Board of Governors of the Federal Reserve System

Annual Report to the Congress on the Presidential $1 Coin Program

July 2009

2009 Annual Report to the Congress on the Presidential $1 Coin Program

Background

Pursuant to section 104 of the Presidential $1 Coin Act of 2005 (Public Law 109-145), the Board of Governors of the Federal Reserve System is required to assess and submit a report to the Congress on the remaining obstacles to the efficient and timely circulation of $1 coins; to assess the extent to which the goals of consultations with industry representatives, the vending industry, and other coin-accepting organizations are being met; and to provide such recommendations for legislative action as the Board may determine to be appropriate.

Recent Activities and Feedback from Depository Institutions

Since our 2008 annual report, the Federal Reserve Banks (the Reserve Banks) distributed more than 355 million Andrew Jackson, Martin Van Buren, William Henry Harrison, and John Tyler Presidential $1 Coins, satisfying depository institution demand.[1] To facilitate this successful distribution, the Federal Reserve continued working with the United States Mint to refine the Presidential $1 Coin Program based on stakeholder input and experiences with previous Presidential $1 Coin releases. The Federal Reserve and the United States Mint agreed to meet with our respective coin user groups through our normal channels each year.[2] The Federal Reserve held meetings with the depository institutions with the largest cash volumes and with community bankers, as well as with armored carrier representatives, to gather feedback about demand and potential obstacles to the circulation of $1 coins.

At these meetings, industry representatives indicated that the Presidential $1 Coin Program has successfully met their needs, but that transactional demand for $1 coins has not increased since the start of the program. Depository institutions indicated that demand comes primarily from collectors, transit entities, and car wash operators. Most meeting participants did not believe that demand would increase significantly for future coin releases, with the possible exception of the coins commemorating the most popular former Presidents. Some depository institutions suggested that we lengthen the current pre-release staging period (during which banks can order and receive the coins but cannot release them to the public) from two weeks to three, to allow more remotely located branches to have the coins on hand by the public release date. These depository institutions also indicated that shortening the post-release introductory period from four weeks to three would provide sufficient time to meet their customer demand. See figure 1 below for diagrams of the current and proposed special ordering periods.

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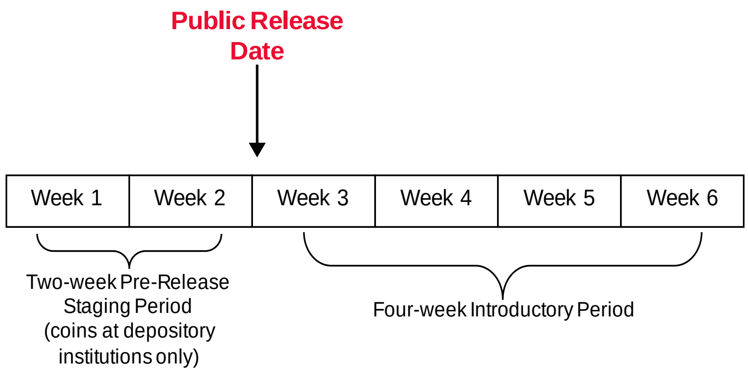
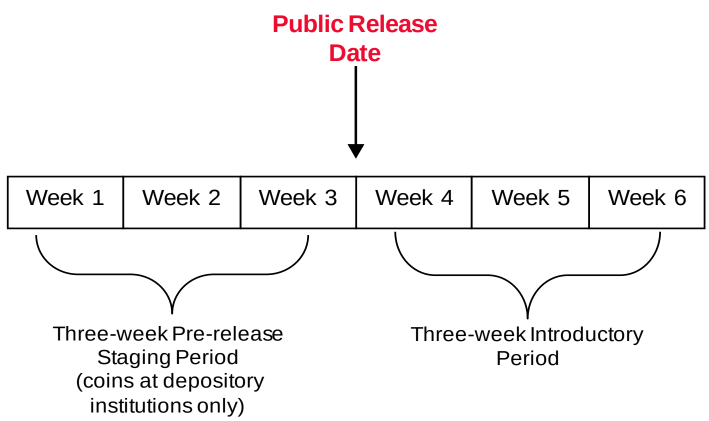
[1] The 2008 Annual Report to the Congress on the Presidential $1 Coin Program can be found at http://www.federalreserve.gov/boarddocs/RptCongress/dollarcoin/2008/dollarcoin08.htm.

[2] The Federal Reserve and the United States Mint organized and sent invitations for a July 2008 coin users group forum to discuss $1 coin issues and challenges with representatives from depository institutions with the nation's largest cash volumes and from depository institutions and armored carriers from the Washington, D.C., metropolitan area. Because potential participants showed little interest, the forum was cancelled.

Figure 1
Current Special Six-Week Ordering Period



Proposed Special Six-Week Ordering Period



We are currently evaluating this proposal for implementation in 2010; 2009 release dates, schedules, posters, and other materials have already been developed and distributed. Not only would this proposal improve the ability of remotely located depository institution branches to order and receive the coins by the release date, but it might also result in a process that better accommodates ordering patterns observed during previous Presidential $1 Coin releases. As reflected in table 1 below, depository institutions have generally placed more than three-fourths of the total orders for each new release during the first three weeks of the special six-week ordering period. The proposed change to the ordering period would accommodate these orders before the official release date.[3]

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[3] Some depository institutions suggested further reducing the post-release date ordering period to two weeks, which would still accommodate the vast majority of all current orders, and we are evaluating that option as well.

Table 1
Depository Institution Ordering Patterns

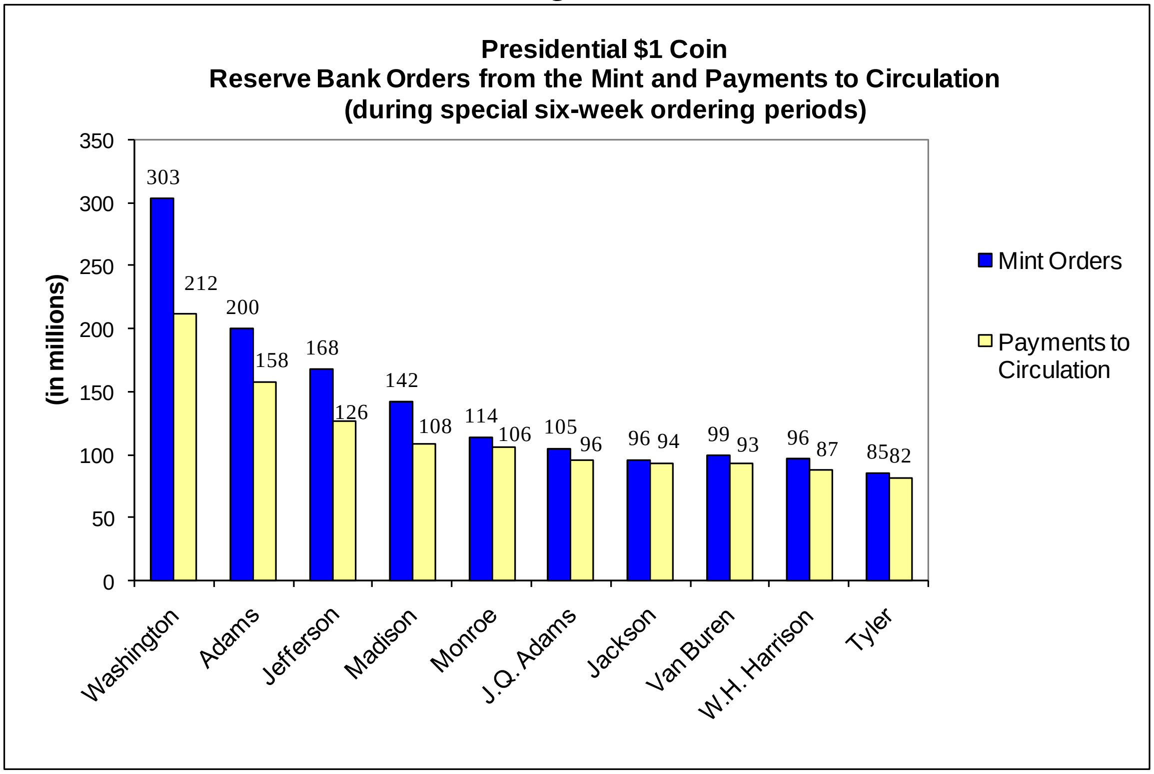
Presidential $1 Coin	Depository Institution Orders ($ Millions)	Depository Institution Orders within First Three Weeks of Order Period ($ Millions)	% of Total
George Washington	212	155	**73**
John Adams	158	132	**84**
Thomas Jefferson	126	110	**87**
John Madison	108	93	**86**
James Monroe	106	84	**79**
John Q. Adams	96	83	**86**
Andrew Jackson	94	81	**84**
Martin Van Buren	93	80	**86**
William H. Harrison	87	77	**88**
John Tyler	82	72	**88**

Depository Institution Demand Is Decreasing

As we have noted in previous annual reports, the Federal Reserve's experience with other circulating commemorative coins has shown that initial excess inventories can be reduced as long as there is significant, regular public transactional demand for them. For previous $1 coin programs, however, the Reserve Banks encountered large excess inventories for much longer periods because transactional demand was very low. The Presidential $1 Coin Program experience is consistent with those other $1 coin programs. There is no evidence to date that the current program has increased transactional demand.

The Reserve Banks have studied detailed payment and inventory data for previous Presidential $1 Coin releases at the Reserve Bank offices and off-site coin terminals, supplemented these data with feedback from depository institutions about expected demand, and developed better forecasts for each successive release. The Reserve Banks have then actively managed inventories throughout the special ordering period for each coin, relocating coins as necessary to meet demand. As figure 2 indicates, however, depository institution demand has continued to decrease.

Figure 2



Significant Growth in $1 Coin Inventories

As communicated to Congress before the start of the program, Federal Reserve Bank $1 coin inventories have increased significantly over time, even though improved forecasting and ordering practices have reduced the number of residual coins at the end of each new release period. The Reserve Banks hold the residual coins as inventory at their offices and off-site coin terminals. Additionally and more significantly, depository institutions have re-deposited a significant number of excess $1 coins with the Reserve Banks.

As shown in figure 3 and table 2, previous $1 coin supplies, plus the excess $1 coins returned by depository institutions, elevated total Reserve Bank inventories of all $1 coins to $691 million as of May 31, 2009, or about $625 million more than the Reserve Banks held before the start of the program. Current supplies represent enough $1 coins for the Reserve Banks to meet transactional demand for $1 coins for about ten years. Because of vault storage constraints and insurance limitations at coin terminals, the Reserve Banks are exploring options for long-term storage of these excess coins.

Figure 3

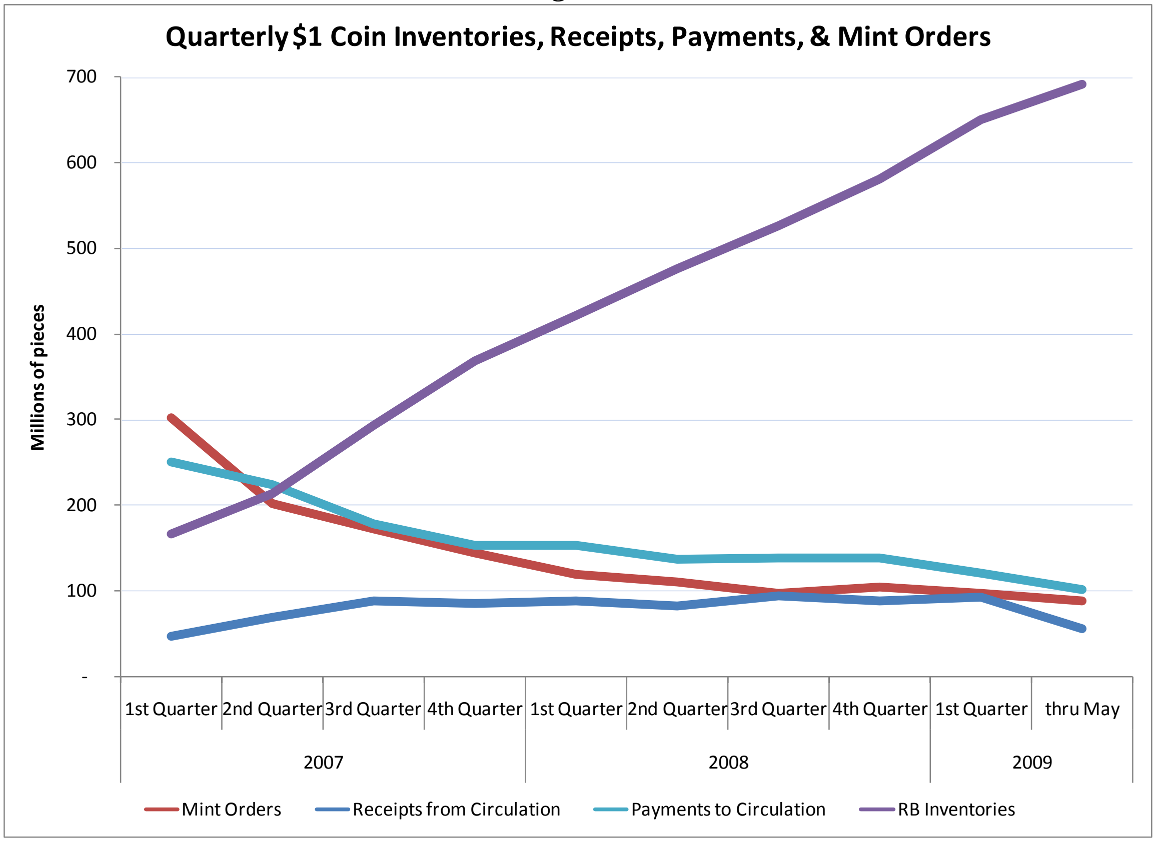


Table 2

Quarterly $1 Coin Inventories, Mint Orders, Receipts, & Payments
($ millions)

Quarter	1 Beginning Inventory	2 Mint Orders	3 Receipts from Circulation	4 Payments to Circulation	5 Ending Inventory [1+2+3-4]
Q1/2007	67	301	47	250	165
Q2/2007	165	201	69	223	212
Q3/2007	212	171	87	178	292
Q4/2007	292	144	85	153	368
Q1/2008	368	119	87	153	421
Q2/2008	421	109	82	137	475
Q3/2008	475	96	93	138	526
Q4/2008	526	104	88	138	580
Q1/2009	580	96	92	119	649
Q2/2009 (thru May)	649	87	55	100	691

Commemorative Circulating Coin Processes in Other Countries

Given Reserve Banks' inventory concerns, we note that current legislation requires the United States Mint to issue 15 new commemorative circulating coin designs in 2009, including four Lincoln Bicentennial One-cent designs, six District of Columbia and U.S. Territories Quarter designs, four new Presidential $1 Coin designs, and one new Native American $1 Coin design. As a way to gain a broader perspective on the management of commemorative circulating coin programs, we explored the experiences of other countries. We found that other G-10 countries have implemented very different processes from the United States' for commemorative circulating coins. For example, the Eurosystem countries have regulations specifying that all commemorative circulating coins should be concentrated on the 2-euro coins. Eurosystem countries have also limited the quantities of these coins that countries may issue.[4] Other countries, such as Canada, limit the issuance periods and continue to issue the traditional design simultaneously with the commemorative circulating coins. Some central banks are not involved in the distribution of commemorative circulating coins or do not accept the return of coins from depository institutions. These types of restrictions serve to minimize the number of excess coins produced by the mint or held by the central bank.

Native American $1 Coin Requirement

Our first annual report to the Congress on the Presidential $1 Coin Program included a recommendation for legislative action regarding the "Sacagawea design" $1 coin provision in the Act. The Congress later reduced the Sacagawea production requirement in the Presidential $1 Coin Act with the enactment of the Native American $1 Coin Act (Public Law 110-82). The revised Presidential $1 Coin Act, however, retains a quantitative requirement for the volume of Native American $1 Coins that the Secretary of the Treasury shall mint and issue. Given the lack of evidence to date that the Presidential $1 Coin Program will stimulate demand for $1 coins as a broad-based transactional medium, the Board remains concerned about any requirement that a specified minimum number of coins be minted and issued without regard to actual public demand.

[4] The Eurosystem countries' regulations specify that quantities are limited to the higher of the following: 0.1 percent of the total 2-euro coins in circulation, or 5 percent of the total of 2-euro coins from the issuing country.