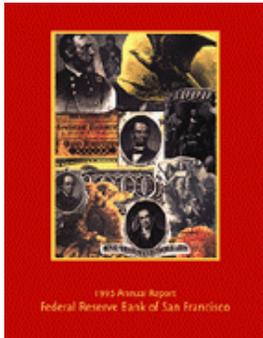


The Federal Reserve Bank of San Francisco

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The Federal Reserve Bank of San Francisco is one of twelve regional Reserve Banks which, together with the Board of Governors in Washington, D.C., comprise the nation's central bank.

As the nation's central bank, the Federal Reserve is responsible for making and carrying out our nation's monetary policy. It also is a bank regulatory agency, a provider of wholesale priced banking services, and the fiscal agent for the United States Treasury.

The Federal Reserve Bank of San Francisco serves the Twelfth Federal Reserve District, which includes the nine western states--Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah and Washington--Guam, American Samoa, and the Northern Mariana Islands.

To serve this expansive region, the San Francisco Reserve Bank has five offices: the headquarters in San Francisco, and offices in Los Angeles, Portland, Salt Lake City, and Seattle. Each office provides financial services to the public and banking institutions in its locale.

Previous Annual Reports:

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This Report was written and produced by Karen Flamme. Highlights was written by Karen Flamme and Barbara Bennett. Design and illustrations were created by William Rosenthal. Color photography by Paul Schulz.

The Federal Reserve Bank of San Francisco

ABOUT THE FED ABOUT THE FED

1995 Annual Report: From the Boardroom



From left, James A. Vohs, Deputy Chairman; Patrick K. Barron, First Vice President; Robert T. Parry, President; and Judith M. Runstad, Chairman.

This Annual Report traces the history of U.S. currency, drawing its photos and graphics from our Bank's collection of currency, which dates from the Civil War era. Our Bank is fortunate to have such a collection, and in 1996, we will install a permanent historical exhibit in the lobby of our San Francisco headquarters to display many extremely rare and interesting notes.

The history of U.S. currency is a timely topic for this Report as the Reserve Banks begin supplying financial institutions with the newly designed Series 1996 Federal Reserve notes. This is the first major design change in U.S. currency since 1928. Prior to that time, as this Report shows, bills were redesigned frequently, often to commemorate historic events, scientific advances, and national figures.

With the introduction of the Series 1996 notes by the U.S. Treasury, the United States will continue to honor the older series notes at full face value. However, as these older notes are returned to Reserve Banks during the normal course of business, we will replace them with the new series notes.

In establishing the Federal Reserve System in 1913, Congress sought to accommodate fluctuations in the demand for cash by the public and the banking system. Distributing and replacing coin and currency is, in fact, one of the Reserve Bank's key responsibilities, and one that has grown dramatically. For example, the value of currency in circulation rose from \$31.2 billion in 1955 to more than \$416 billion in 1995.

When commercial banks and other depository institutions need to replenish their supply of currency and coin, they place an order with a Reserve Bank or Branch in their area, and the face value of that cash is charged to their accounts at the Federal Reserve. When the need for currency and coin declines, banks return excess cash to their local Reserve Bank, which in turn credits their accounts.

The Reserve Banks and the U.S. Treasury share responsibility for maintaining the quality of paper currency. Each day, millions of dollars deposited with Reserve Banks are carefully scrutinized. Currency in good condition is stored for later distribution. Worn or mutilated notes are removed from circulation and destroyed, and counterfeit notes are forwarded to the U.S. Secret Service.

In addition to our role in supplying the nation's currency in circulation, the Reserve Banks play a key role in the formulation of monetary policy. It is in this regard, in particular, that we would like to thank our Twelfth District directors for their invaluable counsel during 1995. Their independent assessment of economic and financial conditions throughout our nine western states is critical to the formulation of sound policy.

In addition, we send our sincere appreciation to those directors who completed their terms of service during 1995: on the San Francisco Head Office Board, Carl J. Schmitt (Chairman, University Bank & Trust Company, Palo Alto, CA) and E. Kay Stepp (Principal and Owner, Executive Solutions, Portland, OR); on the Los Angeles Branch Board, Steven R. Sensenbach (President and CEO, Vineyard National Bank, Rancho Cucamonga, CA); on the Salt Lake City Branch Board, Daniel R. Nelson (Chairman and CEO, West One Bancorp, Boise, ID); on the Seattle Branch Board, Emilie A. Adams (President and CEO, Better Business Bureau Foundation, Seattle, WA); and, on the Federal Advisory Council, Twelfth District Member Edward M. Carson (Chairman of the Board (Retired), First Interstate Bancorp, Los Angeles, CA).

(Signed) Judith M. Runstad, Chairman, and

(Signed) Robert T. Parry, President

The Federal Reserve Bank of San Francisco

ABOUT THE FED

1995 Annual Report: A Brief History of Our Nation's Paper Money

- [Colonial and Continental Currency](#)
- [Free Banking Era](#)
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- [Gold and Silver Certificates](#)
- [Federal Reserve System](#)
- [A New Look For Currency](#)
- [The Future Of Currency](#)
- [Did You Know?](#)
- *See also:*
 - [The American Currency Exhibit](#)
 - [Fun Facts About Money](#)

By Karen Flamme



In our society today, money's value is measured by what it can buy--its purchasing power--not by its material worth, but it hasn't always been so. American currency has spanned centuries of evolution and numerous transfigurations to reach the size and shape that we carry in our wallets today. It has been an evolutionary process which often came about in times of crisis--like the Civil War or Great Depression--or to respond to demand as society struggled to put into place a monetary system that would function smoothly and inspire confidence. This development process is ongoing and continues even now as redesigned currency is issued in 1996. But the legacy of the process is a rich heritage of United States currency that gives us a fascinating, colorful, and reflective glimpse into the growth of our nation.

The Federal Reserve Bank has a special interest in this subject. As part of our role as the government's central bank we are responsible for putting currency, as well as coin, into circulation. Indeed, the warehousing, shipping, processing, and handling of currency are major functions of the regional Reserve banks.

Colonial and Continental Currency



Extremely rare series of 1880 note with Lyons-Roberts signatures and a small red scalloped seal. The head is of DeWitt Clinton, Governor of New York, Mayor of New York City, U.S. Senator. Seated figure is Christopher Columbus.

The Massachusetts Bay Colony issued the first paper money in the colonies in 1690. Other colonies soon followed suit to meet the high demand for money fueled by trade between the colonies and the scarcity of coin (which was the common form of money up to this date). Some of this early money was readily accepted, but some was not redeemed in gold or silver as promised and thus depreciated rapidly. These currencies, however, set a precedent for the first national currency which was issued during the War for Independence.

To finance the Revolutionary War, the Continental Congress in 1775 authorized the limited issuance of paper currency. These notes, called Continentals, were denominated in dollars and backed by the "anticipation" of future tax revenues, with no backing in silver or gold. They could be redeemed only upon the independence of the colonies.

Continentals were an interesting expression of the new nation's sovereignty, as they did not feature pictures of the crown or King of England. In fact, some were printed from plates engraved by Paul Revere to read "The United Colonies" and bore pictures of colonial minutemen.

Without solid backing and with rising inflation, the Continentals soon became worthless, thus the expression "not worth a Continental." Or, as George Washington put it, "A wagonload of currency will hardly purchase a wagonload of provisions."

In 1777 after the Declaration of Independence was signed, the first notes bearing the words "The United States" were issued and signed by well-known revolutionary figures to give them credibility.

The remnant of this experience was a deep distrust of paper money which was not issued again by the federal authorities until the Civil War when the Federal government first issued paper money. The Continental was significant, however, in that it marked the first time that the worth of U.S. currency lay in its purchasing power and not in its intrinsic value.

Free Banking Era

In 1791 the Bank of the United States received a charter to operate until 1811, followed by the Second Bank of the United States from 1816 to 1836. These two banks, chartered by Congress rather than a state, performed several central bank functions. Although privately owned, they were authorized to issue paper bank notes and serve as the fiscal agent of the government. Both banks, however, were unpopular with those wanting easy credit--primarily the western, agrarian interests--and in 1832 Andrew Jackson vetoed the recharter of the Second Bank.

Thus followed the "Free Banking Era"--a quarter century in which American banking was a hodgepodge of state-chartered banks with no federal regulation or uniformity in operating laws.



First Charter Original series note with Allison-Spinner signatures and a small red seal with rays. This was one of the most popular Gold

State Bank notes of various sizes, shapes, and designs were in circulation. Some of them were relatively safe and exchanged for par value and others were relatively worthless as speculators and counterfeiters flourished. By 1860, an estimated 8,000 different state banks were circulating "wildcat" or "broken" bank notes in denominations from ½ cent to \$20,000. The nickname "wildcat" referred to banks in mountainous and other remote regions that were said to be more accessible to wildcats than customers, making it difficult for people to redeem these notes. The "broken" bank notes took their name from the frequency with which some of the banks failed, or went broke.

of the most popular Gold Bank notes issued in California in the 1870s.

Civil War



This is a rare gold certificate, payable in gold coin, with the head of Abraham Lincoln.

Once again the need to finance a war provided the impetus for a change in the monetary system. In 1861, to finance the Civil War, Congress authorized Demand Notes--the first issue of paper money by the government since the Continentals. These Notes were printed in \$5, \$10, and \$20 denominations, redeemable in coins on demand, and green in color--hence the name "greenbacks." A total of about \$10 million was issued, a relatively small series. These notes, and all paper money issued since 1861, are still valid and redeemable in current cash at face value. While most early money is now in the hands of collectors or museums, it is important to note the record of currency stability which this represents.

In 1862, Congress discontinued issuing Demand Notes and issued Legal Tender Notes, also known as United States Notes. These new notes--issued in denominations from \$1 to \$1,000 (later \$5,000 and \$10,000)--were the first national currency used as legal tender for most public and private debts. The design of these notes incorporated a Treasury seal, fine-line engraving, intricate geometric lathe work patterns, and later incorporated various forms of distinctive cotton and linen papers with embedded red and blue fibers. Confidence in the notes waned somewhat when the Treasury stopped redeeming them in coins during the Civil War to save gold and silver. However, redemption resumed in 1879 following the war.

Coin hoarding and the need to use metals for war purposes created a shortage of coin during the Civil War and led to the circulation of small change substitutes. In some cases these included tickets, bills, and even postage stamps. From 1862 to 1876 the government issued more than \$368 million in Fractional Currency in three-to fifty-cent denominations. These "paper coins," which were much smaller in size than our present currency, were nicknamed "shinplasters," as the hardships of war often forced troops to line their worn-out boots with them. These fractional notes are still redeemable today.

Between 1861 and 1865 Confederate currency was being issued to millions of Southerners, gambling that a Confederate victory would ensure the currency would be redeemable. In an effort to debase this currency, the North printed counterfeit Confederate money and circulated it in the south. Inflation was soon rampant in both the north and south, but far worse in the Confederacy. As the end of the war neared, Confederate citizens completely lost confidence in their currency and came to rely on barter or black-market greenbacks. In some cases Confederate soldiers were even paid in Northern greenbacks. By the end of the war, Confederate notes were totally worthless.

National Bank Act

President Abraham Lincoln, urged by the Secretary of the Treasury, convinced Congress to pass the National Banking Act in 1863 which established a national banking system and a uniform national currency to be issued by the new "national banks." The banks were required to purchase U.S. government securities as backing for their National Bank Notes. In 1865 a 10-percent tax was levied on State Bank notes eliminating the profit in issuing them and basically taxing them out of existence.



Issued from 1919 to 1921, only in Ohio and Louisiana. At the left is Washington crossing the Delaware. At the right is Washington at prayer. This is one of four known specimens.

Although United States Notes were still widely accepted as a medium of exchange, most paper currency circulating between the Civil War and World War I consisted of National Bank Notes. They were issued from 1863 through 1932. From 1863 to 1877 National Bank Notes were printed by private bank note companies under contract to the Federal government. The Federal government took over printing them in 1877.

Gold and Silver Certificates

The economy was in turmoil in the late 19th century. The government, in a move to increase its reserve of precious metals, offered certificates in exchange for deposits of silver and gold.



Pictured above is an extremely rare silver certificate, series of 1878, payable at New York. The head is of James Monroe.

Gold certificates, colorful and vivid, were first issued in 1863 and put into general circulation in 1882. They are among the most attractive of all currency issues, with the reverse a brilliant golden orange, symbolic of the gold coin they represent. In 1933, when the country faced a severe depression and a banking crisis, the public began to demand gold.

Runs developed on both Federal Reserve Banks (which had been established under the Federal Reserve Act in 1913) and commercial banks. In order to deal with this crisis, only Federal Reserve Banks were permitted to hold gold. In 1934, Federal Reserve Banks were required to turn over all gold coin, bullion, and certificates to the U.S. Treasury in return for a new type of gold certificate. These were never put into circulation and the last ones were printed in January 1935. In 1964, private citizens could once again hold gold certificates issued before January 30, 1934, but they could no longer be redeemed in gold. This changed in 1974, and private U.S. citizens could once again hold gold legally.

Silver certificates were first issued in exchange for silver dollars in 1878. They offered many varieties of design and subject matter including inventors, military heroes, a Sioux Indian, and the famous Educational series of 1896. An 1886 \$1 silver certificate is also the only piece of U.S. paper currency to bear the portrait of a woman--Martha Washington.

For many years silver certificates were the major type of currency in circulation. However, in the early 1960s when the price of silver jumped to over \$1.29 an ounce it was evident that further increases would make it profitable for holders of silver coins to sell them in the open market. To avert this crisis, Congress eliminated silver certificates in 1963, and empowered the Federal Reserve to issue \$1 and \$2 Federal Reserve Notes for the first time.

Federal Reserve System

In 1913 a major change in paper currency occurred with the passage of the Federal Reserve Act aimed at resolving some long-standing money and banking problems which had led to bank failures, business bankruptcies, and general economic contractions. The Act created the Federal Reserve System as the nation's central bank to regulate the flow of money and credit for economic stability and growth. In 1914, Federal Reserve Notes, which comprise more than 99 percent of today's paper money, were issued by Federal Reserve Banks as direct obligations of the Federal Reserve System. They replaced National Bank Notes as the dominant form of paper money.

Federal Reserve Notes were issued in denominations ranging from \$1 to \$10,000. The \$100 note has been the largest denomination printed since 1946, and in 1969 all notes greater than \$100 were retired because of declining demand.

The design of Federal Reserve Notes has changed little over the years. In 1929, the size of the notes was reduced; in 1955, the inscription "In God We Trust" was added; and in 1966, the Latin wording on the Treasury seal was replaced by an English translation. In 1929, it was also decided that all currency would have a portrait on the front, and denominations under \$100 would have buildings or monuments on the back. Higher denominations had the denomination on the back.



This is an extremely rare note known as a "Grand Watermelon" note because of the shape of the zeroes. It was redeemable in coin, and it has Rosecrans-Huston signatures and a large brown seal. The head is of General George Gordon Meade, commander of the Union troops at the battle of Gettysburg.



This bill is a series of 1918 Blue Seal note with Burke-Glass signatures and a small blue scalloped seal. The front shows the head of Salmon P. Chase. The reverse design is the embarkation of the Pilgrims.

A New Look for Currency

In 1990 a new series of notes was introduced to improve security and stay ahead of counterfeiters and advances in technology which make it easier to reproduce currency. These notes include microprinting and an embedded security strip.

A more complete redesign is being introduced starting with the issue of new \$100 bills early in 1996 and will continue as new designs for the lower denominations are introduced at intervals of about a year. The most noticeable changes in the \$100 bill are that the portrait of Benjamin Franklin is larger and off center and the borders are simplified. This creates more space to incorporate a watermark in the paper to the right of the portrait depicting the same historical figure as the portrait.

Other new or modified features include the use of a unique security thread which glows red when exposed to ultraviolet light, color-shifting ink, microprinting, and fine-line printing. A universal Federal Reserve seal appears on the new note, rather than

an individual seal for each Reserve Bank. This is expected to create some efficiencies in production and inventory. The Federal Reserve District letter ("L," in the case of San Francisco) is being retained, however, and will be included in the serial number.

The Future of Currency

Despite predictions of a "cashless society" relying on electronic payments, the public demand for currency continues to grow. Debit cards used for purchases and transaction records could greatly reduce the need for cash, but paper currency still has the advantage of privacy.



Did You Know?

- During much of the 17th and 18th centuries, the Spanish Dollar coin served as the unofficial national currency of the American colonies. To make change the dollar was actually cut into eight pieces or "bits." Thus came the terms "pieces of eight" from these early times and "two bits" from our time.
- More than half of a dollar bill is considered legal tender, and only the front of a dollar bill is valuable. If you could separate the front of a bill from the back, only the front half would be considered "money."
- In 1955 a law was passed that all new designs for coin and currency would bear the inscription "In God We Trust." Those words had first appeared on a U.S. coin--the two-cent piece--in 1864.
- Until 1929 currency measured 7.42 x 3.13 inches. Since then it has remained at its present size of 6.14 x 2.61 inches--an easier size to handle and store. Since that size requires less paper, it is also less expensive to produce.
- By 1865 approximately one-third of all circulating currency was counterfeit, and the Department of the Treasury established the United States Secret Service in an effort to control counterfeiting.





The lobby of the headquarters building in San Francisco will soon house one of the preeminent exhibitions of historical United State currency in existence. This Bank's collection is outstanding in terms of the diversity of notes and rarely seen denominations and series, long forgotten by the public. It contains more than 1,700 individual notes and is considered by numismatists to be irreplaceable.

Many pieces in the collection date from the 1880s, with the oldest being an 1862 \$10 Legal Tender note bearing the signatures of Treasury officials Chittenden and Spinner. The most valuable item in the collection is one of only two known, remaining \$10,000 gold certificates printed in 1882, signed by Treasury officials Teehee and Burke and marked with a small red seal. It is valued at over \$200,000 by numismatists. Another item, a series 1890 Treasury/Coin \$1,000 note, with Rosecrans and Nebeker signatures and a small red seal, is one of only two known existing bills and is valued at \$150,000. Several items in the collection are the only remaining notes of their type in existence.

This collection, interestingly enough, was rediscovered in the vaults below the Federal Reserve Bank of San Francisco in 1992. Long forgotten in the Bank's day-to-day operations, the currency had remained sequestered in a padlocked, steel currency cart for more than 40 years. It was when one of the nation's foremost experts on U.S. historical currency learned of the Bank's collection and asked to view it that the rediscovery process began.

It is believed that at least parts of the collection were sent to the Bank long ago from the Treasury department as historical currency specimens. Other pieces were acquired during the 1950s when the Bank exchanged duplicate pieces in an effort to increase the collection and create a display--a project which never materialized at that time.

The new exhibition is an addition to the existing "[World of Economics](#)" and will be of interest to the general public and educators as well as numismatists. It is designed to integrate both the economic and chronological history of the United States.

The Federal Reserve Bank of San Francisco

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 - Northern Region

 - Portland Branch
 - Salt Lake City Branch
 - Seattle Branch
- [Branch Operations](#)

Executive Committee (As of December 31, 1995)



From left, Elizabeth K. Christensen, Senior Vice President; Patrick K. Barron, First Vice President and Chief Operating Officer (seated); Gordon R. G. Werkema, Senior Vice President; John F. Moore, Executive Vice President; Jack H. Beebe, Senior Vice President and Director of Research; Robert T. Parry, President and Chief Executive Officer (seated); and Terry S. Schwakopf, Senior Vice President.

Bank Officers (As of December 31, 1995)

Robert T. Parry
President and Chief Executive Officer

Patrick K. Barron
First Vice President and Chief Operating Officer

Jack H. Beebe
Senior Vice President and Director

Elizabeth K. Christensen
Senior Vice President

Sara K. Garrison
Senior Vice President

Michael J. Murray
Senior Vice President

Terry S. Schwakopf
Senior Vice President

Laurence Washtien
Senior Vice President

S. Jean Hinrichs
General Auditor

Robert D. Mulford
Vice President and General Counsel

Elizabeth R. Masten
Vice President and Secretary of the Board

C. Kenneth Arnold
Vice President

Barbara J. Contini
Vice President

Robert L. Fienberg
Vice President and Director

Frederick T. Furlong
Vice President

William K. Ginter
Vice President

Reuven Glick
Vice President

John P. Judd
Vice President and Associate Director

Douglas R. Shaw
Vice President and Counsel

W. Gordon Smith
Vice President and Director

D. Kerry Webb
Vice President

Sallie H. Weissinger
Vice President

Patricia A. Welch
Vice President

James M. Barnes
Director

Kenneth R. Binning
Director

Harold H. Blum
Director

Nancy Emerson
Director

Eliot E. Giulli
Director

Donald R. Lieb
Director

John Y. C. Lin
Director

Susan G. Porterfield
Director

Wayne L. Rickards
Director

Kenneth M. Kinoshita
Associate General Counsel

Paige Birdsall
Assistant Vice President

Sylvia A. Cunningham
Assistant Vice President

Gail A. Garvey
Assistant Vice President

vice President and Associate Director

Ronald E. Mitchell, Jr.
Vice President
Todd Glissman
Assistant Vice President
John S. Hsiao
Assistant Vice President
Peter K. C. Hsieh
Assistant Vice President
Deborah S. Jackson-Duke
Assistant Vice President
Ellsworth E. Lund, Jr.
Assistant Vice President
Elizabeth M O'Shea
Assistant Vice President
Philip M. Ryan
Assistant Vice President
W. Starr Seegmiller
Assistant Vice President
Susan A. Sutherland
Assistant Vice President
James J. Tenge
Assistant Vice President
Thomas R. Thaanum
Assistant Vice President
David M. Vandre
Assistant Vice President
David W. Walker
Examining Officer
Kelly K. Walsh
Assistant Vice President

Assistant Vice President

Elaine Geller
Assistant Vice President
Beatrice K. Ashburn
Audit Officer
Beverley-Ann Hawkins
Automation Officer
Michael E. Johnson
Applications Officer
Lelia M. Jones
Assistant Vice President
Craig B. Knudsen
Financial Planning & Control Officer
Mark Levonian
Research Officer
Bonnie Martina
Examining Officer
Brian Motley
Research Officer
Gary P. Palmer
Financial Analysis Officer
Glenn D. Rudebusch
Research Officer
Virginia N. Salinas
Audit Officer
Bharat Trehan
Research Officer
Elizabeth L. Wood
Systems Officer

Branch Officers (As of December 31, 1995)

Los Angeles Branch

John F. Moore
Executive Vice President
Sean J. Rodriguez
Vice President

Nancy Olmstead
Director
Darcy J. Coulter
Assistant Vice President
Robert C. Johnson
Assistant Vice President
Rachel A. Romero
Assistant Vice President
Lisa Moraes
Operations Officer

Mary Rector
Administrative Officer

Roger W. Replogle
Business Development and
Electronic Product Support Officer

Dale L. Vaughan
Examining Officer

Northern Region

Gordon Werkema
Senior Vice President

Portland Branch

Raymond H. Laurence
Vice President
Mary E. Lee
Assistant Vice President
Robert D. Long
Assistant Vice President
Robin A. Rockwood
Assistant Vice President

Salt Lake City Branch

Andrea P. Wolcott
Vice President
Jed W. Bodily
Assistant Vice President
Gerald R. Dalling
Assistant Vice President
Thomas P. McGrath
Assistant Vice

vice
President
Richard B.
Hornsby
Business
Development
Officer

Seattle Branch

Gale P.
Ansell
Assistant
Vice
President
Jimmy F.
Kamada
Assistant
Vice
President
(temporarily
assigned to
San
Francisco)
Kenneth L.
Peterson
Assistant
Vice
President
Michael J.
Stan
Check
Product
Officer

Branch Operations (As of December 31, 1995)



From left, Gordon R. G. Werkema, Senior Vice President, Northern Region; Raymond H. Laurence, Vice President, Portland; John F. Moore, Executive Vice President, Los Angeles; and Andrea P. Wolcott, Vice President, Salt Lake City.

The Federal Reserve Bank of San Francisco

ABOUT THE FED

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- [Credit, Compliance, and Community Affairs](#)

Building upon its growing reputation for excellence in operations, outstanding service to customers, and effectiveness in the oversight of financial institutions, the Federal Reserve Bank of San Francisco took on major new leadership responsibilities in 1995. In particular, the District played a key role in the Federal Reserve System's efforts to integrate its financial services activities on a more national basis.

Faced with continuing consolidation and restructuring of the financial services industry, as well as the push toward interstate branch banking, the System reorganized its financial services management structure along major product lines early in the year, awarding the Twelfth District responsibility for System-wide support functions, including accounting, automation, and customer electronic access. The District also played a major role in shaping the System's response to changing customer and constituent needs in the retail payments, wholesale payments, and fiscal services product areas, as well as in the areas of banking supervision and community affairs.

To meet these leadership challenges and provide for a more flexible organization, the District reorganized its management structure early in the year, replacing the former Management Committee with a new policy-making framework that comprises seven key committees: Executive; District Steering; Operations; Information Management; Personnel; Capital Budget and Building; and Loan. This new structure is designed to:

- ensure in-depth review of strategic issues;
- provide for greater involvement on the part of those with direct knowledge of the issues; and
- promote increased information-sharing and team building among Bank management.

This new structure will optimize resources in fulfilling the District's leadership responsibilities and achieving continuing gains in productivity, cost control, and customer responsiveness.

Check Services



The Twelfth District's leadership was evident in a number of initiatives in 1995. In addition to leading the development of a System-wide strategy for implementation of digital image technology and image-based check services, the District lent expertise to a variety of projects aimed at enhancing the efficiency and quality of check services nationwide.

While making significant contributions to Federal Reserve System efforts, the District implemented a variety of products to appeal to new customers, and operational initiatives that resulted in continued improvement in productivity and unit costs. These efforts enabled the District to end the year in a positive cost recovery position.

Electronic Payments and Fiscal Agency

The District's Automated Clearing House (ACH) continued a trend of outstanding cost recovery, productivity, and unit cost management in 1995. Several new projects were initiated to improve operations and expand the scope of the ACH. A concerted effort to convert Reserve Bank payments to the ACH resulted in more than 50 percent of Twelfth District vendor payments being made through the ACH at the end of 1995, compared to 26 percent at the end of 1994. Another initiative gave customers the opportunity to receive ACH advices by FED-Mail rather than in paper form. At year-end, more than 190 customers were enjoying this efficiency, and more are converting each week.



To bring together expertise in the business of wholesale electronic payments, including securities and wire transfer, the District formed a new Wholesale Payments department, which parallels the new System-wide Wholesale Payments Product Office. Under the leadership of this new department, cost recovery exceeded targets, and funds transfer staff embarked on an ambitious key customer outreach program, visiting 20 large customers in three states to share expertise and expectations.

In the District's Fiscal Services function, steep increases in interest rates during the  quarter dramatically increased the demand for Treasury securities and resulted in a remarkably high volume of activity in the Treasury Direct and Customer Service units at all five offices.

Cash Services

In 1995, Cash Services made significant progress toward increasing currency processing capabilities, reducing unsorted backlogs, and enhancing controls. Seven new currency processing machines went into production in 1995, bringing the District total to 18, three-quarters of the total planned. Along with the new equipment have come significant increases in processing capability and the ability to support the new 1996 series \$100 note. Total daily processing increased nearly one-fourth over 1994.

In the continuing effort to balance public policy interests with customer service, the District announced a revised Cash Service

Structure that offers depository institutions a basic level of free service, while providing additional service for a fee. Cash and Business Development staff worked in concert to solicit customer input in the development of the new structure, and to communicate these changes to customers. Bank staff also held seminars for over 1,500 customers to explain the 1996 series currency release and counterfeit detection methods.

The District also assumed major national leadership responsibilities in the cash area in 1995 by chairing the System's Advisory Group on Cash Services. The Advisory Group ensures regional needs and issues are factored into System policy-making in cash services.

System Support Function Office



Beginning in January 1995, the Support Function Office (SFO) assumed a broad range of new System-wide responsibilities. The office was structured into three major divisions dealing with accounting, automation, and customer electronic access. From this base, the SFO oversees seven central business administration System functions and 18 applications which share resources throughout the Federal Reserve System.

A key accomplishment during the year was the successful migration of FED-Mail from pilot to full production status. FED-Mail uses electronic-mail technology to deliver low-security data to customers. By year end 1995, more than 1,100 customers were using the new information delivery vehicle on a daily basis.

Economic Research

Research focused during 1995 on a wide range of national, regional, and regulatory policy issues, including monetary policy in the U.S. and monetary policy and exchange rates in East Asian countries. Staff also examined longer-term issues, such as economic growth in the U.S. and abroad, NAFTA-like trade agreements, and measures of international financial integration. Research on labor markets dealt with seniority and the duration of unemployment, as well as health insurance and worker mobility. Regional analysis addressed population flows between California and the rest of the District. Staff also studied various regulatory initiatives, including the implications of bank mergers on competition and structure.



The department published an increased number of papers in academic journals, as well as in Bank publications. In addition, economic education and public programs continued to expand their reach, and Economic Research staff delivered 74 speeches to outside organizations, made 48 presentations at conferences and seminars, and held 75 meetings with visiting officials from the United States and abroad, principally from Pacific Basin countries. In March, the department co-hosted an academic conference on monetary policy in a changing financial environment with the Center for Economic Policy Research at Stanford University.

Banking Supervision and Regulation

The Twelfth District continued to provide significant support to the Federal Reserve System in such areas as capital markets, emerging issues, and programs to enhance the supervisory process. Additionally, international outreach efforts increased during the year and included various initiatives with China, Japan, Malaysia, and the Philippines. The District also hosted central bankers from Asia, Africa, and Europe; and provided technical assistance to Russia, Moldova, Poland, and Slovakia.

There were 59 state member banks in the District at year end--8 with assets exceeding \$1 billion, and 21 with assets between \$100 million and \$1 billion. In addition, the District supervised 214 holding companies with assets totaling \$461 billion, 136 branches and agencies of foreign banks, 20 Edge and Agreement corporation offices, and 38 representative offices.

Applications activity increased during the year from 270 in 1994 to 310 in 1995, reflecting increases in both domestic and international applications and a continuation of expansion and consolidation trends.

Credit, Compliance, and Community Affairs



The leadership of the Twelfth District in the area of community reinvestment is well recognized. In 1995, Community Affairs sponsored 12 seminars throughout the District, providing information to more than 500 lenders on how to prepare for the new CRA examination, which will focus on bank performance with the lending, service, and investment tests.

At two other Community Affairs-sponsored conferences, more than 600 bankers, non-profit representatives, and government officials heard nationally recognized speakers discuss community reinvestment, rural community development, fair-lending issues, and successful public-private partnerships.

As part of its continuing efforts to provide guidance on the formation of bank lending consortia, the department played a key role in the development of the California Economic Development Lending Initiative, a statewide consortium of 34 banks and three corporations which pooled \$50 million to provide financing to small businesses that currently do not have access to capital.

The Federal Reserve Bank of San Francisco

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1995 Annual Report: Summary of Operations

	Volume (in thousands)		
	1993	1994	1995
Custody Services			
Cash Services			
Currency notes paid into circulation	4,069,935	4,212,494	4,298,035
Food stamp coupons processed	651,348	694,306	753,589
Securities Services			
Other Treasury original issues	113	216	201
Book-entry securities processed	702	805	894
Payments Services			
Check Services			
Commercial checks collected	2,994,572	2,269,690	2,082,513
Government checks processed	73,648	69,567	67,148
Return items processed	32,709	29,941	30,569
Electronic Payments Services			
Wire transfers processed	19,962	19,925	20,135
Automated clearinghouse transactions processed	406,220	459,032	525,549
Discounts and Advances			
Total discounts and advances*	483	587	482
Number of financial institutions accommodated*	64	56	66



* Whole number (not in thousands)

The Federal Reserve Bank of San Francisco

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1995 Annual Report: Comparative Statement of Account

(Thousands of Dollars)

Dec. 31,

1995

1994

Assets

Gold certificate account	1,036,000	1,102,000
Special Drawing Rights certificate account	977,000	904,000
Other cash	37,312	33,059
Loans to depository institutions	102,800	33,295
Federal Agency obligations	209,053	342,931
United States Government securities:		
-Bills	14,533,374	16,726,325
-Notes	11,985,485	13,592,343
-Bonds	3,497,600	4,054,557
Total United States Government securities	30,016,459	34,373,225
Total loans and securities	30,328,312	34,749,451
Items in process of collection	574,032	544,324
Bank premises	158,768	155,956
Other assets:		
-Operating equipment	2,934,776	3,207,077
-Denominated in foreign currencies	47,063	38,263
-All other	692,406	1,073,067



Interdistrict Settlement Account	5,350,875	(3,685,226)
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Total assets	42,136,544	38,121,971
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Liabilities

Federal Reserve Notes	35,901,029	31,023,861
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Deposits:

-Total depository institutions-reserve accounts	4,187,535	4,938,398
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-Foreign	19,608	20,515
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-Other deposits	55,335	80,318
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Total deposits	4,262,478	5,039,231
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Deferred credit items	532,712	639,717
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Other liabilities	357,015	394,728
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Total liabilities	41,053,234	37,097,537
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Capital Accounts

Capital paid in	541,655	512,217
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Surplus	541,655	512,217
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Total liabilities and capital accounts	42,136,544	38,121,971
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The Federal Reserve Bank of San Francisco



1995 Annual Report: Earnings and Expenses

(Thousands of Dollars - Dec. 31)

Current Earnings	1995	1994
-Discounts and advances	947	611
-United States Government securities	1,979,188	1,919,419
-Foreign currencies	109,345	130,257
-Income from services	75,887	78,131
-All other	2,897	936
Total current earnings	2,168,264	2,129,354

Current Expenses:

-Total current expenses	203,454	196,427
-Less: reimbursement for certain fiscal agency and other expenses	17,577	16,058
-Net Expenses	185,877	180,369
-Cost of earnings credits	21,070	19,536

Current net earnings	1,961,317	1,929,449
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Profit and Loss

Additions to current net earnings

- Profit on prior period adjustments	--	--
-Profit on sales on U.S. Government securities (net)	239	--
-Profit on foreign exchange transactions (net)	508,919	392,452
-All other	2,412	2
Total additions	511,570	352,494

Deductions from current net earnings

-Loss on sales of U.S. Government securities (net)	--	--
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-Loss on foreign exchange transactions (net)	508,919	392,452
-All other	9,063	13
Total deductions	378,269	2,190
Net additions (+) or deductions (-)	133,301	350,304
Cost of Unreimbursed Treasury Services	(5,778)	(4,755)
Assessments by Board of Governors:		
-Board expenditures	(22,440)	(21,315)
-Federal Reserve currency costs	(30,105)	(28,180)
Net earnings before payments to the U.S. Treasury	2,036,294	2,225,503
Dividends paid	31,794	30,255
Payments to the U.S. Treasury (interest on Federal Reserve Notes)	1,975,063	2,177,906
Transferred to surplus	29,438	17,342
Surplus, January 1	512,217	494,875
Surplus, December 31	541,655	512,217

The Federal Reserve Bank of San Francisco



1995 Annual Report: Boards of Directors

- [Federal Reserve Bank of San Francisco](#)
- [Los Angeles Branch](#)
- [Portland Branch](#)
- [Salt Lake City Branch](#)
- [Seattle Branch](#)

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The Federal Reserve Bank of San Francisco

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1995 Annual Report: Twelfth Federal Reserve District



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- **Salt Lake City Branch**
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- **Seattle Branch**
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