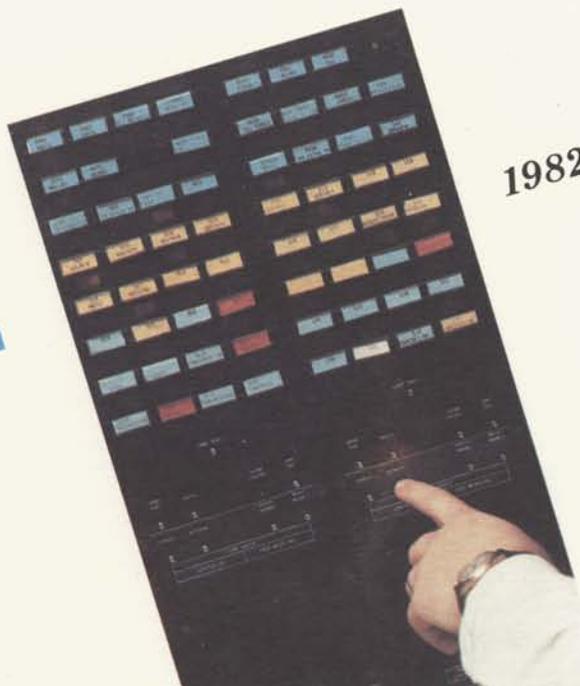




1982 ANNUAL REPORT

FEDERAL RESERVE BANK
OF ATLANTA

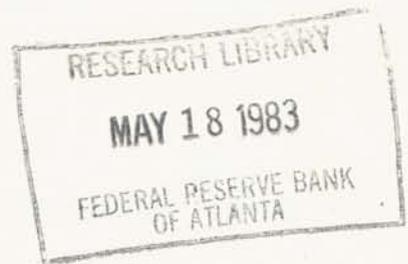


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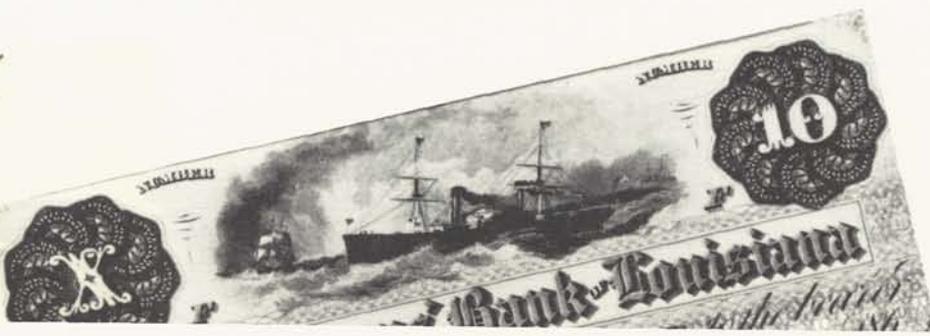
Evolution/ Revolution in Banking

Even before ancient Egyptians began fashioning bronze "ring money" nearly 7,000 years ago, traders used items as diverse as shells, tea bricks and tobacco braids to facilitate the exchange of goods and services. Today, such primitive forms of money have been supplanted by demand deposits that can be transferred by checks, credit cards, debit cards and even by electronic messages. Yet the evolution suggested by the cover of our annual report has continued, not only in our payments systems but in the financial services industry that has grown up to serve the needs of a modern nation. This year's annual report addresses the evolution that has taken place in financial services in general and in the Sixth Federal Reserve District in particular. It looks at the legislation and market forces that are reshaping the District's depository institutions—and it looks at how that evolution has affected the Federal Reserve Bank of Atlanta, its contributions to monetary policy, its operations and its people. Helping to illustrate this year's report are rare numismatic exhibits from the Atlanta Fed's monetary museum, celebrating its 10th anniversary this year.

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FROM THE BOARDROOM

For the Federal Reserve Bank of Atlanta, as for our District's financial services industry, 1982 proved to be another exciting year.

The industry, which has been undergoing evolutionary change for years, recently has witnessed changes that seem almost revolutionary. With provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980 still being phased in, last year saw Congress approve further banking legislation—the Garn-St Germain Depository Institutions Act of 1982.

Those two laws have introduced formal deregulation to an industry already experiencing de facto deregulation brought about by a changing marketplace. That transition had begun even before Congress started dismantling basic regulatory barriers that had stood for decades. Local institutions, for instance, have found themselves contending not only with out-of-state banks venturing onto their turf, but with aggressive nonbank competitors ranging from brokerage and insurance companies to department store retailers and steel company subsidiaries.

Financial institution mergers and acquisitions also are reshaping the industry under the combined pressures of increased competition, a deep national recession and other stresses from an inflated economy that the Federal Reserve helped cool during 1982. The industry has responded through such measures as interstate acquisitions of troubled institutions, the creation of shared automated teller networks, the establishment of discount brokerage operations in banks, the adoption of sweep accounts, and even mergers between banks and S&Ls.

Recent banking legislation represented one government response to the changing market environment. The Garn-St Germain bill, for example, incorporated reforms designed to help banks and S&Ls compete against money market mutual funds and other recent challengers. The introduction of a new money market account with no interest ceiling and limited checking privileges brought a rush of depositors into banks and S&Ls late in 1982. A similar account—the so-called Super-NOW account introduced early in 1983—promised depositors both high interest rates and unlimited checking.

The Garn-St Germain bill affects the Atlanta Fed less directly than did the Monetary Control Act of 1980 (informally



Chairman William A. Fickling, Jr. (seated), Deputy Chairman John H. Weitnauer, Jr., and President William F. Ford.

labeled "MCA-80"). Designed to move the financial services industry toward a "level playing field," MCA-80 actually created a new competitive environment for both financial institutions and the Federal Reserve System.

While we agree philosophically with the deregulatory goal of stimulating competition in the financial industry, we also observe that the new legislation—like the market-induced innovations that have helped speed regulatory change—thrust many institutions into unfamiliar roles. For the Atlanta Fed, for example, MCA-80 created a new relationship with nonmember banks, S&Ls and credit unions within our Sixth District—a region encompassing all or part of Alabama, Florida, Georgia, Louisiana, Mississippi and Tennessee.

MCA-80 also mandated that the Federal Reserve Banks begin direct pricing of services, for the first time, to recover the costs of services that we traditionally had provided banks without explicit charges. The directive from Congress was unmistakably clear. Since Congress voted MCA-80 into law, we have responded by phasing in charges on such services as check processing, securities and noncash collection, wire transfers and net settlement services, and transportation costs in our cash services area.

We believe that our entry into the marketplace will prove beneficial to both the public and its financial institutions. When we began charging for our services, as Congress instructed us to do, commercial banks in our District jumped right in to challenge us in the marketplace. They have enjoyed some success. Although we have now stabilized our volume, the Atlanta Fed early on saw about 12 percent of our sizable check business shift to commercial banks. Although that volume loss was significant to us, it was well below the 20 percent loss sustained by Federal Reserve Banks Systemwide. We were able to limit our business volume losses by being highly cost-effective, a performance documented by the Fed's internal cost-accounting measurements. Our cost effectiveness naturally translates into competitive prices, just as it does in the private sector.

The Atlanta Fed's ambitious automation program also has helped us to do our job efficiently. We are coping with the highest check volume and one of the busiest wire transfer networks in the Federal Reserve System, even as we continue to reduce staff. We have been trimming personnel for years as automation enhanced our operations, but the trend accelerated last year as we tightened our belts in response to declining volume. By year-end 1982, our staff had

declined to just over 2,000, counting our branches in Birmingham, Jacksonville, Miami, Nashville and New Orleans. That's down from a year-end 1981 total just under 2,200 and a 1975 peak of about 2,850 employees.

We went into the new year with a streamlined management structure reorganized in 1982 to face our rapidly changing environment. The major organizational changes, designed to implement a three-year strategic plan, have already begun to strengthen our Bank and to redirect its resources more effectively in carrying out our evolving missions. The changes effectively split the Bank into a priced service organization and an organization that attends to our traditional central banking responsibilities—with a "Chinese wall" separating the two to ensure that our competitive and regulatory activities don't create either the appearance or the substance of a conflict of interest.

To prepare our staff to function more effectively in a competitive environment, we also initiated a series of intensive training programs. These have included training programs for the Bank's marketing representatives and operations managers and a series of customer relations training programs that has continued into 1983.

Our various initiatives helped us through a challenging year of transition, made more

difficult as the nation endured a frustrating recession throughout 1982. As in 1981, last year brought continued headlines proclaiming rising unemployment, troublesome business failures and weak demand for the economy's output. Our Sixth District, which had weathered a 1980 slowdown rather painlessly, felt the full brunt of the latest recession, with some District states among those reporting the nation's highest unemployment rates.

Since our southeastern states remain dependent on national and international markets, our recovery hinges on increasing demand at home and abroad for the products we generate. Still, we believe the Southeast retains basic economic strengths that should help the region profit quickly from the rebound that seemed to be developing early in 1983.

The national recession and the host of new instruments being introduced by financial institutions complicated the Federal Reserve's conduct of monetary policy in 1982. Monetary policy was further complicated by a fiscal explosion that blasted the federal budget deficit to the \$110 billion level, claiming an unhealthy share of the nation's credit supply. However, private demand for credit collapsed under the weight of the recession, so interest rates eased despite the Treasury's huge needs.

With interest rates declining going into 1983, it has become possible to shape monetary policy to provide a base for a stable recovery without an immediate resurgence of inflation. Yet, with the possibility of even larger deficits looming in the next few years, the stability of recovery could be endangered unless we move with caution. As the private sector's demands for credit grow, the conflict between public and private credit needs could trigger strong upward pressure on interest rates. An excessively liberal injection of credit by the Fed could reawaken inflationary fears, laying the groundwork for a recession even more serious than the one we are now shaking off.

The latest recession and the transformation in financial services have affected the banks and thrift institutions in our District as well as across the nation. Nationally, 34 banks failed or merged with regulatory assistance during 1982, including



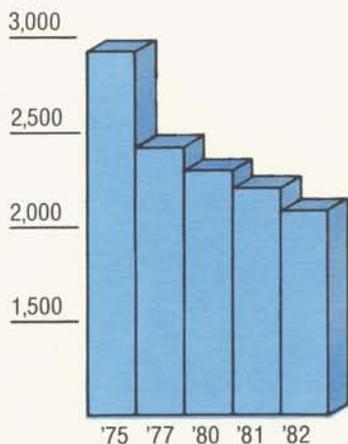
five within our District. The savings and loan industry has had a rougher time of it: 14 S&Ls in our District either were liquidated or disappeared through an assisted merger.

Given the importance of the transformation taking place in financial services, our Bank has sought to shed light on the subject. We have tried to accomplish that through a visiting speakers' program for Bank directors and Southeast business leaders, through our Research Department publications, and through a series of nationally significant conferences. For instance, our conferences on the financial services industry and the U.S. payments system in 1981 and on supply-side economics in 1982 each attracted 300 to 400 visitors from across our District and beyond. We followed in March 1983 with a conference on growth industries. Those conferences have helped to establish our Bank as a respected forum for financial subjects and other selected issues of concern to business people in our District.

Our distinguished guest speakers for 1982 included Federal Reserve Board Chairman Paul Volcker, who addressed Bank directors at a meeting in Knoxville; Preston Martin, appointed in 1982 as Federal Reserve Board vice chairman; Albert Cox, president of Merrill Lynch Economics; William A. Niskanen Jr., a member of the President's Council of Economic Advisers; Edwin L. Harper, who spoke to us as deputy director of the Office of Management and Budget but now is assistant to the President for policy development; C.T. Conover, comptroller of the currency; U.S. Treasurer Angela M. Buchanan; Karen Horn, president of the Federal Reserve Bank of Cleveland; and John F. Fisher, senior vice president of Banc One Corporation of Ohio.

Other major changes during 1982 included the election of Bernard F. Slinger, president

Number of Employees, Sixth Federal Reserve District



of Florida State University in Tallahassee, to the Bank's board of directors for a three-year term. Dr. Sliger succeeds Jean McArthur Davis, president of McArthur Dairy, Inc. of Miami, whom we would like to thank for her respected counsel as a director. Philip F. Searle, chairman and chief executive officer of Flagship Banks of Miami, was also appointed by directors of the Atlanta Fed to serve as the Sixth District's representative on the Federal Advisory Council for 1983. He succeeds Robert Strickland, chairman of Trust Company of Georgia, of Atlanta, who also leaves the "Fed family" with our best wishes.

With the counsel of our new directors, we expect our Bank to retain its traditional leadership in efficiency while coping with the new challenges posed by a changing financial services industry. We are confident that, with the commitment and dedication of our employees in Atlanta and our branches, we will be able to cope with tomorrow's challenges just as we have responded to the forces for change of the recent past.



Chairman Fickling, Deputy Chairman Weitnauer with Federal Reserve Board Chairman Paul Volcker at Knoxville directors' meeting

William A. Fickling, Jr.

WILLIAM A. FICKLING, JR.
CHAIRMAN

John H. Weitnauer, Jr.

JOHN H. WEITNAUER, JR.
DEPUTY CHAIRMAN

William F. Ford

WILLIAM F. FORD
PRESIDENT

EVOLUTION AND MONETARY POLICY

The evolution of financial institutions is clearly visible in our fast-changing world of Super-NOWs, interstate banking, and the marketing of financial services in supermarkets and department stores. Evolution may be less visible in monetary policy, but it, too, has been changing. So has the Federal Reserve Bank of Atlanta's role as a contributor to the process of shaping monetary policy.

A Regional Reserve Bank's Role in Monetary Policy

It's almost 11 o'clock on a weekday morning at the Federal Reserve Bank of Atlanta, and research director Donald L. Koch and research officer Robert E. Keleher have just joined President Ford in his first-floor office. After they have reviewed briefly the latest economic and financial developments, the conference telephone rings and they are in touch with the Board of Governors staff in Washington and the "open market desk" at the Federal Reserve Bank of New York. The open market desk, which acts as the Federal Reserve System's agent in carrying out monetary policy, initiates such "morning calls" daily to be sure its actions are fully consistent with the spirit of the monetary policymakers' current directive.

Monetary policy is shaped by the Federal Open Market Committee (the FOMC), which consists of the seven members of the Board



of Governors, the president of the Federal Reserve Bank of New York, and, on a rotating basis, four of the other 11 Reserve Bank presidents. President Ford, who completed a one-year term as a voting member of the FOMC in March 1983, has been on call for these daily telephone conferences for two six-week periods during that term, alternating with the other four voting presidents. Even as a nonvoting president, Ford will continue to attend the regular FOMC meetings and to participate fully in the discussions prior to a vote.

The FOMC takes its name from the System's "open market operations"—purchases and sales of Treasury Department securities on the open securities market. When the System buys, it pays by crediting the reserve accounts of depository institutions, increasing their ability to make loans and thereby adding to the nation's money supply. When the System sells, the reverse occurs, tightening available reserves and, ultimately, money. The System can and does also implement monetary policy through changes in the discount rate (the rate that Federal Reserve Banks charge on loans to depository institutions) or in reserve requirements. But it uses those instruments rather infrequently. Open market operations, on the other hand, are carried on daily and are the System's principal policy tool.

The FOMC obviously is an influential committee with an important assignment that demands superb professional support. To provide the FOMC and individual presidents with current, accurate information on which to base decisions, each Reserve Bank maintains an ongoing economic research program. At the Atlanta Fed, for example, huge volumes of data stream into the

Research Department to be analyzed and interpreted by our economists. The economists distill the data into a policy document that is discussed with President Ford at a briefing session prior to each FOMC meeting. Between meetings, our senior economists keep him updated for those "morning calls."

Sophisticated computers have been added recently to the Atlanta Fed's research operation to speed the process of collecting and refining data. Automation assures that the information is more current and that the economists spend less time on statistical processing, leaving them more hours for thoughtful interpretation. The Atlanta Fed's regional database has been expanded, and access to both regional and national data has been improved, through a system of graphics-oriented computers. During 1982, portable mini-computers were also added and staff members are encouraged to take them home when necessary, further facilitating their work.

Some of the most significant input, however, comes not in the form of statistical data but in well-researched reports on local economic conditions provided by our Bank's 44 directors from cities and towns throughout the District. Reserve Bank directors are selected for their experience, judgment, and ability to detect economic developments before they have affected the statistics. At each monthly meeting of the Atlanta Fed's board, for example, our visiting branch and head office directors provide President Ford valuable guidance on conditions within the various geographic regions and diverse businesses in which they live and work daily.



Research Director
Donald L. Koch



Monetary Policy Meets a New Challenge in a New Way

The evolution of monetary policy took a dramatic turn with the Federal Reserve Board's announcement of a shift in strategy on October 6, 1979. On that date, the Board announced it would turn its attention from controlling money primarily through interest rates to controlling money primarily through reserves.

Federal Reserve governors had decided to undertake a bold new strategy for contending with inflation, a festering problem that was eroding the integrity of the dollar, undermining the American tradition of thrift and, ultimately, sapping the nation's competitiveness in the world marketplace.

Inflation, of course, is a national affliction that occurs when money is created at a faster rate than the supply of real goods and services produced by our economy. The chain of events that led up to the outburst of inflation we experienced in the 1970s and early 1980s looked something like this:

- In small doses, inflation was tolerated easily by post-World War II decisionmakers with painful memories of the Great Depression. But it gradually became embedded in the nation's thinking and planning. Subtly, the nation's concept of an "acceptable" level of inflation rose from 1 or 2 percent in the 1950s and 1960s to 4 or 5 percent in the early 1970s. By the end of the decade, we crossed that threshold and experienced double-digit inflation for the first time in many years.

- The incentive to save also withered, as Americans concluded that next year's prices inevitably would be higher. Regulatory ceilings on the interest rates paid on their savings would prevent them from offsetting inflation's bite, they concluded. And, since interest income was taxable anyway, why save?

- The reduced savings rate stunted growth of the nation's pool of credit. And persistent federal budget deficits demanded more and more credit, making relatively less available to finance improvements in the nation's plants and equipment. Consequently, productivity growth turned sluggish.

- There were, however, increased incentives to borrow. Since interest payments were tax deductible, the reasoning went, why not borrow to buy now in anticipation of next year's price hikes? Consumers, business people, and the U. S. Treasury were then bidding against each other for credit, putting upward pressure on interest rates.

- When key interest rates edged above targeted levels, the Fed occasionally supplied additional reserves. This tended—for a time—to hold interest rates in check, although it also tended to accelerate the growth of the nation's money supply.

- Despite the Fed's best efforts, interest rates strained upward. Long-term lenders, in particular, could see the bad arithmetic of lending at rates that failed to compensate for inflation. But the inflation rate was by then in the double-digit range, with the CPI's annual average growth peaking at 13.5 percent in 1980. The incentive to borrow was even stronger, the incentive to save weaker.

- Because Regulation Q kept a tight lid on the rates that depository institutions could pay to bank depositors, they began looking for ways to protect themselves against inflation and to enjoy some of the benefits of higher market rates. The scene was then set for unregulated financial institutions to create innovative accounts to attract rate-sensitive funds. And attract them they did. Money market mutual funds reached the \$230 billion level in 1982 before they began to decline.

With the demand for credit strong, excess reserves were quickly converted into demand deposits as banks put more and bigger

loans on their books. More items moved from the public's wish-list to the shopping list. But productivity lagged. Prices rose more and more rapidly, until double-digit rates finally sounded the alarm to mobilize a counterattack. Some have said that high interest rates contributed to the current recession. Yet interest rates were high because the inflation rate was high. Inflationary expectations forced lenders to charge and depositors to demand ever higher rates. The Fed's revised monetary policy strategy, then, focused on inflation's roots rather than its nettlesome interest-rate thorns.

Inflation Remains the Underlying Problem

As Chairman Volcker has said repeatedly, interest rates will not come down to acceptable levels until the inflation rate has been brought down to stay. Any attempt to force interest rates down now would likely fail and almost surely would plant the seeds of a future recession with roots similar to those of the present slowdown.

From December 1981 through December 1982, the nation's inflation rate slowed to 3.9 percent from 8.9 percent in 1981, as measured by the closely watched consumer price index. By other measures, too, the inflation rate slowed encouragingly; the gross national product deflator for the fourth quarter of 1982 registered a 4.6 percent rise from the previous year, compared to an 8.9 percent jump during 1981, and the producer price index for December 1982 edged up 3.5 percent from a year earlier, compared with a 7.2 percent increase in 1981.

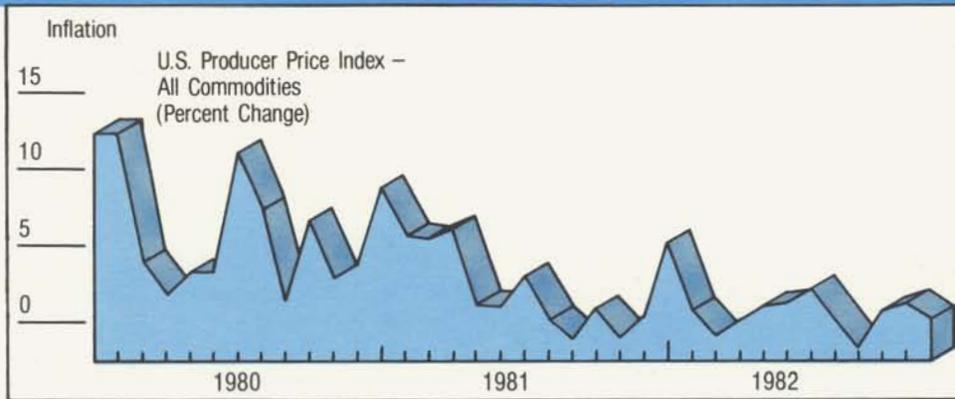
So Fed officials will continue to reiterate the Chairman's message: Inflation remains the underlying problem, and controlling it is the only way to attack the related problems of high interest rates and sluggish economic activity.



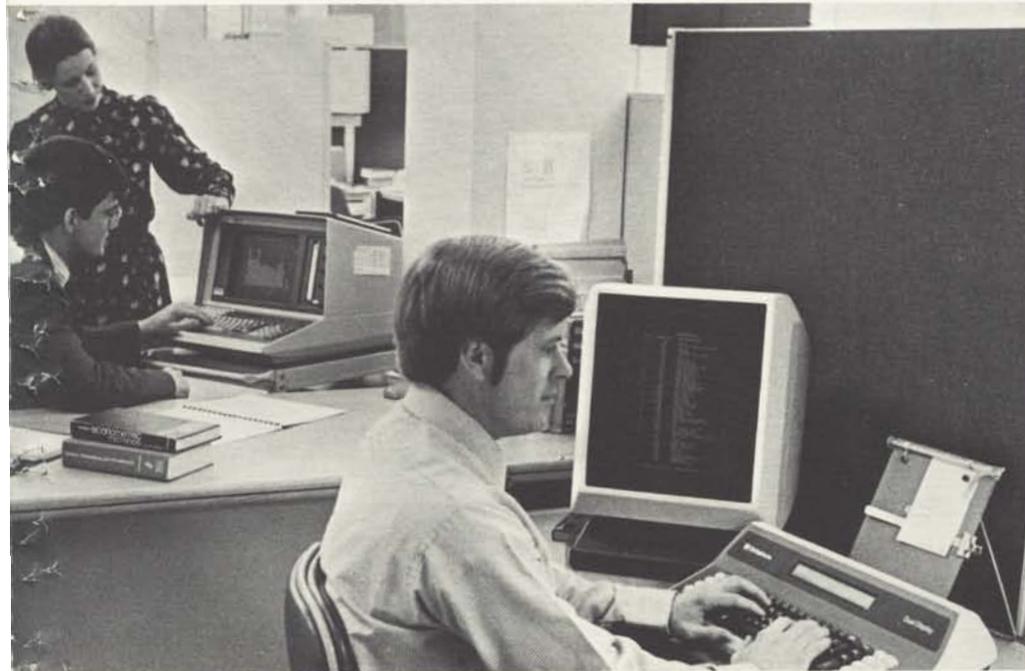
Recent large-scale transfers of funds between various types of accounts, both old and new, have temporarily distorted the traditional money stock measures and sent out confusing signals of Federal Reserve intentions. But the underlying focus of monetary policy should not be misunderstood: Inflation remains the basic problem. Progress on the inflation front reinforced the Fed's credibility in 1982. To let that progress slip now, in an effort to force interest rates down and speed the recovery, would be to invite more problems down the road. The financial markets, in particular, must continue to have faith that the Fed's word is its bond, and that the fight against inflation will not be abandoned.

As Chairman Volcker told the 58th meeting of the New England Council in Boston late in 1982:

"Obviously, further reductions in interest rates would be welcome. But we also want



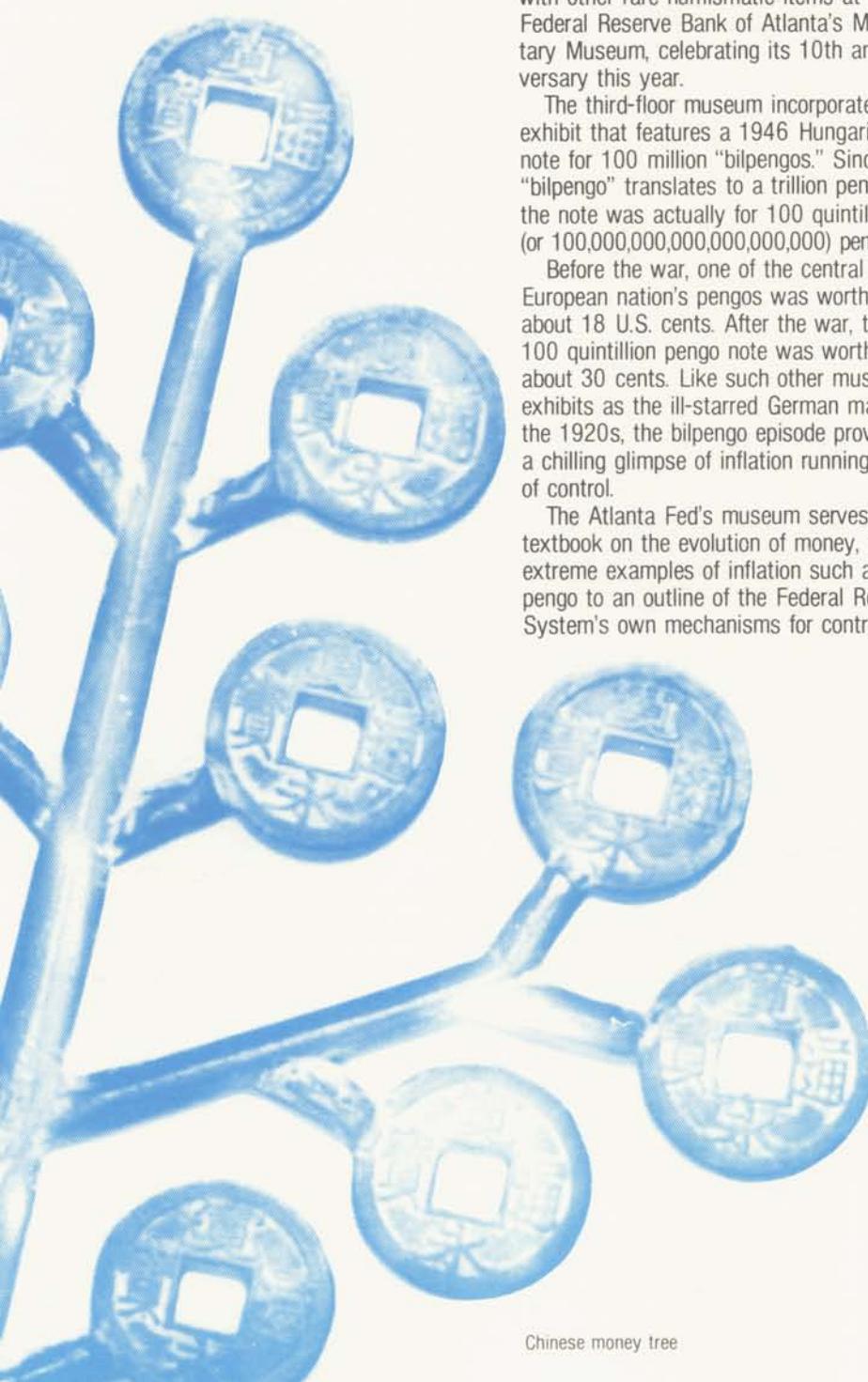
to be sure that lower rates can continue so that the recovery will last. Therein lies the challenge for economic policy—and for monetary policy specifically: We need to combine recovery with further progress toward stability or we would risk losing both."



Economist Mary Rosenbaum and research analysts Joe Doyle and Bob Goudreau prepare briefing materials for FOMC.



The Evolution of Money



At the end of World War II, the Hungarian monetary system was ravaged in what became a textbook case of inflation gone wild.

A showcase of that era is on display with other rare numismatic items at the Federal Reserve Bank of Atlanta's Monetary Museum, celebrating its 10th anniversary this year.

The third-floor museum incorporates an exhibit that features a 1946 Hungarian note for 100 million "bilpengos." Since "bilpengo" translates to a trillion pengos, the note was actually for 100 quintillion (or 100,000,000,000,000,000,000) pengos.

Before the war, one of the central European nation's pengos was worth about 18 U.S. cents. After the war, this 100 quintillion pengos note was worth only about 30 cents. Like such other museum exhibits as the ill-starred German mark of the 1920s, the bilpengo episode provides a chilling glimpse of inflation running out of control.

The Atlanta Fed's museum serves as a textbook on the evolution of money, from extreme examples of inflation such as the pengos to an outline of the Federal Reserve System's own mechanisms for controlling



Ming dynasty paper note

the money supply. The museum's display cases feature diverse items—shells, tea bricks, tobacco-braids as well as coins and notes—that have served as money during mankind's long search for ways to facilitate trade and to provide better lives for more and more people. The story begins with barter and goes on to demand deposits and electronic transfers.

Back in the 1920s, a few far-sighted people at the Atlanta Fed realized there was an important story to be told about money, and that actual notes and coins could help tell that story. At that time, the nation's cash supply included gold coins and gold certificates, silver certificates, United States notes, national bank notes, and Federal Reserve Bank notes as well as Federal Reserve notes. Still other types of currency—even fractional notes dating back to the Civil War—occasionally came to the Fed in regular cash deposits. But the handwriting was on the wall: Many of those types of currency were already disappearing, and the need for others no longer existed. So Atlanta Fed staffers began selecting a few specimens of each, building a collection they hoped would form the nucleus of a future display.

A committee of three was appointed in 1968 to determine whether any kind of money museum would be a feasible and justifiable undertaking for a Federal Reserve Bank. The committee's report was affirmative: members concluded that such a project could be undertaken successfully by a Reserve Bank, and

Chinese money tree



Mural illustrating evolution of banking

would be justifiable if it had a serious educational objective—contributing significantly to a better public understanding of money and its function. The same committee was then given authority to make it happen.

Money museums already existed at New York's Chase Manhattan Bank and at the National Bank of Detroit, and the national numismatic collection was enshrined at the Smithsonian Institution's Museum of History and Technology in Washington. After visiting these and interviewing their helpful curators, the committee conceived its own, unique approach. Our museum would tell the story of the evolution of money as a medium of exchange, and its concept of money would be broad enough to include what some other museums did not even recognize as money—demand deposits, those intangible claims on credit at depository institutions that represent the latest product of monetary evolution. And the museum would also suggest future evolution in the electronic age just dawning.

The Atlanta Fed's Monetary Museum, which opened in the spring of 1973, offers many thought-provoking items to show to visitors—who can make reservations by calling (404) 586-8747. Exhibits include a real gold bar weighing about 27 pounds, an uncut sheet of a dozen \$100,000 gold certificates, and an extremely rare 1794 silver dollar.

Recently, the museum added an eight-foot photomural of a \$1 silver certificate



issued in 1896 as part of an "educational series" generally considered the most beautiful currency series ever produced by our nation. The photomural highlights an exhibit featuring "The Art of the Engraver."

The Monetary Museum's greatest significance, though, is not for numismatists, but for educators and the general public. By telling the story of where monetary evolution has led us, it sets the visitor to thinking about where we're going.

For instance, the museum also features that Hungarian note with its astronomical denomination of 100 quintillion pengos. Similarly, it offers examples of the German mark weakened by rampant inflation during the Weimar Republic. And, significantly, it also includes an assurance of the Federal Reserve's resolve that the same thing won't be allowed to happen in our country.

State-chartered banks issued their own notes until Civil War legislation imposed a tax on them.



Disney World's Epcot Center is stimulating Florida tourism.

After another year of recession, southeastern states entered 1983 generally well-positioned to take advantage of a national rebound. States in the Sixth Federal Reserve District possess basic economic strengths that should help the region benefit quickly from even a cautious national recovery.

The national outlook remains vitally important to the Sixth District—a region that encompasses all or part of Florida, Georgia, Louisiana, Alabama, Mississippi and Tennessee—because so many of its manufacturers and growers are dependent on national and international markets.

Therefore, according to Federal Reserve Bank of Atlanta economists, the District cannot expect significant improvement until consumers at home and abroad increase their demand for products.

Early in 1983, the long-awaited national recovery seemed to hinge significantly on interest rates, whose downward movement late in 1982 had introduced a measure of optimism in such recession-battered industries as homebuilding and automobile manufacturing. Both of those industries are important, either directly or indirectly, to workers in the District who labor in plants producing everything from bricks to upholstery fabric.

The widespread gloom of 1982 seemed to be relieved only by an encouraging decline in interest rate levels and a cheering slowdown in the national inflation rate, good news for consumers, hard-pressed businessmen, farmers carrying heavy indebtedness, and others.

Atlanta Fed economists note too that a continued decline of interest rates would help consumers buy houses, autos and a

host of retail products. Renewed buying by consumers would deplete merchants' shelves and encourage them to reorder, spurring additional production in southeastern plants either closed by the recession or working on curtailed shifts.

Our economists believe that the chain reaction, though it may prove slow at first, should build momentum as 1983 progresses.

Of the six states in the District, Florida and Georgia appear likely to continue outperforming both the nation and neighboring southeastern states. The outlook for other District states seems less predictable, as they are dependent on the recovery of such industries as autos, housing and energy.

Those trends point out what is more obvious to southeasterners than to outsiders who lump the District states together into the catch-all category of "the Sunbelt": the region is a diverse one, not an economic monolith, and the recession has underscored the strengths and weaknesses of individual states.

Despite the recession's varying impact on District states, every one faces a long road back to solid economic growth. They look back on a year that was marked by headlines proclaiming corporate bankruptcies, forced mergers of financial institutions and, of course, relentlessly rising joblessness.

By January 1983, states in the Sixth District were reporting a seasonally adjusted unemployment rate of 11 percent—slightly higher than the national average and a full 3.6 percentage points higher than the rate for July 1981, official starting date for the recession. Alabama was reporting one of the highest jobless rates in the nation and only

two District states—Florida and Georgia—showed rates below the national average.

What's more, that rate was expected to continue edging higher before it could begin a slow return to more normal levels. Still, some economists found reason for encouragement.

For example, the whole services-producing sector has held up well throughout the recession. That has proven a godsend to such service-oriented metropolitan areas as Atlanta, whose strength during 1982 helped Georgia maintain the lowest unemployment rate in the region. As a national recovery gains momentum, even more jobs should be created in wholesale and retail trade, finance, insurance, and real estate, as the multiplier effect of higher workers' incomes ripples through the economy.

Construction was gaining strength going into the new year, with residential building permits increasing in response to declining mortgage rates. Before that upturn began in September, actual construction had fallen about 26 percent from the previous year in measured units.

The construction upturn is being watched closely by related industries such as wood products and textiles. A construction revival normally is felt rather quickly in the Southeast, and the recovery that seemed to be developing early in 1983 appeared to be no exception. If interest rates continue to decline, construction should provide renewed strength to the southeastern economy.

Entering 1983, there was evidence that the outlook was improving even for manufacturing firms, as consumers began spending a bit more freely. Much of the region's joblessness has been attributable to hard-hit durable goods industries, a factor that helps to explain the recession's impact on Alabama with its steel mills and other heavy industry. However, non-durable goods important to the region—such as textiles, apparel, paper and chemicals—also suffered in 1982.

Tourism activity, given a shot in the arm last year by the World's Fair in Knoxville, should be stimulated this year by Walt Disney World's Experimental Prototype Community of Tomorrow (EPCOT) attraction in central Florida, which opened last October. Late in 1982, more visitors began arriving or booking airplane or hotel

reservations in Florida; other states throughout the Southeast seem likely to join in the rebound as potential tourists find more money in their pockets.

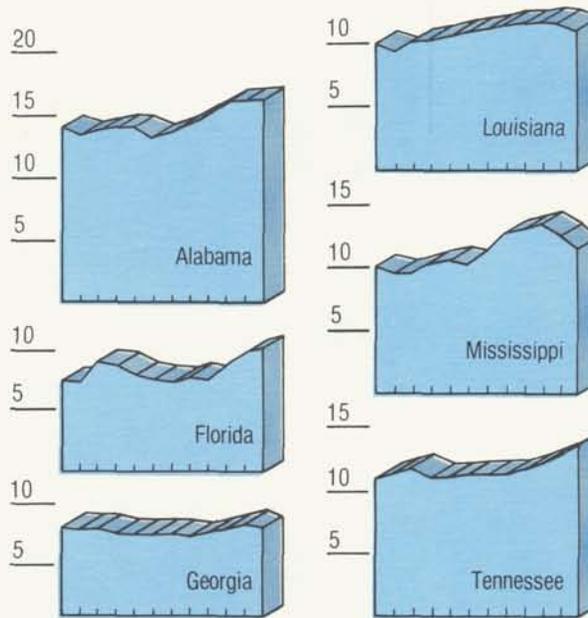
Although most public spending remained in a slump going into 1983, defense spending seems certain to stimulate the region's economy this year. Defense production jobs, particularly in electronics and transportation equipment, are expected to gain strength during the year.

District depository institutions found themselves squeezed by new competition and other factors accompanying continued deregulation of the financial services industry. Five banks within our District failed or merged with regulatory assistance in 1982, as did 14 savings and loan associations. Still, new money market accounts introduced by banks and S&Ls near yearend brought new optimism as well as a flood of new deposits to the institutions; total deposits in the new account had grown to more than \$300 billion by March 1983.

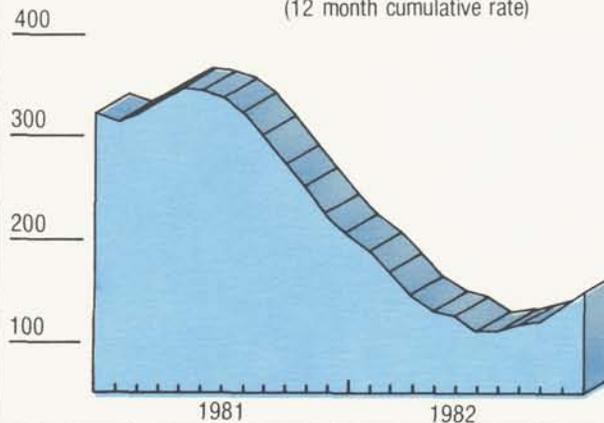
Slow international trade growth appears likely to inhibit southeastern mining activity in 1983, with coal exports likely to level off or decline slightly from 1982. The stagnation of European, Canadian and Japanese economies may limit the growth of paper, transportation and public utilities. Southeastern ports also may see a loss in trade share if they maintain close ties to debt-burdened Latin American countries.

The region's farmers, still trying to pick up the pieces after years of drought, had to cope with low prices and rising costs during 1982. Nevertheless, they are hopeful of reducing indebtedness this year if nature and their creditors will cooperate.

Unemployment Rate, Sixth District States -1982
(Percent)



Sixth District Residential Construction (Thousand Units)
(12 month cumulative rate)



Evolution Through Reorganization

Although the pressures for some kind of major financial change had been emerging for some time, the Monetary Control Act of 1980 still hit the financial world with explosive force. More than two years later, in fact, its reverberations continue to rattle around the nation's banking system. In our corner of that system, the act's major bombshell was its requirement that the Federal Reserve Banks price their services to depository institutions.

These services, previously provided free, include the transportation of currency and coin, check clearing and collection, wire transfer, automated clearinghouse (ACH) transfers, net settlement services and, finally, securities safekeeping and transfer. Federal Reserve "float" also is scheduled for pricing, and a charge is to be assessed on any new service, including electronic payments. The act also directed the 12 district Reserve Banks to make these services available to all depository institutions.

To carry out the MCA-80 mandate, Reserve Banks across the nation were required to make a great leap forward—they needed to enter the competitive market from which they had always been sheltered.

In Atlanta, we made this change by reorganizing and splitting the Bank into two separate organizations: priced services and central banking services. Under priced services we developed new staffs for sales, pricing, product development, and wholesale marketing. We also strengthened our automation and planning departments. We have insulated these priced services from our traditional central banking duties: supervision and regulation, discount and credit, and economic policy research.



System-wide committees help the Federal Reserve respond to rapid changes in the nation's banking system.

Priced Services: Into the Marketplace

MCA-80 directed that, over the long run, our fees should recover the costs of providing each service. That includes overhead and interest on items credited prior to actual collection—what we call “Fed float.” It also includes “imputed costs,” which take into account the return on capital and the taxes that would have been paid if the service had been provided by a private firm. This last item, the “private sector adjustment factor,” is currently set at 16 percent of total cost. Reserve Bank operating budgets are to be adjusted commensurately with any decline in the volume of services, with the savings paid into the U. S. Treasury.

MCA-80 also gives us some pricing flexibility. We are allowed to set prices below full cost in certain situations to provide an adequate level of service nationwide. We can change fee schedules—with advance notice—to be responsive to markets. We can design the fee structures and service arrangements both to improve the utilization of Federal Reserve services and to reflect long-run improvements in the nation's payments system. And we are responsible for developing policies that explain exactly how our prices will be set.



Wardlyn Bassler, Robby Robinson, and Barry Chalfant confer on priced services.

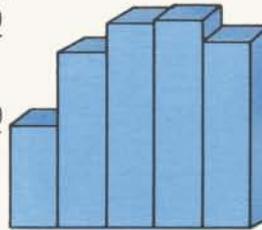
Checks Handled by Sixth District Federal Reserve

(U.S. Government Checks, Postal Money Orders, All Others*)

(Thousands)

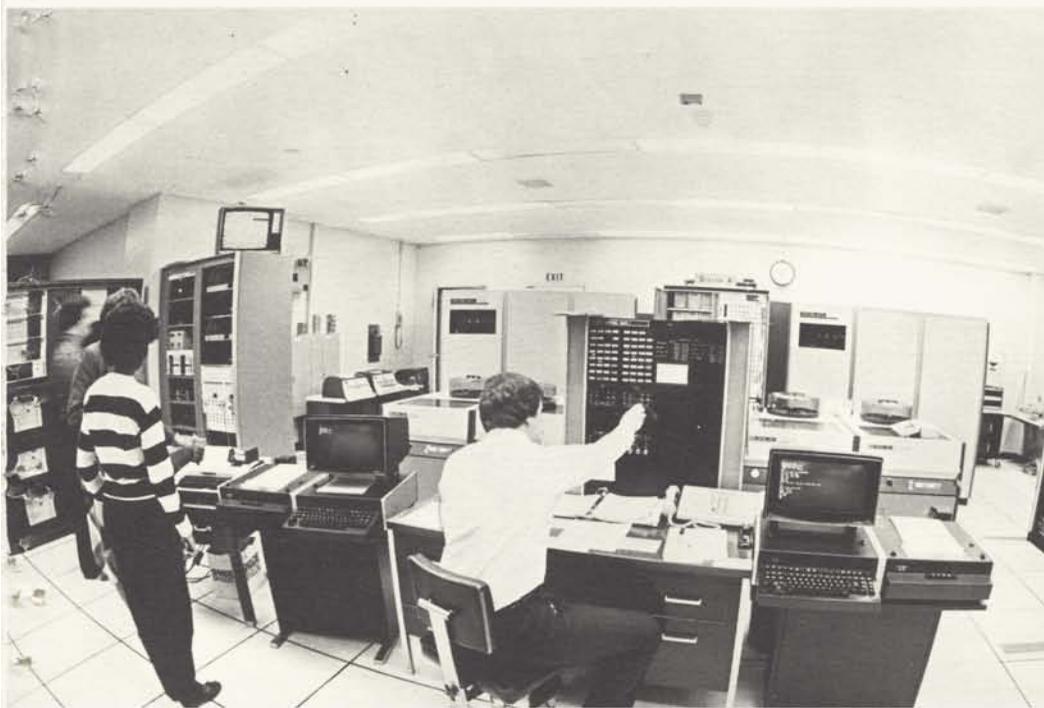
2,000,000

1,000,000



'72 '77 '80 '81 '82

*Excluding ACH Payments





Thus far our experience with pricing has been about as we expected, with the volume of checks processed by the Federal Reserve System initially dropping about 20 percent as we entered the competitive arena. Most of that loss can be attributed to improved efficiency in the nation's payments system. With more local and regional clearings, checks pass through fewer hands. Over time, we expect further structural losses as smaller depository institutions are absorbed through mergers and acquisitions by holding companies. When that happens, of course, more of their checks become "on us" items that are cleared within the larger banks.

But competition is not just in checks. Since we began offering a same-day net settlement service for the private Bankwire system, the Bankwire has slashed its prices for local and interregional transfers to challenge our wire transfer dominance. We also expect competition in ACH as private networks are developed. In the securities area, large money center banks and securities depositories are now competing with us for the government securities transfer business.

MCA-80 has given us an added incentive to be more cost conscious and more customer oriented. It has also suggested that we broaden our thinking about new services. It has allowed us to be more creative, and that has translated into benefits for those we serve.

Hundreds of employees throughout the Sixth District got a first-hand glimpse of the new orientation during two major training programs conducted by the Human Resources department. The first, which ran from May through July, was a marketing training program for Bank officers, operation managers, and marketing representatives. The program, intended to improve basic marketing skills and strategies throughout the Bank, included the development of product profiles for each of the Bank's key services.



In September, the Bank launched a comprehensive training program in customer relations. This continuing series, designed for the almost 500 employees who deal regularly with financial institutions and the public, represents a concentrated effort to provide clients with professional, responsive and cooperative service. Besides training in interpersonal and telephone skills, the program has expanded each employee's knowledge of Bank organization and of the products and services affected by MCA-80.



Central Bank Responsibilities

Huge, bulging briefcases—the classic symbol of the bank examiner—also symbolize many of our central bank responsibilities. Along with economic policy research (detailed earlier in this report), these central bank services include bank supervision and regulation, discount and credit operations, and statistical reports.



SUPERVISION AND REGULATION

In an effort to lighten the burden of regulation and reduce the amount of intrusive time spent examining the member banks and bank holding companies we supervise, we developed and tested a new examination approach in 1982. This pilot program, based on a team approach, used a new off-site analysis report that proved very successful. As a result, we will be adopting this strategy for all regular examinations and inspections. The new concept should reduce field time and enhance our supervisory effectiveness.

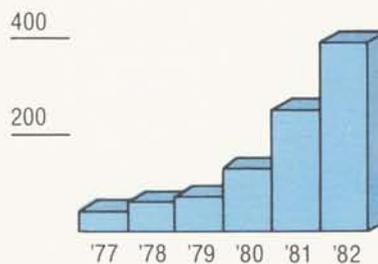
Evolutionary forces changing the financial industry produced more activity in supervision and regulation. The number of existing and approved bank holding companies based in the District jumped 59 percent, from 249 at year-end 1981 to 398 at the end of 1982. Applications filed by bank holding companies to acquire bank or nonbank firms—or applications to create new bank holding companies—rose 18 percent. International financial organizations in the District rose from 83 in 1981 to 106 in 1982.

Early in 1983, the Atlanta Fed reached an agreement with the Louisiana State Banking Department to provide for alternating examinations of state-chartered Federal Reserve member banks in the Pelican State.

Like similar agreements we signed in 1981 with banking authorities in Georgia and Alabama, the agreement with Louisiana is designed to provide savings for Atlanta Fed and state regulators as well as for the commercial banks being examined. The previous agreements have convinced us that we can achieve these savings without affecting the quality of examinations.

Under the new agreement, we will alternate with the Louisiana department's staff in examining five member banks in the southern portion of the state and will share information and costs. The Dallas Fed reached a similar agreement with Louisiana covering member banks in the northern portion of the state.

Bank Holding Companies
Number of Applications Received
Federal Reserve Bank of Atlanta





DISCOUNT AND CREDIT

Lending activity in the Sixth District was relatively low throughout most of 1982. During the first half of the year, daily borrowings averaged \$40.5 million, more than double the very low second half average of \$15.1 million. Average daily borrowings for the entire year were \$27.8 million. Federal Reserve credit was extended by this Bank to 122 depository institutions in 1982. The discount rate was reduced seven times between July and December, lowering the rate from 12 percent to 8.5 percent at year end.

Since MCA-80 extended access to the Fed's Discount Window to all depository institutions offering transaction accounts and to nondepository institutions in emergencies, the Atlanta Fed's Discount and Credit department expanded its data sources to cover the new institutions. Microcomputers simplified the task by providing easy access to data on the new borrowers and by allowing expanded analyses and faster preparation of daily, weekly, and monthly reports.



STATISTICAL REPORTS

The forces of deregulation powerfully affected the Statistical Reports department again this year. New accounts associated with the changing environment necessitated several special surveys of depository institutions during 1982. The growth of holding companies and foreign banking activity in the District kept this department operating at full tilt.

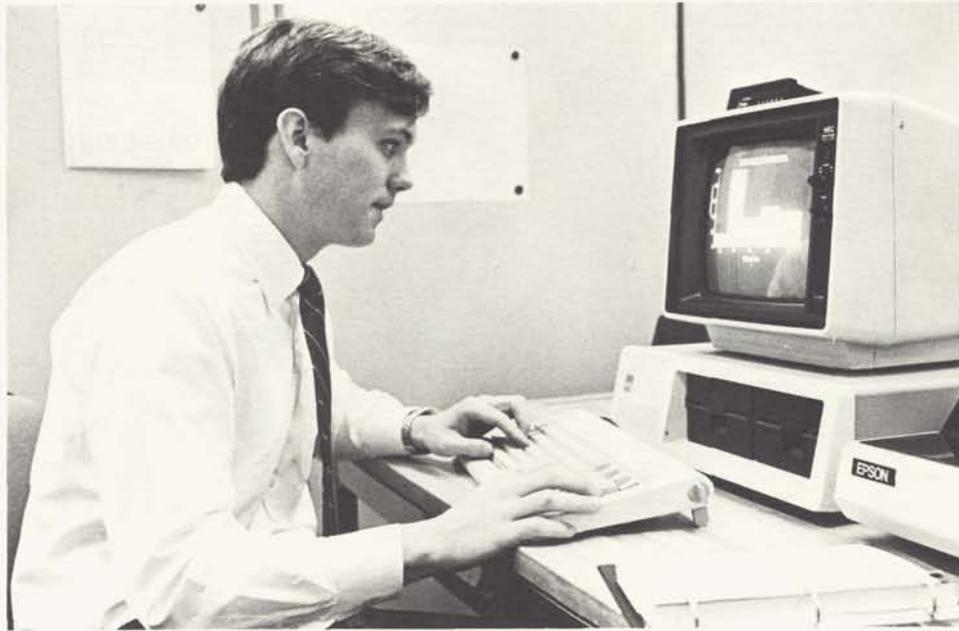
At the same time, the department participated in an ongoing effort to reduce the burden of reporting requirements. The report burden associated with collecting consumer credit data was reduced 50 percent systemwide. In our District, we eliminated one consumer report, reduced two others and eliminated three other reports during the year. We reduced the staff in the Atlanta Statistical Reports department by five from the previous year.

AUTOMATION — PRODUCTIVITY GAINS

The Sixth District Long Range Automation Plan, developed in 1980, outlined a gradual conversion from decentralized data processing in each office to centralized processing using Systemwide standard software in the Atlanta office. The importance of the new automation strategy became even more apparent in 1982 as the Bank moved to cope with MCA-80's wide-ranging effects.

The conversion moved ahead in 1982 with the installation of a new IBM 4341-2 mainframe computer and the beginning of live operations for the FRCS-80 (Federal Reserve Communications System) network. We also began the multi-year process of converting the Fedwire network to the new centralized system. A central Automation Information Center was developed to provide consulting services to all departments using the mainframe, mini, or personal computers.

A major new development in automation was the expanded use of microcomputers throughout the Bank. Micros spread into several areas, including Research, Planning, Supervision and Regulation, and Discount and Credit. The micros enabled employees to respond faster to inquiries from financial institutions and the public. They also provided



broader access to mainframe computers and outside data sources.

In Supervision and Regulation, for example, the micro (or personal) computer opened up a whole new era. By substituting "desk-top" financial analysis for on-site inspection, the micro promises to reduce our presence in the banks while improving the quality of examinations. Instant graphics help boil down a complex

financial situation to the key relationships. Rapid development of scenarios provides a bank or an examiner with a much broader look at the range of options. By the end of 1983, we expect to have portable terminals with examiners in the field, providing an almost completely automated system. As helpful as these changes are, however, we don't expect the computer to eliminate the need for on-site examinations. But we do expect the micros to reduce substantially the time our examiners spend in each local bank.



DIRECTORS AND OFFICERS



(standing left to right) Blach, Thompson, Cousins, Andrews, Strickland,
(seated left to right) Davis, Willson, Botts

Welcome

BERNARD F. SLIGER, President, Florida State University, Tallahassee, Florida, has been elected to a three-year term on the Board of Directors of this Bank.

PHILIP F. SEARLE, Chairman and Chief Executive Officer of Flagship Banks Inc., Miami, has been appointed by our Board of Directors to serve as the Sixth Federal Reserve District's representative on the Federal Advisory Council for 1983.

We look forward to a pleasant association with these distinguished men.

Board of Directors, 1982

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Charter Medical Corporation
Macon, Georgia

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Atlanta, Georgia

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Executive Vice President

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Senior Vice President and
Director of Research

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HARRY BRANDT
Corporate Secretary and
Assistant to the President

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Vice President and
General Counsel

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ARTHUR H. KANTNER
Executive Vice President

W. R. CALDWELL
Senior Vice President

JACK GUYNN
Senior Vice President

B. H. HARGETT
Senior Vice President

DONALD L. KOCH
Senior Vice President and
Director of Research



(standing left to right) Koch, Hargett, Schiering
(seated left to right) Caldwell, Guynn, Forrestal, Kantner

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*Atlanta
Branch Manager:
Delmar Harrison
Vice President*



*Birmingham
Branch Manager:
Fred R. Herr
Vice President*



*Jacksonville
Branch Manager:
Charles D. East
Vice President*

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Florence, Alabama

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Decatur, Alabama

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Birmingham, Alabama

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Tampa, Florida

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Exchange Bancorporation, Inc.
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Citizens and Peoples National Bank
Pensacola, Florida

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Florida Institute of Technology
Melbourne, Florida

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Ocala, Florida

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Chairman,
Regency Square Properties, Inc.
Jacksonville, Florida

BILLY J. WALKER
President,
Atlantic Bancorporation
Jacksonville, Florida

*Welcome . . .
to incoming
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AAA Cooper Transportation Company
Dothan, Alabama

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President and Chief Executive Officer,
The American National Bank
Gadsden, Alabama

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Loan Association of Jacksonville
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Vice Chairman and President,
Ellis Banking Corporation
Bradenton, Florida

E. WILLIAM NASH, JR., CLU
President,
South-Central Operations
Prudential Life Insurance
Company of America
Jacksonville, Florida



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Patrick K. Barron
Vice President*



*Nashville
Branch Manager:
Jeffrey J. Wells
Vice President*



*New Orleans
Branch Manager:
James D. Hawkins
Vice President*

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Howard Hughes Medical Institute
Coconut Grove, Florida

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Attorney,
Greenberg, Traurig, Askew, Hoffman,
Lipoff, Quentel and Wolff, P.A.
Miami, Florida

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Senior Executive Vice President,
Sun Banks of Florida, Inc.
Fort Lauderdale, Florida

M. G. SANCHEZ
President and Chief Executive Officer,
First Bankers Corporation of Florida
Pompano Beach, Florida

ROY VANDEGRIFT, JR.
President,
Roy Van, Inc.
Pahokee, Florida

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President,
Barnett Bank of Fort Myers, N.A.
Fort Myers, Florida

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National Investment Company
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Stuart, Florida

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Vice President and Treasurer,
Hospital Corporation of America
Nashville, Tennessee

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President and Chief Operating Officer,
First American Bank of Nashville, N.A.
Nashville, Tennessee

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Executive Director,
Sunday School Publishing Board
Nashville, Tennessee

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Nashville, Tennessee

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The University of Tennessee
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R.C. Mathews, Contractor
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Bush Brothers and Company
Dandridge, Tennessee

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Hospital Corporation of America
Nashville, Tennessee

OWEN G. SHELL, JR.
President and Chief Operating Officer,
First American Bank of Nashville, N.A.
Nashville, Tennessee

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New Orleans, Louisiana

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Southern University
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First National Bank of Commerce
New Orleans, Louisiana

TOM B. SCOTT, JR.
President and Chief Executive Officer,
Unifirst Federal Savings and Loan Association
Jackson, Mississippi

Statement of Condition

<u>Assets</u>	December 31, 1981	December 31, 1982
Gold Certificate Account	\$ 436,000,000	\$ 402,000,000
Special Drawing Rights Certificate Account	98,000,000	161,000,000
Coin	42,972,353	44,194,297
Loans and Securities	4,393,389,758	3,687,078,836
Cash Items in Process of Collection	1,570,787,869	1,664,272,191
Bank Premises	34,084,092	34,126,927
Other Assets	528,467,974	553,324,567
Total Assets	<u>\$7,103,702,046</u>	<u>\$6,545,996,818</u>
 <u>Liabilities</u>		
Federal Reserve Notes	\$3,141,810,668	\$3,295,669,393
Deposits*	1,874,454,588	1,693,965,667
Deferred Availability Cash Items	1,359,725,246	1,006,723,764
Other Liabilities	99,414,889	54,540,363
Interdistrict Settlement Account	433,838,855	277,367,931
Total Liabilities	<u>\$6,909,244,246</u>	<u>\$6,328,267,118</u>
 <u>Capital Accounts</u>		
Capital Paid In	\$ 97,228,900	\$ 108,864,850
Surplus	97,228,900	108,864,850
Total Capital Accounts	<u>\$ 194,457,800</u>	<u>\$ 217,729,700</u>
Total Liabilities and Capital Accounts	<u>\$7,103,702,046</u>	<u>\$6,545,996,818</u>

*Includes Depository Institution Accounts, Collected Funds Due to Other F.R. Banks, U.S. Treasurer - General Account

Statement of Earnings

<u>Earnings and Expenses</u>	<u>1981</u>	<u>1982</u>
Total Current Earnings	\$546,041,876	\$502,835,679
Net Expenses	<u>78,896,211</u>	<u>91,190,879*</u>
Current Net Earnings	\$467,145,665	\$411,644,800
Net Additions (+) Deductions (-)**	-26,892,362	-9,400,341
Earnings Credits Used by Depository Institutions***	511,246	
Assessment for Expenses of Board of Governors	<u>4,735,700</u>	<u>4,745,200</u>
Net Earnings before Payment to U.S. Treasury	<u>\$435,006,357</u>	<u>\$397,499,259</u>
<u>Distribution of Net Earnings</u>		
Dividends Paid	\$ 5,637,025	\$ 6,237,573
Payment to U.S. Treasury (Interest on F.R. Notes)	422,218,382	379,625,736
Transferred to Surplus Account Net Additions (+) Deductions (-)	<u>+7,150,950</u>	<u>+11,635,950</u>
Total Earnings Distributed	<u>\$435,006,357</u>	<u>\$397,499,259</u>
<u>Surplus Account</u>		
Surplus January 1	\$ 90,077,950	\$ 97,228,900
Transferred to Surplus - as above	<u>7,150,950</u>	<u>11,635,950</u>
Surplus December 31	\$ 97,228,900	\$108,864,850

*Of this figure, \$4,379,560 is "Cost of Earnings Credit."

**Includes gains/losses on sales of U.S. Government securities and foreign exchange transactions.

***Contingent liability in the amount of \$242,499 due to depository institutions.

Summary of Operations

	1981		1982	
	\$ (millions)	items (thousands)	\$ (millions)	items (thousands)
Services to Depository Institutions				
Clearing and Collection Services				
Checks handled:				
U.S. Government checks	61,975	86,392	65,828	84,673
Postal money orders	1,023	17,907	1,098	18,228
All Other	1,108,364	1,996,354	1,078,369	1,852,387
ACH payments processed	52,017*	37,677*	89,921	46,142
Wire transfers of funds	4,267,524	4,784	5,495,273	5,407
Cash Services				
Total cash receipts	18,441	4,069,549*	18,864	4,723,734
Total cash payments	12,635	6,029,455*	13,618	6,221,927
Currency processed	—	1,367,994	—	1,442,968
Coin processed	—	2,720,750	—	2,666,369
Loans to depository institutions, daily average	51	—	28	—
Securities Services				
Wire transfer of securities	287,968	188	526,442	233
Noncash collection	808	588	772	519
Services to U.S. Treasury				
U.S. savings bonds issued, serviced, redeemed by Federal Reserve Bank	365	1,998	368	1,958
U.S. savings bonds issued and redeemed by qualified issuing and paying agents	1,072	15,520	922	11,597
Other Treasury securities issued, serviced and redeemed	144,777	219	109,970	254
Deposits to Treasury Tax and Loan accounts	41,416	1,280	23,231	982
Food coupons destroyed	1,658	432,400	1,548	403,569

* Revised



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Federal Reserve Bank of Atlanta
P.O. Box 1731
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