their automobile usage.

However, research also has shown that light rail may provide a more optimal level of traffic congestion by serving as a marginal reducer of traffic congestion during peak hours. This possibility alone would make the congestion reduction from light rail quite significant.

**Higher property values:** Many academic studies have shown that commercial and residential property values can be higher when the properties are close to a light-rail station. Economic development from light rail doesn't occur for free, however. Millions of tax dollars are used to cover the construction and operating costs of light rail. Bottom line: In order to obtain an accurate assessment of light rail's net economic development benefits, one must subtract the cost of taxes from the total value of any development that occurs.

## *Should Light Rail Be Abandoned?*

Even though it is relatively expensive to implement light rail, we do not suggest that communities abandon this mode of transportation. If a society obtains some intangible benefits from having light rail in its community, then one could justify the costs. The problem for economists and city planners is that it is very difficult to place a dollar value on these intangible benefits. In addition, light rail should certainly be considered if it will reduce congestion and pollution in the local area, as well as create economic growth. A basic cost-benefit analysis requires that we both measure the tangible and intangible benefits and also accurately subtract any subsidies from the economic-development gains. ■

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

On July 26, the Board of Governors requested public comment on proposed revisions that would better align the bank holding company rating system with current supervisory practices. The proposed rating system incorporates an increased emphasis on risk management, a more flexible and comprehensive evaluation of financial condition, and an explicit determination of the likelihood that the nondepository entities of a holding company will have a significant negative impact on the depository subsidiaries.

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. Comments are due by Sept. 21, 2004.

For more information about this proposal, visit [www.federalreserve.gov/boarddocs/press/bcreg/2004/20040723/default.htm](http://www.federalreserve.gov/boarddocs/press/bcreg/2004/20040723/default.htm). ■

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### Agencies Issue New Bank Secrecy Act Examination Procedures

The federal regulatory agencies have issued Bank Secrecy Act examination procedures to use when examining all domestic and foreign banking organizations' customer identification programs (CIP), which are required by Section 326 of the U.S.A. Patriot Act. These procedures are designed to:

- help financial institutions fully implement the new CIP requirements and
- facilitate a consistent supervisory approach among the federal financial institutions regulatory agencies.

More information can be found at [www.federalreserve.gov/boarddocs/press/bcreg/2004/20040728/default.htm](http://www.federalreserve.gov/boarddocs/press/bcreg/2004/20040728/default.htm). You can also contact Timothy A. Bosch at (314) 444-8440 or 1-800-333-0810, ext. 44-8440.

### Int'l Banking Institutions Launch Quarterly Journal

The Federal Reserve Board is jointly sponsoring the *International Journal of Central Banking*, a refereed journal publishing high-quality research about all aspects of central banking. The sponsors have issued a call for papers and hope to produce the first issue in early 2005. Federal Reserve Gov. Ben S. Bernanke is serving as the first managing editor.

The Bank for International Settlements will host the journal's web site, which will be accessible to readers free of charge. Print copies will be available by subscription. More information can be found on our web site, [www.stlouisfed.org](http://www.stlouisfed.org). ■

UPCOMING FED-SPONSORED EVENTS  
FOR EIGHTH DISTRICT  
DEPOSITORY INSTITUTIONS

### Global Pressures on Local Autonomy: Challenges to Urban Planning for Sustainability and Development

Louisville—Sept. 4-8

For more information, visit [www.stlouisfed.org/community/conferences.html](http://www.stlouisfed.org/community/conferences.html) or [www.cepm.louisville.edu](http://www.cepm.louisville.edu).

### Brownfields 2004: Gateway to Revitalization

St. Louis—Sept. 20-22

For more information, visit [www.stlouisfed.org/community/conferences.html](http://www.stlouisfed.org/community/conferences.html) or [www.brownfields2004.org](http://www.brownfields2004.org).

### Illinois Symposium on Banking the Immigrant Market

Sept. 28 (Joliet, Ill.) or Sept. 29 (Fairview Heights, Ill.)

For more information, call Yolanda Stoffregen at the Illinois Bankers Association at (312) 453-8851 or 1-800-878-2265, ext. 851.

### Community Development Speaker Series: "Seizing Opportunities for Improving Local Communities"

Little Rock—Sept. 30 and Dec. 7, 2004, and Feb. 17, 2005

For more information, contact Cynthia Davis at (314) 444-8761 or 1-800-333-0810, ext. 44-8761. ■



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