# *Annual Report*

## *1949*

**FEDERAL RESERVE BANK OF MINNEAPOLIS**

YOU will find in the following pages the statements of condition and of earnings and expenses of the Federal Reserve Bank of Minneapolis for 1949, with certain comparative data for 1948.

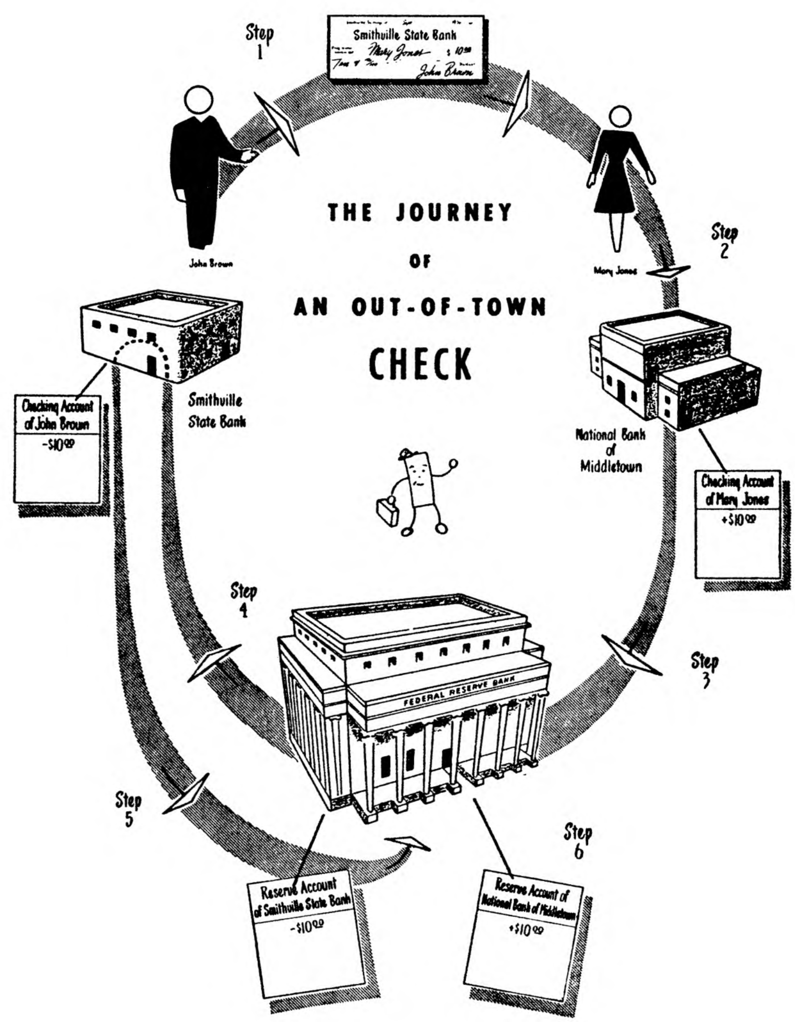
In a letter to the stockholders, President John N. Peyton has reviewed the year's operations of the bank, which reflect the developments in commercial banking, business, and agriculture of the district.

Again this year, as in previous years, the report contains a feature article on one of the services performed by the Federal Reserve banks for the commercial banks and the economy as a whole. This article, entitled "MONEY IN A HURRY," presents in picturesque language the role played by the check collection system in the lives of the people of our nation.

To this report I would like to add a fact that cannot be revealed by financial statements or statistics—namely, that we have enjoyed the wholehearted cooperation of our member banks, without which we could not have performed our functions as well as we have. A continuation of such splendid cooperation in the future will be met with even greater efforts on the part of the "Fed" to render services with a high degree of dispatch and efficiency.

R. B. Shepard

*Chairman, Board of Directors*


Step 1
Smithville State Bank
Mary Jones
$ 10.00
John Brown
John Brown
Mary Jones
Step 2
THE JOURNEY
OF
AN OUT-OF-TOWN
CHECK
Smithville State Bank
Checking Account of John Brown
-$10.00
National Bank of Middletown
Checking Account of Mary Jones
+$10.00
Step 4
Step 3
FEDERAL RESERVE BANK
Step 5
Step 6
Reserve Account of Smithville State Bank
-$10.00
Reserve Account of National Bank of Middletown
+$10.00

# THE PRESIDENT'S LETTER

## *TO THE STOCKHOLDERS*

A YEAR AGO, many bankers and businessmen were feeling "mighty low" over the near-term business outlook. They looked back over three years of great prosperity and expressed the opinion, "At last, the postwar recession is here. Prices are slumping, the pipelines are almost full, and most consumers have fewer dollars to spend. We had better go slow on new loans and cut down on commitments for new inventory."

And so it came about early in 1949 that bankers exercised greater caution in acting on loan applications, and businessmen let a considerable amount of their inventories run out without replacement. As a result, industrial production declined and unemployment increased. The "I told you so" chorus swelled.

After a while, businessmen observed that the amount of goods being bought had not declined very much and also that sales were being lost because of insufficient stocks in some lines. "If my customers will buy, I'm willing to sell—that's what I am in business to do," many of them reasoned; whereupon they began to order goods in greater volume.

To be sure, the fairly steady, high volume of consumer buying was not maintained without effort by businessmen. They put forth more aggressive salesmanship and took advantage of, first, the relaxation of and, later, the abandonment of federal regulations concerning the terms of such purchases.

As a result of the maintenance of a high level of consumption expenditures, bolstered by aggressive merchandising, and also a revival of construction, aided and abetted by government activities in housing, business activity picked up after midyear.

Then we ran into the coal and steel strikes which reduced business inventories once more. At the end of the year the economy was rebounding from the moderate setbacks of earlier months and the effects of the steel strike.

That, as I see it, describes the business situation in 1949 put in capsule form. The pill is not too bitter. Whether the health of the economy will improve as a result of having taken it remains to be seen.

Today, bankers and businessmen are somewhat more optimistic than they were a year ago by reason of the satisfactory recuperative powers shown by the economy last year. Yet, their optimism is tempered by several considerations, such as the growth of agricultural surpluses, the slowing down in business investment, the possibility of a slump in construction activities, the alarming rise in consumer debt, the decline in our export trade, and the reappearance of government deficit financing.

Merely to prove what we already know, our statistical division has provided me with some figures on business conditions in 1949, both on the national and the Ninth district scale. Although these figures are well known, it is worthwhile to review them in order that one might better appraise the present business situation.

### *Business Fluctuated More in 1949 Than in 1948*

That business activity, nationwide, had its ups and downs in 1949, compared with the steady, high level of 1948, is revealed by the following recital of facts:

- Gross national product (the dollar value of all goods and services produced) was estimated at

$262.4 billion in 1948 and $258.7 billion in 1949, a drop of 1.5%.

- Industrial production dropped about 5% and agricultural output fell 1.4%. Construction, however, increased 4.6% and the output of electricity, gas, and automobiles also rose to new high levels.
- Civilian employment decreased from 59.4 million in 1948 to 58.7 million in 1949, a drop of 700 thousand, instead of an increase of 1 million needed to maintain full employment of a growing labor force.
- Wholesale prices declined 6.9%, attributable mostly to a sharp drop in wholesale farm and food prices. Industrial prices fell least. Both wholesale prices of farm products and prices received by farmers fell about 12% during 1949, which put them 20% below the peak of January 1948. Prices paid by farmers declined only 2% in 1949. Prices for farm products, as a group, dropped below parity for the first time since 1941.
- Consumers' prices did not follow wholesale prices all the way down. In November '49, such prices were only 2% below the peak of the previous year.
- Business loans of reporting city banks declined from January through July '49, then increased steadily. Total loans of all commercial banks, however, exceeded in every month of the year the volume of the corresponding months of 1948. Automobile installment credit outstanding at the end of '49 had increased over 60% from the end of the previous year.
- Consumer expenditures were remarkably stable both in 1948 and 1949, the annual rate being $178 to $199 billion in each year. The decline in expenditures for nondurables was offset in about an equal increase in expenditures for durable goods, notably automobiles, and for services.
- People added to their accumulation of tangible assets in 1949, but incurred more debt in doing so, both mortgage debt and consumer debt. Thus financial saving (increases in liquid assets, minus increase in debt) was approximately zero, compared with the extremely high levels of the war years. In fact, about two-fifths of the nation's spending units had no financial savings—they spent more than their incomes.
- Gross private investment declined in '49 from '48, the decline in business inventories more than offsetting an increase in new construction and producers' equipment. (The liquidation in business inventories in the first half of the year and then some rebuilding of inventories largely explains, in the opinions of most observers, the ups and downs of business activity in '49.) At annual rates, inventory accumulation declined from $9 billion in the fourth quarter of '48 to a liquidation of $2.4 billion in the third quarter of '49.
- Government (federal, state, and local) cash receipts from the public in 1948 exceeded payments to the public by $7.2 billion. In 1949, cash payments exceeded receipts by $3.0 billion.

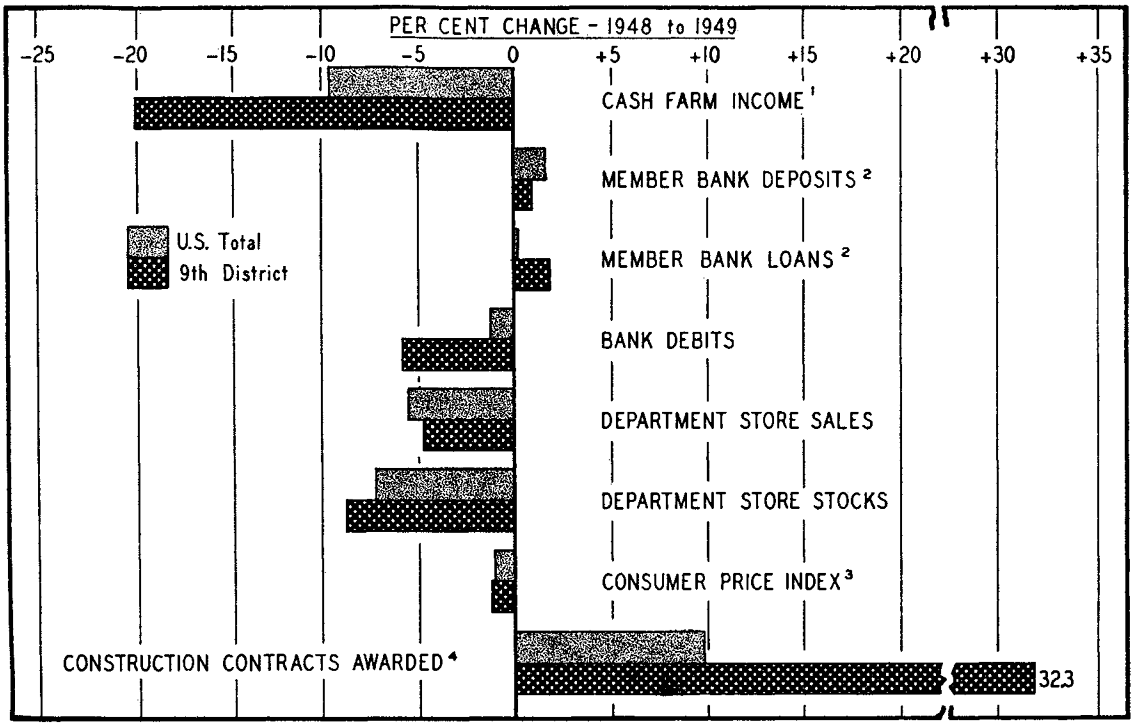
On balance, the high level of consumer demand, the shift from a cash surplus to a cash deficit on the part of government, and the maintenance of high levels in new construction and new producers' durable equipment were the chief factors that prevented the decline in business inventories from causing a serious deterioration in general business conditions in 1949.

## *District's Rate of Gain Slowed Down in 1949*

The most significant features of business and agriculture in the Ninth district compared with the nation as a whole are shown by the accompanying chart. The greatest differences may be noted in four items—namely (1) cash farm income, (2) member bank loans, (3) bank debits, and (4) construction contracts awarded. The increase in the second and decline in the third of these doubtless stem from the first, while the great increase in the fourth is attributable to big public projects of local governments and equally big housing projects encouraged by federal agencies.

The postwar prosperity of farmers in this district reached its peak in late 1947 or January 1948, when prices received by farmers for big crops of grains and livestock were rising faster than prices paid by

**BUSINESS INDICATORS IN 1949 — THE NINTH DISTRICT AND THE U. S.**




1—First 11 months. 2—Year-end figure. 3—1949 figures: 9th district based on average of 4 quarters; U. S. based on 12 months. 4—District figures for 4 states; U. S. figures for 37 eastern states.

Note: Cash farm income data from U. S. Department of Agriculture. Consumer price data from U. S. Department of Labor. Construction contract data from F. W. Dodge Corporation.

farmers for goods and services purchased by them. Thereafter, the trend ran in the opposite direction.

Prices received by farmers began a jerky downward trend in 1948, while prices paid by farmers continued on a rather steady upward march. The year 1949, from the farmers' point of view, was characterized by sharp declines in prices received, while prices paid levelled off, increasing slightly for a few items and declining slightly for a few others.

Bank loans increased in the Ninth district at a rate considerably greater than that for the nation, which was negligible. It may be assumed that much of the increased borrowing in this district sprang from the slump in cash farm income, since it was the country banks and not the city banks which experienced a rise in loans outstanding. In fact, loans of the weekly reporting city banks in this district declined during the year, although percentage-wise they did not fall as much as in the weekly reporting city banks of the nation as a whole.

Reflecting the sharp decline in cash farm income, bank debits dropped. It is doubtful that much of this decline can be attributed to a corresponding reduction in purchases by farmers, since their purchases of new agricultural implements, new automobiles, etc., reached record levels. More likely, the explanation is that checks drawn by grain dealers, processors, etc., in this district in favor of farmers declined rather sharply.

The big splurge in construction activity in this district was the most surprising development of the year, especially so when one remembers the extremely pessimistic attitudes toward the building industry entertained pretty generally in the early months. However, when one glances at the chart showing the tremendous increase in construction contracts in the Ninth district, two observations are in order—namely (1) that construction contracts awarded were very low in the last quarter of '48, and (2) that the late spurt in awards in '49 gave us a much larger carryover into the succeeding year than was the case in '48.

Thus in 1949 the "going" was a little tougher for our district than for the previous three postwar years, when we gained at a faster rate on most standards for comparison than the rate of gain for the nation.

## Bank's Work Volume Reflects Business Level

Nevertheless, the level of business activity for the year was generally high, as evidenced by the continued heavy volume of work in the Federal Reserve Bank of Minneapolis. At the same time, our volume figures point up some of the trends already mentioned.

Our check collection department again had a record-smashing year, handling 65.2 million cash items at the head office and the Helena branch, compared with 58.5 million in 1948. Much of this gain may be attributed to the increased number of government checks handled—almost 50 per cent above the previous year—as our bank became paying agent for Treasury card checks issued at Minneapolis and Helena. Part of the increase was a result of the Wisconsin par clearance law which became effective June 20. These developments, rather than increased business activity, probably were responsible for 1949's record number of checks processed.

What is surprising is that, despite the district increase of 11 per cent in the number of checks handled, their dollar value, amounting to $20.8 billion, was actually less than 1948's record $21.3 billion. As a matter of fact, excluding government checks our 1949 figures show an increase of 6 per cent in number of items handled and the same percentage decrease in dollar volume. Obviously checks in 1949 were on the average being made for smaller amounts.

Federal Reserve currency and coin sorters also handled more money than in any previous year—almost 77 million pieces of currency and nearly 92 million coins—up 25 per cent and 13 per cent from 1948, respectively. Yet the dollar amount of currency shipped and paid out was $36 million below that of the previous year and, for the first time since prior to World War II, the note circulation of the Federal Reserve Bank of Minneapolis was smaller on December 31 than it had been a year previously. This bank's Federal Reserve notes in circulation—which comprise most of the paper money used in the district—at the end of 1949 amounted to $612 million, as compared with $631 million a year ago.

Incidentally, counterfeit bills were more prevalent than ever before, more than 100 being detected by our sorters in the last six months of the year alone.

## Number of Grain Drafts and Bonds Shows Decline

Good evidence for the belief, expressed earlier, that payments by farm processors were sharply reduced in 1949 is found in the figures compiled by our noncash collection department. In 1948 we collected 912,000 grain drafts valued at $1,057 million. The 1949 totals were 815,000, worth $688 million, a decrease of 11 per cent in number and 35 per cent in dollar value, which tells graphically the story of what has happened to the grain farmer's cash income.

Fiscal agency work continued a gradual decline, with issues, redemptions, and exchanges of United States government securities in 1949 off 8 per cent in number and about 2 per cent in dollar volume from 1948. Savings bonds sales were down almost 25 per cent in dollar volume, although the number of bonds sold was slightly above the 1948 figure.

On the other hand, 11 per cent fewer savings bonds were redeemed, but their dollar value was almost 4 per cent greater than the previous year. From these figures it would appear that fewer bonds — but of larger denomination — are being cashed, while a greater number of bonds, of smaller denominations, are being sold.

The number of money transfers handled in our accounting department was almost the same as last year's figure, with a dollar volume of $10.9 billion, 6 per cent above the 1948 record.

The value of securities held in safekeeping for commercial banks in the district stood at $1,429 million at year's end, about 10 per cent more than on December 31 a year ago—seemingly an adequate justification for our elaborate protection system.

During the year we loaned to member banks a total of $265 million secured by United States government obligations. The discount rate for loans secured by government securities or eligible paper remained unchanged at 1½ per cent throughout the year.

## Board Regulations Altered

One factor in the money market which did show considerable change was reserve requirements. As business loans declined steadily from January through July, the Board of Governors of the Federal Reserve System reduced reserve requirements on several occasions.

The required reserve for time deposits dropped in May from 7½ per cent to 7 per cent; in July to 6 per cent; and in August to 5 per cent. For demand deposits in country banks the legal requirement was reduced from 16 per cent to 12 per cent in the same three steps, and for reserve city banks it went from 22 per cent down to 18 per cent.

In March the Board's Regulation U was amended to reduce margin requirements from 75 per cent to 50 per cent on loans for purchasing or carrying listed securities.

On June 30 the Board's Regulation W, governing consumer installment credit, expired and Congress did not renew the authority under which it was issued.

## Official Staff Changes

The total number of employees—633 at the head office and branch at year's end—was only 11 less than at the end of 1948, but there were a number of changes in the bank's board of directors and official staff.

Elected class A director of the bank, effective January 1, 1950, was Henry E. Atwood, president of the First National Bank of Minneapolis. He replaces Clarence E. Hill, who was not a candidate for re-election. Homer P. Clark of St. Paul was re-elected as class B director.

Roger B. Shepard of St. Paul was reappointed board chairman and Federal Reserve agent. W. D. Cochran, Iron Mountain, Michigan, was reappointed class C director and renamed deputy chairman by the Board of Governors.

At the Helena Branch, W. A. Denecke of Bozeman, Montana, was named director to succeed Malcolm Holtz, while B. M. Harris of Columbus was reappointed to a two-year term.

Joseph Ringland, president of the Northwestern National Bank of Minneapolis, was named to the Federal Advisory Council for the year 1950.

Two new members were added to the Industrial Advisory Committee. They are Albert H. Daggett of St. Paul and Walter M. Ringer of Minneapolis.

Within the bank's official family, Earl B. Larson was promoted from assistant vice president to vice president; Harold C. Core, from personnel officer to vice president in charge of personnel; Maurice H. Strothman, Jr., from assistant counsel to assistant vice president; and Arthur R. Larson, from assistant cashier to assistant vice president. New officers elected during the year include Franklin L. Parsons, associate director of research; Clayton E. Tillander, chief examiner; and Arthur W. Johnson, Christian Ries, George Rockwell, Marcus O. Sather, and Clement Van Nice, assistant cashiers.

For the first time in 16 years the bank's official family lost a member by death when Harry I. Ziemer, vice president, died November 10. The same month saw the passing of a former chairman of the board and governor of the bank, William B. Geery.

In accordance with Minnesota legislation providing for Saturday closing of banks in the Twin Cities and Duluth, the Minneapolis head office announced early in July that Saturdays would henceforth be holidays. The Helena branch continues to stay open on that day.

The total of 1,286 banks in the district at the end of the year was one more than the year-end total 12 months earlier. Of these, 478 were members of the Federal Reserve System, the two following banks having joined the System during 1949:

St. Cloud National Bank, St. Cloud, Minnesota
First State Bank, Gilby, North Dakota

## New Educational Projects Introduced

In April our bank was host to a record 1,154 bankers at its annual Ninth district Conference; the fourth Federal Reserve Forum in September brought in 322 potential executives from member banks, and on November 26 approximately 140 Ninth district bank examiners and supervisors attended the annual Examiners Conference at our bank.

Continuing the Short Course series, which we initiated in 1948, five sessions brought 60 member bankers into the bank for five days' study of our operations and the theory of central banking. More than 200 persons have now been enrolled in this course.

Several new educational projects were launched in 1949, including a one-day Workshop meeting of college instructors in money and banking and economics, and an eight-day Central Banking Seminar for a selected group of college professors. Seventy-eight teachers from 27 schools attended the Workshop. Eleven enrolled for the seminar, which included a study of our own bank's operations, a two-day visit to the New York Federal Reserve bank, and two days at the offices of the Board of Governors in Washington, D. C.

Another new program saw our bank sending out senior members of its own staff for a week's training in commercial banks. From July, when this farming-out program began, until the end of December, 33 of our men had had the opportunity to see how a commercial bank operates.

A new educational film, The Federal Reserve Bank and You, devoted to Federal Reserve functions and operations, was nearly completed at year's end and will be ready for public distribution soon. This film is intended to replace our old movie, Back of Banks and Business, which has been shown to well over a half-million persons.

In November we tried a new communications medium when our operations were televised over a local radio station.

As in the past, we attempted to keep in constant touch with current business, banking, and agricultural conditions in this section of the country through calls on banks, attendance at bank and business meetings, luncheon meetings at our bank, and in other ways.

By associating ourselves with and becoming a part of the varied business, agricultural, and banking activities of the district, we hope to continue as a vital and constructive force in its development.

J. N. Peyton

*President*

# MONEY IN A HURRY

## *CHECK COLLECTION AND YOUR FEDERAL RESERVE BANK*

ON a fall day in 1855 the steamer *Globe* was plowing its way up the treacherous Minnesota river, headed for the Redwood Indian agency. In its cabin was 300 pounds of gold—worth $90,000—the annual payment to the Sioux Indians for lands they had sold to the federal government.

This was to prove an unfortunate day for the *Globe*. Three miles below its destination, the steamer ran aground on a large boulder. Seeking to get his boat afloat, Captain Edward Bell ordered the crew to hustle the gold and the rest of the cargo ashore.

As the men brought the last keg of gunpowder to land, they saw clouds of smoke from a prairie fire which was advancing toward the pile of goods. Despite their efforts, the shipment was destroyed and the gunpowder exploded, but the gold was saved when a team of horses sent from the agency hauled it to safety.

The hazards encountered by Captain Bell were commonplace a century ago. Transporting money often meant a perilous trip with no guarantee of safe delivery. How times have changed since then!

Today checks have become the chief medium for making money payments. In fact, more than 90% of the nation's business is settled by deposit money. Whenever you sign your name below the magic phrase "Pay to the order of . . . ," the modern and efficient machinery of check collection starts whirring. Everyone now takes for granted that payments can be sent by check with speed and safety.

The myriad trade currents crisscrossing the United States today demand a nation-wide system of check collection—a system for sending checks home to the banks on which they are drawn and for transferring payments back to the banks where the checks are deposited.

The Federal Reserve System and the nation's commercial banks answer this need. Through the 12 Federal Reserve banks and their 24 branches, out-of-town checks are settled with speed, safety, and a minimum of expense.

### *Member Banks May Route Out-of-Town Checks to Fed*

Let's drop in on the National Bank of Middletown—a member bank located in the Ninth Federal Reserve district. Middletown is an active trade center. Checks flow to its citizens from all parts of the Ninth district and from the rest of the nation as well. Some of these checks are deposited in the National Bank.

As we look in on the National Bank, Joshua Jones, head teller, is making up a package of out-of-town checks to send to the Federal Reserve Bank of Minneapolis for collection. If Joshua is sending a substantial number of checks, he will probably sort them into different groups. This is because of the Federal Reserve "availability schedule."

The National Bank of Middletown gets credit in its reserve account—which is on deposit at the Fed—for the checks it sends to the Minneapolis Reserve bank for collection. It gets credit on the same day the checks are received for those drawn on Minneapolis and St. Paul banks and those issued by the U. S. Treasurer. All other checks are credited first to a "deferred availability" account, and after one, two, or three days—depending on the published time schedule of the Reserve bank—the credit is transferred to the bank's reserve account.

Let's say that Joshua Jones sorts the checks he sends to the Fed into three groups. One, a batch of checks drawn on Twin Cities banks, marked for immediate credit—that is, credit on the day of receipt by the Reserve bank. Another, a bundle of Treasury card and paper checks, also headed for immediate credit; and lastly a group of checks drawn on other banks, marked for deferred credit.

If the National Bank of Middletown sends only a small volume of out-of-town checks, Joshua might not bother to sort. If so, the Reserve bank marks the entire batch for deferred credit according to its published time schedule.

Only funds in the reserve account, however, can be counted as legal reserves or can be withdrawn. So it is to a commercial banker's advantage to sort his checks and get the earliest credit available.

## The Fed Collects Only Checks on Par Banks

Besides availability schedules, there is another important rule of the game. Whatever way Joshua decides to sort the out-of-town checks, he must remember that the Reserve banks collect only checks that are remitted at par.

"Remittance at par" means a bank pays the full face value of a check drawn on it. It does not deduct from the written amount of the check a fee for making payment. A nonpar bank might pay, for instance, $99.75 on a $100 check. A par bank remits $100 on a $100 check.

So member banks must sort out nonpar checks from those it sends to the Fed for collection. Sounds complicated, doesn't it? In fact, country member banks have found it to be just that, and many of them send out-of-town checks to their city correspondent banks—banks which provide services for other banks, as well as for the general public. In that way, country bankers need not sort out nonpar checks or sort checks into batches of Twin Cities bank checks, Treasury card and paper checks, and other classifications.

City correspondent banks which receive the checks, however, sort them into all these classifications and send most of the par checks to the Federal Reserve bank for collection.

City correspondent member banks also act as middlemen for nonmember banks. Since the Fed's collection service is available only to members, nonmembers may send their out-of-town checks to their city correspondents, which then channel them to the Reserve banks.[1]

Thus most par checks flowing between cities sooner or later are routed through a Federal Reserve bank. Checks drawn on banks in nearby cities, however, are an exception. These are usually sent directly to the drawee banks—that is, the banks on which the checks are drawn.

The job of sorting and routing checks can be a streamlined operation today, thanks to the use of transit numbers and routing symbols—simple codings of the names and locations of banks and their Reserve banks printed on the faces of checks. This coding system was developed jointly by the American Bankers Association and the Federal Reserve System, partners in a continuing operating research program to improve check collection methods.

Now back to Joshua Jones. After sorting the out-of-town checks he is sending to the Minneapolis Reserve bank, he prepares a "cash letter" to be attached to each group. "Cash letters" are

1 Nonmember banks which keep a deposit at a Reserve bank as a clearing and collecting balance may use the cash collection service of the Reserve System. Such banks are called "nonmember clearing banks".

## KEY TO THE PICTOGRAPH ➧

STEP 1—John Brown sends his check for $10, drawn on the Smithville State Bank, to Mary Jones in Middletown.

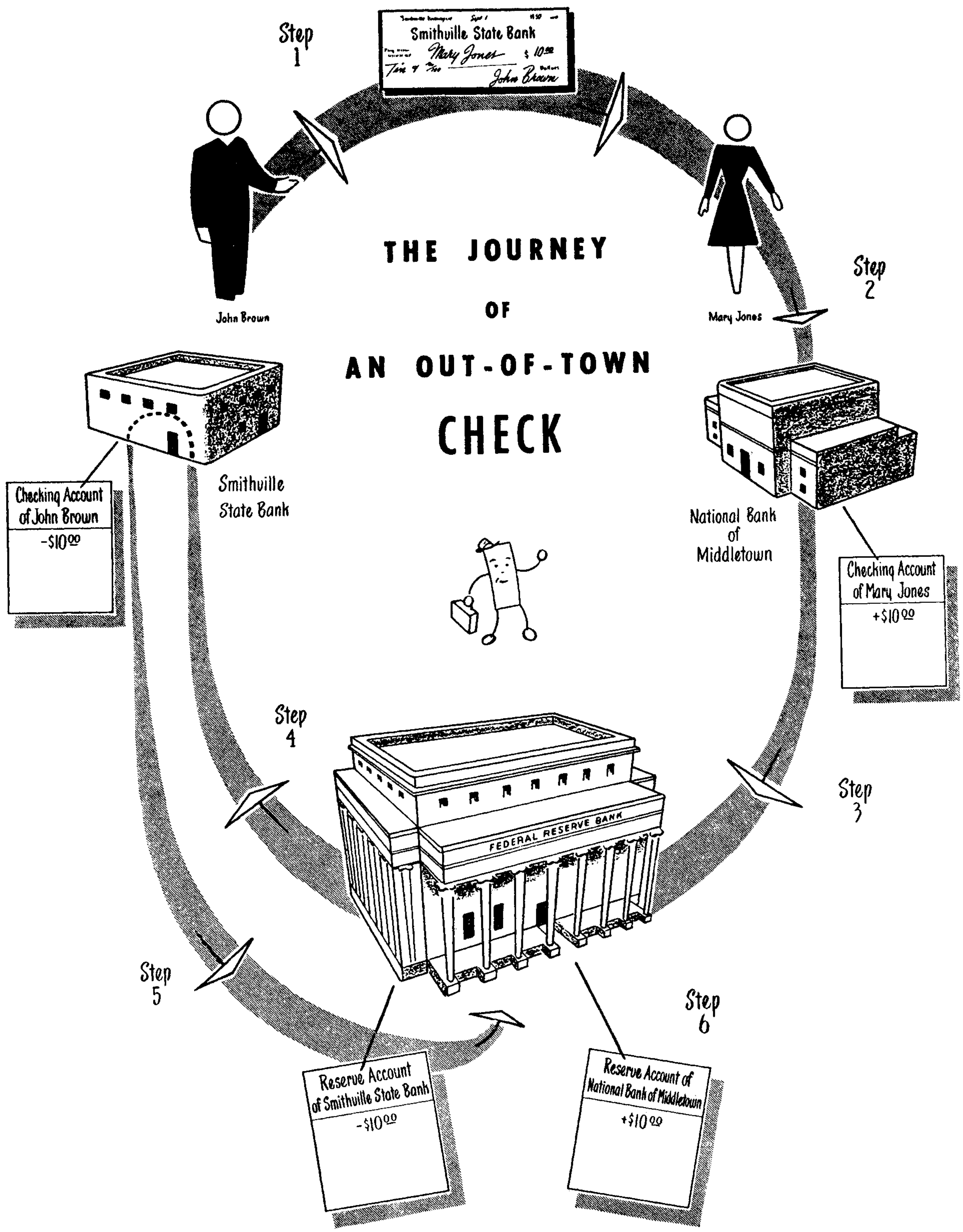
STEP 2—Mary Jones deposits the check in the National Bank of Middletown, where her account is credited $10.

STEP 3—The National Bank of Middletown sends the check to the Federal Reserve bank.

STEP 4—The Federal Reserve bank sends the check to the Smithville State Bank, where John Brown's checking account is charged $10.

STEP 5—The Smithville State Bank authorizes the Reserve bank to charge its reserve account $10.

STEP 6—The Federal Reserve bank credits the reserve account of the National Bank of Middletown, completing the transaction.



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itemized lists of the outgoing checks. Usually the "letter" is prepared on an adding machine, with the amounts of the checks listed and totals rung up.

Commercial banks may keep more detailed records for their own files. Some have special equipment to photograph checks. Others record the banks on which the checks are drawn and the last endorsers.

With the checks sorted and cash letters attached, Joshua Jones mails the package to the Minneapolis Fed.

## Speed Is Essential in Processing Checks

The first job of the Federal Reserve bank is to get its mail as fast as possible. The faster checks are received the sooner the wheels of collection start turning, and the sooner banks get the money behind a check. In the final analysis, a check is little more than a slip of paper until the money has been transferred from the drawer's bank to the bank where the check was deposited.

The city is still asleep when the Fed of Minneapolis starts to work on its incoming mail. At 5:00 a.m. Herman, the Fed's mail car driver, makes his first trip to the postoffice and the express station to pick up mail addressed to the Federal Reserve Bank of Minneapolis. For the next eight hours, he delivers mail to the Reserve bank as fast as it arrives in the city.

Herman is not the only member of the Fed family who sees the sun come up. A crew of five workers are at their stations in the check collection department to receive his first mail delivery. By 7:45 a.m., when the full staff of the department reports for work, the early morning's mail is ready to be processed.

It is a typical day in a typical week. A flood of 200,000 or more checks is going through the check collection department. Two hundred thousand checks—pile them one on top of the other and they will reach as high as a seven-story building.

You can hear the clackity-clack of adding machines, tabulators, and sorting gadgets. If you take time to count, you will find that almost 200 persons work in the check collection department. At any moment you may hear a call for attention come over a loudspeaker as one of the department supervisors uses the public address system to make a general announcement.

## Incoming Checks Go to One of Four Department Divisions

The check collection department occupies almost the entire second floor of the Minneapolis Fed. The department is divided into four sections.

The country check division handles all incoming checks except U. S. Treasury checks and checks drawn on banks in Minneapolis and St. Paul.

The Twin Cities clearing section takes care of checks drawn on banks in Minneapolis and St. Paul.

Another division processes U. S. Treasury checks —mostly card checks, but also some paper checks.

The last section is for return items—checks which must be returned to the sending bank for one reason or another.

Now let's follow the journey of the checks sent to the Reserve bank by Joshua Jones. First stop is the mail desk of the Minneapolis Reserve bank. Every business day of the year your Fed gets more mail than Santa Claus at Christmas time.

Checks come in from the member banks in the district. (In the Ninth Federal Reserve district, Montana member banks may send their out-of-town checks to the Helena branch of the Reserve bank. Member banks in the remainder of the district—Minnesota, North Dakota, South Dakota, Upper Peninsula of Michigan, and northwestern Wisconsin—may clear and collect checks through the head office of the Fed.)

Checks also come in from other Federal Reserve banks. Here is how this works: The Federal Reserve Bank of Chicago receives checks for collection from member banks in its district—the Seventh Federal Reserve district. Many of these checks—probably numbering in the thousands each day—are drawn on par banks in the Ninth district. The Reserve bank of Chicago bundles all the Ninth district checks together and sends them to the Federal Reserve Bank of Minneapolis. Here they are speeded on their way to the drawee banks.

Checks also come into the Minneapolis Fed from "direct sending" banks. These are commercial banks in other districts which regularly receive a big volume of checks drawn on Ninth district banks. As a time-saver, these banks are authorized to send checks directly to the Fed of Minneapolis, bypassing their own Reserve bank.

Finally, the U. S. Treasury sends checks it receives—tax payments, insurance premiums, etc.—to the Reserve banks.

So the checks and cash letters from Middletown join the snowfall of items for clearings and collection which descend on the Federal Reserve Bank of Minneapolis.

## Many Operations Involved in Collection of Country Items

From the mail desk, country checks are sent to their division. Here clerks "prove" the cash letters against the checks—making sure the totals on the adding machine lists sent in by the bankers jibe with the total amounts of the checks.

Now the checks and their cash letters part company. The cash letters are routed to the accounting department of the Minneapolis Reserve bank, where the sending banks are given credit in their deferred availability accounts. Checks sent in by the U. S. Treasurer are credited to Uncle Sam's account at the Reserve bank.

And the checks—they are completely reshuffled! In a matter of a few hours the checks are sorted into piles according to the banks on which they are drawn. The next step is preparing outgoing cash letters—listings of the checks the Fed is sending to each bank for collection.

For its own records, the Minneapolis Reserve bank keeps a complete description of every country check it sends out. This sounds like a big job, but with Recordak photographic equipment it takes only a flip of the wrist. Drop a check into the slot —click—and its front and back are recorded on microfilm. At the same time the check is stamped with an FRB endorsement. Then the Reserve bank mails its outgoing checks and cash letters to the drawee banks.

Next the drawee banks pay for the checks. Most banks remit to their Reserve bank by writing checks on their accounts in city correspondent banks. Or member banks may authorize the Fed to deduct the sum from their reserve accounts.

The final step is the transfer of credit from sending banks' deferred availability accounts to their reserve accounts. The Fed transfers credit according to its published time schedule rather than when payment for the checks is received. Thus many times credit is transferred while checks are still in the process of collection. In effect, the Fed makes a noninterest-bearing loan to the sending bank. Among bankers this is called absorbing "float".

Let's pull the threads of our story together. What happens when John Brown of Smithville writes a check to Mary Jones of Middletown? The journey the check takes is shown in the pictograph on page 11. When you send a check out of town to someone located in your Federal Reserve district, it makes a trip similar to this one.

What happens if John Brown and Mary Jones live in different Federal Reserve districts — say Smithville is in the Seventh district and Middletown is in the Ninth? Then two Federal Reserve banks get into the picture.

The Federal Reserve Bank of Minneapolis sends checks drawn on Seventh district par banks to the Federal Reserve Bank of Chicago. The Chicago Fed sends John Brown's check to the Smithville State Bank, which remits back to the Chicago Reserve bank. Now the Fed of Chicago must pay the Reserve bank of Minneapolis, where the reserve account of the National Bank of Middletown will be credited.

Enter the Interdistrict Settlement Fund — that ingenious arrangement for transferring money between Federal Reserve banks. [2] The Interdistrict Settlement Fund consists of gold certificates owned by the 12 Federal Reserve banks. The Reserve bank of Chicago instructs the Fund managers to reduce its share of the Fund and add to the share belonging to the Reserve bank of Minneapolis.

So we have completed the cycle of country check collections.

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2 The story of the Interdistrict Settlement Fund was told in the 1948 Annual Report of the Federal Reserve Bank of Minneapolis.

## *Checks on Twin Cities Banks Are Sent to Clearinghouse*

About one out of every six checks that come into the Federal Reserve Bank of Minneapolis has been drawn on a bank located in either St. Paul or Minneapolis. These checks are routed to the Twin Cities clearing department. First stop—International Business Machine equipment. In one operation incoming cash letters are proved for accuracy, and checks are endorsed, sorted, and listed by drawee banks. The use of IBM machines has cut in half the time it would take to do these jobs by hand.

Next, the cash letters are routed to the accounting department, where the sending banks are given immediate credit in their reserve accounts. Or if the checks are payable to Uncle Sam, the account of the U. S. Treasurer is credited.

One thing we don't see in the city clearing section is Recordak machines. Since Twin Cities checks are picked up by messengers of the drawee banks, it isn't necessary for the Fed to keep a record—other than the tape listing—of its outgoing city checks.

Checks processed in the clearing section are then routed to the Twin Cities clearing house. Here the thousands of checks drawn on Minneapolis banks and deposited in St. Paul banks, and vice versa, are cleared each day, along with the checks from the Fed's clearing section.

The Twin Cities clearinghouse session is a matter-of-fact ritual which takes place at 10:30 a.m. in a corner of the second floor of the Minneapolis Reserve bank. As much as $50 millions in checks may be cleared in less than 10 minutes.

It is now 10:26 a.m. Bill, the elevator operator, has barred his doors to the regular traffic. His car is reserved for messengers bringing in checks in black suitcases from Minneapolis and St. Paul banks.

Messengers from seven banks and a representative of the Minneapolis Reserve bank attend the clearinghouse sessions. The seven banks clear for their branches and affiliates as well as for themselves and, all together, 42 Twin Cities banks are represented. Messengers must be prompt or the banks they represent will be fined; and they must be accurate, for there is also a penalty for errors.

At 10:30 sharp the clearing process begins. Messengers from Minneapolis banks have brought checks drawn on St. Paul banks. The messengers from St. Paul banks have brought checks drawn on Minneapolis banks. And the representative of the Reserve bank brings the checks processed in the Twin Cities clearing section. The exchange begins. Soon the piles of checks will be in the hands of the banks on which they are drawn.

Each bank messenger records the total amount of checks he brings to the clearing house. After the exchange, the same messenger totals the checks he receives. The difference between the two — amount brought and amount received — is the balance to be paid.

If a bank brings more checks (dollar-wise) than it receives, its reserve account will be credited for the balance. If a bank receives more checks than it brings, its reserve account will be charged for the balance.

Checks both drawn on and deposited in Minneapolis banks are cleared through the Minneapolis clearinghouse, while checks drawn on and deposited in St. Paul banks are cleared through the St. Paul clearinghouse. These clearinghouses operate independently of the Federal Reserve bank.

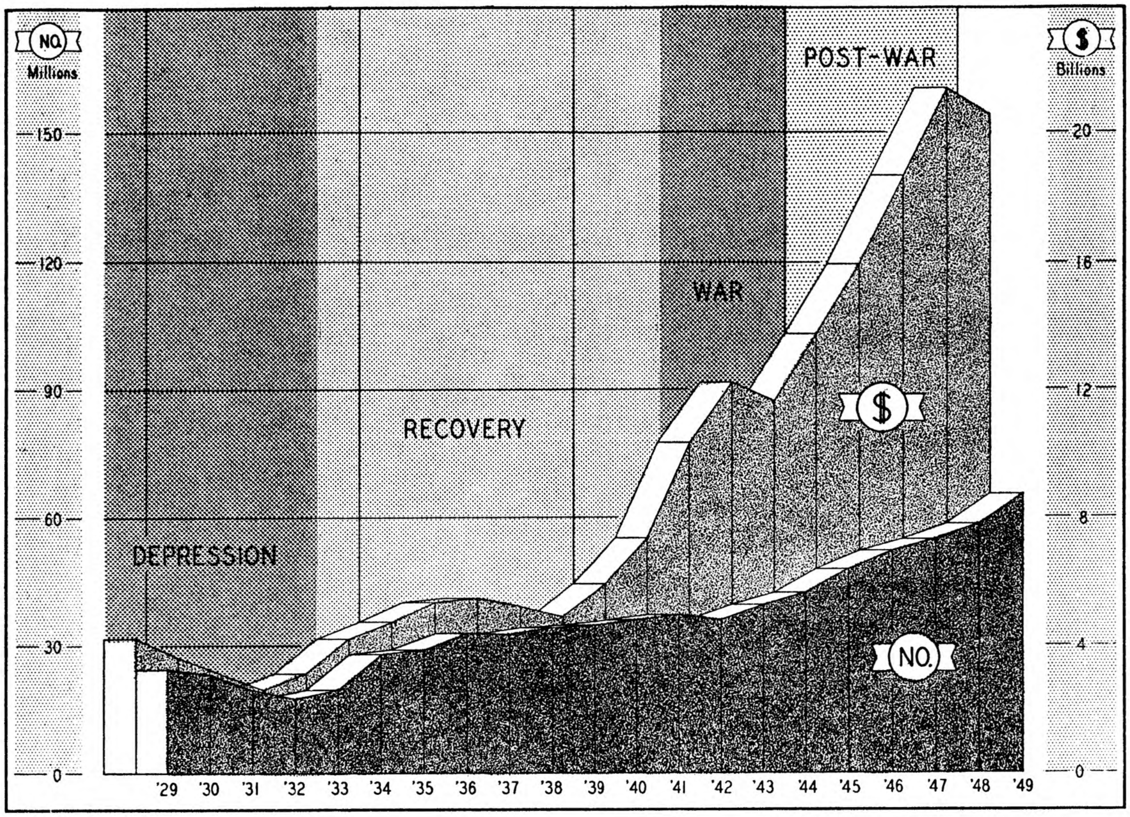
## *The Fed Is Paying Agent for Uncle Sam's Checks*

Uncle Sam keeps his checking account in the 12 Federal Reserve banks. Checks payable to the U. S. Treasurer are credited to these accounts; checks payable by the Treasurer are charged against them.

In the collection of Treasury checks the Fed is Uncle Sam's "Man Friday". The Reserve banks do the work of sorting, tabulating, and accounting for checks signed by the U. S. Treasurer.

When Uncle Sam writes a check, he designates one of the Reserve banks as paying agent. Or in some cases—as with the Veteran's National Service life insurance dividend—the checks may be pay-

**TWO DECADES OF CHECK COLLECTION IN THE 9TH FEDERAL RESERVE DISTRICT**




able through any of the country's 12 Federal Reserve banks.

In 1943, U. S. Treasury checks got the "new look". Up to that time when a veteran received a check from the government, or a taxpayer got a refund, he received a paper check. It looked pretty much like the checks that banks supply to their customers. In 1943 the Treasury began using "card" checks for its large scale disbursing operations.

Card checks are punched with little holes, each hole representing a coding of information on the face of the check. These cards are sorted and tabulated by International Business Machine equipment at an incredible speed. IBM machines in the Minneapolis Fed sort up to 400 Treasury card checks a minute. They tabulate a complete record and total the amounts of 300 checks a minute. Most government checks have the new IBM look, but some paper checks are still used.

Now let's go back to that package of checks sent to the Minneapolis Reserve bank by the National bank of Middletown. The checks drawn on the U. S. Treasurer are routed to the Treasury card check and paper check divisions. In short order the cash letter is on its way to the accounting department to be credited to the National Bank's reserve account.

Let's see what happens to the checks. First there is the card check division. Here checks are sorted on IBM machines according to the paying Federal Reserve banks. Checks payable through other Reserve banks are shipped to the paying bank. Checks payable through the Federal Reserve Bank

*Concluded on Page 20*

# EARNINGS AND EXPENSES

| | 1949 | 1948 |
|---|---|---|
| Earnings from: | | |
| Discounted Bills | $ 68,198 | $ 88,859 |
| United States Government Securities | 10,104,928 | 9,148,680 |
| Industrial Advances | 496 | 0 |
| All Other | 5,408 | 8,889 |
| Total Current Earnings | $10,179,030 | $ 9,246,428 |
| Expenses: | | |
| Net Operating Expenses | $ 2,284,048 | $ 2,119,004 |
| Assessment for Expenses of Board of Governors | 80,800 | 80,229 |
| Federal Reserve Currency: | | |
| Original Cost | 98,048 | 88,202 |
| Cost of Redemption | 18,213 | 18,665 |
| Total Current Expenses | $ 2,481,109 | $ 2,306,100 |
| Current Earnings | $ 7,697,921 | $ 6,940,328 |
| Additions to Current Net Earnings: | | |
| Profit on Sales of U. S. Government Securities | 912,889 | 179,381 |
| All Other | 32 | 828 |
| Total | $ 912,921 | $ 180,209 |
| Deductions from Current Net Earnings: | | |
| Reserve for Registered Mail Losses | 11,565 | 11,754 |
| All Other | 84,650 | 343 |
| Total | $ 96,215 | $ 12,097 |
| Net Additions to Current Net Earnings | $ 816,706 | $ 168,112 |
| Net Earnings | $ 8,514,627 | $ 7,108,440 |
| Dividends Paid | $ 272,831 | $ 262,776 |
| Paid to U. S. Treasury (Interest on outstanding Federal Reserve Notes) | 6,268,252 | 5,081,916 |
| Paid to U. S. Treasury (Section 13b) | 0 | 0 |
| Transferred to Reserves for Contingencies | 1,277,000 | 1,199,000 |
| Transferred to Surplus (Section 13b) | 0 | 0 |
| Transferred to Surplus (Section 7) | 696,544 | 564,748 |

## Surplus Account (Section 7)

| | 1949 | 1948 |
|---|---|---|
| Balance at Close of Previous Year | $11,797,315 | $11,232,567 |
| Transferred from Profits of Year | 696,544 | 564,748 |
| Balance at Close of Year | $12,493,859 | $11,797,315 |

## Surplus Account (Section 13b)

| | 1949 | 1948 |
|---|---|---|
| Balance at Close of Previous Year | $ 1,072,621 | $ 1,072,621 |
| Transferred to Surplus (Section 13b) | 0 | 0 |
| Balance at Close of Year | $ 1,072,621 | $ 1,072,621 |

# STATEMENT OF CONDITION

| | Dec. 31, 1949 | Dec. 31, 1948 |
|---|---|---|
| **ASSETS** | | |
| Gold Certificates on Hand and Due from U. S. Treasury | $ 424,248,428 | $ 470,419,210 |
| Redemption Fund—F. R. Notes | 22,338,153 | 23,135,518 |
| Total Gold Certificate Reserve | $ 446,586,581 | $ 493,554,728 |
| Other Cash | 5,906,731 | 12,127,891 |
| Bills Discounted | 1,787,500 | 4,928,125 |
| Industrial Advances | 77,892 | 0 |
| U. S. Government Securities: | | |
| Bonds | 233,658,000 | 336,001,000 |
| Notes | 18,200,000 | 24,198,000 |
| Certificates of Indebtedness | 203,156,000 | 186,029,000 |
| Bills | 156,337,000 | 167,963,000 |
| Total U. S. Government Securities | $ 611,351,000 | $ 714,191,000 |
| Total Bills and Securities | $ 613,216,392 | $ 719,119,125 |
| Due from Foreign Banks | 941 | 1,221 |
| F. R. Notes of Other F. R. Banks | 5,153,950 | 9,273,550 |
| Uncollected Items | 79,245,036 | 73,484,442 |
| Bank Premises | 1,145,627 | 1,177,033 |
| Other Assets | 3,190,486 | 4,464,921 |
| Total Assets | $1,154,445,744 | $1,313,202,911 |
| **LIABILITIES** | | |
| Federal Reserve Notes in Actual Circulation | $ 612,216,965 | $ 631,348,825 |
| Deposits: | | |
| Member Bank—Reserve Accounts | 394,919,650 | 506,653,068 |
| U. S. Treasurer—General Account | 36,733,183 | 74,129,726 |
| Foreign | 19,015,000 | 15,892,500 |
| Other Deposits | 4,997,716 | 2,843,121 |
| Total Deposits | $ 455,665,549 | $ 599,518,415 |
| Deferred Availability Items | 63,781,091 | 61,749,681 |
| Other Liabilities | 354,302 | 381,005 |
| Total Liabilities | $1,132,017,907 | $1,292,997,926 |
| **CAPITAL ACCOUNTS** | | |
| Capital Paid in | $ 4,709,650 | $ 4,471,800 |
| Surplus (Section 7) | 12,493,859 | 11,797,315 |
| Surplus (Section 13b) | 1,072,621 | 1,072,621 |
| Other Capital Accounts | 4,151,707 | 2,863,249 |
| Total Liabilities and Capital Accounts | $1,154,445,744 | $1,313,202,911 |

# FEDERAL RESERVE BANK OF MINNEAPOLIS

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*Deputy Chairman*

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Missoula, Montana

J. R. MCKNIGHT
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The Pierre National Bank
Pierre, South Dakota

PAUL E. MILLER
Director, Agricultural Extension Division
University of Minnesota,
Minneapolis, Minnesota

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ARTHUR R. LARSON, *Assistant Vice President*
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Currency & Coin
Securities Safekeeping

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Planning

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Public Services

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CHRISTIAN RIES, *Assistant Cashier*
Government Securities
WILLIAM E. PETERSON, *Assistant Cashier*
Custodian for Governmental Agencies

### LEGAL COUNSEL

SIGURD UELAND, *Vice President, Counsel, and Secretary*

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FRANKLIN L. PARSONS, *Associate Director of Research*

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*Chairman*

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Livestock Rancher
Bozeman, Montana

Theodore Jacobs
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Missoula, Montana

B. M. Harris
President, The Yellowstone Banks
Columbus and Laurel, Montana

E. D. MacHaffie
Publisher
Helena, Montana

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C. W. Groth, *Assistant Vice President*

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President, Northwestern National Bank
Minneapolis, Minnesota

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La Crosse, Wisconsin

A. H. Daggett
President, National Battery Company
St. Paul, Minnesota

Walter M. Ringer
President, Foley Manufacturing Company
Minneapolis, Minnesota

## MONEY IN A HURRY

*Continued from Page 15*

of Minneapolis are passed along to the "paying section".

The paying section has two big jobs. One, to notify the accounting department how much to charge the U. S. Treasurer's account. The other, to ship the collected checks to the U. S. Treasury department in Washington, D. C.

The paying section also takes care of "stop payment" orders on Treasury card checks. Maybe a Treasury check was reported lost or stolen, or a G. I. complained that he didn't receive his monthly subsistence allowance. The Treasury stops payment on checks if it suspects that they have fallen into wrong hands. Every day the Reserve bank double-searches its records for checks on which stop payment orders have been received.

Paper checks are payable through any Federal Reserve bank, so the Minneapolis Fed collects all the Treasury paper checks it receives.

The first step is to sort the checks by symbol. Government offices which are authorized to issue Treasury paper checks are given a symbol number. The paycheck a postmaster in Minneapolis received the first of this month had the symbol number 48-502. And Chief Rain-in-the-Sky on an Indian reservation in North Dakota receives a check from the government with the symbol number 89-189.

After the paper checks are sorted by their symbols, they are listed and totaled. Then in one operation the checks are photographed and endorsed. Finally, the accounting department is notified of the charge to be made to the Treasurer's account and the checks are shipped to the Treasury department, Washington, D. C.

### *Return Items — Checks That Don't Make the Grade*

And now for the last leg of our journey through check collections—the return items division. Here checks which are ineligible for collection by the Reserve banks are sent back to the sending commercial banks or Reserve bank.

Return items may be dishonored checks which have been returned by drawee banks for various reasons—not sufficient funds, payment stopped, not properly endorsed, etc. They may also be checks drawn on nonpar banks, or noncash items—grain drafts or bills of lading—which do not belong in the check collection department.

Return items represent unpaid checks—checks for which sending banks have already received credit. So, in the accounting department of the Minneapolis Reserve bank, return items are deducted from the reserve accounts of the sending banks. Or if the checks come from a bank outside the district, the sending Federal Reserve bank is charged through the Interdistrict Settlement Fund.

### *Checks Are Barometer of Business Conditions*

How's business? One way to tell is to watch the volume of check collections and clearings. When business is good, more and bigger checks flow through the check collection department. When business is sluggish, the volume of work falls off.

Let's look at the chart on page 15, which shows the number and value of checks collected and cleared through the Federal Reserve Bank of Minneapolis and the Helena Branch from 1929 to date.

From the depression of the early Thirties to the prosperity of the postwar period, check collections skyrocketed as business expanded. The number of checks processed in the head office and the branch in these two decades tripled and their dollar value multiplied ten-fold. Clearly, this evidences a mushrooming economy.

The Federal Reserve banks gear their check collection machinery to the requirements of the economy. Transferring money payments rapidly, that machinery today is running at full throttle as it reflects the premium placed on speed and convenience by the tempo of our times.

Payments in gold shipped by river steamer lend color to history, but today, an eventful century later, there is romance in checks—because their use truly means "money in a hurry."