

ANNUAL REPORT
OF THE
FEDERAL RESERVE BANK
OF DALLAS

FOR THE YEAR ENDED DECEMBER 31, 1915



WASHINGTON
GOVERNMENT PRINTING OFFICE
1916

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TABLE OF CONTENTS.

	Page.
Opening of bank.....	5
Election of directors.....	5
Payment of capital.....	5
Discount operations.....	6
Clearance system.....	6
Federal Reserve notes.....	7
Cotton-crop movement.....	8
Relations with member banks.....	9
Scope of activity.....	10

ANNUAL REPORT OF FEDERAL RESERVE BANK OF DALLAS.

E. O. TENISON, Chairman and Federal Reserve Agent.

On May 18, 1914, pursuant to the summons of the reserve bank organization committee, authorized representatives of the First National Bank of El Paso, Tex., Durant National Bank of Durant, Okla., First National Bank of Shreveport, La., Frost National Bank of San Antonio, Tex., and Union National Bank of Houston, Tex., met in Dallas and executed the organization certificate which, in accordance with the provisions of the Federal Reserve Act, brought the Federal Reserve Bank of Dallas into corporate existence.

Following this, class A and B directors having been elected by the member banks, according to the Act, and class C directors having been officially appointed and announced by the Federal Reserve Board, a meeting of the entire directorate was held at Dallas on October 16 and devoted to general discussions of the organization of the bank. At this meeting the terms of office of directors of the different classes were established, and the election of Mr. Oscar Wells as governor took place, along with the selection of Mr. J. Howard Ardrey, of Dallas, as member of the advisory council. Immediately after this preliminary meeting a conference of directors of the several reserve banks was held in Washington, at which a majority of the directors of the Dallas bank were in attendance.

The second meeting of the board, held on October 29 at Dallas resulted in the election of Mr. R. L. Van Zandt as vice governor and Mr. J. W. Hoopes as cashier, after suitable by-laws had been adopted, and arrangements were made to perfect a clerical staff preparatory to the opening of the bank, soon to follow. At this meeting C. C. Huff was retained as counsel. The complete organization consisted of active officers, as follows: E. O. Tenison, Federal Reserve Agent; W. F. McCaleb, Deputy Federal Reserve Agent; Oscar Wells, governor; R. L. Van Zandt, vice governor; J. W. Hoopes, cashier; with a staff which included Sam R. Lawder, auditor; Charles C. Hall, secretary to the Federal Reserve Agent; Fred Harris, manager discount department; W. J. Donald, general bookkeeper; R. R. Gilbert, C. B. Cooper, C. J. Kinsolving, jr., A. P. Wooldridge, jr., and W. O. Ford, tellers; together with 11 other employees. Through the courtesy of those banks, the services of J. C. Tenison, of the City National Bank, and John Crosthwaite, of the Security National Bank, both experienced and capable tellers, were secured temporarily, and were of material assistance to the permanent staff.

• PAYMENT OF CAPITAL.

The initial capital installments having been called for November 2, the work of receiving these payments and issuing temporary certificates therefor was accomplished prior to the actual opening of the bank on November 16, which was the date set by Secretary of the Treasury McAdoo. The bank commenced business in temporary quarters, which had previously been used as a banking room, and the first reserve deposits were received according to the statutory requirements without undue confusion. The transfer of approximately six and one-half millions of dollars in gold and lawful money was accomplished within a few days.

At the time of the opening of the bank the business interests of this district were tremendously depressed on account of the complete breaking down of the market

for cotton. Every factor in our economic life was in great distress by reason of the fact that our principal product had fallen to a price below the cost of production. The psychological effect of the war in Europe had created an incipient panic among our productive interests and heavy losses in the aggregate had been borne before the remedial forces of our new legislation could be gathered. Immediately following the opening of the Federal Reserve Banks, however, a change was discernible, and within a short period of time a more normal condition was produced and was later followed by appreciable advance in the price of agricultural products.

Discount operations gradually gained strength until the time when, by the terms of the Aldrich-Vreeland Act, it became necessary to retire the emergency currency issued under that act. Member banks, having become more thoroughly familiar with the operations of the bank and the rediscounting privileges afforded, practically the entire amount of outstanding currency was retired through the aid of this bank. This was one of the first evidences to the banking public of the real service that could be expected of the reserve banks, and the easy manner of accomplishment of this materially furthered the popularity of the bank with its members and brought home to them the great potentialities of the system, thus causing a steady continuance of our discount operations during the summer months, until the high figure of \$7,729,000 was reached on September 30. Since that date the fall movement of commodities has resulted in substantial liquidation, until at this time (December 31) our bills discounted aggregate \$4,870,000.

During the early operations of the bank the clearing functions were limited to items drawn by member banks on member banks in the several reserve cities of the district, with the additional facility extended to members for transferring funds between this and other districts by the use of their drafts on us, and on May 27 the establishment of the gold settlement fund in Washington for the clearing of balances between the several Federal Reserve Banks made necessary the deposit of three and one-half millions of dollars in gold to settle the adverse trade balances accumulated against this district. The reversal of trade conditions since that time, due to the seasonal movement of our products, has more than recouped this loss of gold, and our balance in the gold settlement fund at this time is \$8,341,000.

On February 24 Oscar Wells, governor of the bank, having accepted the presidency of the First National Bank of Birmingham, Ala., tendered his resignation, and on April 6 Vice Governor R. L. Van Zandt was elected as his successor; J. W. Hoopes acceding to the vice governorship, and Lynn P. Talley, at that time cashier of the Lumbermans National Bank of Houston, Tex., was elected to the position of cashier.

The departure of Mr. Wells from the district necessitated the election of a class A director in his stead, and on February 15 the chairman forwarded to member banks, in conformity with the provisions of law governing, the necessary certificates and ballots, and called the election, with the result that Mr. John T. Scott, president of the First National Bank of Houston, Tex., was elected as Mr. Wells's successor.

CLEARANCE SYSTEM.

Simultaneously with similar action on the part of various other reserve banks, on June 1 an intradistrict collection system was inaugurated for the benefit of member banks desiring to use this facility. Membership therein was optional, and contemplated the reciprocal clearing of checks at par through us. At the outset 74 banks joined the plan, and since that date 36 additional banks have become members, while 35 have withdrawn. The amounts of checks cleared under this plan have averaged \$605,764 per day, and an average of 898 items have been cleared on country banks, in addition to an average of 304 items on members of the local clearing house.

The rates of exchange charged for collecting and remitting checks which are received by banks in this district, principally from their city correspondents, are higher than

charges made by banks in older sections of the country. These charges run from a minimum of one-tenth of 1 per cent to a maximum of one-quarter of 1 per cent, favoring the latter figure. The rates charged usually are either one-tenth, one-eighth, three-twentieths, or one-quarter of 1 per cent, and the estimated average rate charged (not, however, by any means on the average volume of business), three-twentieths of 1 per cent, or \$1.50 per \$1,000. Probably the average exchange collected on the average volume of business would be in the neighborhood of one-fifth of 1 per cent, or \$2 per \$1,000.

The clearing operations have had no appreciable effect in this district in reducing exchange charges, the volume of business and the number of banks involved in the clearing system being negligible. We believe that the matter of reduction in exchange charges has not been pressed by the city banks since the operation of the Federal Reserve Banks as before. Many accounts are maintained with city banks for the purpose of having checks sent by them to the bank maintaining the account and balance, to produce revenue by way of exchange charges for the drawee bank. Some sentimental influence is therefore present looking toward the maintenance of these accounts by the city banks. We believe, however, that if a system can be devised where checks on member banks in this district, or their equivalent, can meet at a common point and offset each other to a large extent, exchange charges and the sentiment in favor of them will gradually disappear, and that such an arrangement would in the main be gracefully accepted by the member banks. Under such a condition the transportation expense, upon which exchange charges are based, would only have to be considered as relating to the difference in the amount of checks received from and sent to the Federal Reserve Bank.

During the active cotton season in this district it has heretofore been necessary for member banks to ship large amounts of currency and coin from central reserve and subtreasury cities for use in gathering and marketing our products. Against these shipments member banks receive deposits of drafts on eastern and northern points, which cover the proceeds of the sale of the products, and these economic factors affect the market price of eastern and northern exchange materially from time to time. It has been the effort of this bank to serve its members more acceptably by becoming a medium through which the supply of, and demand for, exchange in the different sections of the district might be adjusted, making necessary the transfer of the minimum amount of actual funds into and from the district at various seasons of the year. In this manner we have purchased out-of-district exchange to the amount of \$48,044,240 and sold exchange on other districts in an aggregate of \$23,828,750. No profit has been contemplated in connection with this service, and the supply or demand has governed the rate entirely.

In line with the foregoing it may be of interest to state that we have endeavored to supply our member banks with currency and coin, and have, during the past season, distributed to member banks an aggregate of \$12,163,000 in currency, of \$597,000 in small bills and silver dollars, and \$236,400 in fractional coin, including nickels and cents. The bulk of this distribution will find its way back into the vaults of the bank after it has served its purpose, and the facilities are ample to carry it in storage until needed for a similar purpose during the ensuing year.

The issuance of Federal Reserve notes materially aided in this purpose, and since the opening of the bank these notes have been issued by the agent in the aggregate sum of \$16,180,000 against the deposit of bills receivable to secure. The bank has reduced its liability by the deposit of \$11,440,000 in gold, and has presented its notes for redemption to the agent in the amount of \$1,035,000. Notes aggregating \$61,000 have been forwarded by the agent to the comptroller for cancellation and destruction.

Following the decision of the Federal Reserve Board, on July 1 the transfer of 121 member banks in Oklahoma to district No. 10 was effected, leaving 42 members, in 8 counties in Oklahoma, attached to this bank. This transfer reduced the capital

of the Dallas bank \$186,500, and was accompanied by a reduction in its reserve deposits of \$397,700, and at the same time rediscounts of member banks to the extent of \$197,600 were transferred to the Federal Reserve Bank of Kansas City.

The issuing power of the bank has never been subjected to a test of efficiency, and the ease of the money market has made it necessary to reduce the regular rates of discount, which were first fixed at 6 per cent for paper maturing within 30 days and $6\frac{1}{2}$ per cent for paper of longer maturities, from time to time, to the present rates of: 4 per cent for paper maturing within 90 days and $4\frac{1}{2}$ per cent for paper of longer maturities, $3\frac{1}{2}$ per cent for trade acceptances maturing within 60 days, 4 per cent for trade acceptances maturing after 60 but within 90 days, and 3 per cent for commodity paper.

COTTON MOVEMENT.

On June 7 a circular was issued and distributed among the various member and other banks of the district in which was urged the gradual marketing of the prospective cotton crop, by properly warehousing the staple and disposing of the supply over an extended period, reminding the banks that paper secured by approved warehouse receipts covering readily marketable staples was highly desirable for rediscount with the Federal Reserve Bank. This circular, together with the efforts of the bankers and bankers' associations, had a decided effect in the desired direction, with the result that the average price of our principal product has been approximately double that of last year. The deposit of \$5,000,000 by the Secretary of the Treasury on September 4 gave added confidence to our growers and merchants, and the board of the Reserve Bank fixed a rate of 3 per cent for commodity paper having not more than 90 days to run, where such paper was secured by approved warehouse receipts, properly insured, and the maker was not being charged more than 6 per cent, either as interest, or commissions, or both. It has not been deemed desirable by member banks to avail themselves of this privilege extensively, the total amount of this class of paper having been accepted by this bank amounting to \$239,094.

Prior to the establishment of the commodity rate the board had established a preferential rate on trade acceptances of $3\frac{1}{2}$ per cent for maturities within 60 days, and 4 per cent for maturities, 61 to 90 days, and while some evidence is shown that this class of paper has been created, the aggregate amount offered for rediscount has been comparatively negligible, amounting to only \$160,795.

Discount operations had now extended to considerable proportions, and the machinery necessary to intelligently perform this service for our members had kept abreast of this advance. The bureau of credit information in this bank had been extensively developed, and enabled the executive committee to act upon offerings with certainty. Analyses of the reports of member banks, and, where necessary, special investigations disclosed their actual condition, and requests for, and careful consideration of, information submitted in connection with individual paper, made the extension of credit to members conform in every way to the safest banking principles. In several instances special investigations have been necessary in order to properly acquaint the executive committee with the condition of member banks, and these investigations have, without exception, proved of inestimable educational advantage to the banks themselves. Unfortunately, since the opening of the reserve bank, it has been necessary for the Comptroller of the Currency to appoint receivers for four of our members, but it is hoped that with the facilities opened since the enactment of the Federal Reserve Act, and the accompanying check to loose practices, the future need not bring a repetition of such action.

The accomplishment of the transfer of the second and third capital installments was materially aided by the Assistant Treasurer of the United States at New Orleans, Mr. W. W. Heard, who extended the facilities of his office in receiving direct from member banks shipments of gold coin and gold certificates for these payments. The transfer

of reserves, the second installment of which was made on November 16, was accomplished without the physical labor incident to the transfer of the first installment, for the reason that the change in banking conditions, and the establishment of the gold settlement fund at Washington, made it possible to receive transfers from reserve and central reserve cities, instead of the actual shipment of gold or lawful money. The deposits of the bank were increased by this installment to some \$9,200,000.

RELATIONS WITH BANKS.

During the month of August our vice governor, Mr. Hoopes, visited practically all of our member banks in Louisiana, with the view of bringing into closer relationship the interests of that community and apprising them more thoroughly of the advantages of membership in the Federal reserve system. Later, in November, Mr. Hoopes attended the meeting of the Arizona State Bankers' Association at Castle Hot Springs, Ariz., where he addressed the Convention, taking as his subject "The practical operation of the Federal Reserve Bank." On his return trip Mr. Hoopes visited several of the member banks in that section. Prior to these visits, and since the opening of the bank, several of our officers have attended various bankers' conventions in the district and have delivered addresses on the workings of the Federal reserve system. In May, the chairman accompanied Mr. Harding, member of the Federal Reserve Board, to the meeting of the Texas Bankers' Association, at Waco.

The effect of this intercourse has been far-reaching and the tangible results therefrom have been great. It is the policy of the bank to use every effort to bring the advantages and protection afforded by membership in the reserve system to the attention of both National and State banks.

Up to the present time only 10 State banks have affiliated themselves with us, and as long as existing easy conditions last it is doubtful whether they will see the necessity for membership. This bank made an extensive educational campaign with a view of placing before the State banks the advantages of the system and the steps necessary for affiliation, and it is hoped that the recent rulings of the Federal Reserve Board, for the benefit of State banks, will prove an added incentive to them to join.

The temporary quarters of the bank, affording no facilities commensurate with the volume of business transacted, the board of directors, after considerable deliberation, caused the purchase of a five-story building on the corner of Commerce and Martin Streets, and the same was remodeled and fitted with modern fireproof vaults, with a capacity sufficient for our needs. On November 1 the physical removal took place, and the quarters are quite adequate for the expanding requirements of the bank. The cost, when complete, will be approximately \$185,000, including building, fixtures, and equipment.

Beginning October 13 the chairman took the proper steps providing for the election of one class A and one class B director, to succeed the incumbents whose terms expire on December 31, and Mr. John T. Scott, of Houston, Tex., was reelected as class A director, and Mr. Frank Kell, of Wichita Falls, Tex., was reelected as class B director; each to serve for three years beginning January 1, 1916.

Fiduciary powers have been granted to 19 banks, and several applications are pending. The board has taken every possible safeguard to the end that fiduciary powers be granted to only such banks as are without doubt entitled to, and worthy of, this responsibility. The laws of the States have been carefully canvassed by counsel, who has rendered an opinion in connection therewith for the guidance of the directors. Each application is submitted to counsel before action by the board, and the merits of the individual case are weighed carefully before any recommendation is made.

SCOPE OF ACTIVITY.

As an evidence of the usefulness of the system, during the bank's existence it has served, in the matter of rediscounting, 366 banks, to an aggregate extent of \$27,795,797, and for the calendar year of 1915 the service has been extended to 360 banks, in an aggregate amount of \$26,756,905, the total number of notes handled being 21,648.

While the earning capacity of the bank is a subsidiary consideration, it is gratifying to report that earnings from all sources, principally bills discounted, show an excess of \$75,388 over all current and organization expenses.

The directors have held 14 regular and 3 special meetings, and in each case there has been a quorum present, and in most all instances full representation. At these meetings detailed reports of the operations of the bank are submitted by the governor and chairman of the executive committee, as well as the report of the auditor, etc., and matters of import are discussed frankly between the different classes of membership. It is gratifying to report that these discussions have been harmonious to a marked degree. Experience has shown that monthly meetings, as provided in the by-laws, are sufficiently frequent to meet the necessities. Our executive committee is composed of the governor, as chairman, Federal Reserve Agent, and one other director chosen by our board, selections being made in rotation from the others, and serving from one board meeting to the next. This committee meets daily and passes on the paper offered for rediscount, and other matters of importance to the bank's interest.

The general work of the bank has gone on without friction between the two departments. The Federal Reserve Agent and the governor have at all times been in complete harmony, and all matters of importance have been discussed between them before being put into operation.

Conditions in this district continue to improve. There has been a pronounced recovery from the depression that existed a year ago; in fact, from the opening of the Federal Reserve Bank a gradual improvement has been shown in practically all lines. That this bank has contributed its share in bringing about such a change there is no question. A very salutary lesson was learned during the unsettled conditions of last Fall, and forced economies by all have tended to put business of practically all lines on a better basis. The excellent prices realized by farmers have made possible liquidations of indebtedness that had been carried over from the past year, as well as their current obligations, and at the present time the outlook for the coming year is bright.

