

Federal Reserve Bank of Dallas

Annual Report to the Board of Directors

Submitted by
R. P. Gilbert, President

February 1, 1947



CONFIDENTIAL

Federal Reserve Bank of Dallas

Annual Report to the Board of Directors

Submitted by
R. R. Gilbert, President

February 1, 1947



CONFIDENTIAL

CONTENTS

	Page
Business Activity in 1946 in the Eleventh Federal Reserve District	5
Treasury Financing	8
Government Security Market.....	10
Member Bank Reserves and Related Factors.....	12
Weekly Reporting Member Banks—United States.....	14
Weekly Reporting Member Banks—Eleventh Federal Reserve District	15
Internal Operations	16
Research Activities.....	16
Legal Activities	17
Labor Union Activities.....	18
Personnel Activities	19
Retirement System	21
Pay Roll Deductions for Bond Purchases.....	22
Bank Examinations	22
Regulation of Consumer Credit.....	23
Membership in the System.....	23
Changes in Capital Stock.....	24
Nonmember Banks	25
Par Banks	25
New Bank Organizations.....	26
Bank Failures	26
Federal Reserve Credit.....	27
Federal Reserve Note Circulation.....	28
Deposits of Member Banks.....	29
Member Bank Reserve Balances.....	30
Cash Department Operations.....	31
Check Collections	31
Check Routing Symbol Program.....	32
Fiscal Agency Operations.....	33
Custodian Activities	34
Cuisine Service	35

BUSINESS ACTIVITY IN 1946 IN THE ELEVENTH FEDERAL RESERVE DISTRICT

Business activity in the Eleventh Federal Reserve District during 1946 reached boom proportions. Many of the basic postwar production and labor problems were met with much less impact upon the district's economic activity than might have been expected. Sustained high consumer demand throughout the year and substantially higher prices during the last half of 1946 contributed to the high levels which characterized most lines of business activity. Agriculture, so important in the economy of this district, also enjoyed another very favorable year. Acreage in cultivation, the volume of production of many of the important crops, and net farm income advanced to levels considerably above those reached during 1945.

Reflecting the expansion in retail sales, total sales of reporting department stores in the district were 28 per cent higher in 1946 than in the preceding year. Moreover, each month in 1946 reflected total sales of department stores substantially above the sales of the corresponding month in 1945. The cumulative increase in department store sales reached its peak, as compared with 1945, in September 1946 and then tapered off slightly, indicating, along with other indexes of retail trade, that by the end of the third quarter of 1946 the expansive factors were beginning either to lose some of their force or to be checked somewhat by the appearance of stronger restrictive factors such as partial satisfaction of backlog demand, reluctance to buy as freely at the more inflated prices, and an increasing value awareness which encouraged greater selectivity in buying with respect to quality.

An increasing use of retail credit became evident during 1946. Cash sales as a percentage of total sales of department stores declined from 52 per cent in January to 42 per cent in September and October but rose to 45 per cent by the end of 1946. Charge account ratios, on the other hand, rose from 45 per cent in January to 52 per cent in December. The use of instalment sales by department stores was comparatively unimportant and showed little variation during the year. Payment of charge accounts became less prompt as the year progressed. Early in 1946, the average collection period of charge accounts was 45 days, whereas by December it had lengthened to approximately 56 days. Despite the lengthen-

ing of the collection period, charge accounts still are being paid more promptly than before the war. The elimination of charge account control from the provisions of Regulation W on December 1, 1946 may contribute to a further lengthening of the collection period.

Merchandise stocks of department stores showed practically an uninterrupted rise throughout the year. In January 1946, the seasonally adjusted monthly index of merchandise stocks stood at 179, whereas by December it had risen to 364. On the basis of latest available figures, inventories of many soft goods in relation to sales equaled or exceeded 1941 levels. On the other hand, inventories of major household appliances continued low in the department stores of the district, despite some improvement reflected in the latter part of the year. There is considerable evidence, however, that department store buyers in the district have recognized the possibility of accumulating excessive inventories and are following a more cautious buying policy and a more active policy with respect to disposal of excess stocks.

Manufacturing employment and total nonagricultural employment in Texas increased steadily through the first three quarters of 1946. Although data are available only through October 1946, indications are that the generally favorable employment situation continued throughout the year. The postwar decline in nonagricultural employment in this area and the much sharper decline in manufacturing employment ran their courses during the first and second months of 1946. Late in 1946, nonagricultural employment in Texas was about four per cent below the wartime peak but almost 25 per cent higher than the December 1940 level, whereas manufacturing employment, although 28 per cent below the wartime peak, was 65 per cent above the 1940 level. Shortages of certain types of skilled labor and of skilled office workers still exist in some localities, although, in general, an adequate supply of labor appears to be available. Generally speaking, the southwest area seems to be in a better position with respect to the supply of labor than are some other sections of the United States.

Although data are not available to confirm the view, it appears from reports that the productivity of labor increased appreciably in this district after mid-1946. Turnover rates declined, labor attitudes improved somewhat, and a smoother flow of materials apparently permitted more efficient utilization of labor with a consequent higher productivity.

Removal of many controls upon construction late in 1945, under conditions of high demand, stimulated a substantial increase in construction activity in the district during early 1946. The value of contracts awarded for all types of construction totaled \$85,000,000 in May 1946, the highest level attained since the peak of war construction in 1942. In the same month residential contract awards reached an all-time peak of \$51,000,000. During the latter half of the year a major decline in construction activity occurred in the district. Factors contributing to the decline were the reimposition of strict controls upon nonresidential construction, highly inflated building costs, shortages of numerous essential materials, and uncertainty with respect to government policies. Notwithstanding that decline, 1946 was a boom year for the construction industry in the district, with an estimated \$570,000,000 in construction contracts awarded during the year, as compared with a prewar peak of \$450,000,000 in 1941.

Perhaps the most striking development in 1946 in the petroleum industry was the very heavy sustained demand for its products, in contrast to some expectations that petroleum requirements would be reduced substantially during the year. In the district a new all-time peak in production was reached in June 1946. Although production declined steadily during the remainder of the year, daily average production in 1946 was 50 per cent above the 1939-1940 average. Despite shortages of pipe and other materials, more wells were drilled in Texas during 1946 than in any year since 1941. Preliminary reports indicate an addition to proven reserves sufficient to offset current production.

Estimated acreage of crops harvested in Texas in 1946 was approximately 27,700,000 acres, as compared with 27,300,000 acres harvested in 1945. Substantial increases in acreage of wheat, grain sorghums, and cotton more than offset declines in corn, oats, and barley. Total acreage harvested also increased in Oklahoma and Arizona, whereas slight declines occurred in New Mexico and Louisiana.

Despite rather unfavorable growing seasons in some parts of the district, total agricultural production during 1946 was very high. Production of wheat, grain sorghums, peanuts, and Irish and sweet potatoes was considerably above average and substantially above 1945. Other crops which exceeded 1945 totals and ten-year average figures included hay, citrus fruits, and commercial truck crops. Production of cotton was less than the short crop of 1945 and equaled only about half the average production for

the ten-year period 1935-1944. The district corn crop, except in Louisiana, was slightly larger in 1946 than the small crop produced during the previous year, although the 1946 crop was substantially below average.

Movement of cattle, calves, and sheep into the Fort Worth and San Antonio markets, though fluctuating considerably with changes in prices and developments in the field of price control, was maintained at a high level during 1946, although considerably below the record volume which moved into those markets in 1945.

Value of farm crops in 1946 in Texas is estimated at \$946,000,000, or about 27 per cent above the value of the 1945 crop. Preliminary reports indicate that the value of animals and animal products produced in the State during 1946 totaled about \$200,000,000, bringing the estimated total gross value of farm products to almost \$1,150,000,000.

Prices received by farmers during 1946 generally averaged well above prices received in 1945. After the mid-summer suspension and the subsequent removal of price ceilings, prices of most farm commodities increased sharply, with prices for most classes of livestock reaching record levels. The general opinion seems to prevail that prices of many of the important agricultural products are vulnerably high and that a general softening of agricultural prices is to be expected in 1947. In support of this view, price weaknesses began to appear in the last quarter of 1946, notably, the sharp drop in cotton prices in November, the subsequent break in the butter market, and the severe decline in the prices of citrus fruits during December.

TREASURY FINANCING

The outstanding development during 1946 in Treasury fiscal operations was the retirement between March 1 and December 15, inclusive, of \$23,200,000,000 of marketable public debt. A second significant development was the continued emphasis placed upon the sale of United States savings bonds, as evidenced by the two bond promotion campaigns conducted between June 6 and July 4, and November 11 and December 7.

It became evident early in 1946 that cash receipts of the Treasury would run larger than had been anticipated; moreover, cash expenditures were reduced somewhat more sharply than earlier budget estimates indicated. It was obvious that the Treas-

ury would not need to enter the market to borrow additional funds but, on the contrary, would be in a position to use a very substantial part of its cash balances, which totaled \$25,855,000,000 at the end of February 1946, for debt retirement purposes.

Although the Treasury's debt retirement program was a flexible one in the sense that decisions were made more or less currently as the program progressed, it may be concluded that Treasury considerations involved the use of as much as possible of the Treasury's cash balances for the retirement of maturing and callable United States Government securities, emphasizing particularly the retirement by cash of as large a percentage as practicable of maturing and callable issues of Government securities held by commercial banks and the Federal Reserve banks and, secondly, the retirement by cash, if possible, of the entire amount of all maturing and callable bond issues and notes, thus reducing the total interest cost.

In the course of the Treasury's debt retirement program, 100 per cent of all bonds maturing or callable was redeemed by cash; 68.4 per cent of maturing notes and 43.5 per cent of maturing certificates of indebtedness also were retired by cash. Cash redemptions during the period of the debt retirement program totaled 51.7 per cent of the \$44,900,000,000 of matured and called Government securities.

The maturity distribution of the marketable public debt changed somewhat as a consequence of the debt retirement program. Debt due or callable within one year decreased from 35.2 per cent of the total marketable public debt on February 28, 1946 to 31.1 per cent on December 15, 1946.

In line with the policy of demonetizing the public debt to the greatest extent practicable, 51.7 per cent of the marketable Government securities redeemed by cash was held by the commercial banks, while Federal Reserve banks held approximately 20.4 per cent of such securities.

The over-all effect of the debt retirement program upon the size of the public debt was a reduction of \$23,200,000,000 in marketable public debt and a decline in the total public debt from \$279,200,000,000 to \$258,700,000,000 on December 15, 1946. The discrepancy of \$2,700,000,000 resulted from a decrease of \$700,000,000 in total nonmarketable public issues and an increase of \$3,400,000,000 in special issues. On December 31, 1946, the total gross public debt amounted to \$259,149,000,000, and the

Treasury's cash balance was approximately \$3,138,000,000. The type of issue and the amounts involved in the Treasury's debt retirement program are shown below:

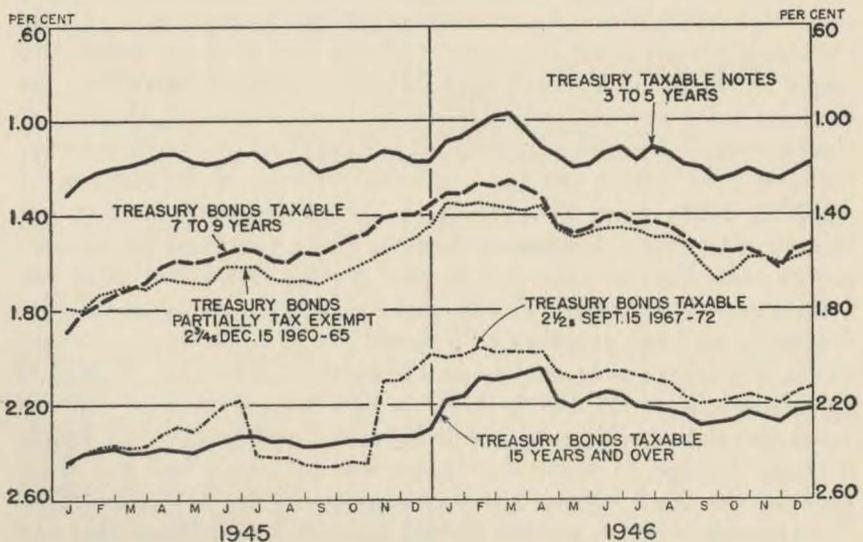
Type of Issue	Date Due or Called	(Amounts in millions of dollars)		Per Cent of Issue	Cash Redemption by Holder		
		Amount Outstanding	Amount Redeemed for Cash		Federal Reserve Banks	Commercial Banks	Other Holders
7/8 Cts.	Mar. 1	\$ 4,147	\$ 1,014	24.5	\$ 233	\$ 623	\$ 158
1.0 Notes	Mar. 15	1,291	1,291	100.0	76	1,007	208
3 3/4 Bonds							
1956-46	Mar. 15	489	489	100.0	77	213	199
7/8 Cts.	Apr. 1	4,811	1,991	41.4	547	1,018	426
7/8 Cts.	May 1	1,579	1,579	100.0	362	964	253
7/8 Cts.	June 1	4,799	2,025	42.2	247	603	1,175
3 Bonds							
1948-46	June 15	1,036	1,036	100.0	205	530	301
3 1/2 Bonds							
1949-46	June 15	819	819	100.0	87	425	307
0.90 Notes	July 1	4,910	1,994	40.6	434	1,000	560
7/8 Cts.	Aug. 1	2,470	1,246	50.6	363	594	289
7/8 Cts.	Sept. 1	4,336	1,995	46.0	740	732	523
7/8 Cts.	Oct. 1	3,440	2,000	58.1	482	1,055	463
7/8 Cts.	Nov. 1	3,778	2,000	52.9	357	1,028	615
7/8 Cts.	Dec. 1	3,768	500	13.3	0	0	500
1 1/2 Notes	Dec. 15	3,261	3,261	100.0	540	2,222	499
Total		\$44,934	\$23,240	51.7	\$ 4,750	\$12,014	\$ 6,476

Although actual figures of results obtained are not available, it is believed that the two promotion campaigns for the sale of United States savings bonds were reasonably successful. Those promotions, which were more in the character of advertising campaigns than sales campaigns, were designed to inform the public of the financial soundness of investing in United States savings bonds and the advantages to individuals in their own self-interest to increase their purchases of savings bonds and to hold such securities until maturity. Each promotion received the general support of newspapers, radio networks, magazines, banks, businesses, and civic leaders throughout the country. In this district, the cooperation of various agencies and individuals able to lend support to the promotions was very encouraging.

GOVERNMENT SECURITY MARKET

Several important developments during 1946 affected the demand for and the supply of Government securities, causing substantial fluctuations in prices. The degree of price fluctuations varied considerably among the various types of issues. For the year, average net declines of $2\frac{1}{4}$ points and $1\frac{3}{4}$ points, respectively, occurred in the intermediate and long-term partially tax-exempt Treasury bonds and taxable Treasury bonds eligible for purchase by commercial banks. On the other hand, prices of restricted issues showed an average net increase of $1\frac{1}{2}$ points.

YIELDS-U.S. TREASURY BONDS AND NOTES



During the early months of the year, circumstances created a strong demand for Government bonds which resulted in price advances. These included: general expectation that the existing System policy with respect to the maintenance of the pattern of interest rates would remain in effect, a general scarcity of offerings in the market of intermediate and long-term bonds, and the realization that no new long-term Government issues were in prospect. At the same time, the reserve positions of commercial banks were relatively easy because of the decrease in Treasury balances at the Federal Reserve banks, the decline in currency in circulation, and the increase in the monetary gold stock. Moreover, some commercial banks were borrowing from the Federal Reserve banks at the preferential discount rate in order to add to holdings of intermediate and long-term bonds.

Prices of Treasury bonds eligible for purchase by commercial banks began to ease early in March, reflecting the tightening of reserve positions caused by the initial effects of the Treasury debt retirement program and other Treasury operations and an increase in the market supply resulting from the large-scale shifts of institutional investors out of bank-eligible securities into the restricted issues. Prices of restricted bonds turned downward early in April primarily as a result of the following influences: (a) the prospects of the availability of other types of investments at more favorable

rates, (b) the difficulty experienced by nonbank investors in raising, through the sale of bank-eligible issues at favorable prices, the funds with which to purchase restricted bonds, and (c) the emphasis placed upon the amount of the Victory Loan issues that might be sold during May and June by nonbank investors. The declines were accentuated later as the result of the elimination of the preferential discount rate of $1\frac{1}{2}$ per cent on Government securities maturing within one year and the removal of the limit of $\frac{1}{4}$ point on daily price changes in the over-the-counter market. Although there were temporary recoveries in Government security prices from time to time, the market drifted downward until late November. The factors affecting the market adversely included the drain on bank reserves as a result of the debt retirement program, the increase in money in circulation, recurring rumors of the Treasury's intention to issue a new long-term $2\frac{1}{2}$ per cent bond, persistent selling of bonds held in Government trust funds, a slight firming in some short-term interest rates, and the sharp declines in stock prices late in August and in September. The Government security market turned upward late in November and continued generally firm until the end of the year.

MEMBER BANK RESERVES AND RELATED FACTORS

During 1946, estimated excess reserves of member banks throughout the nation declined by approximately \$920,000,000 as reserve balances held by such banks increased \$239,000,000 and estimated required reserves increased \$1,159,000,000. The principal factors influencing member bank reserves were transactions related to Treasury financing, changes in the volume of currency in circulation, and an expanding loan volume.

During the first quarter of 1946, the reserve positions of member banks were relatively easy and reflected the large volume of reserve-exempt war loan deposits and the return flow of currency from circulation of approximately \$630,000,000. The reserve positions of member banks tightened noticeably as a result of two factors: the withdrawal of substantial sums from the reserve-exempt war loan deposits, after the inauguration of the Treasury's debt retirement program on March 1, and the increase in the volume of currency in circulation, which became apparent in May and continued for the remainder of the year. Although Federal Reserve bank credit was utilized from time to time to moderate the effect of Treasury and currency transactions upon member bank reserves, the total Reserve bank credit outstanding on Decem-

ber 31, 1946 was approximately \$754,000,000 less than on January 2, 1946. The changes in factors affecting reserve balances are presented in the following table:

SUPPLY AND USE OF MEMBER BANK RESERVE FUNDS IN THE UNITED STATES

(Amounts in millions of dollars)				Changes that Reduced Reserves
	Dec. 31, 1946	Jan. 2, 1946	Changes that Added to Reserves	
Reserve bank credit.....	\$24,093	\$24,847		\$ 754(—)
Monetary gold stock.....	20,529	20,065	\$ 464(+)	
Treasury and national bank currency.....	4,561	4,352	209(+)	
Money in circulation.....	28,951	28,491		460(+)
Treasury cash.....	2,271	2,306	35(—)	
Treasury deposits with Reserve banks.....	393	771	378(—)	
Nonmember deposits.....	822	1,299	477(—)	
Other Federal Reserve accounts	607	497		110(+)
Total.....			\$1,563	\$1,324
Member bank reserve balances held.....	16,139	15,900		239(+)
Estimated required reserves.....	15,579	14,420		1,159(+)
Estimated excess reserves.....	560	1,480		920(—)

The Federal Reserve System's holdings of Government securities reached an all-time peak on December 11, 1946 at \$24,128,000,000, surpassing the former peak established on January 2 of the same year. During 1946, rather significant changes occurred in the composition of the Government security portfolio of the System. Treasury bills, which represented 52.6 per cent of the Government securities held by the System as of January 2, 1946, increased to 63.1 per cent of the System's holdings. On the other hand, Treasury notes declined in importance in the System's holdings of Government securities from 6.4 per cent on January 2, 1946 to 1.5 per cent by December 31, 1946. Certificates of indebtedness also declined in relative importance from 37.1 per cent to 32.1 per cent of the portfolio during the period.

These changes were the result principally of the Treasury's debt retirement program during the last ten months of 1946. A substantial amount of Treasury notes and certificates of indebtedness held by the System was retired by cash by the Treasury. In addition, as commercial banks found their reserve positions tightened somewhat as a result of the debt retirement program, the Federal Reserve banks acquired a larger amount of the available Treasury bills.

Declining from the peak reached in mid-December, the Federal Reserve System's holdings of Government securities totaled \$23,-

350,000,000 on December 31, 1946, or approximately \$741,000,000 less than the System's holdings on January 2, 1946. During the first quarter of 1946, the System's holdings of Government securities followed a steadily declining trend. During the last three quarters of the year the trend of holdings was upward, interspersed, however, from week to week with rather substantial fluctuations as the System made purchases and sales of Government securities to moderate the effect of Treasury operations upon bank reserves.

HOLDINGS OF GOVERNMENT SECURITIES BY THE FEDERAL RESERVE SYSTEM

(Amounts in millions of dollars)

Type of Security	December 31, 1946	Per Cent of Total	January 2, 1946	Per Cent of Total	Net Change
Treasury bills—total	\$14,745	63.1	\$12,660	52.6	\$ 2,085 (+)
Under repurchase option	4,906	21.0	4,681	19.5	225 (+)
Other	9,839	42.1	7,979	33.1	1,860 (+)
Certificates of indebtedness	7,496	32.1	8,941	37.1	1,445 (—)
Treasury notes	355	1.5	1,543	6.4	1,188 (—)
Treasury bonds	754	3.3	947	3.9	193 (—)
Total	\$23,350	100.0	\$24,091	100.0	\$ 741 (—)

WEEKLY REPORTING MEMBER BANKS UNITED STATES

During most of 1946, changes in the principal asset and liability items of the weekly reporting member banks¹ in the United States were influenced largely by fiscal operations of the Treasury. As the Treasury drew heavily upon its war loan deposits and utilized those funds to retire Government securities, Government deposits of the weekly reporting member banks declined very sharply. Furthermore, many banks reduced their balances with correspondents in order to obtain funds to meet the war loan calls of the Treasury.

The major changes in the asset and liability items of the weekly reporting banks between January 2, 1946 and December 31, 1946 included a decline of \$12,469,000,000 in total deposits, caused by a decline in United States Government deposits from \$16,704,000,000 to \$1,864,000,000 and a decline of \$1,562,000,000 in interbank deposits, offset by increases in adjusted demand deposits and time deposits of \$2,915,000,000 and \$1,018,000,000, respectively; a decline of \$12,645,000,000 in the weekly reporting member banks' holdings of Government securities; and an increase of \$804,000,000 in total loans.

¹Selected member banks in leading cities which report principal asset and liability items weekly to the Federal Reserve banks.

As indicated in the preceding paragraph, the weekly reporting member banks obtained the funds to meet the decline in total deposits from \$75,448,000,000 to \$62,979,000,000 by reducing their holdings of United States Government securities and by drawing on their balances with correspondent banks.

Major changes in the loan portfolios of the weekly reporting banks included an expansion of slightly more than \$3,000,000,000 in commercial, industrial, and agricultural loans and substantial increases in real estate loans and consumer loans. During the year, bank loans to brokers and dealers in securities and other loans for security trading declined very sharply from the very high level which had been reached at the end of December 1945. These two related categories of loans declined from a total of \$5,749,000,000 on January 2, 1946 to \$2,493,000,000 on December 31, 1946. That decline in security loans reflected the substantial liquidation of loans which had arisen in connection with the Victory Loan Drive late in 1945 and the elimination of margin trading.

The largest declines in weekly reporting member banks' holdings of Government securities were in United States certificates of indebtedness and United States Treasury notes, which declined approximately \$6,758,000,000 and \$5,167,000,000, respectively, during 1946. Weekly reporting member banks increased their holdings of United States Government bonds only moderately, as the total advanced from \$26,747,000,000 on January 2, 1946 to 26,902,000,000 on December 31, 1946.

WEEKLY REPORTING MEMBER BANKS—ELEVENTH FEDERAL RESERVE DISTRICT

Changes reflected in the principal asset and liability accounts of the weekly reporting member banks¹ in this district followed the same general pattern that was characteristic for all weekly reporting member banks in the United States, although the relative change varied somewhat from the national pattern with respect to certain items.

Total deposits of the weekly reporting member banks in the district declined somewhat less than was true in the case of the weekly reporting banks in 101 leading cities throughout the coun-

¹Selected member banks in leading cities of the district which report principal asset and liability items weekly to the Federal Reserve Bank of Dallas.

try, and adjusted demand deposits and time deposits increased relatively more in this district.

Loans of the weekly reporting member banks in the district increased 15.2 per cent during the year 1946, as compared with an increase of 5.1 per cent for the weekly reporting banks in the United States. Changes in holdings of United States Government securities were closely similar in the district and in the United States as a whole, but holdings of other securities by the weekly reporting member banks in the district increased 25.8 per cent, as compared with an increase of 1.4 per cent for the weekly reporting member banks in the United States.

There are presented below in tabular form principal asset and liability items of the weekly reporting member banks in this district as of January 2, 1946 and December 31, 1946, showing, in addition, the amount of change which occurred during the period and the percentage change in each item for the weekly reporting member banks in the district and in the United States:

(Amounts in Millions of dollars)	Eleventh Federal Reserve District			Percentage Change	
	December 31, 1946	January 2, 1946	Net Change	Eleventh District	United States
Deposits—total	\$2,432	\$2,806	\$374(—)	—13.3	—16.5
Demand deposits—adjusted	1,475	1,331	144(+)	+10.8	+ 7.9
United States Government deposits	50	501	451(—)	—90.0	—88.8
Interbank deposits	587	694	107(—)	—15.4	—12.7
Time deposits	320	280	40(+)	+14.3	+ 1.1
Loans	787	683	104(+)	+15.2	+ 5.1
Investments	1,080	1,496	416(—)	—27.8	—24.2
United States Government	1,002	1,434	432(—)	—30.1	—26.0
Other securities	78	62	16(+)	+25.8	+ 1.4
Balances with correspondents	250	313	63(—)	—20.1	—13.9

INTERNAL OPERATIONS

RESEARCH ACTIVITIES

During 1946, the research function of the bank was expanded to include a number of new services to the banks of the district and to business, industry, and agriculture in this area. These new services, which include the publication of a monthly *Agricultural News Letter*, the presentation of a weekly radio program, "Your Southwest Business Review," over Station KGKO, Dallas, the preparation and presentation of rather comprehensive economic and banking data in connection with a program of bankers' forums, and the improvement and expansion of the *Monthly Business Review* to include each month a special study of an economic problem of interest to this southwestern area, were possible only because of the employment and development during the year of specialists

in the various fields of economic activity. All of these projects, which were undertaken on a more or less experimental basis, have proven to be of sufficient value to warrant continuation.

There has been a noticeable increase in interest in the publications and special studies of the Research Department, reflected by an increasing number of requests for such materials not only from sources within the district but from outside. Likewise, the volume of correspondence from banks, businesses, and trade associations requesting various types of economic data and information has increased significantly. The broader services referred to in the preceding paragraph may have created an awareness in the minds of bankers and others of the research services available to them through this bank, and, consequently, may be partly responsible for the increase in the number of inquiries. Every effort has been made to handle such requests as promptly and efficiently as possible because of the public relations factors involved.

During the year progress was made on a program of personal contacts with co-operating business firms by staff members of the department, in order to improve and build up the bank's reporting series of business and credit data. A program of periodic personal contacts with a number of leading business executives in the Dallas area also has proved valuable in appraising current business trends and developments.

Statistical and research projects such as the study of operating ratios, the retail credit survey, and the analysis of the ownership of bank deposits which have been a part of the research function of this bank for several years, were continued, along with the miscellany of statistical and reporting services which the bank has supplied as a routine feature of its research activities.

The year 1946 was, in a sense, a year of experiment and staff development in the Research Department. Generally speaking, organizational changes in the department have been completed and much progress was made toward obtaining an adequate staff and in training staff members in the policies of the bank as they relate to the research function.

LEGAL ACTIVITIES

During 1946, Counsel for the bank consulted frequently with the other officers and rendered numerous written and oral opinions on various legal problems involving federal and state banking laws and regulations, negotiable instruments, state laws on inheritance and administration of estates, taxation, public depositories,

and other related legal subjects. Counsel reviewed and approved from a legal standpoint all operating bulletins issued by the bank, all insurance contracts, and all other contracts and leases executed during the year in which the bank or its branches were interested parties. Inquiries from member banks and others interested in federal laws and regulations administered by the Board of Governors and this bank were referred to Counsel, and answers to such inquiries were approved by him. All applications of banks for membership in the Federal Reserve System and of banks and others for voting permits, and all legal documents submitted in support of such applications were submitted to Counsel, who furnished written opinions regarding the legal aspects of such applications and documents in accordance with the procedure required by the Board of Governors. Similar legal opinions were furnished with respect to charter amendments and amendments to by-laws required to be submitted by state member banks for transmittal to the Board of Governors. Counsel also prepared memoranda analyzing the legal aspects of proposed federal legislation dealing with bank holding companies, industrial loans and guaranties, branch banking, and other banking problems. The bank was not involved in any lawsuits during the year, although it had a substantial interest in a representation suit filed in May with the National Labor Relations Board by the Office Employees International Union, AFL, requesting certification as the representative of the employees at the Head Office for collective bargaining purposes. Counsel consulted frequently with the bank's officers and with interested staff members of the Board of Governors on legal and practical phases of how best to protect the interests of this bank and the Federal Reserve System.

LABOR UNION ACTIVITIES

During April 1946, application cards for union membership were circulated among the employees at the Head Office by the Office Employees International Union, affiliated with the American Federation of Labor. Subsequently the bank was officially notified that the union had filed a petition with the Regional Director of the National Labor Relations Board requesting certification as representative of the Head Office clerical workers, other than supervisory employees.

During July, the Board of Governors and the union filed briefs with the National Labor Relations Board, setting forth their respective views regarding the application of the National Labor Relations Act to Federal Reserve banks.

On November 15, the National Labor Relations Board in Washington ordered an election at the Head Office on November 26, reserving to the bank the right to a full hearing on the jurisdictional and other issues before any collective bargaining agent could be certified.

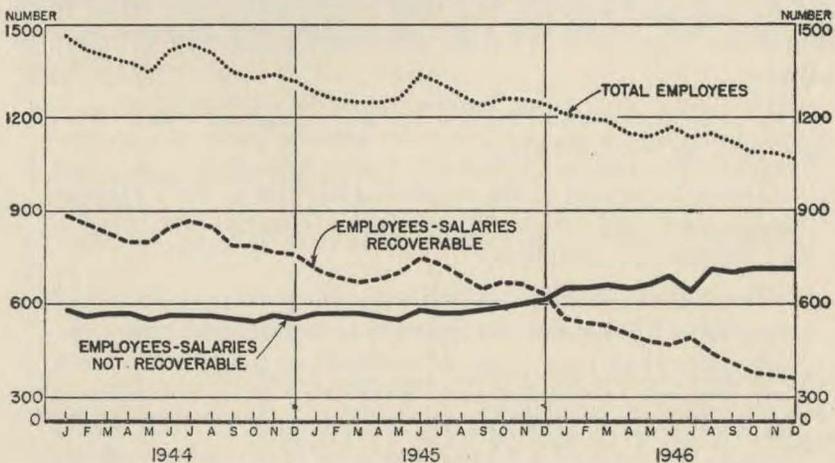
During the ten days preceding the election, a committee of employees opposed to unionization and the labor union group campaigned vigorously, distributing literature and holding several public meetings. The President of the bank issued a statement on the unionization question, which was read to employees assembled at a general meeting, and copies of his statement were mailed to employees at their home addresses.

The election resulted in 375 employees voting against the union and in 180 employees voting for the union. On December 27, the Regional Director of the National Labor Relations Board addressed a joint letter to Counsel for this bank and to the organizer for the union, stating that the Board had closed the case as of December 17, 1946.

PERSONNEL ACTIVITIES

On December 31, 1946, the personnel of this bank and its branches, including officers, totaled 1,108 employees, or a net reduction of 114 during the year. This decrease reflects a continuation of the trend in effect since August 1943, when the number of employees was at an all-time peak of 1,582. The decrease in per-

TOTAL NUMBER OF EMPLOYEES, BY MONTH, 1944-1946
FEDERAL RESERVE BANK OF DALLAS



sonnel during 1946 was made possible by the marked decline in the volume of work of the Fiscal Agency and RFC-CCC departments. In some other departments, the increased volume of work necessitated an expansion in personnel. In adjusting for the variations in the volume of work among departments, a number of shifts in the assignments of employees were made in order to retain the most proficient employees. The accompanying chart shows the trend in the number of employees during the past three years, broken down between employees whose salaries are recoverable from governmental agencies and those whose salaries are chargeable to the bank.

The bank's basic salary rates were raised substantially during 1946 through a 15 per cent general increase on May 1 and numerous merit increases granted during the year. The increases had the effect of raising aggregate annual salaries by about \$410,000. At the end of the year, the average annual salary of employees amounted to \$2,107, reflecting an increase of \$363, or 21 per cent, during the year.

The rate of personnel turnover declined to 47 per cent in 1946 from 67 per cent in 1945. A substantial improvement occurred at all four offices, but the turnover rates at El Paso and San Antonio were quite high. The declining turnover rate is attributable to the higher level of salaries and the realization by employees that with the easing of the labor situation it is more difficult to find suitable positions elsewhere at comparable salaries.

Since the Selective Service Act became effective in 1940, 285 employees, including seven employees who entered in 1946, have served in the military forces. Prior to December 31, 1946, a total of 152 returning veterans had been re-employed, but 40 of them subsequently resigned to accept other employment or to return to college.

The personnel administration has been expanded and strengthened through the following:

The enlargement of the scope of activities of the Personnel Department and the addition of new employees trained to handle the new activities.

The institution of a revised vacation policy, under which extra days of vacation are granted to officers and employees with more than nine years of continuous service. The vacation schedule, computed on a graduated basis according to years of service, provides for a maximum of four weeks' vacation for those with 25 years or more of continuous service.

The adoption of a revised insurance plan for hospitalization, medical, and surgical services, under which the bank pays two-thirds of the cost of the coverage for officers and employees and for certain of their dependents. On December 31, approximately 85 per cent of the personnel was enrolled under the plan.

The formulation of a program to analyze and evaluate each job within the bank, the results of which will constitute the basis for a new Personnel Classification Plan. This program will be completed during the spring of 1947.

The resumption of the training program for college students interested in banking as a career. During the summer of 1946, four war veterans with two or more years of college work were employed and rotated among various departments of the bank.

The reopening during December of the employees' recreation room which had been utilized for work space during the war period.

The installation of facilities through a leased wire arrangement for furnishing music in the dining rooms during the lunch period.

The establishment of a house organ and the employment of an editor.

RETIREMENT SYSTEM

The Board of Trustees of the Retirement System of the Federal Reserve banks at its annual meeting on June 5, 1946 adopted amendments to its rules and regulations providing for a liberalization of benefits for employees upon retirement. The principal changes included:

A new definition of "final average salary" to mean the ten consecutive years of creditable service during which salary was highest instead of twenty consecutive years in effect theretofore.

The removal of certain limitations on pension allowances.

Assumption by the Reserve banks of the entire cost of the prior service benefits for the period from 1934 to 1943.

To cover the liability incurred by the Retirement System as a result of these changes, the Reserve banks made a lump-sum contribution of approximately \$2,100,000, and the rates of current

contribution by the banks have been increased to an average of 9.97 per cent of total pay roll from an average of 9.35 per cent. The lump-sum contribution of this bank amounted to \$101,493, and its rate of current contribution was increased to 10.1 per cent of total pay roll from 9.5 per cent.

During 1946, four retirements were effected and one death claim was paid, bringing the number of retirements and death claims paid to 49 and 27, respectively, since March 1, 1934, when the Retirement System was instituted.

PAY ROLL DEDUCTIONS FOR BOND PURCHASES

Throughout the war period, special efforts were made to encourage officers and employees to purchase savings bonds through the pay roll deduction plan. For a long period prior to the close of the war all officers and employees were enrolled under the plan, and this bank led all other Reserve banks in the percentage of pay roll deducted for bond purchases. After the close of the Victory Loan Drive late in 1945, employees were advised that these facilities would be continued for the benefit of those who desired to utilize the plan as a means of saving regularly. It is significant that at the end of 1946, about 56 per cent of the officers and employees was enrolled in the plan, and authorized deductions were at a rate of 6.5 per cent of pay roll. During the year, total deductions for bond purchases aggregated \$179,000, or \$68,000 less than in 1945. Since the pay roll deduction plan was inaugurated in April 1941, purchases of savings bonds by officers and employees of the bank have aggregated \$1,213,000.

BANK EXAMINATIONS

The expansion in state bank membership, examinations of applicants for membership, and investigation of applicants desiring to organize national banks have had the effect of increasing the activity of the Examination Department of the bank. During 1946, the staff made 145 examinations, as compared with 127 during 1945. A summary of activities during 1946 is shown in the following table:

	<i>Independent Examinations</i>	<i>Joint Examinations with State Authorities</i>	<i>Investigations</i>
State member banks.....	2	118	0
State bank applicants for membership.....	1	2	6
Separate trust departments.....	1	10	0
Applications to organize national banks.....	0	0	5
Total	4	130	11

During 1946, two member banks in this district were granted authority to exercise trust powers. At the end of the year, 87 national banks and 14 state member banks held that authority.

This bank sponsored its second annual forum for bank supervisory authorities in the Eleventh Federal Reserve District on December 6, 1946. Subjects of broad general interest to bank supervisors and examiners were presented by recognized authorities in the fields of business and economics. These forums, in addition to their educational value, assist in maintaining good relations with other bank supervisory agencies and in generating a better understanding of mutual problems. They also provide an occasion for becoming better acquainted with staff members of the various agencies, which is an aid in the smooth and effective handling of such problems.

REGULATION OF CONSUMER CREDIT

In the spring of 1946, the Board of Governors, in co-operation with the Federal Reserve banks, inaugurated a program to amplify and strengthen the administration of Regulation W and the enforcement of its provisions. The important features of this program included: (1) maintaining continued co-operation of state and federal supervisory authorities with respect to lenders under their respective jurisdictions and (2) an increase in the number of registrants investigated. The policy of endeavoring to obtain compliance with the provisions of the regulation through educational measures has been continued.

In carrying out its administrative responsibilities, this bank, through its field investigators, visited 2,057 business enterprises to see that they were complying with the provisions of the regulation. In the case of the relatively few registrants found to be violating willfully the provisions of the regulation, appropriate action was taken to obtain compliance.

Effective December 1, 1946, the Board of Governors revised Regulation W, narrowing its scope by confining it to instalment credit, including that arising from purchases of major durable goods.

MEMBERSHIP IN THE SYSTEM

In the Eleventh Federal Reserve District, 11 state banks and four national banks, of which nine were newly organized institutions, were admitted to membership in the Federal Reserve System during 1946:

<i>Bank</i>	<i>Location</i>	<i>Deposits December 31, 1946</i>
First State Bank of Odem.....	Odem, Texas	\$ 838,000
Commercial State Bank of El Campo.....	El Campo, Texas.....	4,695,000
The San Benito Bank & Trust Company.....	San Benito, Texas.....	7,085,000
First State Bank of Corpus Christi ¹	Corpus Christi, Texas..	4,834,000
Citizens State Bank ¹	Broken Bow, Okla.....	597,000
Roswell State Bank ¹	Roswell, New Mexico..	944,000
College Station State Bank ¹	College Station, Texas	835,000
East End State Bank ¹	Houston, Texas	2,180,000
Gruver State Bank ¹	Gruver, Texas	706,000
Fidelity Bank and Trust Company.....	Houston, Texas.....	1,334,000
The Grant County State Bank ¹	Bayard, New Mexico....	213,000
National City Bank of Dallas ²	Dallas, Texas.....	39,751,000
Oak Lawn National Bank of Dallas ¹	Dallas, Texas.....	1,750,000
Fair Park National Bank of Dallas ¹	Dallas, Texas.....	(Not open for business)
The Farmers National Bank of Rule ³	Rule, Texas	1,447,000

¹Primary organizations

²Conversion of state member bank

³Conversion of state nonmember bank

Due to conversions, consolidations, and liquidations, membership in the Federal Reserve System in this district during the year showed a net increase of 10 banks and, on December 31, 1946, totaled 596 banks, consisting of 468 national banks and 128 state banks. The state bank membership in this district is now at the highest level since 1924 and ranks sixth among Federal Reserve districts.

The net increase of ten banks in state bank membership during 1946 was the largest of any Federal Reserve district and constituted 40 per cent of the net increase for the System; moreover, inquiries from eligible state banks indicate that a further sizable increase may occur during 1947.

CHANGES IN CAPITAL STOCK

The paid-in capital stock of the Federal Reserve Bank of Dallas reached a new all-time peak of \$6,865,350 on December 31, 1946, a net increase of \$858,200 during the year. The new member banks admitted to the System purchased capital stock of this bank totaling \$59,800; 295 other member banks increased their holdings of capital stock of this bank by \$803,600 as a consequence of increases in their capital and surplus accounts. During the year, cancellations of capital stock of this bank aggregated \$5,200,

occasioned by the voluntary liquidation of two former member banks and reductions in the capital structures of two member banks.

Purchases of additional stock by existing member banks, which accounted for most of the increase in the capital stock of this bank, indicate that about one-half of our member banks increased their own capital and surplus accounts during 1946. In recognition of the need for strengthening their capital structures, numerous banks sold substantial amounts of new stock to the public, and banks generally followed conservative dividend policies.

It is interesting to note that the net increase during 1946 was nearly as large as the bank's total paid-in capital stock of \$921,800 on the opening date of November 16, 1914. The paid-in capital stock of the bank has increased each year during the 32 years of its existence except in the depression years of 1932 and 1933, when member bank failures, liquidations, and capital re-adjustments had the effect of reducing this bank's paid-in capital by about \$400,000.

NONMEMBER BANKS

Nine nonmember state banks in this district, including one conversion from a national bank, began operation during 1946:

<i>Bank</i>	<i>Location</i>
The Carrollton State Bank.....	Carrollton, Texas
Greenville Avenue State Bank.....	Dallas, Texas
Merchants State Bank.....	Dallas, Texas
Riverside State Bank.....	Fort Worth, Texas
The Port City State Bank.....	Houston, Texas
Nederland State Bank.....	Nederland, Texas
Jefferson State Bank.....	San Antonio, Texas
First State Bank.....	Silverton, Texas
First State Bank.....	Thornton, Texas

The effect of these additions upon the total number of nonmember banks was offset largely by consolidations, liquidations, and admissions to membership in the Federal Reserve System. On December 31, 1946, there were 385 nonmember banks in the district, or only two more than at the end of 1945.

PAR BANKS

On December 31, 1946, 867 active commercial banks in the district, or 19 more than a year earlier, were remitting at par for checks drawn on themselves. The trend toward par clearance in the district is indicated by the fact that during 1946 all newly organized banks and six former nonpar banks agreed to remit at

par. During 1945, the Board of Governors and the Federal Reserve banks adopted a stronger enforcement policy with respect to the absorption of exchange charges, and, as a result, the banks in the larger cities have discontinued that practice. Since many of the business organizations receiving checks on nonpar banks now require the drawer of a check to pay any exchange charge that is made, local pressure is exerted upon such banks to pay at par the checks drawn upon them. At the end of 1946, the number of nonpar banks in the district had been reduced from 120 to 113, consisting of 62 banks in Texas, 49 banks in Louisiana, and two banks in Oklahoma.

NEW BANK ORGANIZATIONS

A total of 143 newly organized banks throughout the United States, excluding successions and conversions, opened for business during 1946, as compared with 118 during 1945. The Chicago and Atlanta Federal Reserve Districts had the largest number of new organizations during 1946, with 30 and 29, respectively. This district had 16 new organizations. The absence of and need for banking facilities in certain communities, the desire for additional banking facilities in other communities, and the favorable earnings record of banks generally during the past few years doubtless have been the principal factors motivating new bank organizations. In an effort to avoid the development of an over-banked condition, bank supervisory authorities continued to analyze carefully each application for a new charter in order to satisfy themselves as to the capital adequacy of the proposed bank, the need for the facilities, the character and financial responsibility of the organizers and proposed management, and the future prospects for success.

BANK FAILURES

It is significant that 1946 represented the fifth consecutive year in which there were no bank failures in this district and the second consecutive year in which no bank suspensions were reported in the United States. During the six-year period since 1940, only 22 bank failures, including one in this district, have occurred in the United States. In that period, however, the prosperity of business enterprises generally, the rising price level, the increase in incomes of individuals, and the increases in bank deposits and in holdings of Government securities have combined to decrease the losses on new loans, to permit recoveries on large amounts of charged-off assets, and to increase the earnings of banks generally. The tempering of some of the hazards ordinarily involved in bank operations undoubtedly has contributed to the favorable record with respect to

bank failures. Under present and prospective conditions, with the attendant increases in the hazards of operating business enterprises and of meeting demands for credit, the problems of maintaining sound banking conditions and of preventing the development of troublesome situations will become more difficult.

FEDERAL RESERVE CREDIT

Member banks in the district increased substantially during 1946 the use of Federal Reserve credit through both direct borrowing and the sale to this bank of Treasury bills under repurchase option. Some of the contributing factors were the withdrawal of most of the large war loan deposits held at the beginning of the year, the general expansion in member bank loans to customers, and the increase in the investment holdings of country banks. These factors generated a large-scale shifting of funds, which had its principal impact upon the larger banks that held the major portion of war loan and interbank deposits. The country banks generally met the demand for funds through the withdrawal of balances from correspondents. The general effect was a large and fairly continuous decline in deposits at most of the larger banks which found it necessary to make substantial reductions in investments, large withdrawals from their balances with correspondents, and some use of Federal Reserve credit. In consequence, 16 member banks borrowed intermittently from this bank an aggregate of \$81,000,000, largely for the purpose of adjusting their reserve positions during periods of temporary deficiencies in funds. Borrowing was most pronounced during the later months of the year, when the cumulative effects of the several factors had their greatest impact upon bank reserves. On November 19, member bank borrowings reached the year's peak at \$9,275,000. In addition to the direct borrowings, 40 banks exercised the privilege of selling to this bank Treasury bills under repurchase option. During the year these banks sold to this bank Treasury bills amounting to \$714,495,000 at a rate of $\frac{3}{8}$ per cent discount per annum, of which \$595,983,000 were repurchased and \$129,581,000 were redeemed by this bank at maturity. At the end of the year the bank held Treasury bills amounting to \$16,600,000 under repurchase option, as compared with \$27,669,000 at the end of 1945.

During 1946, this bank's participation in Government securities held by the System Open Market Account averaged \$877,000,000, as compared with \$762,000,000 in 1945. It is the practice of the Federal Open Market Committee to carry interest-bearing securities on its books at face value. When such securities are purchased

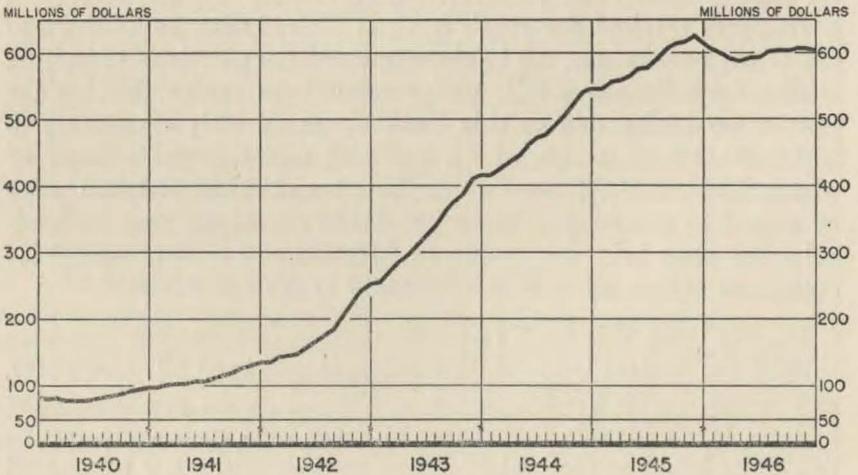
in the open market at premium prices, the premiums are set up in a separate asset account and amortized over the life of the securities. The amounts of the outstanding premium balance in the System Open Market Account and in this bank's participation in it are shown below.

<i>Date</i>	<i>Premium Balance in System Account</i>	<i>This Bank's Participation in Premium Balance</i>
December 31, 1945.....	\$13,574,000.00	\$593,819.58
December 31, 1946.....	9,920,569.54	496,097.93

FEDERAL RESERVE NOTE CIRCULATION

Federal Reserve notes of this bank in circulation, which had expanded sharply during the war period and had reached an all-time peak of \$627,000,000 in mid-December 1945, returned to a more normal pattern of seasonal fluctuation during 1946. The return flow of currency from circulation during the early months of 1946 reduced the total to approximately \$587,000,000, or by about \$40,000,000 under the all-time peak. In subsequent months the usual seasonal expansion in circulation occurred, reaching a high for the year of \$613,000,000 early in November, but by the end of the year the total had declined again to about \$604,000,000. This amount was \$14,000,000 below the total at the end of 1945.

FEDERAL RESERVE NOTE CIRCULATION
FEDERAL RESERVE BANK OF DALLAS



There were marked changes during the year in the circulation of the several denominations of Federal Reserve notes. The sharp increase in the circulation of notes of the \$100 denomination suggests that the hoarding of currency, which apparently has continued in substantial volume, was principally in this denomination after the Treasury Department in May 1945 requested financial institutions to make reports to the Federal Reserve banks on unusual currency transactions, particularly those involving large denomination currency. The principal decline occurred in the circulation of notes of denominations of \$20 and under. The sharp decline in the circulation of the \$5 denomination was due to the fact that the Treasury Department was able to supply sufficient amounts of \$5 silver certificates to meet the demand for that denomination. The following table shows the circulation of Federal Reserve notes of this bank by denomination as of the close of 1946 and 1945:

<i>Denomination</i>	<i>Amount in Circulation</i> <i>(In thousands of dollars)</i>		<i>Net Change</i>
	<i>December 31, 1946</i>	<i>December 31, 1945</i>	
\$ 5	\$ 15,739	\$ 37,134	\$ 21,395 (—)
10	137,882	152,053	14,171 (—)
20	230,734	245,679	14,945 (—)
50	45,329	42,542	2,787 (+)
100	138,180	107,175	31,005 (+)
500	15,114	13,409	1,705 (+)
1,000	20,905	20,373	532 (+)
5,000	140	155	15 (—)
10,000	290	320	30 (—)

It is significant to note that the combined circulation of Federal Reserve notes of all Federal Reserve banks showed a net increase of \$310,000,000 during 1946. The note circulation of the Federal Reserve Banks of Atlanta, Dallas, and San Francisco declined substantially, partially offsetting the increases at other Federal Reserve banks. The decline at the San Francisco bank amounted to approximately 11 per cent, while at the Atlanta and Dallas banks the decline was only about 2½ per cent.

DEPOSITS OF MEMBER BANKS

The total deposits of member banks in this district, after having shown a very rapid expansion during the war period, turned downward during 1946. Principal factors contributing to the decline

were Treasury withdrawals of war loan deposits, which were utilized to retire outstanding Government securities held largely by commercial and Federal Reserve banks; reduction of interbank deposits; and a large net out-of-district movement of funds on account of commercial transactions. Total deposits of member banks in the district during December averaged \$5,344,000,000, or \$217,000,000 lower than the average for December 1945, notwithstanding substantial increases in the deposits of individuals and corporations and of states and political subdivisions.

The net decline in deposits during the year was more than accounted for by the decrease at reserve city banks, where the impact of the Treasury's debt retirement program was most pronounced. Despite the decline of interbank and war loan deposits at country banks, total deposits at those banks during December averaged about \$60,000,000 higher than in the closing month of 1945.

Time deposits at both classes of banks continued to expand during 1946, though at a slower rate than during the preceding year.

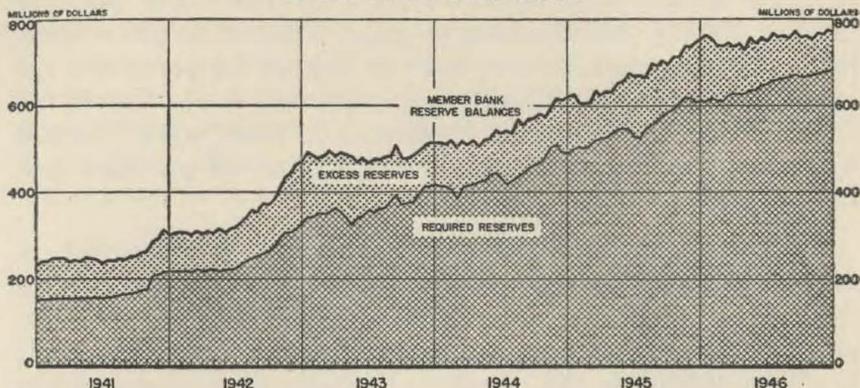
MEMBER BANK RESERVE BALANCES

The reserve balances of member banks in the district fluctuated within comparatively narrow limits during 1946. The average of such balances during December amounted to \$772,000,000, or only \$23,000,000 higher than during December 1945. The net increase during 1946 was the smallest shown during any year since 1940. Factors limiting the rise in reserve balances during the year were the general contraction in deposits of member banks and the trend among banks toward fuller employment of available funds.

The sharp reduction in reserve-exempt war loan deposits and a substantial increase in private deposits, which required reserves, brought about a gradual, though significant, increase in the required reserves of member banks.

During December, required reserves averaged \$680,000,000, or \$70,000,000 greater than in December 1945. In consequence, the excess reserves of member banks averaged only \$91,000,000 in December 1946, as compared with \$138,000,000 in December 1945. Nevertheless, excess reserves of member banks in this district continue relatively high in comparison with those of banks in other Federal Reserve districts.

MEMBER BANK RESERVE BALANCES, REQUIRED RESERVES AND EXCESS RESERVES
ELEVENTH FEDERAL RESERVE DISTRICT



CASH DEPARTMENT OPERATIONS

The changes in the principal operations of the Cash Department during 1946 as compared with 1945 are set forth below:

Incoming and outgoing shipments of currency and coin numbered 73,329, or slightly more than during 1945.

The number of notes received and counted totaled 106,339,000, an increase of 1,486,000 over the number in 1945.

The number of coins received and counted totaled 150,000,000, or an increase of 35 per cent over the preceding year.

The number of wire transfers of funds handled totaled 69,000 involving \$12,000,000,000. These figures represent increases of 16 and 14 per cent, respectively, over those for 1945.

Securities held in custody for member banks and others amounted to \$944,000,000 on December 31, 1946, or a net decrease of \$428,000,000 during the year. The decrease reflected chiefly the withdrawal by banks of collateral pledged to secure war loan deposits, which declined sharply during the year.

The number of interest coupons clipped totaled 157,000, an increase of 8,700 as compared with 1945.

CHECK COLLECTIONS

The volume of check collections reached a new peak in 1946, this being the fourteenth consecutive year in which the volume of

transactions has exceeded that of the preceding year. During the year, the Transit departments of the Head Office and branches handled 105,000,000 checks aggregating \$31,300,000,000. These totals represent increases over those in 1945 of 9.5 per cent in the number of items and 16.3 per cent in amount. A new record for one day was established on November 8, 1946, when 733,000 items were handled, or 198,000 more than on the previous peak day recorded in 1944.

The above figures do not reflect fully the over-all expansion in the departments' activities, since substantial increases occurred in those classes of items which require multiple handling, while decreases occurred in certain classes of items requiring single handling. Although the number of Government paper checks handled, totaling 18,545,000, was 19 per cent less than in 1945, the number of Government card checks, payable through this bank, which require several operations, increased to 6,100,000, representing an increase of 47 per cent.

CHECK ROUTING SYMBOL PROGRAM

In June 1945, a new plan involving a routing symbol to be imprinted on checks of all par remitting banks was introduced to the banking system. The plan, sponsored jointly by the American Bankers Association and the Federal Reserve System, has as its purpose the simplification of check collection, thereby increasing the efficiency and speed of collecting out-of-town checks. The symbols, constituting a series of numbers, readily identify the Federal Reserve bank or branch at which checks of a given bank are receivable for collection. As the use of the plan becomes more general, it is anticipated that banks and the public will gain benefits through reduced float, fewer sorting and routing errors, and quicker return of unpaid items. A systematic educational and promotional campaign has been carried on, particularly among bankers and printers of bank stationery, in order to induce as many par banks as possible to imprint the symbol upon their respective checks. A recent survey indicated that 93 per cent of the par banks in this district now have the symbols imprinted on some of their checks, and 32 per cent of the checks passing through the four offices of this bank had the symbols in the location suggested by the American Bankers Association. It is hoped that through continued educational work the entire check collection system can be converted to the routing symbol plan in the latter part of 1947.

FISCAL AGENCY OPERATIONS

Fiscal Agency operations of this bank were on a greatly reduced scale during 1946, reflecting the termination of organized war loan drives and the absence of offerings of new issues of marketable Government securities. In consequence, the organization of the department was readjusted downward in accordance with the volume and scope of current activities. The principal activities relating to Government securities performed during 1946 included:

Handling of weekly offerings of Treasury bills to refund maturing issues, with the volume of transactions down about 32 per cent from 1945.

Allotting of \$617,000,000 of certificates of indebtedness on exchange subscriptions and redeeming \$707,000,000 of maturing issues.

Redeeming of Treasury bonds and notes aggregating \$299,000,000.

Selling of United States savings bonds aggregating \$225,000,000 and Treasury savings notes amounting to \$44,300,000, reflecting decreases of 52 per cent and 72 per cent, respectively, from the volume during 1945.

Redeeming of savings bonds totaling \$322,000,000, an increase of 19 per cent over 1945, and of Treasury savings notes aggregating \$163,000,000, or about the same amount as during 1945.

Holding for safekeeping the savings bonds of individual owners. On December 31, such holdings totaled 176,500 savings bonds with a maturity value of \$15,800,000, as compared with holdings of 192,000 savings bonds having a maturity value of \$17,500,000 at the end of 1945. The net reduction was occasioned by the withdrawal of 58,200 savings bonds and the deposit of 42,700 other savings bonds.

Verifying deposits of registration stubs covering the issuance of Armed Forces leave bonds by Army finance officers in this district and, to a limited extent, issuing and redeeming such bonds.

The number of institutions in the district qualified as issuing agents for Series E savings bonds on December 31 totaled 1,261, or a decline of 679 during the year. The institutions terminating their qualifications as issuing agents were chiefly nonfinancial

businesses. It appears, however, that business institutions generally have retained for the benefit of employees the pay roll deduction plan for the systematic purchase of savings bonds. On December 31, there were 944 agents in the district qualified to pay savings bonds, a slight increase over 1945. During 1946, this bank received \$177,700,000 of withheld taxes from 555 banks in the district which had qualified as depositories.

CUSTODIAN ACTIVITIES

The custodian activities of the RFC-CCC Department during 1946 included:

Performing of work in connection with releasing lessees from accountability for physical assets under the Defense Plant Corporation's Agreement of Lease. As the lessees' and the corporation's engineers made physical inventories of the 82 defense plants in the district and prepared assets property records, these records were reconciled with the inventory records maintained by this bank. About one-third of the work had been completed by the end of 1946, when the activities being performed by this bank were terminated.

Servicing of loans to business enterprises made under the RFC blanket participation agreements. Prior to December 31, 1946, 298 banks in the district had executed agreements with the RFC, under which 522 loans had been made.

Servicing of business enterprise loans made to veterans under the Servicemen's Readjustment Act of 1944. On December 31, 1946, 536 such loans, aggregating \$1,677,000, were outstanding in this district. About 10 per cent of such loans had to be taken over by the Reconstruction Finance Corporation, which either sold the mortgaged property or made demands under the guaranties executed by the Veterans Administration.

Purchasing and servicing for the RFC Mortgage Company of veterans' home loans which are guaranteed or insured by the Veterans Administration.

Paying of premiums to producers of structural clay products, merchants gypsum liner, hardwood flooring, pig iron, and cast iron soil pipe for speeding up the production of materials for the construction of housing for veterans. The volume of such payments was relatively small in this district.

During 1946, notes in the amount of \$34,880,000, acquired under the 1944 and 1945 Government loan programs and secured by 356,500 bales of cotton, were repaid by producers and the cotton was released to them. Cotton producers' notes aggregating \$1,115,000, secured by 9,700 bales of cotton from the 1946 crop, were received during the latter part of the year. On December 31, this bank held notes aggregating only \$1,094,000, secured by 9,500 bales of cotton. During 1946, the bank paid Certificates of Interest having a value of \$14,466,000 which had been issued to lending agents in connection with loans made against cotton produced in 1944 and 1945. A total of 155,000 bales of cotton was reconcentrated during the year, and storage charges were paid on 84,000 bales held in warehouses.

CUISINE SERVICE

During 1946, the expense of operating the bank's dining room service totaled \$86,448, as compared with \$74,118 in 1945, although 7,300 fewer meals were served. The salaries paid to employees, plus the bank's contributions to the Retirement System, accounted for the major share of the increase in total expense, and the cost of food, which averaged about 29 cents per meal, increased approximately 15 per cent. Since total receipts for meals served amounted to only \$48,452 during 1946, this bank absorbed about \$38,000, or 44 per cent, of the total expense, as compared with 33 per cent in 1945. In May 1946, the Board of Governors authorized the Federal Reserve banks to absorb a maximum of 50 per cent of total cafeteria expense in comparison with a maximum of 33 $\frac{1}{3}$ per cent in effect previously.

