FIRST ANNUAL REPORT

OF THE

FEDERAL RESERVE BANK OF NEW YORK

WASHINGTON
GOVERNMENT PRINTING OFFICE
1916

LETTER OF TRANSMITTAL.

JANUARY 1, 1916.

SIR: I have the honor to submit herewith the first annual report of the Federal Reserve Bank of New York covering a period of about 15 months, from the time of the first meeting of its board of directors, October 5, 1914, to the close of business December 31, 1915. The range and the discussion of the various topics are somewhat more full than would be ordinarily necessary since the period under review not only covers the initial year of operations of a banking system created wholly anew, but has also given rise to some of the most interesting and far-reaching economic phenomena of modern times.

Respectfully,

(Signed) PIERRE JAY,
Chairman of the Board and Federal Reserve Agent.

Hon. CHARLES S. HAMLIN,
Governor Federal Reserve Board, Washington, D. C.

TABLE OF CONTENTS.

APPENDIXES.

FIRST ANNUAL REPORT, FEDERAL RESERVE BANK OF NEW YORK.

PIERRE JAY, Chairman and Federal Reserve Agent.

CHAPTER I.—ORGANIZATION.

DESIGNATION OF DISTRICT NO. 2.

The designation of New York State as Federal Reserve District No. 2, with New York City as the location of the Federal Reserve Bank, was made by the reserve bank organization committee on April 2, 1914.

CERTIFICATE OF INCORPORATION.

The certificate of incorporation, signed by the following as incorporators: The National Commercial Bank, Albany; National Park Bank, New York; Marine National Bank, Buffalo; First National Bank, Syracuse; Irving National Bank, New York, was filed with the Comptroller of the Currency May 18, 1914, whereupon the Federal Reserve Bank of New York became a body corporate.

BOARD OF DIRECTORS.

The election of the three class A and the three class B directors of the Federal Reserve Bank of New York was conducted by the organization committee during June and July, 1914, and announcement of the election was made August 10. The appointment of the three class C directors by the Federal Reserve Board was announced on September 30, completing the board of directors. On October 5 the first meeting of the board of directors was held in the office of the Bank of the Manhattan Co., 40 Wall Street, New York. Mr. Benjamin Strong, jr., then president of the Bankers Trust Co. of New York, was elected governor of the bank, and Mr. Leslie R. Palmer, a member of the board, secretary pro tempore. At the second meeting of the board the terms of office of the directors were designated as follows:

Class A, representing the member banks: Franklin D. Locke, term expires December 31, 1915; William Woodward, term expires December 31, 1916; Robert H. Treman, term expires December 31, 1917.

Class B, representing commerce, agriculture, or industry: Leslie R. Palmer, term expires December 31, 1915; Henry R. Towne, term expires December 31, 1916; William B. Thompson, term expires December 31, 1917.

Class C, representing the Federal Reserve Board: George Foster Peabody, term expires December 31, 1915; Pierre Jay, term expires December 31, 1916; Charles Starek, term expires December 31, 1917.

A meeting of the directors and governors of all the reserve banks, called by the Federal Reserve Board, was held in Washington October 20–22. At this meeting, which was attended by over 80 directors and governors of Federal Reserve Banks, standard by-laws were prepared, a uniform plan of accounting was tentatively approved on, and various problems relating to the inauguration of the system and the operation of the banks were discussed.

During October Mr. William Woodward, president of the Hanover National Bank and a class A director, consented to become acting deputy governor, and Mr. James F. Curtis was elected secretary and counsel for the bank.

On October 26 the following telegram was received:

"PIERRE JAY,
"*Chairman Board of Directors,*
"*Federal Reserve Bank, New York.*

"Please call a meeting of the directors of the Federal Reserve Bank of your district and advise them that all necessary statutory requirements having already been complied with by the several Federal Reserve Banks, the Comptroller of the Currency will forward to each bank on or before November 16, 1914, the certificate authorizing such bank to commence business as prescribed by section 4 of the Federal Reserve Act, and the Secretary of the Treasury will, in conformity with section 19 of the Act, formally announce the establishment of the Federal Reserve Banks in each of the Federal reserve districts on the 16th day of November, 1914. Please also assure the directors that this department will gladly extend to them every facility and all possible assistance in opening the banks on that date and also assure them of my very best wishes and of my earnest desire to cooperate with them in every possible manner to render this great public service.

"W. G. MCADOO,
"*Secretary of the Treasury.*"

To this telegram the directors replied on October 28, assuring the Secretary of the Treasury of their desire to cooperate with the plan set forth in his telegram, as follows:

"HON. W. G. MCADOO,
"*Secretary of the Treasury, Washington:*

"At the meeting of the directors of the Federal Reserve Bank of New York to-day your telegrams of Monday to Gov. Strong and myself were presented, and I was authorized to express to you the entire concurrence of the board of directors in the telegraphic replies sent you on Monday by Gov. Strong and myself and to thank you for your good wishes and offer of assistance and to assure you of their desire to cooperate with your plan.

"PIERRE JAY, *Chairman.*"

From its first meeting until December 31, 1915, the board of directors has held 50 meetings, of which 18 have been attended by the full board, 24 by eight directors, 7 by seven directors, and 1 by six directors.

The relatively small size of this Federal reserve district has made it practicable to hold frequent meetings of the board of directors, which has therefore been a more active body than the executive committee. At these meetings the affairs and development of both the bank and the system have been discussed and considered at length.

The executive committee, consisting of the governor, as chairman, and four directors, has held 59 meetings, of which 9 have been attended by the full committee, 10 by five members, 22 by four members, and 18 by three members. The governor and chairman are ex officio members of the committee. Mr. Woodward was elected a member to serve till December 31, 1915, and all the other directors have served upon it in turn. Mr. Starek, vice chairman, has been invited to attend all meetings of the committee.

During the first five months all applications for rediscount were acted on by the executive committee, but on April 7, 1915, the senior officers were authorized, within certain limits, to pass upon them, since which date relatively few meetings of the committee have been held.

There have also been 13 subcommittees of the board for the consideration of special matters, several of which have held two or more meetings.

BY-LAWS.

The by-laws of the bank were originally adopted on October 28, 1914. They have been amended from time to time, and a copy of them in their present form is attached hereto.

PAYMENT OF CAPITAL.

One-half of the subscribed capital of the bank has been called during the period covered by this report. The Federal Reserve Board designated November 2, 1914, as the day for the payment of the first installment of one-sixth of the subscribed amount. This installment aggregated $3,321,950, and as the office of the bank at that time was not suitable for the purpose it was received in a room in the New York clearing house by the three acting assistant cashiers of the bank and a number of volunteer clerks from New York member banks.

Two other installments, each one-sixth of the amount subscribed, have been received, one on February 2, 1915, aggregating $3,318,183.35, and one on May 2, 1915, aggregating $3,317,516.65. On July 1, 1915, the capital subscribed by 131 banks in northern New Jersey, which by the adjustment of the district became members of the Federal Reserve Bank of New York, was received, aggregating $962,650. Sundry increases and decreases have brought the total capital paid up to $11,063,150 on December 31, 1915.

The details of the capital account will be found in the Appendix.

TEMPORARY STAFF AND OPENING OF BANK.

On October 26, when the telegram was received from the Secretary of the Treasury advising that he would announce the establishment of the Federal reserve banks on November 16, no staff had been assembled, nor had a banking room been secured. Over 2,000 applications for positions in the bank were on file, but it was obviously impossible during the intervening three weeks to attempt the organization of a permanent staff. The expedient of a temporary staff was therefore determined upon.

Mr. G. E. Gregory, cashier of the National City Bank of New York, consented to become acting cashier of the bank, and Messrs. B. W. Jones, assistant secretary, and R. H. Giles, assistant treasurer, respectively, of the Bankers Trust Co., and Mr. S. A. Welldon, assistant cashier of the First National Bank, to become acting assistant cashiers to effect the assembling and organization of a staff. Through the generous cooperation of the subtreasury at New York and of several New York banks an efficient volunteer staff was borrowed, each man experienced in his particular department.

On Monday, November 9, possession was obtained of the banking room at 62 Cedar Street, which had been leased, and during the week the officers and clerks met daily for drill in the various branches of the work.

On November 16 the bank opened its doors with a staff of 7 officers and 85 clerks. During the day $99,611,670 of reserves were taken in from 211 banks. The tellers reported their accounts in balance at 5.30, and at 8 p. m. the first balance sheet of the Federal Reserve Bank of New York was mailed to the Federal Reserve Board.

PERMANENT ORGANIZATION.

During the next eight weeks the permanent staff of the bank was gradually organized. Mr. E. R. Kenzel was appointed assistant cashier, Mr. H. M. Jefferson auditor; Mr. L. H. Hendricks transit manager. By the middle of January, 1915, a permanent staff of 5 officers and 36 clerks had been assembled, 9 of them having remained from the volunteer body. June 9, 1915, Mr. L. F. Sailer, assistant cashier of the National Park Bank of New York, was elected cashier and Mr. L. H. Hendricks assistant cashier. The staff on December 31, 1915, consists of the governor, the acting deputy governor, the secretary, the cashier, two assistant cashiers, the auditor, and 67 clerks and other employees; the Federal Reserve Agent, deputy Federal Reserve Agent, an assistant, and one clerk.

In assembling the permanent staff and organizing the accounting system of the bank the plan has been to free the departments as much as possible from mixed classes of duties and yet so to interlock their work that automatic checks could be established between the departments and on the accounts generally. It has also been planned as far as possible to educate the employees in all branches of the work in order to be ready at all times to handle a large volume of business in any particular department.

The accounting system provides a set of records both efficient and complete, yet understandable to the layman, and so devised as to facilitate the preparation of the many forms of statistics which are required. All work, including the general ledger, is subject to countercheck. Bound books of entry are provided at some point in every chain of operations.

The principal difference between the accounting plan of this and other large banks is the introduction of separate debiting and crediting departments, which prepare the debit and credit journals for the bookkeepers, and to which all departments originating debits and credits route such items. This makes possible a valuable check on the ledger accounts.

The auditor's department is not an operating department, but an independent organization with authority to audit all of the departments, reporting to the directors, the executive committee, and the officers. The proofs of all departments are audited by it daily.

The work of the bank is divided among the following departments: Paying teller, receiving teller, note teller, discount mail teller, securities, foreign exchange, crediting, debiting, bookkeeping, general bookkeeping, credit, auditing, statistics, transit statement, filing, stationery, stenographic, telephone, pages, floormen, and watchmen. A separate department is also maintained by the Federal Reserve Agent.

DEPARTMENT OF THE FEDERAL RESERVE AGENT.

The Federal Reserve Agent's department, by early agreement with the deputy, was organized in such a way as to relieve these two statutory officers of clerical duties and the handling of Federal reserve notes, gold, lawful money, and collateral. A responsible assistant, with necessary clerical assistance from the bank, has kept all records of the receipt and issue of Federal reserve notes, and under the responsibility of the agent jointly with one of the officers of the bank has had custody of all Federal reserve notes, gold, lawful money, and collateral held by the department.

OFFICES.

A temporary office at 27 Pine Street was used from October 10 to November 9, 1914 On that day the bank occupied the office at 62 Cedar Street, which had been leased from Messrs. Harvey Fisk & Sons, consisting of a banking room, suitable rooms for directors, officers, and clerks, and a security vault. The bank was very fortunate, on such short notice, to be able to obtain an office so well fitted for its initial and organization period. But as its work progressed it became apparent that offices better suited to its ultimate development should be obtained. The time consumed and the inconvenience caused by the frequent visits by officers to the subtreasury and the clearing-house vaults alone seemed to necessitate moving to an office adequately equipped with vault accommodation. On December 16, 1915, therefore, a lease was entered into with the Equitable Building Corporation for offices at the Pine and Nassau Streets corner of its building, opposite the subtreasury, under which the building corporation provides a very satisfactory banking room, vault, and working space, including accommodations for officers of member banks, with options on other space to cover future expansion. The term of the lease begins May 1, 1916.

SUBTREASURY COOPERATION.

Immediately after designating the date for the inauguration of the Federal Reserve System the Secretary of the Treasury advised this bank that the subtreasury at New York would do everything in its power to facilitate its operations. Hon. Martin

Vogel, assistant treasurer in New York, placed at the disposal of the bank two large compartments in the subtreasury vaults, one for the bank and the other for the Federal Reserve Agent, both of which have been in constant use since the day the bank began business, requiring at each entry the presence of two members of the subtreasury staff.

At the opening of the bank, and for a few days thereafter, the assistant treasurer detailed a number of his most experienced money counters to assist in counting the large volume of reserves then transferred. He also extended to the bank the facilities of the subtreasury for cutting and mutilating Federal reserve notes unfit for circulation as the first step in the process of their retirement. All gold coin received by the bank has been weighed for it by the subtreasury. The attitude of the assistant treasurer and his staff throughout the period covered by this report has been cooperative in every way and the assistance given by them to the bank has been material and is gratefully acknowledged.

CLEARING-HOUSE COOPERATION.

At every step in the organization and operation of the bank the attitude of the New York Clearing House Association has been one of active cooperation. On November 2, 1914, when the first installment of the capital stock of the bank was paid in, the clearing house set apart a room in which the gold might be received and a vault for its custody. The greater part of the reserves of the bank, from the day of its opening, has been kept in the vaults of the clearing house. These vaults have been used almost daily, and often more than once a day, each entry requiring the presence of the manager of the clearing house as well as a representative of the chairman of the clearing-house committee.

On November 9, 1914, the directors authorized the governor to apply for limited membership in the clearing house as a convenience both to it and the member banks. On November 13 the application was approved and the bank became a limited member, for the purpose of clearing checks, but without the usual financial responsibilities. Full acknowledgment is made of the indebtedness of this bank to the officers and members of the clearing house for the cooperation and assistance which they have always given it.

MEMBER OF FEDERAL ADVISORY COUNCIL.

On November 25, 1914, the board of directors elected Mr. J. P. Morgan, of New York City, a member of the Federal Advisory Council from Federal reserve district No. 2 for the year 1915.

CHAPTER II.—DEVELOPMENT OF FUNCTIONS, AND OPERATIONS THEREUNDER.

DEPOSITARY OF THE RESERVES OF MEMBER BANKS.

The initial transfer of the reserves of 480 member banks in November, 1914, amounted to $106,702,995.81. Of these deposits $97,954,175.84 came from banks in the city of New York and $8,748,819.97 from other banks.

The second transfer of reserves began on November 16, 1915, and amounted to approximately $3,700,000. The wide difference in the two amounts is due to the fact that New York City banks were required to transfer at the outset their entire contribution of reserves, while in the case of other banks the transfer is distributed over a period of 36 months. Most of the initial transfer was made in gold, gold certificates, and lawful money. The second and third transfers were made largely in checks on New York correspondents.

Outside of banks which have joined the collection system, and whose accounts are therefore active, only about 36 banks draw on their accounts from time to time. The accounts of the other 410 banks remain practically dormant. Of those banks whose accounts are active, New York City banks usually replenish their balances by depositing their own cashier's checks, which are settled on the following day through the clearing house; and other banks by transfers from New York City correspondents. Some New York banks have been depositing items on banks in our collection system and on the other Federal Reserve Banks. A certain volume of gold, silver, legal-tender notes, and Federal reserve notes unfit for circulation is also deposited, but as yet the bank has not accepted national-bank notes on deposit, as it is unwilling to become practically a redemption agency for the volume of notes which would be deposited and assume the resulting expense.

It is difficult for this bank to ascertain whether the reserves of member banks are unimpaired, as their position is learned only from the reports made in response to the periodical calls of the comptroller. It seems desirable not only for this purpose but as a measure of general banking publicity that the position of all member banks with respect to reserves, loans and discounts and deposits should be presented more frequently and made public as is done by clearing houses and by a number of State banking departments.

The total gold held by the bank and its Federal Reserve Agent on December 31, 1915, is $264,144,380, an increase of $182,610,665 over the amount held at the close of business on the day of opening.

During the period about $110,000,000 in gold was received from member banks by direct transactions outside of clearing house settlements.

The following statement shows, at the end of each month, the deposits of member banks, the total reserve held, the composition of the reserve, and the gold held by the Federal Reserve Agent. The growth in deposits is due largely to the increased reserves which the expanding deposits of the member banks require them to carry.

	Deposits of member banks.	Total reserve.	Composition of reserve.			Gold with Federal Reserve Agent.
			Legal-tender notes.	Silver and silver certificates.	Gold and gold certificates.	
Nov. 16, 1914	$101,816,801.29	$102,933,569.00	$10,485,613	$10,914,241.00	$81,533,715.00	....
Dec. 31, 1914	110,114,812.84	99,099,258.00	11,854,300	5,010,073.00	82,234,885.00	$9,115,000
Jan. 31, 1915	118,587,486.21	93,407,196.75	2,793,650	4,658,571.75	85,954,975.00	9,370,000
Feb. 28, 1915	124,946,634.28	112,234,489.20	5,154,000	8,084,741.70	98,995,747.50	11,560,550
Mar. 31, 1915	125,306,078.26	112,393,305.55	3,105,200	12,549,698.05	96,738,407.50	18,833,350
Apr. 30, 1915	131,826,629.32	107,261,027.25	2,417,500	12,903,194.75	91,940,332.50	26,858,700
May 31, 1915	128,143,549.39	125,181,895.10	4,521,545	17,121,267.60	103,539,082.50	31,660,000
June 30, 1915	141,929,512.72	151,345,687.40	15,066,605	16,180,474.90	120,098,607.50	40,320,000
July 31, 1915	147,581,376.68	143,274,771.35	4,286,275	10,806,233.85	128,182,262.50	47,520,000
Aug. 31, 1915	155,069,198.47	144,274,273.25	2,542,740	11,577,495.75	130,154,037.50	52,550,000
Sept. 30, 1915	155,203,832.64	147,328,951.20	7,011,435	11,800,761.20	129,516,755.00	61,350,000
Oct. 31, 1915	178,765,123.50	172,323,885.60	19,153,460	12,587,570.60	140,582,855.00	70,740,000
Nov. 30, 1915	185,052,542.32	185,690,699.25	23,998,035	8,936,229.25	152,756,435.00	79,010,000
Dec. 31, 1915	179,433,322.16	180,821,914.90	5,691,765	284,322.40	174,845,827.50	89,300,000

ACCOUNTS WITH OTHER FEDERAL RESERVE BANKS.

In accordance with the decision of the conference of directors and governors at Washington October 20–22, 1914, the Federal Reserve Bank of New York on opening announced its readiness to receive at par for immediate credit checks on all other Federal Reserve Banks. The New York Clearing House immediately placed such checks on its discretionary list.

On November 19 the People's National Bank of Brooklyn deposited a check of $76.80 drawn on the Federal Reserve Bank of Kansas City. This was the first inter-district transaction and the item was sent to the Federal Reserve Bank of Kansas City for the credit of this bank. The volume of such transactions grew rapidly, and the method of settling the resulting balances between Federal Reserve Banks became one of the matters requiring immediate attention.

At the first conference of the governors of Federal Reserve Banks, December 10–12 1914, it was agreed that at any time debtor banks might make settlement and creditor banks might require settlement, in which latter case the expense of settlement should be divided between the settling banks. It was decided to continue for a few months the practice of receiving at par checks on Federal Reserve Banks in order to observe the results of facilitating in this way the transfer of money between the 12 Federal reserve cities. Member banks in debtor districts promptly took advantage of it to make exchange without cost on points in creditor districts. The result was that the Federal Reserve Banks in debtor districts soon found themselves owing large sums to reserve banks in creditor districts. In order to prevent the further accumulation of such balances and avoid a heavy burden of expense, reserve banks in debtor districts charged member banks drawing such checks with exchange thereon at the current rate for exchange on the points to which they were sent. This had the effect of restraining the process and the transfer of funds returned to its normal basis.

When the gold settlement fund was established, May 19, 1915, thus providing a method of settling balances weekly, the total debit balances paid in by all reserve banks in settlement of balances then unliquidated, and after six months of heavy transactions, were only $6,383,000.

On June 15, by agreement between the Federal Reserve Banks and at their request, this bank ceased receiving for immediate credit at par checks on other Federal Reserve Banks, except those of Boston and Philadelphia, and deferred the credit of such checks for a sufficient number of days to allow them to reach the paying bank. The New York Clearing House, however, made no change in its rules except to impose a small charge on checks drawn on the Federal Reserve Bank of San Francisco.

The aggregate transactions between this bank and other Federal Reserve Banks from November 16, 1914, to December 31, 1915, have been $1,229,982,000.

Details of transactions between Federal Reserve Banks will be found in the appendix.

GOLD SETTLEMENT FUND.

In view of the volume of transactions which had developed between Federal Reserve Banks during the early part of 1915 and of the proposal that they should establish a system of check collection, it became evident that some method must be devised of settling balances between them promptly, economically, and with minimum shipments of coin or currency. A plan whereby each Federal Reserve Bank should deposit with the Federal Reserve Board in Washington a portion of its gold reserve to be used in settling balances with other Federal Reserve Banks was put into operation on May 19, 1915, each reserve bank being required to pay into the fund $1,000,000 and its net debit to the other reserve banks. The total initial deposits were $18,450,000.

Deposits in and withdrawals from the fund are made by banks at the nearest subtreasury. At the close of business each Wednesday each bank advises the Board the amount due by it to any other bank, and the resultant net balance is charged or credited to it on the books of the gold settlement fund. The transfer is a bookkeeping rather than a physical one. Many banks maintain open exchange accounts with other banks which are not settled. Special interim settlements may also be arranged between banks when desired, and for convenience and safety in the custody and transfer of their funds, Federal Reserve Agents are authorized to deposit gold with the gold settlement fund.

In the domestic exchange markets which exist in several of the Federal Reserve cities, New York is one of the principal cities on which exchange is bought and sold. No such market for exchange on other points exists in New York. Also all the other reserve banks receive checks on this bank at par for immediate credit, while New York defers credit on all reserve bank checks save those of Boston and Philadelphia, and more lately of Richmond. This bank therefore has been unable to secure an offset to the large volume of New York exchange deposited with it by other reserve banks, and it has been obliged to settle for it through the gold settlement fund in gold; although in collecting such exchange through the clearing house it has been paid largely in silver certificates or legal-tender notes, both of which currencies, as well as gold, may be used by its members in paying debits. The total amount which this bank has paid in gold to other reserve banks through the fund up to December 31, 1915, has been $83,283,000. At one time through these exchange operations of other reserve banks it had an accumulation of $30,252,000 of silver, and $13,502,000 of legal-tender notes, which, however, through the cooperation of member banks in this city was later largely reduced. The neutralization of this process of drawing out the gold of this bank, putting it in circulation in other centers, and leaving the bank with silver in its place is one of the matters requiring study and adjustment.

Further details of the operation of the fund will be found in the appendix.

ESTABLISHMENT OF RATES OF DISCOUNT.

The Federal Reserve System was inaugurated at a time when the stringency of money rates which had prevailed during August, September, and the early part of October, 1914, was perceptibly easing. During these months purchases of commercial paper by the banks had shrunk to a minimum, and the open-market rates ruled from 6 to 7½ per cent.

The announcement on October 26 that the Federal Reserve System would be opened in three weeks, releasing a volume of reserves estimated at over $450,000,000, the free issue of emergency currency under the Aldrich-Vreeland Act, the steady liquidation in merchandise and many commodities, and the decline in foreign exchange all combined to reduce rates to a normal basis. The first rates established by the Federal Reserve Bank of New York on November 16, 1914, were 5½ per cent for paper not exceeding 30 days and 6 per cent for paper of longer maturities. At that time there was still a substantial volume of New York Clearing House loan certificates outstanding bearing 6 per cent interest. Surplus reserves of New York Clearing House institutions increased from $19,200,000 on November 14, 1914, to $127,400,000 on November 21, 1914, owing to the reductions in required reserves permitted by the Act. This transfer of $108,200,000 in New York alone from the category of required reserves to that of excess reserves produced an effect which was promptly felt throughout the country. The relief felt by bankers and business men at the establishment of the reserve system, the complete retirement of clearing house loan certificates in New York, the beginning of the retirement of emergency currency, the reopening of the stock and cotton exchanges, the return of foreign exchange substantially to normal, the dullness of trade and business, and the inevitable tendency of bankers to put at least a portion of their surplus reserves to work led to a further easing of the money market. On December 18 the bank rate for 30-day paper was reduced to 5 per cent and on December 23 to 4½ per cent.

In the belief that a period of easy money was at hand, the directors of the reserve bank adopted the policy of keeping its rediscount rates slightly above the market rates for commercial paper, so that, unless member banks really needed them, its resources, most of which had hitherto been kept in the vaults of the member banks, should not be forced upon a market already oversupplied with funds. This policy has prevailed throughout the period under review. While business dullness has given place to business activity, the great importations of gold have been more than sufficient to support the credits—"domestic and foreign"—which the various activities and developments have required. The surplus reserves of the country have continued to increase in spite of the unparalleled expansion of loans and the withdrawal from circulation of $89,300,000 of gold through the issue of Federal Reserve notes against it.

Except in time of commercial or financial crisis, the normal aggregate borrowing by member banks in this district seldom exceeds $5,000,000. It seems likely, therefore, that of the funds of this bank which will normally be put into use only a small portion will be absorbed by rediscounts of member banks. The balance will be invested in Government obligations, in municipal warrants, bankers' acceptances, and other bills purchased in the open market. The same will be true of other reserve banks in districts where normal borrowing by member banks is light. The influence of this bank on interest rates and the expansion and contraction of credits is likely to be exercised more through its open-market operations than through the rediscounts of the member banks, or of other Federal Reserve Banks. But, as it has never possessed any volume of such paper, it has thus far been unable to exert any influence over rates.

It should be the policy of reserve banks to maintain a fairly stable rate on such paper. Then in times of expansion or demand for credit, when market rates rise above theirs, such paper will flow into them in substantial volume and the gold released in payment will find its way into the reserves of member and other banks, increasing their credit power and checking extreme advances in rates. In times of contraction or abundant credit, when market rates fall below those of the reserve banks, the investments of the latter will be absorbed, as they mature, by banks and other institutions, thereby transferring gold from their reserves to the reserve banks, reducing the credit power of the member banks and checking extreme declines in rates.

Similarly, if a sufficient volume of bankers' acceptances based on imports and exports is developed to create a stable discount market in New York or elsewhere in the United States, an international ebb and flow may be effected. When the dollar acceptance reaches a degree of currency comparable with that of the sterling acceptance, its use will depend largely upon whether, on arrival in New York, it can be discounted at a rate lower than the rate for sterling acceptances in London. Those engaged in international business will draw on the city where their drafts can be discounted at the lowest rate.

When the London rate rises above the New York rate, a substantial volume of such bills will be transferred from the London to the New York market and be absorbed by American banks. If in turn the New York rate rises above the London rate, a substantial volume of bills formerly drawn on New York will be drawn on London, thereby transferring the burden of absorbing them from New York to London and raising the New York reserve percentage by reducing the volume of both loans and deposits. The greater stability of exchange resulting from greater flexibility of international discount markets should tend in time to reduce transfers of gold reserves between New York and London.

Through the creation of the bankers' acceptance an international credit instrument has been introduced into our banking system which when developed is likely to prove a potent influence in regulating the flow of credit between Europe and America. It should enable America, in normal times, to regulate its credit position primarily by recourse to the European market, thereby rendering domestic rate fluctuations less violent. Greater stabilization of interest rates is one of the most valuable contributions the system is capable of making to the orderly progress of business.

The rates established by this bank have been as follows:

Date established.	10 days.	11 to 30 days.	31 to 60 days.	61 to 90 days.	91 days to 6 months.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Nov. 16, 1914		5½	6	6	
Dec. 18, 1914		5	5½	6	
Dec. 23, 1914		4½	5	5	6
Feb. 3, 1915		4	4½	4½	5
Feb. 17, 1915		4	4	4	5
June 24, 1915	3	4	4	4	5
SPECIAL RATES.					
Feb. 17, 1915, bankers' acceptances, 2 to 4 per cent.					
July 24, 1915, trade acceptances, 3½ per cent.					

An inquiry has recently been made concerning the effect the rates of this bank have had on rates charged by its member banks to their customers. Outside of New York City they are reported to have had no effect on the rates charged by member banks. In New York City the consensus of opinion is that they have had no effect on rates charged to commercial customers, but that member banks in this district have had to meet the reserve bank rates of other districts, and on loans to member banks in those districts the rates have been slightly lower than heretofore would have been charged. On the market for acceptances and warrants the rates at which reserve banks have been willing to buy have probably had a softening effect. This inquiry, however, related to the direct effect of the rates officially established by this bank and neither to the influence for lower rates exerted by the great reduction in required reserves permitted by the act nor to the indirect influence exerted by the mere existence of the Federal Reserve System.

ELIGIBLE PAPER.

At the inception of the Federal Reserve System no subject aroused more general interest among the banks and the public than the kind of paper which would be defined as eligible for rediscount with Federal Reserve Banks. Circular No. 13, issued by the Federal Reserve Board November 10, 1914, defined paper eligible for rediscount in such a manner as to create the impression that very strict tests would be applied to paper submitted for rediscount, and that onerous requirements with regard to statements of borrowers would be insisted upon. The general effect of the circular was to lead country bankers to believe that their paper would not meet the requirements and that they were without means of availing themselves of the resources of the reserve bank. At bankers' gatherings held in the autumn and early winter the complaint was frequently heard that country banks held no paper eligible for rediscount.

Notwithstanding the general feeling with regard to the eligibility of their paper, a number of banks, both country and city, from time to time applied for rediscounts. The application blank required the member bank to certify the eligibility of the paper under the terms of the Act and the regulations of the Federal Reserve Board. The policy of this bank has been to accept such certificate without further inquiry except in cases which indicated a possible misunderstanding of the definition of eligible paper and to be liberal rather than technical where construction has been necessary.

In revising and republishing the various regulations for the year 1915 the Reserve Board simplified the regulation concerning eligible paper so as to leave no reasonable doubt in the mind of any banker that at least a substantial part of his normal discounts would fall within its terms. The revised regulation was received with great satisfaction by the member banks. To the request of the comptroller in his call of

March 4, 1915, that each bank should state approximately how much paper it held which was eligible for rediscount, 81 banks replied that they held none. Shortly after receiving these reports letters were written by this bank to such banks inviting their officers to call and discuss the question of eligibility. In this way a much better understanding of the subject was established.

As a result of several months' experience in making rediscounts and discussing the subject with bankers this bank, on June 19, 1915, issued its circular No. 25 on eligible paper with a view to further clarifying the subject and enabling a banker readily to determine which of his notes could be certified as eligible.

The regulation defining eligible paper required a bank applying for rediscounts after July 1, 1915, to state whether or not it held statements from borrowers in all cases of rediscounts aggregating $5,000 or over, or 10 per cent of its capital, and in all cases of purchased paper. To assist the member banks in obtaining such statements, the reserve bank prepared four standard statement forms:

(*a*) For individual farmers or live-stock dealers.
(*b*) For individual merchants, manufacturers, etc.
(*c*) For firms.
(*d*) For corporations.

A large number of these were printed and offered without charge to member banks in sufficient volume to use with all their borrowers. One hundred and ten banks replied, taking about 38,000 of the forms. Subsequent correspondence with these banks indicates that although the progress in getting statements from small borrowers is slow, the fact that the statement is requested on a form bearing the name of the Federal Reserve Bank leads many to comply who have never before been willing to furnish statements.

REDISCOUNTS.

The first application for rediscount, received at the opening of the bank, was for $2,182,500 from the Chemical National Bank of New York. One other rediscount was also made on the opening day. During the period under review there have been received from 54 banks 277 applications for rediscounts aggregating $11,384,937.63. The largest application was for $2,182,500; the smallest for $1,015. The largest piece of paper rediscounted was $300,000; the smallest, $20.20.

Applications are acted upon on the day of receipt, and the applying bank is advised by telegram. The lack of understanding of the requirements, which sometimes led to delays at the outset, has largely disappeared, and except for slightly more formality in making the application, there is little difference between discounting at the reserve bank and at other banks. The impression that the operation is surrounded with difficulties has been overcome, at least with those banks which have applied. A few days before maturity each piece of paper is sent for collection to the bank which rediscounted it and on the day of maturity is charged to its account. This gives the rediscounting bank an opportunity to protect all indorsements. The provision of the Act requiring a rediscounting bank in indorsing paper to "include a waiver of demand, notice, and protest," while intended to protect the reserve bank, really works against its interests. Being obliged to relieve the reserve bank of responsibility to protect prior indorsements, the member banks, if rediscounting becomes general, are likely to select for the purpose paper which has no indorsements. The reserve bank should assume as much responsibility in this respect as any other bank.

Although the normal amount of borrowing by the banks in this district is light, yet the proportion of even this amount done at the reserve bank has been very small. The banks naturally continue borrowing at equal or lower rates from correspondents with whom they have had relations for years. In many cases they leave bonds on deposit with their city correspondents against which, on telegraphic advice, they may borrow. Other banks which borrow on their commercial paper instead of rediscounting it use it as collateral to their own notes. This is simpler for both lender and borrower. It would greatly facilitate the operations of the reserve bank if member banks were permitted to borrow from it on their own notes secured by commercial paper, duly indorsed and certified to as to eligibility, as collateral. Not only would it greatly reduce the accounting labor of recording and computing interest on large numbers of small notes, a consideration of first importance in times of stress, but the margin of collateral which commercial banks receive on such loans could be obtained by the reserve bank, when desirable, without the formalities otherwise necessary. It would enable member banks to borrow for short periods, which they are often unable to do at present for lack of the proper maturities. It would provide that desirable element of flexibility in rediscounting relations with member banks which is entirely lacking under the present provisions of the Act.

Further statistics of the rediscounts made during the period will be found in the Appendix.

FEDERAL RESERVE NOTES.

On November 16, 1914, the first shipment of Federal Reserve notes was received by the Federal Reserve Agent from the Comptroller of the Currency. On November 19 the bank pledged with the Federal Reserve Agent $500,000 of commercial paper rediscounted by member banks and received from him a similar amount of Federal Reserve notes. These notes were not required by the banks which made the rediscounts, as they had already withdrawn by check the credits so established. They were taken by this bank for its general use. The issue of Federal Reserve notes gave the reserve bank the opportunity of affording to its member banks complete interchangeability between book and note credits. The bank therefore established the policy of issuing Federal Reserve notes freely to any member bank desiring them whether the credit thus withdrawn was established by it through rediscounting, or the deposit of checks, or the deposit of gold or lawful money. In practice, however, most credits withdrawn by notes have been established by the deposit of checks which have been collected by this bank in gold or lawful money through the clearing house. Accordingly, the accumulation of cover in the hands of the Federal Reserve Agent has been mainly gold, with but a small amount of rediscounts. The processes provided by the Act for the issue of Federal Reserve notes to the reserve bank permit complete interchangeability between gold and rediscounts held by the agent. Gold may be substituted for rediscounts and rediscounts for gold, in accordance with the requirements of the reserve bank. During the entire period its requirements have been for notes with which it might exercise its statutory right to "exchange Federal Reserve notes for gold, gold coin, or gold certificates."

The policy of the Federal Reserve Bank has resulted in greatly strengthening its gold position and its ability to assist its member banks or other Federal Reserve Banks should they at any future time seek credit in order to withdraw gold for domestic or foreign uses. Through this policy also it has been able, potentially, at least, to retard the expansion of credit by impounding in the hands of the agent a large volume of gold which might otherwise have found its way into bank reserves already superabundant.

Furthermore, through this policy it has been able to take the first step toward accomplishing one of the purposes of the Act set forth in its title, e. g., "to furnish an elastic currency." There are two forms of elasticity, one of *quantity* and the other of *quality*, both provided for in the Act.

From the point of view of cover, the gold certificate is completely inelastic. It stands at one extreme of our currency, with a dollar of gold set aside behind each dollar of paper. At the other extreme stands the national-bank note, with only 5 cents of gold set aside behind each dollar of paper. The assets of the issuing bank make it good, but its elasticity is nullified by the requirement that it must be secured dollar for dollar by Government bonds.

Between these two extremes the Federal Reserve note, a new form of currency, has been introduced. For each dollar of this paper there is set aside from 40 cents to $1 of gold. As in the case of the national-bank note, the obligation of the United States and the assets of the issuing bank secure it.

The process in which this and other Federal Reserve Banks have been engaged is the substitution, as a circulating medium, of a note which is elastic in quality for the inelastic gold certificate. Gold is the most uneconomical medium of hand-to-hand circulation since, when held in bank reserves, it will support a volume of credit equal to four or five times its own volume. What the reserve bank does in accumulating gold behind its Federal Reserve notes is to establish with the holder of each note a credit which may be availed of whenever the occasion requires. With this credit established it can convert at will its gold-covered notes into notes covered partly by gold and partly by commercial paper. In times when credit is becoming strained and bank reserves need strengthening or when gold must be exported, this conversion will take place, and after the strain is over the gold cover will be restored through the repayment of the rediscounts substituted for it. In this way elasticity of quality in our currency is obtainable. But it should not be construed as in any way a deterioration of the currency contemplated by the Act. Quite the reverse is true. The Act provides for the issue of Federal Reserve notes in unlimited amounts, with 40 cents of gold behind each dollar of paper. This is elasticity of quantity and it becomes operative with the minimum of gold cover. Elasticity of quality, on the other hand, operates with a gold cover always above the 40 per cent minimum and ranging as high as 100 per cent.

In order to be prepared for any currency demands which might be made upon it, the Federal Reserve Bank of New York in the spring of 1915 adopted the policy of having printed and keeping constantly on hand a supply of Federal Reserve notes substantially in excess of the amount of emergency currency which, experience shows, this district might be called upon to supply. The maintenance of this policy and of the policy of issuing Federal Reserve notes freely has entailed a heavy cost upon this bank. Unissued Federal Reserve notes are carried at cost on the books of the bank, and at the end of each month the amount of notes issued to the bank during the month is charged off at cost. The shipment of notes unfit for circulation to the Comptroller of the Currency at Washington for cancellation and destruction is a further item of expense in connection with the maintenance of these policies. The directors and officers of the bank, however, feel that the results accomplished amply justify the expense incurred, and consider that the added strength furnished the bank by the gold thus accumulated is perhaps the most important result of the operations of the period.

Some reduction has already been made in the cost of printing Federal Reserve notes, and it is to be hoped that further experience and study will enable other substantial reductions to be made in the cost of preparing for issue what has already become an important element of the circulating medium of the country. The Act provides that all expenses in connection with the issue and redemption of Federal Reserve notes shall be borne by the Federal Reserve Banks, and in view of the service the banks are performing in accumulating gold through the medium of these notes, the feeling is quite general among their officers that the notes should be furnished to them at the lowest possible cost consistent with the high quality of workmanship required.

The design of the notes is not altogether satisfactory for efficient handling. In sorting notes it is necessary to be able readily to distinguish between notes of this bank and notes of other reserve banks. This would be greatly facilitated if the printing of the distinctive number and letter of each bank were made more general on the face of the note.

While a general simplification of the various forms of currency is much to be desired, it does not seem appropriate to enter into a discussion of the broader aspects of the problem here. It may be suggested, however, that the denominations of silver certificates in circulation in this district during the period have not well met the needs. At times there has been a great shortage of ones and twos and at all times there has been a plethora of fifties. If the denominations in which silver certificates are issued could be provided in a more flexible manner, or left to the discretion of the Secretary of the Treasury, it is probable that the requirements of trade and commerce would be better satisfied. It would also be a great convenience to reserve banks, as well as to the member banks in the larger cities, if the gold order certificates could be issued in denominations of $50,000 and $100,000 as well as in the $5,000 and $10,000 denominations now authorized.

Detailed figures showing the transactions in and movements of Federal Reserve notes will be found in the Appendix. The following is a summary to December 31, 1915.

Total notes issued to bank		$89,440,000
Less on hand	$16,139,280	
Unfit for circulation, retired	None.	
		16,139,280
Net amount in circulation		73,300,720

On December 31, 1915, the Federal Reserve Agent held, against Federal Reserve notes issued:

Rediscounts	$140,000
Gold certificates	89,300,000
Total	89,440,000

PURCHASE OF WARRANTS.

The regulation concerning the purchase of municipal obligations issued in anticipation of taxes, termed "Warrants," was issued December 22, 1914. On December 31 this bank arranged to purchase from the comptroller of the city of New York $5,000,000 of the city's notes due June 4 to 10, 1915. This was its first open-market operation under the provisions of section 14 of the Act. Shortly after this purchase had been announced, other reserve banks asked this bank to act for them in purchasing eligible warrants, New York being the primary market for a large volume of this class of obligation. At the next conference of governors, January 20 to 23, 1915, the purchase of such "warrants" was thoroughly discussed and other reserve banks appointed this bank their agent in the New York market to purchase warrants and other securities authorized under section 14. During the period the aggregate purchases of "warrants" for this bank and for other reserve banks have been as follows:

1915	For itself.	For other reserve banks.
January	$5,260,000	$4,115,000
February	1,850,000	1,850,000
March	777,000	1,596,000
April	700,000	630,000
May	1,613,000	900,000
June	1,885,000	835,000
July	3,588,500	2,998,500
August	4,644,000	5,676,000
September	422,000	768,000
October	100,000	105,000
November	5,000,000	....
December	387,027	288,082
Total	26,226,527	19,761,582

The purchase of this volume of "warrants" under the terms of the regulation has tended toward uniformity of issue and understanding of the basis of quality on the part of both the municipalities and the reserve banks. It seems not unlikely that if the latter continue to purchase "warrants" a very desirable standardization of such obligations will gradually be brought about. To facilitate this the Federal Reserve Bank of New York has prepared a standard form of note or revenue bond conveniently arranged to include:

(*a*) The certificate, (*b*) certification of ordinance passed by the common council, (*c*) certificate of authority, (*d*) certificate of corporation council, and (*e*) comptroller's certificate of facts.

The language and arrangement conform with the provisions of New York law and the eligibility requirements of the Federal Reserve Act.

The only difficulty encountered under the regulation has been that some municipalities which defer the payment of taxes for many months after their assessment, borrow in anticipation of such taxes in two periods. The earlier of these notes, many of which are offered in this market, are rendered ineligible by the regulation which provides that warrants must mature after the day upon which penalty attaches for nonpayment of taxes.

Some confusion has arisen on the part of municipalities and those who deal in their obligations concerning the meaning of the term "warrant" as used in the regulation of the Reserve Board. The obligations covered by the regulation must be obligations of the entire municipality, but a warrant in the ordinary use of the term is an evidence of the authority of a disbursing officer to discharge a debt of the municipality, often from some specific fund. Possibly the use of some other term would lead to a clearer general understanding of the class of obligation covered by the regulation.

One provision of the regulation which has hardly been used is the authority to the Reserve Bank to purchase warrants from any member bank with its indorsement. If this provision were availed of more generally a very desirable facility might be extended to member banks which would be of indirect advantage to their municipalities.

BANKERS' ACCEPTANCES.

The right to accept drafts was conferred on New York State banking institutions by the act of April 16, 1914. Shortly afterwards a few acceptances were reported, principally against securities. It was not until the derangement of international credit facilities at the opening of the European war that American bankers' acceptances, especially those relating to foreign commerce, came into existence in substantial volume. At that time some of the trust companies with foreign connections extended credits freely to their customers to replace credits formerly granted by European banks which had been either withdrawn or reduced; they also accepted drafts in large volume. On and after May 18, 1914, member banks were authorized also to accept drafts drawn upon them involving the importation or exportation of goods.

The volume of acceptance liabilities reported by New York banks in March, June, and September, 1915, has been as follows:

	Mar. 4.	Mar. 19.	June 23.	Sept. 2.	Sept. 25.
National banks	$18,706,078	....	$16,721,068	$6,910,755	....
Trust companies	....	$68,268,749	47,403,681	....	$35,731,856
State banks	....	1,074,607	1,003,624	....	1,812,076

The regulation of the Federal Reserve Board defining the kind of acceptances which are eligible for purchase by Federal Reserve Banks was published on February 12, 1915. The first bills were purchased by this bank on February 23, consisting of $87,400.63, accepted by the National City Bank, having 35 to 69 days to run, at 2½ per cent.

The monthly purchases of acceptances by this bank in the New York market have been:

1915	For itself.		For other Reserve Banks.	
	Number of pieces.	Amount.	Number of pieces.	Amount.
February	41	1,659,740.21	86	1,263,871.25
March	140	3,343,143.17	250	3,799,809.42
April	86	1,272,694.36	84	1,700,396.57
May	46	867,420.18	48	1,305,873.80
June	132	3,083,261.75	34	602,558.89
July	106	2,495,865.67	147	2,348,050.89
August	103	1,597,630.63	89	1,910,417.47
September	89	1,769,880.50	172	1,948,243.05
October	68	2,199,679.95	163	2,028,098.36
November	115	1,899,606.56	246	2,594,951.04
December	310	5,643,708.78	313	2,809,823.59
Total	1,236	25,833,631.76	1,632	22,312,094.33

The policy pursued by this bank thus far has been to purchase good acceptances whether or not the acceptor was a member bank. It has been suggested that by purchasing only bills accepted by member banks the business would be driven to them. But the broader policy was determined upon in the belief that the most important duty of this bank, at the inception at least of the use of bankers' acceptances in the United States, is to assist in developing both the business and the market; that non-member banks in extending acceptance credits are contributing to the development of the business; and that the establishment of a stable discount market of large volume in New York will in the long run help member banks in developing their acceptance business far more than any attempt of the reserve bank to restrict the business to them.

The reserve bank and the market rate for the discount of such bills in New York has been for nearly a year, and is now, lower than the rate for similar bills in London. The relatively small volume of such credits which American banks have succeeded in making operative even under the unusually favorable opportunity which the war presents for their extension, is evidence of the difficulty which will be encountered in developing the acceptance business in the United States. Some of the fundamental difficulties are:

(1) The disinclination to break old banking connections.

(2) The difficulty of educating handlers of bills in distant places as to American credits.

(3) The lack of bill buyers in foreign countries who will quote as low rates on dollar as on sterling bills.

(4) The natural prejudice of bill buyers in foreign countries in favor of a bill of known currency and against a bill of as yet unknown currency.

(5) The lack of men trained to exercise the judgment and financial responsibility required of them as managers of branches or agencies which American banks might establish in foreign countries.

(6) The inferior communications for both goods and mail between the United States and foreign countries as compared with those between Great Britain and foreign countries.

Only time, experience, and patient effort will remove these handicaps to the elevation of dollar exchange to its proper position in international finance. The business, however, is developing and will continue to grow as our banking machinery and connections extend throughout the world.

The Act permits member banks to accept an amount of bills not exceeding 50 per cent of their capital and surplus. By the amendment of March 3, 1915, under certain conditions they may be authorized by the Federal Reserve Board to accept up to 100 per cent of the capital and surplus. The following banks in this district have received such authorization:

	Amount of capital and surplus.
Bank of New York, New York	$6,000,000
Mechanics & Metals National Bank, New York	12,000,000
Atlantic National Bank, New York	1,600,000
American Exchange National Bank, New York	8,000,000

As this bank has probably been the largest single purchaser of bankers' acceptances, it has been able, as it gained experience, to exert some influence toward standardizing practice and form. The acceptance of drafts in one city payable in another city has been discouraged; insistence that bills shall be so indorsed as to leave open no question of title will, when universally adopted, add greatly to the ready negotiability of bills; and discussion of the terms of the regulation with acceptors and bill brokers has led to a better understanding of the scope of the field it covers.

The amended regulation issued September 7, 1915, considerably broadened the field of acceptances eligible for purchase and encouraged an increased volume of these instruments. The further amended regulation issued December 4, 1915, covering the purchase of bankers' acceptances arising out of domestic transactions relates to a class of bills which national banks are not authorized to accept. When accepted by institutions of high credit they have a ready market, though at a fractionally higher rate than acceptances based on foreign transactions.

PURCHASE OF UNITED STATES BONDS.

The Act authorizes the Federal Reserve Board during each year, commencing two years from the passage of the Act, to require reserve banks to purchase from national banks not exceeding $25,000,000 of United States bonds used in securing circulation. The Federal Reserve Board has ruled that the first year for such purchase begins January 1, 1916; that such year shall be divided into quarters; and that it may require the reserve banks to purchase not exceeding $6,250,000 of such bonds in any one quarter. A circular has been sent to member banks advising them of this ruling and supplying them with forms upon which applications to sell such bonds may be made to the Treasurer of the United States. Applications received not later than March 21, 1916, will be considered in connection with the purchase to be made March 31, 1916. The circular calls attention to the right of the reserve banks to anticipate such required purchases from member banks by purchasing bonds in the open market.

COLLECTION SYSTEM.

At the meeting of directors and governors of Federal Reserve Banks held in Washington October 20 to 22, 1914, it was voted that at the outset each Federal Reserve Bank should receive at par for immediate credit checks and drafts—

(*a*) On any other Federal Reserve Bank.

(*b*) On member banks in reserve and central reserve cities in its own district.

In this district a circular was sent to member banks on November 13 advising that the arrangement would become effective November 18.

The only cities affected by the plan were the central reserve city of New York (consisting of the Boroughs of Manhattan and Bronx) and the reserve cities of Albany and Brooklyn. The transactions between the banks in these cities through the reserve bank were naturally very limited.

The course of the transactions in checks on other Federal Reserve Banks has been already described.

The question of developing a collection system within the respective districts was discussed at the first meeting of the governors' conference on December 10, 1914, and has been an important item of discussion at each succeeding conference. It has also been discussed frequently at meetings of the directors of this bank and been the subject of communications between them and the Reserve Board. On February 17, 1915, the directors conferred at the office of the bank with 16 representatives of member banks from various parts of New York State relative to the practicability of establishing within the district a voluntary intradistrict collection system, based upon immediate credit and debit of checks. After full consideration and with the approval of the Reserve Board, the member banks were notified of the intention of the bank to establish such a system and given an opportunity to join it. When the plan became effective June 1, 1915, practically all the banks in the reserve and central reserve cities had joined, together with 32 in other places, a total of 70 banks. The directors of each bank which joined authorized the reserve bank to charge to its account upon receipt all items drawn upon it. About the same time a similar plan was offered to their members by the other Federal Reserve Banks except those at St. Louis and Kansas City, where membership was originally involuntary, and at San Francisco, where deferred debit and credit was adopted as a basis. On June 15 also, the receipt of checks on other Federal Reserve Banks, except those in Boston and Philadelphia, was changed from an immediate to a deferred-credit basis. The New York Clearing House placed all banks which had joined the collection system on its discretionary charge list. On July 1, 30 banks in northern New Jersey also joined the collection system, and in spite of a few withdrawals the number has gradually increased to 129 on December 31, 1915.

There seem to be three main reasons why so few country banks have joined the collection system.

The first is the practice, quite general among such banks in this district, of charging exchange on remitting for items drawn upon them. Broadly speaking, the smaller the bank the larger the percentage of its earnings derived from exchange. Under the present collection system, items are not sent for collection and remittance, but are charged directly against the account of the paying bank, giving it no opportunity to collect an exchange charge. Consequently only those banks joined which were ready to forego this charge, or did not customarily impose it.

The second consideration which prevents many banks from joining is that membership obliges them to carry larger reserves. Whereas the practice of the comptroller's office has been to figure reserves from the books of the member bank, the Federal Reserve Act contemplates that the amounts required to be kept on deposit in the reserve bank shall be figured from the books of the reserve bank. The reserves of banks which keep dormant balances with the reserve bank are maintained unimpaired, but there is constant tendency to impairment of the reserves of the banks which join the collection system, for in order to meet the checks charged against them through the system they are required in practice to absorb the volume of checks which they have constantly in transit to their reserve agents. Not only have the reserve balances kept with this bank by most country members of the system been constantly impaired, the average impairment during the first three months running as high as 31 per cent of the aggregate amount they should have kept on deposit, but hardly a day has passed without one or more members being actually overdrawn by the charge against them of unanticipated items.

The third difficulty is due to the small number of banks which have joined the system. With New York banks receiving at par for immediate credit all items drawn on members of our collection system, the entire volume of checks outstanding against any member bank which joined might be regularly charged against its account by the Federal Reserve Bank, whereas it could only send as an offset checks on the few banks in this district which had joined. This is the principal cause of the impairment of reserves above referred to.

Seven months' experience with the present intradistrict collection system makes it seem reasonably clear that no substantial growth can be expected either in number of members or volume of transactions until those banks which join the system can be given an opportunity of adequately offsetting the items which are charged against them through it. The question of extending the collection system across district lines has been under active consideration for the last three months.

The following statement shows the number, volume, and kinds of checks received by the Federal Reserve Bank through its collection system since its inauguration June 1, 1915:

Date.	Items on New York Clearing House banks.		Items on member banks.		Items on other Federal Reserve Banks.		Items on banks in other Federal reserve cities.	
	Number.	Amount.	Number.	Amount.	Number.	Amount.	Number.	Amount.
June	13,782	$59,562,980.99	64,533	$23,832,065.07	1,022	$20,950,324.00	......	....
July	20,486	87,592,765.95	121,847	33,349,932.90	398	15,540,402.99	......	....
August	23,661	84,453,040.53	144,714	36,823,358.37	306	17,296,162.46	......	....
September	24,591	117,643,223.21	155,231	38,744,826.39	250	9,572,274.24	......	....
October	27,000	176,509,679.77	181,228	47,141,229.93	552	20,053,209.12	4,972	$5,843,180.55
November	28,566	170,449,943.39	202,011	50,435,424.19	783	24,086,071.98	7,055	14,462,270.54
December	29,139	181,172,972.38	201,251	56,816,794.35	804	17,179,737.84	8,009	24,503,900.68
Total	167,225	877,384,606.22	1,070,815	287,143,631.20	4,135	124,678,182.63	20,036	44,809,351.77

The total number of checks received on deposit from member banks from November 16, 1914, to December 31, 1915, has been 1,362,642, aggregating $1,938,810,485.

On August 9, 1915, the New York Clearing House established a department for the collection of checks on out-of-town banks, which includes all banks in New York, New Jersey, Connecticut, Massachusetts, and Rhode Island which agree to remit at par in New York funds on the day of their receipt for any items sent them. Starting with 347 members, their system now has over 500 members. The volume of transactions is about twice as large as that of the collection system of the reserve bank and, as its sphere of operations widens, the number of par points in the territory covered will increase. On December 30, 1915, the clearing-house offered to receive items on any banks joining its system in places from which mail reaches New York over night.

The clearing-house system was organized with a desire to cooperate with the reserve bank in improving collection conditions and the two systems have operated entirely harmoniously. That neither has made more substantial progress in enrolling country banks in New York State is due partly to the fact that many of the latter do not wish to give up the exchange charge and others do not wish to disturb present relations with reserve agents.

Through the influence of these two agencies par remittances in the district are gradually spreading. Where charges are made for collecting checks payable within the district the fee is usually one-tenth of 1 per cent.

ADMISSION OF STATE BANKS AND TRUST COMPANIES.

The regulation of the Federal Reserve Board relating to the admission of State banking institutions to the Federal reserve system was issued on June 7, 1915.

While final action on applications of State institutions rests with the Federal Reserve Board, the regulation requires the reserve bank to investigate thoroughly each application and forward it, with its recommendations, to the Board. The policy of this bank in passing on such applications conforms with the spirit of the regulation, which contemplates the admission of only those State institutions which will add strength to the reserve system. Mere solvency will not be a sufficient qualification. To receive the approval of the directors of this bank, a State institution must be not only solvent but strong, well-managed, and in a condition of liquidity appropriate to the nature of its deposits.

The application of the Broadway Trust Co. of New York City, made several months before the issuance of the regulation, has been approved by both the bank and the board, and on August 4, 1915, it paid in one-half of its subscription to the capital stock, transferred the prescribed amount of reserves, and became a member bank.

FISCAL AGENT OF THE UNITED STATES.

On November 24, 1915, the Secretary of the Treasury advised this bank that he had appointed it a fiscal agent of the United States, effective January 1, 1916. On this date it is purposed to begin the transfer to the bank of funds of the United States, except post-office and court funds now on deposit in national banks in New York City. These balances at present aggregate about $1,500,000. The officers of the bank have conferred with officials of the Treasury Department both in Washington and New York and the details of the work have been carefully studied in order that this function may be performed satisfactorily from its inception.

The plan contemplated provides for the regular daily deposit with this bank of the receipts of the collectors of customs and collectors of internal revenue located in the greater City of New York and the gradual taking over of the encashment of checks of the Government by this bank in place of the subtreasury. It is expected that within a few weeks all deposits of this character, as well as the payment of all checks, can be handled by the bank without lowering in any way the efficiency with which this branch of the Government business is handled by present methods. It will, however, involve some increase in the clerical force and office accommodations of the bank.

BALANCE SHEET.

For purposes of comparison balance sheets of three dates are presented in the appendix. The large increase in the deposits of member banks is due primarily to the increase in their own deposits, elsewhere referred to, and to the fact that several are carrying substantial excess balances with this bank. About $3,150,000 were received from the banks in northern New Jersey during July, 1915, and about $3,674,000 were received from member banks outside of the central reserve city of New York at the transfer of the second installment of their reserves on November 16, 1915.

PROFIT AND LOSS.

During the early part of the period under review, certain expenses were incurred in organizing the bank, renting temporary offices, remodeling the banking room at 62 Cedar Street, defraying the initial expenses of the Federal Reserve Board, etc. The treatment of these expenses was carefully considered and it was determined that beginning January 1, 1916, the amortization of organization expenses, including the cost of the Federal Reserve notes issued up to that time should be undertaken in not exceeding 30 monthly installments, so that they would be entirely eliminated on or before June 30, 1918. It was also determined that unissued Federal Reserve notes should be carried at cost in the balance sheet and that, beginning July 1, 1915, all notes should be charged at cost to current expenses.

In view of the small volume of rediscounts for member banks and of the complete absence of rediscounts for other Federal Reserve Banks, the policy of the bank has been to purchase in the open market sufficient warrants and acceptances to cover the cost of operation, including the issue of Federal Reserve notes. In fact most of the reserve banks, except those in Richmond, Atlanta, and Dallas, have had largely to depend on such purchases to pay their expenses. Owing to the general demand for such paper and investments, it has been impossible for this bank to secure a sufficient volume quite to equal its expenses. The rates on such investments have declined steadily throughout the year and are now at their lowest level. Realizing the influence which the reserve bank might have upon these rates if it pressed its funds upon the market, it has been the policy of the bank to follow rather than lead the market in its decline. In these circumstances, no thought could be given to earning dividends. The view generally held not only by the directors and officers of this bank but by the member banks as well is that such a money market as has prevailed during the period under review provides no proper basis for the earning of dividends by a Federal Reserve Bank located in a creditor district, and that at such a time its funds should be practically withdrawn from use.

From November 16, 1914, to December 31, 1915, total earnings from all sources have been $345,035.33, and current expenses have been $345,146.55, leaving a deficit for the period of $111.22. The details of the earnings and of the organization and current expenses are set forth in full in the Appendix.

EXAMINATION BY THE FEDERAL RESERVE BOARD.

On February 8, 1916, the examiners of the Federal Reserve Board visited the bank and conducted an examination of its affairs lasting somewhat over a week.

FUNCTIONS NOT YET DEVELOPED.

The small amount of rediscounting done by member banks thus far has not made it necessary to consider the establishment of branches of this bank to facilitate either deposit or discount relations with its member banks. Thus far the mail has been a sufficient medium for the exercise of these two functions. Whether branches or agencies will later have to be established to provide promptness and directness in the collection system is a question which probably will not come up for solution unless and until the collection system reaches a more general development than at present.

Of the open-market operations described under section 14 of the Act, the authority to purchase acceptances and municipal warrants has been freely availed of; the authority to open accounts, appoint correspondents, establish agencies, and purchase bills in foreign countries as well as to deal in foreign exchange at home, has not been exercised and probably will not be generally availed of until conditions abroad have cleared and normal business is resumed. As yet no bonds or notes of the United States have been purchased, and consequently no Federal Reserve Bank notes based on such bonds have been issued. There has been no occasion to have transactions in gold coin or bullion.

No other Federal Reserve Bank has applied to this bank for the rediscount of any of its paper.

CHAPTER III—THE MEMBER BANKS AND THE FEDERAL RESERVE DISTRICT.

READJUSTMENT OF DISTRICT.

On May 4, 1915, the Federal Reserve Board voted to readjust this district so as to include it in the following New Jersey counties:

Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Passaic, Somerset, Sussex, Union, Warren.

The readjustment became effective July 1, 1915, and increased the number of member banks by 131. On December 31, 1915, there were 132 member banks in these counties contributing $964,550 to the paid in capital of this bank and $4,849,183.87 to its deposits.

NUMBER OF BANKS.

On November 16, 1914, the number of member banks in district No. 2 was 480, and on December 31, 1915, 616. During the period covered by the report, 131 banks in New Jersey were added by the readjustment of the district, 9 new national banks were organized and became members, and 1 trust company became a member. Four national banks withdrew from membership by liquidation, either voluntary or involuntary.

ELECTION OF DIRECTORS.

The separation of the banks of this district into three voting groups, in the manner provided by the Act, results at present in the following divisions:

Group 1.—Two hundred and five banks with capital and surplus of $185,000 and over. (Elects directors in 1916.)

Group 2.—Two hundred and five banks with capital and surplus of from $70,000 to $185,000. (Elects directors in 1917.)

Group 3.—Two hundred and five banks with capital and surplus of $70,000 and under. (Elected directors in 1915.)

On September 30, 1915, a circular was sent to each bank in group 3 designating October 29 as the last day when it might file the certificate of election of its district reserve elector and of nominations, if any, for the vacancies to be filled by the expiration of the terms of Messrs. Franklin D. Locke and Leslie R. Palmer. Of the 205 banks in the group 127 chose electors and became entitled to vote. The following candidates were nominated:

For class A director:

B. H. Howell, Garfield, N. J.; nominated by 1 bank.

Franklin D. Locke, Buffalo, N. Y.; nominated by 82 banks.

Josiah W. Place, New York, N. Y.; nominated by 3 banks.

Walter M. Van Deusen, Newark, N. J.; nominated by 4 banks.

D. D. Woodard, Granville, N. Y., nominated by 1 bank.

For class B director:

James W. Johnson, New Brunswick, N. J.; nominated by 3 banks.

Leslie R. Palmer, Croton-on-Hudson, N. Y.; nominated by 88 banks.

Preferential ballots as provided by the Act, together with instructions, were mailed to electors on November 15. On December 1 the polls closed and it appeared that the following votes had been cast in the column of first choice:

Class A director: B. H. Howell, 2; Franklin D. Locke, 105; Josiah W. Place, 4; Walter M. Van Deusen, 9; D. D. Woodard, 2.

Class B director: James W. Johnson, 8; Leslie R. Palmer, 114.

Whereupon Mr. Locke was declared elected class A director and Mr. Palmer class B director, each for a term of three years, beginning January 1, 1916.

Although second notices were sent out shortly before October 29 and December 1, respectively, regarding the choice of district reserve electors and the voting upon candidates, nevertheless, only 122 of the 205 banks exercised their important franchise to participate in the election of directors of this bank.

ANALYSIS OF OPERATIONS OF NATIONAL BANKS.

At the suggestion of the Federal Reserve Board and for the purpose of an analysis of operations, the member banks in the district have been divided into seven groups on the basis of their total resources. and certain figures from the reports of September 2 and November 10, 1915, to the comptroller have been tabulated under these groups:

Group 1. Banks with total resources under $100,000	3
Group 2. Banks with total resources between $100,000 and $200,000	33
Group 3. Banks with total resources between $200,000 and $300,000	62
Group 4. Banks with total resources between $300,000 and $500,000	106
Group 5. Banks with total resources between $500,000 and $2,500,000	304
Group 6. Banks with total resources between $2,500,000 and $20,000,000	80
Group 7. Banks with total resources over $20,000,000	25

The figures tabulated show the relations to total capital and to total resources of the investments, the deposits, the receipts from exchange, the net earnings, the dividends paid, and the amount of eligible paper held.

Investments.—The following table shows the percentage of the total resources invested in loans and discounts, in bonds and securities other than United States bonds, and in eligible paper. It seems to present no figures of especial significance except the relatively small percentage of bonds and securities held by the larger banks:

Group.	Average total resources per bank.	Relation to total resources of—		
		Loans and discounts.	Bonds and securities, not including United States bonds.	Eligible paper.
		Per cent.	*Per cent.*	*Per cent.*
1	$60,846	46.68	11.12	20.09
2	162,399	48.23	18.18	19.36
3	254,702	47.95	20.94	16.57
4	387,849	50.48	23.96	14.24
5	917,732	44.21	24.48	12.82
6	6,089,073	52.98	16.89	16.38
7	116,342,950	55.54	9.01	10.14

Liabilities.—The following table shows the relation of the capital, surplus, and undivided profits to demand deposits and time deposits. It indicates clearly the greater extent to which the larger banks are able to expand their liabilities: also the more active nature of their deposits:

Group.	Average capital, surplus, and undivided profits per bank.	Relation to total capital of—	
		Demand deposits.	Time deposits.
		Per cent.	*Per cent.*
1	$26,784	116.99	11.45
2	34,207	253.63	60.88
3	51,050	265.26	78.11
4	76,967	264.97	99.08
5	168,341	271.93	117.82
6	971,865	439.81	55.82
7	12,207,560	809.31	8.54

Nature of deposits.—The division of the deposits between demand and time is shown by the following table, which again emphasizes the far greater activity of the larger banks. The banks in New York City almost without exception take no savings accounts.

Group.	Average total deposits per bank.	Relation to total deposits of—	
		Demand deposits.	Time deposits.
		Per cent.	*Per cent.*
1	$34,406	91.08	8.92
2	107,588	80.64	19.36
3	175,296	77.25	22.75
4	280,202	72.78	27.22
5	656,111	69.72	30.28
6	4,816,866	88.85	11.15
7	99,841,084	98.96	1.04

Exchange, earnings, and dividends.—Yet the greater resources of the larger banks do not result in earnings proportionately larger, since a very large part of the loans of the smaller banks run at a steady 6 per cent rate, while the loans of the larger banks, particularly in New York City, are subject to the money-market rates, which seldom reach 6 per cent. Furthermore, the more active nature of the deposits of the city banks requires the maintenance of larger reseves, not only of cash but of readily convertible paper and loans. The larger proportion of their earnings paid out in dividends than in the case of the banks with resources under $300,000 is due probably to the fact that the latter class of banks are largely new institutions which consider it necessary to accumulate a substantial surplus before paying normal dividends. The table shows the relation of gross receipts from exchange, of net earnings and of dividends to both total capital and total resources. They are averaged from the figures reported for 1912, 1913, and 1914, but as the figures of total capital and total resources for those years are not available the figures of November 10, 1915, are used. Therefore the averages of figures are not correct, being smaller than they actually should be. They are sufficiently accurate, however, for purposes of comparison between the larger and the smaller banks. The smaller the bank the larger in proportion are its receipts from exchange.

Group.	Receipts from exchange.		Net earnings.		Dividends.	
	Per cent of capital, surplus, and undivided profits.	Per cent of total resources.	Per cent of capital, surplus, and undivided profits.	Per cent of total resources.	Per cent of capital, surplus, and undivided profits.	Per cent of total resources.
1[1]						
2	1.16	0.25	4.84	1.01	1.49	0.31
3	.90	.18	6.04	1.21	2.57	.52
4	.73	.15	6.45	1.28	3.58	.71
5	.45	.08	6.39	1.17	4.11	.75
6	.39	.06	6.39	1.01	4.88	.78
7	.14	.02	6.91	1.10	4.79	.77

[1] The three banks composing group 1 were not in existence during these years.

Directors' liabilities and eligible paper.—The relation of the directors' liabilities, direct and indirect, and of the eligible paper, to loans and discounts, is shown in the following table. It appears that the smaller the bank the more, proportionately, are its directors indebted to it; also the greater the proportion it holds of paper eligible for rediscount with the Federal Reserve Bank. The figures relating to eligible paper, however, are very approximate, since they represent merely estimates presented by each bank according to the judgment of its officers.

Group.	Average loans and discounts.	Directors' liability, direct.	Directors' liability, indirect.	Eligible paper.
		Per cent.	Per cent.	Per cent.
1	$28,405	27.86	19.57	43.40
2	78,327	6.17	13.70	40.15
3	122,276	5.28	9.40	34.52
4	195,813	5.45	8.25	28.21
5	405,748	5.81	6.01	29.00
6	3,226,332	4.41	1.40	30.92
7	64,574,549	1.69	.17	17.90

The aggregate figures from which the foregoing tables of percentages have been compiled will be found in the Appendix.

The various analyses above presented indicate clearly the advantages which the larger banks have over the smaller banks in respect of ability to do a larger volume of business. Yet, except in the case of the very small banks, the amount earned, net, on the total capital contribution does not vary greatly. There seems to be no indication in these figures that small banks in a favorable location can not, if well managed, become firmly established, pay reasonable dividends, and serve well their communities. But to reach and maintain a satisfactorily strong position much service must be given without compensation by the senior officers, and great economy practiced at all times. The nine new national banks established during the period under review, with $25,000 capital each, indicates that the experience of other small banks in recent years has not been altogether discouraging. It is desirable, however, that in this district, already well provided with banking capital, careful investigation should be made of applications to establish small banks, in order that they may not be authorized in communities unlikely to be able to support them or already well supplied with banking facilities.

For perhaps the most important study of banking condition the comptroller's reports do not present the necessary data, namely, the nature of the loans and discounts of the banks. While these reports show whether the loans and discounts are on demand or time, and are secured or unsecured, they do not indicate what proportion of them is temporary and what proportion is practically permanent. The relative liquidity of the various groups of banks can not therefore be presented. Naturally an analysis of loans and discounts with this object in view would be difficult, and at best only approximate, but it is believed that if some satisfactory basis for the preparation of figures can be arrived at it would be of the greatest value, not only as a contribution to the study of banking conditions but as a guide to the reserve bank in extending credit to its members.

TIME DEPOSITS AND SAVINGS ACCOUNTS.

On November 10, 1915, the member banks in this district held time deposits aggregating over $140,000,000. These are mainly savings accounts, on certificates or special pass books. They also have a considerable volume of savings accounts which are included in their demand deposits because they are not received under contracts which give the bank the right to require notice before withdrawal. In New York State there are 140 mutual savings banks with total deposits on July 1, 1915, of $1,791,524,601. There are also a number of important mutual savings banks in the portion of New Jersey included in this district. Most of these savings banks pay 4 per cent on deposits. The influence of this rate is reflected in the rate offered by the commercial banks, National or State, which wish to attract time and savings accounts. The competition among banks for such accounts usually starts in the larger centers where there is a mutual savings bank. To compete with the savings bank they offer the same rate, and having once begun to allow it no bank feels willing to reduce it for fear of losing business to its competitors. The effect of this is promptly felt in the surrounding country, and the sphere of influence of these various centers has gradually widened, so that, with a few exceptions in the more remote districts, 4 per cent is the usual rate paid by commercial banks for time and savings accounts. At this rate the business has a margin of profit which, for a commercial institution, is not commensurate with the profits it should make. Furthermore, it leads in many cases to paying interest on demand commercial accounts. It may fairly be said that one of the principal reasons why the country banks in this district are so sensitive to any loss of income the reserve system is likely to entail upon them is the burden of paying high interest rates on deposits which they have assumed and which, while willing, they have been as yet unable to find any practical way to reduce.

Under the stimulus of the reduction of the required reserve provided by the Act on time and savings deposits, the conversion of such accounts from demand to time accounts which will comply with the definition established by the Act and the Reserve Board is proceeding quite generally. During the period time deposits have increased at a ratio about five times greater than the ratio of increase of demand deposits.

LOANS ON IMPROVED FARM LANDS.

The provision of the Act permitting loans on improved farm lands has not been largely availed of as yet. On November 10, 1915, 75 member banks reported $451,524 of such loans.

FIDUCIARY POWERS.

The Federal Reserve Board is authorized by the Act "to grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said Board may prescribe."

With respect to New York, counsel for the bank has rendered an opinion that it is in contravention of State law to grant such permits except with respect to acting as registrar of stocks and bonds. Accordingly, no general fiduciary permits have been granted in New York, but a number of banks have been authorized to act as registrar of stocks and bonds.

With respect to New Jersey, counsel has rendered an opinion that it is not in contravention of State law to grant such permits to banks organized prior to the passage of the general trust company act of March 24, 1899. Under this opinion, adopted by the Federal Reserve Board, general fiduciary permits have been granted.

The Federal Reserve Board requires the Federal Reserve Bank to pass upon all such applications before it considers them. As in the case of the admission to membership of State institutions, the policy of both the Board and the bank is to approve only applications of banks which appear to be strong and well managed.

The list of member banks to which permits have been granted will be found in the Appendix.

BRANCHES OF MEMBER BANKS.

Under the authority granted by section 25 of the Act, the National City Bank of New York has opened branches at Buenos Aires, in the Argentine Republic, and at Rio Janeiro, Santos, and Sao Paulo, in Brazil. The Buenos Aires office has a subbranch in Montevideo, Uruguay. It has also absorbed the Banco de la Habana, Habana, Cuba, a going concern with $1,000,000 capital, which is now operated as a branch. The bank has assigned to these branches a capital of $3,000,000, but the provision of the Act requiring capital to be set aside is considered undesirable, as there can be no limitation upon the liability of the bank for liabilities contracted at its branches.

Inasmuch as British and other branch banks operating in South America report their total capital, it seems inadvisable to have any suggestion of limited responsibility on the part of our banks with respect to their foreign branches. The National City Bank reports that many difficulties in the establishment of branches in foreign fields so far from headquarters were anticipated and have been realized, but that what has been accomplished is sufficiently encouraging to justify persistence in its policy. The National City Co., affiliated with the National City Bank, has recently bought control of the International Banking corporation, with head office in New York and with a number of branches in foreign countries, mainly in the Orient.

While in some respects the European war has favored the establishment of foreign branches, in other respects it has hampered their progress. Some business has been diverted thereby to the United States, but on the other hand the war has so demoralized trade and disturbed credits as to multiply the hazards of banking for institutions seeking to obtain a foothold in distant countries. The difficulties, expense, and risks attendant upon the establishment of foreign branches in cities other than the leading European centers are such as to deter any but the largest banks from undertaking this desirable extension of our banking facilities. The organization of special banks, as has been frequently suggested, to transact business in foreign countries, would be in accordance with the practice of European countries having foreign trade to finance. If the national banks were permitted to hold stock in such banks it would offer them an opportunity to facilitate the foreign business of their customers with a minimum of risk and would be consistent with the policy of offering substantially equal advantages to all national banks.

In New York a State bank or trust company is allowed considerable latitude, under certain restrictions, in the establishment of branches in the city in which its main office is situated. Several institutions have availed themselves of this privilege during the past year. One, the Century Bank of New York, with 10 branches, secured a national charter and then absorbed the Chatham & Phenix National Bank of New York. The business of both banks and all the branches is carried on under the name of the Chatham & Phenix Bank of the City of New York. An indirect way has thus been found for the establishment of branches by national banks in their own cities. This is a desirable extension of their field of usefulness which seems to give every advantage to depositors with a minimum of disadvantages to borrowers, and it is to be hoped that Congress will soon amend the national-bank act so as to permit the development, under appropriate restrictions, to proceed directly and freely. At the same time the present requirement that to each branch a certain specified portion of the capital must be assigned should be removed. Sound banking principles and practice require that the entire capital of the bank should protect the liabilities wherever created.

CHARACTERISTICS OF THE FEDERAL RESERVE BANK OF NEW YORK.

The special characteristics of the Federal Reserve Bank of New York may be summarized as follows:

1. It is primarily a city institution. On December 31, 1915, \$7,288,650, or 65.88 per cent, of its paid-in capital is contributed by its 34 members located in the central reserve city of New York (Boroughs of Manhattan and Bronx); the remaining \$3,774,500, or 34.12 per cent, of its paid-in capital is contributed by the 582 other members. Of its deposits \$161,794,012, or 90.18 per cent, is contributed by these city members; the remaining \$17,610,489, or 9.82 per cent, of its deposits is contributed by the 582 other members.

2. It is located in the settling center of the country; therefore, a very large volume of domestic exchange is likely to flow through it.

3. It is located in the city, upon the banks of which, in commercial or financial crises, the principal strain has always fallen. It must, therefore, always be prepared to grant credit promptly, in large volume and in such form as it may be required.

4. It is located in the city in which the principal gold exports and imports normally are arranged, and must be prepared to facilitate its member banks in such transactions.

5. It is located in the investment and banking center of the country, and therefore in the most favorable field for the exercise of the open-market operations authorized under section 14 of the Act. During the past year the bulk of investments by all Federal Reserve Banks in municipal warrants and bankers' acceptances have been made through this bank, and it seems likely that when conditions permit the inauguration of transactions in foreign exchange and foreign bills by the reserve banks it will be again called upon to act for them.

6. The exercise of these investment functions for itself and other reserve banks requires an organization of a special nature, differing somewhat from that of other reserve banks.

RELATIONS WITH MEMBER BANKS.

The aim of this bank at all times has been to maintain frank and friendly relations with its member banks. At every meeting of the New York or New Jersey Bankers' Associations, or of their groups, to which invitations have been received, one or more of the directors or officers have been present and discussed the development of the various functions of the system.

When the establishment of an intradistrict collection system was under consideration, the directors and officers invited representative member bankers from all parts of the district to confer with them at the office of the bank. The plan finally adopted was thoroughly discussed in all its aspects and a consensus of opinion seemed to prevail that it was a fair and reasonable plan.

When the conditions under which State banks should be admitted to the Reserve System were under consideration three conferences were held by the directors and officers of the bank, one with national bankers, one with State bankers, and one with trust company officers, from various parts of the district, to ascertain their views upon the question at issue. In every case the policy has been pursued of dealing frankly with those present, in order that they might understand fully how the action under consideration would affect them.

The officers have expressed themselves at all times as desirous of establishing personal relations with officers of member banks and have invited them to call at the bank when in New York City. Yet a year has gone by and officers of probably not over 15 per cent of the member banks have done so. Many of them still have the feeling that the bank is a branch of the Government. Their experience with the Government consists principally of the statutory and supervisory relationship which exists between them and the comptroller's office. The conception of the relation of this institution with them as cooperative makes headway slowly. The fact that the national banks were practically compelled to join the system naturally retards the development of the cooperative idea. The change of attitude, upon which the success of the system will ultimately depend, will probably come slowly, but there are already signs, as we enter upon the second year of the system, that the banks are getting more accustomed to it and appreciate the results it has already accomplished. It is hoped that during the coming year, with organization pressure somewhat lessened, more time can be devoted by the officers to developing personal relations with the officers of member banks.

The present attitude of the member banks toward the reserve bank may be summarized as follows:

The New York City banks, upon which the strain of all crises first and chiefly falls, fully understand the value and benefits of the system. While regretting the loss of bank deposits which will probably be drawn from them (estimated to be as high as $250,000,000), they are nevertheless hearty supporters of the system, at all times cooperative in their attitude.

Many of the banks in other large cities are unable to take full advantage of the lowered reserve requirements, but in spite of the loss of interest on their reserve balance, most of them understand what the system in its larger aspects means for American banking and generally give it their support.

While the same may be said of many of the country banks, yet it is among the country banks as a class that most of the apathy and hostility to the Federal Reserve System which still persists is found. Their opportunities and earnings are relatively small, and in order to live they must figure closely. They feel the loss of interest on reserve deposits; the absence, as yet, of dividends on their capital contribution; and the prospective loss or decrease of the exchange they generally charge on remitting for checks drawn upon them. Many banks in industrial centers are precluded by the activity of their business from taking advantage of the reduction in the required reserve. They believe that they will, in fact, be required to carry an even larger reserve than heretofore in order to obtain collection service for notes, drafts, and nonmember bank checks and the various other services now rendered by their reserve agents, but not yet undertaken by the reserve banks. It is very natural that they should view with reluctance the termination or diminution of long-standing business associations with their reserve agents. Few of them, as yet, conceive of the reserve bank as their active reserve agent, performing all the services which go with the relationship. The dormant accounts most of the banks maintain with the reserve bank are, perhaps, indicative of their attitude toward it. Relatively few banks of this district are borrowers; in good times and bad they have been able when necessary to borrow from their city correspondents on bonds or on the indorsement of their directors, two avenues which are now to be closed to them. The rediscounting privilege has been little availed of and the larger functions of the Federal Reserve System, such as influencing domestic rates and international gold movements through the development of a discount market and by dealing in foreign bills, appear remote from their spheres of activity. They feel that the system has few advantages to offer in return for the cost it entails upon them.

All of these points will be felt with increasing acuteness by the country banker as his reserve transfers approach completion and as reduced balances result in reduced service from his city correspondent. His point of view is outlined thus frankly in order that the difficulties he sees may be clearly recognized and steps taken gradually to remove them. The development of a more satisfied relationship requires progress on the part of the reserve bank and a willingness to cooperate on the part of the country banker.

The reserve bank should organize a complete collection system embracing the handling of notes, drafts, and items on nonmember banks, which eventually will bring all the members into daily active relations with the bank. It must be ready to act for member banks in the purchase, sale, and custody of securities; to supply credit information on names whose paper is offered by brokers; to give its members information concerning methods of developing the new functions which the Act authorizes them to exercise; to perform the services now rendered by their reserve agents; and generally to assist them in every reasonable way.

The member banks should look upon the reserve bank not as an alien but as their own institution. They own all its capital and most of its resources, and they control its management through the directors they elect, subject always to the supervision of the Reserve Board. At the reserve bank they may borrow as a standing right and not as a favor which may be cut off. They no longer have to buy or carry bonds to serve as security for loans; the paper of their own customers, large or small, will now serve as their security. While panics in the past may not have affected them, they have been disastrous to the business interests of the country, who are their customers; and their contributions to the reserve bank should be recognized as a form of insurance not merely for themselves but for their customers as well. If this insurance is expensive and makes some changes in the nature of their business, the Act should be carefully studied with a veiw to making the most of the new functions it provides. New avenues of activity should be looked for. The banks which will get the most out of membership are those which are the first to see and develop the opportunities it provides and to educate their customers to the protection and facilities they will enjoy through the system. The occasion is a favorable one also for the correction of abuses. Customers will do things in the name of the Federal Reserve System which they have never done before. The experience of banks in using the forms provided by the reserve bank to get statements from their borrowers is evidence of this. The occasion should be seized also to increase the balances of depositors who carry unprofitable accounts. To assist member banks in studying their accounts this bank has had under preparation by chartered public accountants a reasonably simple form for analyzing accounts which may be obtained by banks desiring to use it.

It is the duty of the directors and officers to understand not only the problems of the reserve bank but those of the member banks as well; and it has been their endeavor during the past year to give special study to those of the country bank. Several suggestions for the relief of the country bank have come to their notice.

One of these, which the American Bankers' Association at its 1915 Seattle convention favored, was to permit the 3 per cent of reserve which the member bank may carry either in its vaults or in the reserve bank, to be deposited with member banks not more than 300 miles distant and count as reserve. This seems to be contrary to the spirit and intent of the Act, which is primarily to centralize reserves in Federal Reserve Banks.

Another suggestion which seems more worthy of consideration is that the percentage of reserve required for country banks should be somewhat further reduced. When the reserve transfers are completed checks in transit can no longer count as reserves. It is clear, therefore, that the reserve reduction contemplated by the Act will not be realized in practice. A further reduction in the reserve requirements would, in the case of many banks, result in a reserve less than the amount their business actually required, and would enable them to carry the amount thus freed wherever it would best serve their particular business, and, if they so desired, to maintain some relations with present city correspondents. It would lead away from the present rigidity of bank reserves toward greater flexibility and a better understanding of their meaning and purpose.

The formation of a national-bank section of the American Bankers' Association and the cooperative relationship which its executive committee has established with those charged with the duty of operating the Federal Reserve System, suggests the desirability of the formation of similar sections of State bankers' associations. Owing to its diverse membership, consisting of national banks, State banks, trust companies, savings banks, and private bankers, State bankers' associations are naturally somewhat reluctant to deal actively with the problems and development of the Federal Reserve System. Too large a proportion of their membership is interested only academically in the system. A national-bank section of a State bankers' association could act as an important medium of communication between the reserve bank and its member banks, and would be of constant value to both.

NATIONAL-BANK SECTION OF THE AMERICAN BANKERS' ASSOCIATION.

The American Bankers' Association at its meeting in Seattle on September 6–10, 1915, established a national-bank section. The officers and executive committee of this section had their first meeting in New York City November 20, some of the sessions of which the governor and chairman of this bank had the privilege of attending by invitation. The cooperative attitude of the organization toward the development of the system was apparent throughout and great satisfaction was expressed that member banks now had an organization through which they could express their desires and views officially to the Reserve Board and the reserve banks, and through which the Reserve Board and reserve banks could communicate officially with the member banks. The work of this section if carried forward on broad lines is likely to play an important part in the development of the reserve system, and it seems desirable that the plan should be followed in the State bankers' association as well.

RELATIONS WITH STATE BANKS.

The attitude of the State institutions in New York City and other large cities to the reserve system is one of friendly support and of appreciation of its meaning and advantages to the banking and business interests of the country. They agree that ultimately, in order to give the system the strength and influence it should have, State institutions should join it, but they see no immediate need of doing so and are inclined to wait and observe what advantages it will develop for them. Some have expressed the belief that, without bearing the burdens of the system, they will, nevertheless, be able to participate indirectly in its advantages. The officers of some of the leading institutions have expressed a desire that before considering joining the system their status as members should be more fully defined by law and left less to the regulation of the Reserve Board. The attitude of State institutions in the country districts appears to be one of complete indifference.

CHAPTER IV.—GENERAL CONDITIONS.

INTRODUCTION.

In view of the abnormal conditions which have prevailed and of the progress which has been made from business depression to business activity during the period under review, a description is presented in some detail of the main factors which have contributed to the change, together with a brief summary of present industrial and banking conditions.

CLEARING-HOUSE LOAN CERTIFICATES.

Between August 3 and October 15, 1914, the New York Clearing House Association issued to 44 of its 61 members 3,128 loan certificates, aggregating $124,695,000. The largest amount outstanding at any one time was $109,695,000 on September 25. The first cancellation was on August 26, and the last on November 28, 1914. The period of time from the first issue to the final cancellation was 118 days, compared with 154 days in the panic of 1907–8 and 132 days in 1903. The percentage of maximum amount of certificates outstanding to total deposits of clearing-house members was 5.5 as compared with 8.28 in 1907–8.

EMERGENCY CURRENCY.

The National Currency Association of the city of New York, formed under the Aldrich-Vreeland Act, approved 129 applications for emergency currency between August 3 and October 6, 1914, aggregating $145,298,960. The largest amount of emergency currency in circulation at any one time was $137,012,260 on October 21. The maximum amount of emergency currency which could have been issued, under the approval of the Secretary of the Treasury, by the New York City association was $302,905,000, which is 125 per cent of the combined capital and surplus of the member banks. The New York City association availed itself of 47.86 per cent of the amount which, under the law, it was possible to issue. The first cancellation was approved October 13, 1914, amounting to $2,000,000, and the last January 25, 1915.

National currency associations were also formed in other important cities in the district.

THE NEW YORK STOCK EXCHANGE.

On Friday morning, July 31, 1914, the New York Stock Exchange closed. It was the last large exchange of the world to suspend trading. This action was taken after meetings between the governors of the exchange and leading bankers, to protect the market against demoralization and further selling of securities from abroad. The very large volume of loans on stock exchange collateral held by the New York banks for themselves and their correspondents became at once completely illiquid, and the value of the collateral could not be ascertained. Even the action rooms were closed, and the prices at which a small volume of rather urgent dealings in stocks and bonds was carried on, were not made public. Later a minimum price list was established and efforts made by the stock exchange committee to control the trading, which became more active as the situation eased.

The fact that there was no market for bonds was an added unsettlement to general business. New financing had to be postponed, and even some municipalities failed to sell their bonds.

On November 28 the exchange was partially opened for trading in bonds at fixed minimum prices. On December 12 trading in stocks was resumed on a restricted basis, subject also to minimum prices. These restrictions were gradually relaxed and were finally removed on April 1, 1915.

Trading became very active in April and the great speculation began in shares of companies engaged in making supplies for belligerent nations. Sales of $109,934,000 bonds and 20,007,188 shares of stocks made April the most active month on the exchange in the past five years. A very active and rising market continued until the sinking of the *Lusitania* on May 7, when a severe decline in prices set in and the volume of dealings decreased about 50 per cent. Activity was resumed in July, when $56,489,500 bonds and 14,326,813 shares of stocks were sold. This movement was increased during August and September to such an extent that brokers found difficulty in carrying out the routine work entailed by their orders. The unrestrained nature of the speculation evoked considerable public comment. A broader market with more general trading and activity in railroad issues came in October, when $104,490,000 bonds and 26,639,081 shares of stock were sold. The heaviest dealings in bonds of any month since June, 1909, occurred in November on transactions amounting to $124,697,500.

The comparative transactions in bonds and stocks for the past five years have been as follows:

Year.	Shares.	Bonds.
1915	173,155,644	$955,525,200
1914	45,989,158	460,472,500
1913	76,134,996	497,158,600
1912	118,452,676	645,300,000
1911	127,376,149	878,933,700

The selling of American stocks and bonds held by European investors has been steady and persistent throughout the year, accelerated at times by the very favorable movement of exchanges for such sellers. Mr. L. F. Loree, president of the Delaware & Hudson Railway Co., early in the year undertook to obtain from the railroads of the country an estimate of the total amount of railroad securities held in foreign countries, and published figures during the early spring showing the amount reported as of January 31, 1915. On December 24 he published a subsequent estimate as of July 31, showing $2,223,000,000 par value, or $1,751,000,000 market value, a decrease in the par value of $480,000,000 during the six months. These figures do not include any industrial or municipal securities, of which large amounts are held in foreign countries.

In some of the European countries, notably in Great Britain, the Governments have made arrangements with holders of American securities to borrow them for use as collateral to loans to be placed in the United States, with authority to sell them if occasion to do so should arise.

FOREIGN EXCHANGE.

The foreign exchange market since July, 1914, has witnessed trying conditions, unparalleled fluctuations and extraordinary relief measures in both Europe and the United States.

On July 17, 1914, demand sterling was quoted at 4.8690 with a downward tendency, caused by offerings of grain and finance bills. Francs and marks were quoted at $5.16\frac{7}{8}$ and $96\frac{1}{16}$, respectively. During the following week political unrest in Europe and firmer discounts abroad caused sharp advances in rates.

Immediately after the outbreak of the European war thousands of American tourists in the warring countries found themselves without money and unable to negotiate letters of credit. Demands for payment of loans and credits, sales of securities, and remittances for tourists became so great that the exchange markets were completely demoralized and rates were not posted. Sterling cables were quoted at 7 on August 1; checks on Paris 4.25. The Government and the bankers acted promptly by dispatching the U. S. S. *Tennessee* with $4,500,000 in gold, and a credit was opened through the Bank of France by Messrs. J. P. Morgan & Co.

Shipping and export trade were greatly unsettled by war conditions. Notwithstanding the moratoria abroad, the United States faced the necessity of settling its maturing foreign indebtedness, which to England alone was estimated to exceed $200,000,000. Arrangements were made by the Bank of England whereby remittances of gold might be made for its account to Ottawa.

Credit interchanges were quickly established between New York and London, and by August 15 nominal quotations for demand sterling declined to 5. During the next two months exports of grain, cotton, and general merchandise became more normal and bills drawn against them were freely negotiated at rates ranging between 4.92 and 5.08. Nominal rates for French and German checks were 5.05 and 97, respectively. The latter declined to $90\frac{1}{4}$ during the third week in October.

In order to cope with this extraordinary situation it was felt that joint action on a comprehensive plan would become necessary. The Federal Reserve Board, in conjunction with the Secretary of the Treasury, therefore took the initiative in calling, September 4, a conference of representatives of the clearing houses of all the reserve cities.

Letters signed by Messrs. James B. Forgan, Levi L. Rue, Benjamin Strong, jr., Thomas P. Beal, and Sol. Wexler were addressed to the Secretary of the Treasury and the Federal Reserve Board on September 4 and September 19 recommending the formation in New York of a gold pool through which the requirements of all parts of the United States for foreign exchange would be fairly and impartially dealt with. The plan was approved by the Secretary of the Treasury and the Federal Reserve Board on September 21, and on that date the first meeting of the gold fund committee was held at the New York Clearing House. The members were Albert H. Wiggin, chairman; James B. Alexander, Francis L. Hine, Benjamin Strong, jr., William Woodward, and Frank A. Vanderlip. Banks and trust companies in New York City subscribed to the pool $45,000,000, and subscriptions amounting to $63,929,360 were received from banks and trust companies throughout the United States. It was found unnecessary, however, to call for more than 25 per cent of the subscriptions, and owing to the easier exchange market resulting, to a considerable extent, from the mere existence of the pool, its activities were quite limited. Another gold pool aggregating $100,000,000 was formed in September by New York banks to provide gold for shipment to London to pay the indebtedness of New York City maturing there before the close of the year, but Messrs. J. P. Morgan & Co., the managers of the pool, found it unnecessary to call for payment in gold of more than about one-third of the subscriptions.

During October there was an appreciable improvement in the general exchange situation. The movement of exports was improving and call money rates in London were about 1 per cent. At the invitation of the Secretary of the Treasury, Sir George Paish and Basil P. Blackett, Esq., arrived from England during October and remained about a month discussing the situation with the Government and bankers, but no definite action resulted from their visit.

The ending of the British moratorium on November 4, the improvement in cotton exports, and the operations of the gold pool all contributed to further ease in rates during the first week in November. German exchange was stronger during the second week in December, as a result of remittances for securities sold. French checks at this time were quoted at 5.16, and in the last week of 1914 demand sterling declined to 4.84¾.

On January 9, 1915, the return movement of gold from Ottawa commenced. It began to be generally recognized that international trade would run heavily in favor of the United States. The managers of the gold pool met on January 22 and decided to return to subscribers the balance of their payments.

During February more cotton bills appeared in the market and exports continued to show a large excess over imports. The movement of supplies to the warring nations was very heavy. On February 11 demand sterling declined to 4.82⅝, the lowest figure since October, 1907. Francs declined to 5.22½ and marks to 85½. The next week sterling receded still further to 4.79, and continental rates also followed. Notwithstanding the low rates, gold was not imported in any large amounts. A steady sale of American securities from abroad continued.

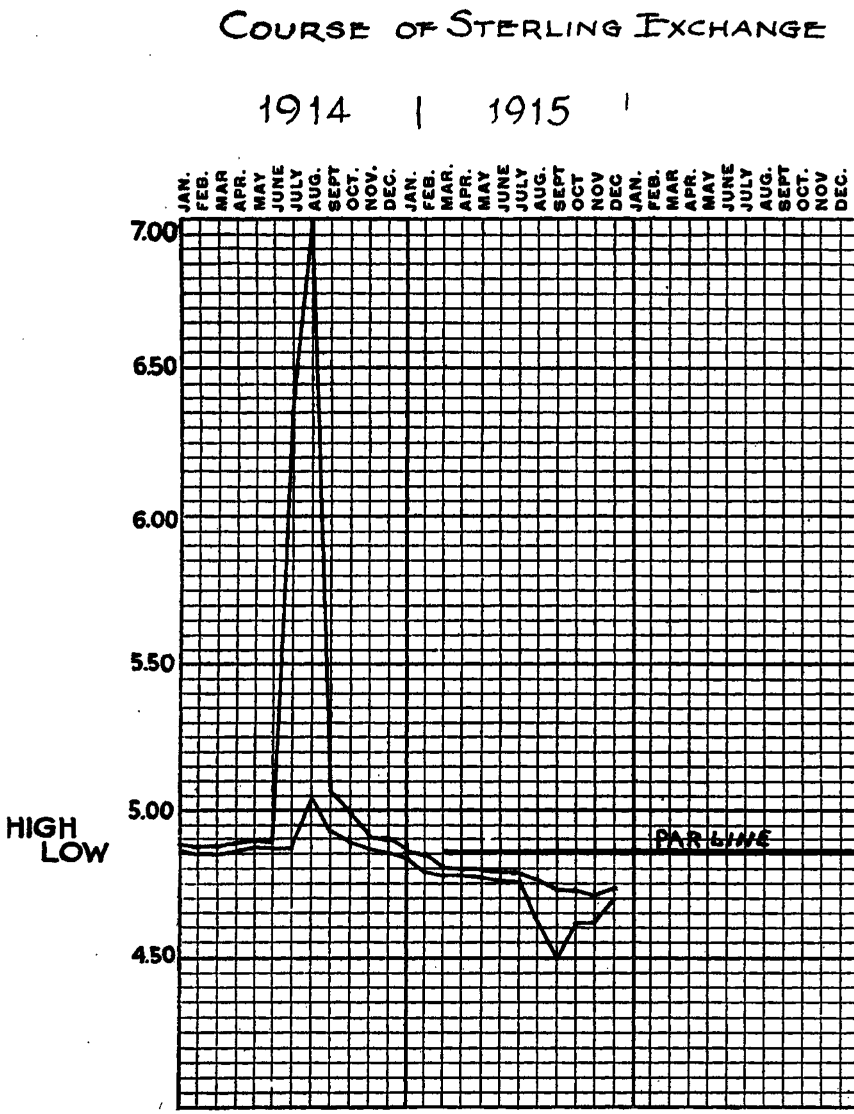
In April the advances in security prices on the New York Stock Exchange and the low rates of international exchange induced increased foreign selling of securities in this market. Exchange rates did not vary very much until the third week in May, when a new low record of 5.43½ was established for Paris checks. At the end of July there was a very weak market, and during the second week in August sterling declined to 4.70½ in spite of large remittances of gold from London via Halifax. This weakness continued with gradual declines which became very abrupt toward the end of August. On September 1 the record low quotation of 4.50 to the pound was reached. From this there was a quick recovery on moderate transactions during the next few days, the rate being carried in a firm market to 4.72.

The Anglo-French commissioners, Lord Reading, Sir Edward H. Holden, Bart., Sir Henry Babington Smith, Basil P. Blackett, Esq., M. Ernest Mallet, and M. Octave Homberg, arrived on September 10 to discuss with American bankers plans to stabilize exchange. Further large shipments of gold were received from London via Halifax. Rates fluctuated irregularly. During the next month a firmer tone resulted from prospects of successful negotiations with the Anglo-French commissioners, but when the underwriting of the $500,000,000 loan was announced the market did not respond and weakness in sterling was accompanied by recessions in continental exchange. During the third week in October the publication of figures of heavy exports and large offerings of bills caused further weakness. An irregular but stronger market developed in November and continued during December with the exception of German exchange, which reached the record low quotation of 75⅞ on December 16. It should be observed that the effects of violent fluctuations are quite as serious as abnormal rates of foreign exchange. Our foreign commerce can not be conducted without unusual hazard of loss to importer and exporter whether exchange on other countries is quoted at prohibitive premiums or prohibitive discounts. The unusual hazards of commerce in time of war are greatly magnified by violent fluctuations in the cost of settling accounts whether for goods imported or exported.

The efforts of bankers have therefore been continuous since the outbreak of the war to establish a more stable market for exchange, as well as to bring about more normal quotations, whether the exchanges have been at prohibitive premiums, as in the fall of 1914, or at serious discounts, as during the past few months. The difficulties have been increased by the risks involved in transporting gold from one country to another, the difficulty of obtaining insurance at reasonable rates against both marine and war hazards, and the lack at times of neutral vessels satisfactory to shippers and underwriters. In the period reviewed the range of the leading quotations, chiefly for cables, has been:

	Low.			High.		
	Date.	Rate.	Discount.	Date.	Rate.	Premium.
			Per cent.			*Per cent.*
Sterling	Sept. 1, 1915	4.50	7.5	Aug. 1–8, 1914	7.00	43.8
Francs	do	6.03	16.3	do	4.25	18.0
Marks	Dec. 16, 1915	.75⅞	20.3	do	1.01	6.0
Roubles	Nov. 9, 1915	32.00	37.8	do	.52½	2.0
Lire	Sept. 1, 1915	6.55	26.4	do	4.00	22.8
Guilders	do	.38½	4.2	Dec. 30, 1915	.43½	8.2

The following chart shows the high and low points of sterling exchange, by months, during 1914 and 1915:



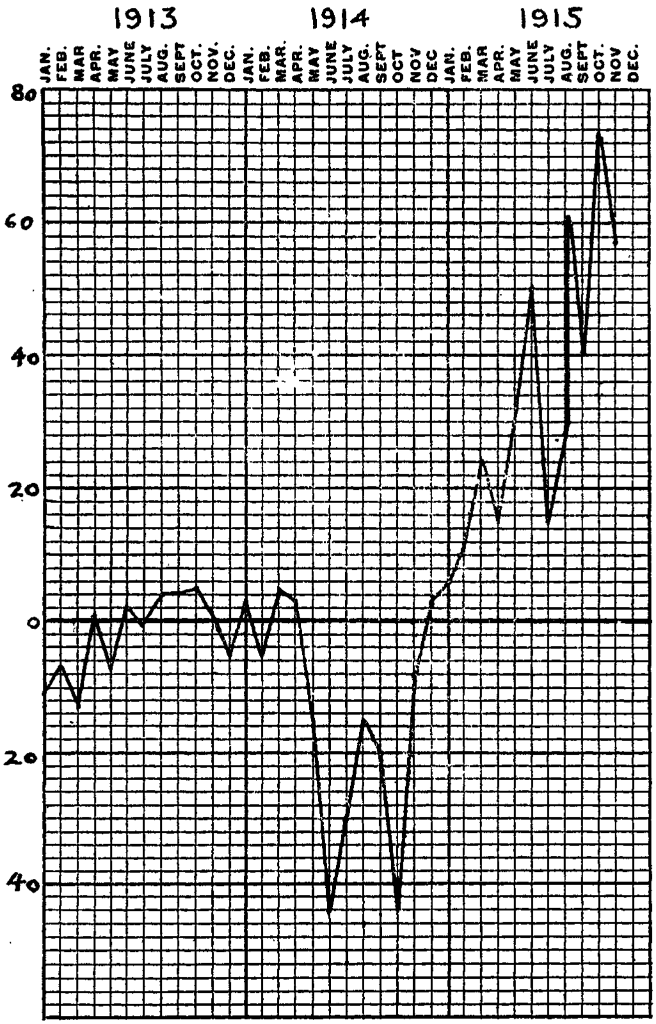
THE GOLD MOVEMENT.

The total imports of gold into the United States for the 11 months ending November, 1915, aggregated $403,531,913, as compared with $53,279,000 in the same period last year. Most of this came from Canada, representing the return of gold that was shipped in the fall of 1914 from New York to Ottawa on account of the Bank of England, and the large shipments sent from London via Halifax. The facilities at the assay office were hardly sufficient at times to handle the great quantity of gold imported and some shipments were delayed in Canada until room could be made at the assay office for further receipts. A large part of the later shipments have consisted of foreign coin.

Exports of gold from the United States for the first nine months of 1915 amounted to $19,536,133, against $222,485,000 in the corresponding months last year.

The following chart shows the net gold movements during 1913, 1914, and 1915.

Balance of gold movement (in millions of dollars).



IMPORTS AND EXPORTS.

Compared with the exports of 1913 those of 1914 were showing a steady decrease each month until after the outbreak of the war. From September on, a steady recovery in the volume of exports took place, due principally to the great shipments of supplies to the warring nations which have continued ever since in increasing volume, notwithstanding an increase in ocean freight rates varying from 25 per cent to 250 per cent according to the destination. The lack of adequate shipping elevators and lighterage to handle the enormous quantity of exports has caused much congestion. During

December, 1915, approximately 45,000 carloads were held in warehouses and freight cars in and near New York awaiting shipment. The railroads have felt obliged to declare embargoes in some cases on all outward traffic, in others only on certain commodities, until the congestion can be relieved by ocean shipments. Besides the great increase in exports to England, France, Russia, and Italy, shipments to Sweden, Norway, Denmark, and Holland have greatly increased, but compared with the first nine months of 1913 exports for the same period of this year to other countries show decreases as follows:

Canada, $72,630,984; Mexico, $9,028,297; South America, $6,710,180.

The following table lists the classes of goods exported in which the largest percentages of increase are shown and the export of which may be considered as due primarily to demands arising out of the war:

Nine months ending with September.

Articles and classes.	1915	1914	Per cent increase (+) or decrease (−).
Live animals	$96,200,000	$4,000,000	+2,305.0
Explosives	84,300,000	4,900,000	+1,620.4
Wool manufactures	25,200,000	3,500,000	+ 620.0
Zinc manufactures	21,500,000	3,200,000	+ 571.9
Brass and manufactures	31,800,000	4,900,000	+ 549.0
Sugar, refined	24,800,000	5,800,000	+ 327.6
Automobiles	85,600,000	22,700,000	+ 277.1
Leather manufactures, other	94,600,000	26,700,000	+ 254.3
Chemicals and drugs	54,200,000	20,200,000	+ 168.3
Breadstuffs	423,400,000	172,800,000	+ 145.0
Boots and shoes	29,800,000	12,400,000	+ 140.3
Cotton manufactures	71,100,000	34,100,000	+ 108.5
Meats	194,800,000	97,700,000	+ 99.4
Carriages	18,900,000	9,500,000	+ 98.9
Iron and steel manufactures	251,100,000	152,800,000	+ 64.3
Cotton, raw	307,300,000	242,200,000	+ 26.8
Oils, mineral	106,200,000	108,200,000	− 1.9
Copper and manufactures	83,900,000	95,600,000	− 12.2
Naval stores	9,300,000	12,200,000	− 23.8
Wood, lumber, and other manufactures	40,300,000	65,300,000	− 38.3
Agricultural implements	10,400,000	20,600,000	− 49.5
Miscellaneous	217,200,000	145,200,000	+ 49.5
Total	2,532,500,000	1,467,400,000	+ 72.5

From February to August, 1914, imports had shown large increases over the same period of 1913. But in every month except one from August, 1914, to August, 1915, there was a decrease of imports when compared with the same month a year earlier. Total imports for the first nine months of the past three years have been as follows: 1913, $1,327,385,071; 1914, $1,410,071,874; 1915, $1,302,281,591.

The following table lists the classes of goods imported which show the largest increases or decreases:

Nine months ending with September.

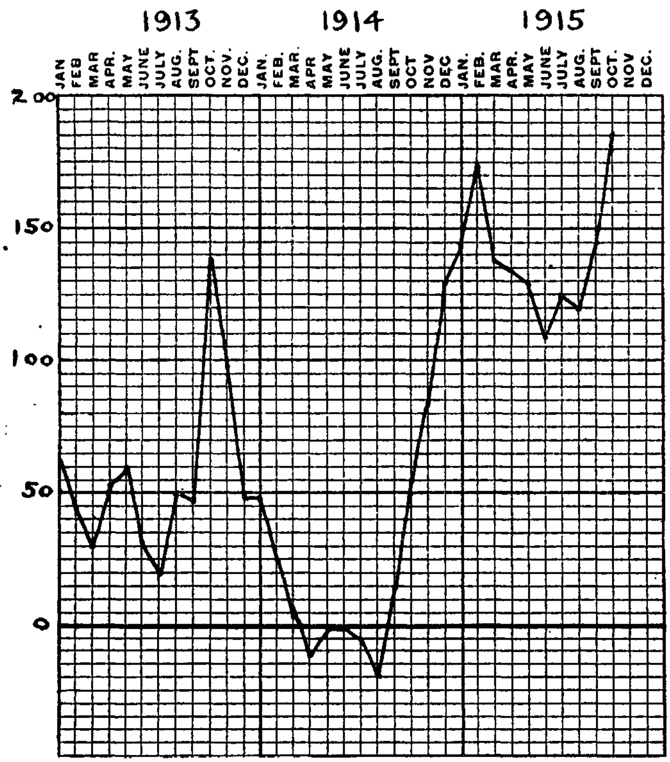
Articles and classes.	1915	1914	Per cent increase (+) or decrease (−).
Wool manufactures	$13,600,000	$36,400,000	−62.6
Breadstuffs	14,100,000	25,500,000	−44.7
Leather and manufactures	11,400,000	18,900,000	−39.7
Meat and dairy products	22,100,000	39,700,000	−39.3
Cotton manufactures	30,600,000	48,800,000	−37.3
Iron and steel manufactures	14,800,000	22,900,000	−35.4
Animals, chiefly cattle	13,300,000	17,300,000	−23.1
Silk, raw	61,600,000	72,900,000	−15.5
Hides and skins	90,400,000	93,500,000	− 3.3
Chemicals, drugs, etc	65,200,000	61,900,000	+ 5.3
Wool, raw	68,000,000	53,800,000	+26.4
Sugar	157,400,000	112,000,000	+40.5
India rubber and substitutes	83,400,000	57,800,000	+44.3
Miscellaneous	501,300,000	570,700,000	−12.1
Total	1,302,100,000	1,410,100,000	− 7.6

The balance of trade in favor of the United States for the first nine months of the past three years has been as follows: In 1913, $406,037,087; 1914, $57,330,115; 1915, $1,227,293,504.

In considering this balance there should be remembered the large amount of money that in normal times would be spent abroad by American tourists.

The following chart shows the balance of trade for the years 1913, 1914, and the first nine months of 1915.

Balance of trade (in millions of dollars).



MONEY RATES IN NEW YORK CITY.

In the last week of July, 1914, before the European war, money rates in New York ranged as follows: Call, 1¾ to 2 per cent; time loans on collateral, 60 days to 4 months, 2¾ to 3½ per cent; prime commercial paper, 4½ per cent. Immediately following the outbreak of war, call and time loans ranged from 6 to 8 per cent and commercial paper 5½ to 6½ per cent. By the third week of August the ruling rate for call and time money was 8 per cent and commercial paper advanced to 6½ to 7½ per cent. But there was less demand for money and slightly easier conditions in the money market in September brought the range of rates on time and call loans to 6 to 8 per cent with the main volume at 7 per cent.

Early in October there was an improved demand for prime commercial paper, which sold freely at 6½ per cent. By the middle of October the highest rate for call money was 7 per cent and in the latter part of the month the range was: Call and time 6 to 7 per cent; commercial paper, 6 to 7½ per cent.

In November the prospect of the opening of the Federal Reserve Banks and the consequent release of reserves brought further ease in rates. The Comptroller of the Currency made public a list of banks that were charging only 6 per cent. Time money was quoted 5½ to 6 per cent, commercial paper, 6 to 7 per cent. During the second week bankers in New York were reported to be seeking loans and the call rate went as low as 4½ per cent, ranging from that to 6 per cent. Time money declined to 5¼ per cent while the best commercial paper found buyers at 5½ per cent.

Light trade demands and absence of speculation caused a steady downward trend of money rates. Up to December 19, New York City banks had retired $128,581,540 out of a total of $144,000,000 emergency currency issued to them. Call money ranged from 2½ per cent to 4 per cent, time loans on collateral, 3½ to 4 per cent, and commercial paper, 4¼ to 5 per cent.

Notwithstanding the great activity in the stock market which has prevailed during the last nine months of the year call money has ruled throughout the year at from 1½ to 2 per cent, and time loans on collateral, 2¼ per cent to 3¼ per cent. Commercial paper, which in January ruled from 4 per cent to 5 per cent soon broke below 4 per cent, with a substantial volume of sales of the best names at 2⅛ per cent to 2⅞ per cent.

Prime bankers' acceptances in January ruled from 2⅛ per cent to 2⅞ per cent, and declined gradually throughout the year, at the close of which they ruled from 2 per cent to 2¼ per cent.

The chart on the following page shows the course by months of the New York rates for call money, time loans, and commercial paper.

LOANS TO FOREIGN COUNTRIES.

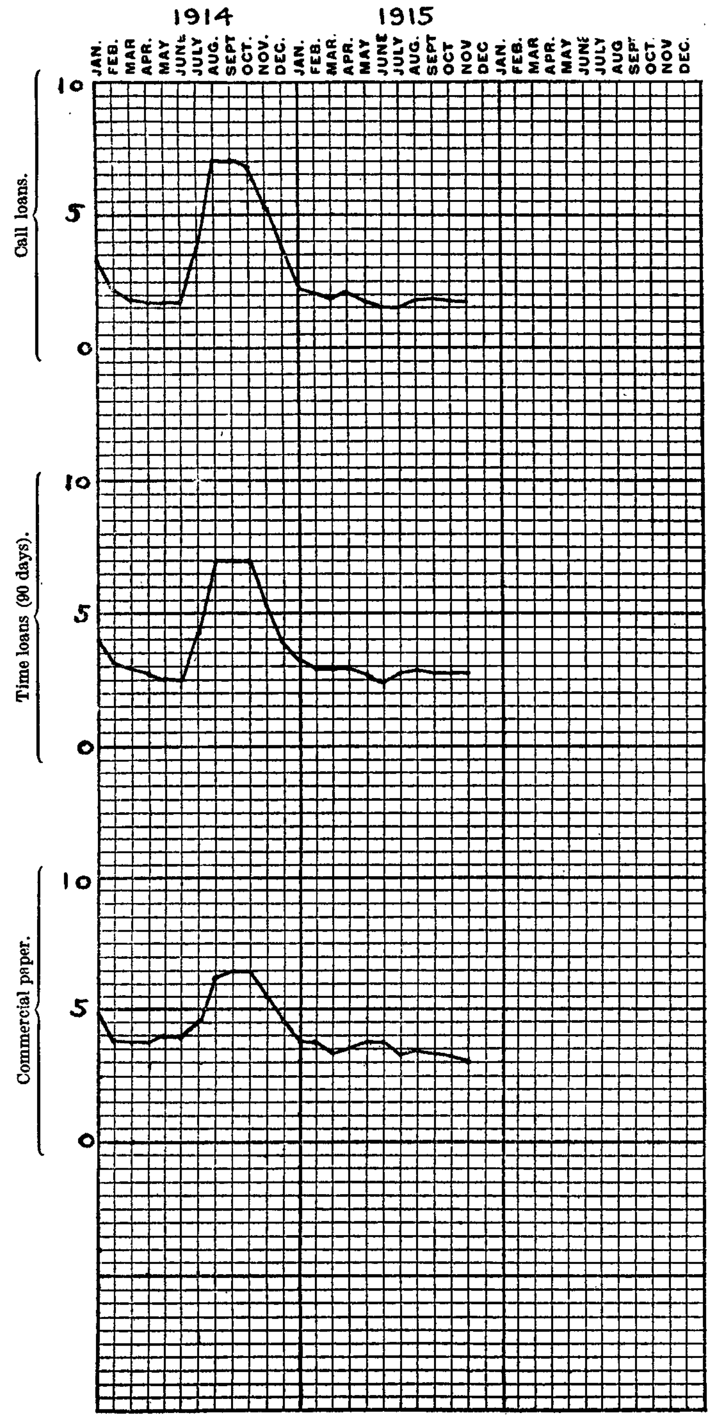
One of the most important developments of the year has been the extension of credit in very large amounts to foreign Governments and to bankers and merchants in foreign countries. Most of these loans have been to enable the borrowers to pay for goods purchased in the United States, thereby steadying the exchanges and enabling them to continue both their ordinary and their extraordinary purchases.

The most important loan was, of course, the Anglo-French loan of $500,000,000 which was distributed by a large syndicate of bankers formed by Messrs. J. P. Morgan & Co. It matures in 1920, bears interest at 5 per cent, and was taken by the underwriters at 96½ and offered to the public at 98. It is the only one of the foreign loans that has been listed on the New York Stock Exchange and is actively dealt in. The other loans were arranged by banks, private bankers, and syndicates, and most of them have not been offered generally to the public.

While a large volume of unreported credits to foreign borrowers has been extended by banks in the course of financing exports, the loans and credits to foreign Governments, municipalities, and banks publicly announced to have been arranged in the United States since the European war began are approximately as follows:

Anglo-French loan	$500,000,000	Switzerland	$15,000,000
British banks	50,000,000	Canada	45,000,000
Italy	25,000,000	Canadian municipalities	105,000,000
Russia	25,000,000	Argentina	40,000,000
Russian banks	67,000,000	Bolivia	1,000,000
France	75,000,000	Panama	3,000,000
Germany	10,000,000	Chile	6,500,000
Greece	7,000,000		
Sweeden	5,000,000	Total	982,500,000
Norway	3,000,000		

Money rates at New York (monthly average).



THE 1915 CROPS.

The 1915 harvest in the United States surpassed any before recorded in both volume and value. The value of the principal farm crops estimated by the Department of Agriculture on the basis of December 1 prices was $5,568,773,000. This compares with $4,974,527,000 last year, $4,966,497,000 in 1913, and $4,757,478,000 in 1912. Because of the advance in grain prices as the war in Europe progressed, very large areas of grain were planted, the acreage of the principal crops this year aggregating 486,570 square miles. The corn crop was the second largest ever grown and the number of acres planted has been exceeded only once before in this country. The value of the corn crop surpassed the previous most valuable crop ever grown by over $30,000,000. The wheat crop for the first time was over a billion bushels. New records were made in production by wheat, oats, barley, rye, sweet potatoes, rice, and hay. All the principal crops except barley and tobacco established records as being the most valuable ever grown in this country.

[000 omitted.]

	Acreage.		Total bushels.		Farm value Dec. 1.	
	1915	1914	1915	1914	1915	1914
Corn	108,321	103,435	3,054,535	2,672,804	$1,755,859	$1,722,070
All wheat	59,898	53,541	1,011,505	891,017	930,302	878,680
Oats	40,780	38,442	1,540,362	1,141,060	555,569	490,431
Barley	7,395	7,565	237,000	194,953	122,499	105,903
Rye	2,856	2,541	49,190	42,779	41,295	37,018
Buckwheat	806	792	15,769	16,881	12,408	12,892
Flaxseed	1,367	1,645	13,845	13,749	24,080	17,318
Rice	803	694	28,947	23,649	26,212	21,849
Potatoes	3,761	3,711	359,103	409,921	221,104	199,460
Hay	50,872	49,145	[1] 85,225	[1] 70,071	912,320	779,068
Tobacco	1,368	1,224	[2] 1,060,587	[2] 1,034,679	96,041	101,411
Cotton	30,957	36,832	[3] 11,161	[3] 16,135	602,393	525,324
Total					5,300,082	4,891,424

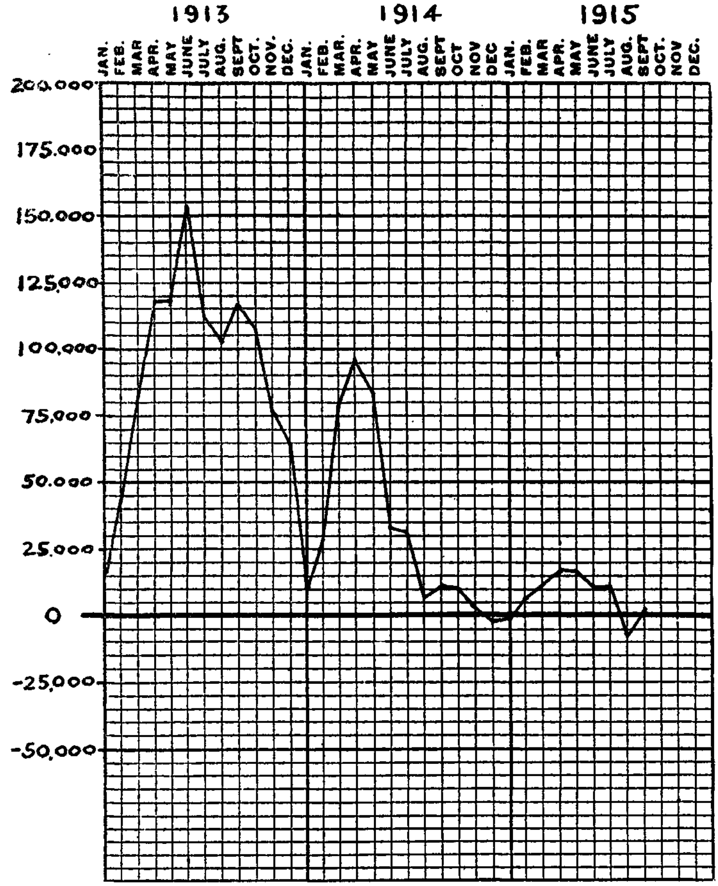
[1] Tons. [2] Pounds. [3] Bales.

IMMIGRATION AND EMIGRATION.

The effect of the war on immigration and emigration has been very marked. Both arrivals and departures have decreased notably and the effect of the now almost balanced movement can not fail to be felt in the domestic labor market if the present industrial activity continues. For the first nine months the net immigration has been: In 1913, 863,784; in 1914, 334,169; in 1915, 64,485.

The following chart shows the net movement by months during these years.

Net immigration.



FOREIGN BANKING CONDITIONS.

The outbreak of the war precipitated grave responsibilities upon the great central banks, as well as the private banks, of the principal belligerent nations. Various measures were undertaken to meet the crisis which at once developed, both in credit and in currency.

In England the Government declared various moratoria extending the date of payment of maturing bills. The Bank of England was indemnified against loss in the purchase of bills and under this guaranty it made a practically unlimited offer to take bills which had become unliquid by reason of war conditions. The Government authorized the issue, through the Bank of England, of £1 and 10-shilling notes of the Government to relieve the currency stringency and take the place of sovereigns and half sovereigns which disappeared from circulation. The effect of these measures was instantly felt. By having a vast volume of their securities made liquid English banking firms and institutions were enabled to conduct their customary business. The Bank of England largely increased its deposit liabilities and its investments in bills, and a reduction in both the bank rate and the rates for bills in the open market quickly followed.

24803—16——4

In France the note issues of the Bank of France are limited in amount by law. Increases in the limit of the note issue were authorized, enabling the bank to make large advances to the Government and to provide notes for current circulation. To some extent these notes were deposited with various organizations, notably the Chamber of Commerce of Bordeaux, which issued notes of smaller denominations to circulate in place of gold coins, which promptly disappeared from circulation. These measures were subsequently followed by appeals to the people to deposit their gold with the Bank of France, which ultimately brought the gold holdings of the bank to an amount in excess of $1,000,000,000.

In Germany more extensive measures were taken to meet the situation than in either England or France. Immediate provision was made to enlarge the note issues of the Reichsbank and local credit banks were organized at which solvent borrowers could obtain credit upon both securities and commodities. The Reichsbank was authorized to receive and hold notes issued by certain of these banks on a parity with its gold reserves. Such notes were also issued in small denominations for purposes of circulation. These efforts to maintain the gold reserve of the nation were supplemented by an embargo on the export of gold and by appeals to the people to surrender their gold to the Reichsbank, thereby largely increasing its holdings.

While all these measures have many characteristics in common, provision having been made in both England and France for the extension of date of payment of debts and in all three countries for a wide extension of the power of note issue by the central banks, the means employed in each case were somewhat different. The effect of these operations are clearly reflected in the attached tables showing the changes which have taken place in the statements of the three central banks of these countries. The issue of Government notes in England to supplement the note issues of the Bank of England was accompanied by an accumulation of gold reserve for their redemption, the difference between the gold reserve and the face of the notes being covered by Government securities and balances at the Bank of England.

The striking similarity in the demands made upon the credit systems of all the belligerent nations is equally reflected in these statements. The ability to convert unliquid assets through the agency of a central bank and to furnish the people with a convenient and acceptable circulating note for their daily transactions undoubtedly saved these nations and their citizens from enormous losses that otherwise would have been sustained by reason of credit contraction and trade stagnation.

The following tables show the principal assets and liabilities of the three Government banks at intervals during the period:

BANK OF ENGLAND.
[000,000 omitted.]

Date.	Bullion.	Reserve.	Government securities.	Other securities.	Circulation.	Deposits.	Ratio of reserve.
1914.	£.	£.	£.	£.	£.	£.	*Per cent.*
July 30	38	32	11	47	30	67	40
Oct. 8	57	40	28	114	35	164	24.53
Nov. 19	73	56	19	107	35	164	34
Dec. 31	69	52	15	106	36	155	33⅜
1915.							
Feb. 18	66	50	25	102	34	158	31½
Apr. 22	56	40	48	144	34	214	18½
May 27	62	47	51	139	30	220	21½
June 24	53	39	51	136	33	208	18⅞
July 29	61	46	53	191	34	273	16¾
Aug. 26	67	54	46	142	32	224	24⅛
Sept. 30	62	48	37	132	33	192	24¾
Oct. 28	56	42	19	97	33	140	30
Nov. 25	52	38	19	98	33	145	27½

NOTE.—On Dec. 8, 1915, there were outstanding in addition £94,291,700 currency notes of £1 and 10-shilling denominations, against which a gold reserve of $28,500,000, or 30.2 per cent, is carried, the balance of the issue being covered by Government securities and a balance at the Bank of England.

BANK OF FRANCE.

[000,000 omitted.]

Date.	Gold.	Silver.	Discounts.	Advances.	Deposits.	Circulation.
1914.	*Francs.*	*Francs.*	*Francs.*	*Francs.*	*Francs.*	*Francs.*
July 30	4,141	650	2,448	737	1,330	6,683
1915.						
Feb. 18	4,237	375	2,285	830	2,822	10,831
Apr. 22	4,191	376	2,709	650	2,350	11,541
May 27	3,913	375	2,709	644	2,301	11,829
June 24	3,927	371	2,858	629	2,354	12,106
July 29	4,129	367	2,426	610	2,600	12,592
Aug. 26	4,266	356	2,380	580	2,642	12,949
Sept. 30	4,550	354	2,386	579	2,860	13,457
Oct. 28	4,729	353	2,338	561	2,684	13,867
Nov. 25	4,835	362	2,192	563	2,665	14,278

IMPERIAL BANK OF GERMANY.

[000,000 omitted.]

Date.	Gold.	Loans and discounts.	Circulation.
1914.	*Marks.*	*Marks.*	*Marks.*
July 25	1,356	801	1,890
Aug. 22	1,529	4,616	3,999
Dec. 4	1,991	2,968	4,205
1915.			
Feb. 10	2,156	3,379	5,046
Apr. 30	2,366	3,807	5,311
June 2	2,377	4,163	5,518
July 17	2,390	4,482	5,311
Oct. 23	2,430	3,924	5,675

INDUSTRIAL AND COMMERCIAL CONDITIONS.

The latter half of 1914 was marked by general industrial unsettlement and depression. Securities and many commodities were undergoing liquidation, interest rates were high, credit in demand, and both unemployment and individual and corporate retrenchment were general. The year 1915 has brought a reversal of these conditions, probably unequaled in its swiftness, intensity, and magnitude. The recovery had its inception in easy money, growing export trade, reestablishment of the international exchanges, and the return of confidence. In the autumn of 1914 large foreign orders began to be placed in the United States for munitions and other raw and manufactured goods necessary for the prosecution of the European war and the maintenance of civil populations. These orders created centers of industrial and trade activity and purchasing power, to which unemployed labor gravitated. In other sections the purchasing power was maintained or increased by the sale of large crops at very high prices. From these centers, gradually widening in area and influence throughout the spring and summer, has developed the present general commercial and industrial activity.

The balance of trade, which had been running against the United States for several months preceding the war, soon began to turn in its favor through heavy shipments of grain and other commodities. By January, 1915, the shipment of grain, cotton, copper, live stock, meat, and other raw and manufactured articles had reached a sufficient volume to turn the gold movement also in favor of this country. The increased traffic of the railways and the tremendous demand on the iron and steel industry for the manufacture of munitions caused these two fundamental industries to resume normal purchases. The general retrenchment practiced during the first six months of the war was relaxed as the effects were felt of better employment of labor, increasing commercial and industrial profits, and the great crops of 1915, marketed at prices well above the normal. Even in the South the intense depression of the winter of 1914–15 was lifted by the sale of the 1915 cotton crop, although of reduced volume, at prices better than anticipated.

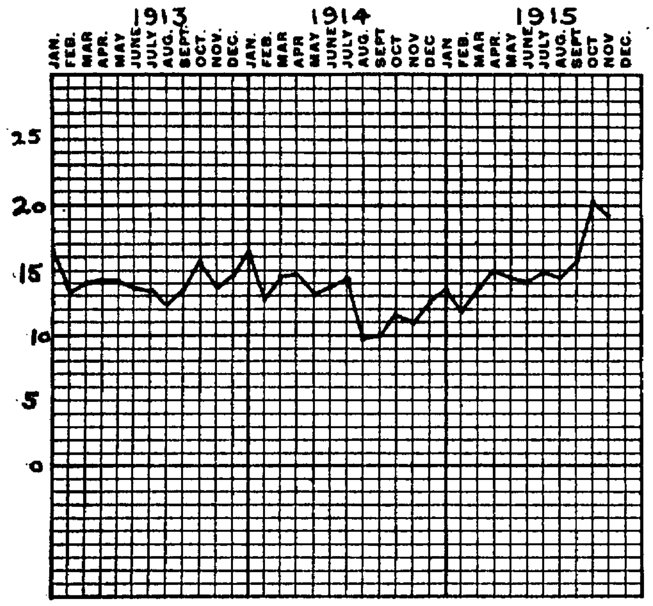
Improvement began to manifest itself in nearly all lines of industry about the beginning of the year 1915. By that time a favorable balance of trade had been established; railroad earnings had begun to improve and iron and steel to move in greater volume; bank clearings throughout the country were increasing slightly; unemployment in New York State and the number of commercial failures throughout the country had reached their highest points.

But while the improvement began during the first half of the year, business did not attain its present momentum till toward the end of the summer. Inquiries recently made of leading merchants and manufacturers throughout the country indicate very generally that their volume has been much greater during the last than during the first six months of the year, in many cases comparing favorably with other periods of industrial activity. Wages have been substantially increased in industries operating directly or indirectly under the stress of purchases by the belligerent nations. Except in neighboring industries wage increases have not yet become general, although there are signs that demands for higher wages are likely to spread. The reduction of immigration to the lowest point in many years should have a tendency at least to prevent unemployment. The savings banks in many parts of the North Atlantic States report substantial gains, especially during the autumn months. Earnings of public service corporations as a whole have shown increased gross earnings during the last half of the year. The general retail trade of the autumn has been unprecedented in volume. The rise in price of many raw materials, coupled with the rise in wages in certain industries, has increased prices to the consumer and, in some cases, has had the effect of reducing profits. The favorable market for securities has given railroads and industrial enterprises a better opportunity to finance improvements than has prevailed for many years. Except in certain lines, principally those adversely affected by European conditions, the business of the country may be said to be working to capacity nearly everywhere, with many industries handling a volume never before equaled.

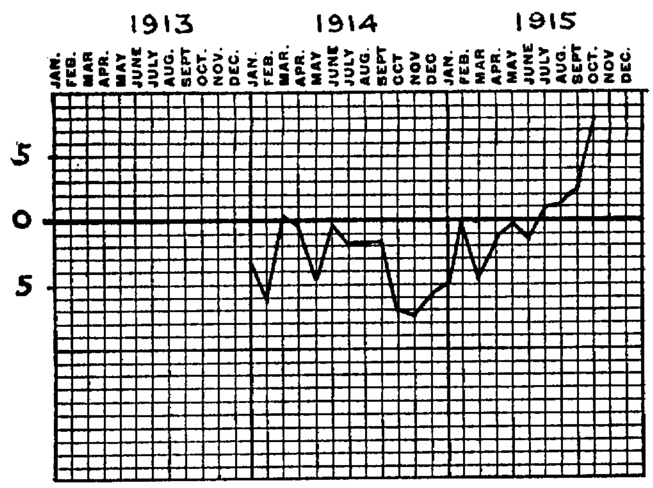
Appended to this paragraph are the following charts, showing figures for 1913, 1914, and 1915, and indicating clearly the course of the present industrial revival:

Total bank clearings.
Changes in gross railroad earnings from previous year.
Iron production.
Number of commercial failures.
Unfilled tonnage, United States Steel Corporation.
Percentage of employment in New York State.
Idle car figures.

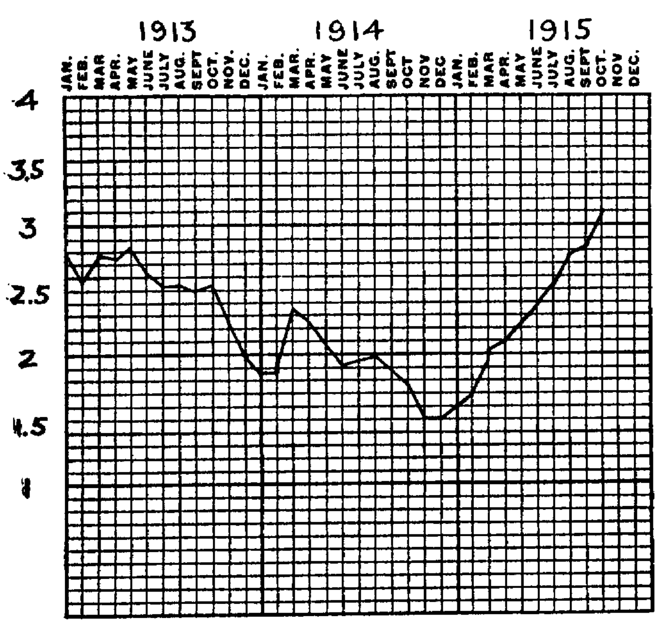
Total bank clearings in United States (in billions of dollars).



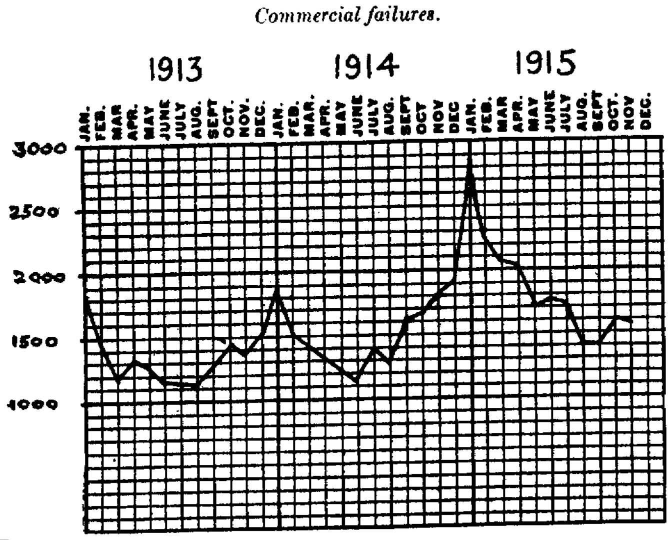
Gross railroad earnings, changes from previous year.



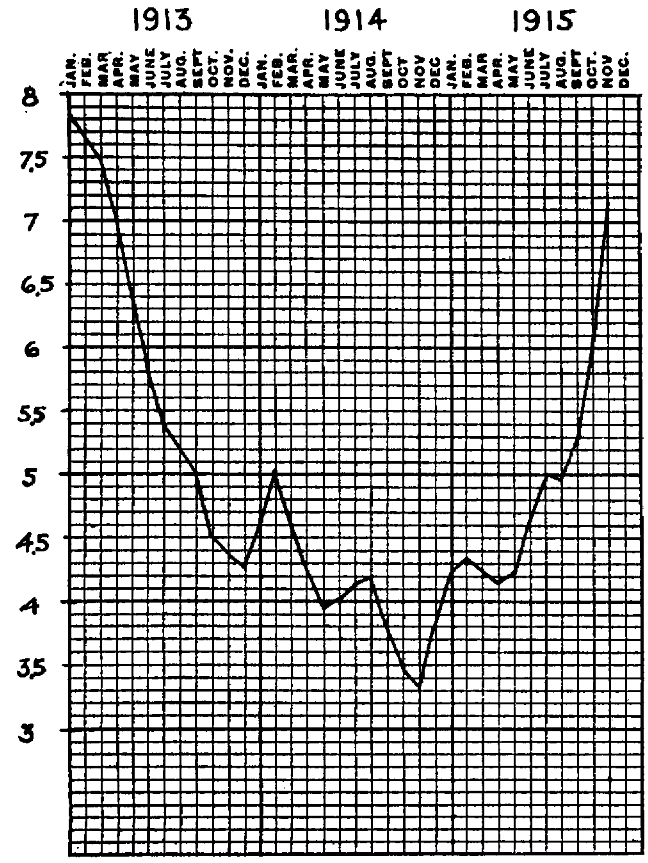
Iron production (in millions of tons).



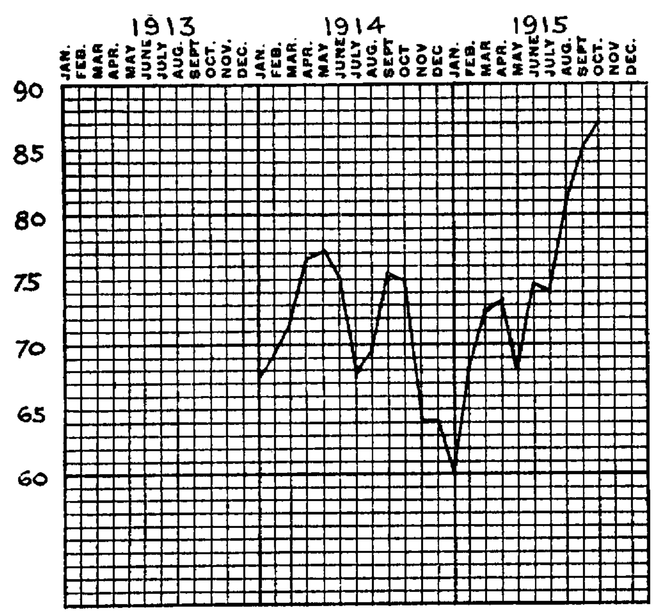
Commercial failures.



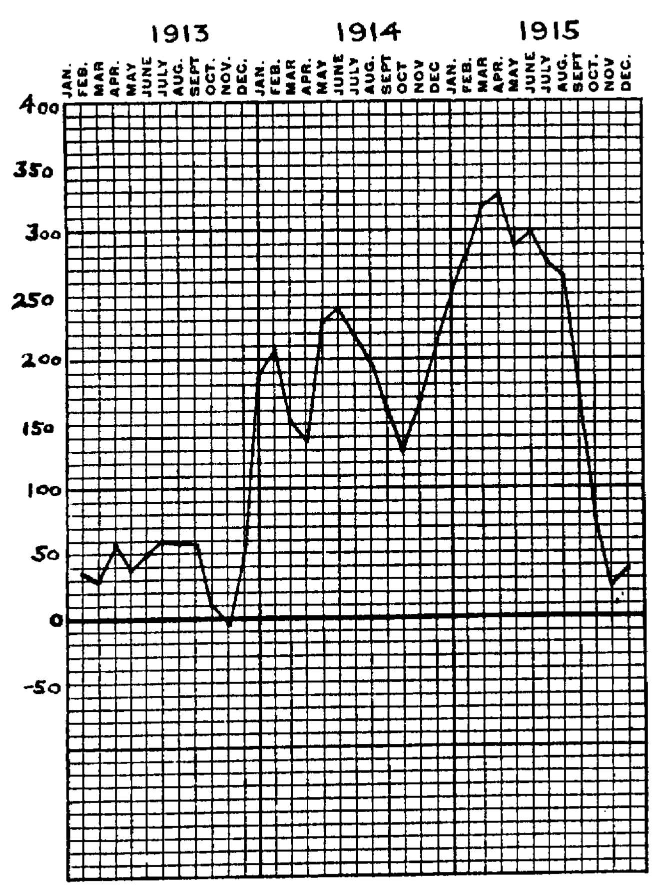
Unfilled tonnage, United States Steel Corporation (in millions of tons).



Percentage of employment in New York State.



Idle car figures (in thousands).



BANKING AND FINANCIAL CONDITIONS.

The most important banking and financial developments of the period under review are—

1. Reduction of required bank reserves and steady increase of surplus reserves.
2. Great expansion of bank deposits and loans.
3. Large importations of gold.
4. Large loans to foreign countries.
5. Heavy purchases of American securities from foreign countries.

The Comptroller of the Currency in September, 1914, published a calculation that the total National Bank Reserves released by the act on November 16, 1914, would aggregate $465,000,000. During 1915 several States reduced the reserves required of their State institutions to correspond with the percentages required under the Federal Reserve Act even though they should not join the system and secure its reserve advantages. The Comptroller reports the amount of excess reserves held by the national banks of the country on September 2, 1915, at $869,000,000.

The net deposits of all national banks rose from $7,157,000,000 on October 31, 1914, to $8,323,000,000 on September 2, 1915, an increase of $1,166,000,000, or 16 per cent. The net deposits of national banks in New York City during the same period increased $530,000,000, or 43 per cent. Nearly half of the increase was in the New York City national banks, which were called on primarily to finance the country's heavy export trade.

The great expansion in New York is better shown by the figures month by month of the New York clearing-house banks since the day before the Federal Reserve System opened, indicating an increase in deposits of 78 per cent in 13½ months.

ALL NEW YORK CLEARING-HOUSE BANKS.

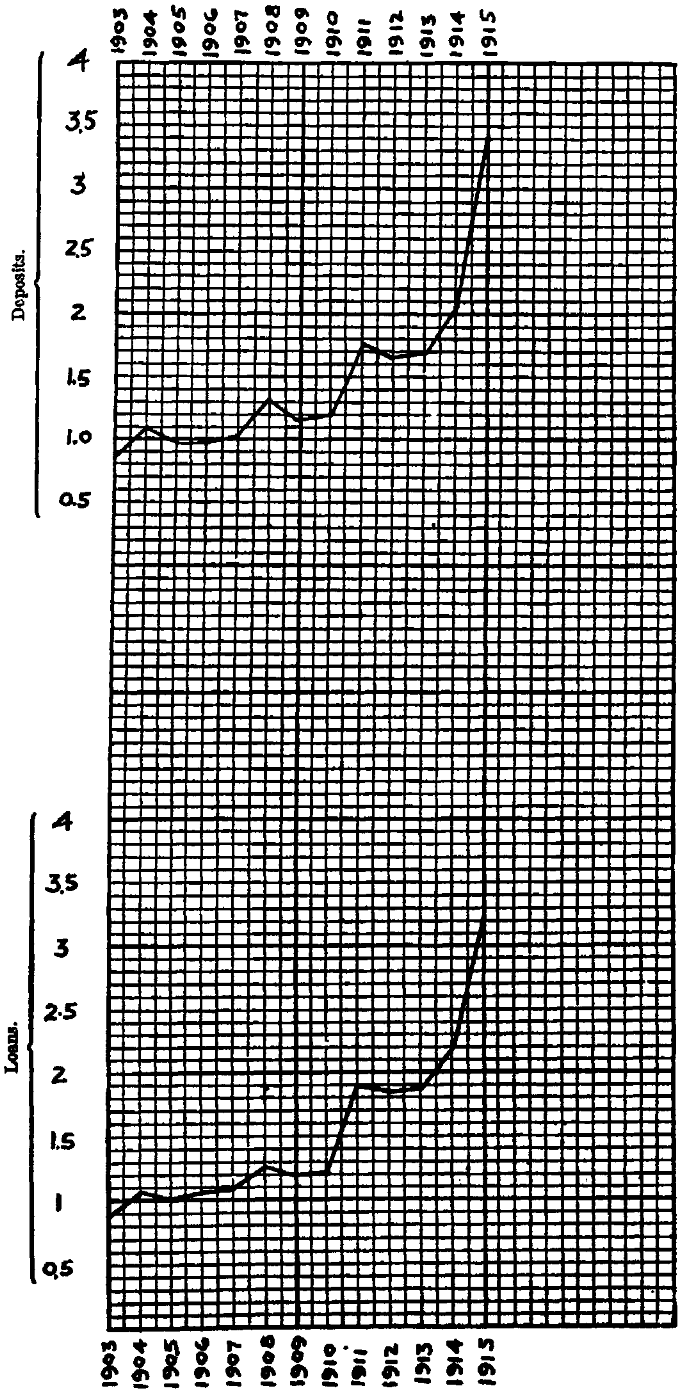
[000,000 omitted.]

Date.	Capital.	Undivided profits.	Gold.	Legal tenders.	Silver.	Balance, Federal Reserve Bank.	National-bank notes.	Federal Reserve notes.	Loans, etc.	Net deposits.	Excess reserves.
1914.											
Nov. 14	175	300	[1] 340	102	....	....	18	1	2,133	1,925	7
Dec. 26	175	300	191	59	69	98	14	1	2,179	2,074	117
1915.											
Jan. 30	175	298	209	69	84	108	15	1	2,233	2,213	114
Feb. 27	175	298	215	66	75	113	9	1	2,298	2,268	135
Mar. 27	175	302	239	66	83	115	10	1	2,385	2,386	150
Apr. 24	175	304	263	66	82	121	9	1	2,400	2,432	171
May 29	175	304	291	65	76	117	8	2	2,437	2,490	183
June 26	175	304	324	55	71	131	9	2	2,476	2,583	193
July 31	176	309	295	70	78	133	9	2	2,578	2,695	180
Aug. 28	176	309	336	70	78	141	8	2	2,655	2,810	205
Sept. 25	177	306	369	67	72	144	8	3	2,766	2,951	198
Oct. 30	179	307	399	56	66	164	7	3	3,044	3,270	196
Nov. 27	176	310	398	49	81	165	8	3	3,123	3,364	194
Dec. 31	176	312	335	71	79	165	8	4	3,257	3,462	146

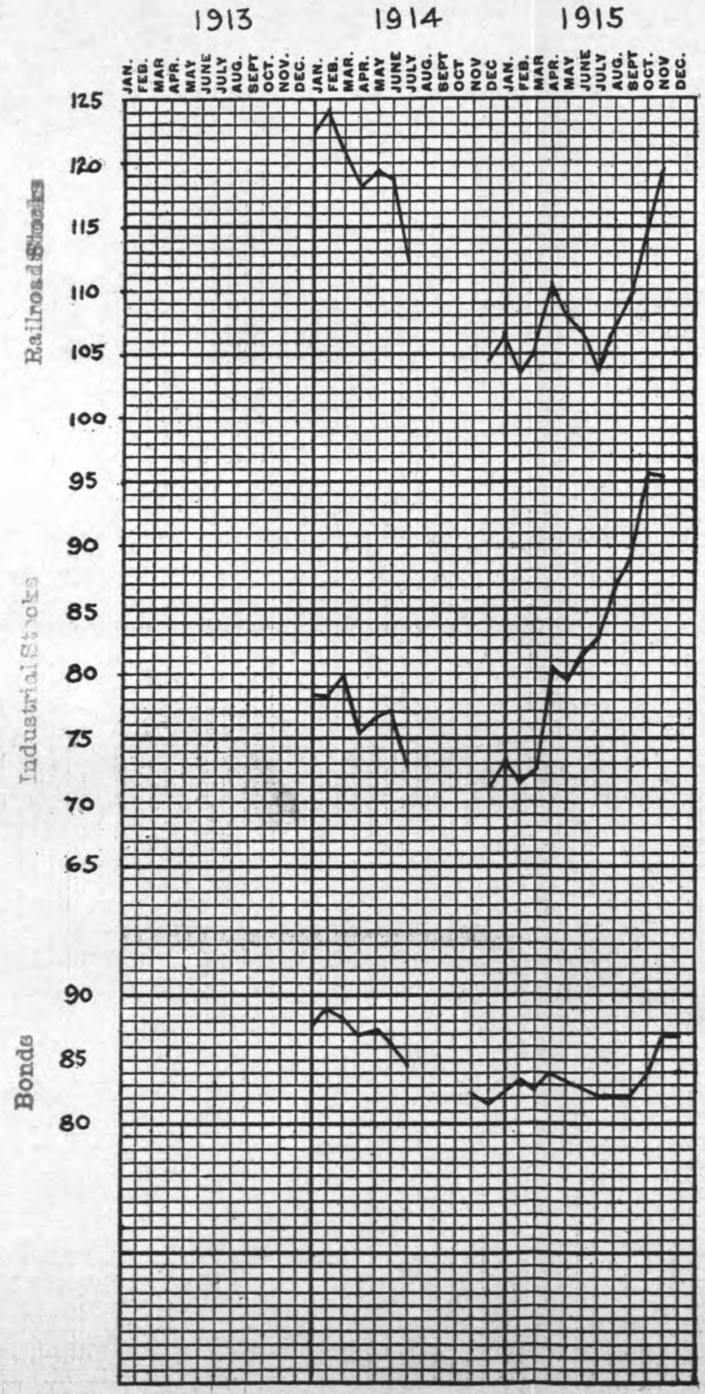
[1] Specie.

The following chart shows the increase in loans and deposits of New York clearing-house banks by years since 1903. The increase in 1911 is caused by trust companies joining the clearing house. An expansion has occurred in one year which normally would have been spread over nearly a decade.

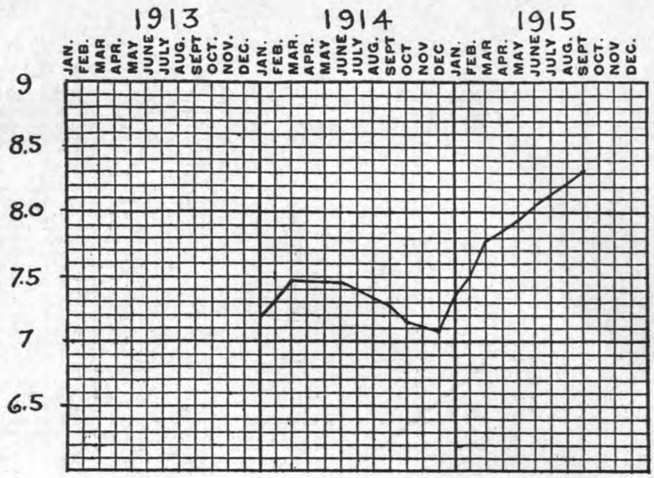
Deposits and loans of New York clearing-house banks (in billions of dollars).



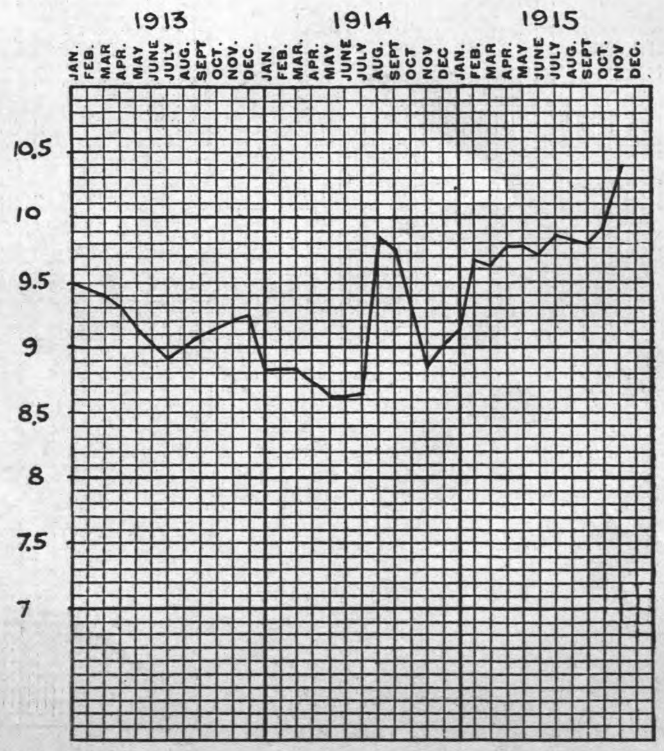
New York Stock Exchange.



Net deposits of all United States national banks (in billions of dollars).



American commodity prices (Bradstreet's Index). (In dollars.)



24803—16. (To face page 55.)

While a portion of the expansion here shown is due to industrial demands and stock-market activity, the greater volume of it doubtless has arisen from transactions relating to the shipment of goods, to the return of American securities, and to the extension of credit to foreign countries.

The surplus reserves, maintained not only in New York City but throughout the country, are evidence of the proper caution with which bankers are taking advantage of the lowered reserve requirements in view of the abnormal conditions prevailing here and in Europe. With such excess reserves, it has been natural that the rates for loans in the money markets of the country should be extremely low. The demand from banks for commercial paper has resulted in rates lower than ever before reported, and the volume has been wholly unequal to supplying the demand.

The tremendous exports of the past year, instead of being balanced by increased imports of consumable commodities, have been paid for largely by gold, by securities returned to this country and by credits extended here to foreign countries. The unusual nature of the trade activity has required a new form of financing. Instead of financing shipments by American manufacturers to be paid for abroad, it has been necessary to finance foreign purchasers to enable them to pay in cash in this country.

Looking outside of the banks to the conditions of agricultural productivity and industrial activity now prevailing, prices have risen considerably for agricultural products and minerals; many manufactured articles have advanced in price; labor is better employed and wages in many sections and industries have risen; immigration as a net movement has practically ceased; security prices have risen generally and in several industries notably. The requirements of American industries have thus far consumed but little of the increased credit power of the banks. The banks have used the added credit power given them by the inflow of gold to assist in developing foreign trade.

As long as the favorable balance of trade continues and bankers proceed with the same caution which has characterized their course thus far, there seems to be no present reason for concern; but the test of what must be considered as our normal banking power will come after the war is over. If the balance of foreign trade then continues favorable and we are enabled to retain a substantial portion of the gold which has come here under stress of war conditions, we can continue to make advances to our foreign trade connections. But, should the balance turn against us, or heavy foreign demand for credit arise, the added gold is likely to return to Europe, thereby diminishing proportionally our power to lend to foreign countries in developing trade with them. So many factors will enter into the resultant that it is idle to attempt to make predictions. The one safe rule for the banks of the country is to keep liquid; to see that in the period of tremendous expansion which circumstances are forcing upon them their increased resources do not consist of loans and securities representing fixed assets. They should be ready at all times for a drain on their gold and a reduction of their credit power. The fact that, in spite of the growing expansion excess reserves continue to grow even faster, is evidence that they appreciate the possibly transient character of their increased banking power and do not intend to expand beyond a safe and reasonable point.

The following charts indicate the expansion which is taking place not only in banking power but in commodity and security prices: National-banks deposits, 1914 and 1915; commodity prices 1913, 1914, and 1915; security prices, 1914 and 1915.

Chapter V.—Summary of Results of Operation.

What has thus far been accomplished by the Federal Reserve Bank of New York may perhaps be briefly summarized.

The bank has been thoroughly organized, with a staff of officers and clerks experienced in the work of the particular departments to which they have been assigned. The organization is more complete than the business actually done would seem to require since it has been felt essential by the directors and officers that a complete departmental organization should be maintained, capable, with the addition of necessary clerical assistance, of performing any volume of business which might be suddenly thrust upon it.

The bank was opened and the reserve transfer accomplished without any of the disturbances which it was predicted would occur.

Valuable experience has been gained of the meaning and effect of the regulations of the Federal Reserve Board governing the development of the various functions of reserve banks, which has in turn been transmitted to the member banks.

Considerable effort has been expended in explaining to member banks the purpose and meaning of the Federal Reserve System and the ways in which the bank can be of service to them in quiet as well as in active times. The business community has also had an opportunity to become informed of its development and functions. The officers have also devoted the necessary time to furnishing information to the press in order that the public might be correctly informed of the operations of the bank, and the generally favorable attitude of the press has been an important factor in establishing public confidence in the system.

Federal Reserve Notes have been issued freely and become already an important part of our currency, and through their use the bank has greatly strengthened its gold position and its credit power.

The establishment of a market for bankers' acceptances has been assisted by the purchases made by this bank for itself and other reserve banks, and the study given to the drawing and indorsement of such bills has made more certain their ready negotiability.

Through experience gained in discounting paper for member banks, an understanding has been reached by both this bank and its member banks of the kind of paper which is eligible for discount.

Through its collection system an important step has been taken toward effecting cheaper and more direct check collections.

A gold settlement fund has been established at Washington for settlements between Federal Reserve Banks and their districts which should substantially reduce currency shipments.

On January 1, 1916, the bank will begin acting as fiscal agent of the United States.

A satisfactory trial has been made of the new form of Government supervision requiring one-third of the directors of the bank to be appointed by the Reserve Board and to exercise primary responsibility for all the policies and transactions of the bank.

The coordination of the work of the reserve banks by the Reserve Board has been supplemented by conferences of their governors and of groups of other officers, and the development of the system is progressing along such harmonious lines as local conditions and requirements will permit.

During this period of relative operating inactivity the officers and directors of the reserve banks have had an opportunity to study the Act. Its ambiguities have come to light and suggestions for amendments which seem desirable have been made to the Reserve Board through whom they may if approved be transmitted to Congress.

The system has been enabled quietly to develop most of its important functions and to gather not only experience but strength to respond to such calls as may be made upon it. The experience of the principal European countries in dealing with the conditions suddenly forced upon them at the outbreak of the war, now that it can be seen in some perspective, should be studied during the coming year by the officers and directors of Federal Reserve Banks. A clear understanding should be obtained of the methods by which demoralization of credit was effectually met by the European countries and of the methods which, under conditions peculiar to the United States, would be likely to prove effective in maintaining its credit machinery in any strain which might grow out of the European war or other international complications. The lessons are now both clear and fresh; we should not fail to learn them and understand their application to our own conditions.

This report would not be complete without suitable recognition and acknowledgment of the work of both the temporary and permanent staffs of the bank. Those who were temporarily employed performed their duties in the spirit of public service. The members of the permanent staff, likewise, from the outset have worked without regard to office hours and through the energy and devotion with which they have undertaken the tasks assigned them the functions of the bank been developed upon a sound and permanent basis.

Appendix 1.—By-Laws of the Federal Reserve Bank of New York.

Article I.—*Directors.*

Section 1. *Quorum.*—A majority of the directors shall constitute a quorum for the transaction of business, but less than a quorum may adjourn from time to time until a quorum is in attendance.

Sec. 2. *Vacancies.*—As soon as practicable after the occurrence of any vacancy in the membership of the board the chairman of the board shall take such steps as may be necessary to cause such vacancy to be filled in the manner provided by law.

Sec. 3. *Meetings.*—(Amended July 7, 1915.) There shall be a regular meeting of the board every Wednesday at 9.45 o'clock a. m., or, if that day be a holiday, on such day as the board may determine at a preceding meeting (unless otherwise ordered by a majority of the board). The chairman of the board may call a special meeting at any time and shall do so upon the written request of any three directors or of the governor. Notice of special meetings shall be given by mail or by telegraph. If given by mail, such notice shall be mailed at least two days before the date of the meeting. If given by telegraph, such notice shall be dispatched at least 24 hours before the date of the meeting. Notice of any meeting may be dispensed with if each of the directors shall in writing or by telegraph waive such notice.

Sec. 4. *Powers.*—The business of this bank shall be conducted under the supervision and control of its board of directors, subject to the supervision vested by law in the Federal Reserve Board. The board of directors shall appoint the officers and fix their compensation.

The board may appoint legal counsel for the bank, define his duties, and fix his compensation.

Sec. 5. *Special committees.*—Special business of the bank may be referred from time to time to special committees, which shall exercise such powers as the board may delegate to them.

Sec. 6. *Order of business.*—The board may from time to time make such regulations as to order of business as may seem to it desirable.

Article II.—*Executive committee.*

Section 1. *How constituted.*—There shall be an executive committee consisting of the governor, the chairman, and one or more directors chosen by the board, who shall serve during the pleasure of the board or for terms fixed by it. Not less than three members of the committee shall constitute a quorum for the transaction of business, and action by the committee shall be upon the vote of a majority of those present at any meeting of the committee.

The committee shall have power to fix the time and place of holding regular or special meetings and the method of giving notice thereof.

Minutes of all meetings of the executive committee shall be kept by the secretary, and such minutes shall be submitted to the members of the board of directors at its next succeeding meeting. Such minutes or a digest thereof shall be read to the meeting if requested by any member of the board.

SEC. 2. *Powers.*—Subject to the supervision and control of the board of directors, as set forth in Article I, section 4, the executive committee shall have the following powers:

(*a*) To pass upon all commercial paper submitted for discount.

(*b*) To apply for and provide for the security of such Federal Reserve notes as may, in the judgment of the committee or of the board, be necessary for the general requirements of the bank.

(*c*) To employ or to delegate to officers of the bank authority to employ clerks and other subordinates and to define their duties and to fix their compensations.

(*d*) To approve bonds furnished by the officers and employees of the bank and to provide for their custody.

(*e*) To exercise such other powers as may be from time to time delegated to such committee by the board of directors.

(*f*) In general, to conduct the business of the bank, subject to the supervision and control of the board of directors.

(*g*) It shall recommend to the board of directors from time to time changes in the discount rate.

ARTICLE III.—*Officers.*

SECTION 1. The board of directors shall appoint a governor, a deputy governor, a cashier, and a secretary, and shall have power to appoint such other officers as the board may from time to time determine to be necessary and appropriate for the conduct of the business of the bank. The offices of deputy governor, cashier, and secretary, or any two of them, may be held by one person, in the discretion of the board. The officers chosen by the board shall hold office during the pleasure of the board.

SEC. 2. *Federal Reserve agent.*—The Federal Reserve agent, as chairman of the board, shall preside at meetings thereof. Copies of all reports and statements made to the Federal Reserve Board shall be filed with the Federal Reserve agent.

SEC. 3. *Deputy Federal Reserve agent.*—In the absence or disability of the Federal Reserve agent his powers shall be exercised and his duties performed by the deputy Federal Reserve agent, who may perform such other services as shall be requested by the board of directors not inconsistent with his duties as provided by law.

SEC. 4. *Governor.*—Subject to the supervision and control of the board of directors, the governor shall have general charge and control of the business and affairs of the bank and he shall be the chairman of the executive committee. He shall have power to make any and all transfers of securities or other property of the bank which may be authorized to be sold or transferred by the executive committee or by the board. The governor shall have power to prescribe the duties of all subordinate officers and agents of the bank where such duties are not specifically prescribed by law or by the board of directors or by the by-laws. The governor may suspend or remove any employee of the bank.

SEC. 5. *Deputy governor.*—In case of the absence or disability of the governor his powers shall be exercised and his duties discharged by the deputy governor, and in case of the absence or disability of the deputy governor the board shall appoint one of the other directors governor pro tem. The duties of the deputy governor shall otherwise be such as may be prescribed by the board of directors or by the governor. In case the board shall deem that the business of the bank requires the appointment of one or more assistant deputy governors, it shall have authority to appoint such assistant deputy governor or governors and shall prescribe and define his or their duties.

SEC. 6. *Cashier.*—(Amended Aug. 4, 1915.) The cashier (with such other officer or officers as may be designated by the board of directors) shall have the custody of all moneys, investments, and securities of the bank, subject to such rules as the board may adopt for their safety. He shall perform such other duties as may be assigned to him from time to time by the board of directors, the executive committee, or the governor.

SEC. 7. *Secretary.*—The secretary shall keep the minutes of all meetings of the board and of all committees thereof. He shall have custody of the seal of the bank, with power to affix same to certificates of stock of the bank, and by authority of the board or the executive committee to such other instruments as may from time to time be required. The board of directors may, in the absence or disability of the secretary, or upon other occasion where in the discretion of the board greater convenience can be attained, appoint a secretary pro tem. or empower one or more officers to affix the seal of the bank to certificates of stock or other instruments. The secretary shall perform such other duties as may from time to time be prescribed by the board of directors, the executive committee, or the governor.

ARTICLE IV.—*Certificates of stock.*

All certificates of stock or of payment of or on account of stock subscriptions shall be signed by the governor or a deputy governor and the secretary or cashier, or such other officers as may be prescribed by the board, and such certificates shall bear the corporate seal.

ARTICLE V.—*Business hours.*

The bank shall be open for business from 10 o'clock to 3 o'clock on each day except Sundays or days or parts of days established as legal holidays.

ARTICLE VI.—*Amendments.*

These by-laws may be amended at any regular meeting of the board by a majority vote of the entire board: *Provided, however,* That a copy of such amendment shall have been mailed to each member at least five days prior to such meeting, unless waiver thereof shall have been made in writing.

APPENDIX 2.—CONDENSED STATEMENT OF CONDITION OF FEDERAL RESERVE BANK OF NEW YORK DEC. 31, 1915.

Resources.			Liabilities.	
Bills discounted—Members	$236,472.08		Capital paid in	$11,063,150.00
Bills discounted—Bought	9,546,011.06		Unearned discount and interest	31,520.01
Investments and accrued interest	1,206,733.90		Due to member banks	179,433,322.16
		$10,989,217.04	Due to other Federal Reserve Banks.	19,818,568.18
Due from member banks, overdrafts	28,820.51		Cashiers' checks	841,219.44
Due from other Federal Reserve Banks	1,932,512.64		Federal Reserve notes	140,000.00
		1,961,333.15	Withheld for Federal income tax	608.15
Furniture and equipment		26,980.36		
Expense of organization		122,335.01		
Cost of unissued Federal Reserve notes		232,086.79		
Expenses paid in advance		3,965.78		
Amounts awaiting reimbursement		2,346.40		
Federal reserve notes on hand	16,139,280.00			
National-bank notes and Federal reserve notes of other Federal Reserve Banks	41,250.94			
		16,180,530.94		
Exchanges and other cash items	987,566.35			
Gold	174,845,827.50			
Lawful money	5,976,087.40			
		181,809,481.25		
Profit and loss		111.22		
Total		211,328,387.94	Total	211,328,387.94
			Net deposits	197,144,210.28
			Per cent cash to net deposits	91.6

Appendix 3.—Profit and Loss Statement.

Nov. 16, 1914, to Dec. 31, 1915.

Income.		Current expense.	
Bills discounted—Members	$36,840.98	Directors' fees, outside conferences, and Federal Advisory Council	$18,240.72
Acceptances purchased	97,054.10	Salaries	154,043.05
Investments—Warrants	191,868.68	Rent	42,749.95
Sundry profits	19,271.57	General expense	44,472.23
Excess of expenses over income carried to profit and loss	111.22	Cost of Federal Reserve notes used	63,800.00
		Assessment for expenses of Federal Reserve Board	21,840.60
Total	345,146.55	Total	345,146.55

Statement of organization expenses, Dec. 31, 1915, carried in assets.

Assessment for expenses of Federal Reserve Board	$41,367.72
Expense of organization—Local	80,967.29
Furniture and equipment	26,980.36
Cost of unissued Federal Reserve notes	232,086.79
Total	381,402.16

Appendix 4.—Comparative Statements of Condition.

	Nov. 16, 1914.	June 30, 1915.	Dec. 31, 1915.
RESOURCES.			
Bills discounted—Members	$2,213,500.00	$543,404.99	$236,472.08
Bills discounted—Bought		4,664,859.76	9,546,011.06
Investments and accrued interest		3,697,484.16	1,206,733.90
Due from member banks, overdrafts			28,820.51
Due from other Federal Reserve Banks		5,565,329.74	1,932,512.64
Furniture and equipment			26,980.36
Expense of organization	13,401.02	186,467.38	122,335.01
Cost of Unissued Federal Reserve notes			232,086.79
Expenses paid in advance			3,965.78
Amounts awaiting reimbursement		1,613.60	2,346.40
Federal Reserve notes on hand		3,531,475.00	16,139,280.00
National Bank notes and Federal Reserve notes of other Federal Reserve Banks		52,122.54	41,250.94
Exchanges and other cash items	51.20	1,480,378.25	987,566.35
Gold	81,533,715.00	120,098,607.50	174,845,827.50
Lawful money	21,399,854.00	31,247,079.90	5,976,087.40
Profit and loss			111.22
Total	105,160,521.22	171,068,822.82	211,328,387.94
LIABILITIES.			
Capital paid in	3,321,950.00	9,961,650.00	11,063,150.00
Profit and loss		43,064.21	
Unearned discount and interest	8,368.81	15,718.44	31,520.01
Due to member banks	101,816,801.29	141,929,512.72	179,433,322.16
Due to other Federal Reserve Banks		18,294,279.06	19,818,568.18
Cashiers' checks	13,401.12	644,353.43	841,219.44
Federal Reserve notes		180,000.00	140,000.00
Withheld for Federal income tax		244.96	608.15
Total	105,160,521.22	171,068,822.82	211,328,387.94
Net deposits	101,830,151.21	153,822,437.72	197,144,210.28
Per cent cash to net deposits	101.08	98.3	91.6

Appendix 5.—Capital Account Reconciliation, Nov. 2, 1914, to Dec. 31, 1915

Capital paid in first installment, Nov. 2, 1914		$3,321,950.00
Capital paid in second installment Feb. 2, 1915		3,318,183.35
Capital paid in third installment May 3, 1915		3,317,549.98
Capital paid in by 131 banks in northern New Jersey transferred from District No. 3; first, second, and third installments		962,650.00
		10,920,333.33
Sundry increases:		
Due to increases in capital and surplus of member banks	$44,150.00	
Due to organization of new banks	221,650.00	
		265,800.00
		11,186,133.33
Sundry decreases:		
Due to decreases in capital and surplus of member banks	4,983.33	
Due to banks liquidated	118,000.00	
		122,983.33
Capital paid in Dec. 31, 1915, by member banks		11,063,150.00

Appendix 6.—Rediscounts.

Nov. 16, 1914, to Dec. 31, 1915.

Number of applications received	277
Amount of applications received	$11,384,037.63
Amount of applications accepted	$10,746,610.61
Amount of applications rejected	$637,427.02
Largest application	$2,182,500.00
Smallest application	$1,015.00
Number of pieces of paper discounted	2,676
Amount discounted	$9,668,632.41
Largest piece of paper	$300,000.00
Smallest piece of paper	$20.20
Average size of note discounted	$3,613.09
Number of banks rediscounting	54

Number of pieces of paper and amount discounted, by months.

	Number.	Amount.		Number.	Amount.
November, 1914	209	$3,112,900.73	July	259	$333,949.18
December	206	1,736,182.81	August	124	157,026.34
January, 1915	139	1,642,303.85	September	211	286,208.77
February	184	1,046,307.55	October	107	137,183.62
March	167	190,652.27	November	64	152,330.23
April	241	216,449.17	December	132	131,661.74
May	207	235,957.67			
June	426	289,518.48	Total	2,676	9,668,632.41

Appendix 7.—Maturities of Investments of Federal Reserve Bank of New York, Dec. 31, 1915.

Maturing.	Bills discounted.	Warrants.	Acceptances.	Totals.
Within—				
10 days	$37,980.87	$98,791.24	$763,548.53	$900,320.64
11 to 30 days	97,150.20	188,193.77	1,961,806.07	2,247,150.04
31 to 60 days	82,422.58	384,373.97	1,870,083.25	2,336,879.80
61 to 90 days	18,918.43	90,277.00	4,950,573.21	5,059,768.64
91 days to 6 months		436,950.00		436,950.00
Total	236,472.08	1,198,585.98	9,546,011.06	10,981,069.12

APPENDIX 8.—FEDERAL RESERVE NOTES.

Federal reserve notes issued to Federal Reserve Agent, Nov. 16, 1914, to Dec. 31, 1915.

Total amount of notes shipped to the Federal Reserve Agent		$106,240,000
Total net amount issued to the bank by the Federal Reserve Agent		89,440,000
In the following denominations:		
Fives	$35,600,000	
Tens	36,160,000	
Twenties	11,280,000	
Fifties	1,600,000	
Hundreds	4,800,000	
Total amount in hands of Federal Reserve Agent Dec. 31, 1915		16,800,000

Total of Federal reserve notes paid out by the Federal Reserve Bank of New York, by months.

	To member banks.	To nonmember banks.		To member banks.	To nonmember banks.
1914			1915		
November	$785,500	....	October	$9,897,000	$657,000
December	2,933,600	....	November	9,878,500	771,000
			December	13,236,000	1,291,000
1915					
January	3,365,600	....		91,061,200	5,072,000
February	3,393,000	....	Total to nonmember banks	5,072,000	....
March	6,605,000	....			
April	6,453,500	....		96,133,200	....
May	5,690,000	$291,000	Total amount received from		
June	7,487,000	433,000	Federal Reserve Agent	89,440,000	....
July	6,864,500	442,000			
August	6,394,000	452,000		6,693,200	....
September	8,078,000	735,000			

The difference between the amount paid out and the amount received from the Federal Reserve Agent represents notes which were deposited but were sufficiently clean to be again paid out.

Movement of Federal reserve notes between Federal Reserve Bank of New York and other Federal Reserve Banks, Nov. 16, 1914, to Dec. 31, 1915.

	Notes of Federal Reserve Bank of New York received from.	Their notes shipped to.		Notes of Federal Reserve Bank of New York received from.	Their notes shipped to.
Atlanta	$82,285	$688,435	Philadelphia	$1,324,615	$330,590
Boston	924,655	240,420	Richmond	42,810	1,539,935
Chicago	212,200	81,215	St. Louis	72,555	55,780
Cleveland	22,530	246,355	San Francisco	108,735	190,490
Dallas	8,505	327,650			
Kansas City	4,470	130,695	Total	2,806,245	3,946,190
Minneapolis	2,885	114,625			

APPENDIX 9.—TRANSIT AND EXCHANGE TRANSACTIONS BETWEEN FEDERAL RESERVE BANK OF NEW YORK AND OTHER FEDERAL RESERVE BANKS, NOV. 16, 1914, TO DEC. 31, 1915.

	Items deposited with Federal Reserve Bank of New York by.	Items sent by Federal Reserve Bank of New York to.		Items deposited with Federal Reserve Bank of New York by.	Items sent by Federal Reserve Bank of New York to.
Atlanta	$55,353,000	$42,966,000	Philadelphia	$233,244,000	$83,733,000
Boston	112,818,000	100,108,000	Richmond	58,693,000	74,221,000
Chicago	143,797,000	43,192,000	St. Louis	49,085,000	23,307,000
Cleveland	18,126,000	2,966,000	San Francisco	43,799,000	12,777,000
Dallas	44,286,000	25,968,000			
Kansas City	28,074,000	22,854,000	Total	795,092,000	434,890,000
Minneapolis	7,817,000	2,798,000			

APPENDIX 10.—SUMMARY OF GOLD SETTLEMENT FUND OPERATIONS, MAY 19, 1915, TO DEC. 31, 1915.

Settlement of accounts.

	Amount received in settlement of accounts due from other Federal Reserve Banks.	Amount paid in settlement of accounts due to other Federal Reserve Banks.	Net gain.	Net loss.
Boston	$74,357,000	$73,779,000	$578,000	
Philadelphia	29,676,000	49,247,000		$19,571,000
Cleveland	1,589,000	5,692,000		4,103,000
Richmond	60,460,000	46,069,000	14,391,000	
Atlanta	17,485,000	24,023,000		6,538,000
Chicago	15,739,000	32,036,000		16,297,000
St. Louis	10,719,000	27,072,000		16,353,000
Minneapolis	2,377,000	4,939,000		2,562,000
Kansas City	13,006,000	18,314,000		5,308,000
Dallas	8,652,000	13,667,000		5,015,000
San Francisco	2,017,000	25,519,000		23,502,000
Total	236,077,000	320,357,000	14,969,000	99,249,000
Loss	84,280,000		84,280,000	

Analysis of gold movement through gold settlement fund.

Deposited out of vault of Federal Reserve Bank of New York	$89,000,000	Settlement loss	$84,280,000
Special deposits account Federal Reserve Bank of New York by Federal Reserve Bank of—		Special deposits by Federal Reserve Bank of New York, account Federal Reserve Bank of—	
Atlanta	463,000	Boston	1,000,000
Cleveland	952,000	Kansas City	100,000
Chicago	264,000	Philadelphia	13,121,000
Kansas City	400,000	San Francisco	5,000
Minneapolis	433,000	Balance in fund Dec. 31, 1915	5,717,000
Philadelphia	1,000,000		
St. Louis	87,000		
San Francisco	11,624,000		
Total	104,223,000	Total	104,223,000

APPENDIX 11.—FIDUCIARY POWERS.

Banks granted permission to act as registrar of stocks and bonds.

NEW YORK.

Location.	Name.	Location.	Name.
Albany	National Commercial Bank.	New York	Chase National Bank.
Auburn	National Bank of Auburn.	Do	Gotham National Bank.
Brooklyn	Nassau National Bank.	Do	Harriman National Bank.
Clayton	National Exchange Bank.	Do	Liberty National Bank.
Cooperstown	Second National Bank.	Do	Irving National Bank.
Edwards	Edwards National Bank.	Do	Lincoln National Bank.
Far Rockaway	National Bank of Far Rockaway.	Do	National Bank of Commerce.
		Do	National Park Bank.
Geneva	First National Bank.	Do	Seaboard National Bank.
Do	Geneva National Bank.	Ovid	First National Bank.
Granville	Farmers National Bank.	Plattsburg	City National Bank.
Do	Washington County National Bank.	Do	Plattsburg National Bank.
		Richfield Springs	First National Bank.
Hempstead	First National Bank.	Riverhead	Suffolk County National Bank.
Herkimer	Herkimer National Bank.		
Lockport	National Exchange Bank.	Rochester	Lincoln National Bank.
Mineola	First National Bank.	Saratoga Springs	First National Bank.
Morristown	Frontier National Bank.	Stapleton	Richmond Borough National Bank.
New York	American Exchange National Bank.		
		Wellsville	First National Bank.
Do	Bank of New York, N. B. A.	Westfield	National Bank of Westfield.
Do	Bronx National Bank.		

Banks granted permission to act as trustee, executor, administrator, and registrar of stocks and bonds.

NEW JERSEY.

Location.	Name.	Location.	Name.
Dover	National Union Bank.	Newark	National State Bank.
Hoboken	First National Bank.	New Brunswick	Peoples National Bank.
Long Branch	Do.	Plainfield	City National Bank.
Newark	Essex County National Bank.	Rutherford	Rutherford National Bank.
Do	Merchants National Bank.		

Banks granted permission to act as trustee, executor, and administrator.

NEW JERSEY.

Location.	Name.
Morristown	National Iron Bank.
Newark	National Newark Banking Co.
Somerville	First National Bank.

APPENDIX 12.—AGGREGATE STATISTICS OF SEVEN GROUPS OF NATIONAL BANKS IN DISTRICT NO. 2, AS OF NOV. 10, 1915.

Assets and liabilities.

Group No.	On basis of resources.	Number of banks.	Total resources.	Loans and discounts.	Eligible paper.	Liabilities of directors.	
						Direct.	Indirect.
1	Under $100,000	3	$182,539	$85,216	$36,677	$23,679	$16,671
2	$100,000 to $200,000	33	5,359,181	2,584,890	1,037,600	159,353	354,157
3	$200,000 to $300,000	62	15,791,538	7,581,105	2,618,421	400,208	712,969
4	$300,000 to $500,000	106	41,112,035	20,756,179	5,855,600	1,131,064	1,712,727
5	$500,000 to $2,500,000	304	278,990,542	123,347,319	35,768,051	7,170,748	7,418,169
6	$2,500,000 to $20,000,000	80	487,125,845	258,106,583	79,803,305	11,370,954	3,614,372
7	$20,000,000 up	25	2,908,573,769	1,614,363,722	289,075,206	27,312,153	14,809,025
	Total	613	3,737,135,449	2,026,824,924	414,194,860	47,568,159	28,647,090

Group No.	On basis of resources.	Number of banks.	Bonds and securities, etc., not including United States bonds.	Capital, surplus, and undivided profits.	Demand deposits.	Time deposits.	Money borrowed.
1	Under $100,000	3	$20,312	$89,354	$94,010	$9,207	
2	$100,000 to $200,000	33	974,388	1,128,837	2,863,143	687,241	$37,000
3	$200,000 to $300,000	62	3,308,409	3,155,144	8,395,819	2,472,528	119,500
4	$300,000 to $500,000	106	9,850,529	8,158,493	21,617,453	8,084,009	174,020
5	$500,000 to $2,500,000	304	68,311,381	51,175,794	138,624,233	60,298,666	882,421
6	$2,500,000 to $20,000,000	80	82,287,231	77,749,216	341,951,215	43,398,058	870,985
7	$20,000,000 up	25	262,037,133	305,188,995	2,469,933,061	26,094,057	
	Total	613	426,789,383	446,646,833	2,983,478,934	141,043,766	2,083,926

Losses, earnings, and dividends.

Group No.	On basis of resources.	Number of banks.	Losses on account of loans to nondepositors (bought for investment).			Losses on account of other loans and discounts, not including loans to banks.		
			1912	1913	1914	1912	1913	1914
1	Under $100,000	3	....	....	....	....	....	....
2	$100,000 to $200,000	33	$4,806	$4,887	$1,786	$5,775	$9,871	$3,637
3	$200,000 to $300,000	62	11,842	10,830	39,256	6,632	10,765	29,219
4	$300,000 to $500,000	106	31,346	43,864	74,703	35,617	58,892	29,392
5	$500,000 to $2,500,000	304	263,101	388,833	525,826	207,577	334,432	426,769
6	$2,500,000 to $20,000,000	80	97,026	143,647	220,445	1,459,555	1,372,253	1,392,727
7	$20,000,000 up	25	174,600	273,903	451,500	1,772,799	3,022,992	4,098,812
	Total	613	582,181	865,964	1,313,516	3,487,955	4,809,205	6,018,685

Group No.	On basis of resources.	Number of banks.	Total earnings and profits after deducting expenses and losses.			Gross receipts from exchange.		
			1912	1913	1914	1912	1913	1914
1	Under $100,000	3	....	....	....	....	....	....
2	$100,000 to $200,000	33	$46,397	$55,181	$62,607	$12,704	$13,433	$13,125
3	$200,000 to $300,000	62	184,122	207,044	182,882	25,452	28,289	31,347
4	$300,000 to $500,000	106	585,323	505,459	489,519	59,008	60,315	60,060
5	$500,000 to $2,500,000	304	3,608,031	3,380,844	2,835,221	231,841	234,508	232,395
6	$2,500,000 to $20,000,000	80	5,670,043	4,964,948	4,210,516	346,111	300,466	270,906
7	$20,000,000 up	25	23,171,852	20,655,184	19,473,175	473,295	417,006	406,350
	Total	613	33,265,768	29,768,660	27,253,920	1,148,411	1,054,017	1,014,183

Group No.	On basis of resources.	Number of banks.	Dividends paid.		
			1912	1913	1914
1	Under $100,000	3	....	....	....
2	$100,000 to $200,000	33	$14,900	$17,150	$18,400
3	$200,000 to $300,000	62	72,640	76,804	94,721
4	$300,000 to $500,000	106	299,350	283,150	294,850
5	$500,000 to $2,500,000	304	2,069,938	2,094,598	2,152,338
6	$2,500,000 to $20,000,000	80	3,735,524	3,744,524	3,912,947
7	$20,000,000 up	25	14,343,311	14,306,421	15,311,442
	Total	613	20,535,663	20,522,647	21,784,698

O

24803—16——5