

THE ESTABLISHMENT AND OPERATION OF
BRANCHES, AGENCIES AND CURRENCY FUNDS OF
FEDERAL RESERVE BANKS

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PART I

ORGANIZATION HISTORY

INTRODUCTION

Section 3 of the Federal Reserve Act as originally enacted provided that

"Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located....."

but gave the Board no authority to disapprove or to initiate action in connection with the establishment of a branch. Notwithstanding the fact that it had no specific authority in the matter, the Board in the early days of the System was subjected to strong pressure to establish branches in several cities throughout the land but the Federal Reserve banks appeared to be disinclined to open new offices. As a result there was some agitation for legislation making it compulsory for the Board to establish branches and to forestall such action the Board sponsored an amendment, which became effective on June 21, 1917, changing Section 3 of the Act to read:

"The Federal Reserve Board may permit or require any Federal Reserve bank to establish branch banks within the Federal Reserve district in which it is located....."

Prior to the passage of the amendment only one branch office (New Orleans) had been established but with the change in the law the number of new branches increased rapidly, five being established in the latter part of 1917; ten during 1918; four in 1919; two in 1920, and one in 1921; a total of 23 branches being in operation at the end of 1921.

Considerable doubt existed during this period as to the authority of the Board, once a branch had been established, to require its discontinuance even though subsequent developments clearly indicated that its operation was unnecessary. This point was, however, clarified by the passage of the McFadden

Act on February 25, 1927, which added a paragraph to Section 3 of the Federal Reserve Act specifically authorizing the Board to require the discontinuance of any branch established under that section. Two additional branches (San Antonio and Charlotte) which had been approved subject to the passage of the McFadden Act, commenced operations during 1927, increasing the number of branches to 25. No branches have been established since 1927. Up to December 31, 1937, no branch had ever been discontinued; however, one agency, the Havana Agency of the Federal Reserve Bank of Boston, and several currency funds have been discontinued.

The matter of the expense of operation of branches was, of course, of primary importance in the early days of the System and as an inducement to obtain branches, clearing house banks in at least one city offered to make up any deficit in expenses of the branch for the first year, while banks in other cities agreed to rediscount paper in sufficient amounts to permit earnings to cover any deficit, or to employ the branch to conduct clearing house examinations, paying as compensation an amount equal to the previous cost of conducting such examinations. However, with the increased earnings of the Federal Reserve banks during and immediately following the Great War, the expense of operation gradually became of less importance in connection with the establishment of branches, the primary consideration later being the rendering of service to member banks and through them to commerce, industry and agriculture.

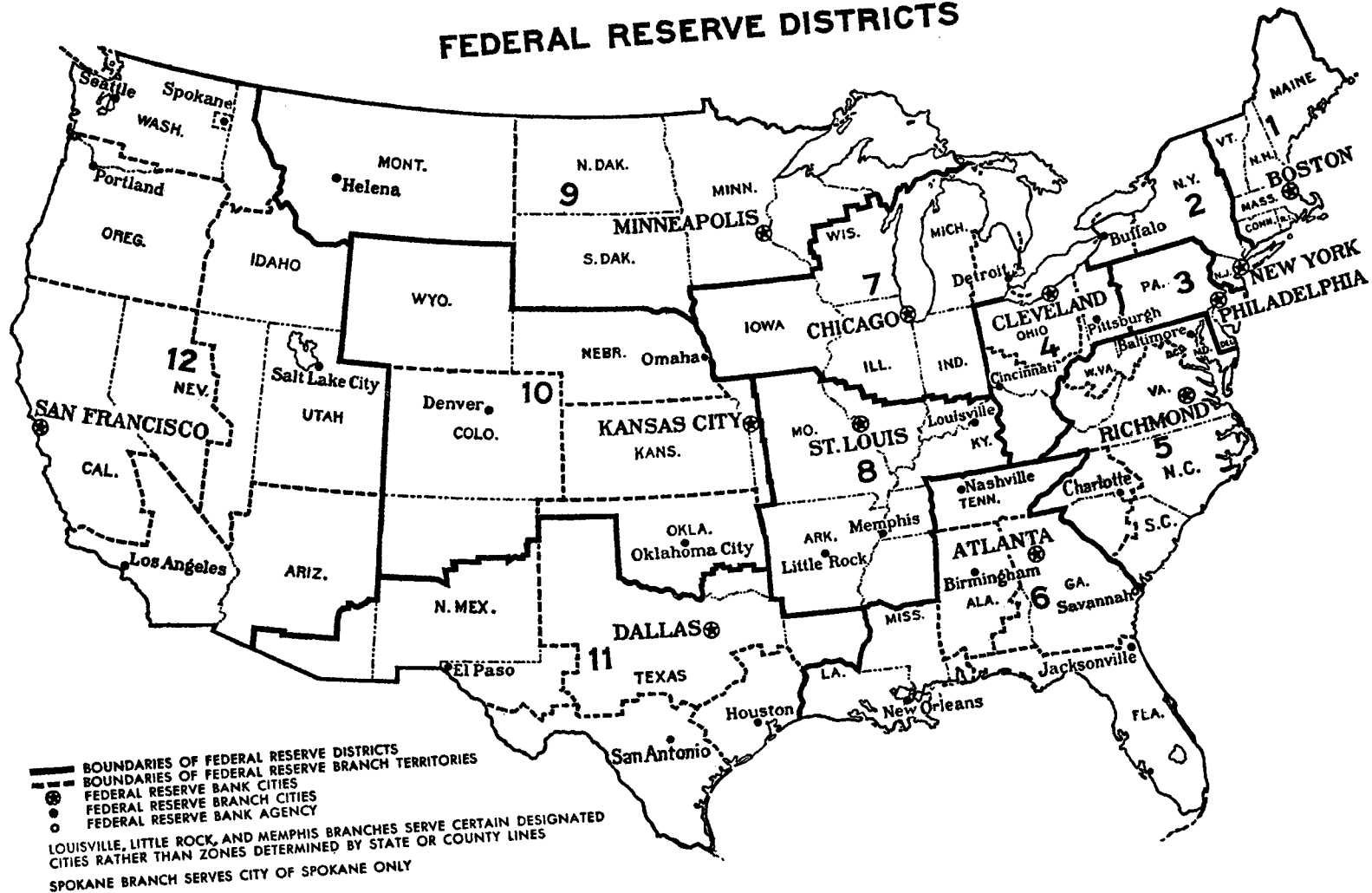
The following pages present in some detail a general history of the branch question and a review of the principal considerations involved in the selection of the various Federal Reserve branch, agency, and currency fund cities (Part 1) the results of previous branch surveys made by the Board (Part 2), and pertinent current statistical data and comments in connection with the operation of each of such units (Part 3).

Dates of establishment of Federal Reserve branches, agencies, and currency funds which were in operation as of December 31, 1937.

<u>Federal Reserve Bank</u>	<u>Branch</u>	<u>Date Established</u>
New York	Buffalo	May 15, 1919
Cleveland	Cincinnati*	January 10, 1918
"	Pittsburgh*	April 22, 1918
Richmond	Baltimore	March 1, 1918
"	Charlotte	December 1, 1927
Atlanta	Birmingham*	August 1, 1918
"	Jacksonville*	August 5, 1918
"	Nashville*	October 21, 1919
"	New Orleans	September 10, 1915
Chicago	Detroit	March 18, 1918
St. Louis	Little Rock	January 6, 1919
"	Louisville	December 3, 1917
"	Memphis	September 3, 1918
Minneapolis	Helena	February 1, 1921
Kansas City	Denver	January 14, 1918
"	Oklahoma City*	August 2, 1920
"	Omaha	September 4, 1917
Dallas	El Paso	June 17, 1918
"	Houston	August 4, 1919
"	San Antonio	July 5, 1927
San Francisco	Los Angeles	January 2, 1920
"	Portland	October 1, 1917
"	Salt Lake City	April 1, 1918
"	Seattle	September 19, 1917
"	Spokane	July 26, 1917
	<u>Agency</u>	
Atlanta	Havana	September 1, 1923
"	Savannah	February 4, 1919
	<u>Currency Fund</u>	
Philadelphia	Scranton	October 26, 1923

* Operated on "Memorandum Plan"

FEDERAL RESERVE DISTRICTS



LEGISLATIVE BACKGROUND

The Federal Reserve Organization Committee¹ was directed under Section 2 of the Federal Reserve Act "to designate not less than eight nor more than twelve cities to be known as Federal reserve cities"; to "divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities"; and to apportion the districts "with due regard to the convenience and customary course of business." It was recognized that in so limiting the number of regional banks and districts (as was deemed necessary in order to insure a strong and manageable de-centralized banking system) certain cities would be disappointed and many trade areas throughout the continental United States would suffer some disadvantages. In order to minimize such disappointments and disadvantages, Section 3, which read as follows, was incorporated in the Act:

"Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located and may do so in the district of any Federal reserve bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch banks shall possess the same qualifications as directors of the Federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The reserve bank shall designate one of the directors as manager."

As will be noted this section stated that "Each Federal reserve bank shall establish branch banks", and that the Federal Reserve Board's authority in the matter was limited to approval of rules and regulations under which such branches would operate and to the selection of three of the seven branch directors. Notwithstanding these specific provisions in the law the Board, in

¹ Composed of W. G. McAdoo, Secretary of the Treasury
D. F. Houston, Secretary of Agriculture
John Skelton Williams, Comptroller of the Currency

the early years of the System, was subjected to strong pressure to establish branches. Certain individuals also contended the provision relating to the establishment of branches was mandatory and that the Federal Reserve banks in delaying action on applications for branches were not fulfilling their duty under the Act. As a result there was some agitation for legislation making it compulsory for the Federal Reserve Board to establish branches. In order to forestall such legislation and to clarify the provision relating to the appointment of directors of branches, the Board announced during the early part of 1917 that it was seeking an amendment to Section 3. On June 21, 1917, Section 3 was amended giving the Board authority to "permit or require" any Federal Reserve bank to establish branches. The amended section then read:

"Sec. 3. The Federal Reserve Board may permit or require any Federal Reserve bank to establish branch banks within the Federal Reserve district in which it is located or within the district of any Federal Reserve bank which may have been suspended. Such branches, subject to such rules and regulations as the Federal Reserve Board may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the Federal Reserve bank of the district, and the remaining directors by the Federal Reserve Board. Directors of branch banks shall hold office during the pleasure of the Federal Reserve Board."

Prior to the passage of this amendment only one branch office (New Orleans) had been established. After its passage the number of branches rapidly increased; five being established in the latter part of 1917; ten during 1918; four in 1919; two in 1920 and one in 1921; a total of twenty-three being in operation at the end of 1921.

As the services rendered to member banks were broadened, the operating expenses of branches increased far beyond original estimates. It became apparent that the establishment of additional branches, many of which were

sought solely because of civic pride, would increase an already heavy burden of expense without materially improving the efficiency of the Reserve System as a whole.

The branch question was also complicated by the fact that considerable doubt existed as to whether the Federal Reserve Board, once a branch was established, had any authority to require its discontinuance even though subsequent developments clearly indicated that its operation was unnecessary.

The McFadden Act, which became effective on February 25, 1927, added a paragraph to Section 3, specifically authorizing the Board at any time to require the discontinuance of any branch already established, or to be established, under that section. The amended section (giving effect to the change in the Board's official title under the Banking Act of 1935) then read and still reads as follows:

"Sec. 3. The Board of Governors of the Federal Reserve System may permit or require any Federal reserve bank to establish branch banks within the Federal reserve district in which it is located or within the district of any Federal reserve bank which may have been suspended. Such branches, subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the Federal reserve bank of the district, and the remaining directors by the Board of Governors of the Federal Reserve System. Directors of branch banks shall hold office during the pleasure of the Board of Governors of the Federal Reserve System.

"The Board of Governors of the Federal Reserve System may at any time require any Federal Reserve Bank to discontinue any branch of such Federal Reserve Bank established under this section. The Federal Reserve Bank shall thereupon proceed to wind up the business of such branch bank, subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe."

Two additional branches (Charlotte and San Antonio), which had been approved subject to the passage of the McFadden Act, commenced operations during 1927, bringing the total to twenty-five.

No additional branches have been established since 1927. Up to December 31, 1937, no branch had ever been discontinued; however, one agency, the Havana Agency of the Federal Reserve Bank of Boston, and several currency funds, have been discontinued.

THE WORK OF THE FEDERAL RESERVE ORGANIZATION COMMITTEE AND THE PRINCIPAL FACTORS WHICH INFLUENCED ITS SELECTION OF RESERVE CITIES.

Pursuant to Section 2, the Organization Committee early in 1914 held public hearings in 18 of the leading cities of the country, gave audience to clearing house associations, chambers of commerce and to the representatives of more than 200 cities, and conducted an independent investigation by ballot among 7,471 national banks, which had formally assented to the Federal Reserve Act, as to their preference for Federal Reserve cities. Thirty-seven cities asked to be named Federal Reserve cities; consequently, 25 of them had to be disappointed. In announcing its decision, on April 2, 1914, the Organization Committee stated that the following factors, among others, had governed its selection:

"First. The ability of the member banks within the district to provide the minimum capital of \$4,000,000 required for the Federal reserve bank, on the basis of 6 per cent of the capital stock and surplus of member banks within the district.

"Second. The mercantile, industrial, and financial connections existing in each district and the relations between the various portions of the district and the city selected for the location of the Federal reserve bank.

"Third. The probable ability of the Federal reserve bank in each district, after organization and after the provisions of the Federal reserve act shall have gone into effect, to meet the legitimate demands of business, whether normal or abnormal, in accordance with the spirit and provisions of the Federal reserve act.

"Fourth. The fair and equitable division of the available capital for the Federal reserve banks among the districts created.

"Fifth. The general geographical situation of the district, transportation lines, and the facilities for speedy communication between the Federal reserve bank and all portions of the district.

"Sixth. The population, area, and prevalent business activities of the district, whether agricultural, manufacturing, mining, or commercial, its record of growth and development in the past and its prospects for the future."

In answer to criticisms directed at it following its selection of Federal Reserve bank cities the Organization Committee issued a further statement on April 10, 1914, which read in part as follows:

"Following its policy declared at the very outset, the committee refused to be influenced by the purely local and selfish claims of cities or individuals, and discharged the duty imposed upon it by Congress after exhaustive investigation and study of the entire country, with unbiased minds and according to its best judgment. With so many conflicting claims, somebody had to judge. Congress constituted the committee a court and gave the Federal Reserve Board the power of review. Disappointed competitors should seek a remedy through the orderly processes the law prescribed.

"Considerable comment has been occasioned by the failure of the committee to create districts suggested by New Orleans, with New Orleans as the location for a reserve bank; by Baltimore, with Baltimore as the location for a reserve bank; by Omaha, with Omaha as the location for a reserve bank; and by Denver, with Denver as the location for a reserve bank.

"The committee realized that the division of the country into districts was far more important and complex than the designation of the reserve cities, and that the latter duty was subsidiary and relatively simple, waiving considerations of local pride or prestige. In arranging the districts the consideration of the character and growth of industry, trade, and banking, no less than the traditions, habits, and common understandings of the people was much more intimately involved."

ATTITUDE OF THE FEDERAL RESERVE ORGANIZATION COMMITTEE TOWARD THE ESTABLISHMENT OF BRANCH OFFICES OF FEDERAL RESERVE BANKS.

In addition to applications filed with the Organization Committee for designation as Federal Reserve cities, a number of cities had applied for

designation as branch cities, as provided for by Section 3 of the Act. In connection with such applications the Organization Committee stated:

"It is no part of the duty of the organization committee to locate branches of the Federal Reserve banks. The law specifically provides that 'each Federal Reserve bank shall establish branch banks within the Federal reserve district in which it is located'. All the material collected by the committee will be placed at the disposal of the Federal reserve banks and the Federal reserve board when they are organized and ready to consider the establishment of branch banks."

While it was not the duty of the Organization Committee to designate branch cities, experts appointed by that Committee had considered the relationship of branch cities to reserve bank cities insofar as operating and accounting policies were concerned. The suggestions of these experts and proposed branch by-laws were incorporated in a circular to all Federal Reserve banks (No. 8, dated October 17, 1914). It was stated that such suggestions had not been finally approved by the Board and were offered simply as a basis for further discussion and in order to promote uniformity in the organization of Federal Reserve banks. This circular envisaged two classes of branches:

First, the establishment of local offices, without banking machinery, the directors of which would constitute a subcommittee whose function would be to pass on paper submitted for rediscount, certifying as to its desirability or disapproving it as the case might be, and transmitting it to the head office for actual rediscount, i.e., a limited agency.

Second, the establishment of a completely organized branch bank with a clearly defined territory and a proportionate capitalization based upon the total capital and surplus of the member banks in such territory, performing almost all, if not all of the functions of the parent reserve bank and maintaining records similar to those recommended for the parent bank in connection with all such functions, i.e., a full-fledged branch.

It was pointed out that branches of the first class would be the most advantageous from the standpoint of expense, since they would not involve adjustments in the proposed clearing system or the development of a system of accounting for the branch which would fit into the accounting system of the Reserve bank. The question was raised, however, as to whether such simple organizations would satisfy the demands of the communities in which they were located and whether they would provide a sufficient addition to the mechanism of the Federal Reserve System to warrant their establishment. In connection with branches of the second class, it was stated that they should be established only in clear cut, independent trading areas, whose territory was an economic unit and whose member banks naturally stood in close relationship to one another. It was stated, as a general principle, that in no event should a district be completely divided into branch areas, with the parent bank exercising no distinct banking functions except those of oversight; the theory being that in every district there should be a strong independent Reserve bank organization performing actual banking functions and directly rediscounting the paper of a considerable number of the member banks included in such district.

SOME OF THE EARLY PROBLEMS OF THE FEDERAL RESERVE BOARD - THE ESTABLISHMENT OF THE NEW ORLEANS BRANCH.

The newly organized Federal Reserve Board received applications from various member banks asking for changes in the selections made by the Organization Committee. Baltimore member banks requested that Baltimore instead of Richmond be designated the Federal Reserve city of the Fifth District; Pittsburgh member banks requested that Pittsburgh instead of Cleveland be designated the Federal Reserve city of the Fourth District; member

banks in the Eleventh District petitioned for the establishment of a branch at New Orleans and that they be permitted to attach themselves to such branch; and member banks in several other sections asked to be transferred from one district to another. These appeals were filed under that portion of Section 2 of the Act which provided:

"The determination of said Organization Committee shall not be subject to review, except by the Federal Reserve Board... The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in number."

Hearings on the question of changing the locations of Reserve banks and revising district lines were arranged for early in 1915 and, following a formal request by the directors of the Federal Reserve Bank of Atlanta, steps were taken to formulate regulations governing the operations of a branch at New Orleans. On May 4, 1915, the Board announced the first changes in district lines and on June 24, 1915, issued the following press statement relative to its approval of the New Orleans Branch of the Federal Reserve Bank of Atlanta:

"While the Board has carefully considered the principles which should be observed in opening a branch of the Federal Reserve Bank of Atlanta, it is not ready at this time to promulgate any general rules applicable to other points, as it regards the proposition as somewhat experimental.

"It is felt that the experience gained in this case will have an important bearing upon the future development of the branch-bank idea. Incidentally it may be mentioned that the banks comprised in the New Orleans Clearing House Association have undertaken to make good for the first year of operation any difference between the expense of conducting the new branch bank now proposed and the revenues to be derived from it.

"No definite assignment of territory has been made to the New Orleans branch, but it is understood that it is intended to assign to it the member banks of Louisiana and Mississippi in

district 6, and those of Mobile and Baldwin Counties, Ala. The banks in the territories so segregated will deal with the New Orleans branch only.

"The Board has directed that the New Orleans branch shall conduct only operations in the discount and purchase of commercial paper and acceptances and those relating to clearing, collection, and exchange transactions and transfers of funds. The issue of notes and the function of rediscounting with other Federal reserve banks, the purchase of United States bonds and notes, and dealings in warrants of 'municipalities' are to be carried on solely by the Federal Reserve Bank of Atlanta. All operations are to be reported promptly to the Federal Reserve Bank of Atlanta, and the Federal Reserve Board is to be advised of the same without delay. The transactions of the New Orleans branch will be considered as the transactions of the Federal Reserve Bank of Atlanta and so reported in the statements of the latter."

The New Orleans Branch of the Atlanta Reserve Bank, which commenced business on September 10, 1915, was distinctly a full-fledged branch, since it was given a clearly defined territory and was authorized to discount and purchase commercial paper and acceptances, to clear and collect items, to maintain reserve accounts, and to handle exchange transactions and transfers of funds. The capital stock of the Federal Reserve Bank of Atlanta held by member banks in the New Orleans territory was also regarded as capital of the branch for bookkeeping purposes and complete records of earnings and expenses were maintained. In approving the establishment of the New Orleans Branch the Board did not, however, abandon consideration of the simpler form of organization heretofore mentioned, as is evidenced by the following excerpt taken from the 1915 Annual Report:

"Investigation and experience have seemed to show that, at least for some years to come, the organization of branches with completely equipped offices, vaults, and the like, and with a full staff of salaried officials, will be too heavy an expense for most of the Reserve banks, yet, that valuable service would be performed by local offices of the several

banks in not a few places. The Board has, therefore, had under consideration the question whether establishing local agencies might not meet the requirements of the case better than the more fully organized branch office. Competent legal opinion is to the effect that the creation of such local offices is permissible under the terms of the law, and the Board believes that it may prove practicable to meet banking necessities in many sections of the country by this means."

The question of changing the location of Federal Reserve cities of Districts Four (Cleveland) and Five (Richmond) presented a more serious problem and, as additional appeals for adjustments in district lines were continually being received, the advisability of reducing the number of Federal Reserve districts and revising district lines, in such a manner as to settle all pending appeals, received consideration. Since there was some doubt as to the Board's power in the matter, the question was submitted to the Attorney General of the United States, who, on November 22, 1915, rendered an opinion that the Board had no power to abolish a Federal Reserve district. The Attorney General also ruled on April 4, 1916, that the Board was without authority to change the location of any Federal Reserve bank within a district.

These decisions left only two possible remedies for complaints of member banks concerning the geographical and economic aspects of the System; namely, to make acceptable adjustments in district lines or to establish additional branches or local agencies of Federal Reserve banks, which would make Reserve bank facilities more readily accessible to the complaining member banks. Although the Federal Reserve Act did not specifically authorize the establishment of agencies, counsel for the Board on October 5, 1915, expressed the opinion that there was no legal objection to the establishment by Federal Reserve banks of local agencies for the purpose of exercising

certain special or particular powers, which the parent bank was authorized to exercise under the Act.

GENERAL ATTITUDE OF THE BOARD TOWARD THE ESTABLISHMENT OF BRANCHES IN 1916 - THE MEMPHIS AGENCY.

There were no branches of Federal Reserve banks established during the year 1916. However, the Federal Reserve Bank of St. Louis opened an agency in Memphis, Tennessee, on September 25, 1916, which had as its sole function the custody of cotton warehouse receipts pledged as collateral to rediscounts of local member banks. This arrangement appeared desirable, since it was impractical to send such collateral, which was subject to frequent substitution, to St. Louis. This agency operated until January 20, 1917, and proved of great value to member banks and cotton factors in Memphis. The agency also operated during the Fall of 1917 and the Spring of 1918.

In its Annual Report for 1916 the Board made the following general comment concerning branches and local agencies:

"In view of the experience gained from the operation of the one branch bank in the entire system, it would seem wise, in considering the establishment of other branches, to take into account whether there is an actual need for them - immediate or prospective - growing out of the added convenience to the member banks which would naturally fall within the territory allotted to the branch, or whether the application for a branch is primarily a manifestation of local civic pride. In justice to all the member banks in a district where branches are sought to be established, it would be well to ascertain as nearly as can be done in advance, whether the branch would be really self-sustaining, i.e., whether the net profits growing out of its operation would exceed the net revenue that would accrue in any event to the parent bank.

"The Board would welcome legislation simplifying the organization and operation of branch banks and reducing the cost of maintaining them. This would enable the Federal Reserve Banks better to **determine** the question of branches.

"The Board has been informed that some of the Federal Reserve Banks are ready to establish agencies or offices in such cities in their districts as may require special services, such as the collection of checks or the making of loans on warehouse receipts. An agency of this kind was established by the Federal Reserve Bank of St. Louis in September at Memphis, Tenn. This has proved convenient to the banks of that city in the handling of the cotton crop."

It is also interesting to note that the Governors of Federal Reserve banks, at their conference in December 1916, passed the following resolution on the subject of branches and local agencies:

"That it is the sense of the conference that when conditions in a Federal Reserve District appear to necessitate the establishment of additional facilities in cities other than that in which the Federal Reserve Bank is located, such facilities should be provided through the means of Agencies, rather than through Branches, as contemplated by the Federal Reserve Act."

The resolution was brought to the attention of the Board by a Committee of Governors in a letter dated January 30, 1917, and the following reasons for its adoption were cited:

- "(a) The establishment of branches would involve large expense which, in the event several were necessary, would be almost if not quite prohibitive.
- (b) The establishment of agencies would be much less expensive, the difference being sufficient to be of vital importance.
- (c) The establishment of agencies would permit of more uniformity of operation, all being under the direction of the Federal Reserve Bank.
- (d) The establishment of branches with their semi-independent operation would undoubtedly tend to arouse conflict in policy and rivalry between sections.
- (e) The establishment of agencies would permit of the discontinuance of any agency or office which experience proved to be unnecessary or unprofitable, while there is no provision in the Federal Reserve Act for the discontinuance of a branch once established, regardless of how unprofitable or unnecessary that branch may prove to be.

- (f) The establishment of agencies would permit of the expansion of any one or all of them into fully organized branches whenever experience demonstrated the expediency of such a course."

As indicated by the above resolution and the preceding quotation from the 1916 Annual Report both the Federal Reserve Board and the Governors of the several Reserve banks felt that extreme caution should be exercised in establishing branches, chiefly because of the expense involved. It was also felt that Section 3, which provided for the establishment of branches, lacked clarity. As previously pointed out the Federal Reserve Board, because of agitation for legislation making it compulsory on its part to establish branches, sponsored an amendment to Section 3, which was enacted into law on June 21, 1917, under which the Board was authorized to "permit or require" any Federal Reserve bank to establish a branch and under which the provisions relating to the appointment of directors was clarified. This amendment centered responsibility for further development of the Federal Reserve branch system in the Board and left for its determination the question as to whether "branches", on the order of the one at New Orleans, or "agencies", such as the one at Memphis, should be established in the various cities which up to that time had applied for branches.

BRANCHES IN THE PACIFIC NORTHWEST - STANDARD BRANCH BY-LAWS ADOPTED.

It had been evident for some time, owing to the great size of the Twelfth District and the distance between cities, that the creation of branches or agencies in the Pacific Northwest would probably be necessary in order to afford member banks in that section quicker access to the discount and collection facilities of the System. In fact, the Organization Committee recognized this need and had indicated in its report that it might eventually

become necessary to request legislation permitting the establishment of a thirteenth Federal Reserve bank to serve that territory. This need was emphasized during the latter part of January 1917, when three small State banks in Seattle closed their doors. There was temporary fear that the situation might become more serious, but the Federal Reserve Bank of San Francisco sent a representative to Seattle, and let it be known that all of its resources were at the disposal of any local member banks which might desire to convert eligible assets into means of immediate payment.

Following this incident the question of Reserve bank facilities in the Pacific Northwest was carefully considered by the Federal Reserve Bank of San Francisco. Late in March 1917, Mr. A. C. Miller, member of the Federal Reserve Board, visited that bank and attended hearings at which bankers of Portland, Seattle, and Spokane presented arguments as to their need for branches. Following this meeting the Board announced that the Federal Reserve Bank of San Francisco had determined, with its approval, to establish branches in all three of the above-mentioned cities and that details of their organization and management would be revealed later. It was also stated:

"Meantime the Board has been giving careful consideration to the question of branches in other districts where member banks have indicated a strong desire for the extension of facilities in this way. For every such case the problem to be met is whether a full-fledged branch organized under the provisions of the Act, involving the expense which necessarily goes with such an organization, is called for or whether a more simply organized agency will meet the requirements of the situation. The answer to this question depends in each instance upon the character and volume of business developing at the point to be served and the support to be expected from the bankers of the community to be served by the branch."

On July 13, 1917, the Board announced arrangements for the organization of a branch of the Federal Reserve Bank of San Francisco at Spokane, Washington. As an evidence of cooperation Spokane Clearing House banks agreed to employ the branch to conduct clearing house examinations, paying as compensation an amount equal to the previous cost of conducting such examinations, and all local nonmember banks and trust companies agreed to maintain reserve deposits with the branch in the same percentage as if they were members and to be subject to the same penalties for deficiencies. It was also understood that local nonmember banks and trust companies would take steps to become members as soon as possible. It was felt that these concessions on the part of local bankers would reduce the net expense of operating the branch and that the System would be strengthened by the accession of new members.

The Spokane Branch commenced business on July 26, 1917. In connection with its establishment standard branch by-laws, subject to minor changes because of local conditions, were drawn up and adopted by the Board. Under these by-laws: (a) A branch was assigned a specific territory; (b) the Reserve bank capital contributed by banks in such territory was considered as capital of the branch for bookkeeping purposes; (c) the reserves maintained by banks in such territory were held at the branch; (d) the branch conducted all clearing and collection operations for banks in its territory, maintaining bookkeeping records incidental thereto; (e) the branch was empowered to rediscount for member banks in its territory up to a specified amount subject to approval of the Head Office; (f) the branch could not engage for its own account in open market transactions except subject to the orders and for

the account of the Head Office; and (g) the branch was supervised by a board of five directors, under direct control of the Head Office, three of whom were appointed by the Reserve bank and two by the Federal Reserve Board.

OTHER BRANCHES ESTABLISHED DURING 1917

In rapid succession branches were established in Omaha on September 4, 1917, in Seattle on September 19, 1917, in Portland on October 1, 1917, and in Louisville on December 3, 1917. All of these branches were established on the same general plan as the Spokane Branch. In each instance member and nonmember banks in these branch cities evidenced a willingness to cooperate with the Federal Reserve bank of their district. Omaha member banks passed a resolution agreeing, if necessary, to rediscount with the branch an amount sufficient at least to cover any deficit in expenses; Seattle and Portland bankers made approximately the same concessions as Spokane bankers had made; and Louisville bankers, who had previously resented being attached to the St. Louis Reserve Bank and who, as a result, were said to be hostile to the System as a whole, indicated a more friendly attitude toward the System. In the latter instance it was deemed unwise to use the establishment of a branch as a lever to bring nonmember banks into the System, as was done in the Pacific Northwest, although several banks indicated a willingness to do so.

MEMORANDUM PLAN BRANCHES - CHIEF REASONS FOR DEVELOPMENT

During 1917 applications for branches at Cincinnati and Pittsburgh were considered by the Federal Reserve Bank of Cleveland and the Board. A survey of the prospective territories to be assigned these branches indicated that reserve deposits of member banks in such territories would in the aggregate exceed by approximately \$24,000,000 the reserve deposits carried with the

Head Office at Cleveland and that, insofar as Federal Reserve bank stock was concerned, the two proposed branch zones would include member banks holding \$1,800,000 more stock than the banks attached to the Head Office; the proposed Pittsburgh zone itself having substantially larger member bank reserve deposits and Reserve bank stock holdings than the Head Office. This situation presented a problem which was not encountered in the branches previously established; that is, the possibility of seriously curtailing Head Office prestige and thus impairing the strength and unity so essential to the conduct of larger System operations. In addition the survey indicated that branches as contemplated in Pittsburgh and Cincinnati would cost between \$50,000 and \$60,000 annually; whereas branches previously established were then operating or expected to operate at a cost of approximately \$25,000 per annum.

The following comments appearing in a letter addressed to the Federal Reserve Bank of Cleveland (X-404) on September 21, 1917 (copies of which were sent to all Federal Reserve banks) reflect the attitude of the Reserve Board in the matter:

"The more we study the subject the more clearly do we see that there are two things in which banks in important cities away from the Federal Reserve cities are interested:

- First, A liberal supply of Federal Reserve notes which can be released quickly in an emergency; and
- Second, In some cases, at least, a collection agency to operate as a local and country clearing house.

"If the officers of your bank can work out this problem in a satisfactory way in Cincinnati, you will have performed an important service, not only at that point, but will be effecting a solution of the problem for a number of other points.

There are perhaps ten or fifteen cities in the United States which are justified in having such branches of limited power, but which are not justified in incurring the expense of full-fledged branches. It is not a sufficient argument to say that the local banks agree to furnish enough paper for rediscount to support a branch. What we are concerned with is to render the necessary service at a minimum of cost."

In cooperation with the Federal Reserve Bank of Cleveland the Board later announced the adoption of an alternative set of branch by-laws for use at Cincinnati and Pittsburgh. Branches established under these by-laws are known as "memorandum plan branches", chiefly because much of the bookkeeping incidental to their operation is performed at the Head Office upon receipt of daily telegraphic advices from the branch. Some of the more important provisions of these by-laws were: (a) such branches were to be established on the theory that they were offices of the parent bank, opened for the convenience of such member banks as might desire to use them; (b) such branches would be allotted a collection zone, but member banks therein could elect to continue to do business direct with the Head Office; (c) such branches would forward a daily transcript of all business transacted with banks electing to clear through them to the Head Office; the Head Office maintaining all incidental bookkeeping records; (d) such branches might, where the circumstances warranted, give immediate credit for rediscounts tendered by member banks in their collection zone electing to submit them, subject to final approval by the Head Office; (e) such branches would deal directly with all member banks in their collection zones insofar as exchange transfers, currency shipments and cash deposits and withdrawals were concerned; and (f) such branches would not for bookkeeping purposes be assigned any theoretical capital. The Cincinnati and Pittsburgh Branches were authorized to operate

under "memorandum plan by-laws" during the latter part of 1917.

In its Annual Report for the year 1917 the Board made the following statement concerning branches:

"The policy of the Board in the establishment of these new branches had been to recognize the unity and paramount responsibility of the Federal Reserve Bank, while extending full facilities to the banks in the territory served by the branch. By avoiding duplications in bookkeeping, and by consolidated control of accounts at the Federal Reserve Bank, it is expected that branches can be operated at a comparatively small expense."

BRANCH OFFICES ESTABLISHED DURING 1918

The Cincinnati and Pittsburgh Branches opened for business early in 1918. During the year "memorandum plan" branches were also established in Denver, Birmingham, Jacksonville, and Detroit and "full-fledged" branches were placed in operation at Baltimore, Salt Lake City, El Paso, and Memphis; the latter previously having been served by a temporary agency.

The applications of Denver, Jacksonville, Salt Lake City, and El Paso were approved chiefly because the territories which it was proposed they should serve were rather remote from any Head Office or existing branch, whereas the cities of Baltimore, Detroit, Birmingham, and Memphis were given branches largely because of their importance as financial and commercial centers. In connection with a number of the applications final approval was withheld pending the accession to membership in the System of additional non-member banks in the cities or territories to be served. It is interesting to note that the Detroit Branch was established chiefly because of intervention by the Federal Reserve Board; the management of the Federal Reserve Bank of Chicago on several occasions expressing opposition to the branch, both because of the division in territory which it would entail and because the service

rendered by the Head Office was considered adequate. Although the Board did not "require" the Chicago Reserve Bank to establish the branch, the files indicate that Detroit bankers were rather definitely assured it would be established sometime in advance of the date it was approved by the Chicago Reserve Bank. After a short period of operation the Denver and Detroit Branches were changed from "memorandum plan" to "full-fledged" branches.

The following statement in regard to branches is taken from the Annual Report of the Board for the year 1918:

"While section 3 of the Federal Reserve Act as amended June 21, 1917, authorizes the Federal Reserve Board to 'permit or require' any Federal Reserve Bank to establish branch banks within its district, it is the policy of the Board to have negotiations for branch banks originate between the community applying and the Federal Reserve Bank, and to review only such cases as may be referred to it after consideration by the directors of the Federal Reserve Banks.

"All of the branches have proved a great convenience to the communities served, and have tended to arouse a greater local interest in the Federal Reserve System. Many of them have justified their existence from the standpoint of earnings, while others recently established have not yet had an opportunity of demonstrating their ability to sustain themselves. In some cases the establishment of branches has been followed by accession to membership of a number of State banks in the localities served, and the usefulness of the branches has been greatly increased as a result.

"The by-laws governing the branches are approved by the Federal Reserve Board, and are uniform as far as recognition of the control and responsibility of the Federal Reserve Banks is concerned, but differ in some districts as to matters of administrative detail. In some cases the branch is empowered to make rediscounts for the member banks assigned to it, while in others the actual rediscounting operation is performed at the head office, the member banks being given credit at the branch as of the date on which the paper is tendered to the branch. In one case the earnings growing out of rediscounts are shown on the books of the branch, while in the other they appear only on the books of the Federal Reserve Bank; consequently a comparative statement of the earnings of the various branches can not be given.

"Clearing operations and the collection of country checks are engaged in by the branch banks, and the head offices are relieved of a corresponding amount of detail work.

"It is apparent, however, that too great a number of branches in any one district involving a division of the funds of the Federal Reserve Bank will tend to impair the effective control of the bank over its resources, and this fact, together with the expense involved in the operation of branch banks, will make it impossible to gratify the civic pride of many cities desiring branches.

"There are, unavoidably, some advantages enjoyed by member banks located in Federal Reserve or branch bank cities which are not shared by banks in other towns and cities, but the Board is endeavoring, as far as possible, to give equal facilities to all member banks, and has, therefore, authorized the Federal Reserve Banks to pay all charges on shipments of currency to or from member banks. A member bank, therefore, located at a distance from its Federal Reserve Bank, is thus put in as favorable a position with respect to currency transfers as a member bank located in the Federal Reserve city, with the exception of the time involved in transit."

The branches established during 1917 and 1918 were decidedly not the simple, inexpensive agencies mentioned by the Board in its 1916 Annual Report and recommended by the Governors at their Fall Conference in 1916. Undoubtedly, the increased use of Reserve bank facilities by the government and private interests after our entry into the World War, as well as a desire on the part of the Board to expand the cash collection system, was responsible in large measure for this changed attitude toward branches. It is true also that the earnings of the System had improved during this period and that the establishment of branches was only one of several steps taken to improve the facilities of the System for member banks and to make membership in the System more attractive to nonmembers.

BRANCH OFFICES ESTABLISHED DURING 1919

Federal Reserve facilities were expanded during the year 1919 through the establishment of four additional branches; namely, at Little Rock,

Houston, Buffalo, and Nashville. The cities of Little Rock and Houston were given "full-fledged" branches; the former being approved only after Little Rock bankers had vigorously protested that a limited power branch would not meet the needs of their community, which competed in a degree with the city of Memphis. Buffalo and Nashville were given "memorandum plan" branches, the latter being established "upon the understanding that the Board may decide to revoke this designation and consider a redistribution and reduction of branches in the Atlanta District if the establishment of this particular branch does not justify itself in the outcome". The reserve accounts of member banks in the Buffalo zone were subsequently transferred to the branch.

In the cities of Little Rock, Buffalo, and Nashville the establishment of the branch was used as an inducement to bring eligible local or nearby nonmember banks into the System. Although Houston's application was approved on condition applications for membership were received and approved from at least thirty eligible nonmember banks, having combined resources of not less than \$12,000,000, this requirement was withdrawn when the Federal Reserve Agent at Dallas advised the Board that it might lead to misunderstandings and prove very embarrassing to his office in maintaining a high standard of membership.

During the early part of 1919, the Federal Reserve Bank of Atlanta, with the approval of the Board, also established an agency at Savannah, Georgia. The functions of the agency were limited to supplying the currency and coin requirements of member banks in Savannah; acting as custodian of securities pledged by local member banks to secure rediscounts at the Atlanta Reserve Bank, holding in safekeeping securities belonging to local member

banks; and arranging for the settlement of local clearing house balances on the books of the Atlanta Reserve Bank, by telegraphic advice to Atlanta.

The Atlanta Reserve Bank also surveyed the currency situation on the Island of Cuba during the year 1919 and submitted a plan for redeeming United States currency then in circulation on the Island with its own notes. The various factors which prompted this survey and other steps leading up to the establishment of agencies of the Boston and Atlanta Reserve Banks in Havana, Cuba, will be discussed in subsequent pages of this memorandum.

In its Annual Report for the year 1919, the Board called attention to the statements in its 1918 report relative to the facilities afforded by branches and to the impracticability of establishing branches merely to gratify civic pride. It was also pointed out, apparently to discourage further applications for branches, that the policy which had been adopted of having the Federal Reserve banks pay all transportation charges on shipments of currency made to and from member banks had been continued with satisfactory results, and that, except as to time in transit, member banks in outlying sections enjoyed the same facilities in the matter of currency transfers as member banks in Federal Reserve cities.

BRANCH OFFICES ESTABLISHED DURING 1920 AND 1921 - OKLAHOMA CITY CONTROVERSY

On December 31, 1921, there were twenty-three branches of Federal Reserve banks in operation, those at Los Angeles, California, and Oklahoma City, Oklahoma, which were authorized during 1919, having been opened for business on January 2 and August 2, 1920, respectively, and the branch at Helena, Montana, also authorized in 1919, having been placed in operation on February 1, 1921. The branches at Los Angeles and Helena were opened on a

"full-fledged" basis, both serving territories which were remote from their respective head offices. In each instance, the establishment of the branches was preceded by entrance to the System of a number of nonmember banks.

Oklahoma City's application received special consideration because the Board also had before it applications from Muskogee and Tulsa, Oklahoma, both of which were located within the Tenth Federal Reserve District. Branches had previously been opened in Denver, Colorado, and Omaha, Nebraska, and the question as to just where the demand for branches would stop naturally arose. The Federal Reserve Board took the position that three branches would be the maximum number that could be expected in the Tenth District, and, insofar as Oklahoma City was concerned, it was indicated that it had not occurred to the Board that a branch in that city would be necessary because the distance to Kansas City was short. However, in March 1918 a questionnaire was sent by the Board to all member banks in Oklahoma to ascertain whether they preferred a branch at Tulsa or Oklahoma City. This questionnaire showed that, although Oklahoma City was preferred by a majority of banks desiring a branch, more than one-half of the member banks in the State (located in the Tenth District) wanted the branch at Tulsa or preferred to continue to do business with the Head Office. Thereafter a hearing was held, with a member of the Board attending, at which representatives of both cities were given an opportunity to argue the merits of their applications. At this hearing the Oklahoma bankers were advised that eligible State banks in Oklahoma had not supported the System and that a recommendation would be made that the Board decline both applications and not reopen the discussion until twenty or twenty-five substantial State banks became members. This recommendation was made and the Board acted accordingly.

Pressure for a branch continued to be exerted; Members of Congress and Secretary of the Treasury McAdoo interesting themselves in the matter. The question was further complicated when applications for branches were received from Wichita, Kansas, and Lincoln, Nebraska, both of which cities were also in the Tenth District. On July 24, 1919, the directors of the Kansas City Reserve Bank granted a hearing to representatives of Oklahoma City, Tulsa, Lincoln, and Wichita and thereafter voted not to establish an additional branch at that time. This decision was immediately appealed by Oklahoma bankers, supported by Senator Robert L. Owen, and the Board agreed to review all evidence submitted by and to hear committees from the four contending cities.

On or about the same time the Oklahoma City Clearing House Association circularized banks in Oklahoma requesting cooperation in protesting large earnings of the Kansas City Reserve Bank, the contemplated erection of a new Reserve bank building and the failure of the Reserve bank to establish a branch in Oklahoma; and asking for endorsement of a plan to request the transfer of the State of Oklahoma to the Eleventh Federal Reserve District if Oklahoma was not granted a branch. It would appear that this action was no more than an effort to embarrass the Kansas City Reserve Bank and bring pressure to bear on the Board.

The hearings on the appeal then before the Board were held as scheduled and based on the arguments made and briefs submitted, the Board advised the Kansas City Reserve Bank that it appeared a limited power branch in either Tulsa or Oklahoma City would be a convenience to member banks and the public in the southern portion of the Tenth District. The Board requested data

relative to mail facilities and check clearing, which was supplemented by a poll of all member banks in Oklahoma as to their preference for a branch, and on December 19, 1919, the Board announced that it had authorized and directed the Federal Reserve Bank of Kansas City to establish a limited power branch at Oklahoma City, but that it reserved the right to discontinue such branch if its operations were found to be unsatisfactory. This provision was similar to that stated in connection with the approval of the Nashville Branch of the Federal Reserve Bank of Atlanta. The Oklahoma City Branch has always operated on the "memorandum plan", although an effort has been made on several occasions to have its functions broadened.

BOARD'S POWER TO DISCONTINUE BRANCHES - THE McFADDEN ACT

As previously stated in this memorandum there was considerable doubt as to the Board's authority to discontinue branches under Section 3, as amended June 21, 1917. Because of this fact, the Board's Committee on Branches was instructed on September 26, 1923, to direct the General Counsel of the Board to render an opinion as to the power of the Federal Reserve Board in the matter of discontinuing branch Federal Reserve banks, and as to the power and authority of the board of directors of a particular Federal Reserve bank to discontinue branches which it had established. The committee was also requested to consider the advisability of submitting these questions to the Attorney General of the United States for his opinion. Counsel for the Board was of the opinion that neither the Federal Reserve Board nor a Federal Reserve bank had expressed or implied power to discontinue a branch which had once been validly established. It was admitted, however, that there was some doubt in the matter. Although this opinion was given to the Board during the latter part of 1923, it was not formally referred to the Attorney General

until January 25, 1926. The Attorney General informed the Board, through the Secretary of the Treasury, that his attention had been called to the fact that the McFadden Act, which was then under consideration, contained a provision expressly authorizing the abolition of branches, and that his opinion would be withheld until action on such legislation had been taken by Congress, unless there was some reason making an immediate response necessary. The Board indicated that there was no reason why the question should not be deferred until after Congress had finally legislated thereon.

The McFadden Act, which added a paragraph to Section 3, specifically authorizing the Board to require the discontinuance of branches, was approved on February 25, 1927.

BRANCHES AT SAN ANTONIO, TEXAS, AND CHARLOTTE, NORTH CAROLINA

On February 23, 1927, the Board advised the Federal Reserve Bank of Dallas that it had approved the application of Dallas directors for a branch at San Antonio, Texas, effective upon the signing of the McFadden Act. On February 25, 1927, similar advice was sent to the Richmond Bank relative to a branch at Charlotte, North Carolina. Both of these applications had been before the Board almost continuously since 1919, and, inasmuch as their establishment rounded out the Federal Reserve branch system as it exists today, the steps leading up to their establishment will be reviewed at some length.

San Antonio's application was filed on March 6, 1919, but was withdrawn in favor of an application by Houston, when it became apparent that the Board would not approve both applications. The withdrawal was only temporary, however, and shortly after the Houston Branch commenced operations San Antonio

again petitioned for a branch. Its application was approved by the Dallas directors with but one dissenting vote; that of the Federal Reserve Agent. The Agent stated that he had voted "no" for the following reasons: (1) the Board had already said it would not establish two additional branches in the Dallas District; (2) some of the territory sought by the San Antonio Branch had already been assigned to Houston and some was being adequately served by the Head Office, and (3) unless a firm stand was taken applications could also be expected from Amarillo, Shreveport and other cities. He indicated that the managing officers of the Dallas Reserve Bank were in hearty agreement with his views and that there was no pressing need for a branch. On October 20, 1919, the Board advised the Dallas directors that it "does not believe that the public interest requires a branch bank at San Antonio at this time and has, therefore, withheld its approval". From 1920 to 1925 sporadic efforts were made to obtain a branch or even an agency or currency depot, but in each instance the Board indicated its unwillingness to grant such facilities. The matter came to a head in the early part of 1927, when the Dallas directors again approved an application for a branch at San Antonio and Congressional leaders such as Senator Glass and Representatives Garner and Wurzbach added their support to San Antonio's petition. As stated heretofore the Board's approval was finally obtained, conditioned on the passage of the McFadden Act, and the San Antonio Branch opened for business on July 5, 1927.

During 1919 the Board received applications for branches from clearing house associations in Charleston, South Carolina and Wilmington, North Carolina. These associations were advised that it had been the Board's policy to have all applications for branches originate at the Federal Reserve banks

and that, accordingly, their applications should first be presented to the Federal Reserve Bank of Richmond. In following up the matter, the Board advised the Richmond Bank that information had been received to the effect that banks in North and South Carolina were desirous of having a branch and that the Board wished to know whether the Richmond Reserve Bank had received any applications, and if so, what conclusions had been reached regarding them. On December 11, 1920, the Richmond Reserve Bank replied that a petition for a branch, at a point yet to be determined, had been submitted by committees representing bankers of North and South Carolina and that a separate petition had also been made for a branch in South Carolina. The Board asked the Richmond Reserve Bank to settle the matter one way or another in order to forestall requests for hearings at Washington. Thereafter, hearings were held in Richmond and a thorough investigation as to the most desirable location for a branch in the Carolinas was conducted by the Richmond Reserve Bank. These hearings and investigations extended over a period of three years and on November 7, 1924, the directors of the Richmond Bank requested permission to establish a branch at Charlotte, North Carolina. Subsequently, the directors of the Richmond Bank appeared before the Board in an effort to show cause why their request should be granted. On June 3, 1925, the Board's Committee on Branches recommended disapproval of the proposed Charlotte Branch. The Board concurred in this recommendation and so advised the Richmond directors, who expressed regret at the Board's action and later requested a rehearing in the matter. After some disagreement as to the character of the hearing, invitations were sent by the Board to representatives of Charlotte, Wilmington, Spartansburg, Greenville, Columbia and Greensboro advising them that a hearing

would be held in Washington on January 15, 1926, for the purpose of discussing the necessity for a branch in the Carolinas and the proper location for such branch, if established. This hearing emphasized the disagreement existing among the various cities and as a result the petition of the Richmond directors to establish a branch at Charlotte was tabled pending the receipt from the Attorney General of an opinion as to the Board's authority to discontinue branches. With the passage of the McFadden Act this opinion became unnecessary. The Charlotte application was reconsidered and approved and a branch of the Richmond Reserve Bank was opened in that city on December 1, 1927.

The San Antonio and Charlotte Branches were organized and have always operated on a "full-fledged" basis.

HAVANA AGENCY

During the period of military occupation of Cuba at the turn of the century all customs, taxes and public and private debts were, by order of the President of the United States, made payable in United States currency or in foreign gold coin at specified rates of exchange. Under this order United States currency became the chief medium of exchange on the Island. This condition was not changed by the Treaty of 1903, since the new Cuban Government, while having power to set up a central bank and issue its own currency, also by act made United States currency legal tender for all purposes public and private.

The Platt Amendment to the Treaty of 1903, reserved to the United States the right to intervene in Cuban affairs to preserve a stable government. It also limited the Cuban Government's authority to contract public

debts. These provisions offered a measure of security to American capital invested on the Island and encouraged an inflow of new capital. Trade between the two countries was fostered, American banking interests sought and obtained representation in the banking life of the Island, and banking transactions between the United States and Cuba grew in number. This led to a substantial increase in the amount of United States currency circulating in Cuba.

After the Federal Reserve System was established Federal Reserve notes and Federal Reserve bank notes quite naturally found their way to the Island, forming a substantial part of its circulation. However, since shipping and insurance charges on currency were high, transfers of notes were chiefly confined to those of larger denominations. In the absence of any definite program of redemption, notes of smaller denominations already on the Island, or which found their way to the Island, continued to remain in circulation even though far below the usual standard of fitness.

Because of proximity to Cuba, notes of the Federal Reserve Bank of Atlanta constituted the bulk of Federal Reserve notes on the Island. The Atlanta Bank, which had the smallest volume of domestic circulation of any Reserve bank, regarded its Cuban circulation with favor, since the gold received in exchange for such notes augmented its gold reserves and thus broadened its investment and credit base. With a view to further expanding its Cuban circulation, the Atlanta Reserve Bank in 1919 surveyed the currency situation on the Island and subsequently submitted to the Board a program for replacing \$50,000,000 of unfit United States notes, then estimated to be circulating on the Island, with its own notes. It was contemplated that the exchange could be accomplished at a profit, since theoretically it would bring \$50,000,000

of gold into the Atlanta Bank, \$30,000,000 of which, as excess gold reserves, would be available for investment or as reserve for an additional \$75,000,000 in circulation. It was pointed out that this program would clean up the currency on the Island, although the estimated replacement was based on notes of \$5 or over and did not contemplate the renewal of notes of smaller denominations, which were in extremely poor condition.

The Board took issue with this plan maintaining that by far the larger part of the paper money circulating in Cuba consisted of National Bank notes and Federal Reserve notes and that the redemption of such notes, other than those of the Atlanta Bank, by the Atlanta Bank would merely expand its gold reserves and contract gold reserves of other Federal Reserve banks without adding appreciably to the System's gold holdings. The Atlanta Reserve Bank was advised that the Board did not feel that the System would be strengthened by such an exchange of notes. It was indicated that Cuban branches of American banks might find it good business to look after the redemption of unfit notes on the Island. In investigating Atlanta's program it was also pointed out that Cuba was enjoying currency circulation at no expense; that Cuba might well bear the expense of keeping such circulation fit; that Atlanta's program, insofar as the investment profits were concerned, could well lead to inflation and to harmful competition for desirable paper; and that Atlanta's computations were based on gold reserves of 40% which, although legal, were abnormally low. No action was taken in the matter by the Atlanta Reserve Bank at that time.

During the latter part of 1920, the Cuban Government requested the assistance of the State Department of the United States in having established

in Cuba a Federal Reserve agency for the redemption of all old and deteriorated currency circulating on the Island, because it was regarded as dangerous to public health. This request was brought to the attention of the Federal Reserve Board by the Treasury Department and the Board stated that it was not considered desirable to establish an agency in Cuba, but that it would be pleased to work out some arrangement with the Cuban Government whereby the Cuban treasury or Cuban banks would undertake to collect and ship unfit notes to the Jacksonville Branch of the Federal Reserve Bank of Atlanta for redemption.

On June 18, 1921, the Federal Reserve Bank of Atlanta, upon resolution of its directors, decided to investigate the feasibility and desirability of establishing an agency at Havana, Cuba. Following this investigation the directors of the Atlanta Reserve Bank passed the following resolution:

"Whereas, should in the discretion and wisdom of the Federal Reserve Board, they consider the establishment of a branch or agency of the Federal Reserve System in Cuba, be it

"Resolved, that in view of the proximity of the Atlanta bank to Cuba, and the intimate business relations of people in our district, we ask that at the time your Board considers this matter, that the Federal Reserve Bank of Atlanta be allowed the privilege of a conference with your Board as to such branch or agency being established under the jurisdiction of the Atlanta Federal Reserve Bank."

At a later date, with the consent of the Board, the Atlanta Bank arranged to handle at its Jacksonville Branch exchanges of unfit notes forwarded from Cuba, provided the Cuban authorities assumed the expense and risks incidental to such transactions. The Cuban Government was advised of this arrangement, but delayed use of the facilities offered apparently because of the expense involved. In an effort to meet this objection the

Atlanta bank in 1922 sought authority to designate the Havana Branch of the National City Bank of New York as its agent in Cuba, with a view to having such branch maintain a stock of notes on the Island; it being understood that the National City Bank would absorb all shipping and insurance charges. The Federal Reserve Board took the position that such designation should not be made except at the request of the Cuban Government. No such request was made by the Cuban Government. Subsequently, the Atlanta Bank handled one exchange, involving \$8,042,000 of unfit one's and two's for the Cuban Government through its Jacksonville Branch. It was estimated, however, that approximately \$84,000,000 in notes of the Atlanta Bank, mostly of larger denominations, had been shipped to Cuba at the request of American banks, such banks receiving currency from the Island which, insofar as Atlanta was concerned, was returned through ordinary channels.

The Cuban situation again came before the Board on April 5, 1923, when the directors of the Federal Reserve Bank of Boston passed a resolution directing the Governor of such bank, with the approval of the Federal Reserve Board, to take immediate steps to establish an agency of the Boston Bank in Havana for the purpose of conducting operations permitted under Section 14(e)² of the Federal Reserve Act. Hearings regarding this resolution, attended by representatives of the Boston, Atlanta, New York and Philadelphia Reserve Banks and private bankers, were held in Washington on April 30 and May 7, 1923.

The establishment of the agency was strongly opposed by the New York and Atlanta Reserve Banks; the former because it believed the establishment of such

2 Authorizes the establishment of agencies of Federal Reserve banks in foreign countries ".....wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange....."

a direct agency would constitute a dangerous precedent and the latter because it believed the Atlanta district by virtue of a prior resolution and geographic location was entitled to first consideration. The Federal Advisory Council also reviewed the matter and made the following recommendation:

"While the Council is in full sympathy with the ends that the Board is trying to attain, it believes that the plan as now contemplated would not prove successful in actual operation and that what the Board desires to achieve can and should be accomplished by other and simpler means which would not involve the ominous step of permitting Federal Reserve Banks to establish organizations of their own in foreign countries.....a step which in the opinion of the Council was not contemplated by the Act..... a step for which the traditions of the important European central banks would give no precedent."

President Harding and members of his Cabinet believed that a Federal Reserve agency in Cuba would aid in the expansion of American commerce; the President expressing hope that it would be possible to satisfactorily adjust the contention between Boston and Atlanta. The American Ambassador to Cuba also urged early action to establish such an agency in order to forestall the establishment of a Cuban bank of issue, which was considered highly undesirable, and, to check, if possible, the absorption of the Island's private banks by Canadian interests. He also felt that such an agency would bring about reduction in the abnormally high discount rates maintained on the Island.

The Federal Reserve Board, having decided to establish an agency in Cuba, arranged a further hearing in the matter at which representatives of the Boston and Atlanta Reserve Banks were requested to be present. This hearing was held during May 1923 and on June 28, 1923, the Board announced that it had decided to approve a plan under which the Federal Reserve Banks

of Boston and Atlanta were to open agencies in Havana. This plan was incorporated in a resolution adopted by the Board on June 27, 1923, and amended on July 30, 1923. While it gave the Federal Reserve Bank of Boston priority in the purchase and sale of all cable transfers and bills arising out of our trade with Cuba, except such bills as originated in or were drawn upon banks or other drawees in the Sixth Federal Reserve District, it reserved to the Atlanta Bank the right to supply the currency involved in such transactions or otherwise entering into circulation on the Island. Each agency was authorized to perform transactions of the type to be handled by the other only with the permission or upon the refusal of the other to do so.

On September 1, 1923, agencies of the Federal Reserve Banks of Boston and Atlanta were opened in Havana. The Boston Agency operated with a small personnel and at comparatively small expense, since its activity was confined to the purchase and sale of cable transfers, which were collected or paid, as the case might be, by the Atlanta Agency. Consequently, the Boston Agency showed a fair profit. On the other hand the Atlanta Agency, which had no source of income, was required to maintain a relatively large personnel to handle currency payments and receipts on the Island, and in addition had to absorb printing, shipping and insurance charges incidental to the replacement of such currency.

There was considerable friction between the two agencies regarding the scope of their activities and the desirability of consolidating the agencies soon became apparent. In April 1926 the Boston Agency at the request of banks in Cuba, which were experiencing or threatened with runs, sold cable transfers aggregating \$32,900,000 payable in Havana. The Atlanta Agency had on

hand less than \$7,500,000 of currency and was unable promptly to complete these transfers; some of which were delayed two or three days pending the arrival of additional currency by special train, plane and boat from Atlanta. Shortly after this incident the Federal Reserve Bank of Boston addressed a letter to the Board outlining the unsatisfactory features of the existing situation in Cuba and stating that, unless the Board was disposed to consolidate the two agencies under its direction and control, its agency in Havana should be discontinued.

The Board reviewed the question and on December 22, 1926, passed a resolution authorizing the Federal Reserve Bank of Boston to discontinue its Havana Agency, effective January 1, 1927, and authorizing the Federal Reserve Bank of Atlanta to assume the functions previously performed by the Boston Agency. On January 27, 1927, the Board also passed a resolution re-defining the functions to be performed by the Atlanta Agency. Subsequently, the Federal Advisory Council considered the question of the establishment and maintenance of the Havana Agency and reached the following conclusion, which was brought to the attention of all Federal Reserve banks on May 26, 1927 (X-4860):

"The Federal Advisory Council recognizes that it is not advisable to discontinue the Cuban Agency at this time. The Council, however, wishes to reiterate the view to which it has given expression on several occasions in the past, to wit: that it does not believe it to be good policy for the Federal reserve banks to establish agencies of the character of the Cuban Agency outside of the Continental United States. The Council, therefore, suggests to the Federal Reserve Board that it study the whole problem to the end that, if possible, some plan be devised which may be an effective substitute for the present arrangement."

While the operations of the Cuban agency were reviewed from time to time between the years 1927 to 1933 no action was taken to discontinue or curtail

its functions. In fact on January 2, 1929, the Board broadened the functions of the agency to permit direct exchanges of new or fit currency for United States coin tendered by the Treasurer of the Republic of Cuba, or any banking institution doing business in Havana.

A period of political unrest began in Cuba in 1933, when President Machado was deposed from the presidency. Political factions sought control of the government, constitutional forms were abandoned and riots and strikes ensued. In view of the risks arising from these conditions, as well as the fact that transportation facilities between the Jacksonville Branch and Cuba had improved, the Atlanta Reserve Bank on June 8, 1934, passed a resolution under which the Board was requested to permit discontinuance of the Havana Agency. On July 13, 1934, the Board held a meeting in Washington, which was attended by representatives of American and Canadian banks having offices in Cuba, to consider the matter. All the bank representatives present at this meeting were of the opinion that the agency should be continued. The State Department of the United States also urged that the agency be continued until more stable conditions prevailed in Cuba. In view of the existing sentiment, the Atlanta directors reconsidered the question and advised the Board that the Atlanta Bank would cooperate in a System operation of the agency and that, in their opinion, such an arrangement would be a proper solution of the problem. On October 31, 1934, the Board addressed a letter to all Federal Reserve banks outlining Atlanta's position in regard to the agency, stating the suggested solution to the problem, and requesting advice as to their attitude toward participation with the other Federal Reserve banks in the operations of the agency by the Federal Reserve Bank of Atlanta on a System basis. All of the

banks eventually agreed to participate in the operations of the agency under the following conditions: (a) the Atlanta Bank would defray all usual operating expenses, since the circulation of its notes in Cuba at times worked to its advantage; (b) all of the Reserve banks would share in the net profits of the agency, if any their respective shares to be determined by the amount of their capital and surplus; (c) any loss (not covered by collectible insurance) due to civil commotion, war, riot, insurrection, robbery, etc., would be shared by all of the Reserve banks their respective shares to be determined by the amount of their capital and surplus; (d) the Atlanta Bank would provide certain specified types and amounts of insurance; (e) the Atlanta Bank would alone be responsible for the ordinary operations of the agency, would furnish each Reserve bank with statements covering operations of the agency at not less than monthly intervals, and would not, without the consent of the other Reserve banks and the Board, make any change in the nature or extent of agency operations.

On May 23, 1935, the Board addressed a letter to all Federal Reserve banks (X-9217) stating that formal agreements relating to the operation of the Havana Agency as a System agency had been executed and exchanged between each Reserve bank and the Atlanta Reserve Bank and that the Havana Agency would begin operating under the new arrangement on June 1, 1935.

During 1935, the Cuban Government began issuing its own currency. This money circulated freely on the Island and its use, together with prevailing adverse economic conditions, seriously affected the earnings of the Havana Agency. Faced with a series of increased operating deficits, the Atlanta directors on February 14, 1936, again passed a resolution to request the Board's permission to discontinue the agency at such time as such action could be taken without unduly affecting the banking and business interests

of Cuba, or, as an alternative that some plan be formulated under which the agency might be operated without incurring a substantial operating loss.

A new treaty between the United States and Cuba was ratified by the United States Senate on May 31, 1936. This treaty superseded that of 1903 and under it the United States abandoned the right to intervene in the internal affairs of Cuba, as was possible under the Platt Amendment to the earlier treaty. Following this action the Atlanta directors again reviewed the Cuban situation and on September 11, 1936, passed a resolution similar to the one passed earlier in the year, and on January 11, 1937, submitted a revised form of agreement to the Board under which each Reserve bank would bear a pro rata share of any deficit arising from operation of the agency. No action was taken regarding this revised agreement.

The matter of the discontinuance of the Havana Agency was, however, again considered by the Board in December 1937, at which time a conversation was had with the Under Secretary of State to determine the attitude of the State Department toward the possible discontinuance of the Havana Agency. The Under Secretary said at the time that the Cuban Government had had a technical commission studying with the State Department and the Treasury Department certain reform measures to be undertaken by the Cuban Government with regard to its currency system, central banking possibilities, etc., and until the two governments had reached a decision as to what it was desirable to do in a rather far reaching program, hoped very much that the Federal Reserve System would take no action to terminate the agency at Havana. The Under Secretary said that if any further action in the matter could be deferred for at least another six months, it would be appreciated by the State Department,

and in a letter dated January 7, 1938, the Board advised President Newton of Atlanta of the conversation with the Under Secretary of State and stated that unless further advice was received from the State Department before July 1, 1938, and in the absence of further developments, the Board would take the matter up again with the State Department at that time and advise Mr. Newton of the results.

After the expiration of the six months' period further conversations regarding the matter were had and correspondence exchanged with the State Department and although the State Department suggested that the question of discontinuing the Agency again be deferred, the Board under date of August 3, 1938, adopted a resolution authorizing and directing the Federal Reserve Bank of Atlanta to discontinue the maintenance and operation of the Agency at Havana as soon as practicable and in no event later than the close of business December 31, 1938.

Information submitted by the Board's Examiners in connection with an examination of the Havana Agency as of January 28, 1938, indicates that there is now an almost complete absence of American money in active circulation in Cuba, it having been supplanted by the Cuban currency placed in circulation beginning in 1935. This situation has naturally resulted in a decided "drying up" of activities at the Agency.

CURRENCY FUNDS - SCRANTON, PENNSYLVANIA

Prior to January, 1922, member banks in Scranton, Pennsylvania, and the immediate vicinity, when called upon to meet heavy payrolls or other emergencies, were sometimes inconvenienced by the late arrival of currency from the Federal Reserve Bank of Philadelphia, due to poor rail facilities. In order to correct this situation, the Federal Reserve bank entered into an agreement with the First National Bank of Scranton whereby such bank was made

custodian of a \$1,000,000 currency fund which could be drawn against by member banks in Scranton and its vicinity, whose currency shipments did not arrive on schedule; the fund being reimbursed when the delayed shipment arrived. Under the agreement the fund was carried in a safe deposit box at the First National Bank, such bank pledging marketable investments with the Reserve bank as security and assuming all liability for losses, except on shipments to and from the Reserve bank.

This agreement remained in effect until October 1923, at which time the fund was increased to \$2,000,000 and a new agreement was executed which provided that:

- (1) The fund should be under the joint custody of six persons appointed by the First National Bank, any two of whom would have the privilege of access.
- (2) Withdrawals could be made by the First National Bank or by it for other local member banks subject to prior approval of the Reserve bank.
- (3) Deposits could be received for credit to the reserve accounts of participating member banks; the Reserve bank to be given immediate telegraphic advice of such deposits.
- (4) Confirmation of all withdrawals and deposits should be made to the Federal Reserve bank daily by letter.
- (5) The First National Bank should pledge with the Federal Reserve bank securities having an aggregate market value of at least \$2,000,000.
- (6) In the event the fund exceeded \$2,000,000 the Reserve bank could require the shipment to it of such excess or the pledge of additional security.
- (7) Any losses occurring while shipments of currency were in transit to the First National Bank were to be borne by the Reserve bank, whereas losses occurring after arrival were to be borne by the First National.

- (8) The agreement might be terminated by either party upon five days' written notice and, in the event the First National Bank failed to comply with the terms of the agreement, the Reserve bank could sell any or all of the securities pledged as collateral to the fund to provide for any loss it might sustain.

In connection with the establishment of the fund the Federal Reserve Bank of Philadelphia stated that a substantial saving in postage and insurance charges would result from its operation, since actual shipments of currency to the Scranton area would be held to a minimum. It was also pointed out that participating banks would be able to reduce the amount of cash carried in their own vaults, carry a higher aggregate of earning assets, and save interest which was theretofore lost on currency in transit. It was indicated that Scranton banks would very likely apply for a branch, if the fund was not established.

On October 3, 1923, the Board voted to interpose no objection to the establishment of the proposed fund. Since early reports filed by the Federal Reserve Bank of Philadelphia covering operations of the fund indicated that it was rendering satisfactory and economic service, the Board subsequently requested the Philadelphia Reserve Bank to forward a detailed account of its operation "in order that its use may be extended to other cities and other Districts". A currency fund similar to that at Scranton was also operated at Johnstown, Pennsylvania, from June 23, 1924, until March 18, 1933.

Currency funds of a more or less temporary nature, some of which were not operated under contract and which remained in operation for periods ranging from several days to about one year, have been established during periods of financial stress or for other reasons in Boise and Twin Falls, Idaho; Bangor, Maine; Hartford and New Haven, Connecticut; Charleston, South

Carolina; Sacramento, California, and Miami and Tampa, Florida. In all eleven currency funds have been operated. Only one, that at Scranton, Pennsylvania, is active at present.

The use of currency funds fell into disfavor when it became apparent that, in one instance at least, the fund was being used by banks as a substitute for till cash. The Board's attitude toward such abuse, as well as its implications, was pointed out in a letter dated December 28, 1928, addressed to the Federal Reserve Bank of Atlanta:

"The Board thinks that upon reflection, your directors will agree that if the Miami plan (which, at the present time, is a substitute for till cash) is not promptly stopped, the practice will spread to such an extent that it will become not only burdensome, but probably prohibitive."

PART II

RESULTS OF PREVIOUS BRANCH AND AGENCY SURVEYS MADE BY THE BOARD

BRANCH INVESTIGATION OF 1924

During the early post-war years the earnings of the Federal Reserve banks were abnormally high and easily sustained the tremendous increase in the expenses of the System arising from the operation of branches and the broadening of services rendered free to member banks. However, as the business of the country declined to more normal levels, the earnings of the Federal Reserve banks also decreased. This reduction in earnings was, quite obviously, not offset by a corresponding reduction in operating costs, because such costs were of a more or less fixed nature. In an effort to adjust the System to this changed condition the Board in 1922 appointed a Committee on Economy and Efficiency to study means of reducing expenses. In connection with this study the Board, during the latter part of 1923, instructed its Standing Committee on Branches of Federal Reserve banks to make a thorough investigation of Federal Reserve bank branches with a view to reporting thereon and recommending to the Board the principles by which it should be guided in passing upon future applications for branches and determining which of the existing branches had justified their establishment.

Pursuant to the above instructions, a letter (St. 3915, dated January 29, 1924), reading in part as follows was addressed to the Chairman of each Federal Reserve bank having branches:

* * * * *

"In order that the Board may be in possession of data essential to the completion of its study in regard to the operation of Federal Reserve branch banks it will be appreciated if you will furnish it at your early convenience with a report containing the following information:

"A. Statement, based on functional expense reports, showing the annual cost of maintaining each of the 21 functions listed on page 32 of the quarterly functional expense report form E, together with figures in a parallel column showing the estimated net saving that could be effected if the branch were discontinued and the work taken over by the head office.

"B. Statement as to whether or not in your opinion and that of the officers of the bank any one or more of the functions now being performed by the branch could be discontinued and the work taken over by the head office without slowing up the work of member banks to a greater extent than would be warranted by the saving to be effected in the expenses of the Federal Reserve banks, together with an estimate of the probable annual saving.

"C. Statement expressing the opinion of your Board of directors as to whether any of your branches or any of the functions now being performed by them should be discontinued.

"In addition to the information specifically requested we shall also welcome a full expression of your views regarding any phase of Federal Reserve branch banking which you think should be considered by the Board, especially as to the desirability of somewhat broadening the functions of Federal Reserve branch banks."

The replies to this letter were received and tabulated by the Division of Bank Operations and the resulting figures were submitted to the Board's Committee on Branches, together with a covering memorandum, on July 24, 1924. It is interesting to note that at that time it was estimated the elimination of the twenty-three branches then operating would save the System approximately \$3,000,000 per annum, or a little over one-half of the annual operating cost of the branches, without considering the question of branch office buildings. However, the officers and directors of all Federal Reserve banks having branches were of the opinion that none of their branches should be discontinued or their functions curtailed.

The results of this investigation were presented to the Federal Reserve Board by Mr. James, Chairman of the Committee on Branches, on July 25, 1924, with the following statement:

"The importance of reducing the expenses of the System is so obvious that I submit this report have the close study of each member of the Board.

"My own conclusions are that, in the light of the returns, the possible savings to the System by abolishing the Branches, estimated at an excess of \$3,000,000 per annum, large as the sum appears to be, does not warrant the closing of any of the Branches. Neither do I believe it advisable to change any of the functions now performed by the Branches at this time.

"I feel that the work of the Board's Committee on Salaries, Expenditures and Efficiency will not bring to the attention of the officers and directors of the twelve banks the urgent necessity of strict economy, but will point the way to consolidation of effort and may be the means of having the banks of their own volition curtailing some of the least necessary functions at Branches.

"At an early meeting of the Board, I wish to move 'that this report be received, noted and filed, without action as discontinuing any of the Federal Reserve Branch Banks.'"

In conjunction with the work of the Board's Committee on Branches, the Governor's Conference of 1924 also discussed the principles which should be controlling in the establishment of branches of Federal Reserve banks. After a thorough review of the subject, the Conference adopted the following consensus:

"That branch banks should be established only when the Federal reserve banks were not able to provide distant member banks with satisfactory service, and only if the aggregate resources of the district to be served and the saving of time to member banks in that district in the matter of collections, discounts and supplying currency justify. In other words, essential service, rather than expense, is the prime consideration. The conference felt, however, that in no case should branches be established if agencies (money depots and transit depots) can satisfactorily answer the purpose."

On June 5, 1924, the Committee on Branches recommended that the Board adopt, as a matter of policy, the above consensus and notify the Federal Reserve banks of such action. Although the Committee's recommendation

was discussed by the Board on June 18, 1924, and January 12, 1925, a definite policy regarding branches was not formally adopted.

BRANCH SURVEY OF 1930

On February 27, 1930, the Federal Reserve Board adopted the following resolution:

"Resolved, that the Governor arrange for a survey and study of the subject of branch Federal reserve banks with a view of informing the Board under what circumstances the establishment or maintenance of branch Federal reserve banks is justified from an economic and public service standpoint; the purpose of such survey to be to enable the Board to formulate a definite policy with reference to Federal reserve branch banks in the light of experience gained through the actual operation of existing branches, and also to enable it to determine whether any of the existing branches of Federal reserve banks should be curtailed in their functions or discontinued in the interest of economy and efficiency."

The survey contemplated in this resolution was undertaken by the Board's Division of Bank Operations and a memorandum was submitted to the Board on April 4, 1931. This memorandum included a chronological summary of all data in the Board's general files in connection with applications for branches, banking and business data regarding all branch cities, a resume of branch functions and the volume of branch operations, and a review of the 1924 branch survey.

The memorandum contained no recommendations as to discontinuing or curtailing any of the branches. It was pointed out that, with few exceptions, branches had been established in cities located at some distance from their respective head offices and that, excluding cities which were in close proximity to a Federal Reserve city, there were few non-branch cities in the United States comparable as to population, loans and investments of member banks, bank debits or manufacturing activity with the cities in which branches

had been established. It was stated that "before any definite conclusions are reached as to the circumstances which would justify the establishment of a Federal Reserve branch from an economic or public service standpoint" the Board should have more definite information in regard to banks which were not within overnight mail time of a Reserve bank or one of its branches and banks which were within overnight mail time of more than one Reserve bank or branch. It was, therefore, recommended that the Reserve banks be requested to furnish the Board with the name, location, and loans and investments of each member bank which was not within overnight mail time from a Federal Reserve bank or one of its branches and a set of maps showing by colored lines the boundaries of the territory in each district which was within overnight mail time from the Federal Reserve bank and from each branch, if any.

Mr. Smead's memorandum was reviewed by the Board and on April 22, 1931 (X-6871), a letter, requesting the suggested additional information was sent to all Federal Reserve banks. The information was received, analyzed and subsequently presented to the Board on September 23, 1931 (Memo: Mr. Smead to Governor Meyer). As shown in that memorandum there were at that time 695 member bank points, having total loans and investments of \$403,000,000 which were not within overnight mail time of a Federal Reserve bank or branch. This represented 9.9 per cent of the total number and about 1.2 per cent of the aggregate loans and investments of all member banks. About 95 per cent of these member bank points were towns of less than 5,000 population; the entire group being classified as follows:

<u>Population</u>	<u>Number of Towns</u>
Less than 500	164
500 to 1,000	211
1,000 to 1,500	125
1,500 to 2,500	91
2,500 to 5,000	68
5,000 to 10,000	23
10,000 to 25,000	9
25,000 to 40,000	<u>4</u>
	<u>695</u>

It was stated that because of poor train service many towns in close proximity to a Federal Reserve city did not have overnight mail service. On the other hand, based on information which was furnished by the Atlanta and Kansas City Reserve Banks, it was shown that in such districts a substantial number of member banks were within overnight mail time of from two to five Federal Reserve cities.

It does not appear that any definite policy in regard to branches was formulated by the Board, or that action was taken to discontinue any specific branch, as a result of this survey.

REVIEW OF BRANCHES BY BOARD'S FIELD EXAMINER - 1933.

On or about May 1, 1933, Mr. James (Board member) addressed a memorandum to the Secretary of the Board expressing the view that something should be done about the problem of useless branches. As a result, Mr. Drinnen, then in charge of the Board's examination force on the road, was asked to include in reports of examination of Federal Reserve banks comments as to the services rendered by the various branches and the necessity for **their continuance**. A resume of the comments appearing in such reports regarding all branches, except Helena, will be found in part three of this memorandum.

The operations of the Helena Branch were not reviewed by the Board's examiners, since the Board had already requested the Minneapolis Reserve Bank

to survey the operations of that branch and to report on the necessity for its continuance. The memorandum submitted in regard to the Helena Branch was circulated among the members of the Board and was discussed at a Board meeting on December 12, 1934, with the following result, as shown by the minutes:

"Governor Eccles mentioned the question of the discontinuance of the Helena branch of the Federal Reserve Bank of Minneapolis which has been held on the docket without action since October 25, 1933, and he stated that he felt that the present is an inopportune time to give consideration to steps looking toward the discontinuance of a branch of a Federal reserve bank.

"Mr. Hamlin moved that the matter be laid on the table. Carried."

A discussion of subsequent developments regarding the Helena Branch is also included in part three of this memorandum under "Helena Branch". In 1937 the Board approved an expenditure by the Federal Reserve Bank of Minneapolis for the construction of a new building for the Helena Branch, which action may perhaps indicate that no further consideration will, at least for the time being, be given to the matter of the discontinuance of the branch.

SURVEY OF BRANCHES MADE BY RESERVE BANKS IN 1936.

The Board's letter of March 25, 1936 (X-9532), addressed to the Chairman of all Federal Reserve banks, requesting a thorough survey of their organizations in the interest of economy and efficiency, contained the following statement in regard to branches:

".....In making these studies it is important that careful thought be given to the operations now handled by branches of Federal Reserve banks with particular reference to the necessity for the branches. If the branches are considered necessary a review of their operations should be made to determine whether any of the operations now being handled by them could be transferred to the head office at a substantial saving in operating cost and without impairing the services which the System is now rendering to member banks and through them to commerce, industry and agriculture."

The question of branches was also discussed at the Conference of Presidents, held in Washington on May 26, 1936, and it was voted "that each Reserve bank having branches or agencies make a separate report to the Board of Governors expressing its views on this subject."

In accordance with the Board's letter and this resolution, the Federal Reserve banks have submitted statements, some in much greater detail than others, relating to each of their branches. Detailed comments as to the conclusions each bank reached will be found in part three of this memorandum and suffice it to say at this point that none of the Federal Reserve banks having branches definitely recommended at that time that any of its branches be discontinued, although certain of the Reserve banks felt that expenses could be somewhat reduced by converting them to "memorandum plan" branches while other Reserve banks indicated that they would be willing to give consideration to the discontinuance of certain of their branches provided that, as a System policy matter, other branches comparably situated and of equal importance, were also discontinued.

PART III

CURRENT STATISTICAL DATA AND COMMENTS IN
CONNECTION WITH THE OPERATION OF EACH OF
THE BRANCHES, AGENCIES AND
CURRENCY FUNDS

BUFFALO BRANCH - FEDERAL RESERVE BANK OF NEW YORK

(a) City of Buffalo

Buffalo, with a population of 573,076, is the thirteenth largest city in the United States and the second largest city in New York State. It is located in the extreme western part of the State, on Lake Erie, and is said to serve a trade area having a radius of 43 miles. Twelve railroads, including all of the larger northeastern roads, have terminals in the city and it is also served by a number of navigation lines and several national airlines.

The Biennial Census of Manufactures shows that Erie County, in which Buffalo is located, had 1,217 manufacturing establishments which had an output valued at \$609,559,000 during the year 1935. The principal manufactures were automobiles, automobile parts, flour and grain products, iron and steel, machinery and castings, chemicals, textiles and furniture. There was also considerable meat packing. According to the Census of American business there were in the same area 10,666 retail and 953 wholesale establishments which enjoyed sales aggregating \$244,903,000 and \$365,049,000, respectively, during the year 1935.

Banking facilities in Buffalo as of December 31, 1936, were provided by four State banks, two national banks, three mutual savings banks and one industrial bank. These institutions had deposits aggregating \$536,533,000, as of December 31, 1936, and of this amount \$322,958,000 was carried with five local member banks. The bulk of the commercial banking business of the city is done by three relatively large State member banks, each of which has a number of branches.

Debits to individual accounts in banks of the city aggregated \$2,985,334,000 during the year 1936, or approximately \$10,000,000 for each banking day.

(b) Branch Territory and Functions:

The Buffalo Branch was established May 15, 1919, and serves the ten most westerly counties in the State of New York. These counties comprise approximately 15% of the land area of the Second Federal Reserve District and have approximately 11% of its total population. Approximately 12% of all banks in the Second District are within this area.

As of December 31, 1936, there were 128 banks, exclusive of mutual savings banks, in the branch zone and of this number 70, including 47 national and 23 State institutions, were members of the System. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to those of the Second District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investment</u>	<u>Capital and Surplus</u> (000 omitted)	<u>Total Deposits</u>
Second District	789	\$11,850,881	\$1,703,341	\$14,801,487
Buffalo Zone	70	482,540	65,049	552,197

There are only four branch zones in the entire System having larger member bank footings than the Buffalo zone; namely, Los Angeles, Pittsburgh, Detroit and Cincinnati.

The Buffalo Branch renders substantially the same service to member banks in its territory as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearings, non-cash collections, safekeeping of securities and loans to member banks are concerned. The reserve accounts of member banks in the branch zone are maintained at the Branch. However, control accounts for all Branch operations are carried on the books of the Head Office; the Branch maintaining only a memorandum general ledger. The Branch maintains no non-banking departments such as Bank Examination,

Bank Relations, Legal, Research or Fiscal Agency departments, although certain of such functions are performed at the Branch for the Head Office.

As of March 20, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>Number of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
City of Buffalo	5	\$33,977,100	\$3,081,300	\$1,097,700	\$ -
Remainder of Zone	<u>65</u>	<u>24,240,200</u>	<u>2,225,100</u>	<u>836,100</u>	<u>21,000</u>
Total	<u>70</u>	<u>\$58,217,300</u>	<u>\$5,306,400</u>	<u>\$1,933,800</u>	<u>\$21,000</u>

Buffalo is 436 train miles (9 hrs. - 45 mins.) from New York City. On any business day trains leave Buffalo at 7 P.M. or later which arrive in New York at or before 8 A.M. on the succeeding day, i.e., overnight mail time. There are twelve branch cities nearer to their respective head offices than is Buffalo and all of such cities are within overnight mail time of such head offices. Outstanding examples are Pittsburgh (138 miles - 3 hrs. and 20 mins.), Baltimore (157 miles 4 hrs. and 21 mins.) and Birmingham (168 miles - 5 hrs. and 50 mins.).

The New York Reserve Bank advises that banks in the branch zone, other than those located in Buffalo and its immediate vicinity, deal with the Branch by mail and that under normal conditions such banks would not be seriously inconvenienced by discontinuance of the Branch, since they are also within overnight mail time from New York. It is apparent that discontinuance of the Branch would curtail the service rendered to banks located in and near Buffalo. These banks now have an over-the-counter relationship with the Branch insofar as deposits and withdrawals of currency, wire transfers and borrowings are concerned and would have to adapt their present practices to a new situation under which over-night mail communication with the Head Office would be necessary.

While there are ten cities in the Second District, other than Buffalo and New York, with a population of over 100,000, only one such city, Rochester, is within the Buffalo Branch zone. Rochester had a population of 328,132 and is 66 train miles (2 hrs. 33 mins.) from Buffalo and 370 train miles (7 hrs.) from New York. Other relatively large cities in the Buffalo zone are Niagara Falls and Jamestown with populations of 75,000 and 45,000 respectively.

(c) Branch Building:

The Buffalo Branch has occupied its present quarters at 270-276 Main Street, since May 1928. The following figures show the original cost and the carrying value, as of March 20, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>3-20-37</u>
Land	\$255,000(*)	\$255,000
Building, vault & vault equipment	<u>465,707</u>	<u>198,950</u>
	720,707	453,950
Furniture and other equipment	<u>143,826</u>	-
	<u>\$864,533</u>	<u>\$453,950</u>

(*) Estimated value, remainder of purchase price included in cost of building.

(d) Earnings - Branch's Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$192,600
1932	487,900
1933	240,300
1934	41,300
1935	2,600
1936	1,700
1937	2,900

These figures are incomplete since, under the present accounting procedure, the Branch does not receive any credit for income received by the Head Office

on investments, a portion of which is made possible by the capital stock investment and reserve balances of banks in the branch zone.

The amount of income shown on the books of the Branch depends almost entirely on the extent of borrowing by member banks in the branch zone. Income from this source amounted to \$479,100 in 1932, whereas it was only \$1,400 in 1937.

(c) Branch Personnel:

The report of examination of the Federal Reserve Bank of New York, as of March 20, 1937, shows the following in regard to salaries and personnel at the Buffalo Branch:

	<u>March 20, 1937</u>		<u>January 4, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	4	\$ 33,500	4	\$ 32,900	-	\$ 600 (Inc.)
Employees	<u>122</u>	<u>180,914</u>	<u>127</u>	<u>189,874</u>	<u>5</u>	<u>8,960</u>
	<u>126</u>	<u>\$214,414</u>	<u>131</u>	<u>\$222,774</u>	<u>5</u>	<u>\$8,360</u>

(f) Branch Expense by Functions:

The expenses of the Buffalo Branch by functions during the past six years, as shown in Functional Expense Reports, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 28,054	\$ 27,427	\$ 27,701	\$ 27,511	\$ 27,617	\$ 27,860
Non-controllable	32,246	40,802	37,643	211	224	212
Provision of space	46,358	47,708	44,895	46,242	46,178	54,986
Provision of Personnel	8,172	7,716	24,597	33,360	45,366	11,871
General Service	42,604	43,644	48,815	53,505	49,072	49,846
Postage	21,649	22,520	23,184	23,271	23,291	21,621
Insurance	2,972	3,040	1,879	1,543	958	788
Loans, rediscounts, etc.	15,431	16,718	13,711	13,682	7,921	7,773
Securities	7,913	8,036	9,238	7,484	7,055	5,879
Currency & Coin	42,436	41,951	42,843	81,997	78,971	77,180
Check collection	44,874	46,073	42,238	42,036	42,083	42,758
Non-cash collections	14,525	14,227	14,381	15,230	16,201	14,790
Accounting	31,139	30,437	30,830	33,703	32,283	29,438
Fiscal Agency	2,533	2,478	3,179	11,883	8,932	8,898
Legal	-	-	-	305	-	-
Auditing	3,466	3,889	5,125	6,471	5,222	3,480
Bank Relations	1,657	3,209	2,053	2,574	1,497	1,562
Bank Examinations	17	11	16	3	-	34
Statistical & Analyt'l	322	346	371	382	360	335
Total Expense	<u>\$346,368</u>	<u>\$360,232</u>	<u>\$372,699</u>	<u>\$401,393</u>	<u>\$393,231</u>	<u>\$359,311</u>
Less - Reimbursable						
Fiscal Agency Exp.	-	-	-	-	387	556
Net Expense	<u>\$346,368</u>	<u>\$360,232</u>	<u>\$372,699</u>	<u>\$401,393</u>	<u>\$392,844</u>	<u>\$358,755</u>

There were five branches in the System which operated at a higher aggregate annual cost than the Buffalo Branch in 1937; namely, Pittsburgh, Los Angeles, Baltimore, Cincinnati and Detroit. However, viewed as a whole the operations performed at each of these branches were in larger volume.

(g) Volume of Operations at Buffalo Branch:

The following is a comparison of the volume of operations in various departments of the Buffalo Branch and the Head Office during the last six months of 1936:

Buffalo BranchHead OfficeDiscount Department:

Notes rediscounted	-	1,230
Collateral notes discounted	27	702
Industrial advances	-	157

Branches with larger volume: Denver, Omaha, San Antonio and El Paso.

Safekeeping:

Member bank securities 12-31-36	\$2,673,000	\$839,135,000
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Branches with larger volume: Cincinnati, Pittsburgh, Baltimore, Jacksonville, Nashville, New Orleans, Detroit, Little Rock, Louisville, Denver, Oklahoma City, Omaha, Houston and San Antonio.

Currency & Coin:

1. Number of bills received and counted 18,132,000 305,069,000
Branches with larger volume: Pittsburgh, Baltimore, Detroit and Los Angeles.
Cost per one thousand units handled 65 cents 63 cents
Branches with higher unit cost: Cincinnati, Helena, Denver, El Paso, Portland, Salt Lake City and Spokane.
2. Number of coins received and counted 18,594,000 506,649,000
Branches with larger volume: Cincinnati, Pittsburgh, Baltimore and Los Angeles.
Cost per one thousand units handled 11 cents 11 cents
Branches with higher unit cost: All branches have a higher unit cost except Baltimore, New Orleans, Memphis and Oklahoma City.

Check Collection:

1. Number of city checks (clearings) received 2,043,000 32,032,000
Branches with larger volume: Pittsburgh, Baltimore, Detroit and Los Angeles.
Cost per one thousand units handled \$1.86 \$3.05
Branches with higher unit cost: Louisville, Helena, Denver, Oklahoma City, El Paso, Houston, Los Angeles, Seattle, Salt Lake City, Spokane and Portland.
2. Number of country checks (outgoing) received 4,206,000 46,806,000
Branches with larger volume: Cincinnati, Pittsburgh, Baltimore, Detroit, Louisville, Oklahoma City, Omaha and Los Angeles.
Cost per one thousand units handled \$2.91 \$2.82
Branches with higher unit cost: Los Angeles, Portland and Seattle.

Non-cash Collections

1. Number of city collections handled 17,142 37,843
Branches with larger volume: Baltimore, Detroit, Little Rock, Memphis, Omaha and Los Angeles.
Cost per unit handled 17.6 cents 32 cents
Branches with higher unit cost: Cincinnati, Pittsburgh, Detroit, Los Angeles, Portland and Seattle.

	<u>Buffalo Branch</u>	<u>Head Office</u>
2. Number of country collections handled	22,735	477,035
Branches with larger volume: Salt Lake City and Spokane.		
Cost per unit handled	16.1 cents	7.8 cents
Branches with higher unit cost: Nashville, Los Angeles and Portland.		
3. Number of coupon (except Government) and country security collections handled	5,106	531,736
Branches with larger volume: Cincinnati, Pittsburgh, Baltimore, Detroit, Omaha and Los Angeles.		
Cost per unit handled	13.5 cents	7.7 cents
Branches with higher unit cost: Charlotte, Jacksonville, Detroit, Louisville, Memphis, Helena, El Paso, Los Angeles, Portland, Salt Lake City and Spokane.		

A schedule showing the volume of operations of the Buffalo Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Buffalo Branch by Board's Examiners - 1933.

During the course of an examination of the Federal Reserve Bank of New York, made as of May 27, 1933, the Board's Field Examiners reviewed the operations of the Buffalo Branch with a view to expressing an opinion as to the necessity for its continuance. The report of that examination contains the following comment:

"The Buffalo branch is one of the seven largest branches in the System (sixth in number of employees), and, in the opinion of your examiner, its continuance appears justified in view of the importance of the branch city and territory and the volume of operations handled as compared with similar indices for other Federal reserve branch banks."

(i) Survey of Buffalo Branch made by Federal Reserve Bank of New York - 1936.

As requested in the Board's letter of March 25, 1936 (X-9532) the Federal Reserve Bank of New York carefully reviewed the operations of its Buffalo Branch. Based on operating costs of \$401,000 for the year 1935, it was estimated that a net saving of \$215,000 per annum would result if all branch

operations were transferred to the Head Office; that this saving would be increased to \$233,000 per annum if the branch building were immediately disposed of, since this would eliminate carrying charges on the building, estimated to be about \$18,000 per year; and that an additional \$30,000 per annum might be saved if a currency station (which would reduce the expense of currency shipments) were established in Buffalo, making an estimated saving of \$245,000 per annum if the building were retained, or \$263,000 per annum if it were disposed of. Relative to the latter estimate, it was stated the establishment of a currency station would not be advocated until a broader survey, developing the extent to which other cities in the district might demand similar service as a result of such action, had been conducted.

It was admitted that operation of the Branch was of material benefit under normal conditions to banks located in and near the City of Buffalo and that in times of emergency banks in outlying sections of the zone, such as in Rochester, would find its existence advantageous. The conclusion was reached, however, that discontinuance of the Branch would not seriously interfere with the service being rendered to member banks in the district, and, through them to commerce, industry and agriculture.

It was pointed out that a strong protest could be expected from member banks in the zone, particularly in Buffalo, if it became known that discontinuance of the Branch was seriously contemplated. In this connection, attention was called to the fact that banks in the Buffalo area have never been particularly enthusiastic about the Federal Reserve System; that prior to the establishment of the Branch very few State institutions in such area were members; and that any attempt to discontinue the Branch would revive whatever latent prejudices still existed in the area and possibly lead to some

withdrawals from membership. It was stated that this would be especially true if comparable branches in other districts were not discontinued. For this reason it was stated that discontinuance of the Buffalo Branch would be favored only if, as a matter of System policy, other comparable branches in the System were discontinued at the same time.

The following observations were made concerning the adoption of a uniform System policy:

"* * *We assume that savings could be effected in connection with practically all branches of Federal reserve banks which would be comparable with the figures cited above for the Buffalo Branch. We also assume that, as a practical matter, the only banks materially benefiting from the operation of such branches are the banks located within the branch cities, and that, in most instances, the banks in territory outside of the branch cities do not benefit materially, by reason of the existence of the branches, unless they are more than overnight mail time from the head office cities of their districts. Broadly speaking, it would seem to us, therefore, that if a new policy is to be adopted with respect to branches of Federal reserve banks it should be a uniform System policy, and probably ought to be based upon the continuance, except in special circumstances, of only those branches which are more than approximately twelve hours mail time from the head office. If such a policy can be adopted for the System as a whole, we would recommend that the Buffalo Branch of this bank be discontinued as a part of such program."

BUFFALO BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	4,134	43,585,000	35,939,000	3,832,000	9,269,000	283,000	13,384,000	48,810	107,353	539	-	21,724
1932	4,357	40,249,000	29,311,000	4,016,000	7,517,000	262,000	11,795,000	59,660	114,804	517	-	17,949
1933	2,366	37,176,000	36,409,000	3,374,000	6,431,000	299,000	10,104,000	67,434	95,482	485	-	15,225
1934	512	39,569,000	31,233,000	3,382,000	6,816,000	848,000	11,046,000	78,233	86,134	4,769	70	12,871
1935	112	39,518,000	36,561,000	3,747,000	7,432,000	357,000	11,536,000	113,000	89,000	10,788	682	12,366
1936	67	37,703,000	36,009,000	4,404,000	8,067,000	470,000	12,941,000	85,000	89,000	1,273	484	11,000

Amounts Handled

(in thousands of dollars)

1931	476,888	231,224	3,569	1,646,797	687,313	48,904	2,383,014	1,403	52,314	1,089	-	2,021,968
1932	821,129	209,531	2,671	1,249,783	490,200	33,414	1,773,397	1,876	47,184	1,719	-	1,245,185
1933	457,527	203,398	3,157	1,263,059	467,557	34,139	1,764,755	2,379	35,946	630	-	1,183,810
1934	64,712	185,516	3,325	1,440,128	580,025	50,509	2,070,662	2,748	37,173	2,144	133	830,597
1935	4,630	181,935	3,326	1,523,410	674,045	48,771	2,246,226	3,554	44,297	6,733	446	896,407
1936	3,294	164,125	3,411	1,709,371	792,053	64,637	2,566,061	2,904	55,608	308	391	933,849

CURRENCY FUND, SCRANTON, PA. - FEDERAL RESERVE BANK OF PHILADELPHIA

(a) City of Scranton

Scranton, with a population of 143,433, is the fifty-fifth largest city in the United States and the third largest city in Pennsylvania. It is located in the northeastern part of the State on the Lackawanna River and is said to serve a trade area extending approximately twenty-five miles in all directions. Transportation facilities are provided by five railroads, including the Erie, Delaware & Hudson and the Delaware-Lackawanna & Western, and also by a number of motor coach lines and air lines.

Scranton is the center of the greatest anthracite coal region in the United States; mines honeycombing the city and surrounding territory. There are also large silk, cotton and woolen mills operating in the city. According to the Biennial Census of Manufactures for the year 1935 there were 287 manufacturing establishments located in Lackawanna County, in which Scranton is situated, which had an output valued at \$43,171,193 and payrolls totaling \$11,687,557 during the year. The Census of American Business lists 4,290 retail and 293 wholesale concerns in the same area. These firms enjoyed sales, aggregating \$78,020,000 and \$50,306,000, respectively, during 1935.

Banking facilities in Scranton are provided by seven State nonmember banks, three national banks and one trust company. As of December 31, 1936, these institutions had deposits aggregating \$105,241,000 and of this amount \$90,042,000 was carried by the three local member banks.

Debits to individual accounts in banks of the city amounted to \$554,002,000 during the year 1936; or an average of approximately \$1,847,000 for each banking day.

(b) Establishment and Operation of the Fund:

In the early days of the System banks located in and near Scranton, which were called upon to meet heavy payrolls, were frequently embarrassed by the late arrival of currency shipments from the Federal Reserve Bank of Philadelphia due to poor rail connections between the two cities. As a result there was a rather insistent demand for the establishment of a branch of the Reserve bank at Scranton. In an effort to remove the cause of complaint and thus forestall demands for a branch, the Reserve bank, with the Board's approval, on January 23, 1922, deposited \$1,000,000 in the custody of the First National Bank of Scranton to take care of delayed shipments of currency. After the establishment of the fund any member bank in Scranton or its immediate vicinity, whose currency shipment failed to arrive on time, might withdraw from the fund an amount equal to the anticipated shipment and reimburse the fund when the shipment arrived.

The original fund proved successful and on October 9, 1923, a new agreement was drawn up increasing it to \$2,000,000 and broadening its scope. The privileges of the fund, both of deposit and withdrawal, were extended to all member banks in Scranton and its vicinity, including banks in such cities as Wilkes-Barre and Pittston, Pennsylvania; however, it is reported that only the three member banks in Scranton now use the fund. The First National Bank of Scranton, as custodian, assumes all liability for loss, except on shipments to and from the Reserve bank, and has pledged readily marketable securities with a value in excess of \$2,000,000 with the Reserve bank as security. The currency on hand in Scranton is considered a part of the cash balance of the Reserve bank and is kept under dual control of officers of the First National Bank in certain specified compartments in its vault, subject to examination at any time by examiners for the Board, the Comptroller of the Currency, or the Reserve bank. Operations of the

fund are limited strictly to currency transactions, which are reported to the Reserve bank daily by telephone and entered on its books receipts or withdrawals being charged or credited, as the case may be, to the reserve accounts of the member banks involved. The First National Bank has authority to sign for the Reserve bank in all transactions affecting the fund, but withdrawals can be made only with the approval of the Reserve bank.

(c) Activity of the Fund:

The following schedule shows the extent to which the fund has been used in recent years:

<u>Movement Of Currency Between Scranton Revolving Fund And Banks In Scranton</u>			<u>Movement Of Currency Between Federal Reserve Bank and Scranton Revolving Fund</u>	
<u>Year</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Shipped to Fund</u>	<u>Received from Fund</u>
1933	\$10,764,000	\$28,446,000	\$18,100,000	\$1,261,000
1934	11,306,900	33,937,400	22,645,000	143,500
1935	9,652,000	28,728,000	23,415,000	4,454,000
1936	10,628,000	26,807,000	20,635,000	6,350,000
1937	9,765,000	26,030,000	22,950,000	6,431,000

(d) Estimated Saving Resulting from Operation of Fund:

The following figures submitted by the Federal Reserve Bank of Philadelphia indicate the estimated saving effected through operation of the Scranton Currency Fund during the year 1937; the amount saved is, of course, governed by the extent to which the fund is used:

	<u>Cost</u>
Actual cost of shipping \$22,950,000 in currency from F.R.B. to Fund	\$3,901.50
Actual cost of shipping \$6,431,000 in mutilated currency from Fund to F.R.B.	2,250.85
Total cost of Fund	<u>\$6,152.35</u>
Cost of shipments if member banks had withdrawn from and deposited with F.R.B. instead of Fund (\$35,795,000)	\$7,842.85
	<u>6,152.35</u>
Saving on shipping	\$1,690.50
Saving on handling	250.00
Total Saving	<u>\$1,940.50</u>

The First National Bank of Scranton assumes the cost of clerical work necessary in handling deposits to and withdrawals from the fund.

(e) Attitude of the Federal Reserve Bank of Philadelphia toward Continuance of Fund:

During an examination of the Federal Reserve Bank of Philadelphia, made as of September 19, 1936, the Board's Examiners discussed with the management the need for continuance of a Currency Fund at Scranton. On October 10, 1936, Assistant Vice President Donaldson addressed a letter to the Board's Examiner outlining the benefits and savings derived from operation of the fund, both by member banks in Scranton and by the Reserve bank. From the general tenor of the letter it was apparent that the Reserve bank favored continuance of the fund, although a definite statement to that effect was not made.

CINCINNATI BRANCH - FEDERAL RESERVE BANK OF CLEVELAND

(a) City of Cincinnati

Cincinnati, with a population of 451,160, is the seventeenth largest city in the United States and the second largest city in Ohio. It is located in the extreme southwestern part of the State, on the Ohio River, and serves a trade area which extends 30 miles to the north, 33 miles south, 62 miles east and 45 miles west. There are approximately 1,016,000 inhabitants in the metropolitan area. Nine railroads, operating nineteen trunk lines, serve the city, including the B. & O., Pennsylvania, Chesapeake & Ohio, Erie, Norfolk & Western and New York Central. In addition transportation facilities are afforded by water routes on the Ohio River and by airlines.

According to the Biennial Census of Manufactures Hamilton County, in which Cincinnati is located, had 1,488 manufacturing establishments in 1935, which had an output valued at \$489,786,000. The chief manufactures were foundry and machine shop products, soap, clothing, furniture, electric refrigerators, bread and bakery products, planing mill products and copper, tin and sheet iron work. There is also a substantial amount of meat packing and printing and publishing carried on. According to the Census of American Business there were in the same area 8,686 retail and 1,446 wholesale establishments which enjoyed sales aggregating \$230,778,000 and \$513,320,000, respectively, during the year 1935.

Banking facilities in Cincinnati as of December 31, 1936 were provided by eleven State banks (7 members), four national banks and one Morris Plan bank. These institutions had deposits aggregating \$370,244,000, as of that date and of this amount \$354,609,000 was carried with ten local member banks maintaining reserve city balances; there being one other relatively small member bank in the

city which is authorized to carry country bank reserves. Three of the larger State member banks were operating an aggregate of forty-six branch offices within the city limits.

Debits to individual accounts in banks of the city aggregated \$4,013,933,000 during the year 1936, or an average of approximately \$13,300,000 for each banking day.

(b) Branch Territory and Functions:

The Cincinnati Branch was established January 10, 1918, and serves twenty-five counties in southern Ohio and the portion of the State of Kentucky included in District Four. This territory represents 40% of the land area of the district and has approximately 26% of its total population. Approximately 29% of all banks in the Fourth District are within this area.

As of December 31, 1936, there were 372 banks, exclusive of mutual savings banks, in the branch zone and of this number 164, including 146 national and 18 State institutions, were members of the Federal Reserve System. All but 2 of the nonmember institutions in the branch zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to those of the Fourth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
		(000 omitted)		
Fourth District	627	\$2,822,103	\$427,865	\$3,517,299
Branch Zone	164	491,639	72,543	641,378

There are only three branch zones in the entire System having larger bank member footings than the Cincinnati zone; namely, Pittsburgh, Los Angeles and Detroit.

The Cincinnati Branch is operated on the "memorandum plan". All general ledger accounts, as well as accounts of member banks, nonmember clearing banks

and other Federal Reserve banks, are maintained at the Head Office, which also maintains all expense records. A transcript of all entries affecting the accounts of banks in the branch zone is sent to the Head Office daily by wire. Member banks in the branch zone may forward their discount offerings either to the Branch or to the Head Office. Offerings received by the Branch are examined to see that the paper is technically in order and the amount of each offering is wired to the Head Office. Immediate credit is given where the collateral consists of U. S. Government obligations. Credit on all other offerings is deferred until final approval by the Head Office, but upon approval the credit is made effective as of the date the offering was received by the Branch. The Branch holds securities of banks in its zone in safekeeping, but has no nonbanking departments such as Bank Examination, Bank Relations, Legal, Research or Fiscal Agency departments.

As of September 2, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of</u> <u>Banks</u>	<u>Reserve</u> <u>Balances</u>	<u>Deferred</u> <u>Balances</u>	<u>Capital</u> <u>Stock</u>	<u>Bills</u> <u>Discounted</u>
City of Cincinnati	10	\$45,414,424	\$7,855,588	\$1,156,800	-
Remainder of Zone	<u>157</u>	<u>34,240,533</u>	<u>1,270,206</u>	<u>1,060,350</u>	<u>\$509,657</u>
Total	<u>167</u>	<u>\$79,654,957</u>	<u>\$9,125,794</u>	<u>\$2,217,150</u>	<u>\$509,657</u>

Cincinnati is 262 train miles (7 hrs. and 40 mins.) from Cleveland. On any business day there are several trains which leave Cincinnati at 7 P.M. or later and arrive in Cleveland before 8 A.M. on the succeeding day, i.e., overnight mail time. There are four branch cities closer to their respective head offices than is Cincinnati; namely, Pittsburgh, Baltimore, Birmingham and Omaha. These cities also enjoy speedier communication by rail with their head offices. In all there are fourteen branch cities which are as well situated as Cincinnati from the standpoint of overnight mail between the hours of 7 P.M. and 8 A.M.

It is apparent that discontinuance of the Branch would curtail the service rendered to banks located in and near Cincinnati. Such banks now enjoy an over-the-counter relationship with the Branch insofar as deposits and withdrawals of currency, wire transfers and borrowings collateralized by government bonds are concerned and, if the Branch were closed, would have to deal with the Head Office by mail. A study of the Cincinnati Branch zone made in December 1933, disclosed that there were 105 member bank points in the zone and that only 7 of such points were not within overnight mail time of the Branch, whereas 37 were not so situated with respect to the Head Office. The same situation undoubtedly still prevails and consequently it may be said that discontinuance of the Branch would also affect the type of service rendered to a substantial number of banks in outlying sections of the branch zone.

Other than Cleveland and Cincinnati there are six cities in Ohio with a population in excess of 100,000; namely, Toledo, 290,718; Columbus, 290,564; Akron, 255,040; Dayton 200,982, Youngstown, 170,002 and Canton, 104,906. Only one of these cities (Dayton) is located in the Cincinnati Branch zone. There are, however, four other cities in the branch zone with a population of over 50,000; namely, Hamilton and Springfield, Ohio, and Covington and Lexington, Kentucky. One or more member banks are located in each of these larger branch zone cities.

(c) Branch Building:

The Cincinnati Branch occupies quarters in the Chamber of Commerce Building at the corner of 4th and Race Streets at an annual rental of \$60,000 under a lease which does not expire until 1952. The land upon which this building stands was purchased as a site for a branch building, but was subsequently leased for a period of 99 years, renewable forever, with an option to purchase at \$600,000,

to the Chamber of Commerce at \$30,000 per annum. The branch quarters were remodeled and equipped by the Branch, at its expense, and have been occupied since January 3, 1928. The following figures reflect the original cost and the carrying value, as of September 2, 1937, of the Branch's investment in the premises:

	<u>Cost</u>	<u>Book value</u> <u>9-2-37</u>
Land	\$380,744	\$267,000
Appreciation based on lease	-	333,000
	<u>\$380,744</u>	<u>\$600,000</u>
Quarters	262,435	130,074
Fixed machinery & equipment	89,241	2,975
Total	<u>\$732,420</u>	<u>\$733,049</u>

The Federal Reserve Bank of Cleveland advises that the rent which is paid to the Chamber of Commerce by the Branch is a very important factor in the operations of that organization, which has had considerable difficulty in meeting its requirements for interest and overhead. For this reason it is felt that some loss would be incurred in cancelling the Branch's lease, in the event the Branch were discontinued, and that the situation would be further complicated if the Chamber of Commerce was unable to fulfill the terms of its lease on the land. In addition, it is pointed out that the vault, fixed machinery and equipment used by the Branch could not be sold readily and consequently would have practically no value.

(d) Earnings - Branch Books:

No record of earnings is maintained at the Cincinnati Branch as it is operated on the "memorandum plan".

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Cleveland, as of September 2, 1937, shows the following in regard to salaries and personnel at the Cincinnati Branch:

	<u>September 2, 1937</u>		<u>August 29, 1936</u>		<u>Increase</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	4	\$23,300	4	\$ 23,700	-	\$ 400 (decr)
Employees	<u>142</u>	<u>221,000</u>	<u>135</u>	<u>212,200</u>	<u>7</u>	<u>8,800</u>
	<u>146</u>	<u>\$244,300</u>	<u>139</u>	<u>\$235,900</u>	<u>7</u>	<u>\$8,400</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures. Neither does the above table include five employees, with annual salaries totaling \$6,570, who left the service of the Branch prior to August 29, 1936, but who were then receiving dismissal wages.

(f) Branch Expense by Functions:

The expenses of the Cincinnati Branch by functions during the past six years, as shown in Functional Expense Reports, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 20,876	\$ 21,720	\$ 21,524	\$ 18,473	\$ 17,400	\$ 17,276
Non-controllable	20,047	28,869	28,573	69	37	23
*Provision of space	104,487	73,990	72,626	69,609	64,690	70,065
Provision of personnel	7,793	7,816	25,832	33,657	40,700	10,127
General Service	68,032	71,449	74,048	73,902	67,750	66,267
Postage	17,591	20,819	22,160	24,211	24,832	25,326
Insurance	5,359	4,867	2,353	1,761	2,225	2,209
Loans, rediscounts, etc.	3,822	3,722	3,401	2,448	1,652	1,719
Securities	4,480	4,182	4,302	6,172	5,879	6,374
Currency & coin	52,402	51,008	52,446	80,641	79,444	77,478
Check collection	65,736	69,527	68,276	65,977	61,354	63,180
Non-cash collections	10,561	11,931	12,639	10,643	10,331	9,329
Accounting	28,710	27,628	27,271	28,107	25,401	25,522
Fiscal Agency	4,612	5,100	8,036	33,754	27,719	24,066
Legal	-	-	-	-	-	-
Auditing	6,113	6,944	7,593	6,963	5,975	5,759
Bank Relations	-	-	-	-	-	4,453
F.R. Note Issues	8	26	13	188	106	
Statistical & Analyt'l	<u>140</u>	<u>169</u>	<u>174</u>	<u>164</u>	<u>164</u>	<u>160</u>
Total Expense	\$420,769	\$409,767	\$431,317	\$456,739	\$435,659	\$407,333
Less - Reimbursable						
Fiscal Agency Expense	-	-	2,565	5,426	7,355	6,149
Net Expense	<u>\$420,769</u>	<u>\$409,767</u>	<u>\$428,752</u>	<u>\$451,313</u>	<u>\$428,304</u>	<u>\$403,184</u>

* Represents the net expense - income from rentals having been deducted.

There were three branches in the System which operated at a higher annual cost than the Cincinnati Branch in 1937; namely, Pittsburgh, Los Angeles and Baltimore. However, viewed as a whole the operations performed at these branches were in larger volume.

(g) Volume of Operations at Cincinnati Branch:

The following is a comparison of the volume of operations in various departments of the Cincinnati Branch and the Head Office during the last six months of 1936:

	<u>Cincinnati Branch</u>	<u>Head Office</u>
<u>Safekeeping</u>		
Member bank securities 12-31-36	\$17,033,000	\$134,546,000
Branches with larger volume: Pittsburgh, Detroit, Baltimore and Omaha.		
<u>Currency & Coin</u>		
1. Number of bills received and counted	15,023,000	27,350,000
Branches with larger volume: Baltimore, Detroit, Los Angeles Buffalo and Pittsburgh.		
Cost per one thousand units handled	71 cents	61 cents
Branches with higher unit cost: Helena, El Paso, Salt Lake City and Spokane		
2. Number of coins received and counted	22,685,000	22,588,000
Branches with larger volume: Los Angeles, Baltimore and Pittsburgh		
Cost per one thousand units handled:	20 cents	24 cents
Branches with higher unit cost: Pittsburgh, Helena, Omaha, El Paso, San Antonio, Portland, Salt Lake City, Seattle and Spokane.		
<u>Check Collection</u>		
1. Number of city checks (clearings) received	1,863,000	3,345,000
Branches with larger volume: Buffalo, Pittsburgh, Baltimore, Detroit and Los Angeles.		
Cost per one thousand units handled	\$1.80	\$1.82
Branches with higher unit cost: Buffalo, Louisville, Helena, Denver, Oklahoma City, El Paso, Houston, Los Angeles, Portland, Salt Lake City, Seattle, and Spokane		

	<u>Cincinnati Branch</u>	<u>Head Office</u>
<u>Check Collection (cont'd)</u>		
2. Number of country checks (outgoing) received	7,868,000	12,547,000
Branches with larger volume: Pittsburgh and Baltimore.		
Cost per one thousand units handled	\$2.37	\$2.50
Branches with higher unit cost: Buffalo, Detroit, Los Angeles, Portland, Salt Lake City, Seattle, and Spokane.		
<u>Non-cash Collections</u>		
1. Number of city collections handled	14,061	21,159
Branches with larger volume: Buffalo, Baltimore, Detroit, Little Rock, Memphis, Denver, Omaha, Houston and Los Angeles.		
Cost per unit handled	30.5 cents	25.9 cents
Branches with higher unit cost: Pittsburgh and Portland.		
2. Number of country collections handled: None handled by branch.		
3. Number of coupons (except Government) and country security collections handled	5,416	46,887
Branches with larger volume: Pittsburgh, Baltimore, Detroit, Omaha, and Los Angeles.		
Cost per unit handled	3.6 cents	15.2 cents
Branches with higher unit cost: All branches, except Pittsburgh.		

A schedule showing the volume of operations of the Cincinnati Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Cincinnati Branch by Board's Examiners - 1933

During the course of an examination of the Federal Reserve Bank of Cleveland, made as of December 30, 1933, the Board's Field Examiners reviewed the operations of the Cincinnati Branch and expressed the opinion that its continuance was warranted in view of the size and importance of the branch city and the volume of operations handled. At that time there were 375 banks in the branch zone and 212 of them, including 9 in the City of Cincinnati, were members of the System. Then, as at present, the Cincinnati Branch was one of the six most active branches in the System.

(i) Survey of Cincinnati Branch made by Federal Reserve Bank of Cleveland - 1936

A survey of operations at the Cincinnati Branch was made by the Federal Reserve Bank of Cleveland, as requested in the Board's letter of March 25, 1936 (X-9532). The Board was advised in a letter dated October 29, 1936 that, as a result of this survey, the continuance of the Cincinnati Branch appeared to be fully justified and that no serious consideration should be given to its discontinuance for the present at least. The following factors were cited in support of this conclusion:

1. That discontinuance of the Branch would result in some saving in salary expense, but would entail much added expense at the head office; the net saving being difficult to estimate.
2. That the losses which would be sustained on real estate holdings, leases and equipment if the Cincinnati Branch were discontinued would more than absorb any saving which might be effected over a period of years.
3. That the natural trend of business in the Cincinnati area is toward that city.
4. That check collection and clearing operations are facilitated by the Branch because banks in the territory find it convenient to settle in Cincinnati exchange.
5. That a substantial number of cities in the branch zone are two or more days removed from the Head Office by mail and that check collections and currency shipments would be greatly delayed if they were handled from Cleveland.
6. That member banks in Ohio and Kentucky would seriously object to the loss of the services which they now enjoy and that, as a matter of civic pride, bankers and business men in Cincinnati would strongly oppose any move to discontinue the Branch.

CINCINNATI BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	-	30,501,000	51,389,000	3,704,000	13,385,000	966,000	18,055,000	785,137	38,847	21,348	-	19,145
1932	-	26,773,000	46,604,000	3,644,000	11,545,000	991,000	16,180,000	790,859	37,132	10,031	2	17,844
1933	-	28,520,000	40,356,000	3,219,000	10,475,000	1,176,000	14,870,000	854,952	38,764	37,206	320	15,644
1934	-	27,804,000	44,863,000	3,067,000	12,005,000	2,076,000	17,148,000	893,811	34,134	70,209	2,946	13,179
1935	-	28,734,000	49,540,000	3,518,000	13,834,000	1,687,000	19,039,000	757,000	33,000	107,655	32,742	10,683
1936	-	30,522,000	46,645,000	3,693,000	15,162,000	1,129,000	19,984,000	669,000	36,000	8,983	10,484	10,000

Amounts Handled
(in thousands of dollars)

1931	-	122,537	5,393	1,936,763	890,732	133,493	2,960,988	12,909	48,760	27,493	-	571,071
1932	-	99,484	4,453	1,459,149	664,795	105,556	2,229,500	13,339	46,924	20,885	100	381,683
1933	-	125,909	7,736	1,352,114	684,198	116,792	2,153,104	14,435	59,584	46,658	1,222	330,156
1934	-	102,852	5,705	1,544,362	841,305	142,621	2,528,288	14,776	69,289	56,101	3,952	354,758
1935	-	101,479	5,320	1,702,187	1,004,374	149,014	2,855,575	12,602	99,929	92,926	24,585	360,616
1936	-	107,697	4,925	1,905,337	1,182,172	169,333	3,256,842	12,437	96,836	34,611	9,919	446,248

PITTSBURGH BRANCH - FEDERAL RESERVE BANK OF CLEVELAND

(a) City of Pittsburgh

Pittsburgh, with a population of 669,817, is the tenth largest city in the United States and the second largest city in Pennsylvania. It is located in the southwestern part of the State at the point where the Monongahela and Allegheny join the Ohio River and serves a retail trade area extending approximately 30 miles in all directions. There are approximately two million people in this area. Twenty-two railroads enter the city, the major systems being the Pennsylvania, Pittsburgh & Lake Erie, Baltimore & Ohio, and Buffalo, Rochester & Pittsburgh. The city also has an excellent municipally owned airport and is served by a number of national airlines.

According to the Biennial Census of Manufactures for the year 1935, there were in Allegheny County, in which Pittsburgh is situated, 1,474 manufacturing establishments which had an output valued at \$703,465,000 during that year. The principal manufactures were iron and steel, machinery and castings, electrical machinery and apparatus, glass and glassware, chemicals, and clay products. There was also considerable canning, meat packing, baking and petroleum refining. The Census of American Business shows that in the same area there were 13,928, retail and 1,755 wholesale establishments which had sales aggregating \$393,170,000 and \$729,764,000, respectively, in 1935.

Banking facilities in Pittsburgh as of December 31, 1936, were provided by thirty-two State banks (8 members), eight national banks and one mutual savings bank. These institutions had deposits aggregating \$1,215,136,000 as of that date and of this amount \$1,057,929,000 was carried with the sixteen local member banks, four of which are located in outlying sections of the city and authorized to carry country bank reserves.

Debits to individual accounts in banks of the city aggregated \$8,676,891,000 during the year 1936, or approximately \$29,000,000 for each banking day.

(b) Branch Territory and Functions:

The Pittsburgh Branch was established April 22, 1918, and serves nineteen counties in western Pennsylvania and six counties in northern West Virginia. These counties comprise about 20% of the land area of the Fourth Federal Reserve District and have approximately 30% of its total population. Approximately 30% of all banks in the Fourth District are within this area.

As of December 31, 1936, there were 375 banks, exclusive of mutual savings banks in the branch zone and of this number 244, including 219 national and 25 State institutions, were members of the Federal Reserve System. All of the nonmember banks in the branch zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to those of the Fourth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investment</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
		(000 omitted)		
Fourth District	627	\$2,822,103	\$427,865	\$3,517,299
Pittsburgh Zone	244	1,365,336	223,056	1,531,133

There is no branch zone in the System having larger member bank footings than the Pittsburgh Zone.

The Pittsburgh Branch is operated on the "memorandum plan". All general ledger accounts, as well as accounts of member banks, non-member clearing banks and other Federal Reserve banks, are maintained at the Head Office, which also maintains all expense records. A transcript of all entries affecting the

accounts of banks in the branch zone is sent to the Head Office daily by wire. Member banks in the branch zone may forward their discount offerings either to the Branch or to the Head Office. Offerings received by the Branch are examined to see that the paper is technically in order and the amount of each offering is wired to the Head Office. Immediate credit is given where the collateral consists of U. S. Government obligations. Credit on all other offerings is deferred until final approval by the Head Office, but upon approval the credit is made effective as of the date the offering was received by the Branch. The Branch holds securities of banks in its zone in safekeeping. The Branch maintains no non-banking departments such as Bank Examination, Bank Relations, Legal, Research or Fiscal Agency departments.

As of September 2, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
City of Pittsburgh	16	\$153,643,900	\$13,325,800	\$4,719,100	\$ -
Remainder of Zone	<u>224</u>	<u>52,295,300</u>	<u>2,778,700</u>	<u>2,023,900</u>	<u>60,000</u>
Total	<u>240</u>	<u>\$205,939,200</u>	<u>\$16,104,500</u>	<u>\$6,743,000</u>	<u>\$60,000</u>

Pittsburgh is 138 train miles (3 hrs. - 15 mins.) from Cleveland. On any business day there are a number of trains which leave Pittsburgh at 7 P. M. or later and arrive in Cleveland before 8 A. M. on the succeeding day, i.e., overnight mail time. No branch city is closer to its head office than is Pittsburgh. However, there are fourteen other branch cities which are as well situated as Pittsburgh from the standpoint of overnight mail communication between the hours of 7 P. M. and 8 A. M. Branch cities comparable to Pittsburgh insofar as speed of rail service is concerned are Baltimore (157 miles - 4 hrs. and 21 mins.) and Birmingham (168 miles - 5 hrs. and 50 mins.).

It is apparent that discontinuance of the Branch would curtail the service rendered to banks located in and near Pittsburgh. Such banks under normal conditions now enjoy an over-the-counter relationship with the Branch insofar as deposits and withdrawals of currency, wire transfers and borrowings collateralized by government bonds are concerned. If the Branch were removed it would be necessary for them to deal with the Head Office by mail. The situation is different in the case of banks which at present deal with the Branch by mail, since the large majority of such banks can be served just as expeditiously from the Head Office under normal conditions. This is borne out by a study of the Pittsburgh Branch zone which was made by Federal Reserve Examiners in December 1933. At that time there were 155 member bank points in the zone and of this number 112 were within over-night mail time of the Head Office as compared with 115 within over-night mail time of the Branch.

Other than Pittsburgh there are only three cities in the branch zone having a population in excess of 50,000; namely, Erie, Pa., 115,967, Wheeling, West Va., 61,659 and McKeesport, Pa., 54,632. McKeesport is contiguous to Pittsburgh and Wheeling and Erie are 66 miles (2 hrs. - 20 mins.) and 143 miles (4 hrs. - 2 mins.), respectively, distant.

(c) Branch Building:

The Pittsburgh Branch has occupied its present quarters at Grant Street and Ogle Way since December, 1931. The following figures show the original cost and book value, as of September 2, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>9-3-37</u>
Land	\$ 781,364	\$ 781,364
Building	867,455)	
Vault & vault equipment	181,996)	930,512
Fixed machinery & equipment	352,411	152,938
	<u>\$2,183,226</u>	<u>\$1,864,814</u>
Furniture and equipment	248,357	-
	<u><u>\$2,431,583</u></u>	<u><u>\$1,864,814</u></u>

The banking premises, including fixed machinery and equipment, occupied by the Branch prior to 1931 are carried as other real estate on the books of the Head Office. The total book value of the old property was \$369,115 as of September 2, 1937. This property was badly damaged by the floods in the early part of 1937, and, because of the expense involved, has not been placed in usable condition.

(d) Earnings - Branch Books:

No record of earnings is maintained at the Pittsburgh Branch as it is operated on the "memorandum plan".

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Cleveland, as of September 2, 1937, shows the following in regard to salaries and personnel at the Pittsburgh Branch:

	<u>September 2, 1937</u>		<u>August 29, 1936</u>		<u>Increase</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	4	\$ 27,300	4	\$ 30,100	-	\$ 2,800 (Decr.)
Employees	<u>210</u>	<u>312,400</u>	<u>184</u>	<u>281,200</u>	<u>26</u>	<u>31,200</u>
	<u>214</u>	<u>\$339,700</u>	<u>188</u>	<u>\$311,300</u>	<u>26</u>	<u>\$28,400</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures. Neither does the above table include 16 employees, with annual salaries totaling \$27,612, who left the service of the Branch prior to August 29, 1936, but who were then receiving dismissal wages.

(f) Branch Expense by Functions:

The expenses of the Pittsburgh Branch by Functions during the past six years, as shown in Functional Expense Reports, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 27,677	\$ 27,724	\$ 25,754	\$ 23,938	\$ 23,580	\$ 20,640
Non-controllable	28,517	40,007	48,999	81	42	63
*Provision of space	129,706	114,391	117,535	110,180	102,141	154,572
Provision of Personnel	7,077	7,102	32,231	45,947	65,699	15,516
General Service	71,819	71,467	74,160	74,970	68,888	64,025
Postage	27,702	31,926	31,547	31,220	34,021	35,765
Insurance	7,649	7,524	3,828	2,715	3,343	3,181
Loans, rediscounts, etc.	6,869	6,425	6,148	4,977	2,546	1,371
Securities	6,264	6,198	6,398	11,610	14,122	14,188
Currency & Coin	64,036	61,606	61,152	111,919	122,737	135,018
Check Collection	99,235	102,457	101,116	96,743	95,336	101,197
Non-cash Collections	11,455	10,855	10,775	12,674	12,658	12,808
Accounting	38,960	38,490	39,101	40,456	37,981	35,357
Fiscal Agency	8,052	7,912	9,102	23,318	23,148	21,634
Legal	-	-	-	510	106	421
Auditing	8,605	9,225	10,243	11,316	10,608	10,599
Bank Relations	-	-	-	-	-	5,217
F.R. Note Issues	26	68	33	221	142	-
Statistical & Analyt'l	340	310	344	234	261	247
Total Expense	<u>\$543,989</u>	<u>\$543,687</u>	<u>\$578,466</u>	<u>\$603,029</u>	<u>\$617,359</u>	<u>\$631,819</u>
Less - Reimbursable						
Fiscal Agency Exp.	-	-	1,873	2,964	8,974	7,914
Net Expense	<u>\$543,989</u>	<u>\$543,687</u>	<u>\$576,593</u>	<u>\$600,065</u>	<u>\$608,385</u>	<u>\$623,905</u>

* Represents the net expense - income from rentals having been deducted.

There was no branch in the System which operated at a higher aggregate annual cost than the Pittsburgh Branch in 1937. The only comparable branch from a standpoint of expense was Los Angeles with annual operating expenses aggregating \$590,002.

(g) Volume of Operations at Pittsburgh Branch:

The following is a comparison of the volume of operations in various departments of the Pittsburgh Branch and the Head Office during the last six months of 1936:

	<u>Pittsburgh Branch</u>	<u>Head Office</u>
<u>Safekeeping</u>		
Member bank securities 12-31-36	\$115,906,000	\$134,546,000
Branches with larger volume:	None	

<u>Pittsburgh Branch</u>	<u>Head Office</u>
--------------------------	--------------------

Currency & Coin

- | | | |
|---|------------|------------|
| 1. Number of bills received and counted | 26,082,000 | 27,350,000 |
| Branches with larger volume: Los Angeles, Baltimore and Detroit. | | |
| Cost per one thousand units handled | 54 cents | 61 cents |
| Branches with higher unit cost: Buffalo, Cincinnati, Helena, Denver, Omaha, El Paso, Portland, Salt Lake City, Seattle and Spokane. | | |
-
- | | | |
|---|------------|------------|
| 2. Number of coins received and counted: | 26,297,000 | 22,588,000 |
| Branches with larger volume: Baltimore and Los Angeles. | | |
| Cost per one thousand units handled | 21 cents | 24 cents |
| Branches with higher unit cost: Helena, Omaha, El Paso, San Antonio, Portland, Salt Lake City, Seattle and Spokane. | | |

Check Collection

- | | | |
|---|-----------|-----------|
| 1. Number of city checks (clearings) received | 5,551,000 | 3,345,000 |
| Branches with larger volume: None | | |
| Cost per one thousand units handled | \$1.63 | \$1.82 |
| Branches with higher unit cost: Buffalo, Cincinnati, Louisville, Helena, Denver, Oklahoma City, El Paso, Houston, Los Angeles, Portland, Salt Lake City, Seattle and Spokane. | | |
-
- | | | |
|--|------------|------------|
| 2. Number of country checks (outgoing) received | 13,193,000 | 12,547,000 |
| Branches with larger volume: None | | |
| Cost per one thousand units handled | \$1.99 | \$2.50 |
| Branches with higher unit cost: Buffalo, Cincinnati, Charlotte, Nashville, New Orleans, Detroit, Helena, El Paso, San Antonio, Los Angeles, Portland, Salt Lake City, Seattle and Spokane. | | |

Non-cash Collections

- | | | |
|---|------------|------------|
| 1. Number of city collections handled | 8,635 | 21,159 |
| Branches with larger volume: Buffalo, Cincinnati, Baltimore, Jacksonville, Detroit, Little Rock, Memphis, Denver, Oklahoma City, Omaha, Houston, Los Angeles, Salt Lake City and Seattle. | | |
| Cost per unit handled | 66.7 cents | 25.9 cents |
| Branches with higher unit cost: None | | |
-
- | | | |
|---|------|--|
| 2. Number of country collections handled: | None | |
|---|------|--|
-
- | | | |
|---|-----------|------------|
| 3. Number of coupons (except Government) and country security collections handled | 9,355 | 46,887 |
| Branches with larger volume: Baltimore and Detroit. | | |
| Cost per unit handled | 3.1 cents | 15.2 cents |
| Branches with higher unit cost: All other branches. | | |

A schedule showing the volume of operations of the Pittsburgh Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Pittsburgh Branch by Board's Examiners - 1933

During the course of an examination of the Federal Reserve Bank of Cleveland, made as of December 30, 1933, the Board's Field Examiners reviewed the operations of the Pittsburgh Branch and expressed the opinion that its continuance was warranted in view of the size and importance of the branch city and the volume of operations conducted at the Branch. At that time there were 396 banks in the branch zone and 252 of them, including 14 in the City of Pittsburgh, were members of the System. Then, as at present, the Pittsburgh Branch was one of the six most active branches in the System; ranking first in the dollar volume and number of checks handled.

(i) Survey of Pittsburgh Branch made by Federal Reserve Bank of Cleveland - 1936

As requested in the Board's letter of March 25, 1936 (X-9532) the Federal Reserve Bank of Cleveland reviewed the operations of its branches. The Board was advised in a letter dated October 29, 1936 that on the basis of this survey the continuance of the Pittsburgh Branch appeared to be fully justified and that no serious consideration should be given to its discontinuance for the present at least. The chief reasons advanced in support of this conclusion were:

1. That the Branch had but recently occupied a new building which was carried at \$1,958,000 and which could not be disposed of, based on their experience with the old branch banking quarters, except at a substantial loss.
2. That intense rivalry existed between the banking interests of Cleveland and Pittsburgh at the time the System was organized and that although bankers in Pittsburgh have since become reconciled to the

location of the Federal Reserve Bank in Cleveland, any indication that the Pittsburgh Branch might be discontinued would be met by the most active and severe opposition.

3. That discontinuance of the Branch would result in some saving in salary expense, but would entail much added expense at the Head Office; the net saving being difficult to estimate.
4. That the branch city was selected because the natural trend of business of the surrounding territory was toward Pittsburgh.
5. That check collection and clearing operations are facilitated by the Branch because banks in the territory find it convenient to settle in Pittsburgh exchange.
6. That a substantial number of cities in the branch zone are two days removed from the Head Office by mail and that check collections and currency shipments would be greatly delayed if they were handled from Cleveland, and
7. That Pittsburgh is the outstanding industrial center of the North Central States, the larger industrial concerns maintaining offices there, and that, as a result, the Branch is called upon to supply currency through banking connections of such concerns which is distributed and used throughout Western Pennsylvania and Northwestern West Virginia; some of such territory being located in the Philadelphia and Richmond Districts.

PITTSBURGH BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	-	47,402,000	41,820,000	8,874,000	21,036,000	732,000	30,642,000	484,710	31,091	29,769	-	25,112
1932	-	39,192,000	39,125,000	8,106,000	18,803,000	786,000	27,695,000	468,729	31,991	9,456	18	19,641
1933	-	38,829,000	32,632,000	8,277,000	17,178,000	874,000	26,329,000	486,141	31,731	25,642	102	17,184
1934	-	41,452,000	33,766,000	10,344,000	18,592,000	2,138,000	31,074,000	521,677	28,565	44,690	481	14,557
1935	-	44,687,000	35,849,000	14,050,000	23,356,000	1,008,000	38,414,000	564,000	34,000	73,849	16,007	9,606
1936	-	52,609,000	48,651,000	13,823,000	25,888,000	1,052,000	40,763,000	470,000	40,000	14,977	5,930	11,000

Amounts Handled

(in thousands of dollars)

1931	-	247,367	3,915	8,664,505	1,602,529	104,757	10,371,791	15,563	36,756	127,076	-	2,134,203
1932	-	173,752	3,211	5,544,808	1,244,141	89,383	6,878,332	14,625	32,964	17,108	155	1,018,927
1933	-	203,280	6,695	5,260,589	1,198,247	94,989	6,553,825	15,001	47,038	52,156	152	896,497
1934	-	208,160	3,817	6,032,868	1,457,931	120,893	7,611,692	17,774	68,035	86,905	509	657,306
1935	-	217,024	2,747	7,064,852	1,704,060	114,138	8,883,050	19,447	88,729	102,350	17,749	743,136
1936	-	286,861	3,444	8,930,791	2,190,031	143,457	11,264,279	19,693	123,979	117,091	5,629	956,140

BALTIMORE BRANCH - FEDERAL RESERVE BANK OF RICHMOND

(a) City of Baltimore

Baltimore, with a population of 804,874, is the eighth largest city in the United States and the largest city in Maryland. It is located in the central part of the State, on the Patapsco River which enters Chesapeake Bay, and serves a trade area extending approximately 20 miles in all directions. There are slightly more than 1,000,000 inhabitants in this area. Five railroads, including the Baltimore & Ohio, Pennsylvania and Western Maryland, serve the city and numerous ocean steamship lines afford direct connection with most of the important American and foreign ports. In addition regular air service is available at two airports.

According to the Biennial Census of Manufactures Baltimore City had 1,867 manufacturing establishments in 1935 which had an output valued at \$538,805,000. The most important manufactures were iron and steel, copper, fertilizer, straw hats, drugs, canned goods, aircraft, and distillery and brewery products. There is also considerable meat packing, railroad repair work and ship building and repairing carried on. The Census of American Business for the year 1935 lists 13,557 retail and 1,622 wholesale establishments in Baltimore City which enjoyed sales aggregating \$301,137,000 and \$424,478,000, respectively, during that year.

Banking facilities in Baltimore are provided by six national banks, thirteen State banks (6 members), ten mutual savings banks and a Morris Plan bank. These institutions had deposits aggregating \$659,687,000, as of December 31, 1936, and of this amount \$355,895,000 was carried with the twelve local member banks, one, a national bank, being authorized to carry country bank reserves.

Debits to individual accounts in banks of the city aggregated \$4,049,013,000 during the year 1936, or an average of approximately \$13,500,000 for each banking day.

(b) Branch Territory and Functions:

The Baltimore Branch was established March 1, 1918 and serves the entire State of Maryland and thirty counties in Northern West Virginia. This territory represents 15% of the land area of the Fifth District and has approximately 21% of its total population. Approximately 26% of all banks in the district are within this area.

As of December 31, 1936 there were 268 banks, exclusive of mutual savings banks, in the branch zone and of this number 116, including 98 national banks and 18 State institutions, were members of the Federal Reserve System. All of the nonmember institutions in the branch zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to those of the Fifth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
		(000 omitted)		
Fifth District	404	\$1,227,380	\$158,222	\$1,702,403
Branch Zone	116	383,677	43,533	511,126

There are only five branch zones in the entire System having larger member bank footings than the Baltimore zone; namely, Pittsburgh, Los Angeles, Detroit, Cincinnati and Buffalo.

The Baltimore Branch renders substantially the same service to member banks in its territory as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearings,

non-cash collections, safekeeping of securities and loans to member banks are concerned. Reserve accounts of member banks in the zone are maintained at the Branch. Member bank borrowings are passed upon at the Branch, subject to review by the Head Office and notes and collateral, if any, are held by the Branch. The Branch does not exercise fiscal agency functions, but acts as a receiving and distributing station for the Head Office. It has no Bank Examination, Legal or Failed Bank departments.

As of June 17, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
City of Baltimore	12	\$51,766,221	\$11,030,073	\$ 727,300	-
Remainder of Zone	104	16,126,667	945,932	586,700	\$90,000
Total	116	\$67,892,888	\$11,976,005	\$1,314,000	\$90,000

Baltimore is 153 train miles (4 hrs. and 21 mins.) from Richmond. On any business day there are several trains which leave Baltimore at 7 P. M. or later and arrive in Richmond before 8 A. M. on the succeeding day, i.e., overnight mail time. Pittsburgh is the only branch city closer than Baltimore to its head office. However, there are fourteen other branch cities which are within overnight mail time of their respective head offices. The branches most comparable to Baltimore are Pittsburgh (138 miles - 3 hrs. and 20 mins.) and Detroit (284 miles - 6 hrs. and 35 mins.).

It is apparent that discontinuance of the Baltimore Branch would curtail the service rendered to banks located in that city which now enjoy an over-the-counter relationship insofar as deposits and withdrawals of currency, wire transfers, borrowings and safekeeping accommodations are concerned. The Federal reserve balances of banks in Baltimore are two and one-half times as large as

those of banks in Richmond. Any indication that discontinuance of the Branch was even contemplated would reawaken the intense bitterness which the original selection of Richmond, rather than Baltimore, as a Reserve Bank city aroused and would undoubtedly be harmful to the System as a whole. In addition it appears from available information that a number of the 79 outlying banking points in the Baltimore zone, particularly points in West Virginia, cannot be served as expeditiously from Richmond as they are now being served from Baltimore.

Other than Baltimore, there is no city in the branch zone having a population of over 50,000. The populations of the more important cities are as follows: Cumberland, Maryland, 37,747; Hagerstown, Maryland, 30,861 and Fairmont, West Virginia, 23,159.

(c) Branch Building:

The Baltimore Branch has occupied its present quarters at Lexington and Calvert Streets since September 1928. The following figures show the original cost and book value, as of June 17, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value 6-17-37</u>
Land	\$ 250,487	\$ 187,145
Building	992,474)	
Vault & vault equipment	254,788)	1,012,675
Fixed machinery & equipment	<u>330,439</u>	<u>22,589</u>
	\$1,828,188	\$1,222,409
Furniture & equipment	<u>243,765</u>	-
	<u>\$2,071,953</u>	<u>\$1,222,409</u>

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$ -
1932	32,600
1933	25,300
1934	19,200
1935	20,300
1936	21,600
1937	22,000

These figures are incomplete since, under the present accounting procedure, the Branch does not receive any credit for income received by the Head Office on investments, a large portion of which is made possible by the capital stock investment and reserve balances of member banks in the branch zone. Income on borrowings by banks in the branch zone is also carried only on the books of the Head Office, which is contrary to the usual practice in full-fledged branches.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Richmond, as of June 17, 1937, shows the following in regard to salaries and personnel at the Baltimore Branch:

	<u>June 17, 1937</u>		<u>June 27, 1936</u>		<u>Increase</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	4	\$ 26,500	4	\$ 25,800	-	\$ 700
Employees	<u>164</u>	<u>213,500</u>	<u>160</u>	<u>209,600</u>	<u>4</u>	<u>3,900</u>
	<u>168</u>	<u>\$240,000</u>	<u>164</u>	<u>\$235,400</u>	<u>4</u>	<u>\$4,600</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures. Compensation paid to temporary employees and for overtime and supper money is also not included (\$8,200 for 1936).

(f) Branch Expense by Functions:

The expenses of the Baltimore Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 11,323	\$ 19,309	\$ 18,419	\$ 17,982	\$ 14,346	\$ 15,617
Non-Controllable	16,112	20,993	22,207	249	83	111
*Provision of Space	55,612	54,246	53,146	48,881	52,091	107,031
Provision of Personnel	6,580	6,278	26,659	37,815	53,921	9,397
General Service	54,881	54,014	59,167	59,874	56,474	57,811
Postage	24,060	27,849	27,984	28,747	28,336	28,668
Insurance	7,148	6,784	5,236	4,265	4,050	3,828
Failed Banks	-	-	-	-	-	-
Loans, rediscounts, etc.	14,346	17,151	9,251	4,741	4,995	5,315
Securities	5,587	5,653	6,481	6,351	8,124	7,828
Currency & Coin	50,084	45,498	48,164	73,209	74,475	75,737
Check Collection	62,551	64,726	58,654	57,418	59,169	65,462
Non-cash Collection	12,582	14,610	14,557	16,985	15,832	17,514
Accounting	29,433	27,872	23,102	23,892	28,043	28,506
Fiscal Agency	4,057	4,641	13,836	41,931	44,245	45,562
Legal	-	-	-	-	-	-
Auditing	2,656	2,624	3,429	5,094	5,059	6,180
Bank Relations	1,642	296	240	86	316	606
Bank Examinations	-	-	-	-	-	-
F.R. Note Issues	901	892	717	517	307	348
Statistical & Analyt'l	402	369	455	263	171	162
Total Expense	\$359,962	\$373,805	\$396,704	\$433,300	\$450,037	\$475,633
Less - Reimbursable						
Fiscal Agency Exp.	-	-	7,393	13,572	29,118	31,263
Net Expense	<u>\$359,962</u>	<u>\$373,805</u>	<u>\$389,311</u>	<u>\$419,728</u>	<u>\$420,919</u>	<u>\$444,415</u>

* Represents the net expense - income from rentals having been deducted.

There are two branches in the System which operated at a higher annual cost than the Baltimore Branch in 1937; namely, Pittsburgh and Los Angeles.

(g) Volume of Operations at Baltimore Branch:

The following is a comparison of the volume of operations in various departments of the Baltimore Branch and the Head Office during the last six months of 1936:

	<u>Baltimore Branch</u>	<u>Head Office</u>
<u>Discount Department:</u>		
Notes rediscounted	-	-
Collateral notes discounted	17	42
Industrial advances	-	3
Branches with larger volume: Denver, Omaha, El Paso, San Antonio and Buffalo.		

<u>Baltimore Branch</u>	<u>Head Office</u>
-------------------------	--------------------

Safekeeping:

Member bank securities 12-31-36	\$36,150,000	\$64,486,000
Branches with larger volume: Pittsburgh and Detroit.		

Currency & Coin:

- | | | |
|--|------------|------------|
| 1. Number of bills received and counted | 27,396,000 | 26,375,000 |
| Branches with larger volume: Los Angeles. | | |
| Cost per one thousand units handled | 49 cents | 48 cents |
| Branches with higher unit cost: Buffalo, Cincinnati, Pittsburgh, Detroit, Helena, Denver, Oklahoma City, Omaha, El Paso, San Antonio, Portland, Salt Lake City, Seattle and Spokane. | | |
| | | |
| 2. Number of coins received and counted | 61,774,000 | 28,637,000 |
| Branches with larger volume: None | | |
| Cost per one thousand units handled | 8 cents | 7 cents |
| Branches with higher unit cost: All except New Orleans and Oklahoma City. | | |

Check Collection:

- | | | |
|---|-----------|------------|
| 1. Number of city checks (clearings) received | 2,574,000 | 1,054,000 |
| Branches with larger volume: Pittsburgh, Detroit and Los Angeles. | | |
| Cost per one thousand units handled | \$1.44 | \$2.29 |
| Branches with higher unit cost: All except Charlotte, Birmingham, Jacksonville, Nashville and New Orleans. | | |
| | | |
| 2. Number of country checks (outgoing) received | 9,370,000 | 14,337,000 |
| Branches with larger volume: Pittsburgh. | | |
| Cost per one thousand units handled | \$1.87 | \$2.45 |
| Branches with higher unit cost: Buffalo, Cincinnati, Pittsburgh, Charlotte, Nashville, New Orleans, Detroit, Memphis, Helena, El Paso, San Antonio, Los Angeles, Portland, Salt Lake City, Seattle and Spokane. | | |

Non-cash Collections

- | | | |
|---|------------|------------|
| 1. Number of city collections handled | 18,149 | 10,579 |
| Branches with larger volume: Detroit, Little Rock, Memphis, Omaha and Los Angeles. | | |
| Cost per unit handled | 17.2 cents | 18.4 cents |
| Branches with higher unit cost: Buffalo, Cincinnati, Pittsburgh, Charlotte, Detroit, Los Angeles, Portland and Seattle. | | |
| | | |
| 2. Number of country collections handled | 18,212 | 44,436 |
| Branches with larger volume: Buffalo, Charlotte, Omaha, Salt Lake City and Spokane. | | |
| Cost per unit handled | 12.3 cents | 11.8 cents |
| Branches with higher unit cost: Buffalo, Birmingham, Nashville, Helena, Los Angeles, Portland and Seattle. | | |

	<u>Baltimore Branch</u>	<u>Head Office</u>
3. Number of coupons (except Government) and country security collections handled	22,733	9,048
Branches with larger volume: None		
Cost per unit handled	10. cents	20.5 cents
Branches with higher unit cost: All except Cincinnati, Pittsburgh, Birmingham, New Orleans, Denver, Omaha and Seattle.		

A schedule showing the volume of operations of the Baltimore Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Baltimore Branch by Board's Examiners - 1933

During the course of examination of the Federal Reserve Bank of Richmond, made as of July 29, 1933, the Board's Examiners reviewed the operations of the Baltimore Branch and expressed the opinion that its continued operation was justified. Attention was called to the fact that it is one of the five largest branches in the System and that in a number of departments the volume of work handled by the Branch exceeded that handled at the Head Office.

(i) Survey of Baltimore Branch made by Federal Reserve Bank of Richmond - 1936

As requested in the Board's letter of March 25, 1936 (X-9532) the Federal Reserve Bank of Richmond surveyed the operations of its Baltimore Branch and advised as follows:

"*** we are very positive that the Baltimore Branch -- one of the largest and most important branches in the Federal Reserve System -- should be continued on the present basis."

In reaching this conclusion consideration was given to the character of the territory served by the Branch, the volume of its operations as compared to those at the Head Office, the size and prominence of the City of Baltimore and the substantial investment in quarters occupied by the Branch. The factors which prompted the establishment of the Branch originally, such as improved transit, currency and discount facilities and the belief that the System should be made as flexible as possible and not become too closely identified with a given section or city, were also cited.

BALTIMORE BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	11,801	50,769,000	134,337,000	4,363,000	14,561,000	841,000	19,765,000	296,094	128,523	6,977	172	30,195
1932	26,918	45,339,000	120,103,000	4,149,000	12,921,000	787,000	17,857,000	313,666	146,511	6,333	260	25,685
1933	15,846	48,208,000	108,543,000	3,972,000	11,924,000	898,000	16,794,000	342,895	173,321	12,826	176	17,206
1934	679	49,905,000	113,676,000	4,376,000	13,640,000	1,849,000	19,865,000	417,263	159,691	35,045	5,253	15,364
1935	95	51,316,000	116,752,000	4,731,000	15,588,000	1,059,000	21,378,000	414,000	122,000	71,776	37,998	12,630
1936	29	55,312,000	125,184,000	5,128,000	17,747,000	1,252,000	24,127,000	352,000	114,000	10,814	19,226	12,000

Amounts Handled

(in thousands of dollars)

1931	641,632	248,848	10,455	2,008,405	1,076,800	125,794	3,210,999	5,676	96,904	53,712	8,600	1,464,105
1932	766,019	218,530	9,070	1,544,836	921,018	97,279	2,563,133	7,025	96,135	62,323	11,500	938,166
1933	207,106	240,492	11,317	1,509,197	894,067	111,319	2,514,583	8,069	103,682	79,142	1,291	822,780
1934	11,531	211,736	8,098	1,771,814	1,104,184	144,515	3,020,513	10,712	140,114	230,180	8,346	878,119
1935	2,402	217,547	8,172	1,832,431	1,289,414	144,869	3,266,714	11,138	161,840	294,024	49,068	855,170
1936	998	233,648	8,848	2,020,431	1,579,786	180,348	3,780,565	11,525	163,463	221,923	26,666	875,885

CHARLOTTE BRANCH - FEDERAL RESERVE BANK OF RICHMOND

(a) City of Charlotte

Charlotte, with a population of 82,675, is located in the southwestern part of North Carolina in what is known as the Piedmont section. It is the largest city in the State and serves a trade area with a radius of from 50 to 70 miles, which is noted for textile manufacturing. The surrounding territory is devoted also to dairying and the raising of sweet potatoes, peanuts, cotton, strawberries, peaches and apples. The community is served by the Southern, Norfolk & Southern, and Seaboard Air Line railroads, and by the Piedmont and Northern Electric Railway. It is also on the regular Washington-Atlanta air mail line.

According to the Biennial Census of Manufactures there were 164 manufacturing establishments which had an output valued at \$42,900,000 operating in Mecklenburg County, in which Charlotte is situated, during the year 1935. The chief manufactures were cotton yarn, cottonseed oil, woodpulp, lumber, asbestos products, hosiery, clothing and dyestuffs. The Census of American Business for 1935 lists 1,228 retail and 268 wholesale establishments in the same area which had sales aggregating \$33,917,000 and \$125,025,000, respectively, during that year.

Banking facilities in Charlotte are provided by three national banks, one State member bank and four relatively small industrial banks. These institutions had deposits aggregating \$83,764,000, as of December 31, 1936, and of this amount \$82,494,000 was carried with member banks.

Debits to individual accounts in banks of the city aggregated \$655,224,000 during the year 1936, or an average of approximately \$2,184,000 for each banking day.

(b) Branch Territory and Functions:

The Charlotte Branch was established December 1, 1927, and serves thirty-four counties in North Carolina and twenty-one counties in South Carolina. This territory represents 18% of the land area of the Fifth District and has 19% of its total population. Approximately 14% of all banks in the district are within this area.

As of December 31, 1936, there were 145 banks, exclusive of mutual savings banks, in the branch zone and of this number 36, including 31 national and 6 State institutions, were members of the Federal Reserve System. Only 6 out of 109 non-member banks in the zone were on the par list. There were ten communities in the zone served by out-of-town branches of member banks attached to the Head Office. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to those of the Fifth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u> (000 omitted)	<u>Total Deposits</u>
Fifth District	404	\$1,227,380	\$158,222	\$1,702,403
Branch Zone	36	98,815	11,293	143,411

There are only four branch zones in the entire System having smaller member bank footings than the Charlotte zone; namely, Spokane, El Paso, Little Rock and Helena.

The Charlotte Branch renders substantially the same service to member banks in its territory as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearing and collection, non-cash collections and safekeeping of securities are concerned. It also acts as custodian for the Reconstruction Finance Corporation. Reserve accounts

of member banks in the zone are maintained at the Branch. The Branch does not have discount or fiscal agency departments. However, discounts of member banks in the City of Charlotte may be presented at the branch to be forwarded to the Head Office after being examined for technicalities. Immediate credit is given for such offerings subject to final approval by the Head Office.

As of June 17, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
City of Charlotte	4	\$11,619,907	\$3,895,987	\$125,700	-
(*)Remainder of Zone	<u>42</u>	<u>9,363,595</u>	<u>1,132,380</u>	<u>215,450</u>	<u>\$43,000</u>
Total	<u>46</u>	<u>\$20,983,502</u>	<u>\$5,028,367</u>	<u>\$341,150</u>	<u>\$43,000</u>

(*)Includes 10 branches of member banks in Head Office zone.

Charlotte is 282 train miles from Richmond. Mail leaving Richmond at 6:10 P.M. arrives in Charlotte at 3:50 A.M. the next day (9 hrs. and 40 mins.) and mail leaving Charlotte at 7:15 P.M. arrives in Richmond at 8:10 A.M. the next day (12 hrs. and 55 minutes). The branch city may be said to be within overnight mail time of Richmond. Many of the banking points in the branch zone, which deal with the Branch by mail, are also within overnight mail time of Richmond. Discontinuance of the Branch would of course curtail the service rendered to banks located in the city of Charlotte, which now enjoy an over-the-counter relationship with the Branch. It would also slow up the clearing and collection of checks on and for shipments of currency and coin to a small number of outlying points which are not within overnight mail time of Richmond.

Other than Charlotte, the most populous cities in the branch zone are as follows: Columbia, South Carolina, 51,581; Ashville, North Carolina, 50,193; Greenville, South Carolina, 29,154; and Spartanburg, South Carolina, 28,723.

All of these cities have one or more member banks and are over 350 miles from Richmond by rail. All of these cities are within overnight mail time of Charlotte.

(c) Branch Building:

The Charlotte Branch occupies rented quarters at 110 South Tryon Street under a lease expiring June 1, 1941, at an annual rental of \$12,207. Additional space, occupied by the Reconstruction Finance Corporation, Custodian Division, is rented on a month to month basis. The Branch is reimbursed by the corporation for this additional space, certain maintenance costs and a basement vault which it uses. The net rental and maintenance cost paid by the Branch for the year 1936 was \$14,612.37.

(d) Earnings - Branch Books:

The Branch's net earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$2,500
1932	7,700
1933	1,300
1934	100
1935	200
1936	100
1937	100

These figures are incomplete since, under the present accounting procedure, the Branch does not receive any credit for income received by the Head Office on investments, a large portion of which is made possible by the capital stock investment and reserve balances of member banks in the branch zone. Income on borrowings of banks in the branch zone is also carried on the books of the Head Office.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Richmond, as of June 17, 1937, shows the following in regard to salaries and personnel at the Charlotte Branch:

	<u>June 17, 1937</u>		<u>June 27, 1936</u>		<u>Increase</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	3	\$14,500	3	\$13,900	-	\$600
Employees	55	70,400	54	70,100	1	300
	58	\$84,900	57	\$84,000	1	\$900

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expenses by Functions:

The expenses of the Charlotte Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 10,026	\$ 10,120	\$ 9,973	\$ 10,383	\$ 10,604	\$ 10,879
Non-controllable	10,565	16,070	12,805	36	21	35
Provision of Space	15,727	16,569	16,886	13,872	13,143	14,042
Provision of Personnel	1,226	1,302	8,796	15,925	18,726	1,810
General Service	17,492	18,009	21,389	24,096	22,513	23,645
Postage	8,372	10,525	11,108	10,857	11,732	13,094
Insurance	2,240	2,123	1,741	1,450	1,592	1,527
Failed Banks	641	448	-	-	-	-
Loans, rediscounts, etc.	3,751	1,732	755	873	903	809
Securities	544	528	970	141	166	31
Currency & Coin	13,328	13,177	13,734	29,912	30,744	32,500
Check Collection	18,842	19,167	22,236	19,658	20,714	21,969
Non-Cash Collection	6,148	6,979	6,544	5,955	6,071	5,765
Accounting	21,146	19,312	21,193	21,236	21,421	20,480
Fiscal Agency	32,704	44,130	52,422	83,922	71,912	55,628
Auditing	1,611	1,590	1,422	2,122	2,286	2,487
Bank Relations	-	-	-	-	-	190
F. R. Note Issues	511	558	486	533	541	299
Statistical & Analyt'l	86	73	72	65	91	89
Total Expense	\$164,960	\$182,412	\$202,532	\$241,036	\$233,180	\$205,279
Less - Reimbursable						
Fiscal Agency Exp.	31,083	42,049	51,042	67,445	62,143	49,683
Net Expense	\$133,877	\$140,363	\$151,490	\$173,591	\$171,037	\$155,596

There were ten branches in the System which operated at a lower annual cost than the Charlotte Branch in 1937.

(g) Volume of Operations at Charlotte Branch:

The following is a comparison of the volume of operations in various departments of the Charlotte Branch and the Head Office during the last six months of 1936:

	<u>Charlotte Branch</u>	<u>Head Office</u>
<u>Safekeeping</u>		
Member bank securities 12-31-36	\$304,000	\$64,486,000
Branches with larger volume:	All branches, except Seattle, Helena, Los Angeles and Spokane.	
<u>Currency & Coin</u>		
1. Number of bills received and counted	7,915,000	26,375,000
Branches with larger volume:	Buffalo, Cincinnati, Pittsburgh, Baltimore, Jacksonville, New Orleans, Detroit, Louisville, Memphis and Los Angeles.	
Cost per one thousand units handled	44 cents	48 cents
Branches with higher unit cost:	All branches except Birmingham, Nashville, New Orleans, Little Rock, Louisville and Memphis.	
2. Number of coins received and counted	3,164,000	28,687,000
Branches with larger volume:	All branches except Little Rock, Helena, El Paso, Salt Lake City and Spokane.	
Cost per one thousand units handled	16 cents	7 cents
Branches with higher unit cost:	All branches except Baltimore, Jacksonville, New Orleans, Louisville, Memphis, Oklahoma City and Houston.	
<u>Check Collection</u>		
1. Number of city checks (clearings) received	505,000	1,054,000
Branches with larger volume:	All branches except Jacksonville, Little Rock, Helena, Oklahoma City, El Paso, Salt Lake City and Spokane.	
Cost per one thousand units handled	\$1.32	\$2.29
Branches with higher unit cost:	All branches except Birmingham, Nashville and New Orleans.	
2. Number of country checks (outgoing) received	3,587,000	14,387,000
Branches with larger volume:	Buffalo, Cincinnati, Pittsburgh, Baltimore, Detroit, Louisville, Denver, Oklahoma City, Omaha and Los Angeles.	
Cost per one thousand units handled	\$2.04	\$2.45

Check Collection (Continued)

Branches with higher unit cost: Buffalo, Cincinnati, Nashville, New Orleans, Detroit, Helena, El Paso, San Antonio, Los Angeles, Portland, Salt Lake City, Seattle and Spokane.

Non-cash Collections

- | | | |
|---|------------|------------|
| 1. Number of city collections handled | 3,568 | 10,579 |
| Branches with larger volume: All branches. | | |
| Cost per unit handled | 17.4 cents | 18.4 cents |
| Branches with higher unit cost: Buffalo, Cincinnati, Pittsburgh, Detroit, Los Angeles, Portland and Seattle. | | |
| | | |
| 2. Number of country collections handled | 18,961 | 44,436 |
| Branches with larger volume: Buffalo, Omaha, Salt Lake City and Spokane. | | |
| Cost per unit handled | 8.6 cents | 11.3 cents |
| Branches with higher unit cost: All branches except Little Rock, Memphis, Omaha, El Paso, Salt Lake City and Spokane. | | |
| | | |
| 3. Number of coupons (except Government) and country security collections handled | 1,696 | 9,048 |
| Branches with larger volume: All branches except Birmingham, Jacksonville, Helena, Oklahoma City, El Paso, Portland, Salt Lake City, Seattle and Spokane. | | |
| Cost per unit handled | 21.2 cents | 20.5 cents |
| Branches with higher unit cost: Jacksonville, El Paso, Los Angeles, Portland, Salt Lake City and Spokane. | | |

A schedule showing the volume of operations of the Charlotte Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Charlotte Branch by Board's Examiners - 1933

During an examination of the Federal Reserve Bank of Richmond, made as of June 17, 1937, the Board's Field Examiner reviewed the operations of the Charlotte Branch and made the following comment:

"In view of the relative unimportance of the Branch city and territory and the comparatively small volume of operations handled by the Branch, your examiner questions whether its continuance is justified in the interests of economy and efficiency."

(i) Survey of Charlotte Branch made by Federal Reserve Bank of Richmond - 1936

A survey of operations of the Charlotte Branch was made by the Federal Reserve Bank of Richmond, as requested in the Board's letter of March 25, 1936

(X-9532), and the Board was advised as follows:

"The Charlotte Branch is an effective arm of the Federal Reserve Bank of Richmond in serving member banks, commerce, industry and agriculture, and it is believed that it would be unwise to discontinue its operations."

The following points were considered in reaching this conclusion:

1. The fact that the Branch was established only after careful attention had been given to the compilation of pertinent data relative to transit schedules, currency needs and the normal trend of business in the Fifth District - such investigation extending over a period of years.
2. The fact that Charlotte is the largest and most important city in the two Carolinas and is in the center of the Piedmont section which is noted for textile manufacturing.
3. The fact that the Branch has adapted itself to the needs of this territory and has become an important factor in its financial life - having rendered particularly useful service to banks in its zone during the banking crisis of 1931-1934.
4. The volume of operations conducted at the Branch, and,
5. The fact that it is much more satisfactory, and possibly no more expensive, to have accounts of member banks in the branch zone carried at Charlotte rather than at Richmond.

CHARLOTTE BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	-	12,765,000	6,527,000	765,000	4,851,000	365,000	5,981,000	23,499	23,896	-	-	20,447
1932	-	12,275,000	6,959,000	748,000	4,082,000	421,000	5,251,000	34,827	27,579	-	-	17,639
1933	-	12,025,000	6,578,000	868,000	4,150,000	679,000	5,697,000	41,555	43,938	-	-	13,265
1934	-	12,767,000	7,238,000	845,000	4,795,000	1,503,000	7,143,000	49,655	42,722	-	-	12,222
1935	-	13,788,000	10,554,000	881,000	5,823,000	950,000	7,654,000	55,000	46,000	-	-	11,644
1936	-	15,255,000	7,626,000	973,000	6,882,000	797,000	8,652,000	45,000	49,000	-	-	12,000

Amounts Handled
(in thousands of dollars)

1931	-	50,931	961	476,847	612,907	39,531	1,129,285	252	25,433	-	-	1,020,265
1932	-	48,747	932	343,967	445,408	37,949	827,324	413	22,125	-	-	659,806
1933	-	53,049	3,780	441,904	541,100	52,284	1,035,288	507	31,980	-	-	615,109
1934	-	46,148	1,154	624,283	750,040	91,612	1,465,935	513	41,707	-	-	854,757
1935	-	48,673	1,280	669,589	832,229	72,314	1,574,132	479	38,590	-	-	1,046,376
1936	-	52,660	1,027	739,906	982,802	80,663	1,803,371	440	46,173	-	-	1,182,316

BIRMINGHAM BRANCH - FEDERAL RESERVE BANK OF ATLANTA.

(a) City of Birmingham

Birmingham, with a population of 259,678, is the thirty-fourth largest city in the United States and the largest city in Alabama. It is located in the central part of the State and is said to serve a trade area extending about 100 miles in all directions. There are approximately 740,000 people in this area. Nine railroads, including the Southern, Central of Georgia, Louisville and Nashville, Seaboard Airline and Frisco, serve the city. Transportation is also afforded by the Detter Air Lines.

According to the Biennial Census of Manufactures Jefferson County, in which Birmingham is located, had 346 manufacturing establishments in 1935, which had an output valued at \$137,003,000. The principal manufactures are steel and iron products, machinery, chemicals, cottonseed products, textiles, coke and coke by-products, cement and railway equipment. Coal, iron ore, limestone, marble, graphite and commercial clays are mined in the surrounding territory. There is also considerable lumbering, truck farming, dairying, cotton raising and hog and poultry raising carried on.

The Census of American Business for 1935 lists 418 wholesale and 3,729 retail establishments operating in Jefferson County, which enjoyed sales aggregating \$123,689,000 and \$88,584,000, respectively, during that year.

Banking facilities in Birmingham are provided by three State banks (1 member), one national bank and one private banking corporation. These institutions had deposits aggregating \$88,007,000 as of December 31, 1936, and of this amount \$85,337,000 was carried by the two local member banks. The national bank operates six branch offices in the city.

Debits to individual accounts in banks of the city aggregated \$888,125,000

during the year 1936, or an average of approximately \$3,000,000 for each banking day.

(b) Branch Territory and Functions:

The Birmingham Branch was established on August 1, 1918, and serves all of the State of Alabama except eleven counties located in the southern part of the State and certain designated cities, which are served by the Head Office. The branch zone constitutes 17% of the land area of the Sixth District and has 19% of its total population. Approximately 16% of all banks in the district are within this area.

As of December 31, 1936, there were 177 banks, exclusive of mutual savings banks, in the branch zone and of this number 70, including 54 national and 16 State institutions, were members of the System. Only 6 of the 107 nonmember banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to those of the Sixth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
			(000 omitted)	
Sixth District	330	\$1,026,849	\$143,409	\$1,458,473
Branch Zone	70	129,397	24,438	180,379

There are only seven branch zones in the System having smaller member bank footings than the Birmingham zone; namely, Spokane, El Paso, Little Rock, Helena, Charlotte, San Antonio and Nashville.

The Birmingham Branch is operated on the "memorandum plan." All general ledger accounts, as well as accounts of member banks, nonmember clearing banks and other Federal Reserve banks, are maintained at the Head Office, which also maintains all expense records. A transcript of all entries affecting these

various accounts is sent to the Head Office daily by wire. Banks in the territory served by the Branch may forward their discounts either to the Branch or the Head Office. Notes received by the Branch are examined for technicalities and the amount is wired to the Head Office which in turn wires its tentative approval or disapproval, credit being given as of the date the application is received at the Branch. Notes are then forwarded to the Head Office for final approval, but the supporting collateral, if any, remains in custody of the Branch. The Branch gives the same service to member banks in its zone as is available at the Head Office insofar as receipts and disbursements of currency and coin, check collection, noncash collections, wire transfers and safekeeping of securities are concerned. The Branch has no Bank Examination, Bank Relations, Legal, Failed Banks, Research or Fiscal Agency departments.

As of July 10, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
City of Birmingham	2	\$11,340,381	\$2,480,632	\$405,200	\$ -
Remainder of Zone	<u>65</u>	<u>8,247,919</u>	<u>489,707</u>	<u>335,850</u>	<u>374,313</u>
	<u>67</u>	<u>\$19,588,300</u>	<u>\$2,970,339</u>	<u>\$741,050</u>	<u>\$374,313</u>

Birmingham is 168 train miles (5 hrs. and 50 mins.) from Atlanta. There are only two branch cities closer to their respective head offices than Birmingham; namely, Pittsburgh and Baltimore. However, there are fourteen branch cities which are as well situated as Birmingham from the standpoint of overnight mail. Other than Birmingham there are 50 member bank points in the branch zone and all but 7 of such points, having 7 member banks, can be reached overnight by ordinary mail from Birmingham, whereas 10, having 13 member banks, cannot be reached

overnight by ordinary mail from Atlanta. Insofar as registered mail is concerned, there are 19 cities, with 22 member banks, which are not within overnight mail time of either city; there being only one point in the zone which can be served more promptly from Birmingham than from Atlanta. In the circumstances, it appears that discontinuance of the Birmingham Branch would inconvenience a very limited number of outlying member banks and that only where ordinary mail is used. It would, of course, affect the service rendered to the two member banks in the City of Birmingham which now have an over-the-counter relationship with the Branch.

Other than Birmingham, there are five Alabama cities in the branch zone having a population in excess of 20,000; namely, Montgomery, 66,079; Gadsden, 24,042; Anniston, 22,345; Bessemer, 20,721, and Tuscaloosa, 20,659.

(c) Branch Building:

The Birmingham Branch has occupied its present quarters at 18th Street and 5th Avenue since January 1927. The following figures show the original cost and carrying value as of July 10, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value 7-10-37</u>
Land	\$124,136	\$124,136
Building	245,426)	
Vault and vault equipment	65,910)	186,596
	<u>\$435,472</u>	<u>\$310,732</u>
Fixed machinery and equipment	47,448	495
	<u>\$482,920</u>	<u>\$311,227</u>

This account is carried on the books of the Head Office.

(d) Earnings - Branch Books:

No record of earnings is maintained at the Birmingham Branch as it is operated on the "memorandum plan."

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Atlanta, made as of July 10, 1937, shows the following in regard to salaries and personnel at the Birmingham Branch:

	<u>July 10, 1937</u>		<u>May 30, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	2	\$ 9,000	3	\$11,700	1#	\$2,700
Employees	<u>30</u>	<u>39,400</u>	<u>27</u>	<u>33,400</u>	<u>3</u>	<u>Inc. 6,000</u>
	<u>32</u>	<u>\$48,400</u>	<u>30</u>	<u>\$45,100</u>	<u>2</u>	<u>Inc. \$3,300</u>

#Due to discontinuance of office of Assistant Cashier.

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions:

The expenses of the Birmingham Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 8,867	\$ 8,546	\$ 9,021	\$ 9,561	\$ 9,109	\$ 7,135
Noncontrollable	5,904	10,300	10,608	-	-	-
*Provision of Space	9,013	9,952	9,571	7,446	5,695	11,636
Provision of Personnel	196	89	3,204	5,523	6,218	356
General Service	7,824	7,453	8,090	8,629	8,557	9,058
Postage	6,758	8,420	9,221	10,337	12,323	11,719
Insurance	1,795	1,844	992	1,179	1,078	1,226
Loans, rediscounts, etc.	982	795	684	724	235	1
Securities	686	639	709	854	736	727
Currency & Coin	9,384	7,394	8,142	17,375	19,608	22,672
Check Collection	13,380	14,159	15,090	15,120	14,231	13,994
Noncash collection	2,915	2,906	3,397	4,407	3,449	3,271
Accounting	14,533	13,146	13,824	14,468	13,513	11,437
Fiscal Agency	12,057	22,184	38,861	72,299	83,207	90,297
Legal	-	68	25	-	-	-
Auditing	459	314	338	398	424	494
F. R. Note Issues	-	224	-	-	-	-
Total Expense	\$95,253	\$108,433	\$131,777	\$168,320	\$178,883	\$184,173
Less - Reimbursable Fiscal						
Agency Expense	<u>11,579</u>	<u>21,518</u>	<u>38,285</u>	<u>63,092</u>	<u>79,949</u>	<u>87,513</u>
Net Expense	<u>\$83,674</u>	<u>\$86,915</u>	<u>\$93,492</u>	<u>\$105,228</u>	<u>\$98,934</u>	<u>\$96,660</u>

* Represents the net expense - income from rentals having been deducted.

There were twenty branches in the System which operated at a higher annual cost than the Birmingham Branch in 1937.

(g) Volume of Operations at Birmingham Branch:

The following is a comparison of the volume of operations in various departments of the Birmingham Branch and the Head Office during the last six months of 1936:

	<u>Birmingham Branch</u>	<u>Head Office</u>
<u>Safekeeping</u>		
Member banks securities 12-31-36	\$2,455,000	\$40,256,000
Branches with larger volume: All branches except Charlotte, Nashville, Memphis, El Paso, Portland and Seattle.		
<u>Currency & Coin</u>		
1. Number of bills received and counted	5,695,000	22,024,000
Branches with larger volume: All branches except Little Rock, Helena, Denver, Oklahoma City, Omaha, El Paso, San Antonio, Portland, Salt Lake City and Spokane.		
Cost per one thousand units handled	36 cents	41 cents
Branches with higher unit cost: All branches except New Orleans and Little Rock.		
2. Number of coins received and counted	4,330,000	7,223,000
Branches with larger volume: All branches except Charlotte, Jacksonville, Nashville, Little Rock, Helena, Denver, El Paso, Portland, Salt Lake City and Spokane.		
Cost per one thousand units handled	17 cents	18 cents
Branches with higher unit cost: All branches except Buffalo, Baltimore, Charlotte, Jacksonville, New Orleans, Detroit, Louisville, Memphis, Oklahoma City, Houston and Los Angeles.		
<u>Check Collection</u>		
1. Number of city checks (clearings) received	627,000	1,567,000
Branches with larger volume: All branches except Charlotte, Jacksonville, Little Rock, Helena, Oklahoma City, El Paso, San Antonio, Salt Lake City and Spokane.		
Cost per one thousand units handled	\$1.19	\$1.23
Branches with higher unit cost: All branches.		
2. Number of country checks (outgoing) received	2,111,000	3,704,000
Branches with larger volume: All branches except Nashville, New Orleans, Little Rock, Memphis, Helena, El Paso, Seattle and Spokane.		
Cost per one thousand units handled	\$1.63	\$1.83
Branches with higher unit cost: All branches.		
<u>Non-cash Collections</u>		
1. Number of city collections handled	4,206	15,278
Branches with larger volume: All branches except Charlotte and Helena.		
Cost per unit handled	13.7 cents	8.4 cents
Branches with higher unit cost: All branches except Jacksonville, Nashville, Little Rock, Louisville, Memphis, Helena, Oklahoma City, Omaha, El Paso, Houston and Salt Lake City.		

Birmingham Branch Head Office

Non-cash Collections (Continued)

2. Number of country collections handled	4,093	21,273
Branches with larger volume: All branches		
Cost per unit handled	15.4 cents	7 cents
Branches with higher unit cost: Buffalo, Nashville, Los Angeles and Portland.		
3. Number of coupons (except Government) and country security collections handled	1,027	2,630
Branches with larger volume: All branches except Helena, El Paso, Salt Lake City, Seattle and Spokane.		
Cost per unit handled	9.1 cents	10.8 cents
Branches with higher unit cost: All branches except Cincinnati, Pittsburgh, New Orleans, Denver, Omaha and Seattle.		

(h) Survey of Birmingham Branch by Board's Examiners - 1933:

During the course of an examination of the Federal Reserve Bank of Atlanta, made as of November 13, 1933, the Board's examiners reviewed the operations of the Birmingham Branch and, based on information developed, expressed doubt as to the necessity for its continuance. It was pointed out that Birmingham is only 163 miles from Atlanta, being easily reached overnight by rail and within one hour and thirty minutes by air; that all but fourteen points in the branch zone could be reached overnight from Atlanta or New Orleans, only one of such points having a population of over 5,000; and that the Branch was one of the smallest in the System, based on the number and dollar volume of items handled.

(i) Survey of Birmingham Branch made by Federal Reserve Bank of Atlanta--1936:

In accordance with the request in the Board's letter of March 25, 1936 (X-9532), a survey of the operations of the Birmingham Branch was made by the Federal Reserve Bank of Atlanta. As a result of this survey, President Newton advised the Board that the closing of the Birmingham Branch would cause very little

inconvenience, except to banks located in the immediate vicinity, and that it would result in an estimated annual saving of \$45,574, chiefly through a reduction in over-head. Mr. Newton's report contained data relative to ordinary and registered mail facilities from both Atlanta and Birmingham to points in the branch zone, which has been previously given in this memorandum, as well as data regarding the volume of operations at the Branch. He pointed out that banks located in and near Birmingham would be inconvenienced if the Branch were closed, but made no comment as to their possible reaction to the closing. Neither was any comment made as to possible loss resulting from abandonment of the banking premises owned and occupied by the Branch.

BIRMINGHAM BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	-	10,304,000	6,182,000	1,317,000	2,879,000	332,000	4,528,000	17,335	12,333	-	-	6,975
1932	-	8,336,000	5,883,000	991,000	2,077,000	353,000	3,421,000	10,322	12,467	-	-	5,901
1933	-	11,221,000	7,436,000	926,000	2,439,000	532,000	3,897,000	22,392	14,370	-	-	5,338
1934	-	9,274,000	6,283,000	1,084,000	3,177,000	818,000	5,079,000	36,939	19,060	-	-	6,396
1935	-	9,323,000	6,870,000	1,151,000	3,646,000	863,000	5,660,000	52,000	17,000	-	-	5,244
1936	-	10,328,000	7,773,000	1,240,000	3,958,000	713,000	5,911,000	42,000	18,000	-	-	5,000

Amounts Handled
(in thousands of dollars)

1931	-	40,275	708	681,818	299,762	39,080	1,020,660	162	11,511	-	-	105,301
1932	-	31,798	670	461,129	209,227	28,613	698,969	219	6,898	-	-	66,106
1933	-	41,405	1,615	517,215	242,283	35,190	794,696	276	10,656	-	-	67,439
1934	-	31,664	786	749,904	324,956	58,597	1,133,457	445	14,847	-	-	129,349
1935	-	29,599	960	817,438	344,832	58,888	1,221,158	420	15,239	-	-	135,953
1936	-	34,349	960	927,484	430,500	62,543	1,428,527	390	16,237	-	-	137,216

HAVANA AGENCY - FEDERAL RESERVE BANK OF ATLANTA

(a) Island of Cuba

Cuba, the largest Island of the West Indies, lies between the Gulf of Mexico, the Strait of Florida and the Atlantic Ocean on the north and the Caribbean Sea on the south. Key West, Florida, is about 100 miles distant. Its area, including the adjacent Isle of Pines and surrounding keys, is about 44,164 square miles, or nearly equal to that of the State of Pennsylvania. It is 730 miles in length and has an average breadth of 50 miles, with a maximum of 160 miles. The coast line, including the larger keys, is about 2,500 miles in length and provides many fine harbors, notably that of Havana which is one of the largest and finest in the world. According to the census of 1930, the Island had a population of 3,763,375, consisting of 2,570,102 native whites, 923,346 colored and 269,927 unclassified; the latter figure including Americans, Europeans, Chinese and all foreigners permanently resident in Cuba. The estimated population as of December 31, 1936, was 4,046,706.

Sugar is the predominant crop and approximately 1,000,000 acres are given over to growing cane. The yield for 1936 was 2,557,000 long tons and during the year 2,562,289 long tons valued at \$112,591,307 were exported. Tobacco raising and the manufacture of cigars and cigarettes is the second largest industry in Cuba. The raising of live stock, coffee, fruit and vegetables and the mining of iron, copper and manganese are also factors in the economic life of the Island.

The Department of Commerce estimated that American investments in Cuba in 1930 aggregated \$1,066,551,000 of which \$935,706,000 was direct and \$130,845,000 portfolio. An estimate made in Wall Street in July, 1933, put

American investments in sugar properties on the Island at \$370,000,000; in power interest at more than \$125,000,000; in oil at \$9,000,000; in railroads at \$116,000,000; in telegraph and telephones at \$15,000,000 and in other sources at \$100,000,000. Cuba has been hard hit through unfavorable economic conditions which undoubtedly explains the differences between the estimates for 1930 and 1933.

The major portion of Cuban trade is with the United States, as is reflected by the following figures:

<u>Year</u>	<u>Exports</u>		<u>Imports</u>	
	<u>Total</u>	<u>United States</u>	<u>Total</u>	<u>United States</u>
1931	\$118,865,553	\$ 90,059,312	\$ 78,678,777	\$ 46,963,702
1932	80,672,000	58,330,270	51,024,000	28,754,509
1933	84,391,000	58,497,548	42,362,000	25,092,862
1934	107,746,409	78,928,916	73,388,154	45,323,374
1935	128,022,342	101,534,180	95,464,502	55,686,078
1936	154,805,138	121,898,787	103,215,001	66,494,245

A reciprocal tariff agreement between the United States and Cuba was signed in 1936 under which Cuba made concessions on 426 items of American origin, granting duty reductions and preferentials of from 20% to 60%. In turn the United States granted Cuba large tariff reductions on sugar, rum and tobacco, and also seasonal decreases on fresh fruits and vegetables. The treaty covered over 90% of Cuba's exports to the United States.

(b) City of Havana

Havana, with a population of 584,893, is the capital and largest city of Cuba. It is situated on the northwestern shore of the Island about 100 miles to the south and somewhat west of Key West, Florida. It has one of the finest and safest harbors in the world and numerous steamship lines ply between Havana and American ports. There is daily passenger service by airplane between Miami, Florida and Havana. The number of tourists entering

Cuba, chiefly at Havana, was 157,908 in 1936.

As of December 31, 1937, banking facilities in Havana were provided by the following institutions:

<u>American Banks</u>	<u>Number of Offices</u>	
	<u>City of Havana</u>	<u>Elsewhere in Cuba</u>
National City Bank, New York	5	8
Chase National Bank, New York	1	-
First National Bank, Boston	3	3
<u>Canadian Banks</u>		
Royal Bank of Canada	8	15
Canadian Bank of Commerce	1	-
Bank of Nova Scotia	4	4
<u>Domestic Banks</u>		
Mendoza y Cia (Private)	1	-
N. Gelatz y cia (Private)	1	-
Banco Territorial de Cuba (Jt. Stock)	1	-
Banco del Comercio	1	-

Published statements of foreign banks operating branches in Cuba show only combined figures for the head office and all branches. However, estimates place bank deposits in Cuba in the neighborhood of \$140,000,000. Havana, as above indicated, is the banking center of the Island.

(c) Establishment of Havana Agency:

On September 1, 1923, agencies of the Federal Reserve Banks of Atlanta and Boston were established in Havana; the latter being discontinued and its functions assumed by the Atlanta Agency on January 1, 1927. From 1927 to the present time the Agency has been operated by the Atlanta Reserve bank. However, since June 1, 1935, such operation has been by agreement with the other eleven Reserve banks "for the account of the Federal Reserve System as a whole and of each of the Federal Reserve banks". The agreement provides that the Atlanta bank defray all expenses of operation, but that it

share any profits with the other Reserve banks - the latter undertaking to bear a pro rata share of certain specified unusual losses (not covered by collectible insurance) such as those arising from civil commotion, war riots, etc.

(d) Functions of the Agency:

Functions of the Agency include the receipt of currency for cable transfer to the United States; the payment of currency on cable transfers from the United States; and the exchange of new or fit for mutilated currency. These transactions are all in United States currency and are handled for any banking institution in Cuba or for the Cuban government at a rate of \$1.00 per \$1,000. On shipments of mutilated currency the Agency is, by special decree, exempt from the usual tax of one fourth of one per cent levied by the Cuban government on exports of funds from the country.

Assets of the Agency consist of cash and such cash items as are held pending weekly charge to the Head Office. Approximately \$5,000,000 in currency is carried by the Agency. All Agency accounts, including earnings and expenses, are carried on the books of the Head Office, although the Agency maintains certain records required by Cuban law.

When the Agency was established United States currency, which was and still is legal tender on the Island, was the chief medium of exchange. In fact one of the main reasons for establishing the Agency was to clean up the currency then circulating on the Island. In recent years, however, the Cuban government has placed its own currency in circulation and such notes have largely supplanted United States currency for all ordinary purposes. The United States currency on the Island, estimated to aggregate approximately \$50,000,000, is at present largely used as bank reserves for deposits

payable in United States currency and for interbank payments, or has found its way into hoarding. As a result there has been a gradual "drying up" of activity at the Havana Agency.

A schedule showing the volume of operations at the Havana Agency for the years 1928 to 1937 inclusive is attached to this memorandum.

(e) Agency Quarters:

The Havana Agency occupies 2,240 square feet of space on the ground floor of the Metropolitan Office Building, Progreso and Aguacate Streets, under a lease which expires on April 1, 1942. The average annual rental over the period of the lease is \$4,500 per annum. There is no provision in the lease for its extension and it is subject to cancellation in the event the Agency is discontinued. The vault, vault equipment and fixtures in the office are owned by the Reserve bank.

(f) Agency Personnel:

As of January 28, 1938, the personnel of the Agency consisted of a manager, an acting assistant manager, one stenographer-clerk, seven guards, and one porter with total annual salaries of \$20,980. In addition, salaries aggregating \$300 annually are paid to three part time employees and payment at the rate of \$12 per annum is made to each of four officers of the Havana Branch of the National City Bank of New York who are authorized to act as emergency custodians in the absence of the Agency manager or acting assistant manager.

(g) Earnings and Expenses:

The earnings and expenses of the Havana Agencies of the Federal Reserve Banks of Boston (1923 to 1926) and Atlanta (1923 to 1937) were as follows:

Earnings
Havana Agency
F.R.B. of Boston

1923	\$ 24,469.00
1924	47,590.18
1925	43,731.00
1926	113,969.60

Expenses

\$ 8,796.40
13,648.23
13,366.43
16,210.52

Havana Agency
F.R.B. of Atlanta

1923	-	24,958.58
1924	-	57,614.83
1925	-	32,191.07
1926	-	89,011.72
1927	67,434.68	59,856.05
1928	43,382.40	55,246.03
1929	54,571.84	78,794.80
1930	79,212.28	74,100.67
1931	33,891.00	50,877.13
1932	21,614.90	41,521.96
1933	45,248.83	61,387.70
1934	26,693.64	52,020.09
1935	16,560.39	46,893.97
1936	9,483.88	37,429.36
1937	5,316.64	35,157.10

Earnings of the Agency are derived from three classes of currency transactions: (1) the payment of currency to local banks in exchange for credit at a Federal Reserve bank, (2) the receipt of currency from local banks in exchange for which credit is given for the account of the local bank at a Federal Reserve bank and (3) the denominational exchange of new or fit currency for unfit currency. A commission of one dollar per thousand is charged on all three classes of transactions. Expenses include the cost of printing and shipping Federal Reserve notes.

(h) Status of the Agency:

As previously stated in this memorandum, the Havana Agency since June 1, 1935 has by agreement been operated by the Federal Reserve Bank of

Atlanta "for the account of the Federal Reserve System as a whole and of each of the Federal Reserve banks". This arrangement grew out of the fact that the Atlanta Reserve bank had requested authority to discontinue the Agency or as an alternative to have some plan formulated under which the Agency might be operated without incurring a substantial operating loss, as was the case in every year of its operation except 1927 and 1930. At the time the agreement became effective, it was felt that future operating losses might be substantially reduced, if not virtually eliminated, through an increase in the charge made for effecting transfers of funds. As a consequence the Atlanta Reserve bank continued to absorb the expense of operating the Agency. The Board felt, however, that the charge should not be increased, at least at that particular time. Subsequent developments showed that, even if the charge had been doubled, the operating loss would not have been substantially reduced, due largely to a decline in the volume of transfers. Because of this fact, as well as because of changes in the relationship previously referred to herein between the governments of the United States and Cuba and the supplanting of United States currency by Cuban currency, the board of directors of the Atlanta Reserve bank adopted resolutions on February 14, 1936 and September 11, 1936, requesting authority to discontinue the Agency. The matter was before the Board on numerous occasions, but action thereon was delayed at the request of the State Department which felt that the operations of the Agency were vital to trade between the United States and Cuba. However, on August 3, 1938, the Board of Governors after again reviewing the operations of the Agency, and acquainting the State Department with all of the facts of the case and its intentions,

passed a resolution authorizing and directing the Federal Reserve Bank of Atlanta to discontinue the Agency as soon as practicable and in no event later than at the close of business December 31, 1938. The Federal Reserve Bank of Atlanta and the other Federal Reserve banks were advised of the Board's action and, as of August 13, 1938, President Newton informed the Board that his bank was planning to close the Agency not later than November 30, 1938, if it was feasible to do so.

HAVANA AGENCY

VOLUME OF OPERATIONS

(In thousands of dollars)

<u>Date</u>	<u>Currency received from head office and branches and from Treasury Department</u>	<u>Deposits of currency and gold coin by banks in Havana and by Cuban government for transfer to United States</u>	<u>Unfit and mutilated American Currency received in exchange for new and fit</u>	<u>Unfit and Mutilated currency redeemed</u>	<u>Currency payments to Havana banks for cable transfers payable in Cuba</u>	<u>Currency exchanges</u>
1928	10,900	26,449	2,592	22,862	13,738	3,195
1929	25,422	28,215	3,441	31,112	21,595	4,187
1930	38,820	47,631	2,022	49,241	27,139	4,282
1931	7,770	22,843	2,483	20,836	8,010	3,238
1932	1,140	17,869	322	15,392	3,550	596
1933	28,806	24,274	1,226	27,526	26,047	2,791
1934	14,420	11,932	201	10,628	14,530	606
1935	2,840	11,532	110	9,880	4,500	699
1936	820	7,941	36	7,489	1,500	281
1937	-	4,923	39	4,119	350	115

JACKSONVILLE BRANCH - FEDERAL RESERVE BANK OF ATLANTA

(a) City of Jacksonville:

Jacksonville, with a population of 129,549, is the the sixty-third largest city in the United States and the largest city in Florida. It is located in the extreme northeastern part of the State on the St. Johns River, which provides ready access to the Atlantic Ocean, and is said to serve a trade area extending 125 miles north, 115 miles south, 110 miles west and 20 miles to the east. This trade area has an estimated population of 410,000. Rail facilities are afforded by the Atlantic Coast Line, Seaboard Air Line, Florida East Coast, Southern and Georgia, Southern & Florida railroads. The city is also served by the Eastern Air Transport Company. A considerable volume of foreign and coastwise shipping also emanates from Jacksonville.

According to the Biennial Census of Manufactures for the year 1935, there were 236 manufacturing establishments located in Duval County, in which Jacksonville is situated, which had an output valued at \$36,240,000 during that year. The chief industries of the community are the production of naval stores, lumber, cigars, canned goods and fertilizer. In addition there is some ship building and automobile assembling.

The Census of American Business for 1935 lists 2,292 retail and 333 wholesale establishments operating in Duval County, which enjoyed sales aggregating \$52,506,000 and \$136,341,000, respectively, during that year.

Banking facilities in Jacksonville are provided by two State banks (non-members), three national banks and one Morris Plan bank. These institutions had deposits aggregating \$105,036,000 as of December 31, 1936, and of this amount \$103,521,000 was carried by the three local member banks.

Debits to individual accounts in banks of the city aggregated

\$792,111,000 during the year 1936, or an average of approximately \$2,640,000 for each banking day.

(b) Branch Territory and Functions:

The Jacksonville Branch was established on August 5, 1918, and serves the entire State of Florida. The branch zone constitutes 22% of the land area of the Sixth District and has 13% of its total population. Approximately 14% of all banks in the district are within this area.

As of December 31, 1936, there were 155 banks, exclusive of mutual savings banks, in the branch zone and of this number 57, including 53 national and 4 State institutions, were members of the System. Only 19 of the 98 nonmember banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of the member bank footings in the branch zone as compared to those of the Sixth District as a whole:

	No. Member Banks	Loans and Investments	Capital and Surplus	Total Deposits
			(000 omitted)	
Sixth District	330	\$1,026,849	\$143,409	\$1,458,473
Branch Zone	57	177,123	23,075	272,270

There are only twelve branch zones in the System having larger bank footings than the Jacksonville Zone; namely, Pittsburgh, Los Angeles, Detroit, Cincinnati, Buffalo, Baltimore, New Orleans, Seattle, Oklahoma City, Houston, Denver and Omaha.

The Jacksonville Branch is operated on the "memorandum plan", but offers to member banks in its zone the same service as is available at the Head Office insofar as receipts and disbursements of currency and coin, wire transfers, check collection, noncash collections and safekeeping

of securities are concerned. However, all general ledger accounts, as well as accounts of member banks, nonmember clearing banks and other Federal Reserve banks, are maintained at the Head Office, which also maintains all expense accounts. A transcript of all entries affecting the various accounts is sent to the Head Office daily by wire. Banks in the territory served by the Branch may forward their discounts either to the Branch or the Head Office. Notes received by the Branch are examined for technicalities and the amount is wired to the Head Office which in turn wires its tentative approval or disapproval, credit being given as of the date the application is received at the Branch. Notes are then forwarded to the Head Office for final approval, but the supporting collateral, if any, remains in custody of the Branch. The Branch has no Bank Examination, Bank Relations, Legal, Failed Banks, Research or Fiscal Agency departments.

As of July 10, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
City of Jacksonville	3	\$14,669,235	\$2,293,021	\$242,850	-
Remainder of Zone	<u>55</u>	<u>20,121,551</u>	<u>940,370</u>	<u>463,150</u>	<u>-</u>
Total	<u>58</u>	<u>\$34,790,786</u>	<u>\$3,233,391</u>	<u>\$706,000</u>	<u>-</u>

Jacksonville is 349 train miles (9 hrs. and 15 mins.) from Atlanta. On any business day there are several trains operating between the two cities which provide overnight mail service (7 P.M. to 8 A.M.). There are twelve branch cities closer to their respective head offices than Jacksonville - all of which also enjoy overnight communication by mail with their head offices. Outstanding examples are Pittsburgh, 138 miles (3 hrs. and 20 mins.); Baltimore, 156 miles (4 hrs. and 21 mins.) and Birmingham, 168

miles (5 hrs. and 50 mins.).

Other than Jacksonville, there are 45 member bank points in the branch zone. All but 4 of these cities, having 4 member banks, can be reached by ordinary mail before 10 A.M. on the day following mailing in Jacksonville, whereas 25 points, having 34 member banks, cannot be so reached from Atlanta. The registered mail schedules indicate that there are 16 points, having 19 member banks, in the branch zone which cannot be reached from Jacksonville by 10 A.M. on the day following mailing and that there are 34 points, with 42 member banks, which cannot be reached from Atlanta.

It is apparent from the above that discontinuance of the Jacksonville Branch would not only curtail the character of Reserve bank service rendered to banks in Jacksonville, which now have an over-the-counter relationship with the Branch, but that it would also cause a substantial number of out-lying member banks to adapt themselves to a slower transit and currency shipment schedule than they are at present afforded.

Other than Jacksonville, the more populous cities in Florida, are Miami, 110,637; Tampa, 101,161; St. Petersburg, 40,425; Pensacola, 31,579; Orlando, 27,330 and West Palm Beach, 26,610. All of these cities have one or more member banks and are within overnight mail of Jacksonville. Attention is called to the fact that the population of Florida increased 51.6% in the decade 1920 to 1930, or upwards of 500,000 since the Jacksonville Branch was established in 1918.

(c) Branch Building:

The Jacksonville Branch has occupied its present quarters at Church and Hogan Streets since June 1924. The following figures show the original

cost and carrying value as of July 10, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>7-10-37</u>
Land	\$ 45,842	\$ 45,015
Building	179,101)	
Vault and vault equipment	38,229)	125,758
	263,172	170,773
Fixed machinery & equipment	25,956	-
	<u>\$289,128</u>	<u>\$170,773</u>

This account is carried on the books of the Head Office.

(d) Earnings - Branch Books:

No record of earnings is maintained at the Jacksonville Branch, as it is operated on the "memorandum plan".

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Atlanta, made as of July 10, 1937, shows the following in regard to salaries and personnel at the Jacksonville Branch:

	<u>July 10, 1937</u>		<u>May 30, 1936</u>		<u>Increase</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	2	\$10,100	3	\$12,500	#1 Dec.	\$ 2,400 Dec.
Employees	40	52,600	34	42,800	6	9,800
	<u>42</u>	<u>\$62,700</u>	<u>37</u>	<u>\$55,300</u>	<u>5</u>	<u>\$ 7,400</u>

Due to discontinuance of office of assistant cashier.

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions:

The expense of the Jacksonville Branch by functions for the years 1932

to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 8,843	\$ 7,828	\$ 7,817	\$ 8,343	\$ 7,717	\$ 7,812
Noncontrollable	18,987	29,207	26,068	--	--	--
*Provision of Space	6,674	6,943	6,728	5,169	4,812	19,166
Provision of Personnel	708	669	4,543	6,829	7,768	1,271
General Service	9,489	9,619	9,390	11,573	10,974	12,216
Postage	10,404	11,084	15,733	14,027	12,063	12,795
Insurance	2,136	2,263	1,417	1,414	1,508	1,659
Loans, rediscounts, etc.	40	22	--	2	--	20
Securities	1,411	1,301	1,397	1,344	1,244	1,120
Currency and Coin	14,104	14,536	15,214	47,401	51,083	57,345
Check Collection	12,561	13,050	14,246	13,994	13,599	16,945
Noncash Collection	5,624	6,326	6,673	5,524	4,638	4,068
Accounting	16,979	16,514	15,869	15,391	13,821	13,351
Fiscal Agency	3,989	6,670	12,178	23,636	22,197	20,468
Legal	--	75	--	--	--	--
Auditing	947	554	835	1,209	618	1,191
F.R. Note Issues	--	261	--	--	--	--
Works Progress	--	--	--	--	240	--
Total Expense	<u>\$112,896</u>	<u>\$126,922</u>	<u>\$138,108</u>	<u>\$155,856</u>	<u>\$152,282</u>	<u>\$169,427</u>
Less-Reimbursable Fiscal						
Agency Expense	<u>3,462</u>	<u>6,040</u>	<u>11,289</u>	<u>17,529</u>	<u>17,925</u>	<u>16,159</u>
Net Expense	<u>\$109,434</u>	<u>\$120,882</u>	<u>\$126,819</u>	<u>\$138,327</u>	<u>\$134,357</u>	<u>\$153,268</u>

* Represents the net expense - income from rentals having been deducted.

There were sixteen branches in the System which operated at a higher annual cost than the Jacksonville Branch in 1937.

(g) Volume of Operations at Jacksonville Branch:

The following is a comparison of the volume of operations in various departments of the Jacksonville Branch and the Head Office during the last six months of 1936.

	<u>Jacksonville Branch</u>	<u>Head Office</u>
<u>Safekeeping:</u>		
Member bank securities 12-31-36	\$16,689,000	\$77,439,000
Branches with larger volume: Cincinnati, Pittsburgh, Baltimore, Detroit and Omaha.		

Jacksonville Branch Head Office

Currency & Coin:

1. Number of bills received and counted 9,873,000 22,024,000
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore,
New Orleans, Detroit, Memphis and Los Angeles.
Cost per one thousand units handled 48 cents 41 cents
Branches with higher unit cost: Buffalo, Cincinnati, Pittsburgh, Baltimore,
Detroit, Helena, Denver, Oklahoma City,
Omaha, El Paso, San Antonio, Portland, Salt Lake City, Seattle and Spokane.
2. Number of coins received and counted 3,268,000 7,223,000
Branches with larger volume: All branches except Charlotte, Little Rock,
Helena, El Paso, Salt Lake City and Spokane.
Cost per one thousand units handled 13 cents 18 cents
Branches with higher unit cost: All branches except Buffalo, Baltimore,
New Orleans, Louisville, Memphis and Oklahoma City.

Check Collection:

1. Number of city checks (clearings) received 485,000 1,567,000
Branches with larger volume: All branches except Little Rock, Helena,
El Paso, Salt Lake City and Spokane.
Cost per one thousand units handled \$1.38 \$1.23
Branches with higher unit cost: All branches except Charlotte, Birmingham,
Nashville and New Orleans.
2. Number of country checks (outgoing) received 2,539,000 3,704,000
Branches with larger volume: All branches except Birmingham, Nashville,
New Orleans, Little Rock, Memphis, Helena,
El Paso, Seattle and Spokane.
Cost per one thousand units handled \$1.71 \$1.83
Branches with higher unit cost: All branches except Birmingham and Little Rock.

Non-cash Collections:

1. Number of city collections handled 11,907 15,278
Branches with larger volume: Buffalo, Cincinnati, Baltimore, Detroit,
Little Rock, Memphis, Denver, Oklahoma City,
Omaha, Houston, Los Angeles and Salt Lake City.
Cost per unit handled 6.2 cents 8.4 cents
Branches with higher unit cost: All branches except Little Rock and Omaha.
2. Number of country collections handled 10,639 21,273
Branches with larger volume: All branches except Birmingham, Nashville,
New Orleans, Little Rock, Louisville, Helena,
El Paso, San Antonio, Seattle and Houston.
Cost per unit handled 11.7 cents 7 cents
Branches with higher unit cost: Buffalo, Baltimore, Birmingham, Nashville,
Helena, Los Angeles, Portland and Seattle.

Jacksonville Branch Head Office

and country security collections handled	1,052	2,630
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Cost per unit handled	33.5 cents	10.8 cents
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Branches with higher unit cost: El Paso.

(h) Survey of Jacksonville Branch by Board's Examiners - 1933

"There appears to be a real need for the branch at Jacksonville in view of its distance from the Head Office and its location at the gateway to Florida."

As requested in the Board's letter of March 25, 1936 (X-9532), a survey of the operations of the Jacksonville Branch was made by the Federal Reserve Bank of Atlanta. As a result of this survey, President Newton advised the Board as follows:

"A discontinuance of the Jacksonville Branch would, in my opinion, substantially delay the collection of items and the furnishing of currency. The volume of business transacted in that Branch, particularly in the tourist season, is considerable. From the standpoint of train service, points in Southern Florida are as far distant from Atlanta as New York. Furthermore, and speaking in general terms, the only saving which would follow the discontinuance of any Branch would be the elimination of overhead expense, and in the case of the Jacksonville Branch the aggregate of saving from this source would have to be reduced by substantially increased postage charges and increased telephone and telegraph tolls."

Based on operating expenses for the year 1935, Mr. Newton stated an estimated saving of \$25,749 would result from discontinuance of the Branch. A statement showing the estimated saving by functions was included in his report, which also contained data relative to mail schedules, heretofore mentioned, and the volume of operations at the Branch. No comment was made as to the loss which might be sustained if the quarters occupied by the Branch were abandoned or as to the possible unfavorable reactions which might develop if the Branch were discontinued.

JACKSONVILLE BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	-	18,086,000	9,876,000	361,000	4,258,000	454,000	5,573,000	51,037	46,448	-	-	8,426
1932	-	15,094,000	9,721,000	801,000	3,623,000	512,000	4,936,000	69,808	49,595	-	-	8,329
1933	-	15,427,000	8,640,000	788,000	3,607,000	538,000	4,933,000	83,089	49,665	-	-	10,213
1934	-	18,096,000	7,574,000	938,000	4,181,000	698,000	5,817,000	94,892	50,874	-	-	7,577
1935	-	18,808,000	9,033,000	974,000	4,882,000	693,000	6,549,000	85,000	54,000	-	-	5,852
1936	-	21,232,000	9,928,000	948,000	5,409,000	725,000	7,082,000	66,000	50,000	-	-	6,000
<u>Amounts Handled</u> (in thousands of dollars)												

1931	-	79,493	1,287	1,118,356	411,245	51,553	1,581,154	953	20,321	-	-	197,507
1932	-	64,518	1,355	654,065	315,775	43,099	1,012,939	1,258	16,508	-	-	149,664
1933	-	66,715	2,076	292,335	306,667	52,016	651,018	1,437	19,842	-	-	152,612
1934	-	67,273	1,378	396,370	454,279	63,107	913,756	1,435	22,103	-	-	181,981
1935	-	78,183	1,270	600,498	557,690	65,495	1,223,683	1,128	31,395	-	-	181,500
1936	-	87,718	1,422	1,030,875	676,909	89,424	1,797,208	878	29,224	-	-	192,561

NASHVILLE BRANCH - FEDERAL RESERVE BANK OF ATLANTA

(a) City of Nashville:

Nashville, with a population of 153,866, is the second largest city in Tennessee and the fifty-first largest city in the United States. It is located in the central portion of the State, on the Cumberland River, and is said to serve a trade area extending 33 miles north, 85 miles south, 115 miles east and 75 miles west in which approximately 677,000 people reside. Transportation facilities in this area are provided by the Louisville & Nashville, the Nashville, Chattanooga & St. Louis, the Tennessee Central and the Nashville-Franklin Railroads; also by various bus lines and several national airlines.

According to the Biennial Census of Manufactures, Davidson County, in which Nashville is located, had 295 manufacturing concerns in 1935, which had an output valued at \$105,171,000 that year. The principal products were rayon, cellophane, shoes, textiles, furniture, stoves and bakery goods. The Census of American Business for 1935 shows 4,039 retail and 452 wholesale firms in the same area, which enjoyed sales aggregating \$83,177,000 and \$123,688,000, respectively, during the year.

Banking facilities in Nashville are provided by three national banks, three State nonmember banks and one industrial bank. These institutions had deposits aggregating \$112,503,000, as of December 31, 1936, and of this amount \$84,460,000 was carried by the three local member banks, two of which were operating an aggregate of eleven branches.

Debits to individual accounts in banks of the city aggregated \$910,933,000 during the year 1936, or an average of approximately \$3,000,000 for each banking day.

(b) Branch Territory and Functions:

The Nashville Branch was established October 21, 1919, and serves that portion of Tennessee included in the Sixth District, with the exception of the City of Chattanooga. This territory represents 12% of the land area of the district and has 15% of its total population. Approximately 18 $\frac{1}{2}$ % of all banks in the Sixth District are within this area.

As of December 31, 1936, there were 203 banks, exclusive of mutual savings banks, in the branch zone and of this number 61, including 57 national and 4 State institutions, were members of the System. Only 47 of the 142 nonmember banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to the Sixth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u> (000 omitted)	<u>Total Deposits</u>
Sixth District	330	\$1,026,849	\$143,409	\$1,458,473
Branch Zone	61	126,821	18,931	177,115

There are only six branch zones in the System having smaller member bank footings than the Nashville zone, namely, Spokane, El Paso, Little Rock, Helena, Charlotte and San Antonio.

The Nashville Branch is operated on the "memorandum plan" and offers the same service to member banks in its zone as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearings and noncash collections are concerned. However, all general ledger accounts as well as accounts of member banks, nonmember clearing banks and other Federal Reserve banks are maintained at the Head Office, which also maintains all expense records. A transcript of all entries affecting these

accounts is sent to the Head Office daily by wire. Member banks in the branch zone may forward their discount offerings either to the Branch or to the Head Office. Offerings received by the Branch are examined to see that the paper is technically in order and the amount of each offering found to be acceptable is wired to the Head Office, which credits the account of the offering bank on the same day, subject to final approval upon receipt of the notes and application at the Head Office. The branch holds securities in safekeeping for banks in its zone. It does not have Bank Examination, Bank Relations, Legal, Research or Fiscal Agency departments.

As of July 10, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
City of Nashville	3	\$ 9,714,513	\$1,508,200	\$289,500	-
Remainder of Zone	58	8,300,100	174,702	291,100	-
	<u>61</u>	<u>\$18,014,613</u>	<u>\$1,682,902</u>	<u>\$580,600</u>	<u>-</u>

Nashville is 289 train miles (7 hrs. and 15 mins.) from Atlanta. There are several trains daily from both cities which provide overnight mail service between them. Other than Nashville, there are 51 member bank points in the branch zone. All but 8 of these points, having 8 member banks, can be reached by ordinary mail from Nashville before 10 A. M. on the day following mailing, whereas 15 points, having 15 member banks, cannot be so reached from Atlanta. There is one member bank point in the branch zone which can be reached from Atlanta by ordinary mail before 10 A. M. on the day following mailing which cannot be reached within that time from Nashville. The registered mail schedules indicate that there are 18 member bank points, with 18 member banks, which cannot be reached before 10 A. M. on the day following mailing from Nashville, as compared with 26 member bank points, having 28 member banks, which

cannot be so reached from Atlanta. It appears from the foregoing that discontinuance of the Nashville Branch, in addition to affecting the service rendered to banks in that city, would also slow up the service rendered to a small number of outlying banks; that is, banks in Nashville would no longer have immediate access to Reserve bank facilities and a small number of outlying banks would have to adapt their business to a two day rather than a one day mail schedule.

Other than Nashville, the more populous cities in the branch zone, both of which have one or more member banks, are Knoxville, 105,802, and Johnson City, 25,080.

(c) Branch Building:

The Nashville Branch has occupied its present quarters at 228 Third Avenue, North, since December 1922. The following figures show the original cost and carrying value, as of July 10, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>7-10-37</u>
Land	\$ 83,704	\$ 46,704
Building	135,870)	
Vault and vault equipment	<u>40,042)</u>	<u>105,912</u>
	259,616	152,616
Fixed machinery & equipment	<u>25,101</u>	-
	<u>\$284,717</u>	<u>\$152,616</u>

(d) Earnings - Branch Books:

No record of earnings is maintained at the Nashville Branch, as it is operated on the "memorandum plan".

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Atlanta, made as of July 10, 1937, shows the following in regard to salaries and personnel at the Nashville Branch:

	<u>July 10, 1937</u>		<u>May 30, 1936</u>		<u>Increase</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	2	\$10,350	2	\$11,400	-	\$1,050 Decr.
Employees	<u>34</u>	<u>42,054</u>	<u>31</u>	<u>37,600</u>	<u>3</u>	<u>4,454</u>
	<u>36</u>	<u>\$52,404</u>	<u>33</u>	<u>\$49,000</u>	<u>3</u>	<u>\$3,404</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions:

The expenses of the Nashville Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 9,112	\$ 9,156	\$ 9,615	\$ 9,044	\$ 8,805	\$ 8,704
Non-controllable	3,563	3,463	4,010	-	-	-
Provision of Space	8,492	7,799	7,644	10,626	7,222	10,884
Provision of Personnel	214	131	4,014	6,196	6,974	321
General Service	7,530	7,750	9,330	9,307	9,494	9,340
Postage	9,693	12,993	9,374	11,474	11,387	10,245
Insurance	2,143	2,213	1,016	1,254	1,211	1,205
Failed Banks	-	-	-	-	-	-
Loans, rediscounts, etc.	1,090	665	525	498	160	4
Securities	228	533	490	1,196	1,374	1,391
Currency & Coin	11,461	9,055	10,048	13,657	13,535	13,638
Check Collection	16,163	16,295	16,996	16,472	13,640	13,748
Noncash Collection	4,376	3,853	3,881	4,085	4,141	3,995
Accounting	13,647	11,946	12,050	12,469	14,203	12,781
Fiscal Agency	14,290	32,142	29,411	35,988	24,572	23,870
Legal	1,600	-	6	-	57	-
Auditing	520	477	375	991	721	582
Bank Relations	-	-	-	-	-	-
Bank Examinations	-	-	-	-	-	-
F. R. Note Issues	-	194	-	-	-	-
Statistical & Analyt'l	-	-	-	-	-	-
Total Expense	<u>\$104,122</u>	<u>\$118,665</u>	<u>\$118,785</u>	<u>\$133,257</u>	<u>\$117,496</u>	<u>\$110,708</u>
Less - Reimbursable						
Fiscal Agency Exp.	<u>12,811</u>	<u>30,363</u>	<u>27,475</u>	<u>24,733</u>	<u>20,523</u>	<u>20,337</u>
Net Expense	<u>\$ 91,311</u>	<u>\$ 88,302</u>	<u>\$ 91,310</u>	<u>\$108,524</u>	<u>\$ 96,973</u>	<u>\$ 90,371</u>

There were twenty-three branches in the System which operated at a higher annual cost than the Nashville Branch in 1937.

(g) Volume of Operations at Nashville Branch:

The following is a comparison of the volume of operations in the various departments of the Nashville Branch and the Head Office during the last six

months of 1936:

Nashville Branch

Head Office

Safekeeping

Member bank securities 12-31-36	\$2,927,000	\$77,439,000
Branches with larger volume:	All branches except Buffalo, Charlotte, Memphis, Birmingham, El Paso, Portland, Seattle, Helena, Los Angeles, Salt Lake City and Spokane.	

Currency and Coin

1. Number of bills received and counted 6,354,000 22,024,000
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, Charlotte, Jacksonville, New Orleans, Detroit, Louisville, Memphis, Los Angeles and Seattle.
Cost per one thousand units handled 37 cents 41 cents
Branches with higher unit cost: All branches except Birmingham, New Orleans, and Little Rock.
2. Number of coins received and counted 3,510,000 7,223,000
Branches with larger volume: All branches except Charlotte, Jacksonville, Little Rock, Helena, El Paso, Portland, Salt Lake City and Spokane.
Cost per one thousand units handled 20 cents 18 cents
Branches with higher unit cost: Pittsburgh, Helena, Omaha, El Paso, San Antonio, Portland, Salt Lake City, Seattle and Spokane.

Check Collection

1. Number of city checks (clearings) received 708,000 1,567,000
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, New Orleans, Detroit, Louisville, Denver, Omaha, Houston and Los Angeles.
Cost per one thousand units handled \$1.21 \$1.23
Branches with higher unit cost: All branches except Birmingham.
2. Number of country checks (outgoing) received 1,703,000 3,704,000
Branches with larger volume: All branches except Little Rock, Memphis, Helena, El Paso and Seattle.
Cost per one thousand units handled \$2.08 \$1.83
Branches with higher unit cost: All branches except Pittsburgh, Baltimore, Charlotte, Birmingham, Jacksonville, Little Rock, Louisville, Memphis, Denver, Oklahoma City, Omaha and Houston.

Noncash Collections

1. Number of city collections handled 8,254 15,278
Branches with larger volume: All branches except Charlotte, Birmingham, New Orleans, Louisville, Helena, El Paso, San Antonio, Portland and Spokane.
Cost per unit handled 9.4 cents 8.4 cents
Branches with higher unit cost: All branches except Jacksonville, Little Rock, Omaha, El Paso and Houston.

	<u>Nashville Branch</u>	<u>Head Office</u>
2. Number of country collections handled	4,640	21,273
Branches with larger volume:	All branches except Birmingham and El Paso.	
Cost per unit handled	16.5 cents	7 cents
Branches with higher unit cost:	Los Angeles and Portland.	
3. Number of coupons (except Government) and country security collections handled	1,765	2,630
Branches with larger volume:	All branches except Charlotte, Birmingham, Jacksonville, Helena, Oklahoma City, El Paso, Portland, Salt Lake City, Seattle and Spokane.	
Cost per unit handled	11.7 cents	10.8 cents
Branches with higher unit cost:	All branches except Cincinnati, Pittsburgh, Baltimore, Birmingham, New Orleans, Little Rock, Denver, Omaha, Houston, San Antonio and Seattle.	

A schedule showing the volume of operations of the Nashville Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Nashville Branch by Board's Examiner - 1933

During the course of an examination of the Federal Reserve Bank of Atlanta, made as of November 18, 1933, the Board's examiners reviewed the operations of the Nashville Branch and, based on information developed, expressed doubt as to the necessity for its continuance. It was pointed out that Nashville is 288 miles from Atlanta, with a ten hour mail schedule and a two hour airmail service; that 21 member bank points in the Nashville zone were not within overnight mail time of Atlanta, but that a majority of such cities and member banks were small and unimportant in size and operations; that many of such cities also were not within overnight mail time of the Branch due to poor rail facilities; and that the Branch was one of the smaller branches in the System, based on the number and dollar volume of items handled.

(i) Survey of Nashville Branch made by Federal Reserve Bank of Atlanta - 1936

In accordance with the request contained in the Board's letter of March 25, 1936 (X-9532), a survey of the operations of the Nashville Branch was made

by the Federal Reserve Bank of Atlanta. Thereafter President Newton advised the Board as follows:

"The closing of the Nashville Branch would cause comparatively little inconvenience except to banks located in Nashville and in the immediate vicinity of that city."

Mr. Newton stated that in reaching this conclusion consideration had been given to the ability of the Head Office to serve the branch zone, with particular reference to mail schedules. He further stated that after a careful investigation, which took into account the probable increases in postal, transportation, telephone and telegraph costs which would be entailed by serving member banks in the branch zone from Atlanta instead of Nashville, he was of the opinion that an aggregate annual saving of \$49,785 would result if the Branch were discontinued. (Based on operations for the year 1935.) He stated that this saving would arise chiefly from a reduction in overhead.

No comment was made as to unfavorable reactions which might possibly arise upon closing of the Branch or to losses which might be sustained through abandonment of the building and equipment now used by the Branch.

NASHVILLE BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't. Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	-	13,601,000	4,880,000	1,015,000	4,120,000	274,000	5,409,000	43,489	29,439	-	-	6,258
1932	-	11,689,000	4,712,000	1,002,000	3,362,000	296,000	4,660,000	36,386	28,694	-	-	5,164
1933	-	10,771,000	4,294,000	1,634,000	3,149,000	384,000	5,167,000	36,055	34,056	-	-	4,109
1934	-	12,886,000	6,555,000	1,291,000	3,553,000	669,000	5,513,000	48,097	32,259	-	-	3,766
1935	-	12,570,000	4,672,000	1,325,000	3,124,000	637,000	5,086,000	52,000	31,000	-	-	2,946
1936	-	12,718,000	6,263,000	1,324,000	3,349,000	540,000	5,213,000	46,000	30,000	-	-	2,000

Amounts Handled

(in thousands of dollars)

1931	-	48,767	651	715,948	291,942	29,108	1,036,998	366	29,452	-	-	123,102
1932	-	42,351	524	540,470	217,284	23,365	781,119	339	33,535	-	-	64,914
1933	-	39,475	970	568,840	227,964	28,392	825,196	399	36,395	-	-	61,208
1934	-	38,275	658	771,760	300,942	41,763	1,114,465	497	50,780	-	-	76,613
1935	-	37,345	585	858,159	259,984	41,555	1,159,698	528	50,659	-	-	88,946
1936	-	37,896	701	936,114	296,107	52,181	1,284,402	516	47,580	-	-	94,367

NEW ORLEANS BRANCH: FEDERAL RESERVE BANK OF ATLANTA

(a) City of New Orleans

New Orleans, with a population of 458,762, is the sixteenth largest city in the United States and the largest city in Louisiana. It is located in the southeastern part of the State, on the Mississippi river, and serves a trade area extending approximately 60 miles in all directions. There are about 840,000 inhabitants in the metropolitan area. Ten railroads, including all of the major southern lines, enter the city, which is also served by numerous steamship lines to all world ports and a number of airlines.

According to the Biennial Census of Manufactures Orleans Parish, in which New Orleans is located, had 607 manufacturing concerns in 1935, which had an output valued at \$92,578,000 that year. The chief manufactures were wash suits, cotton goods, candy, rope, cigarettes and cigars, iron and steel, syrup canning, seafood packing and mineral oil refining. The principal industry is shipping. According to the Census of American Business there were in the same area 6,835 retail and 934 wholesale establishments which enjoyed sales aggregating \$123,524,000 and \$414,188,000, respectively, during the year 1935.

Banking facilities in New Orleans are provided by two State banks (1 member) and three national banks. These institutions had deposits aggregating \$254,838,000, as of December 31, 1936, and of this amount \$252,959,000 was carried with the four local member banks, three of which were operating an aggregate of eighteen branches.

Debits to individual accounts in banks of the city aggregated \$2,463,348,000 during the year 1936, or an average of approximately \$8,000,000 for each banking day.

(b) Branch Territory and Functions:

The New Orleans Branch was established September 10, 1915, and serves those portions of the States of Louisiana and Mississippi included in the Sixth District and two counties in Alabama. This territory represents 22% of the land area of the district and has 23% of its total population. Approximately 17% of all banks in the Sixth District are within this area.

As of December 31, 1936, there were 185 banks, exclusive of mutual savings banks, in the branch zone and of this number 45, including 40 national and 5 State institutions, were members of the System. Only 8 of the 140 non-member banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to those of the Sixth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
		(000 omitted)		
Sixth District	330	\$1,026,849	\$143,409	\$1,458,473
Branch Zone	45	287,865	31,219	403,414

There are only six branch zones in the System having larger member bank footings than the New Orleans zone; namely, Pittsburgh, Los Angeles, Detroit, Cincinnati, Buffalo and Baltimore.

The New Orleans Branch is a "full fledged" branch and renders the same service to member banks in its territory as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearings, noncash collections, safekeeping of securities and loans to

member banks are concerned. The Branch has its own general books and also keeps the accounts of its zone members and other Federal Reserve banks and branches. Transactions are, however, cleared daily through an account maintained with the Head Office. The New Orleans Branch is the only branch in the System handling the issue and exchange of Government securities and which has been authorized to purchase acceptances in the open market without specific instructions from the Head Office. It does not have Bank Examination, Bank Relations or Research departments.

As of July 10, 1937, member banks in the branch zone had reserve balances as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
City of New Orleans	4	\$33,964,108	\$4,491,042	\$487,500	-
Remainder of Zone	<u>42</u>	<u>16,460,936</u>	<u>660,669</u>	<u>462,400</u>	<u>-</u>
	<u>46</u>	<u>\$50,425,044</u>	<u>\$5,151,711</u>	<u>\$949,900</u>	<u>-</u>

New Orleans is 495 train miles (13 hrs. and 45 mins.) from Atlanta. There are 29 member bank points, having 36 member banks, in the New Orleans zone, which cannot be reached by ordinary mail from Atlanta before 10 A.M. on the day following mailing. All of these places can be reached by ordinary mail from New Orleans before 10 A.M. There are 31 cities, having 38 member banks, in the branch zone, which cannot be reached by registered mail from Atlanta before 10 A.M. on the day following mailing, whereas 12 of these cities, with 17 member banks, can be reached from New Orleans. It is clear, therefore, that discontinuance of the New Orleans Branch would seriously affect the character of the service rendered to a substantial number of member banks in outlying sections of the zone, as well as banks in the City of New Orleans, which now enjoy an over-the-counter relationship with the Branch. There are sixteen

branch cities closer than New Orleans to their respective head offices, practically all of which appear to enjoy more expeditious mail connections with their head offices. Included in this number are Jacksonville, Birmingham, Nashville, Little Rock, Memphis, Oklahoma City and San Antonio, which handle a smaller volume of operations and serve less important centers.

Other than New Orleans, the more populous cities in the branch zone, all of which have one or more member banks, are Mobile City, Alabama, 68,202; Baton Rouge, Louisiana, 30,729; Jackson, Mississippi, 48,282; Meridian, Mississippi 31,954; and Vicksburg, Mississippi, 22,943.

(c) Branch Building:

The New Orleans Branch has occupied its present quarters at Carondelet St. and Common since October, 1923. The following figures show the original cost and carrying value, as of July 10, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>7-10-37</u>
Land	\$ 201,300	\$ 146,600
Building	635,647)	
Vault and Vault Equipment	102,757)	420,700
	<u>\$ 939,704</u>	<u>\$ 567,300</u>
Fixed machinery and equipment	159,500	---
	<u><u>\$1,099,204</u></u>	<u><u>\$ 567,300</u></u>

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$308,200
1932	451,900
1933	151,300
1934	11,300
1935	700
1936	400
1937	1,700

These figures are incomplete since, under present accounting procedure, the Branch does not receive any credit for income received by the Head Office on investments, a portion of which is made possible by the capital stock investment and reserve balances of banks in the branch zone.

The amount of income shown on the books of the Branch depends almost entirely on the extent of borrowing by member banks in the zone. Income from this source amounted to \$419,000 in 1932 and to only about \$700 in 1937.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Atlanta, made as of July 10, 1937, shows the following in regard to salaries and personnel at the New Orleans Branch:

	<u>July 10, 1937</u>		<u>May 30, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	3	\$17,400	5	\$29,600	2#	\$12,200
Employees	<u>59</u>	<u>71,100</u>	<u>57</u>	<u>62,400</u>	<u>2(Inc.)</u>	<u>8,700(Inc.)</u>
	62	\$88,500	62	\$92,000	0	\$ 3,500

Due to discontinuance of offices of Assistant Manager and Assistant Auditor.

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions:

The expenses of the New Orleans Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead:						
Controllable	\$33,952	\$32,309	\$28,078	\$13,999	\$19,833	\$13,398
Noncontrollable	9,794	15,219	14,542	-	-	-
*Provision of Space	35,733	31,586	34,971	23,231	20,052	35,149
Provision of Personnel	506	5	8,853	11,596	21,090	511
General Service	20,900	20,725	20,859	21,799	17,949	17,104
Postage	8,246	10,464	12,344	12,685	9,829	12,619
Insurance	4,299	4,743	2,772	2,404	2,253	2,321
Failed Banks	329	2	100	-	-	-
Loans, Rediscounts, Etc.	9,842	10,117	7,562	6,410	2,232	2,059
Securities	868	717	725	764	720	856
Currency & Coin	18,994	18,732	19,614	35,996	39,378	41,462
Check Collection	18,244	18,781	21,001	17,078	14,543	16,718
Noncash Collection	4,668	4,822	4,896	4,771	5,172	5,135
Accounting	21,900	19,900	20,502	18,046	17,805	16,857
Fiscal Agency	36,963	65,911	112,354	177,706	196,012	176,407
Legal	600	1,656	1,550	70	2,170	500
Auditing	2,453	1,870	2,421	4,422	2,706	1,583
Federal Reserve Note Issue	-	355	-	-	-	-
Statistical & Analytical	286	292	322	277	74	-
Total Expense	<u>\$228,577</u>	<u>\$258,206</u>	<u>\$313,466</u>	<u>\$351,254</u>	<u>\$371,818</u>	<u>\$342,679</u>
Less - Reimbursable						
Fiscal Agency Expense	<u>32,806</u>	<u>61,997</u>	<u>108,265</u>	<u>133,921</u>	<u>185,235</u>	<u>166,254</u>
Net Expense	<u>\$195,771</u>	<u>\$186,209</u>	<u>\$205,201</u>	<u>\$217,333</u>	<u>\$186,583</u>	<u>\$176,425</u>

* Represents the net expense - income from rentals having been deducted.

There were thirteen branches in the System which operated at a higher annual cost than the New Orleans Branch in 1937. A number of these branches appear to have handled a smaller volume of items.

(g) Volume of Operations at New Orleans Branch:

The following is a comparison of the volume of operations in various departments of the New Orleans Branch and the Head Office during the last six months of 1936:

	<u>New Orleans Branch</u>	<u>Head Office</u>
<u>Discount Department:</u>		
Notes rediscounted	-	52
Collateral notes discounted	7	15
Industrial Advances	-	3
Branches with larger volume: Buffalo, Baltimore, Memphis, Denver, Omaha, El Paso, San Antonio, and Salt Lake City.		
<u>Safekeeping:</u>		
Member bank securities 12-31-36	\$8,603,000	\$77,439,000
Branches with larger volume: All branches except Buffalo, Charlotte, Birmingham, Nashville, Louisville, Memphis, El Paso, Portland, Salt Lake City, Seattle, Helena, Los Angeles, San Antonio, and Spokane.		
<u>Currency & Coin:</u>		
1. Number of Bills received and counted	13,420,000	22,024,000
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, Detroit and Los Angeles.		
Cost per one thousand units handled	26 cents	41 cents
Branches with higher unit cost: All branches.		
2. Number of coins received and counted:	12,006,000	7,223,000
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore and Los Angeles.		
Cost per one thousand units handled	6 cents	18 cents
Branches with higher unit cost: All branches.		
<u>Check Collection:</u>		
1. Number of city checks (clearings) received	751,000	1,567,000
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, Detroit, Louisville, Denver, Omaha, Houston and Los Angeles.		
Cost per one thousand units handled	\$1.22	\$1.23
Branches with higher unit cost: All branches except Birmingham and Nashville.		
2. Number of country checks (outgoing) received	1,837,000	3,704,000
Branches with larger volume: All branches except Nashville, Little Rock, Memphis, Helena, El Paso and Seattle.		
Cost per one thousand units handled	\$2.12	\$1.83
Branches with higher unit cost: Buffalo, Cincinnati, Detroit, Helena, El Paso, Los Angeles, Portland, Salt Lake City, Seattle and Spokane.		

New Orleans Branch Head Office

Noncash Collections:

- | | | |
|---|---|------------|
| 1. Number of city collections handled | 6,161 | 15,278 |
| Branches with larger volume: | All branches except Charlotte, Birmingham, Helena, El Paso and San Antonio. | |
| Cost per unit handled | 14.4 cents | 8.4 cents |
| Branches with higher unit cost: | All branches except Birmingham, Jacksonville, Nashville, Little Rock, Louisville, Memphis, Helena, Denver, Oklahoma City, Omaha, El Paso, Houston and Salt Lake City. | |
| 2. Number of country collections handled | 9,440 | 21,273 |
| Branches with larger volume: | All branches except Birmingham, Nashville, Little Rock, Louisville, Helena, El Paso, Houston and San Antonio. | |
| Cost per unit handled | 11.3 cents | 7 cents |
| Branches with higher unit cost: | Buffalo, Baltimore, Birmingham, Jacksonville, Nashville, Helena, Los Angeles, Portland and Seattle. | |
| 3. Number of coupons (except Government) and country security collections handled | 3,990 | 2,630 |
| Branches with larger volume: | Buffalo, Cincinnati, Pittsburgh, Baltimore, Detroit, Omaha and Los Angeles. | |
| Cost per unit handled | 8.8 cents | 10.8 cents |
| Branches with higher unit cost: | All branches except Cincinnati, Pittsburgh, Denver, Omaha and Seattle. | |

A schedule showing the volume of operations of the New Orleans Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of New Orleans Branch by Board's Examiners - 1933

During the course of an examination of the Federal Reserve Bank of Atlanta, made as of November 18, 1933, the Board's Examiners reviewed the operations of the New Orleans Branch and expressed the opinion that its continuance was justified "in view of the importance of the city and its distance from the Head Office."

(i) Survey of New Orleans Branch made by Federal Reserve Bank of Atlanta - 1936:

In accordance with the request in the Board's letter of March 25, 1936 (X-9532), a survey of the operations of the New Orleans Branch was made by the

Federal Reserve Bank of Atlanta. As a result of this survey, President Newton submitted a report to the Board containing the following recommendation:

"The New Orleans Branch renders a valuable service, and in my opinion, should be retained. The location of the Branch, the importance of New Orleans as a business center of the New Orleans Branch zone, as well as the volume of business transacted at the Branch, form the basis for my opinion."

Mr. Newton stated that after investigating the matter carefully he had reached the conclusion that an aggregate annual saving of approximately \$113,900 would result if the New Orleans Branch were closed, chiefly through the elimination of overhead. He called attention to the fact that discontinuance of any branch would be regarded as an inconvenience by banks located in the immediate vicinity. The differences between mail facilities available to member bank points in the branch zone from New Orleans and Atlanta and the volume of operations at the Branch, which have already been mentioned in this memorandum, were cited to amplify this point. No comment was made regarding the possibility of losses arising from abandonment of the quarters occupied by the Branch or as to any unfavorable reaction on the part of bankers and civic leaders which might develop if the Branch were discontinued.

NEW ORLEANS BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	11,952	28,372,000	27,186,000	1,015,000	2,270,000	782,000	4,067,000	120,471	29,509	9,181	2	15,474
1932	8,802	24,676,000	29,975,000	1,044,000	1,866,000	881,000	3,791,000	129,724	28,919	8,716	10	14,670
1933	3,433	23,025,000	29,801,000	1,231,000	2,025,000	1,281,000	4,537,000	142,102	41,699	14,418	9	8,041
1934	474	20,967,000	19,481,000	1,410,000	2,632,000	2,727,000	6,769,000	185,489	42,710	53,987	229	7,221
1935	21	21,961,000	21,405,000	1,406,000	2,940,000	2,545,000	6,891,000	208,000	37,000	37,736	11,002	7,803
1936	17	25,292,000	24,331,000	1,444,000	3,538,000	1,571,000	6,553,000	148,000	39,000	10,017	1,976	8,000

Amounts Handled

(in thousands of dollars)

1931	204,678	103,859	3,304	1,384,294	247,613	99,891	1,731,798	1,547	36,614	49,030	100	631,474
1932	276,839	94,814	3,340	809,922	173,142	82,934	1,065,998	2,234	30,347	30,748	125	490,259
1933	55,654	97,530	4,677	830,911	220,138	111,830	1,162,879	2,406	43,708	27,698	9	336,612
1934	5,384	71,672	2,223	740,681	313,926	163,922	1,218,529	3,326	50,166	78,982	575	311,630
1935	484	71,647	2,205	739,987	364,211	154,008	1,258,206	3,018	62,973	60,110	9,421	359,722
1936	447	82,999	2,280	876,590	457,451	176,258	1,510,299	3,166	62,129	43,092	3,173	377,326

SAVANNAH AGENCY - FEDERAL RESERVE BANK OF ATLANTA

(a) City of Savannah:

Savannah, with a population of 85,024, is the second largest city in Georgia. It is located in the southeastern part of the State on the south bank of the Savannah River about 20 miles from the Atlantic Ocean. Situated on a splendid landlocked harbor, the city has steamship connections with foreign and Pacific coast ports, as well as coast-wise service to other Atlantic ports. It is one of the more important cotton export and naval stores ports of the South. Rail facilities are provided by the Central of Georgia, Savannah and Atlanta, Seaboard Airline, Atlantic Coast Line and Southern railroads. The city is also served by numerous bus lines and several air lines.

The principal industries of the city are cotton warehousing and marketing, ship building, lumbering, fishing, sugar refining, petroleum refining and the manufacture of cotton seed oil products, fertilizers, and rosin oil. According to the Biennial Census of Manufactures for 1935, there were 122 manufacturing establishments operating in Chatham County, in which Savannah is situated, which had an output valued at \$45,260,362 and payrolls amounting to \$3,126,909 during that year. The Census of American Business lists 1,559 retail and 183 wholesale concerns operating in the same area. These firms had sales aggregating \$26,434,000 and \$62,308,000, respectively, during 1935.

Banking facilities in Savannah are provided by four State banks (two members), two national banks and four savings and loan companies. These institutions had deposits aggregating \$106,833,000 as of December 31, 1936,

and of this amount \$99,446,000 was carried by the four local member banks. One of the local national banks was operating two branches in Savannah and seven branches in five other cities of Georgia.

Debits to individual accounts in banks of the city amounted to \$363,276,000 during the year 1936, or an average of approximately \$1,211,000 for each banking day.

(b) Establishment and Operation of Agency:

The Savannah Agency was established on February 4, 1919, and serves only the four member banks in that city.

Its operations are limited to the receipt and disbursement of cash and the holding of securities pledged by the Savannah banks as collateral to bills discounted for them by the Head Office.

Savannah is 293 train miles (8 hrs. and 50 mins.) from Atlanta and 171 train miles (3 hrs. and 25 mins.) from Jacksonville. It is apparent, therefore, that for all but the most extreme emergencies the currency requirements of member banks in Savannah could be met by the Head Office or the Jacksonville Branch.

A schedule showing the volume of operations at the Agency for the years 1931 to 1936, inclusive, is attached to this memorandum.

(c) Agency Quarters:

The Agency is located in the main office building of the Citizens and Southern National Bank, occupying two adjoining rooms in the basement near the safe deposit vault which have been remodeled and made available as an office and counting room. Several compartments in the safe deposit vault are also assigned to the Agency. No rent is paid by the Agency for the space which it occupies.

(d) Agency Personnel:

As of December 31, 1937, the staff of the Agency consisted of a manager and assistant manager with annual salaries totalling \$6,400. A guard and two emergency custodians are each paid \$12 per year by the Agency to bring them under the Federal Reserve banks' blanket bond. The guard devotes his full time to the Agency and, in addition to the \$12 paid by the Agency, is paid a salary of \$900 per year by the four member banks in Savannah.

(e) Agency Expense:

Operating expenses of the Savannah Agency for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Amount</u>
1931	\$ 9,800
1932	10,100
1933	9,700
1934	10,100
1935	9,700
1936	8,300
1937	8,400

(f) Attitude of Federal Reserve Bank of Atlanta Toward the Agency:

As early as 1932, the Board's Examiners in reports of examination of the Federal Reserve Bank of Atlanta had questioned the necessity of continuing the Savannah Agency. Because of this fact, in June, 1933, a committee appointed by the Directors of the Atlanta Reserve Bank visited the Savannah Agency and after meeting with the Savannah Clearing House, which was made up of four member banks, all of which favored continuance of the Agency, submitted a report containing the following observations and recommendation:

"It is the opinion of your Committee that this Agency is performing a valuable service to the four member banks located in Savannah and that, in view of its importance as a port and the need for large sums of money from time to

time beyond the normal amount of money that a bank would carry, the continuation of the Agency is justified.

"The Savannah banks make large shipments of currency to banks in their territory and some of these banks are members of the Federal Reserve System. To this extent the Federal Reserve Bank is relieved of transportation cost on money shipped by Savannah banks to our member banks.

"In view of the long and satisfactory operation of the Agency as it relates to our Savannah member banks, and after considering the service to our Savannah member banks that this Agency renders, it is the opinion of your Committee that it should be continued, and we so recommend."

The Directors of the Atlanta Bank after reviewing this report voted to continue the Agency and so advised the Board.

In connection with the general survey requested by the Board in its letter of March 25, 1936 (X-9532), the operations of the Savannah Agency were again reviewed. In the report of survey, President Newton stated that in his opinion the Agency should be closed and that he would recommend to his Directors that such action be taken effective December 31, 1936, subject of course to the approval of the Board of Governors. While the Directors of the Atlanta Bank were acquainted with Mr. Newton's recommendation, definite action to discontinue the Agency was not taken during 1936. However, in January, 1937, a committee of directors, appointed to investigate the question further, reported that it was a matter of considerable doubt whether the Agency was of any benefit to the general community as distinguished from the four local member banks, but recommended that until the Havana Agency, which operates at an annual loss of approximately \$30,000, was closed, or the cost thereof assumed proportionately by other Reserve banks, no further consideration should be given to discontinuance of the Savannah Agency.

SAVANNAH AGENCY
VOLUME OF OPERATIONS
Currency and Coin

	<u>Number of units handled</u>		<u>Amount of units handled</u>	
	<u>Currency</u>	<u>Coin</u>	<u>Currency</u>	<u>Coin</u>
1931	3,248,000	715,000	\$8,754,000	\$106,000
1932	2,528,000	496,000	7,646,000	87,000
1933	3,529,000	660,000	10,399,000	171,000
1934	3,080,000	557,000	7,238,000	35,000
1935	3,222,000	437,000	7,947,000	36,000
1936	3,189,000	937,000	8,135,000	71,000

DETROIT BRANCH - FEDERAL RESERVE BANK OF CHICAGO

(a) City of Detroit:

Detroit, with a population of 1,568,662, is the fourth largest city in the United States and the largest city in Michigan. It is located in the northeastern part of the State, on the Detroit River, one of the connecting links in the Great Lakes chain, and is said to serve a trade area having a radius of approximately 50 miles. Within this area over 2,500,000 people reside. Transportation facilities are provided by nine railroads, including the Canadian Pacific, Grand Trunk, Michigan Central, New York Central, Pere Marquette, Pennsylvania and Wabash; also by various steamship lines and several air lines.

According to the Biennial Census of Manufactures, Wayne County, in which Detroit is located, had 2,465 manufacturing establishments in 1935, which had an output valued at \$976,295,000. The principal industry is the manufacturing of automobiles and accessories; over 83% of all motor cars made in the United States being manufactured in the Detroit area. Other major industries were the production of machinery, machine supplies, drugs, dry goods, wearing apparel, jewelry, tobacco products, meat and meat products and paper. The area is also noted for dairying and the raising of fruit and vegetables.

The Census of American Business for 1935 lists 22,646 retail and 2,465 wholesale establishments operating in Wayne County, which enjoyed sales aggregating \$625,637,000 and \$976,295,000, respectively, during that year.

Banking facilities in Detroit are provided by three State banks (2 members), two national banks, three industrial banks and four trust companies. These institutions had deposits aggregating \$768,185,000 as of December 31, 1936, and of this amount \$695,773,000 was carried by the four local member banks; the

three larger of which were operating an aggregate of 58 branches in the city.

Debits to individual accounts in banks of the city aggregated \$10,616,325,000 during the year 1936, or an average of approximately \$35,380,000 for each banking day. In this respect Detroit leads all other branch cities and all but four Reserve bank cities.

(b) Branch Territory and Functions:

The Detroit Branch was established March 18, 1918, and serves nineteen counties located in the southeastern part of the State of Michigan. The branch zone constitutes 6% of the land area of the Seventh District and has 17% of its total population. Approximately 8.2% of all banks in the district are within this area.

As of December 31, 1936, there were 214 banks, exclusive of mutual savings banks, in the branch zone and of this number 81, including 23 national and 58 State institutions, were members of the System. All but two of the 133 nonmember banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to those of the Seventh District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u> (000 omitted)	<u>Capital and Surplus</u>	<u>Total Deposits</u>
Seventh District	741	\$4,277,515	\$416,241	\$5,886,160
Branch Zone	81	629,868	55,680	917,215

There were only two branch zones in the System having larger member bank footings than the Detroit zone; namely, Pittsburgh and Los Angeles.

The Detroit Branch renders the same service to banks in its zone as is available at the Head Office insofar as receipts and disbursements of currency and coin, wire transfers, check clearings, noncash collections, safekeeping of

securities and loans to member banks are concerned. The reserve accounts of member banks in the branch zone, as well as accounts of nonmember clearing banks and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and record of earnings and expenses. Transactions are cleared daily through control accounts maintained at the Head Office. Member bank borrowings are passed upon at the Branch and immediate credit is given, subject to final approval of the Head Office. Schedules covering such transactions are forwarded to the Head Office, but the notes and collateral, if any, are retained by the Branch. The Branch has no Bank Examination, Bank Relations, Failed Banks, Research, Legal or Fiscal Agency departments.

As of September 25, 1937, member banks in the branch zone had the following Reserve Bank balances:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
City of Detroit	4	\$102,808,123	\$6,931,996	\$1,180,500	--
Remainder of Zone	<u>84</u>	<u>27,136,238</u>	<u>1,091,111</u>	<u>597,700</u>	<u>\$20,000</u>
	<u>88</u>	<u>\$129,944,361</u>	<u>\$8,023,107</u>	<u>\$1,778,200</u>	<u>\$20,000</u>

Detroit is 284 train miles (6 hrs. and 26 mins.) from Chicago. On any business day there are a number of trains leaving both points after 7 P.M. and arriving at the other before 8 A.M. on the following day, i.e., overnight mail. The Federal Reserve Bank of Chicago advises that more than 90% of the member banks in Michigan can be reached overnight from Chicago as well as from Detroit and that more trains carrying registered mail are available at Chicago than at Detroit. It is pointed out, however, that approximately 66 2/3% of all Michigan banks, irrespective of branch zone lines, remit for Chicago and Detroit cash letters to Detroit and that this trend is gradually increasing, also that 75%

of all country checks, that is checks drawn on banks located in Michigan outside of Detroit, are received through Detroit banks. Further, it is stated that the Detroit Branch handles as many noncash collections as the Head Office. Because of these factors, it is indicated that discontinuance of the Detroit Branch would not only seriously affect the character of service rendered to banks in Detroit, but that it would also slow up the service rendered to outlying banks and to the System as a whole, particularly insofar as the collection functions are concerned.

Other than Detroit, the more populous cities in the branch zone are Flint, 156,492; Saginaw, 80,715; Lansing, 78,397; Pontiac, 64,928; Hamtramck, 56,268; Jackson, 55,187; Highland Park, 52,959; Dearborn, 50,358; Bay City, 47,355 and Port Huron, 31,361. All of these cities except Hamtramck, which has three nonmember banks, is served by one or more member banks or a branch of a member bank.

(c) Branch Building:

The Detroit Branch has occupied its present quarters at 160 West Fort Street, since December, 1927. The following figures show the original cost and book value, as of September 25, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>9- 25- 37</u>
Land	\$ 650,000	\$ 412,500
Building	836,144)	
Vault and vault equipment	<u>170,725)</u>	<u>350,065</u>
	\$1,656,869	\$ 762,565
Fixed machinery and equipment	<u>115,840</u>	<u>9,496</u>
	<u>\$1,772,709</u>	<u>\$ 772,061</u>

In commenting on the potential sale value of the branch building in the event the Branch were discontinued, the Reserve bank states that the building of the Bank of Detroit (closed), located within one-half block of the Branch,

which was constructed at about the same time, is to be torn down and the ground used as a parking space in order to pay taxes.

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the year 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$411,000
1932	531,700
1933	133,100
1934	14,700
1935	39,300
1936	5,200
1937	5,000

The above figures are, of course, incomplete since the Branch receives no credit for income received by the Head Office on investments, a portion of which is made possible by the reserve balances and Reserve bank stock investment of banks in the branch zone. Branch earnings depend almost entirely on the extent to which member banks in the branch zone use the credit facilities of the System. Income derived by the Branch from this source amounted to \$500,400 in 1932 and to only \$600 in 1937.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Chicago, as of September 25, 1937, shows the following in regard to salaries and personnel at the Detroit Branch:

	<u>Sept. 25, 1937</u>		<u>Nov. 21, 1936</u>		<u>Increase</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	3	\$ 23,600	4	\$ 29,400	1 *	\$ 5,800 *
Employees	133	208,200	122	194,100	11	14,100
	<u>136</u>	<u>\$231,800</u>	<u>126</u>	<u>\$223,500</u>	<u>10</u>	<u>\$ 8,300</u>

* Decrease

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions:

The expenses of the Detroit Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead:						
Controllable	\$ 28,540	\$ 30,608	\$ 24,565	\$ 17,400	\$ 22,637	\$ 21,075
Noncontrollable	18,815	24,215	18,483	109	240	136
*Provision of Space	76,169	65,791	51,887	46,719	47,235	75,177
Provision of Personnel	3,603	4,324	33,829	54,532	63,040	4,164
General Service	74,277	80,826	76,268	61,709	54,562	53,068
Postage	23,719	21,350	19,629	20,298	21,376	21,677
Insurance	6,692	7,175	4,146	2,544	3,399	2,926
Loans,rediscounts,etc.	25,644	21,589	7,761	9,557	2,724	712
Securities	13,579	14,094	12,054	10,063	10,849	10,479
Currency & Coin	74,503	72,328	63,055	79,729	70,524	56,714
Check Collection	74,691	68,187	61,956	53,600	54,625	57,411
Non-cash Collection	21,896	24,703	24,388	20,315	20,675	21,709
Accounting	32,436	37,256	32,208	31,552	28,842	27,470
Fiscal Agency	69,398	194,002	205,078	214,125	163,526	135,900
Legal	3,032	3,131	4,047	300	400	503
Auditing	13,304	16,132	13,363	10,457	4,366	5,337
Bank Relations	5,551	3,804	1,141	1,596	1,590	1,178
Bank Examinations	3,675	4,153	19,038	15,737	13,587	-
F.R.Note Issues	796	2,568	752	813	632	383
Miscellaneous	-	53	25	91	2,074	-
Total Expense	<u>\$570,320</u>	<u>\$696,289</u>	<u>\$673,673</u>	<u>\$651,346</u>	<u>\$586,903</u>	<u>\$496,019</u>
Less - Reimbursable						
Fiscal Agency Expense	<u>66,321</u>	<u>189,538</u>	<u>197,551</u>	<u>183,441</u>	<u>147,782</u>	<u>120,489</u>
Net Expense	<u>\$503,999</u>	<u>\$506,751</u>	<u>\$476,122</u>	<u>\$467,905</u>	<u>\$439,121</u>	<u>\$375,530</u>

* Represents the net expense - income from rentals having been deducted.

There were twenty branches in the System which operated at less expense than the Detroit Branch in 1937. Detroit is one of the largest branches in the System based on the volume of operations.

(g) Volume of Operations at Detroit Branch:

The following is a comparison of the volume of operations in various departments of the Detroit Branch and the Head Office during the last six

months of 1936:

	<u>Detroit Branch</u>	<u>Head Office</u>
<u>Discount Department:</u>		
Notes rediscounted	-	-
Collateral notes discounted	2	2
Industrial advances	-	2
Branches with larger volume: Buffalo, Baltimore, New Orleans, Memphis, Denver, Omaha, El Paso, Houston, San Antonio, Salt Lake City, and Spokane.		
<u>Safekeeping:</u>		
Member bank securities 12-31-36	\$58,783,000	\$1,079,753,000
Branches with larger volume: Pittsburgh		
<u>Currency & Coin:</u>		
1. Number of bills received and counted	26,106,000	118,745,000
Branches with larger volume: Baltimore and Los Angeles.		
Cost per one thousand units handled	52 cents	38 cents
Branches with higher unit cost: Buffalo, Cincinnati, Pittsburgh, Helena, Denver, Omaha, El Paso, San Antonio, Portland, Salt Lake City, Seattle and Spokane.		
2. Number of coins received and counted	7,048,000	47,130,000
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, New Orleans, Houston and Los Angeles.		
Cost per one thousand units handled	16 cents	19 cents
Branches with higher unit cost: All branches except Buffalo, Baltimore, Charlotte, Jacksonville, New Orleans, Louisville, Memphis, Oklahoma City, Houston and Los Angeles.		
<u>Check Collection:</u>		
1. Number of city checks (clearings) received	3,088,000	10,243,000
Branches with larger volume: Pittsburgh and Los Angeles.		
Cost per one thousand units handled	\$1.45	\$2.22
Branches with higher unit cost: All branches except Baltimore, Charlotte, Birmingham, Jacksonville, Nashville, San Antonio and New Orleans.		
2. Number of country checks (outgoing) received	5,546,000	43,162,000
Branches with larger volume: Cincinnati, Pittsburgh, Baltimore and Oklahoma City.		
Cost per one thousand units handled	\$2.62	\$3.01
Branches with higher unit cost: Buffalo, Los Angeles, Portland, Salt Lake City, Spokane and Seattle.		

	<u>Detroit Branch</u>	<u>Head Office</u>
<u>Non-cash Collections:</u>		
1. Number of city collections handled	27,239	43,338
Branches with larger volume: Little Rock and Omaha.		
Cost per unit handled	19.8	21.8
Branches with higher unit cost: Cincinnati, Pittsburgh, Los Angeles, Portland and Seattle.		
2. Number of country collections handled	13,572	190,808
Branches with larger volume: Buffalo, Baltimore, Charlotte, Denver, Oklahoma City, Omaha, Los Angeles, Salt Lake City and Spokane.		
Cost per unit handled	10.3 cents	6.4 cents
Branches with higher unit cost: Buffalo, Baltimore, Birmingham, Jacksonville, Nashville, New Orleans, Helena, San Antonio, Los Angeles, Portland and Seattle.		
3. Number of coupons (except Government) and country security collections handled	15,259	118,441
Branches with larger volume: Baltimore		
Cost per unit handled	15.7 cents	13.3 cents
Branches with higher unit cost: Charlotte, Jacksonville, Helena, El Paso, Los Angeles, Portland, Salt Lake City and Spokane.		

A schedule showing the volume of operations of the Detroit Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Detroit Branch by Board's Examiners - 1934:

During the course of an examination of the Federal Reserve Bank of Chicago, made as of February 10, 1934, the Board's Examiners reviewed the operations of the Detroit Branch and expressed the following opinion as to the necessity for its continuance:

"The Detroit Branch is one of the largest branches in the System, but in the opinion of your examiner, its continuance, like that of the Cincinnati and Pittsburgh branches, is justified only because of the importance of the branch city."

It was pointed out that there were four licensed member banks with total resources of approximately \$350,000,000 (now \$746,000,000) in the city of Detroit, and that all but four of seventy-four member bank points in the Detroit zone were within overnight mail time from Chicago.

An apparent change in opinion is reflected in the following comment appearing in the confidential section of the report of an examination of the Chicago Reserve bank as of November 21, 1936:

"During the past few years the management has given considerable thought and study with the view to determining whether the functions of the Detroit branch could be transferred to the head office at a substantial savings in operating costs without impairing the services which the System is now rendering member banks in that zone. A few minor functions which did not directly affect service to member banks have been transferred to the head office. However, in view of the size and importance of the City of Detroit and in the interest of service to member banks in the branch territory, it was not considered feasible to transfer any of the more important operating functions to the head office, and in this your examiner agrees."

(i) Survey of Detroit Branch made by Federal Reserve Bank of Chicago--1936:

The Federal Reserve Bank of Chicago made a thorough survey of the operations of the Detroit Branch, as requested in the Board's letter of March 25, 1936 (X-9532), to determine whether any of the operations being performed at the Branch could be transferred to the Head Office at a substantial saving in operating cost and without impairing the service rendered to member banks and through them to commerce, industry and agriculture.

Attention was called to the fact that a comprehensive survey of the Branch was undertaken in 1934 and that as a result certain nonbanking functions had been transferred to the Head Office and that a reduction in salary expense aggregating approximately \$10,000 per month had been effected without impairing the efficiency of service to member banks. In view of the previous studies the 1936 survey was confined largely to the cash collection, noncash collection, currency and safe-keeping functions; principally the collection functions.

As a result of this survey, it was concluded that a saving of at least \$100,000 could be made by transferring all Branch functions to the Head Office, but that such a move would seriously impair the service rendered to member banks in Michigan, and would arouse strong opposition particularly on the part of member banks in Detroit and in its immediate vicinity. It was pointed out that, despite excellent mail communication between Chicago and member bank points in Michigan, the natural trend of banking in the State was toward Detroit and that member banks in the State would deal with Detroit correspondents in preference to sending their items to Chicago. It was further stated that operation of the Detroit Branch quarters merely as a currency depot would be uneconomical, the overhead expense being all out of proportion to the service rendered; that a move to smaller quarters would call for disposition of the present quarters, which could not be accomplished without a substantial loss; and that transfer of the currency function to Chicago would work a hardship on Detroit banks, which would have to maintain higher cash reserves, and at the same time would save very little as it would increase shipping charges from Washington and to points in Michigan and require an augmented personnel at Chicago. In general, it was indicated that general operating economies rather than curtailment of functions was the more desirable means of reducing expenses at the Detroit Branch.

DETROIT BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	14,525	77,517,000	125,374,000	6,996,000	15,116,000	671,000	22,783,000	251,036	131,883	2,346	--	46,291
1932	17,396	69,731,000	121,843,000	6,630,000	10,475,000	672,000	17,777,000	248,732	131,762	2,320	10	36,550
1933	4,617	68,149,000	107,347,000	5,329,000	6,314,000	919,000	12,562,000	259,304	172,585	7,375	66	20,472
1934	168	69,475,000	120,170,000	5,588,000	8,678,000	2,417,000	16,683,000	402,762	157,650	12,022	18	21,578
1935	6	77,530,000	45,802,000	5,979,000	10,602,000	1,084,000	17,665,000	463,000	149,000	23,616	14,274	23,299
1936	2	68,395,000	25,895,000	6,073,000	10,811,000	1,061,000	17,945,000	370,000	115,000	6,292	5,076	23,000

Amounts Handled

(in thousands of dollars)

1931	512,658	459,331	7,342	3,085,294	1,075,278	106,324	5,066,896	6,605	128,298	5,508	--	4,662,218
1932	592,395	401,112	7,357	2,554,522	723,688	81,561	3,359,771	6,982	78,214	11,361	205	6,942,347
1933	104,670	544,691	17,064	2,305,206	592,107	97,955	2,995,268	6,147	105,727	12,155	135	2,191,959
1934	5,359	418,353	7,988	4,025,318	821,224	148,733	4,995,275	7,660	138,779	8,408	125	2,154,164
1935	277	475,622	3,142	5,540,391	1,050,441	153,683	6,744,515	7,482	186,411	11,688	3,830	2,726,719
1936	85	383,309	1,869	6,008,295	1,027,542	192,998	7,228,835	6,597	193,423	18,327	1,527	2,287,086

LITTLE ROCK BRANCH - FEDERAL RESERVE BANK OF ST. LOUIS.

(a) City of Little Rock

Little Rock, with a population of 81,679, is the largest city in Arkansas. It is located in the central part of the State, on the Arkansas River, and is said to serve a trade area extending approximately 64 miles in all directions in which about 660,000 people reside. Transportation facilities are provided by the Missouri Pacific, St. Louis Southwestern, and the Chicago, Rock Island & Pacific railroads; also by a number of bus lines and two airlines.

According to the Biennial Census of Manufactures there were 133 manufacturing establishments in Pulaski County, in which Little Rock is located, in 1935. These concerns had an output valued at \$24,273,000 during that year. The principal manufactures were cottonseed oil, fertilizer, furniture, textiles, canned goods, dairy products and meat products. The city is noted as a cotton warehousing and marketing center.

The Census of American Business for 1935 lists 1,994 retail and 219 wholesale firms operating in Pulaski County which enjoyed sales aggregating \$38,925,000 and \$52,467,000, respectively, during that year.

Banking facilities in Little Rock are provided by three national banks and one State member bank. These institutions had deposits aggregating \$40,887,000 as of December 31, 1936. Debits to individual accounts in banks of the city amounted to \$418,293,000 during 1936, or an average of approximately \$1,394,000 for each banking day.

(b) Branch Territory and Functions:

The Little Rock Branch was established January 6, 1919 and serves fifty-six cities in the State of Arkansas. While the branch territory is not determined by State or County lines it is estimated that it represents approximately 20%

of the land area of the Eighth District and has about 14% of its total population. Approximately 10% of all banks in the district operate in cities served by the branch.

As of December 31, 1936, there were 169 banks, exclusive of mutual savings banks, in the branch zone and of this number only 36, including 30 national and 6 State institutions, were members of the System. Thirty-nine of the 133 non-member banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to those of the Eighth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
		(000 omitted)		
Eighth District	388	\$1,092,425	\$125,722	\$1,480,335
Branch Zone	36	56,134	7,006	89,283

There are only two branch zones in the System having smaller bank footings than the Little Rock zone; namely, El Paso and Spokane.

The Little Rock Branch renders substantially the same service to member banks in its territory as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearings, non-cash collections, safekeeping of securities and borrowings are concerned. Reserve accounts of member banks in the zone, as well as of nonmember clearing banks and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and a record of certain earnings and expenses. Control accounts are, of course, maintained at the Head Office which is sent a daily transcript of entries affecting such accounts. Immediate credit

is given to member banks for discount offerings received by the Branch, subject to final approval of the Head Office. Schedules covering transactions are forwarded to the Head Office, but the notes and collateral, if any, are retained at the Branch. The Branch does not have Bank Examination, Bank Relations, Legal, Research or Fiscal Agency departments.

As of November 27, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
Little Rock	4	\$ 5,785,927	\$1,027,523	\$ 68,250	-
Remainder of Zone	<u>31</u>	<u>5,401,878</u>	<u>259,808</u>	<u>142,150</u>	<u>-</u>
	<u>35</u>	<u>\$11,187,805</u>	<u>\$1,287,331</u>	<u>\$210,400</u>	<u>-</u>

Little Rock is 349 train miles (9 hrs. and 5 mins.) from St. Louis. On any business day trains leave both points at 7 P.M. or later and arrive at the other before 8 A.M. on the day following, i.e., overnight mail. There are 28 points in the branch zone in which one or more member banks are located. A study of mail schedules made in 1934 by the Board's examiners indicated that 21 of these member bank points were within overnight mail time of the Memphis Branch and that 16 of the points were within overnight mail time of St. Louis. It appears, therefore, that only a small number of outlying banks in the zone would be inconvenienced by discontinuance of the Branch. It would of course curtail the service rendered to the four member banks in the city of Little Rock, which now enjoy an over-the-counter relationship with the Branch. In this connection, it may be stated that there are a substantial number of larger and more important cities than Little Rock in the United States which do not have immediate access to Reserve bank facilities.

Other than Little Rock, the more populous cities in the branch zone are Pine Bluff, 20,760; Hot Springs, 20,238; and El Dorado, 16,421.

(c) Branch Building:

The Little Rock Branch has occupied its present quarters at Third and Louisiana Streets since March, 1925. The following figures show the original cost and book value, as of November 27, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>11-27-37</u>
Land	\$ 85,007	\$ 80,000
Building	186,800)	
Vault and vault equipment	<u>46,279)</u>	<u>143,404</u>
	\$318,086	\$223,404
Fixed machinery and equipment	<u>103,608</u>	<u>-</u>
	<u>\$421,694</u>	<u>\$223,404</u>

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$ 61,500
1932	38,600
1933	14,200
1934	8,700
1935	5,200
1936	100
1937	400

These figures are incomplete since, under the present accounting procedure, the Branch does not receive any credit for income received by the Head Office on investments, a portion of which is made possible by the Reserve bank stock investment and reserve balances of member banks in the branch zone. Income carried on the books of the Branch is derived chiefly from borrowings by member banks in its zone. Income from this source amounted to \$60,200 in 1931 and to less than \$100 in 1937.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of St. Louis, as of November 27, 1937, shows the following regarding salaries and personnel at the Little Rock Branch:

	<u>November 27, 1937</u>		<u>October 31, 1936</u>		<u>Increase</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	3	\$17,100	3	\$15,300	-	\$ 1,800
Employees	<u>40</u>	<u>54,800</u>	<u>41</u>	<u>54,800</u>	<u>1(Dec.)</u>	<u>-</u>
	<u>43</u>	<u>\$71,900</u>	<u>44</u>	<u>\$70,100</u>	<u>1(Dec.)</u>	<u>\$ 1,800</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions:

The expenses of the Little Rock Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead:						
Controllable	\$ 11,650	\$ 12,474	\$ 11,827	\$ 11,990	\$ 10,770	\$ 11,215
Noncontrollable	3,383	5,459	4,953	-	-	-
*Provision of Space	12,911	10,858	9,372	9,618	7,993	13,560
Provision of Personnel	447	505	7,414	12,381	14,161	1,168
General Service	16,185	16,596	18,327	19,881	16,376	15,423
Postage	4,697	6,062	5,415	4,187	5,429	6,317
Insurance	2,077	3,885	2,295	1,942	1,854	1,544
Failed Banks	4,692	1,416	697	-	3	-
Loans, rediscounts, etc.	8,548	8,888	3,818	2,264	903	990
Securities	3,863	2,425	2,486	4,042	2,942	2,617
Currency & Coin	8,672	9,635	9,723	16,126	17,271	17,748
Check Collection	11,284	11,476	12,768	10,525	10,346	10,739
Non-cash Collection	4,366	6,195	6,668	7,341	6,744	7,478
Accounting	15,634	13,855	14,615	12,880	11,813	10,815
Fiscal Agency	11,289	21,874	35,637	50,953	49,618	42,870
Legal	-	25	-	-	-	-
Auditing	3,222	3,093	3,276	3,998	3,545	3,881
Bank Relations	11	-	-	92	463	86
F. R. Note Issues	-	768	700	364	301	301
Statistical & Analytical	132	167	159	144	85	72
Works Progress	-	-	-	-	88	-
Total Expense	<u>\$123,063</u>	<u>\$135,656</u>	<u>\$150,150</u>	<u>\$168,728</u>	<u>\$160,705</u>	<u>\$146,824</u>
Less - Reimbursable						
Fiscal Agency						
Expense	<u>10,369</u>	<u>20,695</u>	<u>34,414</u>	<u>42,690</u>	<u>42,575</u>	<u>35,361</u>
Net Expense	<u>\$112,694</u>	<u>\$114,961</u>	<u>\$115,736</u>	<u>\$126,038</u>	<u>\$118,130</u>	<u>\$111,463</u>

* Represents the net expense - income from rentals having been deducted.

	<u>Little Rock Branch</u>	<u>Head Office</u>
--	---------------------------	--------------------

Check Collection (Cont'd.):

- | | | |
|---|-----------|------------|
| 2. Number of country checks (outgoing) received | 1,585,000 | 11,820,000 |
| Branches with larger volume: All branches except Memphis and El Paso. | | |
| Cost per one thousand units handled | \$1.66 | \$1.85 |
| Branches with higher unit cost: All branches except Birmingham. | | |

Non-cash Collections:

- | | | |
|--|------------|------------|
| 1. Number of city collections handled | 41,811 | 17,556 |
| Branches with larger volume: Omaha | | |
| Cost per unit handled | 5.1 cents | 14.7 cents |
| Branches with higher unit cost: All branches except Omaha. | | |
| | | |
| 2. Number of country collections handled | 8,290 | 77,714 |
| Branches with larger volume: All branches except Birmingham, Nashville, Helena, El Paso and Houston. | | |
| Cost per unit handled | 6.3 cents | 5 cents |
| Branches with higher unit cost: All branches except Memphis, Salt Lake City and Spokane. | | |
| | | |
| 3. Number of coupons (except Government) and country security collections handled | 2,667 | 14,700 |
| Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, New Orleans, Detroit, Omaha, San Antonio and Los Angeles. | | |
| Cost per unit handled | 10.7 cents | 13.8 cents |
| Branches with higher unit cost: All branches except Cincinnati, Pittsburgh, Baltimore, Birmingham, New Orleans, Denver, Omaha and Seattle. | | |

A schedule showing the volume of operations of the Little Rock Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Little Rock Branch by Board's Examiners - 1934

During the course of an examination of the Federal Reserve Bank of St. Louis, as of September 8, 1934, the Board's Examiners reviewed the operations of the Little Rock Branch and, based on information developed, questioned the necessity for its continuance. Reference was made in that report to the limited number of banks in the City of Little Rock and the branch zone, and to the fact that the major portion of member bank points in the zone were within overnight mail time of both St. Louis and Memphis.

(i) Survey of Branches by Federal Reserve Bank of St. Louis - 1936

In accordance with the request contained in the Board's letter of March 25, 1936 (X-9532), the Federal Reserve Bank of St. Louis appears to have reviewed the operations of its branches with a view to ascertaining whether any of them should be discontinued or their functions curtailed. A detailed report, indicating the thoroughness of this survey, was not submitted to the Board. However, on August 5, 1936, Deputy Chairman Dillard wrote a letter to the Board relative to the general survey of the St. Louis Reserve Bank which contained the following comment concerning its three branches:

"In our opinion, all of our branches are necessary, if the services of the System to member banks and through them to commerce, industry and agriculture, are not to be impaired. Likewise, we do not find that any of the operations now being handled by the branches could be transferred to the head office without impairing the services which the System is rendering to member banks."

LITTLE ROCK BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	2,547	7,465,000	5,481,000	658,000	2,628,000	347,000	3,633,000	27,353	38,902	333	-	10,162
1932	964	6,389,000	5,040,000	555,000	1,943,000	341,000	2,839,000	31,448	27,403	172	-	9,398
1933	273	6,560,000	5,924,000	651,000	1,730,000	556,000	2,937,000	30,151	85,231	622	-	8,762
1934	28	7,470,000	4,332,000	729,000	2,105,000	1,122,000	3,956,000	31,881	70,389	1,405	-	8,207
1935	10	7,642,000	4,608,000	811,000	2,514,000	790,000	4,115,000	58,000	64,000	2,295	735	6,961
1936	2	9,220,000	5,563,000	734,000	3,062,000	671,000	4,467,000	45,000	86,000	528	244	6,000

Amounts Handled

(in thousands of dollars)

1931	54,577	29,786	531	425,148	162,367	37,017	624,532	282	24,182	267	-	254,901
1932	32,066	24,572	484	257,126	111,648	24,972	393,746	396	20,984	253	-	179,030
1933	7,809	29,527	626	234,508	119,472	38,924	392,904	386	31,903	415	-	130,737
1934	655	28,981	491	327,587	161,982	48,043	537,612	474	33,367	836	-	144,163
1935	89	27,688	490	517,938	190,174	43,176	751,288	523	42,556	856	357	172,315
1936	100	34,473	655	594,022	235,162	52,905	882,089	437	61,191	141	93	212,296

LOUISVILLE BRANCH - FEDERAL RESERVE BANK OF ST. LOUIS

(a) City of Louisville:

Louisville, with a population of 307,745, is the twenty-fourth largest city in the United States and the largest city in Kentucky. It is located in the extreme north central part of the State, on the Ohio River, and is said to serve a trade area extending approximately 50 miles in all directions in which upwards of 735,000 people reside. Transportation facilities are provided by ten railroads, including the Baltimore & Ohio, Chesapeake & Ohio, Pennsylvania, Southern, Louisville & Nashville and the Illinois Central. It is also served by two national airlines and is the terminal for a number of Ohio River barge lines.

According to the Biennial Census of Manufactures there were 593 manufacturing establishments operating in Jefferson County, in which Louisville is situated, in 1935 which had an output valued at \$302,844,000 during that year. The principal manufactures were tobacco products, alcoholic beverages, plumbing equipment, foundry and machine shop products, motor vehicle parts and bodies, agricultural implements, stoves and furnaces, textiles and lumber products. The Census of American Business for 1935 lists 4,915 retail and 529 wholesale establishments operating in the same area which had sales aggregating \$104,852,000 and \$165,896,000, respectively, during that year.

Banking facilities in Louisville are provided by three national banks, ten State banks (three members), two industrial banks and two trust companies; the latter doing no commercial banking business. These institutions had deposits aggregating \$173,466,000, as of December 31, 1936, and of this amount \$153,539,000 was carried with the six local member banks.

Debits to individual accounts in banks of the city aggregated \$1,885,257,000 during the year 1936, or an average of approximately \$6,284,000 for each banking day.

(b) Branch Territory and Functions:

The Louisville Branch was established December 3, 1917, and serves forty-one cities in southern Indiana and 168 cities in the central and western part of Kentucky. While the branch territory is not determined by State or county lines it is estimated that the area served by the branch represents approximately 14% of the total land area of the Eighth District and has about 17% of its total population. Approximately 19% of all banks in the district are in cities served by the Branch.

As of December 31, 1936, there were 303 banks, exclusive of mutual savings banks, in the branch zone and of this number 67, including 61 national and 6 State institutions, were members of the System. All but 11 of the 236 nonmember banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared with the Eighth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
			(000 omitted)	
Eighth District	388	\$1,092,425	\$125,722	\$1,480,335
Branch Zone	67	148,897	20,848	198,055

There are ten branch zones in the System having smaller member bank footings than the Louisville zone, namely, Spokane, El Paso, Little Rock, Helena, Charlotte, San Antonio, Nashville, Birmingham, Memphis and Salt Lake City.

The Louisville Branch renders substantially the same service to member banks in its zone as is available at the Head Office, insofar as receipts and dis-

bursments of currency and coin, wire transfers, check clearings, noncash collections, safekeeping of securities and borrowings of member banks are concerned. Reserve accounts of member banks in the zone, as well as of nonmember clearing banks and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and a record of earnings and expenses. Control accounts are, of course, maintained at the Head Office which is sent a daily transcript of entries affecting such accounts. Immediate credit is given to member banks for discount offerings received by the Branch, subject to final approval of the Head Office. Schedules covering transactions are forwarded to the Head Office, but the notes and collateral, if any, are retained at the Branch. The branch does not have Bank Examination, Bank Relations, Legal, Research or Fiscal Agency departments.

As of November 27, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stocks</u>	<u>Bills Discounted</u>
Indiana	16	\$ 1,572,011	\$ 3,065	\$ 66,950	\$ --
Kentucky:					
Louisville	6	18,451,227	4,560,144	419,700	--
Remainder of State	<u>45</u>	<u>5,123,812</u>	<u>--</u>	<u>221,400</u>	<u>22,000</u>
	<u>67</u>	<u>\$25,147,050</u>	<u>\$4,563,209</u>	<u>\$708,050</u>	<u>\$ 22,000</u>

Louisville is 274 train miles (8 hrs. and 10 mins.) from St. Louis. On any business day there are several trains leaving both points at 7 P.M. or later and arriving at the other prior to 8 A. M. on the following day, i.e., overnight mail. The branch zone includes 46 points in which one or more member banks are located and mail schedules indicate that 22 of these points cannot be reached by mail from St. Louis before 10 A.M. on the day following mailing. It appears, therefore, that a substantial number of outlying banks in the branch zone would

be inconvenienced by discontinuance of the Branch. Banks in the City of Louisville which now have an over-the-counter contact with the Branch would of course suffer the greatest inconvenience.

Other than Louisville, the most populous cities served by the Branch are New Albany, Indiana, 25,819; Paducah, Kentucky, 33,541 and Owensboro, Kentucky, 22,765.

(c) Branch Building:

The Louisville Branch has occupied its present quarters at 5th and Market Streets since June, 1929. The following figures show the original cost and book value, as of November 27, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>11-27-37</u>
Land	\$131,177	\$ 90,000
Building	183,373)	
Vault and Vault Equipment	<u>42,886)</u>	<u>110,543</u>
	\$357,436	\$200,543
Fixed Machinery and Equipment	<u>35,230</u>	--
	<u>\$392,666</u>	<u>\$200,543</u>

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$ 80,200
1932	99,200
1933	33,000
1934	6,100
1935	4,300
1936	1,000
1937	400

The above figures are incomplete since, under the present accounting procedure, the Branch receives no credit for income received by the Head Office on investments, a portion of which is made possible by the Reserve bank stock investment and

reserve balances of member banks in the branch zone. They are interesting only insofar as they show the shrinkage in Branch earnings, which are derived chiefly from bills discounted for member banks in the zone. Income from this source amounted to only \$200 in 1937, as compared to \$83,500 in 1932.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of St. Louis, as of November 27, 1937, shows the following in regard to salaries and personnel at the Louisville branch:

	<u>Nov. 27, 1937</u>		<u>Oct. 31, 1936</u>		<u>Increase</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	3	\$ 15,900	3	\$ 17,900	-	\$ 2,000 *
Employees	<u>77</u>	<u>94,700</u>	<u>74</u>	<u>91,100</u>	<u>3</u>	<u>3,600</u>
	<u>80</u>	<u>\$110,600</u>	<u>77</u>	<u>\$109,000</u>	<u>3</u>	<u>\$ 1,600</u>

* Decrease

Officers and employees whose salaries and wages are reimbursable are not included in the above figures. A relief guard, employed at \$3.33 1/3 per day, is also not included.

(f) Branch Expense by Functions:

The expenses of the Louisville Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 12,351	\$ 12,312	\$ 12,453	\$ 12,732	\$ 11,884	\$ 13,145
Noncontrollable	5,354	6,321	5,784	29	25	1
*Provision of Space	15,965	13,790	14,590	12,353	12,354	30,122
Provision of Personnel	1,515	2,252	11,818	16,978	19,264	3,495
General Service	21,714	25,281	26,472	29,069	27,542	27,121
Postage	10,740	12,648	12,217	11,633	15,781	14,654
Insurance	3,074	5,630	2,628	2,176	2,113	2,213
Failed Banks	2,883	1,673	988	—	—	—
Loans, rediscounts, etc.	14,792	10,626	7,529	4,446	3,570	2,921
Securities	3,544	3,631	4,073	5,621	5,121	5,252
Currency and Coin	16,993	18,064	18,299	26,641	26,013	27,241
Check Collection	25,979	30,312	32,046	28,715	28,562	31,012
Non-Cash Collection	3,819	4,845	6,427	4,862	4,440	4,279
Accounting	15,765	15,961	16,053	15,552	16,142	16,459
Fiscal Agency	14,323	21,213	21,157	20,952	26,544	33,314
Legal	16	—	—	—	—	—
Auditing	3,213	3,652	3,627	5,162	4,624	4,641
Bank Relations	2	9	23	334	399	175
Bank Examinations	—	1	—	—	—	—
F. R. Note Issues	—	1,004	948	790	513	228
Statistical & Analytical	69	69	25	80	43	98
Works Progress	—	—	—	—	170	—
Total Expense	\$ 172,111	\$189,294	\$197,157	\$207,125	\$205,104	\$216,371
Less - Reimbursable						
Fiscal Agency Exp.	12,565	18,358	17,074	15,862	16,935	24,209
Net Expense	<u>\$ 159,546</u>	<u>\$170,936</u>	<u>\$180,083</u>	<u>\$191,263</u>	<u>\$188,169</u>	<u>\$192,162</u>

* Represents the net expense - income from rentals having been deducted.

There were eleven branches in the System which operated at a higher cost than the Louisville Branch in 1937.

(g) Volume of Operations at Louisville Branch:

The following is a comparison of the volume of operations in various departments of the Louisville Branch and the Head Office during the last six months of 1936:

Louisville Branch Head Office

Safekeeping:

Member bank securities 12-31-36	\$7,132,000	\$137,635,000
Branches with larger volume: Cincinnati, Pittsburgh, Baltimore, Jacksonville, New Orleans, Detroit, Little Rock, Denver, Oklahoma City, Omaha and Houston.		

Currency & Coin:

- | | | |
|--|-----------|------------|
| 1. Number of bills received and counted | 9,002,000 | 36,272,000 |
| Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, Jacksonville, New Orleans, Detroit, Memphis, and Los Angeles. | | |
| Cost per one thousand units handled | 37 cents | 37 cents |
| Branches with higher unit cost: All branches except Birmingham, New Orleans Nashville and Little Rock. | | |
-
- | | | |
|--|-----------|------------|
| 2. Number of coins received and counted | 6,600,000 | 39,431,000 |
| Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, New Orleans, Detroit, Houston, and Los Angeles. | | |
| Cost per one thousand units handled | 13 cents | 11 cents |
| Branches with larger volume: All branches except Buffalo, Baltimore, New Orleans, Jacksonville, Memphis and Oklahoma City. | | |

Check Collection:

- | | | |
|--|---------|-----------|
| 1. Number of city checks (clearings) received | 966,000 | 3,284,000 |
| Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, Detroit, Omaha and Los Angeles. | | |
| Cost per one thousand units handled | \$2.11 | \$1.91 |
| Branches with higher unit cost: Helena, Oklahoma City, Los Angeles, Portland, Salt Lake City, Seattle and Spokane. | | |
-
- | | | |
|---|-----------|------------|
| 2. Number of country checks (outgoing) received | 4,224,000 | 11,820,000 |
| Branches with larger volume: Cincinnati, Pittsburgh, Baltimore, Detroit Oklahoma City, Omaha and Los Angeles. | | |
| Cost per one thousand units handled | \$1.75 | \$1.85 |
| Branches with higher unit cost: All Branches except Birmingham, Jacksonville, Little Rock, Denver, Oklahoma City and Omaha. | | |

Non-cash Collections:

- | | | |
|---|------------|------------|
| 1. Number of city collections handled | 7,026 | 17,556 |
| Branches with larger volume: All branches except Charlotte, Birmingham, New Orleans, Helena, El Paso, San Antonio and Portland. | | |
| Cost per unit handled | 12.3 cents | 14.7 cents |
| Branches with higher unit cost: All branches except Jacksonville, Nashville, Little Rock, Memphis, Helena, Oklahoma City, Omaha, El Paso, Houston and Salt Lake City. | | |
-
- | | | |
|---|-------|--------|
| 2. Number of country collections handled | 8,530 | 77,714 |
| Branches with larger volume: Buffalo, Baltimore, Charlotte, Jacksonville, New Orleans, Detroit, Memphis, Denver, Oklahoma City, Omaha, San Antonio, Los Angeles, Portland, Salt Lake City, Seattle and Spokane. | | |

2. Country Collections (Continued)

Louisville Branch Head Office

Cost per unit handled

8.7 cents

5 cents

Branches with higher unit cost: All branches except Charlotte, Little Rock, Memphis, Omaha, El Paso, Salt Lake City and Spokane.

3. Number of coupons (except Government)

and country security collections handled

2,466

14,700

Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, New Orleans, Detroit, Little Rock, Omaha, San Antonio and Los Angeles.

Cost per unit handled

15.5 cents

13.8 cents

Branches with higher unit cost: Charlotte, Jacksonville, Detroit, Helena, El Paso, Los Angeles, Portland, Salt Lake City and Spokane.

A schedule showing the volume of operations of the Louisville Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Louisville Branch by Board's Examiners: 1934

During an examination of the Federal Reserve Bank of St. Louis, made as of September 8, 1934, the Board's Examiners reviewed the operations of the Louisville Branch and expressed the opinion that its continuance was warranted only in view of the size and importance of the branch city. In reaching this conclusion consideration was given to the volume of operations at the Branch, the mail schedules between St. Louis and member bank points in the branch zone and the number and size of banks in the city of Louisville.

(i) Survey of Louisville Branch made by Federal Reserve Bank of St. Louis--1936

As requested in the Board's letter of March 25, 1936, (X-9532) a survey of the Louisville Branch was made by the Federal Reserve Bank of St. Louis. The following excerpt taken from a letter addressed to the Board by Deputy Chairman Paul Dillard on August 5, 1936, summarizes the conclusion reached by the Reserve bank:

"In our opinion, all of our branches are necessary, if the services of the System to member banks and through them to commerce, industry, and agriculture, are not to be impaired. Likewise, we do not find that any of the operations now being handled by the branches could be transferred to the head office without impairing the services which the System is now rendering to member banks."

LOUISVILLE BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	2,295	18,908,000	19,998,000	1,757,000	7,378,000	595,000	9,730,000	182,485	42,584	1,057	5	13,564
1932	2,951	17,032,000	16,739,000	1,619,000	6,378,000	632,000	8,629,000	212,763	40,090	821	25	12,631
1933	902	17,080,000	13,429,000	1,758,000	5,879,000	718,000	8,355,000	247,858	47,034	1,785	49	10,510
1934	79	17,139,000	12,424,000	1,942,000	6,196,000	1,444,000	9,582,000	284,964	47,550	11,707	143	9,393
1935	8	16,937,000	12,533,000	2,047,000	7,412,000	874,000	10,333,000	327,000	39,000	17,736	3,656	8,474
1936	2	18,942,000	12,952,000	1,948,000	8,140,000	934,000	11,022,000	299,000	36,000	2,289	1,587	9,000

Amounts Handled
(in thousands of dollars)

1931	335,840	82,976	1,426	1,464,253	298,020	54,405	1,816,678	2,514	44,313	1,541	250	656,217
1932	286,893	68,474	1,374	1,161,756	244,555	44,970	1,451,281	3,012	41,414	2,112	1,030	467,773
1933	63,695	86,282	5,312	1,191,345	261,332	55,579	1,508,256	3,476	48,639	606	66	382,557
1934	4,209	68,115	1,373	1,507,786	314,231	104,916	1,926,933	3,503	68,575	4,747	266	415,181
1935	125	66,580	1,159	1,727,112	388,662	71,448	2,187,222	3,864	66,546	6,182	1,553	396,231
1936	26	77,394	1,251	1,907,352	430,110	86,034	2,423,496	3,897	58,156	755	761	547,378

MEMPHIS BRANCH - FEDERAL RESERVE BANK OF ST. LOUIS.

(a) City of Memphis:

Memphis, with a population of 253,143, is the thirty-sixth largest city in the United States and the largest city in Tennessee. It is located in the extreme southwestern part of the State, on the Mississippi River, and is said to serve a trade area with a radius of approximately 75 miles. Transportation facilities are provided by ten railroads, including the Chicago-Rock Island & Pacific, Frisco Line, Illinois Central, Louisville & Nashville, Southern, Missouri Pacific, St. Louis Southwestern and the Nashville-Chattanooga & St. Louis. The city is also served by various bus lines and airlines. In addition there is a large amount of river traffic between Memphis and other Mississippi and Ohio River ports.

According to the Biennial Census of Manufactures, Shelby County, in which Memphis is located, had 351 manufacturing establishments in 1935 which had an output valued at \$130,199,000. The principal activities were the warehousing and marketing of cotton and the production of mixed feed, cotton seed derivatives and lumber; Memphis being the center of one of the largest hardwood areas in the United States.

The Census of American Business for 1935 lists 3,727 retail and 627 wholesale establishments operating in Shelby County. These firms enjoyed sales aggregating \$105,617,000 and \$387,054,000, respectively, during that year.

Banking facilities in Memphis are provided by two State banks (nonmember) and three national banks. These institutions had deposits aggregating \$151,287,000, as of December 31, 1936 and of this amount \$149,497,000 was carried by the three local member banks.

Debits to individual accounts in banks of the city aggregated \$1,594,020,000 during the year 1936, or an average of approximately \$5,313,000 for each banking day.

(b) Branch Territory and Functions:

The Memphis Branch was established September 3, 1918, and serves ten cities in northern Mississippi, fifteen cities in southwestern Tennessee and twelve cities in eastern Arkansas. While the branch zone is not determined by State or County lines, the area served by the branch represents approximately 18% of the land area of the Eighth District and has about 21% of its total population. Approximately 14 1/2% of all banks in the district are within this area.

As of December 31, 1936, there were 234 banks, exclusive of mutual savings banks, in the branch zone and of this number 28, including 26 national and 2 State institutions, were members of the System. Only 25 of the 206 nonmember banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared with those of the Eighth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
			(000 omitted)	
Eighth District	388	\$1,092,425	\$125,722	\$1,480,335
Branch Zone	28	115,610	12,852	184,978

There are eight branch cities in the System having smaller bank footings than the Memphis Branch, namely, Spokane, El Paso, Little Rock, Helena, Charlotte, San Antonio, Nashville and Birmingham.

The Memphis Branch renders substantially the same service to banks in its zone as is available at the Head Office insofar as receipts and disbursements of currency and coin, wire transfers, check clearings, noncash collections,

safekeeping of securities, and loans to member banks are concerned. The reserve accounts of member banks in the branch zone, as well as accounts of nonmember clearing banks and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and a record of some earnings and expenses. Transactions are cleared daily through control accounts maintained at the Head Office. Member bank borrowings are passed upon at the Branch and immediate credit is given, subject to final approval of the Head Office. Schedules covering such transactions are forwarded to the Head Office, but the notes and collateral, if any, are retained at the Branch. The Branch has no Bank Examination, Bank Relations, Failed Banks, Research, Legal or Fiscal Agency departments.

As of November 27, 1937, member banks in the branch zone had the following Reserve bank balances:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Dis- counted</u>
City of Memphis	3	\$17,565,231	\$1,309,719	\$307,500	\$ --
Remainder of Zone	26	3,213,456	26,491	102,400	10,000
	<u>29</u>	<u>\$20,778,687</u>	<u>\$1,336,210</u>	<u>\$409,900</u>	<u>\$10,000</u>

Memphis is 305 train miles (8 hours) from St. Louis. On any business day trains leave both points after 7 P.M. which arrive at the other prior to 8 A.M. on the following day. There are 21 outlying member bank points now being served by the Branch. Mail schedules reveal that all but 8 of these points can be reached overnight from St. Louis. It appears, therefore, that discontinuance of the Branch would inconvenience only a limited number of member banks. Banks in Memphis, which now have an over-the-counter relationship with the Branch, would of course, have to revise their operations considerably in dealing with the Head Office.

Other than Memphis, the more populous cities served by the Branch are Jackson, Tennessee, 22,172; Greenville, Mississippi, 14,807; Columbus, Mississippi, 10,743;

and Blytheville, Arkansas, 10,098.

(c) Branch Building:

The Memphis Branch has occupied its present quarters at Third & Jefferson Streets since June, 1929. The following figures show the original cost and book value, as of November 27, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>11-27-37</u>
Land	\$100,906	\$ 60,000
Building	192,153)	
Vault & vault equipment	<u>41,492)</u>	<u>177,519</u>
	\$334,551	\$237,519
Fixed machinery & equipment	<u>44,062</u>	<u>9,547</u>
	<u>\$378,613</u>	<u>\$247,066</u>

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$32,600
1932	32,500
1933	34,600
1934	8,700
1935	19,700
1936	2,400
1937	4,200

The above figures are incomplete since, under the present accounting procedure, the Branch receives no credit for income received by the Head Office on investments, a portion of which is made possible by the Reserve bank stock investment and reserve balances of banks in the branch zone. They are interesting only in so far as they show the shrinkage in Branch earnings, which formerly were derived chiefly from bills discounted for member banks in the zone. Income from this source amounted to approximately \$1,800 in 1937 as compared with \$51,200 in 1931.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of St. Louis, as of November 27, 1937, shows the following in regard to salaries and personnel at the Memphis Branch:

	<u>Nov. 27, 1937</u>		<u>Oct. 31, 1936</u>		<u>Increase</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	3	\$17,500	2	\$13,800	1	\$ 3,700
Employees	<u>53</u>	<u>76,400</u>	<u>46</u>	<u>66,200</u>	<u>7</u>	<u>10,200</u>
Total	<u>56</u>	<u>\$93,900</u>	<u>48</u>	<u>\$80,000</u>	<u>8</u>	<u>\$13,900</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures. There has been an actual increase of four employees at the Branch - the remaining increase of one officer and three employees being due to a reduction in the amount of reimbursable work performed.

(f) Branch Expense by Functions:

The expenses of the Memphis Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
Gen'l Overhead						
Controllable	\$ 14,185	\$ 15,945	\$ 15,002	\$ 14,909	\$ 11,902	\$ 12,950
Noncontrollable	3,793	6,033	5,085	-	84	23
*Provision of Space	13,024	12,686	9,118	7,350	9,494	15,678
Provision of Personnel	1,023	1,030	9,364	17,122	20,051	1,835
General Service	23,345	23,649	24,510	22,445	17,005	18,380
Postage	4,892	6,345	6,594	2,930	4,492	5,307
Insurance	2,890	4,211	2,401	2,229	2,034	1,851
Failed Banks	9,663	1,353	1,165	(420)	2	-
Loans, rediscounts, etc.	9,274	10,296	7,004	2,547	2,442	2,533
Securities	2,301	3,032	1,371	1,695	1,672	1,856
Currency and Coin	17,962	18,244	18,495	22,242	24,469	25,476
Check Collection	9,997	10,159	11,966	7,925	10,024	10,301
Non-Cash Collection	6,665	8,082	7,494	5,459	7,249	7,486
Accounting	16,569	16,584	14,503	14,559	12,790	10,180
Fiscal Agency	4,260	24,114	57,393	111,077	101,042	74,945
Legal	-	-	-	(19)	150	8
Auditing	3,284	3,987	3,948	5,057	4,643	4,556
Bank Relations	24	6	29	77	443	101
Bank Examinations	4	20	-	-	-	-
F.R. Note Issues	-	748	1,041	557	623	452
Statistical and Analytical	<u>169</u>	<u>169</u>	<u>147</u>	<u>131</u>	<u>190</u>	<u>178</u>
	\$143,324	\$166,693	\$196,630	\$237,872	\$230,801	\$194,096
Less - Reimbursable Fiscal						
Agency Expense	<u>3,041</u>	<u>23,048</u>	<u>56,463</u>	<u>92,478</u>	<u>93,820</u>	<u>69,165</u>
Net expense	<u>\$140,283</u>	<u>\$143,645</u>	<u>\$140,167</u>	<u>\$145,394</u>	<u>\$136,981</u>	<u>\$124,931</u>

* Represents the net expense - income from rentals having been deducted.

There were six branches in the System which operated at a lower net cost than the Memphis Branch in 1937; namely, Spokane, Nashville, El Paso, Helena, Birmingham and Little Rock.

(g) Volume of Operations at Memphis Branch:

The following is a comparison of the volume of operations in various departments of the Memphis Branch and the Head Office during the last six months of 1936:

	<u>Memphis Branch</u>	<u>Head Office</u>
<u>Discount Department:</u>		
Notes rediscounted	-	-
Collateral notes discounted	8	31
Industrial advances	-	2
Branches with larger volume:	Buffalo, Baltimore, Denver, Omaha, El Paso, San Antonio and Salt Lake City.	

<u>Safekeeping:</u>		
Member bank securities 12-31-36	\$ 1,443,000	\$160,828,000
Branches with larger volume:	All branches except Charlotte, Portland, Seattle, Helena, Los Angeles and Spokane.	

Currency & Coin:

1. Number of bills received and counted 11,695,000 36,272,000
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, New Orleans, Detroit and Los Angeles.
Cost per one thousand units handled 38 cents 37 cents
Branches with higher unit cost: All branches except Birmingham, Nashville, New Orleans, Little Rock, and Louisville.
2. Number of coins received and counted 5,631,000 39,431,000
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, New Orleans, Detroit, Louisville, Houston, Los Angeles and Seattle.
Cost per one thousand units handled 11 cents 11 cents
Branches with higher unit cost: All branches except Buffalo, Baltimore, New Orleans and Oklahoma City.

Check Collection:

1. Number of city checks (clearings) received 756,000# 3,284,000
Cost per 1,000 units handled \$1.85 \$1.91
Includes all city items received.
2. Number of country checks (outgoing) received 998,000 11,820,000
Branches with larger volume: All branches have a larger volume.
Cost per one thousand units handled \$1.99 \$1.85
Branches with higher unit cost: All branches except Baltimore, Pittsburgh, Birmingham, Jacksonville, Little Rock, Louisville, Denver, Oklahoma City, Omaha and Houston.

	<u>Memphis Branch</u>	<u>Head Office</u>
<u>Non-cash Collections</u>		
1. Number of city collections handled	19,682	17,556
Branches with larger volume: Detroit, Little Rock and Omaha.		
Cost per unit handled	11.7 cents	14.7 cents
Branches with higher unit cost: All branches except Jacksonville, Nashville, Little Rock, Oklahoma City, Omaha, El Paso and Houston.		
2. Number of country collections handled	12,143	77,714
Branches with larger volume: Buffalo, Baltimore, Charlotte, Detroit, Denver, Oklahoma City, Omaha, Los Angeles, Salt Lake City and Spokane.		
Cost per unit handled	6.2 cents	5 cents
Branches with higher unit cost: All branches except Salt Lake City and Spokane.		
3. Number of coupons (except Government) and country security collections handled	1,856	14,700
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, New Orleans, Detroit, Little Rock, Louisville, Denver, Omaha, Houston, San Antonio and Los Angeles		
Cost per unit handled	14.8 cents	13.8 cents
Branches with higher unit cost: Charlotte, Jacksonville, Detroit, Louisville, Helena, El Paso, Los Angeles, Portland, Salt Lake City and Spokane.		

A schedule showing the volume of operations of the Memphis Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Memphis Branch by Board's Examiners - 1934

During an examination of the Federal Reserve Bank of St. Louis, made as of September 8, 1934, the Board's Examiners reviewed the operations of the Memphis Branch and expressed the opinion that its continuance was warranted only in view of the size and importance of the branch city. In reaching this conclusion consideration was given to the volume of operations at the Branch, the mail schedules between St. Louis and member bank points served by the Branch and the number and size of banks in the branch zone. It was indicated, in the event that the Little Rock Branch were discontinued, a substantial number of points in that zone could be served just as expeditiously from Memphis.

(i) Survey of Memphis Branch made by Federal Reserve Bank of St. Louis-1936

A survey of the Memphis Branch was made by the Federal Reserve Bank of St. Louis, as requested by the Board in its letter of March 25, 1936, (X-9532), and on August 5, 1936, Deputy Chairman Paul Dillard advised the Board as follows:

"In our opinion, all of our branches are necessary, if the services of the System to member banks and through them to commerce, industry and agriculture, are not to be impaired. Likewise, we do not find that any of the operations now being handled by the branches could be transferred to the head office without impairing the services which the System is now rendering to member banks."

MEMPHIS BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	1,864	16,630,000	9,826,000	1,211,000	1,509,000	368,000	3,088,000	44,293	44,945	504	--	11,979
1932	2,650	14,847,000	9,580,000	1,093,000	1,217,000	432,000	2,742,000	49,075	45,011	360	7	11,261
1933	320	15,607,000	8,371,000	1,140,000	1,191,000	690,000	3,021,000	56,806	59,795	486	175	10,737
1934	72	18,162,000	8,299,000	1,291,000	1,387,000	1,309,000	3,987,000	57,859	55,051	2,633	24	10,110
1935	12	18,602,000	9,593,000	1,529,000	1,748,000	883,000	4,160,000	80,000	46,000	5,143	871	8,776
1936	10	21,505,000	10,367,000	1,477,000	1,817,000	728,000	4,022,000	65,000	58,000	962	798	9,000

Amounts Handled

(in thousands of dollars)

1931	39,115	55,514	1,588	631,894	77,763	44,680	754,337	588	35,928	453	--	464,330
1932	35,417	48,335	1,390	519,679	62,283	39,734	621,696	726	32,152	1,520	190	358,667
1933	38,661	58,888	2,921	563,540	79,619	70,014	713,173	843	48,971	491	175	352,222
1934	1,277	50,508	2,058	686,456	106,128	95,780	888,364	871	54,509	1,092	600	392,800
1935	425	51,707	1,814	740,837	109,885	87,010	937,732	854	52,094	1,958	879	465,035
1936	194	58,626	2,754	930,040	125,081	87,404	1,142,525	786	59,094	465	572	560,609

HELENA BRANCH - FEDERAL RESERVE BANK OF MINNEAPOLIS.

(a) City of Helena

Helena, with a population of 11,803, is the capital of Montana and the sixth largest city in that State. It is located in the west central part of the State and serves a rather sparsely settled trade area in which general agriculture, stock raising and mining are the chief activities. Transportation facilities are provided by the Northern Pacific and Great Northern Railroads and by several bus and air lines.

According to the Biennial Census of Manufactures for 1935, there were 25 manufacturing firms in Lewis & Clark County, in which Helena is situated, which had an output valued at \$10,131,000. The Census of American Business lists 31 wholesale and 291 retail establishments operating in the same area and indicates that such concern enjoyed sales aggregating \$4,043,000 and \$10,283,000, respectively, during 1935.

Banking facilities in Helena are provided by one national bank and one State member bank. As of December 31, 1936, these institutions had total deposits of \$16,446,000.

Debits to individual accounts in banks of the city amounted to \$123,991,000 during the year 1936; or an average of approximately \$413,000 for each banking day.

(b) Branch Territory and Functions

The Helena Branch was established on February 1, 1921, and serves the entire State of Montana. The branch zone represents 35% of the land area of the Ninth Federal Reserve District and has about 10% of its total population. Approximately 9% of all banks in the district are located in this area.

As of December 31, 1936, there were 120 banks, exclusive of mutual savings banks, in the branch zone and of this number 66, including 45 national and 21 State institutions were members of the System. 33 of the 54 nonmember banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to the Ninth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
		(000 omitted)		
Ninth District	481	\$782,049	\$96,485	\$1,051,848
Helena Zone	66	76,774	10,177	117,607

There are only three branch zones in the System having smaller member bank footings than the Helena Branch, namely, Spokane, El Paso and Little Rock.

The Helena Branch renders substantially the same service to member banks in its zone as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearings, non-cash collections, safekeeping of securities and borrowings are concerned. Reserve accounts of banks in the zone, as well as of nonmember clearing banks and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and a record of certain earnings and expenses. Control accounts are, of course, maintained at the Head Office which is sent a daily transcript of entries affecting such accounts. Immediate credit is given to member banks for discount offerings received by the Branch, subject to final approval of the Head Office. Schedules covering transactions are forwarded to the Head Office, but the notes and collateral, if any, are

retained at the Branch. The Branch has no Bank Examination, Bank Relations, Legal, Research or Fiscal Agency departments.

As of November 2, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
Helena	2	\$ 2,984,900	\$ 546,500	\$ 39,000	-
Remainder of Zone	<u>63</u>	<u>11,366,200</u>	<u>520,100</u>	<u>265,800</u>	<u>\$31,800</u>
	<u>65</u>	<u>\$14,351,100</u>	<u>\$1,066,600</u>	<u>\$304,800</u>	<u>\$31,800</u>

Helena is 1,120 train miles (27 hrs. and 30 mins.) from Minneapolis, and it is 270 train miles (10 hrs.) from Helena to the western border of Montana. The prevailing inter-district time schedule is two days from Helena to Minneapolis and three days from Minneapolis to Helena. Other than by air mail no point in the Helena zone is within over-night mail time of Minneapolis. In fact, points outside of Helena, other than the larger cities, are in many cases three or four days mail time from Minneapolis. It is clear, therefore, that discontinuance of the Helena Branch would not only inconvenience the two member banks in Helena, which now enjoy an over-the-counter relationship with the Branch, but that it would also slow up the service rendered to banks in outlying sections of Montana.

Other than Helena, the more populous cities in the branch zone are Butte, 39,532; Great Falls, 28,822; Billings, 16,380; Missoula, 14,657 and Anaconda, 12,494. All of these cities have one or more member banks.

(c) Branch Building:

On August 7, 1937, a site for a new branch building was purchased for \$15,000 and on November 10, 1937, a contract was let for the construction of a new one story reinforced concrete building with basement. The Branch moved

into its new quarters on June 13, 1938. The total cost of constructing, furnishing and occupying the new building was in the neighborhood of \$100,000.

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$26,000
1932	68,400
1933	22,500
1934	900
1935	100
1936	100
1937	500

These figures are incomplete since, under the present accounting procedure, the Branch does not receive any credit for income received by the Head Office on investments, a portion of which is made possible by the Reserve bank stock investment and reserve balances of member banks in the Helena zone.

Branch income depends almost entirely on the extent to which member banks in the branch zone use the credit facilities of the System. Income from this source amounted to \$64,900 in 1932 as compared to less than \$200 in 1937.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Minneapolis, made as of November 2, 1937, shows the following in regard to salaries and personnel at the Helena Branch:

	<u>November 2, 1937</u>		<u>October 10, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	3	\$14,700	3	\$14,700	-	-
Employees	26	40,100	28	41,300	2	\$1,200
	<u>29</u>	<u>\$54,800</u>	<u>31</u>	<u>\$56,000</u>	<u>2</u>	<u>\$1,200</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions:

The expenses of the Helena Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead:						
Controllable	\$ 6,529	\$ 7,774	\$ 9,494	\$ 9,375	\$ 11,214	\$ 10,543
Non-controllable	5,423	8,096	8,161	-	-	-
*Provision of Space	5,793	6,297	9,129	6,245	5,019	5,343
Provision of Personnel	673	864	5,857	6,827	12,068	2,992
General Service	13,460	14,878	16,924	17,706	18,401	18,003
Postage	4,623	4,944	6,144	5,416	6,366	6,182
Insurance	3,516	3,573	2,201	2,309	2,003	1,848
Failed Banks	-	-	-	-	-	-
Loans, Rediscounts, etc.	3,434	2,405	3,123	3,657	970	563
Securities	2,560	2,713	3,444	5,480	1,051	143
Currency and Coin	5,849	4,700	5,953	15,316	17,306	15,706
Check Collection	9,898	9,791	13,632	12,902	13,676	10,194
Non-cash Collection	3,016	3,103	3,198	3,158	3,731	3,169
Accounting	11,555	10,815	9,635	8,576	9,754	9,258
Fiscal Agency	5,105	8,352	10,619	14,077	13,210	12,721
Legal	625	624	628	804	73	35
Auditing	2,717	4,150	3,328	5,214	4,728	4,596
Bank Relations	19	294	388	350	215	472
Bank Examinations	271	509	473	216	216	240
Statistical and Analytical	<u>140</u>	<u>215</u>	<u>195</u>	<u>249</u>	<u>39</u>	<u>39</u>
Total Expense	\$85,206	\$94,097	\$112,526	\$117,877	\$120,040	\$102,047
Less - Reimbursable						
Fiscal Agency Expense	<u>5,105</u>	<u>8,352</u>	<u>10,609</u>	<u>10,085</u>	<u>8,791</u>	<u>7,184</u>
Net Expense	<u>\$80,101</u>	<u>\$85,745</u>	<u>\$101,917</u>	<u>\$107,792</u>	<u>\$111,249</u>	<u>\$ 94,863</u>

*Represents the net expense - income from rentals having been deducted.

There were only three branches in the System which operated at a lower net cost than the Helena Branch in 1937; namely, Spokane, Nashville, and El Paso.

(g) Volume of Operations at Helena Branch:

The following is a comparison of the volume of operations in various

departments of the Helena Branch and the Head Office during the last six months of 1936:

	<u>Helena Branch</u>	<u>Head Office</u>
<u>Discount Department:</u>		
Notes rediscounted	-	-
Collateral notes discounted	-	3
Industrial advances	-	17
Branches with smaller volume:	Ten other branches handled no discounts during period.	
<u>Safekeeping:</u>		
Member bank securities - 12-31-36	\$745,000	\$358,465,000
Branches with smaller volume:	Charlotte, Seattle, Portland, Los Angeles and Spokane.	
<u>Currency and Coin:</u>		
1. Number of bills received and counted	1,335,000	26,227,000
Branches with smaller volume:	None.	
Cost per one thousand units handled	\$.96	\$.41
Branches with higher unit cost:	Spokane.	
2. Number of coins received and counted	573,000	8,006,000
Branches with smaller volume:	None.	
Cost per one thousand units handled	\$.89	\$.41
Branches with higher unit cost:	El Paso and Spokane.	
<u>Check Collection:</u>		
1. Number of city checks (clearings) received	114,000	2,114,000
Branches with smaller volume:	None.	
Cost per one thousand units handled	\$3.61	\$1.82
Branches with higher unit cost:	None.	
2. Number of country checks (outgoing) received	1,671,000	9,403,000
Branches with smaller volume:	Memphis, Seattle and El Paso.	
Cost per one thousand units handled	\$2.15	\$1.94
Branches with higher unit cost:	Buffalo, Cincinnati, Detroit, El Paso, Los Angeles, Portland, Salt Lake City, Seattle, and Spokane.	

Helena BranchHead OfficeNon-cash Collections:

- | | | |
|--|-------|----------|
| 1. Number of city collections handled | 3,917 | 354,756* |
| Branches with smaller volume: Charlotte. | | |

* Non-cash city collections handled at Head Office are largely grain drafts collected at small cost.

Cost per unit handled	12.3 cents	2.6 cents
Branches with higher unit cost:	All branches except Jacksonville, Nashville, Little Rock, Louisville, Memphis, Oklahoma City, Omaha, El Paso, Houston and Salt Lake City.	

- | | | |
|--|-------|--------|
| 2. Number of country collections handled | 7,653 | 42,451 |
| Branches with smaller volume: Birmingham, Nashville and El Paso. | | |

Unit cost per item handled	13.8 cents	6.5 cents
Branches with higher unit cost:	Buffalo, Birmingham, Nashville, Los Angeles, Portland and Seattle.	

- | | | |
|---|-----|--------|
| 3. Number of coupons (except Government) and country security collections handled | 652 | 22,858 |
| Branches with smaller volume: El Paso, Salt Lake City and Spokane. | | |

Unit cost per unit handled	19 cents	8.2 cents
Branches with higher unit cost:	Charlotte, Jacksonville, El Paso, Los Angeles, Portland, Salt Lake City and Spokane.	

A schedule showing the volume of operations of the Helena Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Proposed Conversion of Helena Branch - 1926

In the early part of 1926 the Federal Reserve Bank of Minneapolis advised the Board that consideration was being given to converting the Helena Branch into an agency, and that preliminary estimates indicated a saving of \$50,000 per annum would result from the change. Governor Young of Minneapolis subsequently wrote Dr. Miller (Board Member) that after visiting Helena and carefully considering the matter he was convinced approximately \$35,000 could be saved annually if the rediscount functions and member bank reserves were transferred from the Branch to the Head Office, thus limiting Branch

activities to handling currency and coin, safekeeping, transit items and non-cash collections. Mr. Young said the proposed change was favored by bankers in outlying towns of Montana, who found it more convenient to settle in Minneapolis exchange, but that it was strongly opposed by bankers in Helena.

The Board discussed the matter and Dr. Miller was informally advised that he might state that if the banks in Helena agreed to the conversion of the Branch into an agency, the Board would be disposed to approve a reduction in their reserve requirements to the country bank figure. The plan to convert the Branch appears to have been abandoned, presumably because of opposition on the part of member banks in Montana. In any event, the matter was not further pursued by the Board at the time.

(1) Survey of Helena Branch by Federal Reserve Bank of Minneapolis - 1933

On June 6, 1933, the Board addressed a letter to Mr. J. N. Peyton, then Federal Reserve Agent at Minneapolis, which read in part as follows:

"The situation . . . emphasizes the question which has existed for some time as to the necessity or justification for the continuance of a branch at Helena. It is suggested that after you have had an opportunity to familiarize yourself with the affairs of the Minneapolis bank, you arrange to visit the Helena Branch for the purpose of obtaining first-hand information as to its operations and the requirements of the territory served by it. and submit to the Board a detailed report on the question of the advisability of the discontinuance of the Branch."

Prior to the receipt of Mr. Peyton's report the Board was advised by A. R. McDermott, President of the Montana Bankers' Association, in a letter dated July 29, 1933, that such association had unanimously voted to request the Board and the Minneapolis bank to continue the Helena Branch as a complete operating unit for the service and protection of the people, business and banks

of Montana. Mr. McDermott stated that this action was taken after careful consideration and discussion of the past and present excellent service rendered by the Branch in collecting checks, meeting currency requirements, safekeeping securities and handling discounts for bankers in Montana, who were otherwise far removed from any financial center.

The Board considered Mr. McDermott's letter on September 12, 1933, and forwarded a copy to Mr. Peyton, with the request that he submit his report on the Helena Branch, which he was withholding pending a discussion of certain phases of the question with officials of the Federal Reserve Bank of San Francisco. Mr. Peyton's memorandum was forwarded to the Board on October 9, 1933. In it he stated there were three points of view from which the question of continuing the Helena Branch must be considered; namely, service, expense and political. He submitted data bearing on these three aspects of the question and drew the following conclusions:

(1) The Branch supplies service to member banks which cannot be as expeditiously or conveniently supplied from Minneapolis.

(2) The discontinuance of the Helena Branch would effect a saving of approximately \$59,000 this year and possibly an additional amount in future years, but at the time of discontinuance the book value of the Helena building, in the amount of \$53,281.26, should be completely charged off as an asset on the books of the Federal Reserve Bank of Minneapolis.

(3) Outside of the disturbance to local pride, it would be better from a political point of view to discontinue the Helena Branch.

(Mr. Peyton refers chiefly to the political cleavage in the State between certain mining interests and an opposition faction, which he says is very evident in Helena, the capital city of Montana.)

Mr. Peyton called attention to the fact that the Spokane Branch was only 100 miles from the Western Montana border and that the discontinuance

of the Helena Branch might cause the western portion of the State, despite its natural relationship with the east, to apply for transfer to the Twelfth District. He said that Minneapolis did not wish to lose such territory and suggested San Francisco be approached with regard to discontinuance of the Spokane Branch if it was deemed advisable to close the Helena Branch.

Mr. Peyton's memorandum, and a proposed letter to the San Francisco Reserve Bank on the question raised by Mr. Peyton, was discussed by the Board on October 26, 1933, and November 15, 1933, but the matter was deferred on both occasions. The opinion was expressed that the Board should adopt a general policy regarding the continuance of branches before making its decision regarding Helena or Spokane.

(j) Action regarding Helena Branch in 1934:

At a meeting of the Board on December 12, 1934, Governor Eccles referred to the Helena Branch question which had been held on the docket without action since the fall of 1933, and stated he felt it would be inopportune at the time to give consideration to the discontinuance of a branch of a Federal Reserve bank. It was voted that the matter be laid on the table.

(k) Survey of Helena Branch made by Federal Reserve Bank of Minneapolis - 1936

The Board's letter of March 25, 1936 (X-9532) addressed to the Chairman of all Federal Reserve banks, requesting a thorough survey of their organizations in the interest of economy and efficiency, contained the following in regard to branches:

".... In making these studies it is important that careful thought be given to the operations now handled by branches of Federal Reserve banks with particular reference to the necessity for the branches. If the branches are considered necessary a review of their operations should be made to determine whether

any of the operations now being handled by them should be transferred to the head office at a substantial saving in operating cost and without impairing the services which the System is now rendering to member banks and through them to commerce, industry and agriculture."

Insofar as the Helena Branch was concerned the question raised by the Board was of prime importance. The Helena Branch building, which had long been considered inadequate, was badly damaged by earthquakes during the Fall of 1935 and was at the time considered unsafe.

On April 18, 1936, President Peyton of the Minneapolis bank, addressed a letter to the Board in which he outlined the conclusions reached in his 1933 survey of the Branch and stated that the present situation contained the following actuating factors:

- "1. The Helena territory can not reach Minneapolis by overnight railway mail.
2. Discontinuance of the Helena Branch undoubtedly would cause strong sentiment on the part of Western Montana to annex itself to the San Francisco district, which is already unwieldy in size, and that part of Montana is in the natural trade territory of the Minneapolis district.
3. I have no reason to believe the San Francisco bank will ever be allowed to discontinue the Spokane Branch, and the Spokane Branch presupposes the continuance of our Helena Branch. Even should San Francisco discontinue the Spokane Branch, the Seattle Branch would offer much the same problem.
4. Helena has been subject to a continuous series of earthquakes, with damage to the Branch building resulting, though the framework and under-pinning of the building are intact.
5. The Helena building is entirely inadequate in its cubic content, its location and its appearance. The inside measurements of the building are 23 x 68 feet, exclusive of the vault, and there are 4,700 square feet of space on the two floors. The building is on a corner so surrounded by other buildings that it is impossible to add to it in any direction. The type of building makes it undesirable and inefficient to add stories. I recommend immediate plans for the erection of a suitable building to

adequately house Branch functions and to present a proper appearance of dignity and integrity to the Federal Reserve System. The matter should receive immediate consideration as it appears wasteful that necessary repairs be made to the present Branch building, should the Board give favorable consideration to a new Branch building at Helena. When plans have been consummated, the time of initiation of actual construction should be left to the discretion of the Executive Committee of the Federal Reserve Bank of Minneapolis, to insure against premature action, in view of the present earthquake situation."

In July 1936 representatives of the Minneapolis Reserve Bank, including President Peyton, visited Helena at the request of the Re-Organization Committee of the Minneapolis Reserve Bank. The outgrowth of this visit was a complete audit and investigation of all activities of the Helena Branch. A program of reorganization was formulated which involved a few changes in personnel and methods of procedure, the establishment of definite departmental responsibility, a program for training officers of the Branch by periodical assignment to the Head Office, closer audit supervision by the Head Office and modernization of equipment. A copy of the reorganization program for the Branch was submitted as a supplement to the Minneapolis Bank Survey.

At the same time particular attention was given to the building situation and on July 28, 1936, Mr. Peyton advised the Board their survey showed four possible solutions to the problem, (a) Repair the building as it stood, (b) Repair the building and add another story or rear addition, (c) Rent other quarters, (d) Erect a new building. Mr. Peyton stated that at a meeting of Branch and Head Office directors the Branch Manager had been requested to obtain options on two building sites and to obtain bids from three firms of architects on the cost of repairing the old building with and without an addition and of constructing a suitable new building on the optioned sites (not to exceed \$100,000).

On October 17, 1936, the Board of Directors of the Minneapolis Reserve Bank passed a resolution favoring the erection of a new branch building, subject to approval of the Board of Governors, at a cost not to exceed \$100,000 exclusive of the cost of one or the other of two prospective sites.

Mr. Peyton appeared before the Board on November 25, 1936, to discuss the question of continuing the Branch and the need for a new building. He outlined the general history of the Helena Branch and compared the service which it rendered to Montana banks to that which could be rendered from Minneapolis. He expressed the opinion that little would be saved by converting the Branch into an agency and said he felt there would be considerable opposition on the part of individuals in Helena and in Montana generally if the Branch were discontinued entirely, and that such opposition would be greater if the Spokane Branch of the San Francisco Reserve Bank were retained. Mr. Peyton stressed the need for an immediate decision in view of the unsatisfactory condition of the Helena Branch building.

Mr. Peyton was advised that the Board was studying the general question of the continuance and scope of branch functions. It was suggested that necessary repairs, estimated at \$4,000, be made to the present branch building to insure safety and that any decision respecting the Helena Branch be deferred until the Board had completed its study. It was also suggested that consideration be given to the question whether, in view of present business and banking activities, Helena was the logical location for a branch in Montana.

In keeping with a motion unanimously passed at the above meeting, a letter was drafted, approved and sent to Mr. Peyton, which read as follows:

"Pursuant to the action taken at the meeting of the Board of Governors of the Federal Reserve System on November 25, 1936, at which you were present, this letter is addressed to you for the purpose of advising that, in the light of the discussions at the meeting of the Board with respect to the Helena Branch, the Board feels that a decision on the action taken at the joint meeting of the Boards of directors of the Federal Reserve Bank of Minneapolis and its Helena Branch on October 17, 1936, in connection with the erection of a new branch building at Helena, should be deferred for a period of not to exceed six months to allow sufficient time for the completion of the study now being made by the Board of the general question of the continuance of branches of Federal reserve banks and their functions. As soon as the report is available and the Board has had an opportunity to consider it, the question of the erection of a new building to house the activities of the Helena Branch will be given further consideration.

"However, as you were advised at the meeting, the Board suggests that steps be taken by the Federal Reserve Bank of Minneapolis as promptly as possible to make such repairs to the present building as are necessary for the safety of the employees of the Branch."

On February 6, 1937, Mr. Peyton submitted a survey relative to the best place for the location of a branch of the Minneapolis Reserve Bank in Montana, as suggested at the November hearing. This survey indicated that on the basis of (1) total deposits served, (2) total population served, (3) total number of banks served, and (4) mail service, Helena was the most desirable location for a branch in Montana. In the survey Mr. Peyton stated that the final decision in regard to the Helena Branch now rested with the Board of Governors and that the Minneapolis bank would await their decision.

Subsequently, the Federal Reserve Bank of Minneapolis sought to purchase adequate quarters in Helena without success, and on July 9, 1937, the Board sanctioned the purchase of the most desirable of the two building sites held under option for \$15,000 and steps were taken, with the Board's approval, to erect a suitable branch building at a cost of not more than \$100,000. As previously stated in this memorandum, the new branch premises were completed, furnished and occupied by the Branch on June 13, 1938.

HELENA BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	2,054	1,715,000	1,847,000	210,000	1,525,000	218,000	1,953,000	41,526	13,884	--	--	8,211
1932	3,096	1,323,000	1,797,000	186,000	1,139,000	228,000	1,553,000	42,437	16,541	--	1	8,160
1933	990	1,334,000	1,101,000	199,000	1,387,000	312,000	1,898,000	40,944	22,686	--	--	7,450
1934	25	1,557,000	959,000	258,000	2,106,000	802,000	3,166,000	52,797	20,860	--	--	8,121
1935	1	2,135,000	1,474,000	292,000	2,418,000	587,000	3,297,000	40,000	25,000	--	--	10,582
1936	1	2,105,000	1,209,000	240,000	3,147,000	680,000	4,067,000	40,000	23,000	--	--	11,000

Amounts Handled

(in thousands of dollars)

1931	5,535	15,344	621	179,655	144,675	29,107	353,437	403	5,350	--	--	133,908
1932	18,039	13,029	401	117,807	100,598	26,811	245,216	435	5,988	--	10	96,284
1933	6,527	13,103	621	88,265	124,703	41,502	254,470	524	9,301	--	--	84,236
1934	205	11,354	353	101,642	224,871	73,491	400,004	549	14,705	--	--	102,578
1935	9	12,626	1,140	119,161	294,484	68,640	482,285	415	20,895	--	--	145,414
1936	14	15,354	334	119,334	323,754	81,254	524,342	452	20,012	--	--	167,570

DENVER BRANCH - FEDERAL RESERVE BANK OF KANSAS CITY

(a) City of Denver:

Denver, with a population of 287,861, is the twenty-ninth largest city in the United States and the largest city in Colorado. It is located near the center of the State and is said to serve a trade area extending approximately 30 miles in all directions in which about 375,000 people reside. Transportation facilities are provided by eight railroads, including the Atchison-Topeka & Santa Fe, Union Pacific, Burlington Route, Denver & Rio Grande-Western and the Chicago-Rock Island & Pacific. The city is also served by the Wyoming Air Line which connects with the United Air Lines at Cheyenne.

The principal local industries are live stock, meat packing, smelting and refining, petroleum refining, beet sugar production, canning, clay products and automobiles and accessories. According to the Biennial Census of Manufactures there were 600 manufacturing establishments operating in Denver County in 1935, which had an output valued at \$90,117,000 during that year. The Census of American Business for the same year lists 4,184 retail and 835 wholesale establishments operating in the same area; such firms enjoying sales aggregating \$127,497,000 and \$261,593,000, respectively, during the year.

Banking facilities in Denver are provided by seven national banks, three State banks (two members) and one industrial bank. These institutions had deposits aggregating \$200,232,000, as of December 31, 1936, and of this amount \$197,484,000 was carried by the nine local member banks. Two small national banks with deposits aggregating \$1,629,000, located in outlying sections of the city were authorized to carry country bank reserves.

Debits to individual accounts in banks of the city aggregated \$1,945,488,000 in 1936; or an average of approximately \$6,480,000 for each banking day.

(b) Branch Territory and Functions:

The Denver Branch was established on January 14, 1918, and serves the entire State of Colorado and the northern portion of the State of New Mexico included in the Tenth District. This territory represents approximately 31% of the land area of the Tenth District and has about 16% of its total population. Approximately 8.7% of all banks in the district are located in this area.

As of December 31, 1936, there were 168 banks, exclusive of mutual savings banks, in the branch zone and of this number 90, including 84 national and 6 State institutions, were members of the System. All but 1 of the 78 non-member banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared with the Tenth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
		(000 omitted)		
Tenth District	726	\$1,119,013	\$133,006	\$1,762,865
Branch Zone	90	203,648	23,355	334,086

There are fourteen branch zones in the System having smaller member bank footings than the Denver zone, namely, Spokane, El Paso, Little Rock, Helena, Charlotte, San Antonio, Nashville, Birmingham, Memphis, Salt Lake City, Louisville, Portland, Jacksonville and Omaha.

The Denver Branch renders substantially the same service to member banks in its zone as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearings, non-cash

collections, safekeeping of securities and borrowings of member banks are concerned. Reserve accounts of member banks in the zone, as well as of non-member clearing banks and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and a record of certain earnings and expenses. Control accounts are, of course, maintained at the Head Office which is sent a daily transcript of entries affecting such accounts. Immediate credit is given to member banks for discount offerings received by the Branch, subject to final approval of the Head Office. Schedules covering transactions are forwarded to the Head Office, but the notes and collateral, if any, are retained at the Branch. The Branch does not have Bank Examination, Bank Relations, Legal, Research or Fiscal Agency departments.

As of February 27, 1937, member banks in the branch zone had the following Reserve bank balances:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Dis- counted</u>
Colorado:					
Denver	9	\$31,675,637	\$3,924,900	\$381,900	-
Remainder of State	74	10,724,927	169,890	266,300	-
New Mexico	7	2,406,083	108,001	54,150	-
	<u>90</u>	<u>\$44,806,647</u>	<u>\$4,202,791</u>	<u>\$702,350</u>	<u>-</u>

Denver is 666 train miles (16 hrs. and 45 mins.) from Kansas City. It is impossible to send mail by train from either point after 7 P. M. on any business day and have it arrive at the other before 8 A. M. on the following day. Consequently, Denver is not considered to be within overnight mail time of Kansas City. There are 73 member bank points in the branch zone. Only 11 of these points are within overnight mail of Kansas City, whereas 42 are within overnight mail of Denver. It is clear, therefore, that discontinuance of the Denver Branch would not only inconvenience banks in that

city, which now enjoy an over-the-counter relationship with the Branch, but that it would also impair the service rendered to a substantial number of member banks situated in outlying cities of the branch zone.

Other than Denver, the most populous cities in the branch zone are Pueblo, Colorado, 50,096; Colorado Springs, Colorado, 35,237; and Greeley, Colorado, 12,203.

(c) Branch Building:

The Denver Branch has occupied its present quarters at 17th and Arapahoe Streets since November 1925. The following figures show the original cost and book value, as of February 27, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>2-27-37</u>
Land	\$101,512	\$ 80,000
Building	336,574)	
Vault and vault equipment	113,302)	282,784
	\$551,388	\$362,784
Fixed machinery and equipment	60,593	3,087
	<u>\$611,981</u>	<u>\$365,871</u>

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$ 65,900
1932	139,600
1933	61,100
1934	9,700
1935	4,900
1936	1,300
1937	2,700

The above figures are incomplete since, under the present accounting procedure, the Branch is given no credit for income received by the Head

Office on investments, a portion of which is made possible by the Reserve bank stock investment and reserve balances of member banks in the branch zone. They are interesting only insofar as they show the shrinkage in Branch earnings which are derived chiefly from bills discounted for member banks in the zone. Earnings from this source aggregated \$133,800 in 1932 and to only \$2,300 in 1937.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Kansas City, made as of February 27, 1937, shows the following in regard to salaries and personnel at the Denver Branch:

	<u>February 27, 1937</u>		<u>May 8, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	3	\$ 18,100	3	\$ 18,000	-	\$ 100(Inc.)
Employees	68	94,800	69	99,100	1	4,300
	<u>71</u>	<u>\$112,900</u>	<u>72</u>	<u>\$117,100</u>	<u>1</u>	<u>\$4,200</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions:

The expenses of the Denver Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
Gen'l. Overhead						
Controllable	\$ 17,770	\$ 18,166	\$ 15,749	\$ 15,982	\$ 15,300	\$ 16,558
Noncontrollable	8,879	15,084	12,152	67	31	2
*Provision of Space	21,181	18,630	19,162	21,174	16,807	33,150
Provision of Personnel	858	701	10,815	15,746	19,846	1,598
General Service	27,929	28,428	32,360	31,453	30,255	30,013
Postage	11,230	14,309	15,106	14,645	14,322	14,065
Insurance	4,973	4,824	3,461	2,461	2,538	2,240
Failed Banks	462	323	256	35	1	-
Loans, rediscounts, etc.	9,014	11,606	6,146	3,192	2,882	1,238
Securities	4,003	3,491	4,101	5,090	4,113	3,735
Currency & Coin	13,665	13,824	14,675	28,489	31,352	32,552
Check Collection	31,964	29,961	33,336	29,254	27,228	27,046
Non-Cash Collection	7,063	6,936	7,061	7,178	7,942	7,925
Accounting	22,122	21,210	21,904	23,374	20,487	18,577
Fiscal Agency	6,010	9,528	12,365	22,900	18,993	15,954
Auditing	5,238	5,477	4,374	4,625	4,771	4,705
Bank Relations	14	10	1	6	61	942
Bank Examinations	-	-	-	168	65	62
F. R. Note Issues	-	-	149	34	47	283
Statistical and Analytical	176	128	325	752	1,043	1,087
	<u>\$192,551</u>	<u>\$202,636</u>	<u>\$213,498</u>	<u>\$226,625</u>	<u>\$218,084</u>	<u>\$211,732</u>
Less - Reimbursable Fiscal						
Agency Expense	2,845	6,337	11,938	14,414	10,634	8,874
Net Expense	<u>\$189,706</u>	<u>\$196,299</u>	<u>\$201,560</u>	<u>\$212,211</u>	<u>\$207,450</u>	<u>\$202,858</u>

* Represents the net expense - income from rentals having been deducted.

There were nine branches in the System which operated at a higher net cost than the Denver Branch in 1937, namely, Pittsburgh, Los Angeles, Baltimore, Cincinnati, Detroit, Buffalo, Salt Lake City, Omaha and Seattle.

(g) Volume of Operations at Denver Branch:

The following is a comparison of the volume of operations in various departments of the Denver Branch and the Head Office during the last six months of 1936:

	<u>Denver Branch</u>	<u>Head Office</u>
<u>Discount Department:</u>		
Notes rediscounted	26	35
Collateral notes discounted	29	2
Industrial advances	-	13
Branches with larger volume:	El Paso	

Denver BranchHead OfficeSafekeeping:

Member bank securities 12-31-36	\$15,030,000	\$284,078,000
Branches with larger volume:	Cincinnati, Pittsburgh, Baltimore, Jacksonville, Detroit and Omaha.	

Currency and Coin:

- | | | |
|---|--|------------|
| 1. Number of bills received and counted | 4,987,000 | 20,168,000 |
| Branches with larger volume: | All branches except Helena, El Paso, Salt Lake City and Spokane. | |
| Cost per one thousand units handled | 67 cents | 54 cents |
| Branches with higher unit cost: | Cincinnati, Helena, El Paso, Salt Lake City and Spokane. | |
-
- | | | |
|---|---|------------|
| 2. Number of coins received and counted | 3,946,000 | 17,754,000 |
| Branches with larger volume: | All branches except Charlotte, Jacksonville, Nashville, Little Rock, Helena, El Paso, Portland, Salt Lake City and Spokane. | |
| Cost per one thousand units handled | 19 cents | 11 cents |
| Branches with higher unit cost: | Cincinnati, Pittsburgh, Nashville, Helena, Omaha, El Paso, San Antonio, Portland, Salt Lake City, Seattle and Spokane. | |

Check Collection:

- | | | |
|---|--|-----------|
| 1. Number of city checks (clearings) received | 935,000 | 2,186,000 |
| Branches with larger volume: | Buffalo, Cincinnati, Pittsburgh, Baltimore, Detroit, Louisville, Omaha and Los Angeles. | |
| Cost per one thousand units handled | \$2.08 | \$1.86 |
| Branches with higher unit cost: | Louisville, Helena, Oklahoma City, Los Angeles, Portland, Salt Lake City, Seattle and Spokane. | |
-
- | | | |
|---|--|------------|
| 2. Number of country checks (outgoing) received | 3,783,000 | 10,423,000 |
| Branches with larger volume: | Buffalo, Cincinnati, Pittsburgh, Baltimore, Detroit, Louisville, Oklahoma City, Omaha and Los Angeles. | |
| Cost per one thousand units handled | \$1.74 | \$2.24 |
| Branches with higher unit cost: | All branches except Birmingham, Jacksonville, Little Rock, Oklahoma City and Omaha. | |

Non-cash Collections:

- | | | |
|---------------------------------------|---|------------|
| 1. Number of city collections handled | 14,606 | 9,177 |
| Branches with larger volume: | Buffalo, Baltimore, Detroit, Little Rock, Memphis, Omaha, Houston and Los Angeles. | |
| Cost per unit handled | 14.3 cents | 16.7 cents |
| Branches with higher unit cost: | All branches except Birmingham, Jacksonville, Nashville, Little Rock, Louisville, Memphis, Helena, Oklahoma City, Omaha, El Paso, Houston and Salt Lake City. | |

Denver BranchHead OfficeNon-cash Collections (Con't.)

2. Number of country collections handled 17,098 64,935
Branches with larger volume: Buffalo, Baltimore, Charlotte, Oklahoma City, Omaha, Salt Lake City and Spokane.
Cost per unit handled 9.6 cents 7.4 cents
Branches with higher unit cost: Buffalo, Baltimore, Birmingham, Jacksonville, Nashville, New Orleans, Detroit, Helena, San Antonio, Los Angeles, Portland and Seattle.
3. Number of coupons (except Government) and country security collections handled 2,356 5,063
Branches with larger volume: All branches except Charlotte, Birmingham, Jacksonville, Nashville, Memphis, Helena, Oklahoma City, El Paso, Houston, Portland, Salt Lake City, Seattle and Spokane.
Cost per unit handled 4.1 cents 20 cents
Branches with higher unit cost: All branches except Cincinnati, Pittsburgh and Seattle.

A schedule showing the volume of operations of the Denver Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Denver Branch by Board's Examiners - 1934:

During an examination of the Federal Reserve Bank of Kansas City, made as of September 29, 1934, the Board's Examiners reviewed the operations of the Denver Branch. Particular attention was given to the size and importance of the branch city and its distance from the Head Office, the mail facilities available between Kansas City and member bank points in the branch zone, and to the volume of operations conducted at the Branch. It was concluded that the continued operation of the Branch was warranted.

(i) Survey of Denver Branch made by Federal Reserve Bank of Kansas City - 1936:

In accordance with the request made in the Board's letter of March 25, 1936 (X-9532), the Federal Reserve Bank of Kansas City surveyed the operations of its branches. It was estimated that a saving of \$350,830, based on

operating costs of \$679,090 for the year 1935, would be realized if all three branches were discontinued. However, their discontinuance was not recommended, chiefly because of the valuable services which they were performing for member banks and the fact that over a period of years they had become important factors in the economic life of the cities and territories which they served. It was stated that any suggestion that such branches were to be discontinued would be strongly opposed by the public as well as by the member banks they serve.

As an alternative, the opinion was expressed that the Omaha and Denver Branches should be converted into limited power branches and that this could be done without reducing the value of the services which were being rendered to member banks in such branch zones. It was estimated that, based on conditions then existing, a saving of approximately \$21,000 would be realized through such conversion and that such action would also strengthen Head Office control over these branches.

In accordance with the above opinion, President Hamilton of the Kansas City Reserve Bank addressed a letter to the Board on January 12, 1937, requesting its approval of the conversion of the Omaha and Denver Branches into limited power branches to be operated on the same basis as the Oklahoma City Branch. On January 21, 1937, the Board wrote President Hamilton approving the proposed conversion and requesting to be advised of the date on which the change would be made effective. President Hamilton replied on February 4, 1937, that his directors had voted to approve in principle the proposed conversion, but had postponed setting an effective date for the conversion until representatives of both branches had had an opportunity to study necessary changes.

Opposition to the proposed conversion developed and on April 10, 1937, the Board of Governors was advised that the directors of the Federal Reserve Bank of Kansas City at a regular meeting on April 8, 1937, had acted as follows:

"President Hamilton reported on meetings held at Denver, Colorado, and Omaha, Nebraska, for the purpose of discussing with banker groups the proposed conversion of the Denver and Omaha Branches of this bank into memorandum branches. He stated that after a thorough discussion of the effect of the proposed change upon the service rendered to member banks in the branch zones, the meetings had ended with reaffirmation of the bankers present of their opposition to the change. A general discussion followed, after which the directors voted unanimously, in view of the general protest, to discontinue consideration of conversion of the Denver and Omaha Branches of this bank into memorandum branches, and to permit them to remain in their present status."

The letter containing this advice was acknowledged by the Board on April 28, 1937, and no further action has been taken in the matter.

DENVER BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	3,972	8,469,000	9,099,000	1,478,000	6,512,000	565,000	8,555,000	191,549	55,968	3,543	5	18,222
1932	7,075	7,369,000	8,256,000	1,249,000	4,986,000	563,000	6,798,000	196,156	57,724	1,236	3	15,821
1933	2,860	9,097,000	8,300,000	1,453,000	4,999,000	701,000	7,153,000	206,037	68,332	1,511	92	12,570
1934	79	8,662,000	11,197,000	1,733,000	5,649,000	1,354,000	8,736,000	239,214	73,196	7,416	140	10,131
1935	129	10,769,000	7,586,000	1,846,000	6,202,000	910,000	8,958,000	265,000	64,000	12,306	2,369	8,719
1936	83	10,117,000	7,994,000	1,832,000	7,083,000	873,000	9,788,000	204,000	65,000	2,161	1,060	8,000

Amounts Handled

(in thousands of dollars)

1931	37,333	47,703	2,547	794,223	775,561	89,965	1,659,749	3,636	41,680	20,612	250	896,440
1932	99,192	44,066	2,667	572,784	516,023	74,132	1,162,939	3,815	32,256	9,124	150	553,933
1933	35,778	56,492	6,530	509,833	562,377	91,946	1,164,156	3,778	39,336	5,447	132	471,359
1934	953	52,417	2,377	654,980	758,310	135,403	1,548,693	3,966	55,524	7,158	131	437,445
1935	1,231	62,878	1,529	798,907	926,667	136,777	1,862,351	3,625	61,201	6,403	751	560,126
1936	3,834	70,482	1,711	932,812	1,049,927	176,473	2,159,212	2,939	68,677	7,501	380	598,993

OKLAHOMA CITY BRANCH - FEDERAL RESERVE BANK OF KANSAS CITY.

(a) City of Oklahoma City

Oklahoma City, with a population of 185,389, is the forty-third largest city in the United States and the largest city in Oklahoma. It is located in the central part of the State and is said to serve a trade area extending 58 miles north, 72 miles south, 61 miles east and 94 miles west. Approximately 926,000 people reside in this area. Transportation facilities are provided by six railroads, including the Santa Fe, Chicago-Rock Island & Pacific, Frisco Lines, Fort Smith & Western and the Missouri-Kansas & Texas. In addition regular air service is available.

Oil production and refining, meat packing, flour and feed milling, printing and publishing, and the manufacture of iron and steel products are the principal local industries. The Biennial Census of Manufactures for 1935 lists 269 plants operating in Oklahoma County, in which Oklahoma City is situated, and shows that such firms had an output valued at \$67,910,000 during that year. According to the Census of American Business there were 2814 retail and 462 wholesale establishments in the same area, which enjoyed sales aggregating \$76,200,000 and \$161,853,000, respectively, in 1935.

Banking facilities in Oklahoma City are provided by six national banks, one small State nonmember bank and a branch Morris Plan bank. These institutions had deposits aggregating \$107,947,000 as of December 31, 1936, and of this amount \$107,088,000 was carried by the six local member banks, the smallest of which is authorized to carry country bank reserves.

Debits to individual accounts in banks of the city aggregated \$1,135,973,000 during the year 1936, or an average of approximately \$3,790,000 for each banking day.

(b) Branch Territory and Functions:

The Oklahoma City Branch was established August 2, 1920 and serves all that part of the State of Oklahoma located in the Tenth District. This territory represents 13% of the land area of the district and has approximately 28% of its total population. About 20% of all banks in the Tenth District are within this area.

As of December 31, 1936, there were 384 banks, exclusive of mutual savings banks, in the branch zone and of this number 207, including 204 national and 3 State institutions, were members of the Federal Reserve System. All but 9 of the 177 nonmember banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to those of the Tenth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
			(000 omitted)	
Tenth District	726	\$1,119,013	\$133,006	\$1,726,865
Branch Zone	207	247,626	36,113	371,331

There are only eight branch zones in the System having larger member bank footings than the Oklahoma City Zone; namely, Pittsburgh, Los Angeles, Detroit, Cincinnati, Buffalo, Baltimore, New Orleans and Seattle.

The Oklahoma City Branch is operated on the "memorandum plan". All general ledger accounts, as well as accounts of member banks, nonmember clearing banks and other Federal Reserve banks, are maintained at the Head Office. A transcript of all entries affecting the accounts of banks in the branch zone is sent to the Head Office daily by wire. Member banks in the branch zone may forward their discount offerings either to the Branch or the Head Office. Offerings received by the Branch are examined to see that the paper is technically in order and the

amount of each offering is wired to the Head Office, which in turn wires its tentative approval or disapproval, credit being given as of the date the application is received at the Branch. Notes are then forwarded to the Head Office for final approval, but the supporting collateral, if any, remains in custody of the Branch. The Branch gives the same service to member banks in its zone as is available at the Head Office insofar as receipts and disbursements of currency and coin, check collections, non-cash collections, wire transfers and safekeeping of securities are concerned. The Branch has no Bank Examination, Bank Relations, Legal, Failed Banks, Research or Fiscal Agency departments.

As of February 27, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Dis- counted</u>
Oklahoma City	6	\$15,557,855	\$2,970,225	\$ 276,300	\$ -
Remainder of State					
in Zone	<u>202</u>	<u>27,753,663</u>	<u>358,895</u>	<u>784,900</u>	<u>3,771</u>
	<u>208</u>	<u>\$43,311,518</u>	<u>\$3,329,120</u>	<u>\$1,061,200</u>	<u>\$3,771</u>

Oklahoma City is 343 miles (9 hrs. and 20 mins.) from Kansas City. On any business day trains leave both cities after 9 P.M. which arrive at the other prior to 8 A.M. on the following day. There are 149 member bank towns in the branch zone. An examination of mail schedules indicates that all but 20 of such points are within overnight mail time of Oklahoma City, whereas 50 of such points are not within overnight mail time of Kansas City. Therefore, it appears that discontinuance of the Oklahoma City Branch would curtail the service rendered to a substantial number of member banks located in outlying sections of the branch zone, as well as banks in Oklahoma City which now have an over-the-counter relationship with the Branch.

Other than Oklahoma City, the more populous cities in the branch zone are Tulsa, Oklahoma, 141,258; Muskogee, Oklahoma, 32,026; Enid, Oklahoma, 26,399; Shawnee, Oklahoma, 23,283, and Okmulgee, Oklahoma, 17,097.

(c) Branch Building:

The Oklahoma City Branch has occupied its present quarters at 226 West Third Street since April, 1923. The following figures show the original cost and carrying value as of February 27, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>2-27-37</u>
Land	\$ 65,021	\$ 63,721
Building	333,490)	
Vault & vault equipment	<u>76,400)</u>	<u>238,244</u>
	\$474,911	\$301,965
Fixed machinery & equipment	<u>77,480</u>	<u>1,553</u>
	<u>\$552,391</u>	<u>\$303,518</u>

(d) Earnings - Branch Books:

No record of earnings is maintained at the Oklahoma City Branch as it is operated on the "memorandum plan".

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Kansas City, made as of February 27, 1937, shows the following in regard to salaries and personnel at the Oklahoma City Branch:

	<u>February 27, 1937</u>		<u>May 8, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	3	\$ 18,900-	3	\$ 18,900	-	-
Employees	<u>64</u>	<u>91,500</u>	<u>68</u>	<u>97,300</u>	<u>4</u>	<u>\$5,800</u>
	<u>67</u>	<u>\$110,400</u>	<u>71</u>	<u>\$116,200</u>	<u>4</u>	<u>\$5,800</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions:

The expenses of the Oklahoma City Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 17,258	\$ 17,909	\$ 14,561	\$ 15,026	\$ 14,686	\$ 14,223
Non-Controllable	7,205	11,860	9,968	-	-	-
*Provision of Space	13,044	12,199	9,063	8,914	10,148	18,358
Provision of Personnel	1,016	900	11,085	16,820	20,152	1,738
General Service	27,291	27,764	28,815	26,985	28,091	28,082
Postage	18,066	19,388	18,124	21,357	22,437	22,042
Insurance	4,949	4,692	3,409	2,649	2,825	2,362
Loans, Rediscounts, etc	3,706	3,463	2,327	493	393	467
Securities	2,995	3,131	4,017	5,492	5,509	4,056
Currency & Coin	11,905	12,398	13,244	24,596	26,925	27,387
Check Collection	50,606	51,120	53,171	49,362	44,200	42,873
Non-Cash Collection	7,641	7,567	7,414	8,196	7,935	7,733
Accounting	15,082	14,237	12,897	14,532	14,124	13,590
Fiscal Agency	6,356	9,261	18,120	31,381	23,848	22,815
Legal	-	-	-	139	15	-
Auditing	3,533	4,444	3,688	3,837	4,145	4,759
Bank Relations	62	45	79	19	-	781
F. R. Note Issue	-	-	70	246	248	256
Statistical & Analytical	134	106	99	166	112	109
Total Expense	\$190,849	\$200,484	\$210,151	\$230,210	\$225,793	\$211,631
Less - Reimbursable						
Fiscal Agency Exp.	5,639	8,460	17,656	20,651	16,969	17,627
Net Expense	<u>\$185,210</u>	<u>\$192,024</u>	<u>\$192,495</u>	<u>\$209,559</u>	<u>\$208,824</u>	<u>\$194,004</u>

* Represents the net expense - income from rentals having been deducted.

There were ten branches in the System which operated at a higher annual cost than the Oklahoma City Branch in 1937; namely, Pittsburgh, Los Angeles, Baltimore, Cincinnati, Detroit, Buffalo, Salt Lake City, Omaha, Seattle and Denver.

(g) Volume of Operations at Oklahoma City Branch

The following is a comparison of the volume of operations in various departments of the Oklahoma City Branch and the Head Office during the last six months of 1936:

	<u>Oklahoma City Branch</u>	<u>Head Office</u>
--	-----------------------------	--------------------

Safekeeping:

Member bank securities 12-31-36	\$12,426,000	\$284,078,000
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Branches with larger volume: Cincinnati, Pittsburgh, Baltimore, Jacksonville, Detroit, Denver and Omaha.

Currency & Coin:

1. Number of bills received and counted 5,020,000 20,168,000
 Branches with larger volume: All branches except Helena, Denver, El Paso, Salt Lake City and Spokane.
 Cost per one thousand units handled 52 cents 54 cents
 Branches with higher unit cost: Buffalo, Cincinnati, Pittsburgh, Helena, Denver, Omaha, El Paso, San Antonio, Portland, Salt Lake City, Seattle, Spokane and Little Rock.

2. Number of coins received and counted 4,842,000 17,754,000
 Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, New Orleans, Detroit, Louisville, Memphis, Houston, San Antonio, Los Angeles and Seattle.
 Cost per one thousand units handled 7 cents 11 cents
 Branches with higher unit cost: All branches except New Orleans.

Check Collection:

1. Number of city checks (clearings) received 504,000 2,186,000
 Branches with larger volume: All branches except Jacksonville, Little Rock, Helena, El Paso, Salt Lake City and Spokane.
 Cost per one thousand units handled \$2.18 \$1.86
 Branches with higher unit cost: Helena, Los Angeles, Portland, Salt Lake City, Seattle and Spokane.

2. Number of country checks (outgoing) received 7,132,000 10,423,000
 Branches with larger volume: Cincinnati, Pittsburgh and Baltimore.
 Cost per one thousand units handled \$1.72 \$2.24
 Branches with higher unit cost: All branches except Birmingham, Jacksonville, and Little Rock.

Non-Cash Collections

1. Number of city collections handled 13,602 9,177
 Branches with larger volume: Buffalo, Cincinnati, Baltimore, Detroit, Little Rock, Memphis, Denver, Omaha, Houston and Los Angeles.
 Cost per unit handled 10.8 cents 16.7 cents
 Branches with higher unit cost: All branches except Jacksonville, Nashville, Little Rock, Omaha, El Paso and Houston.

2. Number of country collections handled 17,407 64,935
 Branches with larger volume: Buffalo, Baltimore, Charlotte, Omaha, Salt Lake City, and Spokane.
 Cost per unit handled 9 cents 7.4 cents
 Branches with higher unit cost: Buffalo, Baltimore, Birmingham, Jacksonville, Nashville, New Orleans, Detroit, Helena, Denver, San Antonio, Los Angeles, Portland and Seattle.

Non-Cash Collections (Cont'd)

3. Number of coupons (except Government)

 and country security collections handled 1,494 5,063

Branches with larger volume: All branches except Birmingham, Jacksonville, Helena, El Paso, Salt Lake City, Seattle and Spokane.

Cost per unit handled 12.8 cents 20 cents

Branches with higher unit cost: Buffalo, Charlotte, Jacksonville, Detroit, Louisville, Memphis, Helena, El Paso, Los Angeles, Portland, Salt Lake City and Spokane.

A schedule showing the volume of operations of the Oklahoma City Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Oklahoma City Branch by Board's Examiners - 1934

During an examination of the Federal Reserve Bank of Kansas City, made as of September 29, 1934, the Board's examiners reviewed the operations of the Oklahoma City Branch. Special consideration was given to the number and size of banks in the branch city, mail facilities available to member bank points in the zone from both Kansas City and Oklahoma City, the volume of operations conducted at the Branch and the net cost of operating the Branch. As a result of this investigation, the Board's examiners questioned the necessity for continuing the Branch.

(i) Survey of Oklahoma City Branch made by Federal Reserve Bank of Kansas City - 1936

A survey of operations of all of its branches was made by the Federal Reserve Bank of Kansas City, as requested in the Board's letter of March 25, 1936, (X-9532). It was estimated that an aggregate saving of \$350,830, based on total operating costs of \$679,090 for the year 1935, could be realized if, such branches were eliminated. It was stated, however, that:

"* * * Because of the very valuable services performed for member banks at these branches, their discontinuance at this time is not recommended."

"Consideration must also be given to the fact that our branches were established many years ago, have become important factors in the cities in which they are located and in the territories served, and that any suggestion of their discontinuance would be strongly opposed by the public as well as by the member banks they serve."

It was recommended that the Denver and Omaha Branches be converted into "memorandum plan" branches similar to Oklahoma City, and subsequently the Board of Governors' approval of such conversion was requested and obtained. As indicated in the comments relating to such branches this plan was later abandoned - the chief reason for its abandonment being the development of strong opposition by bankers in the territory served, i.e., local pride.

OKLAHOMA CITY BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	-	7,732,000	8,056,000	1,157,000	13,545,000	297,000	14,999,000	37,243	67,861	920	-	8,639
1932	-	7,565,000	7,040,000	1,027,000	10,800,000	308,000	12,135,000	37,071	60,133	425	-	8,031
1933	-	8,483,000	6,472,000	1,404,000	10,630,000	612,000	12,646,000	47,422	63,715	1,773	-	7,893
1934	-	8,796,000	6,549,000	1,202,000	11,543,000	2,468,000	15,213,000	82,717	55,398	1,245	24	6,896
1935	-	8,712,000	7,209,000	1,422,000	13,014,000	1,454,000	15,890,000	87,000	53,000	5,172	59	5,860
1936	-	10,141,000	9,056,000	1,105,000	14,149,000	1,044,000	16,298,000	59,000	59,000	449	445	2,000

Amounts Handled

(in thousands of dollars)

1931	-	30,684	1,057	655,177	752,174	40,202	1,447,553	486	26,586	1,316	-	219,496
1932	-	29,283	909	572,546	630,644	29,701	1,232,891	482	22,181	326	-	155,799
1933	-	35,448	1,340	633,690	742,314	46,147	1,422,151	534	26,525	729	-	130,484
1934	-	32,860	944	776,863	942,856	89,837	1,809,556	931	23,846	537	33	150,416
1935	-	31,843	932	878,131	1,047,931	78,210	2,004,272	812	27,766	1,418	51	222,569
1936	-	35,914	1,052	802,492	1,091,819	89,351	1,983,662	774	26,842	414	202	67,388

OMAHA BRANCH - FEDERAL RESERVE BANK OF KANSAS CITY

(a) City of Omaha:

Omaha, with a population of 214,006, is the thirty-ninth largest city in the United States and the largest city in Nebraska. It is located in the extreme east central part of the State and is said to serve a trade area extending from 25 to 40 miles in all directions. Transportation facilities are provided by ten railroads, including the Chicago-Rock Island & Pacific, Burlington, Missouri Pacific, Chicago & North Western, and Union Pacific. The city is also served by several air lines and numerous bus lines.

The principal industries are meat packing, flour milling and smelting. The city is noted for the handling of live stock and other agricultural and dairying products. The Biennial Census of Manufactures for the year 1935 lists 397 manufacturing establishments operating in Douglas County, in which Omaha is situated, which had an output valued at \$185,078,000 during that year. The Census of American Business for the same year shows 3,269 retail and 613 wholesale establishments in the area. These firms enjoyed sales aggregating \$93,441,000 and \$356,374,000, respectively, in 1935.

Banking facilities in Omaha are provided by six national banks and three State nonmember banks. As of December 31, 1936, these institutions had deposits aggregating \$128,921,000, and of this amount \$126,807,000 was carried with the six local member banks.

Debits to individual accounts in banks of the city amounted to \$1,840,600,000 during 1936, or an average of approximately \$6,135,000 for each banking day.

(b) Branch Territory and Functions:

The Omaha Branch was established on September 4, 1917, and serves the entire States of Nebraska and Wyoming. This area represents approximately 36% of the land area of the Tenth District and has about 20% of its total population. Approximately 25% of all banks in the district are located in this area.

As of December 31, 1936, there were 494 banks, exclusive of mutual savings banks, in the branch zone and of this number 182, including 161 national and 21 State institutions, were members of the System. 152 of the 312 nonmember banks in the branch zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared with the Tenth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
			(000 omitted)	
Tenth District	726	\$1,119,013	\$133,006	\$1,762,865
Branch Zone	182	216,968	25,663	318,042

There are thirteen branch zones in the System having smaller member bank footings than the Omaha zone, namely, Spokane, El Paso, Little Rock, Helena, Charlotte, San Antonio, Nashville, Birmingham, Memphis, Salt Lake City, Louisville, Portland and Jacksonville.

The Omaha Branch renders substantially the same service to member banks in its zone as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearings, non-cash collections, safekeeping of securities and borrowings are concerned. Reserve accounts of member banks in the zone, as well as of nonmember clearing banks

and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and a record of certain earnings and expenses. Control accounts are, of course, maintained at the Head Office which is sent a daily transcript of entries affecting such accounts. Immediate credit is given to member banks for discount offerings received by the Branch, subject to final approval of the Head Office. Schedules covering transactions are forwarded to the Head Office, but the notes and collateral, if any, are retained at the Branch. The Branch does not have Bank Examination, Bank Relations, Legal, Research or Fiscal Agency departments.

As of February 27, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
Nebraska:					
Omaha	6	\$19,010,076	\$3,221,505	\$245,850	-
Remainder of State	142	22,585,454	777,195	392,050	\$17,500
Wyoming	35	5,165,626	96,385	138,650	-
	<u>183</u>	<u>\$46,761,156</u>	<u>\$4,095,085</u>	<u>\$776,550</u>	<u>\$17,500</u>

Omaha is 196 train miles (7 hrs. and 2 mins.) from Kansas City. On any business day trains leave both points after 8 P.M. which arrive at the other before 8 A.M. on the following day, i.e., overnight mail. The branch zone includes 140 points in which one or more member banks are located. Mail schedules indicate that 62 of these points have overnight mail service to Omaha, whereas only 47 are within overnight mail of Kansas City. It appears, therefore, that at least 15 points in the branch zone can be served more expeditiously by the Branch than by the Head Office. Banks located at these points and banks in the city of Omaha would of course suffer the greatest inconvenience if the Branch were discontinued.

Other than Omaha, the more populous cities in the branch zone are Lincoln, Nebraska, 75,933; Grand Island, Nebraska, 18,041; Cheyenne, Wyoming, 17,361 and Casper, Wyoming, 16,619.

(c) Branch Building:

The Omaha Branch has occupied its present quarters at 1701-5 Dodge Street since December 1925. The following figures show the original cost and book value, as of February 27, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>2-27-37</u>
Land	\$176,427	\$176,427
Building	286,953)	
Vault & vault equipment	110,985)	249,221
	\$574,365	\$425,648
Fixed machinery & equipment	73,479	1,795
	<u>\$647,844</u>	<u>\$427,443</u>

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$202,000
1932	306,700
1933	81,700
1934	20,600
1935	6,000
1936	3,700
1937	5,400

The above figures are incomplete since, under the present accounting procedure, the Branch is given no credit for income received by the Head Office on investments, a portion of which is made possible by the Reserve Bank stock investment and reserve balances of member banks in the branch zone. They are interesting only insofar as they show the shrinkage in branch earnings, which

are derived chiefly from bills discounted for member banks in the zone. Income from this source amounted to \$301,500 in 1932 and to only \$3,200 in 1937.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Kansas City, made as of February 27, 1937, shows the following in regard to salaries and personnel at the Omaha Branch:

	<u>Feb. 27, 1937</u>		<u>May 8, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	3	\$ 21,600	3	\$ 21,500	-	\$ 100(Inc.)
Employees	72	108,900	77	117,700	5	8,800
	<u>75</u>	<u>\$130,500</u>	<u>80</u>	<u>\$139,200</u>	<u>5</u>	<u>\$8,700</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions:

The expenses of the Omaha Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 18,027	\$ 17,807	\$ 14,967	\$ 15,628	\$ 14,698	\$ 15,611
Noncontrollable	9,881	16,754	16,347	57	40	33
*Provision of Space	23,180	23,493	22,645	23,077	20,270	26,327
Provision of Personnel	1,017	1,271	15,441	22,091	27,625	3,079
General Service	30,255	30,988	33,637	34,269	30,643	30,932
Postage	16,041	17,732	16,505	17,143	17,813	16,975
Insurance	5,091	4,956	2,500	3,068	2,891	2,450
Failed Banks	1,927	1,311	296	36	5	-
Loans, Rediscounts, etc.	16,554	16,726	7,367	3,822	2,358	2,592
Securities	5,771	5,544	9,717	11,154	8,493	6,034
Currency and Coin	14,194	16,323	17,279	35,411	35,280	32,985
Check Collection	36,630	32,212	34,335	30,461	29,814	30,023
Non-Cash Collection	6,938	7,448	7,885	7,423	7,812	8,854
Accounting	21,445	22,944	24,252	29,636	28,415	25,956
Fiscal Agency	8,916	17,666	103,329	41,669	36,495	29,825
Legal	-	-	3	47	40	6
Auditing	5,774	5,944	7,181	7,546	6,555	5,029
Bank Relations	242	160	341	397	1,518	892
F.R. Note Issues	-	-	106	337	324	306
Statistical & Analytical	547	561	500	142	64	58
Total Expense	<u>\$222,430</u>	<u>\$239,840</u>	<u>\$334,633</u>	<u>\$283,414</u>	<u>\$271,153</u>	<u>\$237,967</u>
Less - Reimbursable Fiscal						
Agency Expense	<u>6,116</u>	<u>15,606</u>	<u>100,761</u>	<u>26,092</u>	<u>26,072</u>	<u>19,691</u>
Net Expense	<u>\$216,314</u>	<u>\$224,234</u>	<u>\$233,872</u>	<u>\$257,322</u>	<u>\$245,081</u>	<u>\$218,276</u>

*Represents the net expense - income from rentals having been deducted.

There were seven branches in the System which operated at a higher net cost than the Omaha Branch in 1937; namely, Pittsburgh, Los Angeles, Baltimore, Cincinnati, Detroit, Buffalo and Salt Lake City.

(g) Volume of Operations at Omaha Branch:

The following is a comparison of the volume of operations in various departments of the Omaha Branch and the Head Office during the last six months of 1936:

	<u>Omaha Branch</u>	<u>Head Office</u>
<u>Discount Department:</u>		
Notes rediscounted	33	35
Collateral notes discounted	10	2
Industrial advances	-	13
Branches with larger volume: Denver and El Paso.		
<u>Safekeeping:</u>		
Member bank securities 12-31-36	\$33,227,000	\$284,078,000
Branches with larger volume: Pittsburgh, Baltimore and Detroit.		
<u>Currency and Coin:</u>		
1. Number of bills received and counted	5,127,000	20,168,000
Branches with larger volume: All branches except Little Rock, Helena, Denver Oklahoma City, El Paso, Salt Lake City and Spokane.		
Cost per one thousand units handled	55 cents	54 cents
Branches with higher unit cost: Buffalo, Cincinnati, Helena, Denver, El Paso, Portland, Salt Lake City, Seattle and Spokane.		
2. Number of coins received and counted	4,623,000	17,754,000
Branches with larger volume: All branches except Charlotte, Birmingham, Jacksonville, Nashville, Little Rock, Helena, Denver, El Paso, Portland, Salt Lake City and Spokane.		
Cost per one thousand units handled	25 cents	11 cents
Branches with higher unit cost: Helena, El Paso, San Antonio, Portland, Salt Lake City, Seattle and Spokane.		
<u>Check Collection:</u>		
1. Number of city checks (clearings) received	1,275,000	2,186,000
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, Detroit and Los Angeles.		
Cost per one thousand units handled	\$1.55	\$1.86
Branches with higher unit cost: All branches except Baltimore, Charlotte, Birmingham, Jacksonville, Nashville, New Orleans, Detroit, and San Antonio.		

	<u>Omaha Branch</u>	<u>Head Office</u>
--	---------------------	--------------------

Check Collection:

- | | | |
|--|-----------|------------|
| 2. Number of country checks (outgoing) received | 4,503,000 | 10,423,000 |
| Branches with larger volume: Cincinnati, Pittsburgh, Baltimore, Detroit, Oklahoma City and Los Angeles. | | |
| Cost per one thousand units handled | \$1.73 | \$2.24 |
| Branches with higher unit cost: All branches except Birmingham, Jacksonville, Little Rock and Oklahoma City. | | |

Non-cash Collections

- | | | |
|---|-----------|------------|
| 1. Number of city collections handled | 43,553 | 9,177 |
| Branches with larger volume: None. | | |
| Cost per unit handled | 4 cents | 16.7 cents |
| Branches with higher unit cost: All branches.. | | |
| 2. Number of country collections handled | 21,235 | 64,935 |
| Branches with larger volume: Buffalo, Salt Lake City and Spokane. | | |
| Cost per unit handled | 7 cents | 7.4 cents |
| Branches with higher unit cost: All branches except Little Rock, Memphis, Salt Lake City and Spokane. | | |
| 3. Number of coupons (except Government) and country security collections handled | 6,103 | 5,063 |
| Branches with larger volume: Pittsburgh, Baltimore, Detroit and Los Angeles. | | |
| Cost per unit handled | 7.7 cents | 20 cents |
| Branches with higher unit cost: All branches except Cincinnati, Pittsburgh, Denver and Seattle. | | |

A schedule showing the volume of operations of the Omaha Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Omaha Branch by Board's Examiners - 1934

During an examination of the Federal Reserve Bank of Kansas City, made as of September 29, 1934, the Board's Examiners reviewed the operations of the Omaha Branch and expressed the opinion that its continuance was warranted. In arriving at this conclusion consideration was given to the number and size of member banks in the City of Omaha, the number of member banks in outlying sections of the branch zone, and the mail facilities available between banking points in the branch zone and the cities of Omaha and Kansas City.

(i) Survey of Omaha Branch by Federal Reserve Bank of Kansas City - 1936

In accordance with the request made in the Board's letter of March 25, 1936 (X-9532), the Federal Reserve Bank of Kansas City surveyed the operations of its branches. It was estimated that a saving of \$350,830, based on operating costs of \$679,090 for the year 1935, would be realized if all three branches were discontinued. However, their discontinuance was not recommended, chiefly because of the valuable services which they were performing for member banks and the fact that over a period of years they had become important factors in the economic life of the cities and territories which they served. It was stated that any suggestion that such branches were to be discontinued would be strongly opposed by the public as well as by the member banks they serve.

As an alternative, the opinion was expressed that the Omaha and Denver branches should be converted into limited power branches and that this could be done without reducing the value of the services which were being rendered to member banks in such branch zones. It was estimated, based on conditions then existing, a saving of approximately \$21,000 would be realized through such conversion and that such action would also strengthen Head Office control over the branches.

In accordance with the above opinion, President Hamilton of the Kansas City Reserve bank addressed a letter to the Board on January 12, 1937, requesting its approval of the conversion of the Omaha and Denver Branches into limited power branches to be operated on the same basis as the Oklahoma City Branch. On January 21, 1937, the Board wrote President Hamilton approving the proposed conversion and requesting to be advised as to the date on which the change would be made effective. President Hamilton replied on February 4, 1937 that his directors had voted to approve in principle the proposed conversion,

but had postponed setting an effective date for the conversion until representatives of the branches had had an opportunity to study necessary changes.

Opposition to the proposed conversion developed and on April 10, 1937, the Board of Governors was advised that the directors of the Federal Reserve Bank of Kansas City at a regular meeting on April 8, 1937, had acted as follows:

"President Hamilton reported on meetings held at Denver, Colorado, and Omaha, Nebraska, for the purpose of discussing with banker groups the proposed conversion of the Denver and Omaha Branches of this bank into memorandum branches. He stated that after a thorough discussion of the effect of the proposed change upon the service rendered to member banks in the branch zones, the meetings had ended with reaffirmation of the bankers present of their opposition to the change. A general discussion followed, after which the directors voted unanimously, in view of the general protest, to discontinue consideration of conversion of the Denver and Omaha Branches of this bank into memorandum branches, and to permit them to remain in their present status."

The letter containing this advice was acknowledged by the Board on April 28, 1937, and no further action has been taken in the matter.

OMAHA BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	11,573	7,386,000	9,640,000	1,768,000	9,454,000	474,000	11,696,000	189,455	55,524	1,594	84	23,774
1932	17,221	7,209,000	11,178,000	1,668,000	6,771,000	481,000	8,920,000	164,995	69,739	1,455	38	21,302
1933	4,737	7,859,000	9,679,000	1,745,000	6,367,000	635,000	8,747,000	181,968	72,095	1,439	385	22,913
1934	161	9,211,000	8,501,000	2,077,000	7,309,000	1,663,000	11,054,000	267,240	83,560	5,241	1,336	19,822
1935	330	9,505,000	9,500,000	2,243,000	8,075,000	1,295,000	11,613,000	279,000	86,000	9,255	2,487	16,207
1936	92	9,788,000	9,375,000	2,729,000	8,692,000	1,009,000	12,430,000	240,000	131,000	1,949	1,081	14,000

Amounts Handled

(in thousands of dollars)

1931	63,202	38,789	2,280	900,602	475,088	57,578	1,433,340	2,203	62,990	4,941	1,740	1,024,764
1932	68,516	36,013	2,096	620,677	329,749	55,097	1,006,323	2,223	54,218	6,116	1,085	679,958
1933	26,420	43,623	3,304	653,868	341,579	98,969	1,094,416	2,423	59,871	4,785	1,002	635,190
1934	3,368	46,372	2,118	975,319	507,201	178,735	1,661,255	3,197	96,464	4,974	1,059	708,262
1935	1,752	43,367	1,714	1,037,016	564,645	165,357	1,767,018	3,320	96,134	6,240	1,350	653,395
1936	766	40,431	1,629	1,135,060	655,657	146,788	1,937,505	2,981	111,254	2,387	1,019	771,975

EL PASO BRANCH - FEDERAL RESERVE BANK OF DALLAS

(a) City of El Paso:

El Paso, with a population of 102,421, is the fifth largest city in the State of Texas and the eighty-sixth largest city in the United States. It is located in the extreme Western part of the State on the Rio Grande River, and serves a trade area extending from 350 to 400 miles in all directions. Approximately 439,400 inhabitants reside in this area. It is adjacent to Juarez, Mexico, with which it is connected by two international bridges; the two cities being the largest on the border. Transportation facilities in the community and its trade area are provided by five railroads, including the Texas & Pacific, Southern Pacific, Atchison, Topeka & Santa Fe and two Mexican roads. Service is also provided by various coach and airplane lines.

The El Paso area is largely given over to mining and cattle raising, although in recent years irrigation projects have stimulated the development of agriculture. The principal industries of the city proper are copper refining, flour milling, meat packing, oil refining, smelting and the manufacture of bricks, brooms, cement, petroleum products and wood products. The Biennial Census of Manufactures for the year 1935 lists 126 manufacturing establishments operating in El Paso County. These firms had an output valued at \$46,044,000 that year. The Census of American Business for the year 1935 indicates that there were 1,516 retail and 193 wholesale establishments which had sales aggregating \$33,905,000 and \$41,943,000, respectively, operating in the same area.

Banking facilities in El Paso are furnished by two national banks. These institutions had deposits aggregating \$31,002,000 as of December 31, 1936. Debits to individual accounts in banks of the city amounted to \$294,228,000

during the year 1936, or an average of approximately \$980,000 for each banking day.

(b) Branch Territory and Functions:

The El Paso Branch was established on June 17, 1918, and serves fourteen counties in the western part of Texas and all that part of the States of Arizona and New Mexico included in Federal Reserve District Eleven. The branch zone represents approximately 32% of the land area of the Eleventh District and has about 7% of its total population. Only 4.2% of all banks in the district are located in the branch zone.

As of December 31, 1936, there were 43 banks, exclusive of mutual savings banks, in the branch zone and of this number 30, including 26 national and 4 State institutions, were members of the System. 12 of the 13 nonmember banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to those of the Eleventh District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investment</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
			(000 omitted)	
Eleventh District	550	\$826,850	\$127,747	\$1,314,452
Branch Zone	30	41,379	4,496	64,574

There is only one branch in the System having smaller member bank footings than the El Paso Branch, namely, Spokane.

The El Paso Branch renders substantially the same service to member banks in its zone as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearings, non-cash collections, safekeeping of securities and borrowings are concerned. Reserve accounts of member banks in the zone, as well as of nonmember clearing banks

and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and a record of certain earnings and expenses. Control accounts are, of course, maintained at the Head Office which is sent a daily transcript of entries affecting such accounts. Immediate credit is given to member banks for discount offerings received by the Branch, subject to final approval of the Head Office. Schedules covering transactions are forwarded to the Head Office, but the notes and collateral, if any, are retained at the Branch. The Branch does not have Bank Examination, Bank Relations, Failed Bank, Legal, Research or Fiscal Agency departments.

As of February 6, 1937, member banks in the branch zone had balances with the Reserve Bank as follows:

	<u>Number of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
Arizona	3	854,700	\$ 500	\$27,250*	\$5,700
New Mexico	19	2,871,500	15,900	42,600	-
Texas					
City of El Paso	2	3,609,300	1,064,200	48,000	-
Remainder of Zone	<u>6</u>	<u>485,000</u>	<u>4,400</u>	<u>17,150</u>	<u>-</u>
	<u>30</u>	<u>\$7,820,500</u>	<u>\$1,085,000</u>	<u>\$135,000</u>	<u>\$5,700</u>

* \$13,500 capital stock subscription of one Arizona bank which discontinued on February 11, 1935, but which has not yet been voted into voluntary liquidation is not included, although still outstanding.

El Paso is 647 train miles (18 hrs. and 10 mins.) from Dallas and 620 train miles (17 hrs. and 10 mins.) from San Antonio. The city is not within overnight mail time of either the Head Office or the San Antonio Branch. There are 26 member bank points in the El Paso Branch zone and of this number only 4, having 5 member banks, are within overnight mail time of the Head Office, whereas 25 points, having 29 member banks, are within overnight mail of El Paso. Discontinuance of the El Paso Branch would, therefore, inconvenience the two relatively large member banks in El Paso, as well as the majority of member

banks situated in outlying points of the zone.

Other than El Paso, the more populous cities in the branch zone are Tucson, Arizona, 32,506; Roswell, New Mexico, 11,173; Clovis, New Mexico, 8,027 and Midland, Texas, 5,484.

(c) Branch Building:

The El Paso Branch has occupied its present quarters at 351 Myrtle Avenue since August, 1920. The following figures show the original cost and book value as of February 6, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>2-6-37</u>
Land	\$ 39,004	\$25,004
Building	78,035)	
Vault & vault equipment	<u>33,333)</u>	<u>51,585</u>
	\$150,372	\$76,589
Fixed machinery & equipment	<u>10,824</u>	<u>250</u>
	<u>\$161,196</u>	<u>\$76,839</u>

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$30,800
1932	43,100
1933	13,000
1934	1,000
1935	1,000
1936	1,700
1937	1,000

These figures are incomplete since, under the present accounting procedure, the Branch receives no credit for income received by the Head Office on investments, a portion of which is made possible by the Reserve bank stock investment and reserve balances of member banks in the Branch zone. Income shown on the Branch's books is derived chiefly from rediscounts of member banks, reserve

penalties, rental of banking house space and industrial loans. Income from rediscounts has steadily declined in recent years, amounting to approximately \$400 in 1937 as compared to \$42,100 in 1932.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Dallas, made as of February 6, 1937, shows the following in regard to salaries and personnel at the El Paso Branch:

	<u>February 6, 1937</u>		<u>March 8, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	2	\$ 8,900	2	\$ 8,900	-	-
Employees	30	46,600	31	48,900	1	\$2,300
	<u>32</u>	<u>\$55,500</u>	<u>33</u>	<u>\$57,800</u>	<u>1</u>	<u>\$2,300</u>

Officers and employees who give the major portion of their time to reimbursable work are not included in the above comparison. Neither does it include amounts paid for such reimbursable work.

(f) Branch Expense by Functions:

The expenses of the El Paso Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 10,425	\$ 9,735	\$ 8,603	\$ 6,622	\$ 6,760	\$ 7,473
Non-Controllable	4,070	5,016	4,972	-	-	-
*Provision of Space	6,260	6,041	5,687	5,150	5,276	8,062
Provision of Personnel	1,010	1,198	6,449	8,802	10,962	945
General Service	16,535	18,377	19,737	19,335	16,384	16,921
Postage	4,116	4,543	4,624	4,722	5,380	5,798
Insurance	2,504	2,571	1,912	1,624	1,418	1,431
Failed Banks	40	11	-	-	-	-
Loans, Rediscounts, etc.	5,507	4,187	1,094	1,251	947	997
Securities	924	877	1,070	1,193	634	595
Currency & Coin	9,292	8,697	8,205	12,941	13,506	13,877
Check Collection	13,116	13,035	12,482	10,565	10,979	13,128
Non-cash Collection	2,119	1,944	2,244	2,405	2,399	2,472
Accounting	18,188	12,729	11,214	11,884	10,346	10,276
Fiscal Agency	4,114	4,403	6,715	14,608	17,882	15,076
Legal	-	4	-	5	-	5
Auditing	3,732	3,784	3,760	4,336	4,122	4,038
Bank Relations	173	107	273	104	112	427
F.R. Note Issues	-	48	20	224	207	188
Statistical & Analytical	278	145	168	167	156	75
Total Expense	\$102,403	\$97,452	\$99,229	\$105,938	\$107,470	\$101,784
Less - Reimbursable						
Fiscal Agency Exp.	3,317	4,082	6,183	7,284	13,418	11,088
Net Expense	<u>\$ 99,086</u>	<u>\$93,370</u>	<u>\$93,046</u>	<u>\$ 98,654</u>	<u>\$ 94,052</u>	<u>\$ 90,696</u>

* Represents the net expense - income from rentals having been deducted.

There were only two branches in the System which operated at a lower net cost than the El Paso Branch in 1937; namely, Spokane and Nashville.

(g) Volume of Operations at El Paso Branch:

The following is a comparison of the volume of operations in various departments of the El Paso Branch and the Head Office during the last six months of 1936:

	<u>El Paso Branch</u>	<u>Head Office</u>
<u>Discount Department</u>		
Notes rediscounted	71	324
Collateral notes discounted	-	35
Industrial advances	-	-
Branches with larger volume:	None.	

El Paso BranchHead OfficeSafekeeping

Member bank securities 12-31-36 \$1,636,000 \$73,714,000
Branches with larger volume: All branches except Charlotte, Memphis,
Portland, Seattle, Helena, Los Angeles and
Spokane.

Currency and Coin

1. Number of bills received 2,023,000 19,826,000
Branches with larger volume: All branches except Helena and Spokane

Cost per one thousand units handled 92 cents 45 cents
Branches with higher unit cost: Helena, Salt Lake City and Spokane.

2. Number of coins received and counted 789,000 17,795,000
Branches with larger volume: All branches except Helena and Spokane.

Cost per one thousand units handled \$1.28 .13
Branches with higher unit cost: Spokane.

Check Collection

1. Number of city checks (clearings) received 235,000 1,322,000
Branches with larger volume: All branches except Helena.

Cost per one thousand units handled \$1.98 \$1.57
Branches with higher unit cost: Louisville, Helena, Denver, Oklahoma City,
Houston, Los Angeles, Portland, Salt Lake
City, Seattle and Spokane.

2. Number of country checks (outgoing) received 1,342,000 10,343,000
Branches with larger volume: All branches except Memphis.

Cost per one thousand units handled \$2.28 \$2.31
Branches with higher unit cost: Buffalo, Cincinnati, Detroit, Los Angeles,
Portland, Salt Lake City, Seattle and
Spokane.

Non-cash Collections

1. Number of city collections handled 4,689 14,769
Branches with larger volume: All branches except Charlotte, Birmingham and
Helena.

Cost per unit handled 8.1 cents 13.5 cents
Branches with higher unit cost: All branches except Jacksonville, Little
Rock, and Omaha.

2. Number of country collections handled 4,396 39,412
Branches with larger volume: All branches except Birmingham.

Cost per unit handled 8 cents 8.9 cents
Branches with higher unit cost: All except Little Rock, Memphis, Omaha,
Salt Lake City, and Spokane.

	<u>El Paso Branch</u>	<u>Head Office</u>
<u>Non-cash Collections</u>		
3. Number of coupons (except Government) and country security collections handled	214	4,448
Branches with larger volume: All branches.		
Cost per unit handled	55.3 cents	25 cents
Branches with higher unit cost: None.		

A schedule showing the volume of operations of the El Paso Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of El Paso Branch by Board's Examiners - 1934:

The Board's Examiners reviewed the operations of the El Paso Branch, as of June 23, 1934, and concluded that the only justification for its continuance was its distance from the Head Office. In reaching this conclusion consideration was given to the volume and cost of operations at the Branch, the number and importance of member banks in the branch city and zone, and the mail facilities available between points in the branch zone and the Head Office at Dallas.

(i) Survey of El Paso Branch by Federal Reserve Bank of Dallas - 1936

As requested by the Board in its letter of March 25, 1936 (X-9532) the internal operations of the El Paso Branch were surveyed by the Federal Reserve Bank of Dallas. Thereafter, a report containing the following conclusions relative to discontinuance of the Branch, curtailment of its functions, or the possibility of otherwise effecting economies in its operations was submitted to the Board:

1. That, based on operating expenses of \$98,300 for the year 1935, an estimated saving of \$71,500 would be realized if the Branch were discontinued.
2. That operating expenses were very heavy considering the limited number of banks served by the Branch, but that it was questionable whether the mere number of banks properly reflected the need, actual and potential,

for branch facilities; it being necessary to consider also the great distance between the branch territory and the Head Office, the importance of the City of El Paso from the standpoints of domestic and international trade, the apparent prospects for development of the territory along such lines in future years and the fact that banking, industry and production in the branch zone were entitled to enjoy the benefits of the System on a basis comparable with other regions of the country, which would not be possible if the Branch were discontinued.

3. That while some of the functions performed by the Branch could be transferred to the Head Office the saving would not be large in the aggregate and in their opinion would be insufficient to induce them to effect the transfer.
4. That consideration had from time to time been given to reducing the Branch to a currency depot or agency, but that such action, unless in pursuance of a well defined policy applicable to the whole country, would result in much dissatisfaction, accompanied by great pressure, both civic and otherwise, and would also quite possibly lead to applications for the creation of similar depots in other towns of the district like Amarillo and Shreveport, and
5. That, in view of economies already effected over a period of years, it appeared improbable that the personnel of the Branch could be reduced or expenses otherwise lowered without impairing the efficiency of its operations.

In submitting this report the Officers and Directors of the Dallas bank stated that they did not wish it to be considered as a recommendation in respect to the El Paso Branch, since they were merely endeavoring to outline the facts to the Board of Governors, and that, if the Board desired to give special consideration to such Branch, they would be pleased to make a more thorough investigation and, if it were the Board's wish, submit definite suggestions in respect thereto.

It was pointed out that Congress in the Federal Reserve Act had taken cognizance of the fact that with only twelve Federal Reserve banks many outlying member banks and their communities would suffer disadvantages and inconvenience as compared to those nearer the Head Office, and had authorized the

establishment of branches in order to equalize the benefits and facilities of the System. It was stated further that Congress, while apparently aware of the expense which the establishment of branches would entail did not under the Federal Reserve Act seem to contemplate different types of branches, i.e., "memorandum plan" branches or "full-fledged" branches. The opinion was expressed that each branch should render to member banks in its territory, so far as practicable, all the services incident to membership, subject only to the general control of and supervision by the Head Office, and to the operating policies established by it. It was indicated that the transfer of functions of a branch to the Head Office would tend to show a lack of need for the branch and that, as a consequence, the real question seemed to be whether any branch now in operation should be discontinued, rather than whether its functions should be curtailed. In conclusion, it was stated that the question of branches was one of general policy for determination of the Board and that the Board alone, acting for the System as a whole, could provide a "yardstick" by which the need for continuance of any specific branch could be determined.

Included in the report submitted by the Dallas Bank was a memorandum prepared by the Managing Director of the El Paso Branch setting forth the reasons which he felt warranted its maintenance. Among such reasons, and not previously mentioned in this memorandum, was the very valuable services which the branch is performing for the Reconstruction Finance Corporation and other Government agencies.

EL PASO BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	1,745	4,209,000	3,025,000	495,000	1,997,000	206,000	2,698,000	19,365	13,597	-	-	8,200
1932	2,132	3,446,000	2,640,000	418,000	1,673,000	214,000	2,305,000	21,276	14,473	-	-	6,986
1933	896	3,200,000	2,382,000	362,000	1,542,000	326,000	2,230,000	23,917	16,946	-	-	5,711
1934	5	3,547,000	1,556,000	308,000	1,786,000	616,000	2,790,000	30,379	14,270	-	-	4,874
1935	84	3,213,000	1,512,000	418,000	2,133,000	376,000	2,927,000	33,000	13,000	-	-	4,259
1936	99	3,001,000	1,760,000	467,000	2,603,000	421,000	3,491,000	24,000	18,000	-	-	4,000

Amounts Handled
(in thousands of dollars)

1931	15,757	23,396	983	273,734	141,609	25,573	440,916	296	8,630	-	-	282,959
1932	10,594	16,685	2,879	154,731	95,343	20,622	270,696	319	7,999	-	-	132,238
1933	4,276	15,352	1,030	104,442	93,419	26,491	224,352	310	10,425	-	-	130,220
1934	88	13,439	327	145,171	120,679	46,686	312,536	366	10,219	-	-	31,362
1935	39	13,476	317	164,643	152,007	36,371	353,021	317	12,290	-	-	98,323
1936	65	15,582	356	200,002	191,068	53,683	445,553	272	14,134	-	-	110,452

HOUSTON BRANCH - FEDERAL RESERVE BANK OF DALLAS

(a) City of Houston:

Houston, with a population of 292,352, is the twenty-sixth largest city in the United States and the largest city in Texas. It is located in the southeastern part of the State and is said to serve a trade area which extends 50 miles to the south and 100 miles in all other directions in which approximately 1,000,000 people reside. The city has an outlet to the Gulf of Mexico through the Houston Ship Channel and numerous steamship lines connect it with other Gulf and ocean ports. Train facilities are provided by the Southern Pacific, Missouri Pacific, Santa Fe, Burlington-Rock Island, M. K. & T. and the Galveston-Houston & Henderson railways. The city is also served by various bus and air lines.

The principal industries of the community are petroleum refining, milling, vegetable oil refining, and the manufacture of cottonseed products, oil well machinery, car wheels and other iron and brass products. It is also an important jobbing and shipping center. The Biennial Census of Manufactures for 1935 lists 470 plants operating in Harris County, in which Houston is located, and shows that such firms had an output valued at \$222,774,000 during that year. According to the Census of American Business there were 4,589 retail and 600 wholesale establishments in the same area in 1935, which enjoyed sales aggregating \$124,662,000 and \$333,438,000, respectively, during the year.

Banking facilities in Houston are furnished by ten national banks and four State nonmember banks. These institutions had deposits aggregating \$248,503,000, as of December 31, 1936, and of this amount \$231,534,000 was carried by the ten local member banks; the smallest of which is located in an outlying district and permitted to carry country bank reserves.

Debits to individual accounts in banks of the city amounted to approximately \$2,222,896,000 during 1936; or an average of about \$7,400,000 for each banking day.

(b) Branch Territory and Functions:

The Houston Branch was established August 4, 1919 and serves forty-one counties in the southeastern part of Texas. The branch zone represents about 9% of the land area of the Eleventh District and has approximately 20% of its total population. Approximately 19% of all banks in the district are within the territory allotted to the Branch.

As of December 31, 1936, there were 192 banks, exclusive of mutual savings banks, in the branch zone and of this number 85, including 72 national and 13 State institutions, were members of the System. Only 66 of the 107 nonmember banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to those of the Eleventh District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
		(000 omitted)		
Eleventh District	550	\$826,850	\$127,747	\$1,314,452
Branch Zone	85	223,538	35,638	355,356

There are only nine branch zones in the System having larger member bank footings than the Houston Branch, namely, Pittsburgh, Los Angeles, Detroit, Cincinnati, Buffalo, Baltimore, New Orleans, Seattle and Oklahoma City.

The Houston Branch renders substantially the same service to member banks in its zone as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearings, noncash

collections, safekeeping of securities and borrowings are concerned. Reserve accounts of member banks in the zone, as well as of nonmember clearing banks and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and a record of certain earnings and expenses. Control accounts are, of course, maintained at the Head Office which is sent a daily transcript of entries affecting such accounts. Immediate credit is given to member banks for discount offerings received by the Branch, subject to final approval of the Head Office. Schedules covering transactions are forwarded to the Head Office, but the notes and collateral, if any, are retained at the Branch. The Branch does not have Bank Examination, Bank Relations, Failed Bank, Legal, Research or Fiscal Agency departments.

As of February 6, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>Number of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
Houston	10	\$28,396,900	\$2,213,000	\$ 679,300	-
Remainder of Zone	<u>76</u>	<u>21,603,300</u>	<u>643,800</u>	<u>395,800</u>	<u>-</u>
	<u>86</u>	<u>\$50,000,200</u>	<u>\$2,856,800</u>	<u>\$1,075,100</u>	<u>-</u>

Houston is 264 train miles (8 hrs. and 30 mins.) from Dallas. On any business day there are trains leaving both points after 8 P.M. which arrive at the other prior to 8 A.M. on the following day, i.e., overnight mail. There are 56 outlying cities in the branch zone in which one or more member banks are located. An examination of mail schedules indicates that 17 of these cities are not within overnight mail time of the Head Office, whereas all but 5 are within overnight mail of Houston. It appears, therefore, that at least 12 points in the branch zone can be served more expeditiously by the Branch than by the Head Office. Banks located at these points and the ten member

banks in Houston, which now have an over-the-counter relationship with the Branch, would suffer the greatest inconvenience if the Branch were discontinued.

Other than Houston, the more populous cities in the branch zone are Beaumont, 57,732; Galveston, 52,938 and Port Arthur, 50,902.

(c) Branch Building:

The Houston Branch has occupied its present quarters at Texas Avenue and Caroline Street since February, 1922. The following figures show the original cost and book value, as of February 6, 1937, of the Branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>2-6-37</u>
Land	\$ 66,312	\$ 66,312
Building	253,038)	
Vault and vault equipment	34,958)	145,562
	<u>\$354,308</u>	<u>\$211,874</u>
Fixed machinery and equipment	60,001	-
	<u>\$414,309</u>	<u>\$211,874</u>

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$14,300
1932	20,600
1933	7,000
1934	2,400
1935	7,800
1936	11,500
1937	5,600

These figures are incomplete since, under the present accounting procedure, the Branch receives no credit for income received by the Head Office on investments, a portion of which is made possible by the Reserve bank stock

investment and reserve balances of member banks in the branch zone. Income shown on the Branch's books is derived chiefly from rediscounts of member banks, reserve penalties, rental of banking house space and industrial advances and commitments. Income from the first mentioned source has steadily declined, amounting to only \$500 in 1937 as compared to \$19,900 in 1932.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Dallas, made as of February 6, 1937, shows the following in regard to salaries and personnel at the Houston Branch:

	<u>February 6, 1937</u>		<u>March 18, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	2	\$ 9,500	2	\$10,500	-	\$1,000
Employees	<u>46</u>	<u>69,800</u>	<u>46</u>	<u>70,900</u>	-	<u>1,100</u>
	<u>48</u>	<u>\$79,300</u>	<u>48</u>	<u>\$81,400</u>	-	<u>\$2,100</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions:

The expenses of the Houston Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 10,626	\$ 10,541	\$ 10,354	\$ 7,781	\$ 9,495	\$ 10,339
Noncontrollable	7,841	10,918	10,959	-	11	20
*Provision of Space	15,705	14,398	13,043	9,478	9,382	29,058
Provision of Personnel	2,457	924	7,264	12,270	14,815	1,078
General Service	18,325	20,108	21,743	22,648	18,946	21,007
Postage	8,249	9,323	9,500	10,442	10,450	10,912
Insurance	3,121	2,994	2,277	2,147	1,978	1,862
Failed Banks	-	-	-	-	-	1
Loans, Rediscounts, etc.	3,956	2,786	2,721	7,291	3,746	1,552
Securities	1,712	1,731	1,870	1,899	1,341	1,380
Currency & Coin	11,096	10,545	10,177	20,501	22,763	24,863
Check Collection	22,707	21,867	21,408	19,930	19,451	20,733
Non-Cash Collection	5,172	6,033	6,510	6,310	5,588	5,400
Accounting	17,762	16,134	17,245	16,619	15,896	16,574
Fiscal Agency	5,788	11,988	29,807	40,955	37,625	36,262
Bank Relations	-	-	-	-	-	231
Legal	-	-	16	-	(13)	-
Auditing	3,858	4,137	3,674	3,969	4,220	4,390
Statistical & Analytical	1,045	1,185	765	466	371	304
F. R. Note Issue	-	-	-	-	-	64
Total Expense	<u>\$139,420</u>	<u>\$145,612</u>	<u>\$169,333</u>	<u>\$182,706</u>	<u>\$176,065</u>	<u>\$186,031</u>
Less-Reimbursable						
Fiscal Agency Exp.	<u>5,369</u>	<u>11,875</u>	<u>29,586</u>	<u>31,057</u>	<u>33,671</u>	<u>31,705</u>
Net Expense	<u>\$134,051</u>	<u>\$133,737</u>	<u>\$139,747</u>	<u>\$151,649</u>	<u>\$142,394</u>	<u>\$154,326</u>

* Represents the net expense - income from rentals having been deducted.

There were fifteen branches in the System which operated at a higher net cost than the Houston Branch in 1937; namely, Pittsburgh, Los Angeles, Baltimore, Cincinnati, Detroit, Buffalo, Salt Lake City, Omaha, Seattle, Denver, Oklahoma City, Louisville, Portland, New Orleans and Charlotte.

(g) Volume of Operations at Houston Branch:

The following is a comparison of the volume of operations of the various departments of the Houston Branch and the Head Office during the last six months of 1936:

	<u>Houston Branch</u>	<u>Head Office</u>
<u>Discount Department:</u>		
Notes rediscounted	-	324
Collateral notes discounted	4	35
Industrial advances	-	-
Branches with larger volume:	Buffalo, Baltimore, New Orleans, Memphis, Denver, Omaha, El Paso, San Antonio and Salt Lake City.	

	<u>Houston Branch</u>	<u>Head Office</u>
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Safekeeping:

Member bank securities 12-31-36	\$10,908,000	\$73,714,000
Branches with larger volume:	Cincinnati, Pittsburgh, Baltimore, Jacksonville, Detroit, Little Rock, Denver, Oklahoma City and Omaha.	

Currency & Coin:

- | | | |
|---|---|------------|
| 1. Number of bills received and counted | 6,020,000 | 19,826,000 |
| Branches with larger volume: | Buffalo, Cincinnati, Pittsburgh, Baltimore, Charlotte, Jacksonville, Nashville, New Orleans, Detroit, Louisville, Memphis, Los Angeles and Seattle. | |
| Cost per one thousand units handled | 48 cents | 45 cents |
| Branches with higher unit cost: | Buffalo, Cincinnati, Pittsburgh, Baltimore, Detroit, Helena, Denver, Oklahoma City, Omaha, El Paso, San Antonio, Portland, Salt Lake City, Seattle and Spokane. | |
-
- | | | |
|---|--|------------|
| 2. Number of coins received and counted | 8,569,000 | 17,795,000 |
| Branches with larger volume: | Buffalo, Cincinnati, Pittsburgh, Baltimore, New Orleans and Los Angeles. | |
| Cost per one thousand units handled | 15 cents | 13 cents |
| Branches with higher unit cost: | Cincinnati, Pittsburgh, Charlotte, Birmingham, Nashville, Detroit, Little Rock, Helena, Denver, Omaha, El Paso, San Antonio, Los Angeles, Portland, Salt Lake City, Seattle and Spokane. | |

Check Collection:

- | | | |
|---|--|-----------|
| 1. Number of city checks (clearings) received | 874,000 | 1,322,000 |
| Branches with larger volume: | Buffalo, Cincinnati, Pittsburgh, Baltimore, Detroit, Louisville, Denver, Omaha and Los Angeles. | |
| Cost per one thousand units handled | \$2.05 | \$1.57 |
| Branches with higher unit cost: | Louisville, Helena, Denver, Oklahoma City, Los Angeles, Portland, Salt Lake City, Seattle and Spokane. | |
-
- | | | |
|---|---|------------|
| 2. Number of country checks (outgoing) received | 2,821,000 | 10,343,000 |
| Branches with larger volume: | Buffalo, Cincinnati, Pittsburgh, Baltimore, Charlotte, Detroit, Louisville, Denver, Oklahoma City, Omaha, Los Angeles and Salt Lake City. | |
| Cost per one thousand units handled | \$1.86 | \$2.31 |
| Branches with higher unit cost: | All branches except Birmingham, Jacksonville, Little Rock, Louisville, Denver, Oklahoma City and Omaha. | |

	<u>Houston Branch</u>	<u>Head Office</u>
<u>Non-cash Collections:</u>		
1. Number of city collections handled	16,967	14,769
Branches with larger volume:	Buffalo, Baltimore, Detroit, Little Rock, Memphis, Omaha and Los Angeles.	
Cost per unit handled	8.7 cents	13.5 cents
Branches with higher unit cost:	All branches except Jacksonville, Little Rock, Omaha and El Paso.	
2. Number of country collections handled	7,761	39,412
Branches with larger volume:	All branches except Birmingham, Nashville, Helena and El Paso.	
Cost per unit handled	9 cents	8.9 cents
Branches with higher unit cost:	Buffalo, Baltimore, Birmingham, Jacksonville, Nashville, New Orleans, Detroit, Helena, Denver, San Antonio, Los Angeles, Portland and Seattle.	
3. Number of coupons (except Government) and country security collections handled	2,311	4,448
Branches with larger volume:	Buffalo, Cincinnati, Pittsburgh, Baltimore, New Orleans, Detroit, Little Rock, Louisville, Denver, Omaha, San Antonio and Los Angeles.	
Cost per unit handled	10.8 cents	25 cents
Branches with higher unit cost:	All branches except Cincinnati, Pittsburgh, Baltimore, Birmingham, New Orleans, Little Rock, Denver, Omaha and Seattle.	

A schedule showing the volume of operations of the Houston Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Houston Branch by Board's Examiners - 1934

During an examination of the Federal Reserve Bank of Dallas, made as of June 23, 1934, the Board's Examiners reviewed the operations of the Houston Branch and expressed the opinion that its continuance appeared to be warranted only in view of its long establishment and the importance of the City of Houston as a business center and port. In reaching this conclusion consideration was given to the volume and cost of operations at the Branch, the number of member banks in the branch city and zone, and the mail facilities available between points in the branch zone and the Head Office at Dallas.

(1) Survey of Houston Branch by Federal Reserve Bank of Dallas - 1936

In accordance with the request made by the Board in its letter of March 25, 1936, (X-9532) the Federal Reserve Bank of Dallas reviewed the internal operations of the Houston Branch and advised that the following conclusions had been reached in regard thereto:

1. That, in view of economies already effected over a period of years, it appeared improbable that the personnel of the Branch could be reduced or expenses otherwise lowered without impairing the efficiency of its operations.
2. That while some of the functions performed by the Branch could be transferred to the Head Office the saving would not be large in the aggregate and in their opinion would be insufficient to induce them to effect the transfer, and
3. That, in the absence of a general policy adopted by the Board which would eliminate all or a substantial portion of all existing branches, they believed maintenance of the Houston Branch was warranted.

It was pointed out that Congress in the Federal Reserve Act had taken cognizance of the fact that with only twelve Reserve banks many outlying member banks and their communities would suffer disadvantage and inconvenience as compared to those nearer the Head Office, and had authorized the establishment of branches in order to equalize the benefits and facilities of the System. It was stated further that Congress, while apparently aware of the expense which the establishment of branches would entail, did not under the Federal Reserve Act seem to contemplate different types of branches, i.e., "memorandum plan" or "full-fledged" branches. The opinion was expressed that each branch should render to member banks in its territory, so far as practicable, all the services incident to membership, subject only to the general control of and supervision by the Head Office, and to the operating policies established by it. It was

indicated that the transfer of functions of a branch to the Head Office would tend to show a lack of need for the branch and that, as a consequence, the real question seemed to be whether any branch now in operation should be discontinued, rather than whether its functions should be limited. In this connection, it was admitted that strictly speaking there exists no necessity for the continuance of any branch, since the member banks involved, even though they might feel greatly inconvenienced and in some cases discriminated against, would nevertheless adjust themselves to the change. In conclusion, it was stated that the question of branches was one of general policy for determination of the Board and that the Board alone, acting for the System as a whole, could provide a "yardstick" by which the need for continuance of any specific branch could be determined. In the absence of such a yardstick facts relating to banking, business and mail schedules in the Houston zone, similar to those included in this memorandum, were submitted to support their contention that the continued operation of the Houston Branch was warranted.

HOUSTON BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

Date	Bills Discounted	Currency Received and Counted	Coin Received and Counted	Checks Handled				Non Cash Collection Items		Fiscal Agency Transactions		Transfer of Funds
				City	Country	Gov't Checks	Total	Gov't Coupons	All Other	Direct	Other	
1931	1,667	10,101,000	13,945,000	1,354,000	5,108,000	270,000	6,732,000	58,119	39,820	-	-	24,242
1932	1,521	8,987,000	12,999,000	1,103,000	4,089,000	266,000	5,458,000	59,211	46,180	-	-	23,093
1933	547	9,481,000	10,359,000	1,215,000	3,650,000	476,000	5,341,000	63,272	56,879	-	-	23,669
1934	22	10,624,000	11,365,000	1,383,000	4,123,000	1,068,000	6,574,000	98,497	61,714	-	-	20,315
1935	7	10,483,000	11,607,000	1,505,000	4,890,000	755,000	7,150,000	112,000	52,000	-	-	18,474
1936	11	11,328,000	15,297,000	1,848,000	5,532,000	668,000	8,048,000	88,000	53,000	-	-	17,000

Amounts Handled

(in thousands of dollars)

1931	10,623	38,528	1,383	878,136	374,021	37,622	1,289,779	796	42,342	-	-	1,401,025
1932	14,690	33,122	1,180	527,183	271,263	26,124	824,570	931	40,046	-	-	1,021,494
1933	5,034	39,539	2,384	561,932	275,613	48,668	886,213	1,073	59,434	-	-	938,540
1934	516	37,444	1,235	734,353	354,095	81,245	1,169,693	1,423	78,529	-	-	886,822
1935	268	35,826	1,177	774,824	416,141	66,034	1,256,999	1,607	79,670	-	-	1,073,606
1936	425	39,318	1,527	985,988	509,962	69,429	1,565,379	1,627	63,130	-	-	1,162,452

SAN ANTONIO BRANCH -- FEDERAL RESERVE BANK OF DALLAS

(a) City of San Antonio:

San Antonio, with a population of 231,542, is the thirty-eighth largest city in the United States and the third largest city in Texas. It is located in the south central part of the State and is said to serve a trade area extending 125 miles north, 300 miles south, 130 miles east and 165 miles west. This area is devoted to agriculture and livestock; the region lying west and southwest of San Antonio being noted as one of the most important livestock breeding grounds in the United States. Being situated not very far distant from the Rio Grande, San Antonio transacts considerable business with the Republic of Mexico. Transportation facilities are provided by the M. K. & T., Missouri Pacific and Southern Railways; also by various bus lines and air lines.

The principal industries are the manufacture of textiles, vegetable oil products, dairy products, steel and iron products, meat packing, oil refining and flour milling. According to the Biennial Census of Manufactures for 1935, there were 318 manufacturing firms operating in Bexar County, in which San Antonio is situated, which had an output valued at \$37,295,000 during that year. The Census of American Business for the same year lists 4,679 retail and 441 wholesale establishments operating in the county. These concerns had sales aggregating \$83,251,000, and \$86,784,000, respectively, during the year 1935.

Banking facilities in San Antonio are provided by eight national banks, two State nonmember banks, one of which has no banking and discount privileges, and one Morris Plan bank. These institutions had deposits aggregating \$92,428,000 as of December 31, 1936 and of this amount \$86,173,000 was carried with the eight

local member banks.

Debits to individual accounts in banks of the city amounted to \$757,187,000 during 1936, or an average of approximately \$2,523,000 for each banking day.

(b) Branch Territory and Functions:

The San Antonio Branch was established on July 5, 1927, and serves fifty-four counties in the southwestern and south central part of Texas. This area represents approximately 17% of the land area of the Eleventh District and has about 16% of its total population. Approximately 15% of all banks in the district are located in this area.

As of December 31, 1936, there were 149 banks, exclusive of mutual savings banks, in the branch zone and of this number 73, including 65 national and 8 State institutions, were members of the System. Only 54 of the 76 nonmember banks in the branch zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared with the Eleventh District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
		(000 omitted)		
Eleventh District	550	\$826,850	\$127,747	\$1,314,452
Branch Zone	73	107,940	15,682	168,494

There are only five branch zones in the System which have smaller member bank footings than the San Antonio Branch, namely, Spokane, El Paso, Little Rock, Helena and Charlotte.

The San Antonio Branch renders substantially the same service to member banks in its zone as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearings, non-cash

collections, safekeeping of securities and borrowings are concerned. Reserve accounts of member banks in the zone, as well as of nonmember clearing banks and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and a record of certain earnings and expenses. Control accounts are, of course, maintained at the Head Office which is sent a daily transcript of entries affecting such accounts. Immediate credit is given to member banks for discount offerings received by the Branch, subject to final approval of the Head Office. Schedules covering transactions are forwarded to the Head Office, but the notes and collateral, if any, are retained at the Branch. The Branch does not have Bank Examination, Bank Relations, Failed Bank, Legal, Research or Fiscal Agency departments.

As of February 6, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>Number of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
<u>Texas</u>					
San Antonio	8	\$ 9,551,375	\$1,709,955	\$214,200	-
Remainder of Zone	65	11,342,444	378,425	257,600	-
	<u>73</u>	<u>\$20,893,819</u>	<u>\$2,088,380</u>	<u>\$471,800</u>	<u>-</u>

San Antonio is 292 train miles (8 hrs.) from Dallas and 211 train miles (5 hrs.) from Houston. There are 58 points in the branch zone in which one or more member banks are located. Fifty-three of these points appear to be within over-night mail time of San Antonio, 47 within over-night mail time of Houston and 2 are within over-night mail time of El Paso. A small number of the points which are within over-night mail time of Houston and San Antonio, are also within over-night mail of Dallas. If the San Antonio Branch were discontinued and its territory divided between the Houston and El Paso Branches

only 4 outlying member bank points would receive less expeditious service than is now furnished from San Antonio. Member banks in the City of San Antonio, which now enjoy an over-the-counter relationship with the Branch would, of course, have to adjust their business to over-night mail communication.

Other than San Antonio, the more populous cities in the branch zone are Austin, 53,120; Laredo, 32,618; Corpus Christi, 27,741 and Brownsville, 22,021. All of these places have one or more member banks.

(c) Branch Building:

The San Antonio Branch has occupied its present quarters at Jardin and Villita Streets since October, 1928. The following figures show the original cost and book value, as of February 6, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>2-6-37</u>
Land	\$ 75,002	\$ 30,000
Building	139,189)	
Vault and vault equipment	18,769)	102,816
	<u>\$232,960</u>	<u>\$132,816</u>
Fixed machinery and equipment	21,238	4,247
	<u>\$254,198</u>	<u>\$137,063</u>

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$65,500
1932	67,100
1933	20,000
1934	2,500
1935	8,000
1936	7,600
1937	5,200

These figures are incomplete since under the present accounting procedure the Branch receives no credit for income received by the Head Office on investments, a portion of which is made possible by the Reserve bank stock investment and reserve balances of member banks in the branch zone. Income shown on the Branch's books is derived chiefly from rediscounts of member banks, reserve penalties, rental of banking house space and industrial loans. Income from the first mentioned source has steadily declined, amounting to approximately \$600 in 1937 as compared to \$63,600 in 1932.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of Dallas, made as of February 6, 1937, shows the following in regard to salaries and personnel at the San Antonio Branch:

	<u>February 6, 1937</u>		<u>March 18, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	2	\$10,100	2	\$10,000	-	\$ 100*
Employees	<u>41</u>	<u>58,700</u>	<u>42</u>	<u>61,000</u>	<u>1</u>	<u>2,300</u>
	<u>43</u>	<u>\$68,800</u>	<u>44</u>	<u>\$71,000</u>	<u>1</u>	<u>\$2,200</u>

*Increase

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions:

The expenses of the San Antonio Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead:						
Controllable	\$ 13,562	\$ 12,354	\$ 9,826	\$ 10,167	\$ 9,936	\$ 10,564
Non-Controllable	9,204	11,329	12,158	-	-	-
*Provision of Space	9,975	8,325	6,578	5,527	6,144	13,691
Provision of Personnel	1,321	1,010	6,924	11,090	12,113	1,695
General Service	17,102	18,303	20,051	20,707	17,718	18,030
Postage	8,245	8,851	8,538	9,163	10,110	10,037
Insurance	2,931	2,795	2,145	1,594	1,354	1,764
Failed Banks	3	-	-	-	-	-
Loans, rediscounts, etc.	8,327	5,986	3,608	2,431	1,743	1,270
Securities	1,715	1,672	1,643	1,214	1,039	909
Currency & Coin	11,530	10,746	11,314	23,363	25,020	27,562
Check Collection	18,526	19,964	20,785	18,797	18,168	17,988
Non-Cash Collection	3,371	3,607	4,409	4,755	4,546	4,271
Accounting	14,545	14,000	14,441	13,705	11,951	12,117
Fiscal Agency	5,607	9,146	17,671	29,098	31,515	31,612
Legal	-	9	1	-	9	10
Auditing	3,820	3,958	3,495	4,421	4,395	4,428
Bank Relations	62	3	8	12	-	58
F. R. Note Issues	-	-	-	39	44	41
Statistical & Analytical	-	-	-	-	13	142
Total Expense	<u>\$129,846</u>	<u>\$132,058</u>	<u>\$143,595</u>	<u>\$156,083</u>	<u>\$155,818</u>	<u>\$156,389</u>
Less - Reimbursable						
Fiscal Agency Expense	<u>5,142</u>	<u>8,793</u>	<u>16,347</u>	<u>20,024</u>	<u>26,363</u>	<u>26,617</u>
Net Expense	<u>\$124,704</u>	<u>\$123,265</u>	<u>\$127,248</u>	<u>\$136,059</u>	<u>\$129,455</u>	<u>\$129,772</u>

* Represents the net expense - income from rentals having been deducted.

There were seventeen branches in the System which operated at a higher net cost than the San Antonio Branch in 1937; namely, Pittsburgh, Los Angeles, Baltimore, Cincinnati, Detroit, Buffalo, Salt Lake City, Omaha, Seattle, Denver, Oklahoma City, Louisville, Portland, New Orleans, Charlotte, Houston and Jacksonville.

(g) Volume of Operations at San Antonio Branch:

The following is a comparison of the volume of operations in various departments of the San Antonio Branch and the Head Office during the last six months of 1936:

	<u>San Antonio Branch</u>	<u>Head Office</u>
<u>Discount Department</u>		
Notes rediscounted	22	324
Collateral notes discounted	8	35
Industrial advances	-	-
Branches with larger volume: Denver, Omaha and El Paso.		
<u>Safekeeping</u>		
Member bank securities 12-31-36	\$6,274,000	\$73,714,000
Branches with larger volume: Cincinnati, Pittsburgh, Baltimore, Jacksonville, New Orleans, Detroit, Little Rock, Louisville, Denver, Oklahoma City, Omaha and Houston.		
<u>Currency & Coin</u>		
1. Number of bills received and counted	5,338,000	19,826,000
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, Charlotte, Birmingham, Jacksonville, Nashville, New Orleans, Detroit, Louisville, Memphis, Houston, Los Angeles and Seattle.		
Cost per one thousand units handled	54 cents	45 cents
Branches with higher unit cost: Buffalo, Cincinnati, Helena, Denver, Omaha, El Paso, Portland, Salt Lake City, Seattle and Spokane.		
2. Number of coins received and counted	4,919,000	17,795,000
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, New Orleans, Detroit, Louisville, Memphis, Houston, Los Angeles and Seattle.		
Cost per one thousand units handled	27 cents	13 cents
Branches with higher unit cost: Helena, El Paso, Portland, Salt Lake City, Seattle and Spokane.		
<u>Check Collection</u>		
1. Number of city checks (clearings) received	627,000	1,322,000
Branches with larger volume: All branches except Charlotte, Birmingham, Jacksonville, Little Rock, Helena, Oklahoma City, El Paso, Salt Lake City and Spokane.		
Cost per one thousand units handled	\$1.45	\$1.57
Branches with higher unit cost: All branches except Baltimore, Charlotte, Birmingham, Jacksonville, Nashville, New Orleans and Detroit.		

	San Antonio Branch	Head Office
<u>Check Collection (Continued)</u>		
2. Number of country checks (outgoing) received	2,792,000	10,343,000
Branches with larger volume:	All branches except Birmingham, Jacksonville, Nashville, New Orleans, Little Rock, Memphis, Helena, El Paso, Portland, Seattle and Spokane.	
Cost per one thousand units handled	\$2.11	\$2.31
Branches with higher unit cost:	Buffalo, Cincinnati, New Orleans, Detroit, Helena, El Paso, Los Angeles, Portland, Salt Lake City, Seattle and Spokane.	
<u>Non-cash Collections</u>		
1. Number of city collections handled	5,193	14,769
Branches with larger volume:	All branches except Charlotte, Birmingham, Helena and El Paso.	
Cost per unit handled	17.1 cents	13.5 cents
Branches with higher unit cost:	Buffalo, Cincinnati, Pittsburgh, Baltimore, Charlotte, Detroit, Los Angeles, Portland and Seattle.	
2. Number of country collections handled	8,715	39,412
Branches with larger volume:	Buffalo, Baltimore, Charlotte, Jacksonville, New Orleans, Detroit, Memphis, Denver, Oklahoma City, Omaha, Los Angeles, Portland, Salt Lake City, Seattle and Spokane.	
Cost per unit handled	10.7 cents	8.9 cents
Branches with higher unit cost:	Buffalo, Baltimore, Birmingham, Jacksonville, Nashville, New Orleans, Helena, Los Angeles, Portland and Seattle.	
3. Number of coupons (except Government) and country security collections handled	3,077	4,448
Branches with larger volume:	Buffalo, Cincinnati, Pittsburgh, Baltimore, New Orleans, Detroit, Omaha and Los Angeles.	
Cost per unit handled	11.1 cents	25 cents
Branches with higher unit cost:	Buffalo, Charlotte, Jacksonville, Nashville, Detroit, Louisville, Memphis, Helena, Oklahoma City, El Paso, Los Angeles, Portland, Salt Lake City and Spokane.	

A schedule showing the volume of operations of the San Antonio Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of San Antonio Branch by Board's Examiners - 1934:

During an examination of the Federal Reserve Bank of Dallas, made as of June 23, 1934, the Board's Examiners reviewed the operations of the San Antonio Branch and indicated in their report that there was some question as to the necessity for its continuance. It was pointed out that prevailing mail schedules would permit overnight mail service to a majority of member bank points in the

branch zone from either Houston or Dallas and that aviation service had become sufficiently dependable to permit currency shipments from the Head Office in cases of emergency.

(i) Survey of San Antonio Branch by Federal Reserve Bank of Dallas - 1936:

In accordance with the request made by the Board in its letter of March 25, 1936, (X-9532) the Federal Reserve Bank of Dallas reviewed the internal operations of the San Antonio Branch and advised that the following conclusions had been reached in regard thereto:

1. In view of economies already effected over a period of years, it appeared improbable that the personnel of the Branch could be reduced or expenses otherwise lowered without impairing the efficiency of its operations.
2. Although some of the functions performed by the Branch could be transferred to the Head Office the saving would not be large in the aggregate and in their opinion would be insufficient to induce them to effect the transfer.
3. In the absence of a general policy adopted by the Board, which would eliminate all or a substantial portion of all existing branches, they believed maintenance of the San Antonio Branch was warranted.

It was pointed out that Congress in the Federal Reserve Act had taken cognizance of the fact that with only twelve Reserve banks many outlying member banks and their communities would suffer disadvantage and inconvenience as compared to those nearer the Head Office, and had authorized the establishment of branches in order to equalize the benefits and facilities of the System. It was stated further that Congress, while apparently aware of the expense which the establishment of branches would entail, did not under the Federal Reserve Act seem to contemplate different types of branches, i.e., "memorandum plan" or "full-fledged" branches. The opinion was expressed that each branch should render to member banks in its territory, so far as practicable, all the services

incident to membership, subject only to the general control of and supervision by the Head Office, and to the operating policies established by it. It was indicated that the transfer of functions of a branch to the Head Office would tend to show a lack of need for the branch and that, as a consequence, the real question seemed to be whether any branch now in operation should be discontinued, rather than whether its functions should be limited. In this connection, it was admitted that strictly speaking there exists no necessity for the continuance of any branch, since the member banks involved, even though they might feel greatly inconvenienced and in some cases discriminated against, would nevertheless adjust themselves to the change. In conclusion, it was stated that the question of branches was one of general policy for determination of the Board and that the Board alone, acting for the System as a whole, could provide a "yardstick" by which the need for continuance of any specific branch could be determined. In the absence of such a yardstick facts relating to banking, business and mail schedules in the San Antonio zone, similar to those included in this memorandum, were submitted to support their contention that the continued operation of the San Antonio Branch was warranted.

SAN ANTONIO BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	3,486	10,803,000	6,504,000	1,061,000	4,184,000	220,000	5,465,000	33,903	21,231	-	-	14,389
1932	4,265	8,412,000	6,715,000	913,000	3,481,000	224,000	4,618,000	43,071	24,199	-	-	13,127
1933	1,585	8,219,000	6,235,000	876,000	3,372,000	399,000	4,647,000	46,789	28,829	-	-	12,614
1934	27	8,707,000	5,276,000	979,000	4,054,000	865,000	5,898,000	78,248	31,896	-	-	11,094
1935	63	9,233,000	6,797,000	1,104,000	4,627,000	541,000	6,272,000	87,000	36,000	-	-	10,410
1936	55	10,701,000	8,175,000	1,245,000	5,391,000	564,000	7,200,000	65,000	36,000	-	-	8,000

Amounts Handled
(in thousands of dollars)

1931	24,206	47,131	1,167	355,783	429,434	38,986	824,203	456	23,184	-	-	470,578
1932	14,036	34,676	1,460	263,863	275,029	29,304	568,196	605	23,185	-	-	334,676
1933	4,952	41,224	2,603	277,990	260,951	37,744	576,685	703	28,499	-	-	279,020
1934	135	32,648	706	389,575	347,400	56,552	793,527	1,026	38,734	-	-	285,700
1935	103	32,725	924	461,583	398,506	51,756	911,845	973	46,752	-	-	338,956
1936	53	36,594	1,049	518,757	490,300	68,854	1,077,911	807	39,459	-	-	316,269

LOS ANGELES BRANCH - FEDERAL RESERVE BANK OF SAN FRANCISCO

(a) City of Los Angeles

Los Angeles, with a population of 1,238,000, is the fifth largest city in the United States and the largest city in California. It is located in the southwestern part of the State and is said to serve a trade area extending 35 miles north, 50 miles south and 50 miles east; approximately 2,300,000 people reside in the metropolitan area. Transportation facilities are provided by the Atchison-Topeka & Santa Fe, Union Pacific, Southern Pacific and Pacific Electric railways and by various air lines and bus lines. Los Angeles also enjoys direct steamship service to all the principal ports of the world, approximately \$774,800,000 in cargoes having passed over its wharves during the year ending June 30, 1935.

The principal industries of the city are motion pictures, petroleum products, iron and steel, food products, planing mills, furniture, wearing apparel, clay products, automobiles and automobile accessories and air craft. According to the Biennial Census of Manufactures for 1935, there were 4,368 manufacturing firms operating in Los Angeles County, which had an output valued at \$844,006,000 during that year. The Census of American Business for 1935 shows 5,042 wholesale and 41,039 retail establishments in the same area, which enjoyed sales aggregating \$1,119,952,000 and \$939,409,000, respectively, during the year.

Banking facilities in Los Angeles are furnished by four State banks, two of which are members of the System, four national banks, one industrial bank, four title and trust companies, and three branches of foreign banks. Branch banking has been highly developed in Los Angeles and throughout the State of California. The following figures relate to member banks operating in Los

Angeles on December 31, 1936:

<u>Name</u>	<u>Head Office</u>	<u>Number of Branches</u>			<u>Total</u>	<u>Deposits</u>
		<u>City of</u> <u>Los</u> <u>Angeles</u>	<u>Outside</u> <u>Los</u> <u>Angeles</u>	<u>for</u> <u>State</u>		
Citizens N.T. & Svgs.Bk.	Los Angeles	33	2	35	\$	114,595,000
Security-First Nat'l Bk.	Los Angeles	63	56	119		580,651,000
California Bank	Los Angeles	42	11	53		100,413,000
Union Bank & Tr. Co.	Los Angeles	-	-	-		39,503,000
Farmers & Merchants N.B.	Los Angeles	-	-	-		127,674,000
Bk.of America N.T.& S.A.	San Francisco	86	379	465		1,298,977,000
Totals		<u>224</u>	<u>448</u>	<u>672</u>		<u>\$2,261,813,000</u>

Debits to individual accounts in banks operating in Los Angeles aggregated \$10,216,206,000 for the year 1936, or an average of approximately \$34,000,000 for each banking day.

(b) Branch Territory and Functions:

The Los Angeles Branch was established on January 2, 1920, and serves that part of the State of Arizona located in Federal Reserve District Twelve and nine counties in the southern part of California. The branch zone represents approximately 21% of the land area of the Twelfth District and has about 34% of its total population. Approximately 16% of all banks in the district are located in this area.

As of December 31, 1936, there were 107 banks, exclusive of mutual savings banks in the branch zone and of this number 63, including 55 national banks and 8 State institutions, were members of the System. The 44 nonmember banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to the Twelfth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
		(000 omitted)		
Twelfth District	322	\$3,630,503	\$337,201	\$4,483,284
Los Angeles Zone	63	923,855	91,097	1,166,712

There is only one branch zone in the System having larger member bank footings than the Los Angeles Branch, namely Pittsburgh.

The Los Angeles Branch renders substantially the same service to member banks in its zone as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearings, non-cash collections and borrowings are concerned. Reserve accounts of member banks in the zone, as well as of nonmember clearing banks and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and a record of certain earnings and expenses. Control accounts are, of course, maintained at the Head Office which is sent a daily transcript of entries affecting such accounts. Immediate credit is given to member banks for discount offerings received by the Branch, subject to final approval of the Head Office. Schedules covering transactions are forwarded to the Head Office, but the notes and collateral, if any, are retained at the Branch. The Branch has no Bank Examination, Bank Relations, Legal, Research or Fiscal Agency departments.

As of January 8, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
Los Angeles	6	\$108,487,700	\$5,418,500	\$2,238,800	-
Remainder of Zone	57	17,838,300	1,172,000	558,100	-
	<u>63</u>	<u>\$126,326,000</u>	<u>\$6,590,500</u>	<u>\$2,796,900*</u>	<u>-</u>

*Capital stock figure includes holdings of five banks which have been absorbed by other member banks, but whose stock investment in the Reserve bank had not been surrendered.

Los Angeles is 471 train miles (12 hrs. and 30 mins.) from San Francisco. On any business day there are several trains leaving both points after 8 P.M. which arrive at the other before 9 A.M. on the following day. Other than Los Angeles there are 52 member bank points in the branch zone and of this number 49 are within overnight mail of Los Angeles, whereas only 14 are within overnight mail of San Francisco. It is clear, therefore, that discontinuance of the Los Angeles Branch would not only inconvenience the member banks in the City of Los Angeles, which now enjoy an over-the-counter relationship with the Branch, but that it would also slow up the service rendered to a substantial number of member banks situated in outlying cities.

Other than Los Angeles, the more populous cities of the branch zone are San Diego, 147,995; Long Beach, 142,032; Pasadena, 76,086; Glendale, 62,736; San Bernadino, 37,481 and Santa Monica, 37,146.

(c) Branch Building:

The Los Angeles Branch has occupied its present quarters at 10th and Olive Streets since April, 1930. The following figures show the original cost and book value as of January 8, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>1-8-37</u>
Land	\$ 453,458	\$ 298,866
Building	839,477)	
Vault & vault equipment	148,632)	815,949
	<u>\$1,441,567</u>	<u>\$1,114,815</u>
Fixed machinery & equipment	282,698	84,967
	<u><u>\$1,724,265</u></u>	<u><u>\$1,199,782</u></u>

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$ 65,100
1932	159,100
1933	59,700
1934	5,100
1935	1,600
1936	3,300
1937	3,800

These figures are incomplete since the Branch receives no credit for income received by the Head Office on investments, a portion of which is made possible by the Reserve bank stock investment and reserve balances of banks in the branch zone. Income shown on the Branch's books is derived chiefly from rediscounts of member banks, reserve penalties and the rental of banking house space. Income from the first mentioned source amounted to \$151,200 in 1932 as compared to only \$3,200 in 1937.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of San Francisco, made as of January 8, 1937, shows the following in regard to salaries and personnel at the Los Angeles Branch:

	<u>January 8, 1937</u>		<u>April 11, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	4	\$ 25,200	4	\$ 24,400	-	\$ 800 Inc.
Employees	<u>221</u>	<u>348,700</u>	<u>227</u>	<u>359,000</u>	<u>6</u>	<u>10,300</u>
	<u>225</u>	<u>\$373,900</u>	<u>231</u>	<u>\$383,400</u>	<u>6</u>	<u>\$ 9,500</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures. The January 8, 1937, figure includes six employees with total annual salaries of \$7,200 who were employed on a temporary basis to handle the usual post-holiday increase in unassorted currency. Allowing for these individuals, there was a reduction of 12 nonreimbursable employees since April 11, 1936.

(f) Branch Expenses by Functions:

The expenses of the Los Angeles Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead						
Controllable	\$ 16,769	\$ 18,776	\$ 14,074	\$ 11,219	\$ 14,528	\$ 14,968
Noncontrollable	41,996	51,834	48,955	52	-	4
Provision of Space	59,601	60,109	56,648	52,993	50,909	99,830
Provision of Personnel	13,893	19,941	44,912	59,924	68,615	33,232
General Service	78,615	86,673	90,467	95,559	89,765	88,474
Postage	21,999	19,942	11,015	18,543	20,344	18,723
Insurance	9,321	8,105	4,312	3,637	3,676	3,449
Failed Banks	8,828	22,296	12,590	6,043	2,789	1,071
Loans, Rediscounts, etc.	26,141	31,699	36,139	67,733	33,112	20,275
Securities	1,419	2,676	2,792	3,019	1,627	1,846
Currency & Coin	62,528	63,261	61,347	122,206	134,992	142,728
Check Collection	92,348	83,248	81,405	75,804	81,275	84,546
Non-cash Collection	26,586	29,522	25,915	22,328	20,597	17,328
Accounting	44,929	44,647	44,185	47,483	45,668	36,611
Fiscal Agency	35,742	41,072	41,340	59,237	54,064	46,010
Legal	-	-	160	-	50	-
Auditing	4,068	4,441	4,932	5,681	5,597	4,346
Bank Relations	461	444	402	503	495	859
Bank Examinations	5	31	110	54	-	-
Statistical & Analytical	1,590	2,052	2,949	1,462	1,627	1,079
Works Progress					111	
Total Expense	<u>\$546,839</u>	<u>\$590,769</u>	<u>\$584,649</u>	<u>\$653,480</u>	<u>\$629,841</u>	<u>\$615,379</u>
Less-Reimbursable						
Fiscal Agency Expense	<u>31,054</u>	<u>35,599</u>	<u>33,186</u>	<u>24,420</u>	<u>26,733</u>	<u>25,377</u>
Net Expense	<u><u>\$515,785</u></u>	<u><u>\$555,170</u></u>	<u><u>\$551,463</u></u>	<u><u>\$629,060</u></u>	<u><u>\$603,108</u></u>	<u><u>\$590,002</u></u>

There were 23 branches in the System which operated at a lower cost than the Los Angeles Branch in 1937. All of these branches, with the possible exception of Baltimore, appear to have handled a smaller volume of work. Baltimore, of course, serves a much more compact territory than does Los Angeles.

(g) Volume of Operations at Los Angeles Branch:

The following is a comparison of the volume of operations in various departments of the Los Angeles Branch and the Head Office during the last six months of 1936:

Los Angeles Branch Head Office

Discount Department

Notes rediscounted	-	33
Collateral notes discounted	-	31
Industrial advances (*)	-	2
Branches with larger volume: Denver, Buffalo, Baltimore, Salt Lake City, Omaha, Memphis, New Orleans, San Antonio, Houston, Spokane, Detroit, Little Rock, Portland and El Paso.		

(*) All industrial advances are carried on the books of the Head Office but those originating in the branch zone are serviced by the Branch.

Safekeeping

Member bank securities 12-31-36		\$353,000
Branches with larger volume: All branches except Spokane.		

Currency & Coin

1. Number of bills received and counted	41,134,000	25,977,000
Branches with larger volume: None.		

Cost per one thousand units handled	44 cents	46 cents
Branches with higher unit cost: All branches except, Charlotte, Birmingham, Nashville, New Orleans, Little Rock, Louisville and Memphis.		

2. Number of coins received and counted	38,658,000	39,378,000
Branches with larger volume: Baltimore.		

Cost per one thousand units handled	16 cents	16 cents
Branches with higher unit cost: All branches except Buffalo, Baltimore, Charlotte, Jacksonville, New Orleans, Detroit, Louisville, Memphis, Oklahoma City and Houston.		

Check Collection

1. Number of city checks (clearings) received	3,178,000	3,055,000
Branches with larger volume: Pittsburgh.		

Cost per one thousand units handled	\$3.45	\$1.78
Branches with higher unit cost: Helena.		

2. Number of country checks (outgoing) received	5,294,000	3,259,000
Branches with larger volume: Cincinnati, Pittsburgh, Baltimore, Detroit and Oklahoma City.		

Cost per one thousand units handled	\$3.66	\$2.31
Branches with higher unit cost: None.		

Los Angeles Branch Head Office

Non-cash Collections

- | | | |
|---|------------|------------|
| 1. Number of city collections handled | 18,154 | 12,352 |
| Branches with larger volume: Detroit, Little Rock, Memphis, and Omaha. | | |
| Cost per unit handled | 24.9 cents | 27.5 cents |
| Branches with higher unit cost: Cincinnati, Pittsburgh and Portland. | | |
| 2. Number of country collections handled | 16,462 | 43,331 |
| Branches with larger volume: Buffalo, Baltimore, Charlotte, Denver, Oklahoma City, Omaha, Salt Lake City and Spokane. | | |
| Cost per unit handled | 17 cents | 6.3 cents |
| Branches with higher unit cost: Portland. | | |
| 3. Number of coupons (except Government) | | |
| and country security collections handled | 6,212 | 3,465 |
| Branches with larger volume: Pittsburgh, Baltimore, and Detroit. | | |
| Cost per unit handled | 30 cents | 19.3 cents |
| Branches with higher unit cost: Jacksonville and El Paso. | | |

A schedule showing the volume of operations of the Los Angeles Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Los Angeles Branch by Board's Examiners - 1933

During an examination of the Federal Reserve Bank of San Francisco, made as of September 2, 1933, the Board's examiners reviewed the operations of the Los Angeles Branch and incorporated the following statement as to its continuance in their report:

"The branch at Los Angeles would appear to be justified in view of the size and importance of the city and its distance from the Head Office, ***."

(i) Survey of Los Angeles Branch by Federal Reserve Bank of San Francisco - 1936.

In accordance with the request made by the Board in its letter of March 25, 1936 (X-9532) the Federal Reserve Bank of San Francisco made a comprehensive survey of its five branches. A report of this survey was submitted to the Board, without a definite recommendation as to the discontinuance of any

branch. In the letter of transmittal, dated August 26, 1936, it was stated the Directors of the San Francisco Reserve Bank, after a full discussion of the matter, felt that before any recommendation could be made it would be necessary for the Board of Governors to give consideration to the question from a national view-point and establish some definite policy in regard thereto.

The survey contained a description of the territories served and functions performed by all the branches of the San Francisco Reserve Bank, as well as statistics and charts covering their operations for the years 1926 to 1935, inclusive.

LOS ANGELES BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	4,319	67,222,000	38,100,000	7,920,000	13,385,000	1,430,000	22,743,000	264,190	73,514	3,363	-	32,148
1932	6,847	67,536,000	54,843,000	6,547,000	9,803,000	1,532,000	17,882,000	311,532	90,002	4,480	-	31,620
1933	2,233	64,077,000	51,518,000	5,042,000	7,509,000	1,057,000	15,208,000	362,207	130,928	13,458	-	44,098
1934	231	64,588,000	50,823,000	5,482,000	7,165,000	3,004,000	15,731,000	439,627	107,023	21,521	-	43,090
1935	81	73,010,000	55,141,000	5,974,000	10,929,000	1,903,000	18,006,000	539,000	00,000	54,510	10,837	40,450
1936	19	81,992,000	70,321,000	6,479,000	10,497,000	2,490,000	19,474,000	429,000	06,000	6,204	4,894	36,000

Amounts Handled
(in thousands of dollars)

1931	35,566	327,786	13,317	2,315,640	703,773	295,247	3,314,660	6,041	60,660	36,323	-	3,566,723
1932	97,933	306,546	17,511	1,776,195	496,190	261,660	2,534,053	7,570	49,020	38,858	-	2,256,933
1933	38,819	314,800	30,008	1,712,021	411,708	260,951	2,304,680	7,824	53,870	34,284	-	1,702,173
1934	8,269	260,428	15,296	1,808,212	434,057	310,965	2,633,234	9,196	54,273	33,953	-	1,562,130
1935	4,436	301,156	16,231	2,331,990	571,175	252,746	3,155,911	9,810	60,513	04,159	4,206	2,050,470
1936	1,920	330,811	0,794	2,603,325	607,008	366,212	3,736,625	10,029	07,660	23,987	2,001	1,876,174

PORTLAND BRANCH - FEDERAL RESERVE BANK OF SAN FRANCISCO

(a) City of Portland

Portland, with a population of 301,815, is the twenty-fifth largest city in the United States and the largest city in the State of Oregon. It is located in the extreme northwestern part of the State and lies along both sides of the Willamette River at its juncture with the Columbia, where there is a splendid port deep enough for the largest ships to dock. The city serves a trade area extending approximately 30 miles in all directions; more than 380,000 people residing within the metropolitan area alone. Transportation facilities are furnished by the Union Pacific, Great Northern, Northern Pacific, Southern Pacific and the Spokane, Portland & Seattle railroads and the Portland electric railway. It is also served by the American and United airlines.

According to the Biennial Census of Manufactures, Multnomah County, in which Portland is situated, had 679 manufacturing establishments in 1935, which had an output valued at \$120,312,000 that year. The chief products were lumber, canned goods, leather goods, dairy products, flour, woolen goods, harness, roofing materials and air cleaners. There was also a substantial amount of brewing and meat packing.

The Census of American Business for 1935 lists 5,562 retail and 885 wholesale concerns operating in the same area, which had sales aggregating \$151,985,000 and \$278,103,000, respectively, during that year.

Banking facilities in Portland are provided by two national banks, two State nonmember banks, one mutual savings bank and one title and trust company; also by a branch of the Bank of California, N.A. and a branch of the Canadian Bank of Commerce. As of December 31, 1936, the banks having their head offices in Portland had total deposits aggregating \$207,028,000 and of this amount

\$201,280,000 was carried by the two local member banks; such banks operating a total of twelve branches within the city limits.

Debits to individual accounts in banks of the city amounted to \$1,953,740,000 for the year 1936, or an average of approximately \$6,500,000 for each banking day.

(b) Branch Territory and Functions

The Portland Branch was established on October 1, 1917, and serves the entire State of Oregon, and the town of Ilwaco and five counties in the southwestern part of the State of Washington. The branch zone represents 14% of the land area of the Twelfth District and has about 11% of its total population. Approximately 17% of all banks in the district are located in this area.

As of December 31, 1936, there were 109 banks, exclusive of mutual savings banks, in the branch zone and of this number 49, including 42 national banks and 7 State institutions, were members of the System. All but 6 of the 60 non-member banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to the Twelfth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
		(000 omitted)		
Twelfth District	322	\$3,630,503	\$337,201	\$4,483,284
Portland Branch	49	192,342	16,492	257,117

There are thirteen branch zones in the System having larger member bank footings than the Portland Branch; namely, Pittsburgh, Los Angeles, Detroit, Cincinnati, Buffalo, Baltimore, New Orleans, Seattle, Oklahoma City, Houston, Denver, Omaha and Jacksonville.

The Portland Branch renders substantially the same service to member banks in its zone as is available at the Head Office, insofar as receipts and disburse-

ments of currency and coin, wire transfers, check clearings, noncash collections, safekeeping of securities and borrowings are concerned. Reserve accounts of member banks in the zone, as well as of nonmember clearing banks and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and a record of certain earnings and expenses. Control accounts are, of course, maintained at the Head Office which is sent a daily transcript of entries affecting such accounts. Immediate credit is given to member banks for discount offerings received by the Branch, subject to final approval of the Head Office. Schedules covering transactions are forwarded to the Head Office, but the notes and collateral, if any, are retained at the Branch. The Branch has no Bank Examination, Bank Relations, Legal, Research or Fiscal Agency departments.

As of January 8, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
Oregon:					
Portland	2	\$20,684,700	\$1,439,600	\$357,000	-
Remainder of State	42	3,915,500	52,200	128,500	-
Washington	7	831,900	16,300	22,100	-
	<u>51</u>	<u>\$25,432,100</u>	<u>\$1,508,100</u>	<u>\$507,600</u>	<u>-</u>

The above table includes two banks which have been acquired by other member banks to be operated as branches but whose capital stock holdings in the Reserve bank had not yet been surrendered.

Portland is 771 train miles (23 hrs. and 30 mins.) from San Francisco. Consequently, the Portland Branch does not enjoy overnight mail communication with the Head Office. Other than Portland, there are 44 member bank cities in the branch zone and of this number only 5 can be reached by overnight mail from San Francisco, whereas approximately 40 are within overnight mail from

Portland. It is clear, therefore, that discontinuance of the Portland Branch would not only affect the character of service rendered to member banks in that city, which now enjoy an over-the-counter relationship with the Branch, but that it would also slow up the services performed for the majority of member banks located in outlying sections of the zone.

Other than Portland, the more populous cities in the branch zone are Salem, Oregon, 26,266; Eugene, Oregon, 18,901; Klamath Falls, Oregon, 16,093 and Vancouver, Washington, 15,766.

(c) Branch Building:

The Portland Branch occupies rented quarters in the Porter building at Sixth and Oak Streets under a lease which expires December 31, 1942. Under the terms of the lease the Branch is provided with approximately 14,111 square feet of space at an annual rental of \$21,360. Usable floor space amounts to 12,989 square feet and is all occupied by the Branch except for a small area for which the Portland Clearing House Association pays \$240 per year.

(d) Earnings - Branch Books

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$44,200
1932	98,800
1933	24,300
1934	1,400
1935	100
1936	2,300
1937	600

These figures are incomplete since, under the present accounting procedure, the Branch receives no credit for income received by the Head Office on investments, a portion of which is made possible by the Reserve bank stock investment

and reserve balances of banks in the branch zone. Income shown on the Branch's books is derived chiefly from rediscounts of member banks. Income from this source has declined steadily in recent years amounting to \$95,600 in 1932 and to slightly less than \$100 in 1937.

(e) Branch Personnel

The report of examination of the Federal Reserve Bank of San Francisco, made as of January 8, 1937, shows the following in regard to salaries and personnel at the Portland Branch:

	<u>January 8, 1937</u>		<u>April 11, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	3	\$ 16,200	3	\$ 16,200	-	-
Employees	<u>65</u>	<u>105,600</u>	<u>67</u>	<u>108,800</u>	<u>2</u>	<u>\$3,200</u>
	<u>68</u>	<u>\$121,800</u>	<u>70</u>	<u>\$125,000</u>	<u>2</u>	<u>\$3,200</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions

The expenses of the Portland Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead:						
Controllable	\$ 14,974	\$ 16,527	\$ 11,082	\$ 8,245	\$ 11,390	\$ 11,422
Noncontrollable	6,019	8,116	7,784	10	4	-
Provision of Space	22,059	20,116	20,389	16,898	20,180	22,313
Provision of Personnel	4,738	4,793	14,766	20,342	21,897	9,143
General Service	26,411	31,487	32,100	32,569	31,037	29,132
Postage	9,313	9,364	8,747	8,663	9,746	10,551
Insurance	2,997	3,031	1,821	1,622	1,474	1,397
Failed Banks	12,194	25,673	6,605	583	284	4
Loans, Rediscounts, etc.	16,803	13,315	9,942	22,169	15,804	11,257
Securities	506	545	800	1,247	932	700
Currency & Coin	11,012	13,447	12,924	20,591	23,634	24,626
Check Collection	27,005	30,107	29,372	23,722	26,801	30,717
Non-Cash Collection	7,154	9,790	11,326	9,805	9,641	8,596
Accounting	27,240	26,320	26,708	25,749	24,809	19,326
Fiscal Agency	12,031	23,696	22,988	38,393	33,344	33,299
Auditing	2,440	2,966	2,454	3,237	2,788	2,823
Bank Relations	603	338	490	249	331	392
Bank Examinations	44	73	66	54	36	65
Statistical & Analytical	554	520	819	635	701	351
Total Expense	<u>\$204,097</u>	<u>\$240,224</u>	<u>\$221,185</u>	<u>\$234,783</u>	<u>\$234,833</u>	<u>\$216,114</u>
Less - Reimbursable						
Fiscal Agency Expense	<u>9,803</u>	<u>20,909</u>	<u>13,831</u>	<u>21,756</u>	<u>23,446</u>	<u>24,206</u>
Net Expense	<u>\$194,294</u>	<u>\$219,315</u>	<u>\$202,354</u>	<u>\$213,027</u>	<u>\$211,387</u>	<u>\$191,908</u>

There were twelve branches in the System which operated at a lower net cost than the Portland Branch in 1937; namely, Spokane, Nashville, El Paso, Helena, Birmingham, Little Rock, Memphis, San Antonio, Jacksonville, Houston, Charlotte and New Orleans.

(g) Volume of Operations at Portland Branch

The following is a comparison of the volume of operations in various departments of the Portland Branch and the Head Office during the last six months of 1936:

	<u>Portland Branch</u>	<u>Head Office</u>
<u>Discount Department</u>		
Notes rediscounted	-	38
Collateral notes discounted	2	31
Industrial advances	-	2
Branches with larger volume: Buffalo, Baltimore, New Orleans, Memphis, Denver, Omaha, El Paso, Houston, San Antonio, Salt Lake City and Spokane.		
<u>Safekeeping</u>		
Member bank securities 12-31-36	\$447,000	\$353,000
Branches with larger volume: All branches except Los Angeles, Seattle, Spokane and Charlotte.		
<u>Currency & Coin</u>		
1. Number of bills received and counted	5,147,000	25,977,000
Branches with larger volume: All branches except Little Rock, Helena, Denver, Oklahoma City, Omaha, El Paso, Salt Lake City and Spokane.		
Cost per one thousand units handled	66 cents	46 cents
Branches with higher unit cost: Cincinnati, Helena, Denver, El Paso, Salt Lake City and Spokane.		
2. Number of coins received and counted	3,381,000	39,378,000
Branches with larger volume: All branches except Charlotte, Jacksonville, Little Rock, Helena, El Paso, Salt Lake City and Spokane.		
Cost per one thousand units handled	36 cents	16 cents
Branches with higher unit cost: Helena, El Paso, Salt Lake City and Spokane.		
<u>Check Collection</u>		
1. Number of city checks (clearings) received	657,000	3,055,000
Branches with larger volume: All branches except Charlotte, Birmingham, Jacksonville, Little Rock, Memphis, Helena, Oklahoma City, El Paso, San Antonio, Salt Lake City and Spokane.		
Cost per one thousand units handled	\$2.61	\$1.78
Branches with higher unit cost: Helena, Los Angeles, Salt Lake City and Seattle.		

Check Collection (Continued)

- | | | |
|--|-----------|-----------|
| 2. Number of country checks (outgoing) received | 2,614,000 | 3,259,000 |
| Branches with larger volume: All branches except Birmingham, Jacksonville, Nashville, New Orleans, Little Rock, Memphis, Helena, El Paso, Seattle and Spokane. | | |
| Cost per one thousand units handled | \$3.36 | \$2.31 |
| Branches with higher unit cost: Los Angeles. | | |

Non-cash Collections

- | | | |
|--|------------|------------|
| 1. Number of city collections handled | 6,212 | 12,352 |
| Branches with larger volume: All branches except Charlotte, Birmingham, New Orleans, Helena, El Paso and San Antonio. | | |
| Cost per unit handled | 39.8 cents | 27.5 cents |
| Branches with higher unit cost: Pittsburgh. | | |
| | | |
| 2. Number of country collections handled | 11,020 | 43,331 |
| Branches with larger volume: Buffalo, Baltimore, Charlotte, Detroit, Memphis, Denver, Oklahoma City, Omaha, Los Angeles, Salt Lake City and Spokane. | | |
| Cost per unit handled | 18 cents | 6.3 cents |
| Branches with a higher unit cost: None. | | |
| | | |
| 3. Number of coupons (except Government) and country security collections handled | 1,548 | 3,465 |
| Branches with larger volume: All branches except Birmingham, Jacksonville, Helena, Oklahoma City, El Paso, Salt Lake City, Seattle and Spokane. | | |
| Cost per unit handled | 24.8 cents | 19.3 cents |
| Branches with higher unit cost: Jacksonville, El Paso, Los Angeles and Salt Lake City. | | |

A schedule showing the volume of operations of the Portland Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Portland Branch by Board's Examiners - 1933

During an examination of the Federal Reserve Bank of San Francisco, made as of September 2, 1933, the Board's Examiners reviewed the operations of the Portland, Seattle and Spokane Branches and reached the conclusion that it would be possible to consolidate the operation of such branches in Portland without seriously affecting the character of the service rendered to member banks in the Pacific Northwest, with the possible exception of those located in the cities of Seattle and Spokane. It was indicated that mail facilities, both for ordinary and emergency purposes, had improved substantially since the

branches were established and that the service which could be rendered to member banks throughout the Pacific Northwest from Portland was comparable to that being rendered by the Spokane and Seattle Branches. It was also stated that, after allowing for some increase in personnel and physical facilities at Portland, the work of all three branches could be handled at a considerable saving and that, since all the branches occupied leased quarters, the consolidation could be effected without any loss on real estate and buildings. It was further indicated, however, that the management of the San Francisco Reserve Bank, while agreeing that there was no need for three branches in the Pacific Northwest, believed it would be inopportune to discontinue any branch at that time because of the services which the Reserve banks were performing for other Government agencies.

(i) Survey of Portland Branch made by the Federal Reserve Bank of San Francisco - 1936

The Federal Reserve Bank of San Francisco, as requested in a letter from the Board, dated March 25, 1936 (X-9532), made a comprehensive survey of its five branches. A report of this survey was submitted to the Board, without a definite recommendation as to the discontinuance or curtailment of any branch. In the letter of transmittal, dated August 26, 1936, it was stated the Directors of the San Francisco Reserve Bank, after a full discussion of the matter, felt that before any recommendation could be made it would be necessary for the Board of Governors to give consideration to the question from a national viewpoint and establish a definite policy in regard thereto.

The survey contained a description of the territories served and the functions performed by all of the branches of the San Francisco Reserve Bank, as well as statistics and charts covering their operations for the years 1926 to 1935, inclusive.

A memorandum relative to curtailment of the Spokane Branch was attached to the above survey, and on January 17, 1937, on the recommendation of the Reserve Bank and with the Board's approval, the entire territory previously served by the Spokane Branch, except the city of Spokane, was transferred to the Seattle Branch. At the same time three cities in southwestern Oregon, formerly served by the Head Office, were transferred to the Portland Branch. These changes, particularly that with respect to the Spokane Branch, have resulted in a substantial saving in the cost of operations.

The lease on the quarters occupied by the Spokane Branch will expire on December 31, 1938. In January 1937, when the territory of that Branch was reduced it was contemplated that a new lease covering a reduced amount of space at a lower rental could be negotiated. However, the management was unable to obtain a satisfactory lease and because of this situation, the directors of the San Francisco Reserve bank recently reviewed the operations of the Spokane Branch and recommended its entire discontinuance. As a result President Day addressed a letter to the Board of Governors on August 9, 1938, advising of the action taken by his directors and requesting approval of the discontinuance of the Spokane Branch. It was indicated a portion of the territory formerly served by the Spokane Branch, which was transferred to the Seattle Branch on January 17, 1937, would be reallocated to the Portland Branch if the Spokane Branch was closed.

PORTLAND BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	2,781	5,690,000	7,306,000	1,365,000	5,495,000	419,000	7,279,000	145,812	34,887	2,004	-	11,889
1932	4,325	5,678,000	7,183,000	1,197,000	4,187,000	413,000	5,797,000	148,775	32,145	907	-	10,555
1933	742	6,137,000	6,831,000	1,042,000	3,212,000	537,000	4,791,000	145,206	61,801	3,505	7	8,560
1934	45	7,008,000	5,349,000	1,028,000	3,426,000	1,017,000	5,471,000	146,078	55,026	12,840	54	6,331
1935	-	8,479,000	5,745,000	1,080,000	4,061,000	634,000	5,783,000	166,000	39,000	28,999	3,577	6,791
1936	2	9,400,000	6,999,000	1,280,000	4,857,000	694,000	6,831,000	125,000	36,000	2,634	1,730	6,000

Amounts Handled
(in thousands of dollars)

1931	27,700	30,853	1,614	892,003	203,821	61,855	1,237,679	1,999	30,485	2,658	-	606,951
1932	97,442	36,724	1,523	615,762	200,837	50,451	867,050	1,889	23,240	1,446	-	495,010
1933	12,663	37,674	3,467	529,882	177,996	68,212	776,090	1,660	26,867	2,605	7	393,008
1934	1,023	40,545	1,230	600,017	236,392	97,088	933,497	1,792	42,479	4,673	52	429,574
1935	-	40,866	1,302	727,368	320,537	94,257	1,142,162	1,809	30,278	12,863	1,271	442,900
1936	40	47,471	1,615	864,762	367,371	117,063	1,349,196	1,583	34,354	674	732	493,278

SALT LAKE CITY BRANCH - FEDERAL RESERVE BANK OF SAN FRANCISCO

(a) City of Salt Lake City:

Salt Lake City, with a population of 140,267, is the largest city in the State of Utah and the fifty-ninth largest city in the United States. It is located in the north central part of the State and is said to serve a trade area extending 150 miles north, 37 miles south, 85 miles east and 266 miles to the west. Approximately 200,000 people reside within this area. Transportation facilities are provided by the Denver & Rio Grande Western, Union Pacific and Western Pacific railroads, and by three intra-state electric railways. The city is also served by a number of bus lines and several air-lines.

According to the Biennial Census of Manufactures Salt Lake County in 1935 had 273 manufacturing firms which had an output valued at \$67,368,000 during that year. The principal industries were milling, canning, oil refining, mining and smelting, livestock, general agriculture and the manufacture of clothing, millinery, clay products and powdered milk. The Census of American Business for 1935 lists 437 wholesale and 2,129 retail establishments operating in the same area which had sales aggregating \$101,709,000 and \$67,035,000, respectively, during the year.

Banking facilities in Salt Lake City are provided by three national banks and six State banks (3 members). These institutions had deposits aggregating \$89,970,000, as of December 31, 1936, and of this amount \$73,528,000 was carried with the six local member banks.

Debits to individual accounts in banks of the city aggregated \$770,152,000 in 1936; or an average of approximately \$2,567,000 for each banking day.

(b) Branch Territory and Functions:

The Salt Lake City Branch was established April 1, 1918, and serves the entire State of Utah, thirty-four counties in southern Idaho and four counties in eastern Nevada. This territory represents 27 percent of the land area of the Twelfth District and has approximately 9 percent of its total population. Approximately 15 percent of all banks in the district are located within this area.

As of December 31, 1936, there were 98 banks, exclusive of mutual savings banks, in the branch zone and of this number 56, including 29 national and 27 State institutions, were members of the Federal Reserve System. All of the 42 nonmember institutions in the branch zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings in the branch zone as compared to the Twelfth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u>	<u>Total Deposits</u>
		(000 omitted)		
Twelfth District	322	\$3,630,503	\$337,201	\$4,483,284
Branch Zone	56	128,803	15,228	188,229

There are fifteen branch zones in the System having larger member bank footings than the Salt Lake City zone; namely, Pittsburgh, Los Angeles, Detroit, Cincinnati, Buffalo, Baltimore, New Orleans, Seattle, Oklahoma City, Houston, Denver, Omaha, Jacksonville, Portland and Louisville.

The Salt Lake City Branch renders substantially the same service to member banks in its zone as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearings, non-cash collections, safekeeping of securities and borrowings are concerned. Reserve

accounts of member banks in the zone, as well as of nonmember clearing banks and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and a record of certain earnings and expenses. Control accounts are, of course, maintained at the Head Office which is sent a daily transcript of entries affecting such accounts. Immediate credit is given to member banks for discount offerings received by the Branch, subject to final approval of the Head Office. Schedules covering transactions are forwarded to the Head Office, but the notes and collateral, if any, are retained at the Branch. The Branch has no Bank Examination, Bank Relations, Legal, Research or Fiscal Agency departments.

As of January 8, 1937, member banks in the branch zone had balances with the Reserve bank as follows:

<u>State</u>	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
Idaho	22	\$ 6,755,500	\$ 579,400	\$117,350	-
Nevada	2	202,300	-	5,950	-
Utah-Salt Lake City	6	12,155,500	3,162,000	196,950	-
Remainder of State	<u>26</u>	<u>5,528,900</u>	<u>420,500</u>	<u>130,600</u>	<u>-</u>
	<u>56</u>	<u>\$24,642,200</u>	<u>\$4,161,900</u>	<u>\$450,850</u>	<u>-</u>

Salt Lake City is 783 train miles (22 hrs. and 47 mins.) from San Francisco. There are 42 member bank points in the branch zone and an examination of train schedules indicates that none of these points is within overnight mail time of San Francisco, whereas all but three of such points appear to be within overnight mail of Salt Lake City. It is apparent, therefore, that discontinuance of the Salt Lake City Branch would materially curtail the efficiency of the service rendered to member banks in Salt Lake City and throughout the branch zone.

Other than Salt Lake City, the more populous cities in the branch zone are Ogden, Utah, 40,272; Boise, Idaho, 21,544; Pocatello, Idaho, 16,471; and Provo, Utah, 14,766. One or more member banks are located in each of these cities.

(c) Branch Building:

The Salt Lake City Branch has occupied its present quarters at South Temple and East State Street since February, 1927. The following figures show the original cost and book value as of January 8, 1937, of the branch premises:

	<u>Cost</u>	<u>Book Value</u> <u>1-8-37</u>
Land	\$114,075	\$100,000
Building	289,772)	
Vault and vault equipment	<u>51,677)</u>	<u>256,149</u>
	455,524	356,149
Fixed machinery and equipment	<u>84,814</u>	-
	<u>\$540,338</u>	<u>\$356,149</u>

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Year</u>	<u>Earnings</u>
1931	\$ 50,000
1932	155,600
1933	28,400
1934	1,200
1935	400
1936	2,700
1937	1,400

These figures are incomplete since, under the present accounting procedure, the Branch receives no credit for income received by the Head Office on investments, a portion of which is made possible by the Reserve bank stock investment and reserve balances of banks in the branch zone. Income shown on the Branch books is derived chiefly from rediscounts of member banks, reserve penalties and rental of banking house space. Income from the first mentioned source amounted to \$151,000 in 1932 and to only \$1,100 in 1937.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of San Francisco, made as of January 8, 1937, shows the following in regard to salaries and personnel at the Salt Lake City Branch:

	<u>January 8, 1937</u>		<u>April 11, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	3	\$ 15,000	3	\$ 15,200	-	\$ 200
Employees	<u>76</u>	<u>127,600</u>	<u>78</u>	<u>131,800</u>	<u>2</u>	<u>4,200</u>
	<u>79</u>	<u>\$142,600</u>	<u>81</u>	<u>\$147,000</u>	<u>2</u>	<u>\$4,400</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

(f) Branch Expense by Functions:

The expenses of the Salt Lake City Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead:						
Controllable	\$ 12,320	\$ 13,278	\$ 10,214	\$ 10,197	\$ 10,290	\$ 11,125
Noncontrollable	5,716	6,515	7,002	-	-	8
Provision of Space	40,374	39,896	38,914	37,618	36,164	47,821
Provision of Personnel	4,031	4,220	15,792	22,673	24,181	4,121
General Service	39,344	41,165	43,818	46,279	43,469	42,468
Postage	9,489	9,805	9,751	10,064	11,719	13,218
Insurance	4,372	3,962	2,245	2,178	1,697	1,623
Failed Banks	28,914	22,954	6,841	1,441	29	-
Loans, rediscounts, etc.	23,937	12,500	6,291	8,523	1,614	959
Securities	1,114	1,196	1,011	1,716	1,152	984
Currency & Coin	13,346	12,427	12,696	21,840	22,616	24,230
Check Collection	26,609	24,841	32,140	29,515	32,859	37,845
Non-Cash Collection	9,835	13,319	13,356	12,437	11,673	8,881
Accounting	24,259	25,298	28,145	30,069	27,009	23,424
Fiscal Agency	11,607	22,972	15,503	28,379	29,391	23,621
Auditing	1,759	1,947	2,197	2,771	2,898	2,598
Bank Relations	184	369	407	531	681	525
Bank Examinations	15	15	61	64	35	10
Statistical & Analytical	570	586	851	966	1,040	746
Total Expense	<u>\$257,795</u>	<u>\$257,265</u>	<u>\$247,235</u>	<u>\$267,261</u>	<u>\$258,217</u>	<u>\$244,207</u>
Less - Reimbursable						
Fiscal Agency Expense	<u>10,219</u>	<u>21,177</u>	<u>11,187</u>	<u>12,637</u>	<u>21,423</u>	<u>17,406</u>
Net Expense	<u>\$247,576</u>	<u>\$236,088</u>	<u>\$236,048</u>	<u>\$254,624</u>	<u>\$236,794</u>	<u>\$226,801</u>

There were six branches in the System which operated at a higher net cost than the Salt Lake City Branch in 1937; namely, Pittsburgh, Los Angeles, Baltimore, Cincinnati, Detroit and Buffalo. All of such branches, however, handled a larger volume of work.

(g) Volume of Operations at Salt Lake City Branch:

The following is a comparison of the volume of operations in various departments of the Salt Lake City Branch and the Head Office during the last six months of 1936:

	<u>Salt Lake City Branch</u>	<u>Head Office</u>
--	------------------------------	--------------------

Discount Department:

Notes rediscounted	-	38
Collateral notes discounted	13	31
Industrial advances	-	2

Branches with larger volume: Buffalo, Baltimore, Denver, Omaha, El Paso and San Antonio.

Safekeeping:

Member bank securities 12-31-36	\$2,591,000	\$353,000
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Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, Jacksonville, New Orleans, Detroit, Little Rock, Louisville, Denver, Oklahoma City, Omaha, Houston and San Antonio.

Currency & Coin:

- | | | |
|---|-----------|------------|
| 1. Number of bills received and counted | 2,760,000 | 25,977,000 |
|---|-----------|------------|
- Branches with larger volume: All branches except Helena, El Paso and Spokane.
- | | | |
|-------------------------------------|----------|----------|
| Cost per one thousand units handled | 94 cents | 46 cents |
|-------------------------------------|----------|----------|
- Branches with higher unit cost: Helena and Spokane.
-
- | | | |
|---|-----------|------------|
| 2. Number of coins received and counted | 1,182,000 | 39,378,000 |
|---|-----------|------------|
- Branches with larger volume: All branches except Helena, El Paso and Spokane.
- | | | |
|-------------------------------------|----------|----------|
| Cost per one thousand units handled | 83 cents | 16 cents |
|-------------------------------------|----------|----------|
- Branches with higher unit cost: Helena, El Paso and Spokane.

Check Collection:

- | | | |
|---|---------|-----------|
| 1. Number of city checks (clearings) received | 470,000 | 3,055,000 |
|---|---------|-----------|
- Branches with larger volume: All branches except Little Rock, Helena, El Paso and Spokane.
- | | | |
|-------------------------------------|--------|--------|
| Cost per one thousand units handled | \$3.15 | \$1.78 |
|-------------------------------------|--------|--------|
- Branches with higher unit cost: Helena, Los Angeles and Seattle.
-
- | | | |
|---|-----------|-----------|
| 2. Number of country checks (outgoing) received | 3,416,000 | 3,259,000 |
|---|-----------|-----------|
- Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore, Charlotte, Detroit, Louisville, Denver, Oklahoma City, Omaha and Los Angeles.
- | | | |
|-------------------------------------|--------|--------|
| Cost per one thousand units handled | \$2.88 | \$2.31 |
|-------------------------------------|--------|--------|
- Branches with higher unit cost: Buffalo, Los Angeles, Portland and Seattle.

	<u>Salt Lake City Branch</u>	<u>Head Office</u>
--	------------------------------	--------------------

Non-cash Collections:

- | | | |
|--|------------|------------|
| 1. Number of city collections handled | 12,425 | 12,352 |
| Branches with larger volume: Buffalo, Cincinnati, Baltimore, Detroit, Little Rock, Memphis, Denver, Oklahoma City, Omaha, Houston and Los Angeles. | | |
| Cost per unit handled | 12.1 cents | 27.5 cents |
| Branches with higher unit cost: All branches except Jacksonville, Nashville, Little Rock, Memphis, Oklahoma City, Omaha, El Paso and Houston. | | |
| | | |
| 2. Number of country collections handled | 79,630 | 43,331 |
| Branches with larger volume: None. | | |
| Cost per unit handled | 4.7 cents | 6.3 cents |
| Branches with higher unit cost: All branches. | | |
| | | |
| 3. Number of coupons (except Government) and country security collections handled | 608 | 3,465 |
| Branches with larger volume: All branches except El Paso and Spokane. | | |
| Cost per unit handled | 25.6 cents | 19.3 cents |
| Branches with higher unit cost: Jacksonville, El Paso and Los Angeles. | | |

A schedule showing the volume of operations of the Salt Lake City Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Salt Lake City Branch by Board's Examiners - 1933

During an examination of the Federal Reserve Bank of San Francisco, made as of September 2, 1933, the Board's examiners reviewed the operations of the Salt Lake City Branch and reached the conclusion that its continuance was justified in view of Salt Lake City's importance in the inter-mountain country and its distance from the Head Office at San Francisco.

(i) Survey of Salt Lake City Branch by Federal Reserve Bank of San Francisco - 1936.

In accordance with the request made by the Board in its letter of March 25, 1936 (X-9532) the Federal Reserve Bank of San Francisco made a comprehensive survey of its five branches. A report of this survey was submitted to the Board, without a definite recommendation as to the discontinuance of any branch. In the letter of transmittal, dated August 26, 1936, it was stated

the Directors of the San Francisco Reserve Bank, after a full discussion of the matter, felt that before any recommendation could be made it would be necessary for the Board of Governors to give consideration to the question from a national viewpoint and establish some definite policy in regard thereto.

The survey contained a description of the territories served and functions performed by all the branches of the San Francisco Reserve Bank, as well as statistics and charts covering their operations for the years 1926 to 1935, inclusive.

SALT LAKE CITY BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	5,176	3,813,000	3,337,000	677,000	5,588,000	290,000	6,555,000	61,325	90,264	626	-	16,717
1932	7,205	3,819,000	2,997,000	571,000	3,865,000	296,000	4,732,000	69,489	140,827	478	-	13,982
1933	1,318	3,803,000	2,401,000	654,000	3,552,000	477,000	4,683,000	65,661	243,212	2,174	-	12,897
1934	52	3,946,000	3,044,000	769,000	4,134,000	1,038,000	5,941,000	94,619	246,732	3,625	2	11,190
1935	17	4,586,000	3,074,000	818,000	4,796,000	609,000	6,223,000	137,000	198,000	7,389	1,254	9,748
1936	13	5,062,000	3,449,000	938,000	6,256,000	553,000	7,747,000	112,000	173,000	1,010	651	9,000

Amounts Handled
(in thousands of dollars)

1931	44,918	31,248	1,231	400,912	303,662	41,290	745,864	750	32,623	734	-	495,515
1932	260,408	34,064	1,030	300,199	216,744	39,489	556,432	853	24,279	447	-	342,557
1933	20,415	30,164	1,568	295,918	235,663	84,418	615,999	875	38,844	1,899	-	359,544
1934	742	26,907	1,789	362,890	297,232	115,687	775,809	1,290	47,875	2,000	1	336,493
1935	288	29,250	1,994	420,072	351,667	106,734	878,473	1,326	45,021	3,042	335	360,357
1936	230	30,015	930	507,151	496,436	95,678	1,099,265	1,310	43,709	215	148	348,638

SEATTLE BRANCH - FEDERAL RESERVE BANK OF SAN FRANCISCO

(a) City of Seattle:

Seattle, with a population of 365,583, is the twentieth largest city in the United States and the largest city in the State of Washington. It is located in the west central part of the State on Puget Sound and is said to serve a trade area having a radius of from 25 to 30 miles in which about 513,000 people reside. Transportation facilities are furnished by the Chicago-Milwaukee & St. Paul, Great Northern, Union Pacific, Northern Pacific, and Pacific Coast railroads and by various bus lines and air lines. A large number of steamship lines also ply between Seattle and the principal Pacific coast and world ports.

The major industries of the city are canning, lumbering, textiles, paper, ship building and the manufacture of airplane and automobile bodies, ammonia and chemicals, furniture, iron and steel articles, refrigerators, rope and cordage, tools and nautical supplies. According to the Biennial Census of Manufactures for 1935, there were 1,064 manufacturing firms operating in King County, in which Seattle is situated, which had an output valued at \$131,200,000 during that year. The Census of American Business for 1935 lists 1,346 wholesale and 7,855 retail establishments operating in the same area, which enjoyed sales aggregating \$335,539,000 and \$184,408,000, respectively, during the year.

Banking facilities in Seattle are furnished by four State banks (two members), two mutual saving banks, four national banks, two branches of foreign banks and one branch of a national bank having its head office in San Francisco, which also operates branches in Portland, Oregon, and Tacoma, Washington. The institutions having their head offices in Seattle had deposits

aggregating \$526,581,000, as of December 31, 1936, and of this amount \$262,232,000 was carried by the six local member banks. Three of the larger member banks were operating an aggregate of 31 branches; 13 within the city and 18 elsewhere in the State of Washington. One of the smaller local member banks was authorized to carry country bank reserves.

Debits to individual accounts in banks of the city aggregated \$2,315,849,000 for the year 1936, or an average of approximately \$7,719,000 for each banking day.

(b) Branch Territory and Functions:

The Seattle Branch was established on September 19, 1917. The branch territory, which was revised as of January 18, 1937, includes ten counties in Northern Idaho and the entire State of Washington, except five counties in the extreme southern part, the town of Ilwaco and the city of Spokane. This territory represents approximately 13% of the land area of the Twelfth District and has approximately 18% of its total population. Approximately 28% of all banks in the district are within this area.

As of December 31, 1936, there were 182 banks, exclusive of mutual savings banks, in the territory now assigned to the Branch and of this number 81, including 55 national and 26 State institutions, were members of the System. 74 of the 101 nonmember banks in the zone were on the par list. The following figures taken from reports of condition as of the same date show the size of member bank footings of banks in the territory now assigned to the Branch as compared to those of the Twelfth District as a whole:

	<u>No. Member Banks</u>	<u>Loans and Investments</u>	<u>Capital and Surplus</u> (000 omitted)	<u>Total Deposits</u>
Twelfth District	322	\$3,630,503	\$337,201	\$4,483,284
Branch Zone	81	282,138	31,148	376,225

There were only seven branch zones in the entire System having larger member bank footings than the Seattle Zone; namely, Pittsburgh, Los Angeles, Detroit, Cincinnati, Buffalo, Baltimore and New Orleans.

The Seattle Branch renders substantially the same service to member banks in its territory as is available at the Head Office, insofar as receipts and disbursements of currency and coin, wire transfers, check clearing and collection, non-cash collections, safekeeping of securities and loans to member banks are concerned. Reserve accounts of member banks in the branch zone, as well as accounts of nonmember clearing banks and other Federal Reserve banks, are maintained at the Branch, which also maintains a memorandum general ledger and a record of certain earnings and expenses. Transactions are cleared daily through control accounts maintained at the Head Office. Member bank borrowings are passed upon at the Branch and immediate credit is given, subject to final approval of the Head Office. Schedules covering such transactions are forwarded to the Head Office, but the notes and collateral, if any, are retained by the Branch. The Branch has no Bank Examination, Failed Banks, Research, Legal or Fiscal Agency departments.

As of January 8, 1937, member banks in the territory now assigned to the Branch had the following Reserve Bank balances:

	<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
City of Seattle	6	\$24,973,870	\$2,234,137	\$573,650	-
Remainder of Zone	<u>75</u>	<u>11,995,752</u>	<u>574,111</u>	<u>366,600</u>	<u>-</u>
	<u>81</u>	<u>\$36,969,622</u>	<u>\$2,808,248</u>	<u>\$940,250</u>	<u>-</u>

Seattle is 771 miles (26 hrs. and 32 mins.) from San Francisco and as a consequence the Seattle Branch does not enjoy over-night communication by mail with the Head Office. Other than Seattle there are 61 member bank points in the branch zone. An examination of mail schedules indicates that none of these points are within over-night mail time of San Francisco, whereas all but 10 of such points are within overnight mail time of the Branch. It is clear, therefore, that discontinuance of the Seattle Branch would not only curtail the character of service rendered to banks in the city of Seattle, which now enjoy an over-the-counter relationship with the Branch, but that it would also slow up the service given to banks in outlying sections of the zone. There are, of course, a number of member bank points in the Seattle zone that are also within over-night mail time of the Portland Branch.

Other than Seattle, the more populous cities in the branch zone are Tacoma, 106,817, Bellingham, 30,823, Everett, 30,567 and Yakima 22,101. All of these cities have one or more member banks.

(c) Branch Building:

The Seattle Branch occupies quarters at Second Avenue and Spring Street at an annual rental of \$17,400 under a lease which expires on February 28, 1941. During the year 1936, the Branch received approximately \$800 from government agencies for sublet space.

(d) Earnings - Branch Books:

The Branch's earnings as reflected by its books for the years 1931 to 1937, inclusive, were as follows:

<u>Years</u>	<u>Earnings</u>
1931	\$30,500
1932	87,000
1933	27,200
1934	700
1935	200
1936	1,100
1937	500

These figures are incomplete since, under present accounting procedure, the Branch receives no credit for income on Head Office investments, a portion of which is made possible by the Federal Reserve bank stock investment and reserve balances of banks in the branch zone. Income shown on the Branch's books is derived chiefly from rediscounts of member banks, reserve penalties and rental of banking room space to other government agencies. The above figures are interesting in that they reflect the decline in income from the first mentioned source, which amounted to \$85,300 in 1932 as compared to only \$300 in 1937.

(e) Branch Personnel:

The report of examination of the Federal Reserve Bank of San Francisco, as of January 8, 1937, shows the following in regard to salaries and personnel at the Seattle Branch.

	<u>January 8, 1937</u>		<u>April 11, 1936</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	3	\$15,400	3	\$15,400	-	-
Employees	<u>56</u>	<u>90,100</u>	<u>57</u>	<u>91,600</u>	<u>1</u>	<u>\$1,500</u>
	<u>59</u>	<u>\$105,500</u>	<u>60</u>	<u>\$107,000</u>	<u>1</u>	<u>\$1,500</u>

Officers and employees whose salaries and wages are reimbursable are not included in the above figures.

During the examination one officer and eleven employees, with annual salaries of \$24,400 after one reduction of \$480, were transferred from the Spokane Branch to the Seattle Branch, and one officer with an annual salary of \$3,900 was transferred from the Seattle to the Los Angeles Branch, bringing the total payroll to \$126,000 per annum.

(f) Branch Expense by Functions:

The expenses of the Seattle Branch by functions for the years 1932 to 1937 inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead:						
Controllable	\$ 9,047	\$ 11,381	\$ 8,492	\$ 7,688	\$ 9,562	\$ 10,402
Non Controllable	6,985	9,421	8,804	7	-	-
Provision of Space	23,376	23,151	23,108	21,211	19,365	27,669
Provision of Personnel	4,047	3,686	11,506	14,882	17,147	10,419
General Service	25,200	26,899	27,186	29,546	28,551	29,610
Postage	5,700	7,037	7,130	7,302	7,605	12,042
Insurance	2,621	2,276	1,269	1,167	1,095	1,483
Failed Banks	1,111	2,346	2,447	771	164	-
Loans, rediscounts, etc.	5,715	5,457	6,257	11,199	5,314	4,135
Securities	903	925	800	887	893	929
Currency & Coin	17,859	18,474	17,432	24,979	28,359	35,221
Check Collection	23,392	23,093	23,526	22,147	23,527	31,141
Non-cash Collection	6,485	7,539	8,072	8,203	8,231	8,627
Accounting	22,686	21,058	21,728	21,035	21,576	23,180
Fiscal Agency	12,212	16,616	13,163	19,927	17,670	18,803
Auditing	2,779	2,979	2,842	3,027	2,805	3,247
Bank Relations	329	405	100	157	234	529
Bank Examinations	-	73	51	24	20	22
Statistical & Analytical	754	779	760	980	1,126	1,291
Total Expense	\$171,201	\$183,596	\$184,673	\$195,139	\$193,244	\$288,750
Less - Reimbursable						
Fiscal Agency Exp.	9,016	13,650	10,880	9,658	10,398	11,063
Net Expense	<u>\$162,185</u>	<u>\$169,945</u>	<u>\$173,793</u>	<u>\$185,481</u>	<u>\$182,846</u>	<u>\$207,687</u>

There were sixteen branches in the System which operated at less expense than the Seattle Branch in 1937.

(g) Volume of Operations at Seattle Branch:

The following is a comparison of the volume of operations in various departments of the Seattle Branch and the Head Office during the last six months of 1936:

	<u>Seattle Branch</u>	<u>Head Office</u>
<u>Safekeeping:</u>		
Member bank securities 12-31-36	\$295,000	\$353,000
Branches with larger volume:	All branches except Charlotte.	
<u>Currency & Coin:</u>		
1. Number of bills received and counted	7,594,000	25,977,000
Branches with larger volume:	Buffalo, Cincinnati, Pittsburgh, Baltimore, Charlotte, Jacksonville, New Orleans, Detroit, Louisville, Memphis and Los Angeles.	
Cost per one thousand units handled	56 cents	46 cents
Branches with higher unit cost:	Helena and Spokane.	

Seattle BranchHead OfficeCurrency & Coin

2. Number of coins received and counted 6,550,000 39,378,000
Branches with larger volume: Buffalo, Cincinnati, Pittsburgh, Baltimore,
New Orleans, Detroit, Louisville, Houston and
Los Angeles.
Cost per one thousand units handled 29 cents 16 cents
Branches with higher unit cost: Helena, El Paso, Portland, Salt Lake City
and Spokane.

Check Collection:

1. Number of city checks (clearings) received 669,000 3,055,000
Branches with larger volume: All branches except Charlotte, Birmingham,
Portland, Jacksonville, Little Rock, Helena, Oklahoma City,
Memphis, El Paso, San Antonio, Salt Lake City and Spokane.
Cost per one thousand units handled \$3.41 \$1.78
Branches with higher unit cost: Helena and Los Angeles.
2. Number of country checks (outgoing) received 1,661,000 3,259,000
Branches with larger volume: All branches except Little Rock, Memphis and
El Paso.
Cost per one thousand units handled \$3.35 \$2.31
Branches with higher unit cost: Los Angeles and Portland.

Non-cash Collections

1. Number of city collections handled 9,991 12,352
Branches with larger volume: Buffalo, Cincinnati, Baltimore, Jacksonville,
Detroit, Little Rock, Memphis, Denver, Oklahoma
City, Omaha, Houston, Los Angeles and Salt Lake
City.
Cost per unit handled 22.1 cents 27.5 cents
Branches with higher unit cost: Cincinnati, Pittsburgh, Los Angeles and
Portland.
2. Number of country collections handled 10,246 43,331
Branches with larger volume: Buffalo, Baltimore, Charlotte, Jacksonville,
Detroit, Memphis, Denver, Oklahoma City, Omaha,
Los Angeles, Portland, Salt Lake City and Spokane.
Cost per unit handled 14.3 cents 6.3 cents
Branches with higher unit cost: Buffalo, Birmingham, Nashville, Los Angeles
and Portland.
3. Number of coupons (except Government) and
country security collections handled 773 3,465
Branches with larger volume: All branches except Helena, El Paso, Salt Lake
City and Spokane.
Cost per unit handled 4 cents 19.3 cents
Branches with higher unit cost: All Branches except Cincinnati and
Pittsburgh.

A schedule showing the volume of operations of the Seattle Branch for the years 1931 to 1936, inclusive, is attached to this memorandum.

(h) Survey of Seattle Branch by Board's Examiners - 1933

During the course of an examination of the Federal Reserve Bank of San Francisco, made as of September 2, 1933, the Board's examiners reviewed the operations of the Seattle, Portland and Spokane Branches and reached the conclusion that it would be possible to consolidate the operation of such branches at Portland without seriously affecting the character of the service rendered to member banks in the Pacific Northwest, with the possible exception of those located in the cities of Spokane and Seattle. It was indicated that mail facilities, both for ordinary and emergency purposes, had improved substantially since the branches were established; that as a result of this improvement the operation of all three branches could be handled at Portland at a considerable saving after some increase in personnel and physical facilities; and that, since none of the Northwest branches owned their banking quarters, it would be possible to effect the consolidation without any loss through the sale of real estate or buildings. It was further indicated that the question of consolidation had been discussed with the management of the San Francisco Reserve Bank, which, while agreeing that there was no reason for more than one branch in the Pacific Northwest, believed it inopportune to discontinue any branch because of the service which the Reserve banks were rendering to other Government agencies.

(i) Survey of Seattle Branch made by Federal Reserve Bank of San Francisco - 1936

In accordance with the request made by the Board in its letter of March 25, 1936 (X-9532), the Federal Reserve Bank of San Francisco made a comprehensive survey of its five branches. A report of this survey was submitted to the Board, without a definite recommendation as to the discontinuance

or curtailment of any branch. In the letter of transmittal, dated August 26, 1936, it was stated the Directors of the San Francisco Reserve Bank, after a full discussion of the matter, felt that before any recommendation could be made it would be necessary for the Board of Governors to consider the question from a national viewpoint and establish a definite policy in regard thereto.

The survey contained a description of the territories served and functions performed by all of the branches of the San Francisco Reserve Bank, as well as statistics and charts covering their operations for the years 1926 to 1935, inclusive. A memorandum relative to curtailment of the functions performed by the Spokane Branch was also attached.

On January 17, 1937, with the Board's approval, the entire territory previously served by the Spokane Branch, except the City of Spokane, including eighteen counties in western Washington and ten counties in Northern Idaho, was transferred to the Seattle Branch. As a result of this change the net expense of the Seattle Branch has increased from \$184,200 in 1936 to \$207,000 for the year 1937, or approximately \$22,800; whereas there has been a reduction in net expense at the Spokane Branch from \$165,800 in 1936 to \$70,700 in 1937, or approximately \$95,100 - the net saving resulting from the change being about \$72,000. In the confidential section of the report of examination of the Federal Reserve Bank of San Francisco, made as of July 15, 1938, it is stated that the change in territory has proved entirely practicable, but that under present conditions the cost of operating the Spokane Branch will continue to be approximately \$70,000 per year, and that this expenditure is not justified by the services rendered by the Branch. In this connection, the Board's examiner again expressed the opinion that the Pacific Northwest could be satisfactorily served by one branch.

At the time the Spokane Branch was curtailed it was anticipated that the lease on its banking quarters, which expires December 31, 1938, could be renewed for less space and at a reduced rental. However, the management has been unable to negotiate a satisfactory lease and, because of this situation, the directors of the Reserve bank recently again reviewed the operations of the Branch and recommended its complete discontinuance. A letter requesting approval of the discontinuance was addressed to the Board of Governors on August 9, 1938. It was indicated that in the event the Spokane Branch were discontinued entirely a portion of its former territory, which was transferred to the Seattle Branch on January 17, 1937, would be reallocated to the Portland Branch.

On August 30, 1938, the Board approved the discontinuance of the Spokane Branch.

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SEATTLE BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	1,131	10,123,000	11,161,000	2,460,000	3,116,000	533,000	6,109,000	116,390	30,184	1,393	-	14,030
1932	3,416	9,560,000	11,080,000	1,063,000	2,320,000	532,000	4,723,000	120,034	33,590	904	-	12,939
1933	1,502	10,520,000	8,977,000	1,595,000	1,924,000	640,000	4,167,000	120,769	49,976	4,431	-	11,606
1934	44	11,563,000	8,790,000	1,688,000	2,273,000	1,192,000	5,153,000	150,560	46,679	6,921	-	8,426
1935	19	11,911,000	9,649,000	1,916,000	2,692,000	767,000	5,375,000	168,000	44,000	12,367	2,074	7,237
1936	-	13,990,000	13,546,000	2,130,000	3,116,000	896,000	6,142,000	125,000	40,000	1,917	676	7,000

Amounts Handled
(in thousands of dollars)

1931	198,632	76,218	2,281	840,055	221,743	116,727	1,178,525	1,578	29,101	5,606	-	1,262,416
1932	445,730	71,410	2,111	516,493	157,645	111,254	785,392	1,714	16,992	5,579	-	1,020,859
1933	63,103	71,490	3,541	486,781	142,771	95,332	724,884	1,821	23,389	4,982	-	759,342
1934	846	67,553	1,939	639,522	197,909	155,407	992,838	2,050	29,628	3,649	-	537,831
1935	1,702	65,943	2,034	711,979	240,531	166,394	1,118,904	1,924	34,669	5,309	610	465,714
1936	-	76,603	2,693	801,639	312,485	192,185	1,306,309	1,933	39,709	1,412	415	482,338

SPOKANE BRANCH - FEDERAL RESERVE BANK OF SAN FRANCISCO

(a) City of Spokane

Spokane, with a population of 115,514 is the second largest city in the State of Washington and the seventieth largest city in the United States. It is located in the extreme west central part of the State, on the Spokane River, at the only point north or south at which railroads can cross the Rocky Mountains on a reasonable grade and, because of this fact, is considered the natural gateway between the Pacific tidewater and the interior. It is about 92 miles distant from the site of Grand Coulee Dam. The city is reported to serve a trade area extending from 100 to 150 miles in all directions in which approximately 564,000 people reside. Transportation facilities are furnished by six railroads, including the Great Northern, the Chicago-Milwaukee, St. Paul and Pacific, the Northern Pacific and the Union Pacific; also by various motor coach lines and several air lines.

The principal industries of Spokane are the handling of general farm crops, live stock, wool, fruit and lumber, and brewing. According to the Biennial Census of Manufactures for 1935, there were 256 manufacturing firms in Spokane County which had an output valued at \$43,877,000 during that year. The Census of American Business lists 2,332 retail and 1,585 wholesale establishments operating in the same area. These concerns had sales aggregating \$62,951,000 and \$72,173,000, respectively, during the year 1935.

Banking facilities in Spokane are furnished by two State banks (one member), two national banks, one nonmember trust company and by two branches of the Seattle- First National Bank, Seattle, Washington. Banks having their head offices in Spokane had deposits aggregating \$34,183,000, as of December 31, 1937, and of this amount \$33,500,000 was carried by member institutions.

The Seattle-First National Bank had deposits of \$138,741,000 as of the same date of which approximately \$31,000,000 was held by its two branches in Spokane.

Debits to individual accounts in banks of the city amounted to \$537,754,000 during the year 1936, or an average of approximately \$1,792,000 for each banking day.

(b) Branch Territory and Functions:

The Spokane Branch was established on July 26, 1917 and until January 17, 1937 served a territory consisting of ten counties in Northern Idaho and eighteen counties in eastern Washington. On January 17, 1937 all of this territory, except the city of Spokane, was transferred to the Seattle Branch.

The Spokane Branch now maintains the reserve accounts of banks located within the city, handles cash and non-cash items payable in the city of Spokane, handles mail and telegraphic transfers to and from Spokane banks, furnishes currency and coin to such banks, receives and acts upon applications for rediscounts of banks in the city and performs certain fiscal agency functions for them. The Branch also acts as custodian for the Reconstruction Finance Corporation. The last mentioned activity was transferred to the Portland Branch in November, 1937, but was restored on July 5, 1938.

As of July 15, 1938, the three member banks in the city of Spokane had balances with the Branch as follows:

<u>No. of Banks</u>	<u>Reserve Balances</u>	<u>Deferred Balances</u>	<u>Capital Stock</u>	<u>Bills Discounted</u>
3	\$7,830,600	\$543,900	\$76,500	-

Spokane is 330 train miles (9 to 10 hrs.) from Seattle and 379 train miles (10 to 11 hrs.) from Portland. On any business day trains leave Spokane after 6 P.M. and arrive in Portland or Seattle prior to 8 A.M. on the following

day i.e., overnight mail time. There is also overnight mail from both Portland and Seattle to Spokane between the same hours. Daily air mail service is also available to and from the three cities.

Discontinuance of the Spokane Branch would, of course, result in some inconvenience to the three member banks located in Spokane, which now enjoy an over-the-counter relationship with the Branch, since they would have to adapt themselves to over-night mail schedules. In this connection, however, attention is called to the fact that there are a number of cities throughout the United States that are as important as Spokane as centers of population, finance and industry which do not enjoy immediate access to Reserve bank facilities. This group includes Indianapolis, Indiana, Columbus and Toledo, Ohio, Grand Rapids, Michigan, Hartford, Connecticut and Milwaukee, Wisconsin; to name but a few.

(c) Branch Building:

The Spokane Branch occupies quarters in the Old National Bank building under a lease which expires December 31, 1938. Under the terms of the lease the Branch is provided with approximately 16,715 square feet of space at an annual rental of \$12,000. Usable floor space amounts to 11,222 square feet of which 6,854 square feet are occupied by the Branch and 4,368 square feet are vacant. The vacant space arises from curtailment of the functions of the Branch. An effort has been made to renew the lease for a reduced amount of space at a lower rental without success.

(d) Branch Personnel:

The report of examination of the Federal Reserve Bank of San Francisco, made as of July 15, 1938, shows the following in regard to salaries and personnel at the Spokane Branch:

	<u>July 15, 1938</u>		<u>January 8, 1937</u>		<u>Decrease</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Officers	1.00	\$ 5,500	3.00	\$17,200		
Less - Reimbursable	<u>.30</u>	<u>1,650</u>	<u>.20</u>	<u>900</u>		
	<u>.70</u>	<u>3,850</u>	<u>2.80</u>	<u>16,300</u>	2.10	\$12,450
Employees	31.00	47,880	66.00	99,720		
Less - Reimbursable	<u>8.11</u>	<u>12,673</u>	<u>9.78</u>	<u>15,959</u>		
	<u>22.89</u>	<u>\$35,207</u>	<u>56.22</u>	<u>\$83,761</u>	<u>33.33</u>	<u>48,554</u>
Total	32.00	\$53,380	69.00	\$116,920		
Less - Reimbursable	<u>8.41</u>	<u>14,323</u>	<u>9.98</u>	<u>16,859</u>		
	<u>23.59</u>	<u>\$39,057</u>	<u>59.02</u>	<u>\$100,061</u>	<u>35.43</u>	<u>\$61,004</u>

As will be noted from the above table, the personnel consists of one officer and 31 employees with annual salaries of \$53,380 of which \$14,323 is reimbursable. After allowance for reimbursable salaries, this reflects a reduction between examinations of two officers and 33 employees, with annual salaries of \$61,004. The decrease is due to curtailed operations resulting from the transfer of branch territory, other than the city of Spokane, to the Seattle Branch on January 17, 1937.

(e) Branch Expense by Functions:

The expenses of the Spokane Branch by functions for the years 1932 to 1937, inclusive, were as follows:

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
General Overhead:						
Controllable	\$ 10,814	\$ 12,945	\$ 10,323	\$ 10,104	\$ 10,365	\$ 6,404
Non-controllable	2,788	4,520	5,440	-	15	-
Provision of Space	15,625	18,733	19,718	15,167	15,505	457
Provision of Personnel	3,623	6,092	14,243	20,512	19,387	11,005
General Service	24,386	29,967	33,556	34,076	32,134	19,269
Postage	6,310	8,322	7,150	7,188	7,615	801
Insurance	2,953	3,486	2,040	1,439	1,274	1,146
Failed Banks	18,406	33,660	20,792	4,649	230	-
Loans, rediscounts, etc.	24,948	23,088	4,118	6,374	3,015	634
Securities	2,127	1,323	1,416	1,151	1,490	406
Currency & Coin	8,506	9,202	11,663	16,292	17,729	7,514
Check Collection	15,719	18,626	16,568	15,695	17,159	3,583
Non-Cash Collection	5,423	9,898	8,267	7,149	6,697	2,204
Accounting	20,076	23,439	22,678	22,291	23,137	13,131
Fiscal Agency	13,861	30,357	23,103	31,812	27,984	18,769
Auditing	2,111	3,837	3,427	4,296	3,222	1,404
Bank Relations	564	645	651	961	921	217
Bank Examinations	-	5	6	11	5	-
Statistical & Analytical	514	793	1,055	993	924	556
Total Expense	\$178,754	\$238,938	\$206,214	\$200,160	\$188,808	\$87,500
Less - Reimbursable						
Fiscal Agency Expense	12,832	28,666	20,750	19,220	23,091	15,978
Net Expense	<u>\$165,922</u>	<u>\$210,272</u>	<u>\$185,464</u>	<u>\$180,940</u>	<u>\$165,717</u>	<u>\$71,522</u>

The reduction in expenses for the year 1937, as compared to prior years, was due to the curtailment of Branch territory and functions on January 17, 1937.

(f) Volume of Operations at Spokane Branch:

The following is a comparison of the volume of operations in various departments of the Spokane Branch during the last six months of the years 1936 and 1937, i.e., before and after the change in branch territory:

	<u>Last six monts 1936</u>	<u>Last six months 1937</u>
<u>Discount Department</u>		
Notes Rediscounted	-	-
Collateral notes rediscounted	3	-
Industrial advances	-	-

	<u>Last six months 1936</u>	<u>Last six months 1937</u>
<u>Currency & Coin</u>		
Number of bills received and counted	1,485,000	1,134,000
Cost per one thousand units handled	\$1.26	\$1.12
Number of coins received and counted	698,000	603,000
Cost per one thousand units handled	\$1.95	78 cents
<u>Check Collection</u>		
Number of city checks (clearings) handled	389,000	294,000
Cost per one thousand units handled	\$2.30	\$2.63
Number of country checks (outgoing) received	1,948,000	11,000
Cost per one thousand units handled	\$2.76	\$11.56
<u>Non-cash Collections</u>		
Number of city collections handled	7,949	2,524
Cost per unit handled	15.6 cents	25.7 cents
Number of country collections handled	24,720	1,928
Cost per unit handled	6.1 cents	2.2 cents
Number of coupons (except Governments) and country security collections handled	415	79
Cost per unit handled	24.5 cents	28.9 cents

(g) Survey of Spokane Branch by Board's Examiners - 1933

During the course of an examination of the Federal Reserve Bank of San Francisco, made as of September 2, 1933, the Board's examiners reviewed the operations of the Spokane, Seattle, and Portland Branches and reached the conclusion that it would be possible to consolidate the operation of such branches at Portland without seriously affecting the character of the service rendered to member banks in the Pacific Northwest, with the possible exception of those located in the cities of Spokane and Seattle. It was indicated that mail facilities, both for ordinary and emergency purposes, had improved substantially since the branches were established; that as a result of this improvement the operation of all three branches could be handled at Portland, after some increase in personnel and physical facilities, at a considerable saving; and that, since none of the Northwest branches owned their banking

quarters, it would be possible to effect the consolidation without any loss through the sale of real estate or buildings. It was further indicated that the question of consolidation had been discussed with the management of the Reserve Bank, which, while agreeing that there was no reason for more than one branch in the Pacific Northwest, believed it inopportune to discontinue any branch because of the service which the Reserve banks were rendering to other Government agencies.

(h) Survey of Spokane Branch made by Federal Reserve Bank of San Francisco - 1936

In accordance with the request made by the Board in its letter of March 25, 1936 (X-9532), the Federal Reserve Bank of San Francisco made a comprehensive survey of its five branches. A report of this survey was submitted to the Board, without a definite recommendation as to the discontinuance of any branch. However, a memorandum relative to curtailment of the functions performed by the Spokane Branch, which had been prepared for the directors of the Reserve bank, was attached. On December 10, 1936 President Day advised the Board that his directors, in the interest of economy and subject to the approval of the Board, had voted to transfer all out-of-town reserve accounts carried by member banks with the Spokane Branch to the Seattle Branch and to discontinue at the Spokane Branch all services, other than the collection of checks payable in the city of Spokane and currency service for Spokane banks.

On December 17, 1936, the Board wired its approval of the contemplated change and it was made effective as of January 17, 1937. As a result of the change the net expense of the Seattle Branch increased from \$184,200 in 1936 to \$207,000 in 1937, or approximately \$23,000; whereas there has been a reduction in net expense at the Spokane Branch from \$165,800 in 1936 to \$70,500

in 1937, or approximately \$95,000 - the indicated net saving to the Federal Reserve Bank of San Francisco being in the neighborhood of \$72,000. In the confidential section of the report of examination of the Federal Reserve Bank of San Francisco, made as of July 15, 1938, it is stated that the change in territory has proved entirely practicable, but that under present conditions the cost of operating the Spokane Branch will continue to be approximately \$70,000 a year, and that this expenditure is not justified by the services rendered by the Branch. In this connection, the Board's Examiner refers to comments made in previous reports of examination regarding the Spokane, Portland and Seattle Branches and states:

**** your examiner continues of the opinion that, not only could the Spokane branch be discontinued without materially affecting the services rendered by the Reserve Bank, but also that the Northwest territory served by the three branches could be satisfactorily served by one branch."

As previously mentioned in this memorandum the lease on the quarters occupied by the Spokane Branch will expire on December 31, 1938. When the territory served by the Branch was reduced to the city of Spokane in January, 1937, it was anticipated that a new lease for less space and at a reduced rental, in keeping with the curtailed needs of the Branch, could be negotiated. However, the management has been unable to obtain a satisfactory lease and, because of this situation, the directors of the Reserve bank have recently again reviewed the operations of the Branch and recommended its complete discontinuance. As a result President Day addressed a letter to the Board of Governors on August 9, 1938, advising of the action taken by his directors and requesting approval of the discontinuance of the Spokane Branch. It was indicated that in the event the Branch were discontinued a portion of its territory,

previously transferred to the Seattle Branch, would be reallocated to the Portland Branch and that consideration should be given to changing the reserve city designation of Spokane.

On August 30, 1938, the Board approved the plan to discontinue the Spokane Branch, under which the reserve accounts of the three member banks located in Spokane would be transferred to the Seattle Branch. In approving the plan the Board stated that it would be glad to consider any recommendation the Reserve Bank might wish to make regarding the reallocation of territory in the Seattle and Portland zones.

SPOKANE BRANCH

VOLUME OF OPERATIONS

Number of Pieces Handled

<u>Date</u>	<u>Bills Discounted</u>	<u>Currency Received and Counted</u>	<u>Coin Received and Counted</u>	<u>Checks Handled</u>				<u>Non Cash Collection Items</u>		<u>Fiscal Agency Transactions</u>		<u>Transfer of Funds</u>
				<u>City</u>	<u>Country</u>	<u>Gov't Checks</u>	<u>Total</u>	<u>Gov't Coupons</u>	<u>All Other</u>	<u>Direct</u>	<u>Other</u>	
1931	3,409	1,942,000	1,530,000	627,000	3,153,000	214,000	3,994,000	54,376	15,872	736	-	9,148
1932	10,895	1,702,000	1,795,000	545,000	2,256,000	210,000	3,011,000	54,195	29,422	234	25	8,534
1933	2,219	1,954,000	1,416,000	741,000	2,027,000	317,000	3,085,000	54,382	101,463	1,562	37	9,313
1934	81	2,434,000	1,687,000	898,000	2,534,000	697,000	4,129,000	56,494	83,569	3,209	148	7,117
1935	5	2,589,000	1,820,000	878,000	3,121,000	437,000	4,436,000	63,000	53,000	6,620	1,139	6,020
1936	4	2,719,000	2,188,000	798,000	3,611,000	433,000	4,842,000	45,000	58,000	525	1,007	12,000

Amounts Handled
(in thousands of dollars)

1931	13,881	14,432	458	251,582	188,776	23,996	464,354	542	13,358	1,159	-	283,695
1932	61,178	14,135	580	181,914	133,053	22,342	337,309	613	9,575	500	1,130	157,747
1933	17,185	16,552	908	213,143	145,794	70,798	429,735	555	22,721	830	45	134,364
1934	699	16,901	733	305,642	252,565	95,115	653,322	655	22,079	1,662	174	160,719
1935	26	16,916	546	361,251	323,287	68,703	753,241	578	21,268	3,053	670	141,111
1936	120	17,215	647	370,114	350,357	50,486	770,957	548	20,563	132	438	199,961