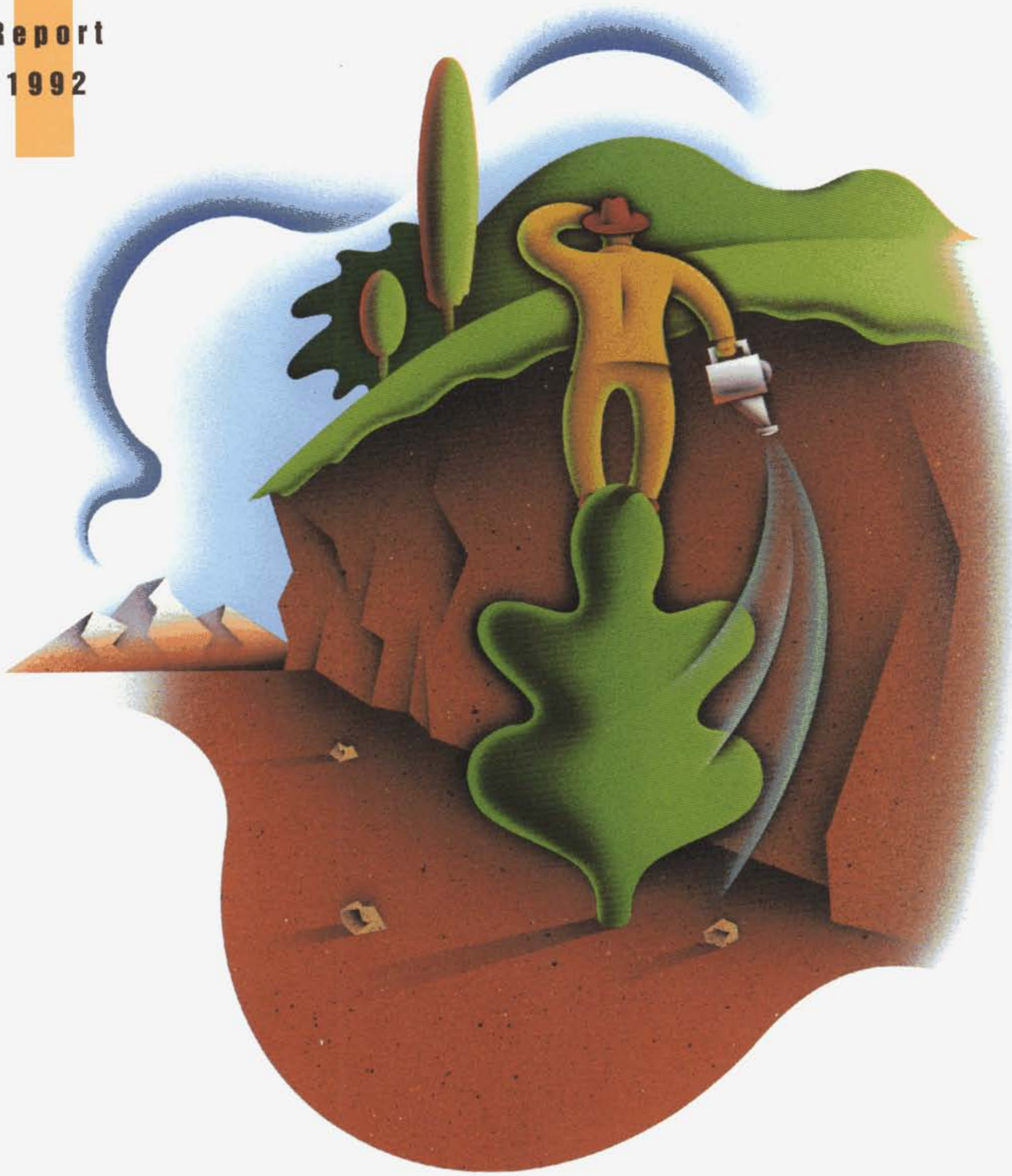
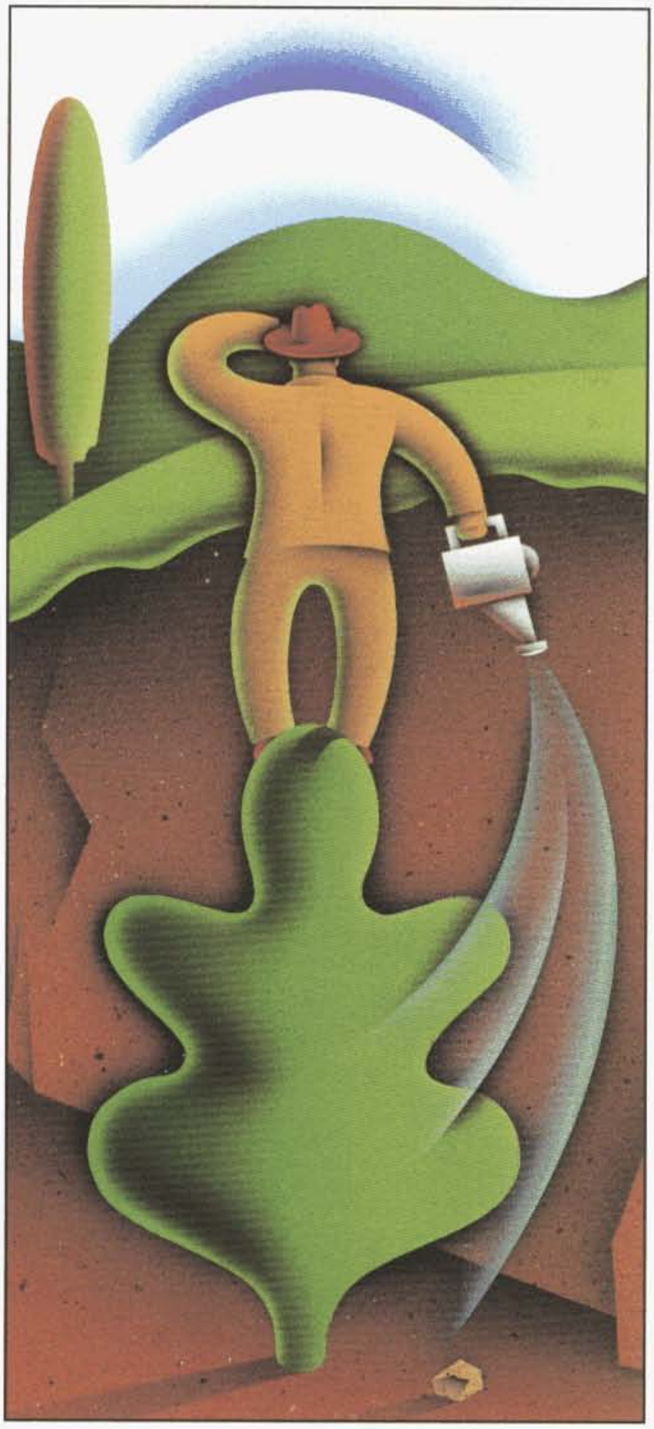
Federal
Reserve
Bank of
Boston

Annual
Report
1992



Federal Reserve Bank of Boston

Annual Report 1992



Message from the President

Resilience has historically characterized the New England region, and the past year has exemplified that long-standing quality. Coming out of the worst regional recession since the Great Depression has been slow and painful, and the lives of many of our neighbors have been disrupted along the way. Fortunately, by the end of 1992 there were signs that the economic decline in New England was nearing the bottom.

The foundation of business growth — access to capital — depends on a healthy banking system. Few sectors of the economy have demonstrated New England's resilient character more clearly than the region's banks. The year saw an impressive turnaround in the financial condition of the New England banking industry, a subject explored in the essay in this annual report.

The severe economic recession in New England and the failure of many of the region's banks over the past several years posed unique challenges for the Boston Federal Reserve Bank. Despite the resultant drop in volumes of priced services, operating departments succeeded in maintaining the highest possible quality standards while holding down unit costs. As the condition of the region's banks improved in 1992, the Boston Fed's Supervision and Regulatory Group developed several specialized training manuals which will be used Systemwide, and increasingly its staff members are called upon to participate in the examination of internationally active institutions.

The Bank's Research Department has written extensively on the supply of credit to smaller, bank-dependent businesses. This work has contributed to the formation of national policies designed to increase credit availability and reduce the regulatory burden on financial institutions.

While the New England economy continued to decline in 1992, the return of the banking industry to profitability offered promise that the region would soon see the beginnings of a recovery. In the face of uncertainty, we, in New England, have a tradition of confronting difficulty and moving on to a better future. The evidence suggests that we will continue that tradition.

Richard F. Syron

Richard F. Syron
President and Chief Executive Officer

by Richard F. Syron,
Thomas E. Pulkkinen, and
Eric S. Rosengren*

the Outlook for New England Banking

toward a brighter future

The outlook for New England banking has improved dramatically over the past year. This essay discusses the sources of this recovery, the outlook for the future, and the challenges that must be addressed if the banking industry is to be competitive and profitable in the coming years. The recent stabilization of real estate prices, the decline in interest rates, gradual improvements in the employment situation, and cost-containment efforts by banks all contributed to a much stronger financial performance. These positive developments have been reflected in substantial increases in New England bank stock prices. Despite problems at some, mostly smaller, institutions, a large majority of banks have gained control of their problem loans, enhanced their capital adequacy, and returned to profitability. They are poised to once again extend the credit necessary for a healthy New England economy.

Nonetheless, challenges remain. Commercial real estate prices have stabilized, but many projects may encounter further problems as rental agreements are renegotiated at price levels lower than stipulated in their initial agreements. In addition, many banks and the Federal Deposit Insurance Corporation (FDIC) continue to hold large portfolios of foreclosed property, and rapid disposal of this property could adversely affect real estate prices.

The future of banking in New England depends not only on the recovery of real estate prices, but also on the strength of major sectors of the New England economy. Federal government actions relative to military procurement and base

*Richard F. Syron is President and Chief Executive Officer of the Federal Reserve Bank of Boston; Thomas E. Pulkkinen is Manager of the Monitoring Department; and Eric S. Rosengren is a Vice President and Economist in the Research Department. The views expressed are those of the authors and do not necessarily reflect official positions of the Federal Reserve System.

closings, health care, and health insurance are all unknown at this time. These industries have been major engines of the New England economy, and upcoming government initiatives and private sector responses will be important to New England's recovery and prosperity.

The strength of banking's recovery will also be dependent upon broader regulatory and competitive issues facing depository institutions nationwide. The appropriate balance between burdensome regulatory oversight, on the one hand, and consumer protection and reduced taxpayer exposure to deposit insurance shortfalls, on the other, continues to be hotly debated. An increasingly rigid and costly regulatory environment for depository institutions, coupled with long-standing limits on the services banks are allowed to provide, continues to threaten banks' ability to compete with domestic and foreign financial intermediaries. In order to remain important sources of financial services, banks need a more forward-looking legal and regulatory environment in which to compete and adapt to technological advancements and changing economic conditions.

Historical Overview

The past four years have been among the most turbulent in the history of New England banking. From the beginning of 1989 through December 1992, 108 federally insured banks failed,[1] including Bank of New England Corporation, the second largest banking organization in New England at year-end 1988. While the dimensions of the banking crisis did not become apparent until 1989, the seeds of the problems had been sown much earlier.

During the early and mid-1980s, New England commercial banks were financially strong, with only modest exposure to the farming, energy, and international sectors that seriously hurt the profitability of banks in other parts of the nation. Savings banks here were adversely affected by the steep drop in interest rates that occurred early in the 1980s, but New England commercial banks avoided most of these pitfalls while contributing to a buoyant regional economy by rapidly expanding lending, particularly in the real estate sector.

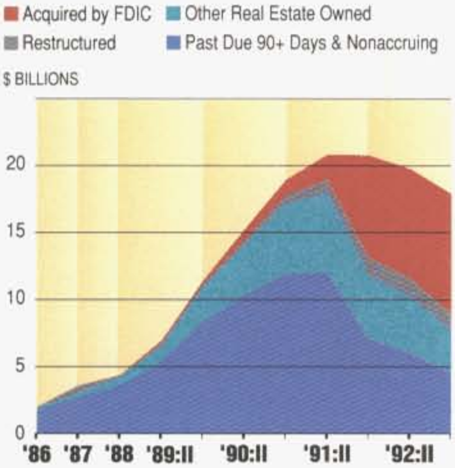
Several factors altered the traditional behavior of the New England banking industry during the 1980s. First, the conversion of many savings banks from mutual to stock ownership in a period of heightened interest in bank stocks produced an influx of bank capital. Second, many bankers were intent on actively "growing" their institutions to capture a larger market share. Third, concern over takeovers and the anticipation of nationwide banking induced a wave of regional and in-market mergers and acquisitions, intended to form banking organizations large enough to avoid being acquired.

1 In addition to the 108 federally insured banks that failed during this four-year period, 72 federally insured credit unions and privately insured financial institutions failed. Throughout this report, "banks" refers to federally insured commercial and savings banks.

Figure 1

Nonperforming Assets by Type

First District* Commercial and Savings Banks



* The First District is composed of all of New England except Fairfield County, Connecticut.
Source: Federal Reserve Bank of Boston Monitoring Department.

Figure 2

Nonperforming Assets as a Percentage of Equity plus Loan Loss Reserves

Large First District Commercial and Savings Banks

Note: Nonperforming assets consist of loans 90 days past due and still accruing, nonaccruing loans, other real estate owned, and restructured loans and leases.
Commercial and savings banks with assets over $300 million, operating 1989:I to 1992:IV, adjusted for affiliate mergers.
Source: Board of Governors of the Federal Reserve System.

Most New England banks aggressively increased their lending on commercial and residential real estate ventures, including the burgeoning condominium market. As the focus of many banks became asset growth, they frequently paid less attention to underwriting standards. Loan growth was funded by decreasing securities positions, which serve as sources of liquidity. Banks also increased short-term borrowings, particularly interest-sensitive brokered deposits. Bank capital was exposed to an increasing concentration of real estate lending, and the rapid growth in assets weakened equity capital ratios.

The increased concentration in real estate lending, the easier underwriting standards, and the reduced capital and liquidity of banks caused few problems as long as real estate prices continued to rise. Real estate prices stopped increasing, however, as it became apparent that the unusual strength of the New England economy and the resultant high rate of building and rapid price escalation could not be sustained. The economic slowdown turned into a protracted decline and real estate prices fell sharply. After four years of decline, the regional economy is only now showing signs of recovery.

The Current Status

The declining value of the real estate that secured bank loans, together with the cost of resolving troubled loans and foreclosed properties, rapidly depleted bank capital. The level of nonperforming assets in First District banks from 1986 through 1992 is shown in Figure 1. Nonperforming assets grew rapidly in 1989 and 1990, peaked in 1991, and steadily declined during 1992. The decrease in loans that are behind in payments (the nonaccruing and 90 days past due categories) is heartening; yet banks continue to hold a substantial portfolio, $4.3 billion, of other real estate owned (foreclosed properties) and restructured loans (loans whose terms have been altered because of an inability to fully satisfy the original terms of the loan).

The nonperforming assets of failed banks have been included in Figure 1 in order to demonstrate the extent to which the banking industry was weighted down by troubled loans. By tracking over time those banks still in operation, one can see if currently solvent banks have reduced their nonperforming assets and positioned themselves to participate in a recovering economy. Figure 2 shows the level of nonperforming assets in large New England banks that have operated continuously over the past four years. Nonperforming assets of these banks reached just over 70 percent of equity plus loan loss reserves at their peak in 1991. They have declined substantially ever since, to a year-end 1992 level of 44 percent. Clearly, these banks have made significant strides in removing nonperforming loans from their books.

The stabilization of real estate prices during 1992, combined with falling interest rates, allowed banks to moderate their loan loss provisions and reduce the cost of resolving troubled assets and, thus, improve core earnings. As shown in Figure 3, First District banks reported net losses (or negligible earnings) for 10 consecutive quarters from the second half of 1989 through 1991. Earnings steadily improved during 1992, with 83 percent of all New England institutions covered by the FDIC's Bank Insurance Fund (BIF) recording a fourth-quarter profit.

This improvement in bank earnings was, in part, a result of the particularly favorable interest rate environment during 1992. As shown in Figure 4, while rates on both loans (income) and deposits (expense) fell from the beginning of 1991, interest rates on deposits fell more rapidly, resulting in a wider margin that helped restore bank capital.

Despite the declining interest rates offered to borrowers and the wider interest rate spreads enjoyed by banks, loan demand has remained low and banks have been cautious in lending. Figure 5 shows the changes in the level of bank lending, after adding back loan charge-offs in order to more closely capture the extent of new lending.[2] Total lending has decreased each year since 1989, with the smallest declines occurring in 1992, particularly in the fourth quarter. This decrease in bank lending can be attributed to three factors, in addition to bank failures and the effect of resolving previously troubled credits. First, loan demand remains particularly weak in New England as a result of the anemic economic recovery. Second, while the favorable interest rate spread should encourage banks to seek out borrowers, they are still reluctant to make loans to borrowers that might become troubled in a weak recovery. Underwriting standards in the 1980s were lax and contributed to the huge losses experienced in recent years. Standards have been tightened and lending officers may now be more cautious. Third, many banks are still trying to improve their capital-to-asset ratios, both by increasing capital and by expanding assets less aggressively than during previous recoveries.

A number of factors have increased bank capital requirements and served to constrain bank lending. An international effort was undertaken in the late 1980s to more closely align capital standards imposed on banks in the industrialized nations. The new risk-based international capital standards, coupled with a new U.S. leverage ratio requirement that forced many banks to increase capital, were implemented in the midst of the New England banking crisis. Higher capital ratios were also required of many institutions by the terms of regulatory actions, the provisions of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), and the new capital-based deposit insurance premiums. As bank capital is restored and the regional economy shows sustained improvement, however, one can expect increased emphasis by bank management on lending and a pickup in loan demand.

2 When a loan is charged off, outstanding loans decrease by the amount of the charge-off. This alters the amount of gross loans on the balance sheet but does not represent a change in current lending, since the change in total from the loan charge-off reflects only losses from past loans. Thus, this adjustment to add back in charge-offs captures new lending better than changes in total outstanding loans. Total loans have also declined significantly as a result of bank foreclosure activity and loan sales, although the impact of these factors cannot be readily quantified.

Figure 3

Return on Average Assets

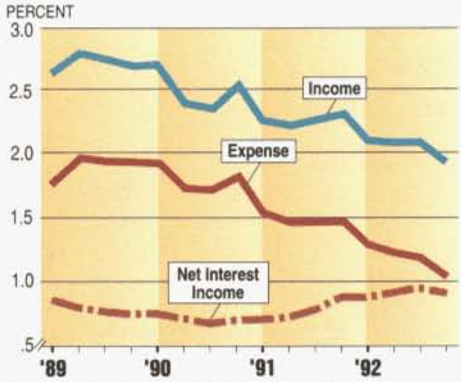
First District Commercial and Savings Banks

Note: Data exclude Bank of New England.
Source: Federal Reserve Bank of Boston Monitoring Department.

Figure 4

Interest Income and Expense as a Percentage of Average Assets

First District Commercial and Savings Banks

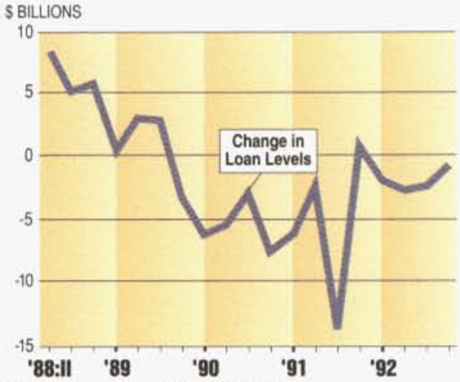


Source: Board of Governors of the Federal Reserve System.

Figure 5

Changes in Loans Outstanding

First District Commercial and Savings Banks



Note: Total loans adjusted for charge-offs.
Source: Board of Governors of the Federal Reserve System.

Figure 6

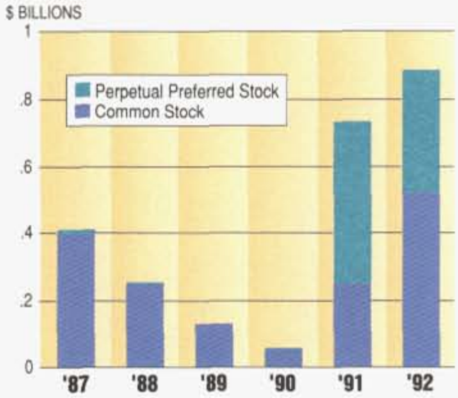
Month-End Prices of Selected New England Bank Stocks

Note: Stock prices reflect stock splits for time period noted.
Source: *The Wall Street Journal.*

Figure 7

Net Issuances of Common and Preferred Stock

First District Bank Holding Companies



Note: Excludes common and preferred stock downstreamed from domestic and foreign parent companies.
Source: Federal Reserve Bank of Boston Monitoring Department.

The substantial reduction in problem loans and the return to profitability by New England banks have restored investor confidence. One measure of this renewed confidence is the improvement in bank stock prices, as shown in Figure 6. Stock prices dropped precipitously as the problems in New England banks' loan portfolios became apparent by the end of 1989. From the nadir in 1990, bank stocks have rebounded to approximate or exceed their year-end 1988 levels.

When the extent of the New England banking problems became clear, few investors were willing to buy stock at prices acceptable to bank shareholders and management. Inability to raise funds in the capital markets during 1990 and 1991 forced many banks to improve their capital-to-asset ratios by shrinking their institutions. Investors regained confidence that New England banks were recovering only when unpleasant surprises stopped appearing on a regular basis in quarterly earnings reports. As shown in Figure 7, banks successfully issued new common and preferred stock in 1991 and 1992, after a year with no major offerings. Not only does the sale of stock enable New England banks to improve their capital-to-asset ratios, but it also permits them to lend more aggressively and buy other financial institutions.

Banks have shown substantial improvement in performance. Problem assets have declined, earnings have turned positive, capital positions have improved, and investor confidence has strengthened. These favorable conditions should enable New England banks to once again provide the credit critical to the recovery of the New England economy.

The Outlook

While the financial condition of New England banks has improved over the past year, many remain exposed to an uncertain real estate market. The stabilization of real estate prices and the decline in interest rates have combined to facilitate the sale of bank-owned properties and reduce the carrying costs of debt for consumers and businesses impaired by the recession. Nevertheless, the level of nonperforming assets in the First District compares unfavorably to most other areas of the country. Figure 8 shows that, despite substantial reductions over the past two years, other real estate owned is still significantly higher at First District banks than at banks in the rest of the country, except Districts served by the Federal Reserve Banks of New York and San Francisco.

Most banks have taken the steps necessary to recover, but a number of smaller institutions remain troubled. Figure 9 shows the number and asset value of New England banks whose nonperforming loans and OREO exceed their capital. The number of troubled institutions has declined, and the troubled banks are smaller than in prior years. The number of institutions with nonperforming assets exceeding capital at year-end 1992 was less than half that at the peak in 1990 and their aggregate asset value was only $11 billion, compared to $59 billion at the end of 1990.

Continued improvement in the financial condition of New England banks depends in part on three real-estate-related factors beyond the control of individual institutions. First, while real estate sales prices have stabilized, commercial rental income continues to fall as multiyear leases are renewed. The decline in rental income could result in some currently performing projects becoming economically nonviable. Second, further declines in real estate prices could require additional loan write-downs, which would further deplete bank capital. Third, uncertainty about when and at what price to optimally dispose of foreclosed properties could adversely affect bank efforts to sell these troubled assets.

Banks are susceptible to further loan losses on commercial property, where new lease agreements are being priced far below rents charged in 1982, as shown in Figure 10. As rental agreements expire, tenants are aggressively negotiating rents well below their original agreements or are receiving substantial promotional discounts to relocate. The lower contract prices may not be sufficient to service debt and operating costs of the buildings. While much of the long-term financing for established buildings is held by other types of lenders, such as pension funds and insurance companies, many commercial banks continue to hold commercial real estate loans dependent on rents.

The financial condition of most New England banks should continue to improve, however, barring an unexpected relapse in the New England economy or unforeseen effects of federal initiatives on military appropriations, health care, and insurance. The forces continuing to place downward pressure on real estate prices are important concerns, but they are unlikely to seriously affect the large majority of institutions, which have reduced real estate exposure and improved lending operations. The remaining seriously troubled institutions are generally small and will not have major disruptive effects on the region.

The Challenge to Regulators and Bank Management

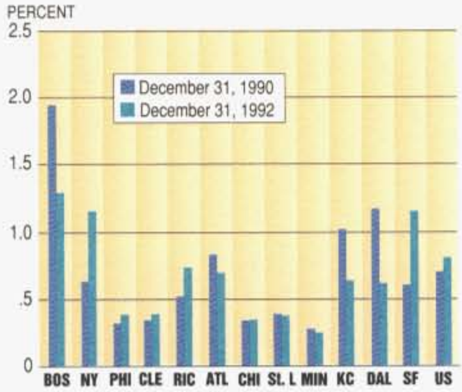
Banks traditionally have played a critical role in financing economic recoveries. Credit for receivables, inventories, and equipment is necessary for any expansion. Normally, banks are major sources of this type of financing. During the current recovery, however, banks have been unable to aggressively extend credit. While part of their reluctance is a natural reaction to the large loan losses of the past several years, the increased emphasis by investors and regulators on improved capital-to-asset ratios has discouraged many institutions from lending as aggressively as they normally would at this stage in a recovery.

Figure 11 shows bank capital-to-asset ratios nationally and in New England since 1960. The improving capital-to-asset ratios of most New England banks should reduce current pressures on credit availability. The recent crisis, however, has made it clear that the economic impact of regulatory policy and governing

Figure 8

Other Real Estate Owned as a Percentage of Total Assets of Commercial and Savings Banks

Federal Reserve Districts and U.S. Total

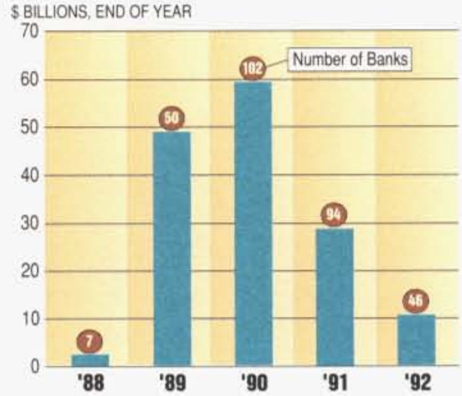


Note: The 12 Federal Reserve Districts have headquarters in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.
Source: Board of Governors of the Federal Reserve System.

Figure 9

Aggregate Asset Value of Banks with Nonperforming Assets Exceeding 100 Percent of Capital

First District Commercial and Savings Banks

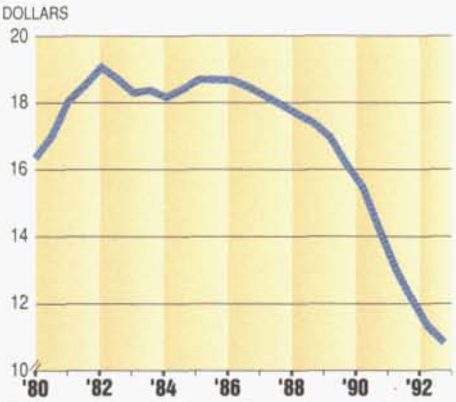


Source: Board of Governors of the Federal Reserve System.

Figure 10

Commercial Rents in the Boston Real Estate Market*

Real Average Rental Fees per Square Foot

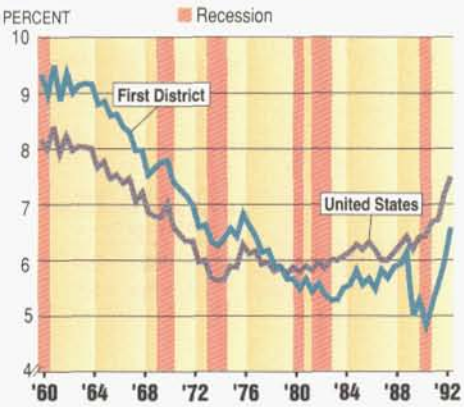


*The Boston real estate market is defined as the metropolitan statistical area.
Source: Torto-Wheaton index. The index represents a compilation of leases signed by Coldwell-Banker, and is adjusted for promotional discounts. It may understate the decline, because the percentage of Class A property included in the index has increased from approximately 40 in 1980 to 80 in 1992.

Figure 11

Equity Capital as a Percentage of Total Assets

U.S. and First District Commercial Banks, Fourth Quarter



Note: Equity capital consists of common stock, surplus, undivided profits and capital reserves (less net unrealized loss on marketable equity securities), perpetual preferred stock and related surplus, and cumulative foreign currency translation adjustments. First District 1969:II data exclude 1 large and 60 small banks in CT and ME, for which data were unavailable.
Source: Board of Governors of the Federal Reserve System.

statutes must be better understood and taken into account in dealing with future banking problems. More assertive supervisory activity may be required during periods of strong economic activity, thereby averting or at least lessening the need for forceful regulatory action during periods of economic disruption, when the financial strength of banks may be reduced. For example, a stronger supervisory response to the rapid buildup in real estate lending in the mid-1980s might have helped to limit the heavy concentrations that contributed to the failure of so many institutions.

While concentrations in real estate caused major problems in the early 1990s, the next banking crisis could involve concentrations in other areas. For example, recently banks have been increasing their exposure to off-balance-sheet items and to securities that carry some interest rate risk. These risks may be particularly difficult to monitor, however, because many off-balance-sheet items and securities positions are held to hedge risks elsewhere in the banks' portfolios. As shown in Figure 12, New England banks have substantial holdings in U.S. Treasury and mortgage-backed securities. While this may reduce the banks' exposure to credit risk, it may also pose greater interest rate risk.

Increasingly, banks are being challenged for both their assets and their liabilities. As Figure 13 shows, banks account for a steadily declining percentage of total financial assets. This trend is likely to continue. Other financial intermediaries, such as finance companies, investment banks, and insurance companies, are not impeded by many of the costly regulations imposed on the banking industry and can therefore skim the most profitable loans from banks. Thus, large commercial and industrial loans, home mortgages, and consumer loans increasingly are financed without the assistance of commercial banks. The continued loss of the traditional banking lines of business will seriously erode the health of the banking industry in the long run, unless banks can once again compete with these alternative intermediaries.

Bank liabilities have been challenged for some time by the mutual fund industry, in part in response to declining interest rates. Banks are moving to meet this challenge by offering mutual fund services themselves. Table 1 shows the number of large New England banks offering services that are competitive with mutual funds. Offering mutual funds may help banks maintain customer relationships and reduce the loss in market share to mutual funds, but it is likely to be at the expense of some core deposits, which historically have provided banks a stable, low-cost source of funds.

Bank losses of market share to other financial intermediaries will continue as long as bank services are restricted and as long as banks are required to meet a regulatory burden that is not imposed on other providers of similar services. The prevention of further deposit insurance fund losses has dominated

Table 1

First District Banks with Assets over $1 Billion That Offer Mutual Funds

	Number of Banks Responding	Banks with Mutal Funds * Offered Since: Total	Pre-1992	1992	1993	Planned for 1993	Offered Indirectly through Brokers **
Commercial Banks	11	9	4	0	5	2	0
Savings Banks	14	3	3	0	0	0	6

* As of March 31, 1993, offered through banks or affiliates.
** Bank customers serviced by brokers located in bank locations by employees of other organizations, not by the banks directly.
Source: Survey conducted by Monitoring Department, Federal Reserve Bank of Boston.

recent bank regulatory discussions, and the trend towards reducing risk in banking by increasing regulation threatens to stifle the innovative financing techniques now necessary for banks to remain competitive. The challenge to bank regulation in the 1990s will be to set a legal and regulatory course that provides for the effective management of risk without eliminating banks as a competitive provider of financial services.

Conclusion

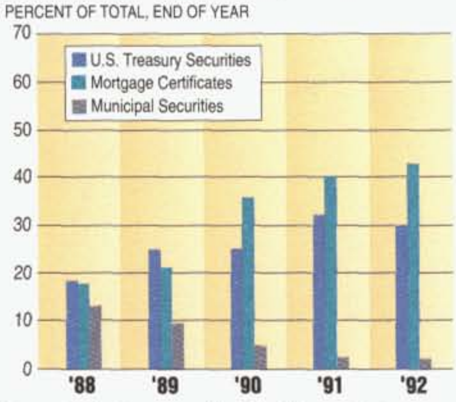
The outlook for New England banking has undeniably improved. Fewer problem loans, higher earnings, renewed confidence by investors, and increased access to new equity should enable institutions to once again meet the credit needs of the region. The ability of many of the largest lenders in the region to recapitalize and resume lending has been particularly encouraging.

Despite the alleviation of many of the problems that have been so acute in New England, the banking industry faces challenges that will require innovative action by bankers, regulators, and lawmakers. Nonbank competition, improved information transfer technologies, greater access for borrowers to national credit markets, and the increased regulatory burden in response to the banking problems of the 1980s must be creatively addressed, with both an eye to the future and a clear picture of the past.

Figure 12

Government and Agency Securities as a Percentage of Securities Portfolios

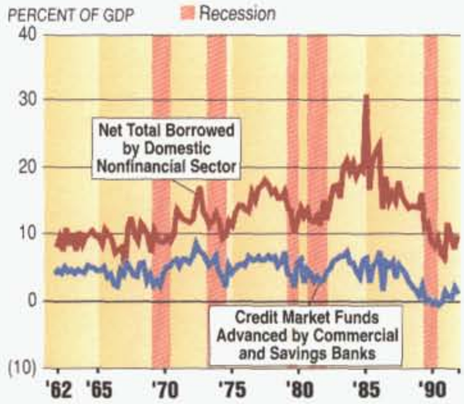
First District Commercial and Savings Banks



Source: Board of Governors of the Federal Reserve System.

Figure 13

Financial Flows in the United States



Source: Board of Governors of the Federal Reserve System.

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As of December 31, 1992

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Professor of International Economics
Harvard University

Jerome H. Grossman, M.D.
(Deputy Chairman)
Chairman & Chief Executive Officer
New England Medical Center

Joan T. Bok
Chairman
New England Electric System

John E. Flynn
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The Quality Connection

Edward H. Ladd
Chairman
Standish, Ayer & Wood, Inc.

Stephen R. Levy
Chairman & Chief Executive Officer
Bolt Beranek and Newman, Inc.

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Chairman, President & Chief Executive Officer
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First Federal Bank, FSB

John Womack
President
JJS Services, Inc.

Federal Advisory Council Member

Ira Stepanian
Chairman & Chief Executive Officer
Bank of Boston Corporation

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First Vice President & Chief Operating Officer

Thomas E. Cimeno, Jr.
Senior Vice President

Paul M. Connolly
Senior Vice President

Niels O. Larsen
Senior Vice President

William N. McDonough
Senior Vice President & General Counsel

Alicia H. Munnell
Senior Vice President & Director of Research

Walter T. Sullivan
Senior Vice President

Robert M. Brady
Vice President

Richard E. Brideau
General Auditor

Lynn E. Browne
Deputy Director of Research for Regional Affairs

Ronald C. Currie
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Vice President & Economist

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Vice President

Mary E. Fothergill
Vice President

Thomas Gagnon
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Gerald J. Giaccai
Vice President

Sarah G. Green
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John R.H. Kimball
Vice President & Associate General Counsel

Richard W. Kopcke
Vice President & Economist

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Cynthia A. Conley
Assistant Vice President & Assistant General Counsel

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Assistant Vice President

Robert M. White
Assistant Vice President

Steven M. Whitney
Assistant Vice President

Statement of Condition

Assets	December 31,1992	December 31, 1991
Gold Certificate Account	$ 705,000,000	$ 747,000,000
Special Drawing Rights Certificate Account	511,000,000	711,000,000
Coin	18,463,743	34,375,890
Loans and Securities:		
Loans to Depository Institutions	10,000	-0-
Fed. Agency Obligations Bought Outright	345,718,675	409,208,528
U.S. Gov't Securities-System Account	18,843,107,680	18,040,933,864
Total Loans and Securities	19,188,836,355	18,450,142,392
Cash Items In Process of Collection	633,716,150	463,950,072
Bank Premises (Net)	89,589,840	89,386,043
Other Assets	1,170,228,638	1,414,021,276
Interdistrict Settlement Account	(1,634,106,634)	(1,286,478,318)
Total Assets	$20,682,728,092	$20,623,397,355

Liabilities		
Federal Reserve Notes (Net)	$18,571,964,483	$18,350,413,421
Deposits:		
Depository Institutions	1,442,300,365	1,391,318,403
Foreign	5,129,100	6,030,000
Other	20,936,195	80,786,136
Total Deposits	1,468,365,660	1,478,134,539
Deferred Credit Items	311,179,891	442,758,444
Other Liabilities	114,596,558	156,386,951
Total Liabilities	$20,466,106,592	$20,427,693,355

Capital Accounts		
Capital Paid In	$108,310,750	$97,852,000
Surplus	108,310,750	97,852,000
Total Capital Accounts	216,621,500	195,704,000
Total Liabilities and Capital Accounts	$20,682,728,092	$20,623,397,355

Statement of Earnings and Expenses

	December 31, 1992	December 31, 1991
Current Earnings:		
Advances to Depository Institutions	$151,445	$1,845,058
Invested Foreign Currency	78,725,876	99,778,152
U.S. Government Securities & Agency		
Obligations-System Account	1,121,372,762	1,293,210,618
Income from Services	44,676,475	49,114,837
Penalties on Deficiencies in Required Balances	71,882	85,142
Penalties on Overdraft	21,436	37,504
Treasury Securities Transfer Fees	268,283	1,089,621
Total Current Earnings	1,245,288,159	1,445,160,932
Less: Current Expenses	85,988,813	82,576,949
Cost of Earnings Credit	10,285,795	9,180,545
Current Net Earnings	1,149,013,551	1,353,403,438
Additions to Current Net Earnings:		
Net Profit on Sale of U.S. Gov't Securities	7,919,191	8,828,460
Net Profit on Foreign Exchange Transactions	-0-	11,931,153
All Other	336,269	2,546
Total Additions	8,255,460	20,762,159
Deductions from Current Net Earnings:		
Net Loss on Foreign Exchange Transactions	39,804,383	-0-
Cost of Unreimbursed Treasury Services	1,256,859	4,517,310
All Other	74,297	35,007
Total Deductions	41,135,539	4,552,317
Net Addition (Deduction) to Net Earnings	(32,880,079)	16,209,842
Assessments by the Board:		
Board Expenditures	4,699,200	4,558,600
Federal Reserve Currency Cost	18,350,965	18,431,584
Net Earnings Before Payments to U.S. Treasury	$ 1,093,083,307	$ 1,346,623,096

Distribution of Net Earnings

Dividends Paid	$6,096,633	$6,006,860
Payments to U.S. Treasury (Interest on Federal Reserve Notes)	1,076,527,924	1,340,045,736
Transferred to Surplus	10,458,750	570,500
	$1,093,083,307	$1,346,623,096

Summary of Operations

Services to Depository Institutions	Calendar Year, 1992 Daily Average Volume	Calendar Year, 1992 Daily Dollar Value of Transactions	Calendar Year, 1991 Daily Average Volume	Calendar Year, 1991 Daily Dollar Value of Transactions
Wire Transfer of Funds	28,153 transfers	$ 61.1 billion	28,400 transfers	$ 61.9 billion
Automated Clearing House	548,628 items	$ 1.5 billion	494,000 items	$ 1.4 billion
Commercial ACH Items	446,372 items	$ 1.4 billion	394,000 items	$ 1.3 billion
Government ACH Items	102,256 items	$ 0.1 billion	100,000 items	$ 0.1 billion
Check Processing				
Total Volume	5.3 million checks	$ 3.2 billion	5.6 million checks	$ 3.5 billion
Processed Volume	3.8 million checks	$ 2.6 billion	4.1 million checks	$ 2.9 billion
Fine Sort Volume	1.5 million checks	$ 0.6 billion	1.5 million checks	$ 0.7 billion
Processed Returns	44,625 daily average items		48,490 daily average items	
Adjustment Processes	866 daily average items		1,039 daily average items	
Cash Operations				
Cash Shipped	6.0 million notes	$74.7 million	5.8 million notes	$71.3 million
Cash Received	5.5 million notes	$64.3 million	5.5 million notes	$62.8 million
Services to U.S. Treasury				
Electronic Book Entry Transfers	4,928 transfers	$67.1 billion	4,600 transfers	$71.6 billion
Savings Bonds Issued	16,000 bonds	$4.8 million	9,200 bonds	$3.2 million

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