

*Federal Reserve Bank of Richmond*



*1914-1989*

*1989 Annual Report / 75th Anniversary*



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Valentine Museum, Richmond, Virginia

The first location of the Federal Reserve Bank of Richmond (far right)

75th Anniversary



1914-1989

## Federal Reserve Bank of Richmond 1989 Annual Report

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## Message from the Chairman and the President



Robert P. Black  
President

Hanne Merriman  
Chairman of the Board

**W**e are pleased to present the 1989 *Annual Report* of the Federal Reserve Bank of Richmond.

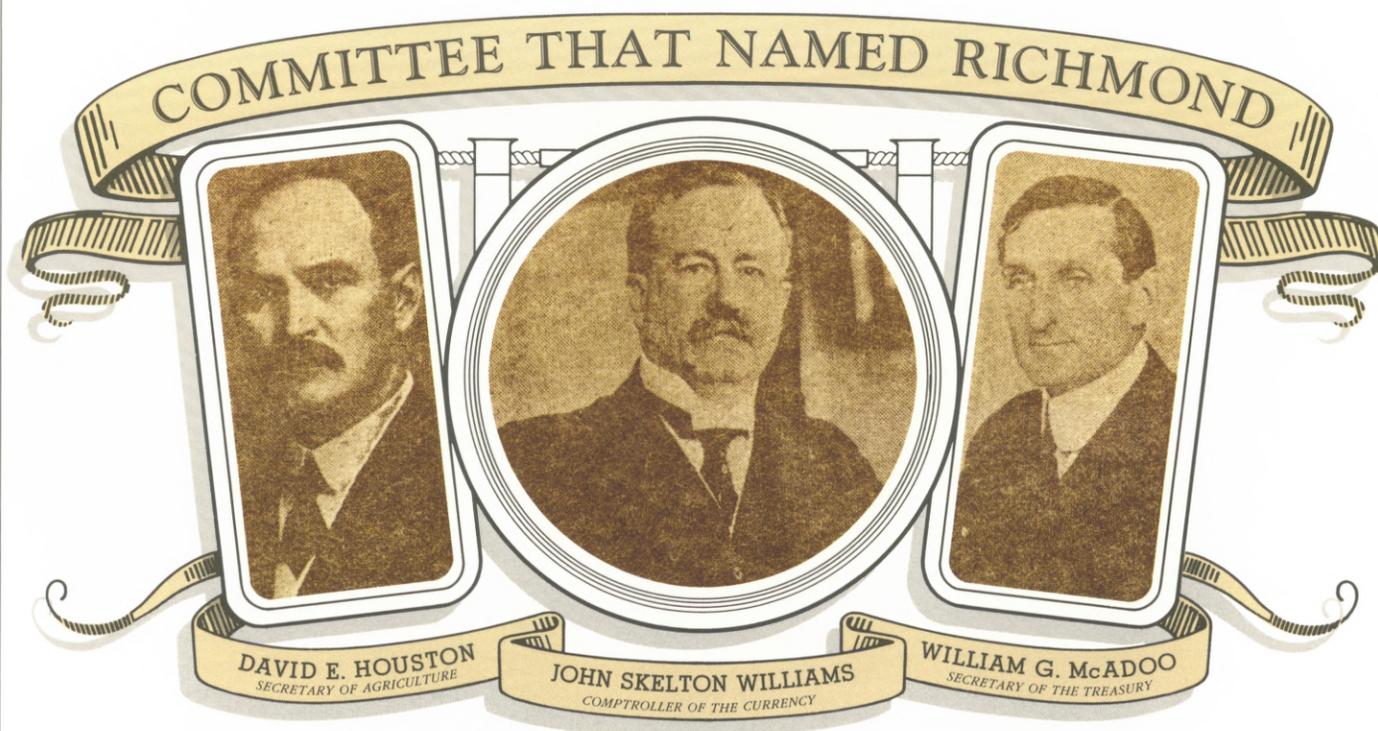
This *Annual Report* commemorates the Bank's 75th anniversary. In the anniversary spirit, we turn attention from the issues that we encounter daily to those that confronted our counterparts during the Bank's early years. In the feature article, author James Parthemos relates how George Seay, the Bank's first chief executive officer, led the District's bond drives to finance World War I, helped define the roles of the Reserve Banks, and directed District efforts to improve the nation's payments system. The article serves to remind us that the Reserve Banks have always contributed importantly to the many functions of the Federal Reserve System.

The Bank's highlight of 1989 was the completion of the new building in Charlotte. New buildings have now replaced the three original buildings constructed for Fifth District offices in Richmond, Baltimore, and Charlotte. The old buildings are featured on page 18, and the new ones on page 28.

On behalf of the directors and staff, we thank you and your predecessors for the support and cooperation that you have given the Bank over these past 75 years.

*Hanne Merriman*  
Chairman of the Board

*Robert P. Black*  
President



## *The Federal Reserve Bank of Richmond: Governor Seay and the Issues of the Early Years*

James Parthemos

**T**he choice of Richmond as a Federal Reserve city was greeted with jubilation by the civic leaders of the old capital of the Confederacy. For three months they had waged a carefully orchestrated campaign to convince the Reserve Bank Organization Committee, established to select the sites for the new Reserve Banks, of the superiority of Richmond's claims over those of such competing cities as Washington, Baltimore, Charlotte, and Columbia. The chief architect of that campaign was George J. Seay.

For Seay, the choice of Richmond, announced on April 2, 1914, was a great personal triumph. He had worked tirelessly in the campaign to bring the Reserve Bank to Richmond. The city's petition to the organization committee and its supporting brief were largely his work. He had made the principal oral presentation before the committee in January 1914 and had prepared the revised written brief presented to the committee in the following month. With other Richmond leaders, he had toured the Carolinas in an effort to mobilize support among bankers and business leaders in those states. He had prepared an extensive brief countering efforts by Baltimore leaders to reverse the choice of Richmond. Seay's contributions were recognized and lauded, even among the leaders of rival campaigns. The compelling arguments presented in his brief to the organization committee were widely credited as the crucial factor in the decision to locate the Reserve Bank in Richmond.



George J. Seay

**G**eorge J. Seay was born in Petersburg, Virginia, in March 1862. He was educated in the public schools of Petersburg, winning first honors on graduation from high school. Seay had no college training. At 17, he accepted employment as a runner at the Petersburg Savings and Insurance Company. His talents were quickly recognized, and he rose rapidly in the organization. He served that institution for 24 years, the last nine as cashier. In 1902 he was elected president of the Virginia Bankers Association. He resigned from the Petersburg institution in 1903 to become a partner in the Richmond banking house of Scott and Stringfellow. He remained in that post until 1909, leaving in that year to devote himself to independent study of banking reform and railroad finance, subjects that had commanded his interest for most of his adult life.

Seay was especially interested in the movement for banking reform at the turn of the century and had followed closely the various reform proposals. He published a pamphlet on the Fowler and Aldrich bills and was said to have "devoted many months' study to the Federal Reserve Act during its progress in Congress." While the record indicates that he retired in 1909, at the age of 47, it is likely that he maintained some connection with one or more local businesses between 1909 and 1913, perhaps in a consultative capacity. On December 28, 1913, he was retained by the Committee on Locating a Federal Reserve Bank in Richmond to put together a case for the city's petition to the organization committee.

Following the choice of Richmond as a site for one of the Reserve Banks, Seay, amid plaudits for his con-

tributions, was widely regarded as a likely candidate for a high post in the new institution. He was recommended by a former employer as a man "... of absolute integrity and high character, perfect habits and of great industry and energy, with an efficiency, capacity and ability in banking matters which I have never seen surpassed, and rarely equalled in many men of his age." This employer deemed him "eminently qualified" for the position of manager of the Reserve Bank.

The Richmond Reserve Bank was incorporated on May 18, 1914. On the same day, representatives of some 210 banks from the Fifth District met in Richmond to discuss procedures for electing three Class A directors, representing the banking community, and three Class B directors, representing industry, commerce, and agriculture. This gathering was without authority to elect directors, but it nevertheless proceeded to offer a preferred slate of candidates which included Seay's name as a Class B director. This slate was later elected through the elaborate election procedure prescribed in the Federal Reserve Act. While in January Seay had indicated to the organization committee that he had "no business or financial connection," in executing the oath of office as director in August he described himself as "Vice Pres't U.S. Tobacco Co. and RR and Financial Statistician and Expert."

Selected with Seay in the Class B category were David R. Coker, of Hartsville, South Carolina, and James F. Oyster, of Washington, D.C. The Class A directors were Waldo Newcomer, of Baltimore; J. F. Bruton, of Wilson, North Carolina; and Edwin Mann, of Bluefield, West Virginia. Three Class C directors, representing the general interest, were appointed later by the Federal Reserve Board. They were William Ingle, of Baltimore, designated Chairman and Federal Reserve Agent; James A. Moncure, of Richmond, designated Deputy Chairman and Deputy Federal Reserve Agent; and M.F.H. Gouveneur, of Wilmington, North Carolina. At its first meeting, on October 5, the board of directors elected Seay to be the Bank's first governor, as the chief executive officer was then called. It also named him the Fifth District's representative to the Federal Advisory Council.

Seay served as governor of the Richmond Bank until 1936. His tenure covers the Federal Reserve System's formative years. This formative period embraces two distinct chapters, the first dominated by World War I and the second by the vicissitudes of the world economy in the decade following. The second chapter ended unhappily, with the great stock market crash of 1929 followed by a collapse of the banking system that led to a restructuring of the Federal Reserve.

The early years—the period from 1914 to the end of 1929—posed a number of key issues the resolution of which was important in the development of effective monetary policy mechanisms as well as an efficient payments system. First, there was the basic issue of the distribution of authority between the Reserve Banks and the Reserve Board. This issue remained in abeyance during the war years when the Banks were preoccupied with war financing and were largely under Treasury domination. Second, there were issues of credit policy involving the forging of effective policy tools and their application to the problems of the time. Third, there were issues and problems involved in a broad effort to improve the nation's payments arrangements, especially in the area of check collection. The Richmond Bank, under Seay, played an important role in the System's efforts to confront these issues constructively.

## Financing World War I

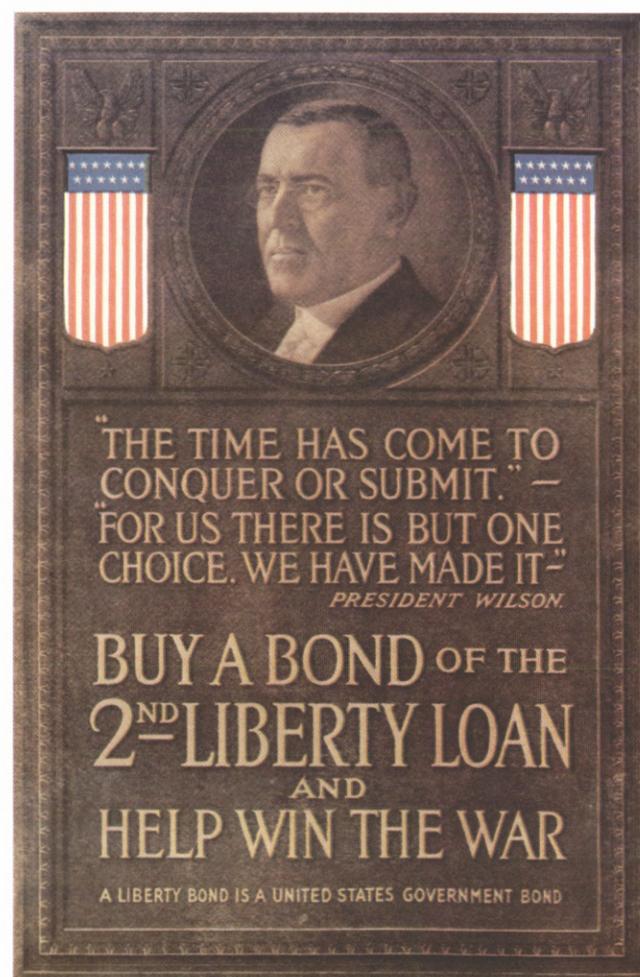
The entry of the United States into the First World War in April 1917 presented a special challenge to the Reserve Banks. As fiscal agents of the federal government, they were called on to serve the Treasury in planning and implementing a program to finance the war effort with minimal disturbance to the nation's financial markets. Seay and the other Reserve Bank governors participated in the planning sessions.

The Banks' services to the Treasury in this regard began in March, just before the country's entry into the war. At that time the Banks distributed for the Treasury \$50 million of certificates of indebtedness issued in anticipation of income tax receipts due in June. The Richmond Bank was allotted \$2 million of this issue, which it placed promptly.

Then followed the first of five multi-billion-dollar bond issues aggregating more than \$24 billion, an unprecedented magnitude of borrowing. The so-called First Liberty Loan, announced on May 14, was a \$2-billion, 30-year issue dated June 15, with interest at 3½ percent. An elaborate effort was mounted to market this issue. Secretary McAdoo led the effort, touring the country in what he later described as a ". . . great movement that vibrated with energy and patriotism and swept the country from coast to coast in the greatest bond-selling campaign ever launched by any nation."

The marketing effort centered heavily on the Reserve Banks. In accordance with detailed plans provided by the Treasury, each Bank established a closely structured, Districtwide network for promoting sales. The Reserve Bank governors were designated chairmen of District committees made up, in turn, of the chairmen of state committees, who, in their turn, appointed county and local committees. In the Richmond District a Liberty Loan

bureau was set up in every bank, and each was advised of its "proportionate amount of the loan, based on its total resources." An executive staff, reporting directly to Governor Seay and including teams of field directors, coordinated the effort. Seay



St. Clair, L., *The Story of the Liberty Loans* (Washington, 1919)

considered the Liberty Loan drives to be his most important duty and threw himself wholeheartedly into each campaign.

The premise of the financing program was that the war should be financed to the extent possible by the real savings of the public. Bank credit, and in particular, Reserve Bank credit, was to be relied on only residually with every effort made to hold the residual to a minimum, in keeping with the prevailing view in banking circles that bank credit should be directed primarily at financing production and accommodating trade, not at accommodating government. Hence a large promotional effort was directed at placing the bonds with the nonbank public.

Seay approached the financing task with a fervor bordering on the religious and worked untiringly to match or excel the best efforts of the other Reserve Banks. Writing in 1923, he noted the District's "remarkable record" in 1917, 1918, and 1919, when the actual purchases of all types of war securities by the people of the Fifth District reached "the stupendous aggregate of \$1.1 billion!" It was his "deliberate and mature judgement that but for the existence of the Federal Reserve System . . . Germany would have won." He also believed that "the bringing of the Federal Reserve System into being and enabling it to perform such a signal service for civilization was nothing less than an act of Providence."

As the apparatus of wartime controls expanded, the Reserve Banks were given a variety of additional

duties in the areas of foreign exchange trading, gold export controls, and surveillance over the capital issues of corporations and municipalities. Much of the added work fell directly on Seay, who was already heavily preoccupied with perfecting the District's organization for handling the Liberty Loans. The work burden contributed to a breakdown in his health in the autumn of 1918. At the height of the influenza outbreak of that year, he fell dangerously ill and was bedridden for more than a month. Subsequently, at the insistence of the Bank's directors, he underwent a convalescence of several months before returning to work.

For the five drives, subscriptions nationwide totaled just over \$24 billion. The slightly more than \$1 billion handled by the Richmond Bank thus accounted for roughly 4 percent of the total. At that time the nation's financial wealth was heavily concentrated in the large centers of the Northeast. The New York, Boston, and Philadelphia Districts accounted for nearly half the total subscriptions, with Chicago and Cleveland accounting for an additional 25 percent. The Richmond District stood seventh in subscriptions, behind San Francisco.

Seay and the Richmond Bank won plaudits throughout the District for their efforts. The work of all the Banks was widely appreciated and the System emerged from the war with great prestige. It had won its spurs, so to speak, and was widely accepted as the institution at the heart of the nation's financial system.



U.S. Department of the Treasury

*Secretary of the Treasury Carter Glass removing a Victory bond from the press*

## The Reserve Banks and the Reserve Board

### 1. *The Issue of Authority*

A major issue in the early years of the System was the question of the division of authority between the Reserve Banks and the Federal Reserve Board. The question was particularly contentious until the banking acts of the middle 1930s buttressed the authority of the Reserve Board in several areas. For most of the decade of the 1920s, however, the Banks offered a distinct resistance to the Board's dictates and relations were marked by a continuing tension.

By common agreement the new System, when launched, was a regional arrangement envisaging substantial autonomy for the individual Reserve Banks. But the lines were not sharply drawn. Broad supervisory and coordinating authority was vested in the Reserve Board by the Federal Reserve Act. The view was widely held, however, that the Board's role should be constraining and coordinating, not coercive, leaving the Banks latitude for independent action to cope with credit and payments-system problems peculiar to their respective Districts. There was a general reluctance to describe the System as a "central bank," as though the term might undermine the emphasis on regionalism.

The Richmond Bank's directors sought from the beginning to reach an understanding on the scope of their authority. They sent a delegation to the Board early in 1915 to discuss the matter but received little satisfaction. Immediately afterward, a sharp dispute with the Reserve Board erupted over the issue of Governor Seay's salary. The Richmond directors had set his annual salary at \$15,000 only to have the Reserve Board reduce it to \$10,000. There followed a sharp exchange of letters in which the Board rebuked the Bank's directors and peremptorily asserted its right to approve salaries at all levels. The directors acquiesced, but the episode left scars.

The entry of the United States into the World War had an important effect on the distribution of authority in the System. Until the end of 1919, the exigencies of Treasury borrowing for the war effort subordinated both the Reserve Board and the Reserve Banks to the Treasury's mandate. But the practical knowledge and experience that the Treasury required in its debt management and financing operations were heavily concentrated in the Reserve Banks, especially the New York Bank. As a result, Treasury officials tended increasingly to work directly through the Reserve Bank governors and to



*Federal Reserve Board, 1924: Adolph C. Miller, Henry M. Dawes, Daniel R. Crissinger, Andrew W. Mellon, Edmund Platt, George R. James, Edward H. Cunningham, Charles S. Hamlin*

bypass the Reserve Board. Governor Harding of the Boston Bank, who had served earlier as a member of the Reserve Board, once remarked that for this reason members of the Reserve Board frequently felt left out of important deliberations.

As matters developed in the 1920s, the governors of the Reserve Banks, acting through conferences that met semiannually, were able to establish themselves as a major factor in shaping System policies and practices. At these conferences, the governors discussed and analyzed in detail the full range of problems confronting the System. The discussions were comprehensive, frequently lasting four days or more and including sessions with the Reserve Board and with Treasury officials. Standing committees kept major issues, including credit policy and payments-system problems, under continuing study.

Compared with the members of the Reserve Board, the Reserve Bank governors were much closer to the day-to-day problems in the banking system and in credit markets. For the most part, they were seasoned bankers with hands-on experience of the technical details of both the payments system and credit operations of commercial banks. This gave the Conference of Governors an important advantage in

the give-and-take that determined the degree of autonomy of the Reserve Banks. Under the leadership of Benjamin Strong, governor of the New York Reserve Bank, the Conference of Governors became the dominant forum in the System in the 1920s, with Strong emerging as the leading figure in the System.

## 2. *Seay's Views*

Seay was a major contributor to the deliberations of the Conference. He was chairman of the committee on discount rate policy and also chaired a special advisory committee to the Federal Reserve Board on legislation.

Like most of his colleagues, Seay had an aversion to the term "central bank." He was a vigorous defender of regionalism and favored a high degree of autonomy for the Reserve Banks. He argued, in particular, that the Banks, as the best judges of credit conditions in their respective Districts, deserved broad latitude in setting discount rates. Because of what he perceived as wide disparities of basic credit conditions among Districts, he opposed requiring uniformity of discount rates. He also insisted on the right of individual Reserve Banks to buy and sell government securities.

Yet Seay was a team player. To him, autonomy defined a relationship between the Reserve Board and the Banks and did not preclude close cooperation among the Banks. He thought that the governors of the Banks should discuss discount rate policy every 60 days and that such discussions should become an important factor in discount rate decisions. He thought that transactions in government

securities should be managed with similar cooperation among the Reserve Bank governors and was prepared to limit, though not to deny altogether, independent operations by the Banks.

In other areas of the Reserve Banks' activities, Seay was inclined to favor Systemwide uniformity of practice. This was especially the case for such payments-system functions as check collection and clearing and noncash collections. He sought uniformity of practice in such technical details as the timing of debits and credits to reserve accounts in the course of check-collection operations, the treatment in reserve accounting of coin and currency en route to the Reserve Banks from members, and penalties for reserve deficiencies. Questions involving these and other important details were not definitively settled in the 1920s, and for much of the decade practices differed among the several Districts.

Yet close cooperation among the governors was the general rule. The Conference of Governors, under the leadership of Governor Strong, was protective of the rights of the individual Banks and resistant to broad interpretations of the Reserve Board's authority. Strong's death in October 1928 marked the beginning of a shift of power away from the Banks and toward the Reserve Board, away from regionalism and toward centralization. The stock market crash of 1929 and the banking collapse of the 1930-33 period accelerated that shift. The Banking Acts of 1933 and 1935 ratified it in many respects. For virtually all of the decade of the 1920s, however, the Reserve Banks were able to hold centralization at bay and to realize a high degree of autonomy.

## Credit Policy Issues of the 1920s

### 1. *General Background*

The decade of the 1920s presented a variety of challenges to the System. It was, in general, a period of rapid economic growth, fueled by the intensive development of new industries—the automobile, radio, major appliances—and by innovations in the organization of production. Public confidence in the economy's capacity to generate high levels of prosperity ran high and translated soon into a strong speculative mood that constituted an important element in the backdrop against which the Reserve Banks operated. Prosperity was by no means com-

prehensive, however. The agricultural sector remained depressed for the entire decade. Large numbers of bank failures occurred almost every year. Serious problems existed, too, in the international area. A large fraction of the world's monetary gold had lodged in this country and its orderly redistribution became a key condition for the restoration of the international gold standard, a prime objective of U.S. policy. The vexatious issue of war reparations and resurgent economic nationalism in the world at large were also complicating factors.

Early in the decade the economy slipped into a severe recession for which the System was widely

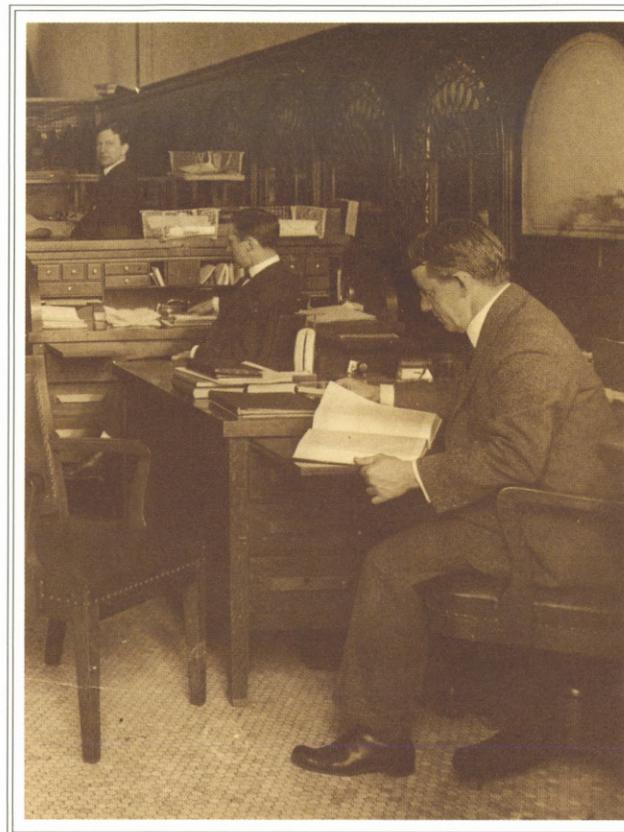
blamed. Milder recessions occurred in 1923-24 and 1927. Combined with the continuing bank failures and widespread farm sector discontent with credit conditions, these interruptions seriously eroded the System's prestige, which reached a low point in the financial disturbances at the end of the decade and in the early 1930s.

## 2. *Seay's Approach to Credit Policy*

During the war years, credit policy was dominated by the U.S. Treasury. The discount rate was determined by the interest rate the Treasury placed on its offerings of securities. Moreover, to facilitate the Treasury's financings, the Reserve Banks offered preferential rates on their loans when government securities were offered as collateral. Such loans were made at rates slightly below the nominal rate on the Liberty bonds, with the result that they rose sharply and, while the Reserve Banks bought only small amounts of government securities, they held large amounts as collateral.

Seay shared a widespread conviction that extensive use of bank credit to finance the war would pose a problem in the war's aftermath. At this stage, he adhered strictly to the commercial loan, or real bills, theory, holding that bank credit should be extended to finance only self-liquidating loans arising out of the production or distribution of goods. Credit extended for any other purpose, including even the holding of government securities, represented unsound banking practice and multiplied the risk of destabilizing price movements. Seay would purchase only those government bonds that were eligible for use as collateral for national bank notes and this only for the purpose of retiring all such notes in order to leave the issue function exclusively with the Reserve Banks.

Like most of his contemporaries, Seay had no idea of using Federal Reserve credit policies in any countercyclical way. He attributed the burst of rising prices in 1919 and 1920 to the large amounts of government securities in the banking system. Like most of his colleagues, he failed to envisage using open market operations in government securities as a policy instrument. Rather, he felt that the inflation problem had to be met with discount rate action that would force banks to disgorge their government securities. Following the lead of Strong, he recommended and the Richmond directors voted successive increases in the discount rate from 4 percent in late 1919 to 6 percent in mid-1920.



*George J. Seay (foreground) in the early days of his tenure as governor of the Federal Reserve Bank of Richmond*

The discount rate increases in this period created some friction in relations with the Treasury, which operated in the market for government securities on a virtually continuing basis at the time. Since discount rate increases tended to hamper its operations, the Treasury favored a program of direct controls on credit expansion administered by the Reserve Banks instead of rate increases. This view also found some support at the Reserve Board. The Reserve Bank governors for the most part felt, as did Strong and Seay, that credit expansion could not be controlled effectively without discount rate action.

When the economy slipped into a sharp recession in the spring of 1920, Seay and the Richmond directors saw little reason to reduce the discount rate promptly. Indeed, the Reserve Banks generally were slow to take any easing action. In the face of a sharp break in commodities prices, rising unemployment, and a severe depression in the farm sector, the System came under criticism by a number of groups, especially by governors and legislators from farm states. Under pressure from the Treasury, the Boston and New York Banks began reducing their discount

rates in the spring of 1921. But the Richmond Bank continued to hold out, waiting until November to reduce its rate from 6 percent to 5½ percent and until December to reduce it to 5 percent.

In public addresses, Seay staunchly defended the action of the System in the recession of 1920-21. He argued that the basic problem was the earlier credit inflation caused by sizable holdings of government securities in the banking system. The solution lay in moving these securities out of the banking system and into the hands of the nonbank public. He considered the resulting reduction in bank credit, with its accompanying setback to business, a necessary and inevitable part of the nation's adjustment from a wartime to a peacetime economy.

Seay also argued that an overriding objective of discount rate policy had to be the protection of the gold reserves of the Reserve Banks. At the depth of the 1920-21 recession the gold reserve ratio of the Richmond Bank had fallen to 34 percent and the ratios of five other Reserve Banks were substantially lower, far below the legal limit of 40 percent. These low reserve ratios were clearly a factor in the tardiness of the Richmond and other Reserve Banks in reducing the discount rate. Seay's view, widely held at the time, was that the System's main concerns had to be the soundness of bank credit, the prevention of financial panics, and the preservation of gold payments. Systematic control of the money supply and positive action to moderate cyclical swings in business were not part of his agenda.

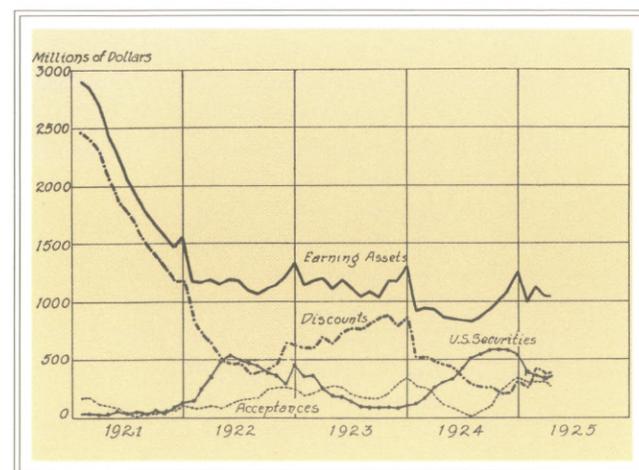
### 3. *Changing Views on Operations in the Government Securities Market*

The decade was an extended learning experience for the entire System. Seay's views on credit policy underwent significant changes, as did those of most other System personnel involved with policy. Credit policy was discussed at length in the semiannual meetings of the Conference of Governors and in the sessions with the Reserve Board. These discussions, and especially the trenchant observations of Governor Strong, had a major influence on Seay's thinking. There were other influences as well. One was an increasing appreciation of the potential usefulness of systematic operations in the market for government securities. Another was the large contemporaneous swings in gold exports and imports, which tended to upset conventional notions regarding the relationship between the gold reserve ratio and the discount rate.

In any case, in the early 1920s, Seay modified his views on the holding of government securities by the Reserve Banks. At a conference of the governors in March 1923 he observed that a stock of governments held by Reserve Banks would give the System "a better hold upon the market." He joined several colleagues in noting that sales from such holdings could prove useful in offsetting excessive easing in markets resulting from large gold imports. This adjustment in Seay's attitude was probably influenced in part by the indifferent success of the System's efforts to establish an acceptance market of significant dimensions. Seay had been a strong supporter of such efforts and of arrangements for coordinating operations in acceptance markets.

Among the Banks, attitudes toward investing in government securities were affected by a sharp reduction in their earning assets in the recession of 1920-21. As rediscounts declined and the supply of acceptances diminished, most of the Banks turned to the government securities markets for investments in order to be able to cover costs and pay the dividend provided for by the Federal Reserve Act. Purchases and sales were of sufficient magnitude to interfere with Treasury operations in the market and hence aroused the opposition of the Treasury. The matter was discussed in detail by the Conference in May 1922. At that time all the Banks except Atlanta and Richmond were buying and holding governments. The governors of all, including Richmond and Atlanta, vigorously defended their right to do so at their discretion.

The Conference was confronted with the problem of reconciling the Treasury's apprehensions and the



Reprinted from the Wall Street Journal, April 28, 1925

Reserve Banks' need for earning assets. The Banks were reluctant to accept any restrictions on their right to invest as they deemed necessary. The Treasury for its part insisted that the Banks refrain from purchases and sales whenever it was engaged in market operations.

Under Strong's leadership and after extended discussion, a compromise was reached. Each governor agreed to recommend to his directors that investments in government securities be limited to "... such amount as is required, over a period of time, to meet . . . expenses and dividends and necessary reserves." It was also agreed that purchases and sales would be coordinated to avoid interference with the Treasury's activities in the market. To provide this coordination a Committee on Centralized Execution of Purchases and Sales of Government Securities by Federal Reserve Banks was established, composed of the governors of the New York, Boston, Philadelphia, and Chicago Banks. Later the governor of the Cleveland Bank was added.

This committee, under the chairmanship of Governor Strong, operated until March 1923 when, on orders of the Federal Reserve Board, it was disbanded and replaced by an Open Market Investment Committee. The change, however, made little difference in practice, amounting to little more than a formal response to the Reserve Board's assertion of authority over open market operations. The new committee was composed of the same governors as the old and included no member of the Reserve Board. Like its predecessor, it allowed the Banks a wide latitude of discretion with respect to their participation in the new committee's purchases and sales. Moreover, no limits were placed on the Reserve Banks' transactions in government securities with member banks of their respective Districts.

The arrangements for dealing in government securities were satisfactory to Seay and the Richmond directors. The Richmond Bank had no earnings problem in that period and consequently no need to rely on government securities as a source of earnings. Accordingly, Seay was not as exercised over the issue as some of his counterparts and could take a longer term view of the implications of the new arrangement. While he was fiercely defensive of the Banks' rights to buy and sell securities, he agreed with Strong that coordination of purchases and sales was highly desirable. He argued that open market operations should not be geared to the earning needs of the Reserve Banks but rather to the "overall credit requirements" of the economy.

Along with many of the other governors, Seay recognized limitations on the practical usefulness of open market operations. Through much of the decade, large operations had to be undertaken to offset gold movements and these often had a major impact on the Committee's portfolio without a corresponding effect on bank credit. Moreover, doubts soon developed that the government securities market was sufficiently large to accommodate the magnitude of operations that domestic and international considerations might require. The Treasury was actively retiring debt over much of the period and, while the Committee operated in acceptances as well, that market contracted in periods of slack business. Recognition of this limiting factor strengthened Seay's conviction that the discount rate had to be the System's chief policy instrument.

#### 4. *Coordinating Open Market and Discount Rate Policies*

The System's move toward systematic open market operations had implications for the manner in which discount rate policy was implemented. These implications were quickly recognized by Seay and others of the governors. In 1924 Governor Strong noted that the "... belief of the Governors has been uniformly for some years past that the operations of the Open Market Committee are designed . . . to exert some influence on matters preliminary to the possible need for changes in discount rates." In the same year, Seay observed that the Committee's purchases led member banks to reduce their borrowings at the discount window and, with diminished dependence on the Reserve Banks, to step up their efforts to make loans. This put downward pressure on loan rates, setting the stage for discount rate reductions.

Seay appreciated the relationship between discount rate policy and gold movements but seemed reluctant to use the discount rate to help restore the international gold standard. When in the late summer of 1927 the Reserve Board, largely at the initiative of Governor Strong, undertook to orchestrate a general reduction in discount rates in order to help Great Britain solidify its return to the gold standard, the Richmond Bank followed, cutting the discount rate from 4 percent to 3½ percent. But Seay expressed sympathy for the position of the Chicago Bank, which refused to reduce its rate, with the result that the Reserve Board fixed it at 3½ percent at that Bank. This action by the Board ran counter to Seay's conviction that the initiative for

rate changes should come from the Banks. But Seay appears also to have entertained doubts about giving international considerations precedence over domestic conditions. When this controversial rate action was discussed at the meeting of the Conference of Governors in November, he argued that the rate should be higher to reflect “true market forces instead of international conditions.”

The stock market speculation of the later years of the decade troubled Seay. He met with groups of District bankers on several occasions and urged them to limit stock market loans. But to him the problem went beyond stock market loans and was not likely to be solved by moral suasion. The basic problem was excessively easy credit and had to be addressed by effective tightening action on both the open market and discount rate fronts. The excessive ease, he argued, resulted largely from the arbitrary

reclassification of demand deposits as time deposits by member banks, which created large amounts of excess reserves.

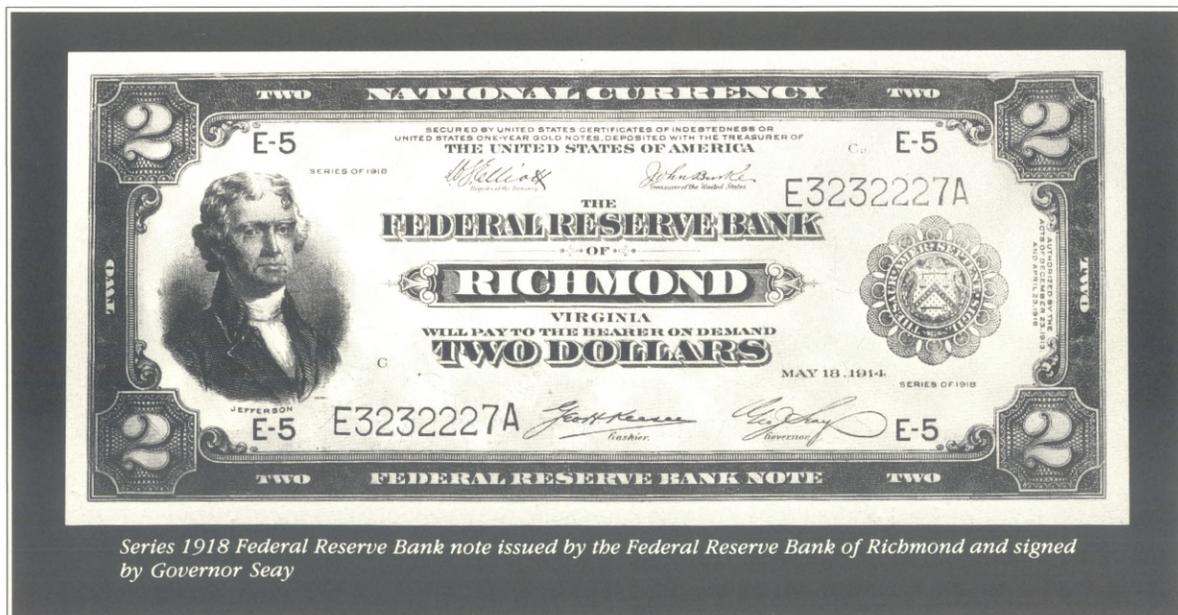
In March 1928 and again in April, the Richmond directors conveyed to the Open Market Committee their conviction that the Committee should be selling securities. In an April 1929 communication to the Reserve Board they argued that, from the national standpoint, a strong reason existed for raising the discount rate to 6 percent, noting, however, that Fifth District conditions could not justify such an action. Rather they believed that the rate should be raised first in the New York District since the stock exchange loan problem was centered there, with the other Banks following later. Actually, the rate at the Richmond Bank, which had been raised in successive steps from 3½ to 5 percent in 1928, was not raised further in 1929.

## Payments System Issues

Seay held strong convictions regarding the role of the Reserve Banks in the nation’s payments system. In his view, the Reserve Banks should have the exclusive issue privilege and also be the principal managers of the nation’s facilities for check-collection and check-clearing operations.

### 1. The Currency

Regarding the currency, Seay considered the Federal Reserve note, anchored to gold to ensure its soundness and to eligible commercial paper to ensure its “elasticity,” the ideal currency. He urged that it be allowed to displace all other forms of currency, including legal tender notes and silver



Series 1918 Federal Reserve Bank note issued by the Federal Reserve Bank of Richmond and signed by Governor Seay

certificates. These last two forms he believed to have taken on the character of "reserve money," and, along with gold and gold certificates, should be impounded in the Reserve Banks to support Federal Reserve credit as represented in Federal Reserve notes and member bank reserves. He was unalterably opposed to the issue of national bank notes and urged that they be completely eliminated from the circulation, by legislation if necessary. This stance reflected his continuing aversion to linking the currency to government securities. On the same grounds, he opposed the issue of Federal Reserve Bank notes, which, unlike Federal Reserve notes, were backed only by government securities.

With such views, Seay often found himself at odds with both the Reserve Board and the Treasury. He was critical of a Reserve Board ruling requiring the Reserve Banks to pay out currency in a priority ordering with national bank notes first, followed in order by Federal Reserve Bank notes, silver certificates, legal tender notes, Federal Reserve notes, gold certificates, and gold. He argued that, pending the retirement of national bank notes and Federal Reserve Bank notes, Federal Reserve notes should be third in the priority ordering.

Seay also opposed proposals by the Treasury and the New York Reserve Bank to encourage the circulation of gold certificates in periods of heavy gold imports. He was also cool to a Treasury request for Reserve Bank cooperation in an effort to encourage temporary use by the public of silver dollars to allow the buildup of an inventory of one-dollar bills in the months before the introduction of a newly designed, smaller sized currency in the summer of 1929.

## 2. *The Collection Function*

Seay's concern over the quality of the currency was part of a more general interest in improving the efficiency of the country's payments system, which he considered to be a major objective of the Federal Reserve Act. The introduction of the Federal Reserve's leased wire system in 1918 was a welcome innovation to Seay, and he favored Reserve Bank absorption of the cost of wire transfers of funds by member banks.

The major effort to improve the payments system in the 1920s centered on check-collection operations. Few System activities in the 1920s commanded as much attention. One of the first standing committees of the Conference of Governors was the Standing Committee on Collections and Clearings.

John S. Walden, Jr., an assistant to Seay and a senior operating officer of the Richmond Bank, served on this committee during the entire decade. Through Walden, Seay contributed to the standing committee's work. He was especially interested in promoting uniformity of procedures and practices among the Banks and in pressing for effective measures to ensure collection at par, that is, with no levy of exchange charges by drawee banks.

The committee devised in this period the system of symbols, printed in the upper right-hand corner of checks, identifying the drawee bank and the Federal Reserve office through which the check would be collected. This system quickly became of inestimable value to banks in sorting and routing checks. The committee also faced the daunting task of working out a satisfactory arrangement for timing debits and credits to the reserve accounts of drawee banks and depositing banks and dealing with the effect on member bank reserves of arrangements that involved other than simultaneous debits and credits. Only after long experimentation was a satisfactory time schedule with a system of deferred credits put in place.

In the war period, as part of the Board's general promotion of membership, the Banks began collecting for member banks such noncash items as notes, drafts, and acceptances. Member banks were quick to avail themselves of this noncash-collection service, which soon became a major activity at all the Reserve Banks. When many of the Reserve Banks were experiencing earnings problems in the early 1920s, sentiment for eliminating the service began to develop. Such sentiment was especially strong in the geographically large Districts of the South and the West—Atlanta, Dallas, Minneapolis, Kansas City, and San Francisco—where distances were great and transportation and communications costs relatively high.

Seay, however, insisted on uniformity. He had had misgivings about offering the service, but once it was instituted he favored continuing it. The System had much to lose, he thought, if it were perceived as arbitrarily turning its services off and on in response to earnings changes. Moreover, noncash-collection services were consistent with Seay's expansive views of the services the Reserve Banks should offer to members. Citing the nonpayment of interest on reserve balances, he argued that Reserve Banks should offer to member banks all the services they could expect from city correspondents.

### 3. *Problem Areas: Par Collection, Bank Failures, and Membership*

Efforts to improve the collection process were hampered in the period by a continuing wave of bank failures and by a running and often acrimonious disagreement with state-chartered banks over exchange charges. In the ensuing controversy, the System found itself confronting the hostility of state legislatures and banking commissions as well as of many state-chartered banks. The Reserve Banks sometimes found to their consternation that member banks, especially the large-city correspondents, gave them little or no support in this impasse. In any case, the large number of bank failures, among members as well as nonmembers, in combination with the par-collection controversy, tended to diminish public confidence in the System and to contribute to a steady erosion of membership in the period.

From the outset, exchange charges on checks were recognized as a major obstacle to membership in the System by small, state-chartered institutions. The Reserve Board took advantage of the patriotism generated during the war period to mount a campaign to encourage universal par remittance on a voluntary basis. So-called par lists were established, and the Reserve Banks succeeded in placing on these lists the great majority of the nation's banks. Yet substantial groups of state banks in rural areas of the South, West, and Midwest stubbornly resisted. Many soon found that they could take advantage of the System's collection facilities through city correspondents without becoming members and giving up exchange charges.

Acting on a Reserve Board interpretation that the Federal Reserve Act gave the System authority to collect all checks at par, the Reserve Banks met this resistance with a concerted effort to present the checks of nonpar banks at the counter for cash payment. This action by the Reserve Banks brought the issue to a head. It touched off extended litigation that seriously embittered relations with small, state-chartered banks over much of the nation. The Reserve Banks most immediately involved in the litigation were Richmond, Atlanta, Cleveland, Minneapolis, and San Francisco.

In its annual report for 1920 the Richmond Bank noted ". . . marked progress toward the establishment of universal par collection." All District states except South Carolina were reported on a par basis. Of 2,210 banks in the District, only 334, all in South Carolina, refused to remit at par. In view of

developments in the following year, this report probably gave an inaccurate evaluation of progress toward universal voluntary par remittance. Data for subsequent years suggest strongly that the par list for 1920 included many involuntary par remitters at whose counters the Richmond Bank was presenting checks for cash payment.

On February 5, 1921, the North Carolina legislature passed "An Act to Promote the Solvency of State Banks," in which it affirmed the right of state banks to charge exchange when remitting for checks sent to them by mail. It provided, moreover, that state banks were not required to pay in cash for checks presented at their counters by the Reserve Bank or any of its agencies but could pay with a draft drawn on a correspondent unless the drawer of the check had made a notation to the contrary. Finally, it forbade notaries public to protest checks when payment had been refused solely because it had been demanded in cash.

The Richmond Bank deemed the act to be unconstitutional and continued to present checks on nonpar banks at the counter for cash payment. On February 9, 13 nonmember banks brought suit against the Richmond Bank in the Superior Court of Union County, North Carolina, and obtained a restraining order forbidding the return as dishonored of checks that the plaintiff banks had refused to pay in cash. More North Carolina banks joined the suit, and 230 were on the injunction list by December. The Richmond Bank refused to handle the checks of these banks and from time to time published their names along with the names of other banks the checks of which, for various reasons, it would not handle. At the end of 1921, of 2,195 banks in the District, 580 refused to remit at par. All these were in North Carolina (254) and South Carolina (326).

At trial, the Superior Court ruled the North Carolina act constitutional. The Richmond Bank appealed the decision to the North Carolina Supreme Court, which reversed the Superior Court. The plaintiff banks, however, took the case to the U.S. Supreme Court, which in June 1923 reversed the North Carolina Supreme Court and ruled the act constitutional. The banks of the state thus retained the right to charge exchange and to refuse cash payment for checks presented by the Reserve Bank at the counter.

Paralleling this case against the Richmond Bank were significant cases against the San Francisco, Atlanta, Cleveland, and Minneapolis Banks. As a result of the decisions in the several cases, the System

IN THE  
**Supreme Court of the State of North Carolina**

FARMERS & MERCHANTS BANK, ET ALS.,

vs.

FEDERAL RESERVE BANK OF RICHMOND.

HISTORY OF THE LITIGATION AND STATE-  
 MENT OF ISSUES.

This case is a civil action brought by thirteen banks and trust companies organized under the laws of the State of North Carolina, which are not members of the Federal Reserve System, against the Federal Reserve Bank of Richmond. The object of the action was to obtain an injunction to prevent the Federal Reserve Bank of Richmond from refusing to accept exchange drafts drawn by the plaintiffs on their reserve deposits in payment of checks presented, and from returning as dishonored checks drawn by various depositors upon the plaintiffs which had been presented at their counters by the Federal Reserve Bank of Richmond, but for which the plaintiffs had tendered drafts drawn by them upon their respective reserve depositories. The action was instituted by the plaintiffs in the Superior Court of Union County, North Carolina, on the 9th day of February, 1921, and a temporary restraining order was award-

*Reprinted from brief filed May 4, 1922*

ended up well short of its desired goal of universal par collection. At the direction of the Reserve Board, the practice of presenting checks for cash payment at the counters of nonpar banks was discontinued. The System adopted a policy of refusing to handle checks on nonpar banks. In the years that followed, the number of banks on the par list fell sharply.

In the Richmond District, the U.S. Supreme Court decision in 1923 was quickly followed by a large reduction in the number of banks on the par list. Three banks in West Virginia and 57 in Virginia

promptly removed themselves from the list. The list fell rapidly over the remaining years of the decade, from 1,494 in 1923 to 1,091 in 1929. The decline was slightly more rapid than the drop in the total number of banks. At the end of 1929, nearly a third of the banks in the District were not remitting at par. These were concentrated heavily in the Carolinas and Virginia. In North Carolina some 70 percent (294 of 419) of all banks were nonpar; in South Carolina, almost half (67 of 139); and in Virginia, nearly a quarter (104 of 468). There were nine nonpar banks in West Virginia but none in Maryland and the District of Columbia.

While the nonpar banks were mostly small banks in rural areas, the volume of check operations for the group was significant. Their refusal to remit at par left an important gap in the Federal-Reserve-based payments arrangement that the System was so eager to establish. The outcome was especially disappointing to Seay.

The par-collection issue affected membership. In the Fifth District membership reached a peak of 634 in 1922 and then declined in each remaining year of the decade. At the end of 1929 it totaled 525. The number of state members fell from 68 to 45. Over the same span, the number of national banks declined from 566 to 480.

The total number of banks in the District fell from 2,210 in 1920 to 1,637 at the end of 1929, a reduction of 573. Much of this decline was accounted for by failures, which totaled 431 for the period. The failures were heavily concentrated in the farming areas of the District, with South Carolina accounting for 225, North Carolina for 119, Virginia for 45, and West Virginia for 34. There were only eight failures in Maryland and none in the District of Columbia. Among the failures were many national banks and state member banks, which accounted for much of the decline in membership. A handful of state members merged with national banks during the period, but the decline in state membership was due almost entirely to liquidations and voluntary withdrawals.

## Concluding Observations

**I**n their first five years, the Federal Reserve Banks were immersed in problems associated with financing the First World War. Not until 1920 were they able to come to grips with issues they were designed to resolve. To a significant extent

the experience of the 1920s represented efforts by the Banks and the Reserve Board to fill gaps and resolve ambiguities in the Federal Reserve Act, which was amended ten times in the 1920s. The original act described only a skeletal outline of a system of

banking control. Many crucial questions of detail were left unaddressed. It remained for the Reserve Board and the Banks, in the course of practice and experience, to put flesh on the skeleton.

For the entire decade the division of authority between the Reserve Board and the Banks remained at issue. While the act clearly gave the Board broad authority, certain sections implied substantial autonomy for the Banks. The new system had been treated all along as a regional system, not a central bank, and it was widely assumed that the Board's authority over the Banks would be limited to a monitoring and coordinating function. This was clearly the view of Seay. It was frequently expressed by the governors of the other Banks and seems to have been acquiesced in by some Reserve Board members as well. In any case, it is clear from the history of the period that the governors of the Banks, as a group under the leadership of Benjamin Strong, were able to maintain a high degree of autonomy and to play a major role in shaping the System's early development.

As noted, Seay and the Richmond Bank were vigorous defenders of the autonomy of the Reserve Banks. They were also major contributors to the efforts of the governors to develop an effective mechanism of credit control and an efficient payments system. In the credit-policy area, Seay favored cooperative action by the Banks' governors, coordinated through the Conference of Governors,

over Reserve Board leadership. He was a firm supporter of Governor Strong's efforts to forge an effective policy tool out of the Banks' purchases and sales in the market for government securities. In addition, he chaired the Conference of Governors' committee to establish basic principles that should be followed in setting discount rates.

In the payments-system area, the Richmond Bank was in the forefront of the effort to universalize collection of checks at par. Seay and Walden were major contributors to the work of the Conference of Governors' Standing Committee on Collections and Clearings. The Richmond Bank was also involved in one of the key court cases that questioned the authority of the System to require par remittance for checks.

The stock market crash at the end of the decade of the 1920s signaled the end of an important chapter in the history of the Federal Reserve Banks. It ushered in a new set of problems for the entire System, problems that dwarfed in both magnitude and complexity any that had been confronted up to that time. The banking collapse in the three years that followed and the onset of the Great Depression led to a drastic restructuring of the System. The result was a less ambiguous centralization of authority in a newly constituted Reserve Board, renamed the Board of Governors of the Federal Reserve System, and a substantial reduction in the autonomy of the Reserve Banks.

## Epilogue

The major reforms of the mid-1930s, along with important amendments enacted since that time, have produced a system fundamentally different, both in structure and in approaches to money and credit control, from the original. In every respect, the Federal Reserve System has become undeniably a central bank or, more precisely, a central banking system.

The System today retains, however, sufficient vestiges of its pristine form to continue to be described as unique among the world's central banks. In particular, in the face of increased centralization of power in the hands of the Board of Governors, the regional Reserve Banks continue to play an important role. Their operations are crucial to the maintenance of an efficient payments system. Their information services constitute useful inputs into decisions of businesses, large and small, and of governments. Their role in monetary policymaking has been restructured to bring it into closer conformity with radically revised views regarding techniques of monetary and credit control, but it is no less significant. The boards of directors of the Reserve Banks continue to take the initiative in setting the discount rate. More important, the executive heads of the Reserve Banks, now styled presidents instead of governors, serve actively on the Federal Open Market Committee, the System's chief policymaking body.



*Richmond, completed 1921*

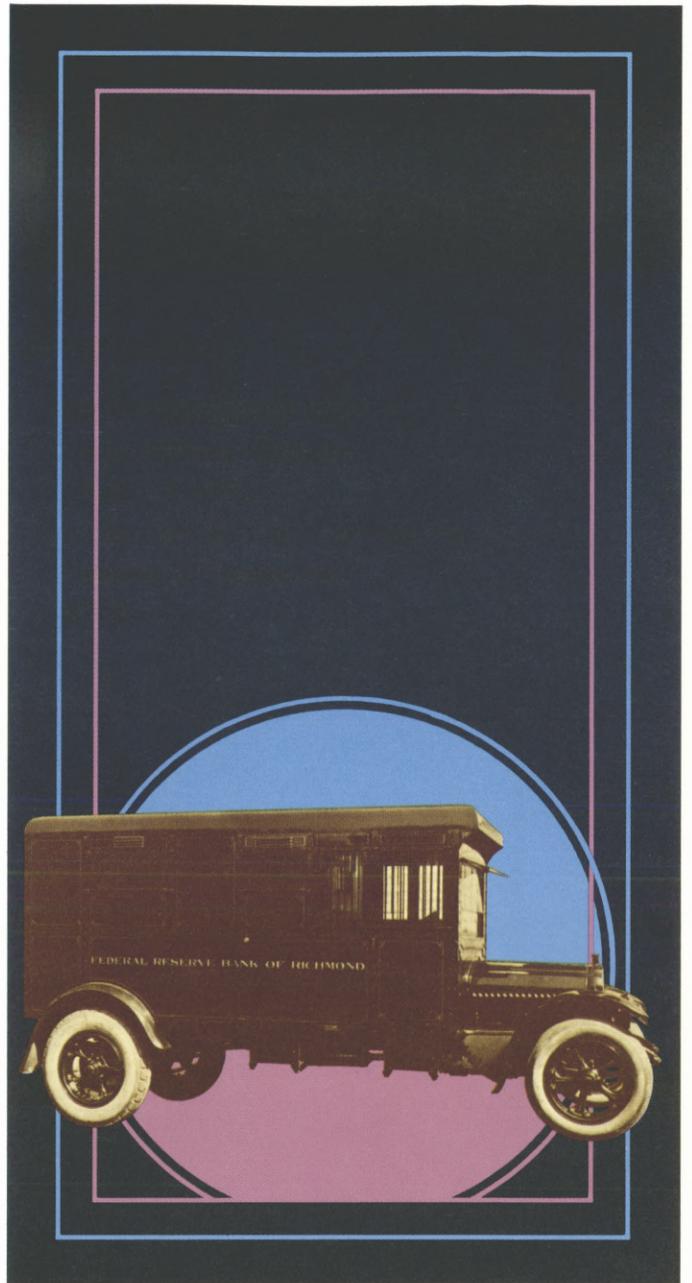
*First Buildings Constructed to House District Federal Reserve Operations*



*Baltimore, completed 1927*



*Charlotte, completed 1942*



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## Directors (December 31, 1989)



Seated: Jack C. Smith; Thomas B. Cookerly; Edward H. Covell; Anne Marie Whittemore  
Standing: Chester A. Duke; John F. McNair III; Hanne Merriman; Leroy T. Canoles, Jr.; C. R. Hill, Jr.

### Richmond Office

#### CHAIRMAN

**Hanne Merriman**  
*Retail Business Consultant*  
Washington, D.C.

#### DEPUTY CHAIRMAN

**Leroy T. Canoles, Jr.**  
*President*  
Kaufman & Canoles  
Norfolk, Virginia

**Thomas B. Cookerly**  
*President*  
Cookerly Communications  
Bethesda, Maryland

**Edward H. Covell**  
*President*  
The Covell Company  
Easton, Maryland

**Chester A. Duke**  
*President and Chief Executive Officer*  
Marion National Bank  
Marion, South Carolina

#### C. R. Hill, Jr.

*Chairman of the Board and President*  
Merchants & Miners National Bank  
Oak Hill, West Virginia

#### John F. McNair III

*President and Chief Executive Officer*  
Wachovia Bank & Trust Company, N.A.  
and The Wachovia Corporation  
Winston-Salem, North Carolina

#### Jack C. Smith

*Chairman of the Board and*  
*Chief Executive Officer*  
K-VA-T Food Stores, Inc.  
Grundy, Virginia

#### Anne Marie Whittemore

*Partner*  
McGuire, Woods, Battle & Boothe  
Richmond, Virginia

### Member, Federal Advisory Council



**Frederick Deane, Jr.**  
*Chairman of the Board*  
Signet Banking Corporation  
Richmond, Virginia

## Baltimore Office

**CHAIRMAN**

**Thomas R. Shelton**  
*President*  
Case Foods, Inc.  
Salisbury, Maryland

**John R. Hardesty, Jr.**  
*President*  
Preston Energy, Inc.  
Kingwood, West Virginia

**H. Grant Hathaway**  
*Chairman of the Board*  
Equitable Bank, N.A.  
Baltimore, Maryland

**Raymond V. Haysbert, Sr.**  
*President and Chief Executive Officer*  
Parks Sausage Company  
Baltimore, Maryland

**Charles W. Hoff III**  
*President and Chief Executive Officer*  
Farmers and Mechanics National Bank  
Frederick, Maryland

**Gloria L. Johnson**  
*Deputy Director of Administration*  
The Baltimore Museum of Art  
Baltimore, Maryland

**Joseph W. Mosmiller**  
*Chairman of the Board*  
Loyola Federal Savings and  
Loan Association  
Baltimore, Maryland



Seated: *John R. Hardesty, Jr.*; *Thomas R. Shelton*; *H. Grant Hathaway*; *Charles W. Hoff III*  
Standing: *Raymond V. Haysbert, Sr.*; *Gloria L. Johnson*; *Joseph W. Mosmiller*

## Charlotte Office

**CHAIRMAN**

**William E. Masters**  
*President*  
Perception, Inc.  
Easley, South Carolina

**Anne M. Allen**  
*President*  
Allen-Austin, Inc.  
Greensboro, North Carolina

**Crandall C. Bowles**  
*President*  
The Springs Company  
Lancaster, South Carolina

**James M. Culberson, Jr.**  
*Chairman and President*  
The First National Bank of  
Randolph County  
Asheboro, North Carolina

**Harold D. Kingsmore**  
*President and Chief Operating Officer*  
Graniteville Company  
Graniteville, South Carolina

**James G. Lindley**  
*Chairman and Chief Executive Officer*  
South Carolina National Corporation  
*Chairman, President, and*  
*Chief Executive Officer*  
The South Carolina National Bank  
Columbia, South Carolina

**William McKay**  
*President*  
First Federal Savings Bank  
Hendersonville, North Carolina



Seated: *Crandall C. Bowles*; *William E. Masters*; *Anne M. Allen*  
Standing: *Harold D. Kingsmore*; *James G. Lindley*; *James M. Culberson, Jr.*; *William McKay*

# Advisory Councils (December 31, 1989)

## Operations Advisory Committee

### CHAIRMAN

**Ronald W. Davies**  
*Senior Executive Vice President*  
Maryland National Bank  
Baltimore, Maryland

**William E. Albert**  
*Vice President and Cashier*  
The First National Bank of Bluefield  
Bluefield, West Virginia

**Robert Baldwin**  
*Senior Vice President*  
Crestar Bank, N.A.  
Washington, D.C.

**Robert A. Barton, Jr.**  
*Senior Vice President*  
Perpetual Savings Bank, F.S.B.  
Vienna, Virginia

**George E. Beckham**  
*Senior Vice President*  
South Carolina Federal Savings Bank  
Columbia, South Carolina

**Charles S. Brummitt**  
*Senior Vice President*  
NCNB National Bank of South Carolina  
Columbia, South Carolina

**William V. Bunting**  
*Executive Vice President*  
Crestar Bank, N.A.  
Richmond, Virginia

**Marshall N. Colebank, Jr.**  
*Executive Vice President and Cashier*  
The Charleston National Bank  
Charleston, West Virginia

**David A. Denton**  
*Vice President*  
Investors Savings Bank  
Richmond, Virginia

**Raymond L. Gazelle**  
*Senior Vice President*  
Citizens Bank of Maryland  
Laurel, Maryland

**Harrison Giles**  
*Executive Vice President*  
NCNB National Bank of North Carolina  
Charlotte, North Carolina

**Kenneth L. Greear**  
*Vice President*  
United National Bank  
Charleston, West Virginia

**D. C. Hastings**  
*President and Chief Executive Officer*  
Virginia Bank and Trust Company  
Danville, Virginia

**David L. Kot**  
*Vice President*  
American Security Bank, N.A.  
Washington, D.C.



**Ashpy P. Lowrimore**  
*Senior Vice President—City Executive*  
Southern National Bank of South Carolina  
Florence, South Carolina

**Clement E. Medley, Jr.**  
*President and Chief Executive Officer*  
First Federal Savings and  
Loan Association of Dunn  
Dunn, North Carolina

**Ricky B. Nicks**  
*Senior Vice President*  
Wachovia Bank and Trust Company, N.A.  
Winston-Salem, North Carolina

**Richard D. Pillow**  
*Vice President*  
Virginia Credit Union League  
Lynchburg, Virginia

**James W. Ricci**  
*President*  
Educational Systems Employees  
Federal Credit Union  
Bladensburg, Maryland

**Charles C. Schmitt**  
*Executive Vice President*  
Loyola Federal Savings and Loan Association  
Glen Burnie, Maryland

**H. Jerry Shearer**  
*Executive Vice President and Cashier*  
Commercial Bank of the South, N.A.  
Columbia, South Carolina

**Rita A. Smith**  
*Executive Vice President*  
West Virginia Savings League  
Charleston, West Virginia

**Edward J. Spirko**  
*Senior Vice President*  
Mercantile-Safe Deposit & Trust Company  
Baltimore, Maryland

**John J. Sponski**  
*Group Executive Officer*  
Sovran Bank, N.A.  
Norfolk, Virginia

**Thomas J. Strange**  
*Vice President*  
South Carolina Credit Union League, Inc.  
Columbia, South Carolina

**Charles E. Thomas**  
*Vice President*  
West Virginia Credit Union League, Inc.  
Parkersburg, West Virginia

**Rick A. Wiczorek**  
*President*  
District of Columbia Credit Union League  
Washington, D.C.

**C. L. Wilson III**  
*Senior Vice President*  
Branch Banking and Trust Company  
Wilson, North Carolina

**James R. Wilson**  
*Vice President*  
First Carolina Corporate Credit Union  
Greensboro, North Carolina

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Chaptico, Maryland

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*Chairman and Chief Executive Officer*  
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Easley, South Carolina

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*Owner/Operator*  
Williams Dairy  
Olin, North Carolina

**Joan H. Zimmerman**  
*President*  
Southern Shows, Inc.  
Charlotte, North Carolina

## Comparative Financial Statements

### CONDITION

	December 29, 1989	December 30, 1988
<i>Assets</i>		
Gold certificate account	\$ 943,000,000.00	\$ 917,000,000.00
Special Drawing Rights certificate account	745,000,000.00	461,000,000.00
Coin	78,277,772.64	61,789,181.28
Loans to depository institutions	2,500,000.00	122,017,000.00
Federal agency obligations	540,738,815.08	540,883,421.43
U.S. government securities		
Bills	8,667,303,585.84	8,756,490,892.12
Notes	7,573,372,060.47	7,061,475,288.10
Bonds	2,553,731,839.11	2,323,744,637.21
Total U.S. government securities	18,794,407,485.42	18,141,710,817.43
Cash items in process of collection	533,933,842.12	459,433,704.45
Bank premises	126,996,552.52	123,732,554.73
Furniture and equipment (net)	25,404,871.19	18,973,059.81
Other assets	2,194,241,892.71	877,251,213.96
Interdistrict settlement account	3,701,851,815.94	3,132,511,163.11
Accrued service income	5,188,047.66	5,004,507.58
<b>TOTAL ASSETS</b>	<b>\$27,691,541,095.28</b>	<b>\$24,861,306,623.78</b>

### Liabilities

Federal Reserve notes	\$23,180,117,124.00	\$20,095,524,553.00
Deposits		
Depository institutions	3,455,840,334.35	3,835,573,288.76
Foreign	8,700,000.00	8,400,000.00
Other	87,986,717.96	45,794,738.11
Total deposits	3,552,527,052.31	3,889,768,026.87
Deferred availability cash items	446,638,237.85	386,779,161.09
Other liabilities	233,397,281.12	242,323,182.82
<b>TOTAL LIABILITIES</b>	<b>\$27,412,679,695.28</b>	<b>\$24,614,394,923.78</b>

### Capital Accounts

Capital paid in	139,430,700.00	123,455,850.00
Surplus	139,430,700.00	123,455,850.00
<b>TOTAL LIABILITIES AND CAPITAL ACCOUNTS</b>	<b>\$27,691,541,095.28</b>	<b>\$24,861,306,623.78</b>

## EARNINGS AND EXPENSES

	1989	1988
<i>Earnings</i>		
Loans to depository institutions	\$ 1,612,252.18	\$ 987,580.03
Interest on U.S. government securities	1,624,011,524.12	1,438,247,017.22
Foreign currencies	60,079,567.77	16,742,569.69
Income from services	62,099,087.82	55,920,614.99
Other earnings	748,779.88	644,234.92
<b>Total current earnings</b>	<b>\$1,748,551,211.77</b>	<b>\$1,512,542,016.85</b>
<i>Expenses</i>		
Operating expenses	95,066,398.60	90,254,577.59
Cost of earnings credits	12,053,256.92	10,150,325.95
<b>Net expenses</b>	<b>107,119,655.52</b>	<b>100,404,903.54</b>
<b>CURRENT NET EARNINGS</b>	<b>\$1,641,431,556.25</b>	<b>\$1,412,137,113.31</b>
Additions to current net earnings		
Profit on sales of U.S. government securities (net)	1,208,662.07	1,939,690.33
Profit on foreign exchange transactions	74,329,418.38	0
All other	6,538,983.13	52.05
<b>Total additions</b>	<b>82,077,063.58</b>	<b>1,939,742.38</b>
Deductions from current net earnings		
Losses on foreign exchange transactions	0	28,609,022.36
All other	53,115.52	21,439.99
<b>Total deductions</b>	<b>53,115.52</b>	<b>28,630,462.35</b>
<b>Net additions or deductions</b>	<b>+ 82,023,948.06</b>	<b>- 26,690,719.97</b>
Cost of unreimbursed Treasury services	2,919,938.22	2,443,149.38
Assessment for expenses of Board of Governors	5,258,200.00	4,724,500.00
Federal Reserve currency costs	15,253,971.00	12,825,070.00
<b>NET EARNINGS BEFORE PAYMENTS TO U.S. TREASURY</b>	<b>\$1,700,023,395.09</b>	<b>\$1,365,453,673.96</b>
<i>Distribution of Net Earnings</i>		
Dividends paid	\$ 7,902,911.62	\$ 7,163,925.87
Payments to U.S. Treasury (interest on Federal Reserve notes)	1,676,145,633.47	1,348,753,798.09
Transferred to surplus	15,974,850.00	9,535,950.00
<b>TOTAL</b>	<b>\$1,700,023,395.09</b>	<b>\$1,365,453,673.96</b>
<i>Surplus Account</i>		
Balance at close of previous year	\$ 123,455,850.00	\$ 113,919,900.00
Addition of profits for year	15,974,850.00	9,535,950.00
<b>BALANCE AT CLOSE OF CURRENT YEAR</b>	<b>\$ 139,430,700.00</b>	<b>\$ 123,455,850.00</b>
<i>Capital Stock Account</i> (Representing amount paid in, which is 50% of amount subscribed)		
Balance at close of previous year	\$ 123,455,850.00	\$ 113,919,900.00
Issued during the year	18,763,100.00	11,028,350.00
	142,218,950.60	124,948,250.00
Cancelled during the year	2,788,250.00	1,492,400.00
<b>BALANCE AT CLOSE OF CURRENT YEAR</b>	<b>\$ 139,430,700.00</b>	<b>\$ 123,455,850.00</b>

## Summary of Operations

Operation	Number		Amount (\$thousands)	
	1989	1988	1989	1988
Currency and coin processed				
Currency received and verified	1,756,230,000	1,874,378,000	22,635,584	22,542,609
Currency verified and destroyed	613,353,000	620,699,000	5,466,155	5,054,682
Coin received and verified	1,542,831,000	1,655,134,000	248,019	266,908
Checks handled				
Commercial—processed*	1,457,293,000	1,387,465,000	963,051,688	928,351,369
Commercial—packaged items	295,102,000	284,171,000	108,394,000	102,136,000
U.S. government	66,372,000	67,855,000	137,260,000	121,640,471
Collections items handled				
U.S. government coupons paid	63,174	86,000	28,750	60,447
Noncash items	135,278	146,279	383,324	384,133
Commercial book-entry transfers originated	231,928	210,153	1,818,399,000	1,555,119,348
Funds transfers sent and received	5,230,327	4,735,102	8,888,053,000	7,972,217,000
Food stamps redeemed	169,121,000	187,066,000	961,097	905,348
Loans advanced	540	843	4,043,000	3,684,649

\*Excluding checks on this Bank.

# Officers (December 31, 1989)

## Richmond

Robert P. Black, *President*  
Jimmie R. Monhollon, *First Vice President*  
Welford S. Farmer, *Executive Vice President*  
J. Alfred Broaddus, Jr., *Senior Vice President and  
Director of Research*  
Roy L. Fauber, *Senior Vice President*  
James D. Reese, *Senior Vice President*  
Bruce J. Summers, *Senior Vice President\**  
James F. Tucker, *Senior Vice President*  
Fred L. Bagwell, *Vice President*  
Dan M. Bechter, *Vice President*  
Lloyd W. Bostian, Jr., *Vice President*  
Timothy Q. Cook, *Vice President*  
William E. Cullison, *Vice President*  
Donna G. Dancy, *Vice President*  
Wyatt F. Davis, *Vice President*  
Michael Dotsey, *Vice President*  
George B. Evans, *Vice President*  
William C. Fitzgerald, *Associate General Counsel*  
Marvin S. Goodfriend, *Vice President*  
Robert L. Hetzel, *Vice President*  
David B. Humphrey, *Vice President and  
Payments System Adviser*  
Thomas M. Humphrey, *Vice President*  
James McAfee, *Vice President and General Counsel*  
Michael W. Newton, *Vice President*  
Joseph C. Ramage, *Vice President*  
John W. Scott, *Vice President*  
Andrew L. Tilton, *Vice President*  
Walter A. Varvel, *Vice President*  
Roy H. Webb, *Vice President*

Kemper W. Baker, Jr., *Assistant Vice President*  
William H. Benner, Jr., *Assistant Vice President*  
Jackson L. Blanton, *Assistant Vice President*  
William A. Bridenstine, Jr., *Assistant General Counsel*  
Bradford N. Carden, *Assistant Vice President*  
Betty M. Fahed, *Assistant Vice President*  
Sharon M. Haley, *Assistant Vice President and Secretary*  
Eugene W. Johnson, Jr., *Assistant Vice President*  
Thomas P. Kellam, *Assistant Vice President*  
Anatoli Kuprianov, *Research Officer*  
Harold T. Lipscomb, *Assistant Vice President*  
Edgar A. Martindale III, *Assistant Vice President*  
Yash P. Mehra, *Research Officer*  
David L. Mengle, *Research Officer*  
Joseph F. Morrisette, *Assistant Vice President*  
Virginius H. Rosson, Jr., *Assistant Vice President*  
G. Ronald Scharr, *Assistant Vice President*  
Gary W. Schemmel, *Assistant Vice President*  
Marsha S. Shuler, *Assistant Vice President*  
James R. Slate, *Assistant General Counsel*  
William F. White, *Assistant Vice President*  
Howard S. Whitehead, *Assistant Vice President*  
Bobby D. Wynn, *Assistant Vice President*  
Arthur J. Zohab, Jr., *Assistant Vice President*  
Malcolm C. Alfriend, *Examining Officer*  
Whitley K. Crane, *Information Systems Officer*  
Floyd M. Dickinson, Jr., *Examining Officer*  
Jeffrey S. Kane, *Examining Officer*  
Susan Q. Moore, *Personnel Officer*  
Lawrence P. Nuckols, *Examining Officer*  
Virginia W. Shelor, *Information Systems Officer*  
Charlotte L. Waldrop, *Examining Officer*

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H. Lewis Garrett, *General Auditor*  
Robert E. Wetzel, Jr., *Assistant General Auditor*

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## Baltimore

Robert D. McTeer, Jr., *Senior Vice President*  
Ronald B. Duncan, *Vice President*  
William E. Pascoe III, *Vice President*  
John S. Frain, *Assistant Vice President*  
William J. Tignanelli, *Assistant Vice President*  
John I. Turnbull II, *Financial Services Officer*

## Charlotte

Albert D. Tinkelenberg, *Senior Vice President*  
Samuel W. Powell, Jr., *Vice President*  
Robert F. Stratton, *Vice President*  
Jefferson A. Walker, *Vice President*  
Marsha H. Malarz, *Assistant Vice President*  
Lyle C. DeVane, *Operations Officer*  
Ronald D. Steele, *Check Operations Officer*

\* On leave of absence

## Culpeper

John G. Stoides, *Senior Vice President*  
James J. Florin III, *Assistant Vice President*  
Thomas C. Judd, *Assistant Vice President*  
Julius Malinowski, Jr., *Operations Officer*

## Charleston

Richard L. Hopkins, *Vice President*

## Columbia

Woody Y. Cain, *Vice President*

*The new Charlotte building completes  
the Bank's long-range building program*



*Charlotte, dedicated 1989*



*Richmond, dedicated 1978*



*Baltimore, dedicated 1982*



