FEDERAL
RESERVE
BANK
OF RICHMOND

1970 Annual Report

FEDERAL RESERVE BANK OF RICHMOND

To Our Member Banks:

We are pleased to present the 1970 Annual Report of the Federal Reserve Bank of Richmond. This report features a review of the growing international activities and rapid overseas expansion of United States banks. It also includes comparative financial statements, highlights of the year's operations, and current lists of officers and directors of our Richmond, Charlotte, and Baltimore offices.

We wish to thank you for your continued cooperation and support.

Sincerely yours,

Chairman of the Board | *President*

THE FEDERAL RESERVE BANK OF RICHMOND

Fifty-sixth Annual Report

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UNITED STATES BANKING ABROAD

United States banks are relative newcomers to the international scene. Economic realities and legal barriers kept them at home during the nineteenth century. By the turn of the century, however, the growing United States role in the world economy had set the stage for an expansion of international banking activities following the removal of legal restrictions by the Federal Reserve Act and its early amendments. The initial expansion, however, was halted and reversed by the economic downturn of 1920-21 and the slowing of the postwar foreign trade boom. Growth resumed in the late 1920's but was interrupted again, first by the Depression of the 1930's and then by World War II. Recovery after the War was delayed by lingering wartime exchange controls and restrictions on international trade and investment. Only in the past decade or so has international banking finally come of age in the United States.

During the past decade, the number, size, and activities of international departments have multiplied sharply. Overseas branches, affiliates, and subsidiaries have proliferated. The dollar—the product of United States banks—now stands at the center of new international money and capital markets. Multinational banks are emerging to serve multinational business corporations. Regional banks are challenging New York in the international arena. Fifth District banks are sharing in this international banking boom.

A Late Start

International banking in the United States has a relatively brief history. Although the foreign trade of the United States expanded tenfold between the Civil War and World War I, its financing continued for the most part to be left to others. The United States relied on the banking facilities and services of its European trading partners, especially those of Great Britain. Most of its foreign trade was financed by London banks in sterling, the world's foremost trading currency at that time. The dollar was still a stranger in foreign markets and financial centers.

Even if economic conditions had warranted it, however, active participation of United States banks in international finance was precluded by legal barriers. National banks were not empowered to create acceptances, the principal financial instrument then used to finance international trade. Nor were they permitted to establish foreign branches or subsidiaries. Only a few private (unincorporated) and state-chartered banking organizations conducted the nation's limited international banking business. By the end of 1913, when the Federal Reserve Act was passed, 26 overseas branches were in operation. Only six of these were direct branches of four New York banks; the remaining 20 were branches of two state-chartered international banking corporations.

Several shifts in the international position of the United States became discernible around the turn of the century and called for greater United States participation in international finance. First, there was the rapid expansion of United States exports, which increasingly included manufactured products as well as agricultural goods and raw materials. A growing share of those exports went outside Europe to the relatively capital-poor areas of the Caribbean, South America, and Asia. The United States also shifted from a net importer to a net exporter after the turn of the century and thus from a debtor nation to a creditor nation. Recognition of these trends, together with the increasing strength and importance of the United States in the world economy, led many observers to call for legal and institutional changes that would permit American banks to engage in international banking. The National Monetary Commission, established by Congress to study the nation's banking and financial system and to make recommendations, reported in 1911 as follows:

> We assume that it is not necessary to call attention to the desirability of making every reasonable effort to promote our foreign trade and to establish closer commercial and financial relations with foreign countries. The impediments in the way of the development of our international trade are numerous. Perhaps none of these is more important than the absence of American banking facilities in other countries and the lack of knowledge abroad of our financial resources and of the strength and character of our banking institutions. The status of the United States as one of the great powers in the political world is now universally recognized, but we have yet to secure recognition as an important factor in the financial world. This condition of affairs is likely to remain unchanged as long as practically all our purchases and sales abroad are financed by foreign bankers.

Accordingly, the Federal Reserve Act, based in large part on the Commission's recommendations, opened the door to international banking by United States banks.

The Legal Underpinnings

The Federal Reserve Act of December 1913 and its amendments still form the legal framework for the international operations of American banks. The Act permitted national banks for the first time to accept drafts to finance foreign trade; it also permitted them to open foreign branches. A 1916 amendment permitted national banks to invest in state-chartered international banking subsidiaries called "Agreement" corporations. A 1919 amendment to the Federal Reserve Act, provided for the national chartering of such subsidiaries called "Edge Act" corporations. A more recent amendment permits national banks directly to purchase stock in foreign banks. While these provisions refer specifically to national banks, they are now generally applicable to all member banks by virtue of the Banking Act of 1933 and Section 9 of the Federal Reserve Act.

ACCEPTANCE FINANCING Section 13 of the Federal Reserve Act authorized national banks to accept drafts or bills of exchange arising from import or export transactions. It also authorized Federal Reserve Banks to discount or purchase the resulting bankers' acceptances. These provisions paved the way for the development of a dollar acceptance market of great benefit to the foreign trader. Such a market enabled the importer or exporter to transfer the burden of financing his transactions to the banking system at a cost. The Federal Reserve's readiness to discount acceptances gave the market depth and provided it with an ultimate source of liquidity.

FOREIGN BRANCHES Section 25 of the Federal Reserve Act permitted national banks with capital and surplus of $1 million or over to establish foreign branches, subject to the approval of the Federal Reserve.

While overseas branches of United States banks are foreign entities subject to local laws and regulations, they are also subject to the regulations of the Board of Governors. Before 1962, these regulations limited branch activities to those permitted in domestic banking and were more restrictive than those of many foreign countries. Dual regulation put many of these branches at a competitive disadvantage by denying them many banking practices common in their host countries. To rectify this situation Congress in 1962 amended Section 25 of the Federal Reserve Act to authorize the Board to permit foreign branches to exercise "such further powers as may be usual in connection with the transaction of the business of banking in the places where such foreign branch shall transact business."

The revisions to the Board's Regulation M, which resulted from the 1962 statute, broadened the powers of foreign branches to issue guarantees, to accept drafts, to take liens on foreign real estate, to invest in the securities of the local central bank, clearing houses, government entities, and development banks, and to underwrite and trade in the securities of the national government. The amendment specifically precluded the Board from authorizing branches to underwrite other securities or to deal in commodities. The revisions to Regulation M also simplified foreign branching procedures by requiring Board approval for only the first branch of a national bank in a given foreign country. Additional branches in the same country may be opened after giving 30 days notice to the Board.

AGREEMENT CORPORATIONS The second major piece of legislation affecting international banking structure was a 1916 amendment to Section 25 of the Federal Reserve Act. This amendment permitted national banks to invest, singly or jointly, in corporations chartered under federal or state law to conduct international banking activities. Since the amendment did not provide for the federal chartering of international banking corporations, its main effect was to enable national banks to invest in existing or newly created state-chartered corporations. Before the Board could approve such an investment by a national bank, however, the corporation had to enter into an **agreement** with the Board "to restrict its operations or conduct its business in such manner or under such limitations and restrictions as the said board may prescribe. . . ."

The legislative provision for Agreement corporations was designed to provide small banks unable to afford their own foreign branch an opportunity to expand abroad through joint ownership of a foreign banking subsidiary. Agreement corporations may themselves establish overseas branches and engage in many foreign activities not open to foreign branches and their parent banks.

EDGE ACT CORPORATIONS The failure of the 1916 amendment to provide for the federal chartering of international banking corporations gave rise to the Act of December 24, 1919, commonly called the Edge Act for its sponsor, Senator Walter Edge of New Jersey. The Edge Act, which added Section 25(a) to the Federal Reserve Act, authorized the Federal Reserve Board to charter corporations "for the purpose of engaging in international or foreign banking or other international or foreign financial operations . . . either directly or through the agency, ownership, or control of local institutions in foreign countries. . . ."

Edge Act corporations must have a minimum capitalization of $2 million, with control remaining with United States citizens. Their domestic transactions can be only incidental to their international business. Their banking powers are similar to those of international departments of commercial banks. They may accept foreign demand and time deposits, make foreign loans and investments, issue letters of credit, accept drafts, deal in foreign exchange, and provide collection services. They may also operate overseas branches and, unlike commercial banks, they may in addition invest in foreign banks and other foreign enterprises.

A commercial bank may derive important advantages from an Edge subsidiary. The subsidiary may purchase stock in foreign enterprises not engaged in banking. Since the subsidiary may be established outside a parent bank's own area, it can give a bank located elsewhere the advantages of a New York or other convenient location. An Edge corporation may also establish subsidiary banks and thus provide the only access to foreign countries that prohibit or severely restrict direct foreign branches of domestic banks.

FOREIGN BANK OWNERSHIP Until recently Edge Act and Agreement corporations provided the only corporate vehicle for United States banks to acquire an equity interest in foreign banks. A 1966 amendment to Section 25 of the Federal Reserve Act and the resulting regulatory changes in 1967 authorized national banks directly to acquire stock in foreign banks. The investment must be approved by the Board of Governors and, together with investments in Edge Act and Agreement corporations, shall not exceed 25 percent of the investing bank's capital and surplus. The foreign affiliate may not conduct business in the United States beyond what the Board considers incidental to its international business.

THE REGULATORY FRAMEWORK Congress through the years has delegated the primary responsibility for regulating and supervising the international operations of American banks to the Board of Governors of the Federal Reserve System. The Board's responsibilities are shared in part by other federal regulatory agencies and various state authorities.

The regulatory authority of the Board of Governors over the foreign activities of member banks is based on and governed by Section 25 of the Federal Reserve Act. To implement that section, the Board has issued Regulation M, which governs the establishment and the operations of member banks' foreign branches. Regulation M as amended is also the regulation that governs member banks' acquisition and holding of stock in foreign banks.

Edge Act corporations were placed under the Board's regulatory authority by Section 25(a) of the Federal Reserve Act. To implement the provisions of that section, the Board issued Regulation K. Regulation K—the general provisions of which may be inferred from the previous discussion of permissible activities—applies both to Edge Act corporations and to Agreement corporations. Of course, since Agreement subsidiaries are state-chartered corporations they are also subject to state law and regulation.

Foreign branches of United States banks are usually examined by the regulatory authorities of their host countries, the United Kingdom and Ireland being notable exceptions. The home office records of foreign branches are also subject to examination by United States authorities, usually as part of the examination of their parent banks. The Comptroller of the Currency examines the foreign branches of national banks at their overseas location; the Federal Reserve System examines the foreign branch records of state member banks. The foreign branch records of state member and nonmember banks are subject to examination by state authorities. Banks are generally required to furnish periodic reports of condition and related financial statements of their foreign branches to their examining agency.

Edge Act and Agreement corporations and their foreign branches must also submit to examination by the Board of Governors at least once a year and must file reports of condition on themselves and their controlled subsidiaries twice a year. In addition, they must report quarterly their acquisition and disposition of shares. In fact, when the Board permits an Edge corporation to acquire controlling interest in a subsidiary, the conditions it imposes generally have the effect of subjecting the subsidiary to the same restrictions that apply to the Edge corporation under Regulation K.

Early Rise and Fall

World War I and its aftermath provided a setting especially congenial to the expansion of the international activities of United States banks. Apart from the legislative changes described in the previous section, the rapid growth of United States foreign trade, its changing pattern and composition, the emergence of the United States as a creditor nation, heavy European demand for postwar reconstruction credits, and the weakening of the dominant role of sterling in international finance invited enlarged United States participation in international banking. Once the legal barriers were removed, United States bankers moved promptly to make up for lost time and in the space of three or four years established an impressive position in the international area. But this promising start proved to be a false one, as world economic and political conditions conspired to undo much of this advance.

The rapid development of the new bankers' acceptance market reflects the expansion of international financing activities in the immediate postwar years. As shown in Chart 1, the volume of acceptances outstanding rose sharply, and by the late 1920's it exceeded $1.5 billion, a level that would not be reached again for three decades.

National banks and banking subsidiaries lost no time expanding their overseas facilities. By 1920, state and national banks together had 100 direct foreign branches. Counting the branches of their subsidiaries the total number of foreign branches reached a peak of 181 in 1920. In these early years fewer banks had overseas branches than did their subsidiaries although multiple branching by some banks made the total of bank branches greater. This early overseas expansion was concentrated largely in Latin America and the Far East.

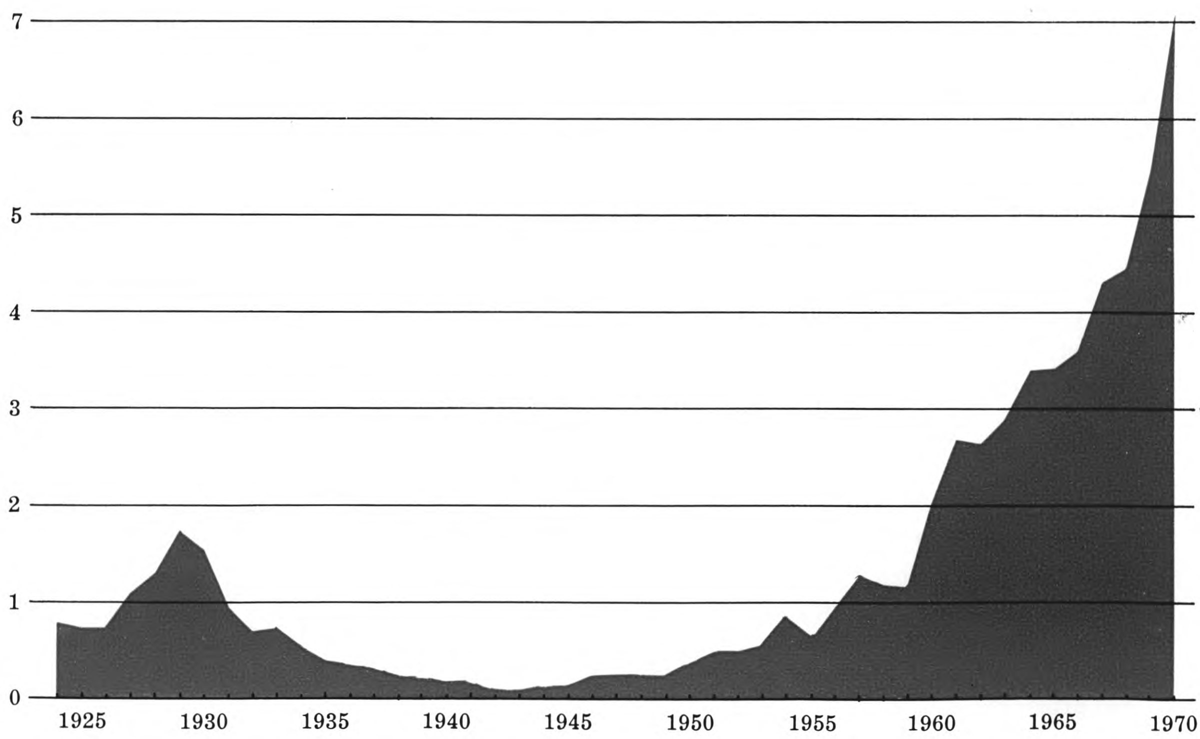
Given the relative inexperience of American banks abroad, their initial overseas expansion under favorable conditions was probably too rapid. Banks that had overextended their international operations were particularly vulnerable to the economic contraction of 1920-21 and the abrupt halt in the unusually rapid postwar expansion in world trade in the early 1920's. The drying up of postwar reconstruction credits was also a factor unfavorable to the continued growth of international banking.

Under the influence of the reverses of the early 1920's, American banks curtailed their international activities and cut back their overseas branch network. The number of foreign branches of American banks and sub-

Chart I

VOLUME OF BANKERS' ACCEPTANCES OUTSTANDING IN THE UNITED STATES

(billions of dollars)



Source: Federal Reserve Bulletins.

sidiaries declined by one-half in four years, from the 1920 high of 181 to 91 in 1924.

Edge Act and Agreement corporations followed the same early pattern of rapid rise followed by sharp contraction. Agreement corporations proved to be more popular than Edge corporations in the early years. Fifteen Agreement corporations had been formed by 1925. Thirteen of these were subsequently liquidated or absorbed by other institutions. Eleven of them had disappeared by 1930; the other two were dissolved in 1932 and 1947. As late as 1959 only three Agreement corporations were in operation.

Edge Act corporations never really got off the ground in this early phase of expansion into the international area. One was chartered in 1920, and another in 1921; both were liquidated in 1925. A third was chartered in 1926, but it was liquidated in 1933. The next three were chartered in 1930, 1949, and 1955. Edge Act corporations did not catch on in any significant way until the 1960's.

The international operations of American banks began to recover in the second half of the 1920's. Overseas branches grew in number from 91 in 1924 to 132 in 1931. This recovery was cut short, however, by the Great Depression of the 1930's. In this greatest of all world economic debacles, the volume of world trade declined precipitately and international lending and capital movements virtually dried up. Trade restrictions and capital controls multiplied. Competitive devaluations and beggar-my-neighbor economic policies became the order of the day. Given this economic background and the specter of domestic bank failures, active international departments and overseas branch networks became superfluous. By 1937, the number of foreign branches of banks and subsidiaries had fallen to 108, and the scope and activities of those that remained were severely restricted. The volume of bankers' acceptances outstanding, which had reached $1.7 billion in 1929, was down to practically nothing in the 1930's.

Another slight recovery in international banking and branching paralleled the mild recovery from the Depression in the late 1930's. It was interrupted by World War II and its accompanying trade restrictions and exchange controls. International operations continued to contract, and by the end of 1945 the overseas branches of American banks and subsidiaries numbered only 78, and only five Edge Act and Agreement corporations were in operation.

The Recent Expansion

THE ECONOMIC ENVIRONMENT The years immediately following World War II were not especially conducive to the development of United States interest in international banking. While the United States emerged from the war as the world's foremost economic and financial power, the general climate in the world economy and in international financial markets was not congenial to private economic activity of any kind. The erstwhile trading nations of the world—the United Kingdom, the countries of Continental Western Europe, and Japan—were bent on crash programs of economic reconstruction and to that end carried over into the postwar world the elaborate systems of exchange controls characteristic of the depression and war years of the 1930's and early 1940's. Private capital movements and private business initiatives were closely circumscribed, and, while foreign trade grew rapidly, much of it, along with most capital movements, was under governmental or intergovernmental auspices.

In the early and middle 1950's, however, this situation began to change. Under the impetus of Marshall Plan aid, reconstruction and recovery abroad proceeded rapidly, allowing a progressive relaxation of both trade and exchange restrictions. Private trade and attendant capital flows grew apace. The growth in world trade in the postwar period, shown in Chart 2, accelerated with the establishment of the European Economic Community in 1958. Also after 1958, the major trading nations progressively dismantled their exchange control systems and moved over to virtually free currency convertibility.

International lending and investment also received a fillip from the relaxation of exchange controls and the return to currency convertibility in the late 1950's and early 1960's. With its productive capital stock relatively unimpaired by World War II, it was natural that the United States should resume and expand its role as capital exporter once the restrictions were eased. It did so in a world of increasing financial integration. The extent to which the international investment of the United States grew during the 1960's is shown in Table I.

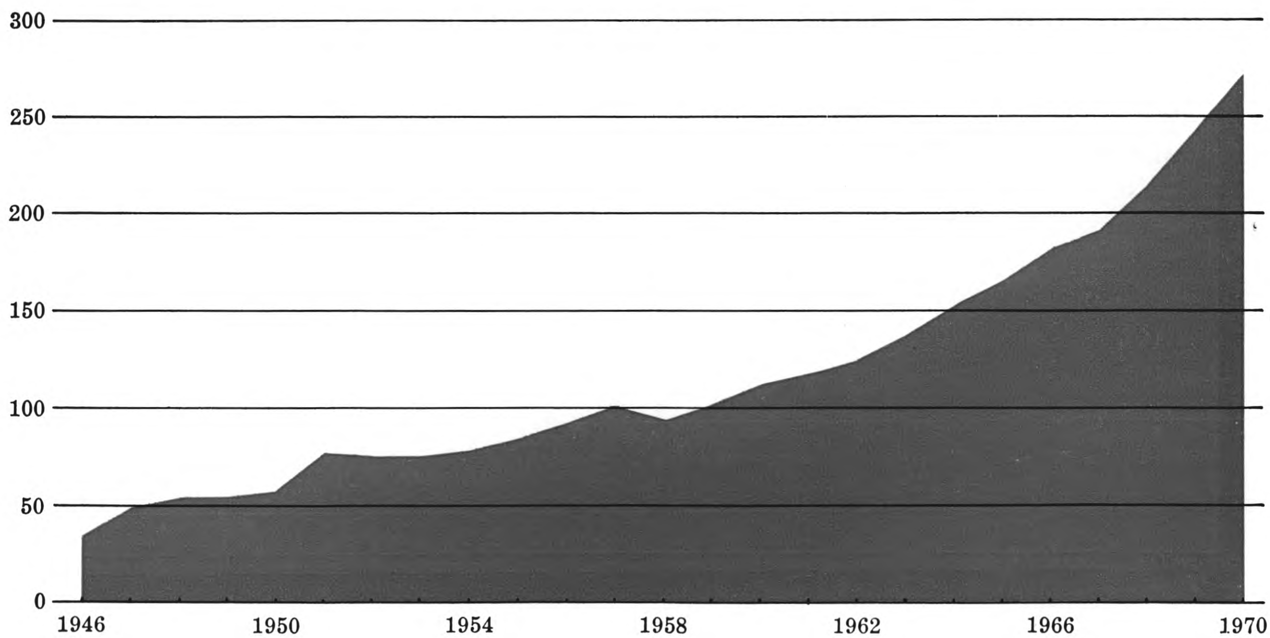
While attractive returns lured United States capital to points all over the world, investment in a newly resurgent Western Europe was especially popular with investors. This was partly because the external tariff shields of the new European customs unions in many cases made direct investment the most attractive avenue for many firms to gain access to that expanding market. The relative scarcity of capital outside the United States, combined with the broad, well-developed capital markets in this country, also made the United States an attractive place for foreigners to float debt and equity issues.

In addition to the growth in international trade and investment in the postwar period, the emergence of the dollar as the key international currency increased the role of United States banks in international finance. The use of the dollar worldwide as an international trading currency and its use by foreign monetary authorities as an intervention currency gave rise to a substantial foreign demand for dollar balances. The United States became the reserve center for private foreign traders and foreign monetary authorities alike. By the end of the 1960's the United States banking community had a large stake

Chart 2

TOTAL WORLD EXPORTS

(billions of dollars)



Source: International Financial Statistics.

Table I

UNITED STATES INTERNATIONAL INVESTMENT BALANCE SHEET, 1960-1969

(billions of dollars)

U. S.-OWNED FOREIGN ASSETS

	1960	1969[1]
Long-term assets:	$61.4	$126.7
Nonliquid U. S. Government assets	17.0	30.7
Private	44.4	96.0
Direct investments	31.9	70.8
Foreign securities	9.5	18.7
Claims reported by U. S. banks	1.7	3.0
Other	1.4	3.6
Short-term assets:	24.4	31.1
Liquid U. S. reserve assets	19.4	17.0
Private	5.0	14.1
Claims reported by U. S. banks	3.6	9.6
Other	1.4	4.5
TOTAL	$85.8	$157.8

U. S. LIABILITIES TO FOREIGNERS

	1960	1969[1]
Long-term liabilities	$18.7	$ 45.9
Nonliquid U. S. Government liabilities	.3	4.9
Private	18.4	41.0
Direct investments	6.9	11.8
Corporate and other securities	10.0	22.9
Liabilities reported by U. S. banks	----	2.5
Other	1.6	3.7
Short-term liabilities:	22.6	45.0
Liquid U. S. Government liabilities	10.5	7.0
Private	12.1	38.0
Liabilities reported by U. S. banks	11.1	35.0
Other	1.0	3.0
TOTAL	$41.2	$ 90.8
U. S. international net worth	44.6	67.0
	$85.8	$157.8

[1] Preliminary.

Source: Compiled from Department of Commerce, *Survey of Current Business*, October 1970, page 23.

in international finance, with many of its major institutions serving as bankers to the entire trading world.

THE RECORD OF GROWTH Table II shows that total claims on foreigners reported by banks in the United States more than doubled during the past decade to reach $12.8 billion in September 1970. Total foreign liabilities reported by United States banks also doubled, reaching $42.6 billion. While these figures include some claims and liabilities of the banks' customers, the growth reflects a substantial international involvement of the banks themselves.

A recent **Journal of Commerce** survey estimates that the large United States banks with international departments are employing over 14 percent of their assets abroad, with approximately 15 percent of their total deposits arising from overseas sources and up to 15 percent of their profits deriving from overseas operations.

Chart 3 shows that member banks increased their overseas branch network fourfold in the past decade. Over 50 member banks were operating 460 foreign branches in 59 countries at the end of 1969. Total assets (and liabilities) of these branches, shown in Table III, exceeded $41 billion, a sixfold increase from only five years earlier. Their total loans had reached almost $13 billion by 1969, a fourfold increase from 1964. The total number of member banks' foreign branches reached 532 by the end of 1970; figures for their loans and total assets in 1970 are not yet available.

The regional distribution of foreign branches remained fairly constant over the past decade. As shown in Chart 3, the number in Latin America (including the Bahamas), the area with the largest number of branches, quadrupled to 280 in 1970; the number in Western Europe, including England and Ireland, increased fivefold from 1960 to 116 in 1970; the number of branches in the Far East tripled in the past decade to reach 79 in 1970. Branching during 1970 favored Nassau.

After approximately three decades of relative inactivity, Edge Act corporations have once again become prominent institutions of

Table II

FOREIGN CLAIMS AND LIABILITIES REPORTED BY BANKS IN THE UNITED STATES

(millons of dollars)

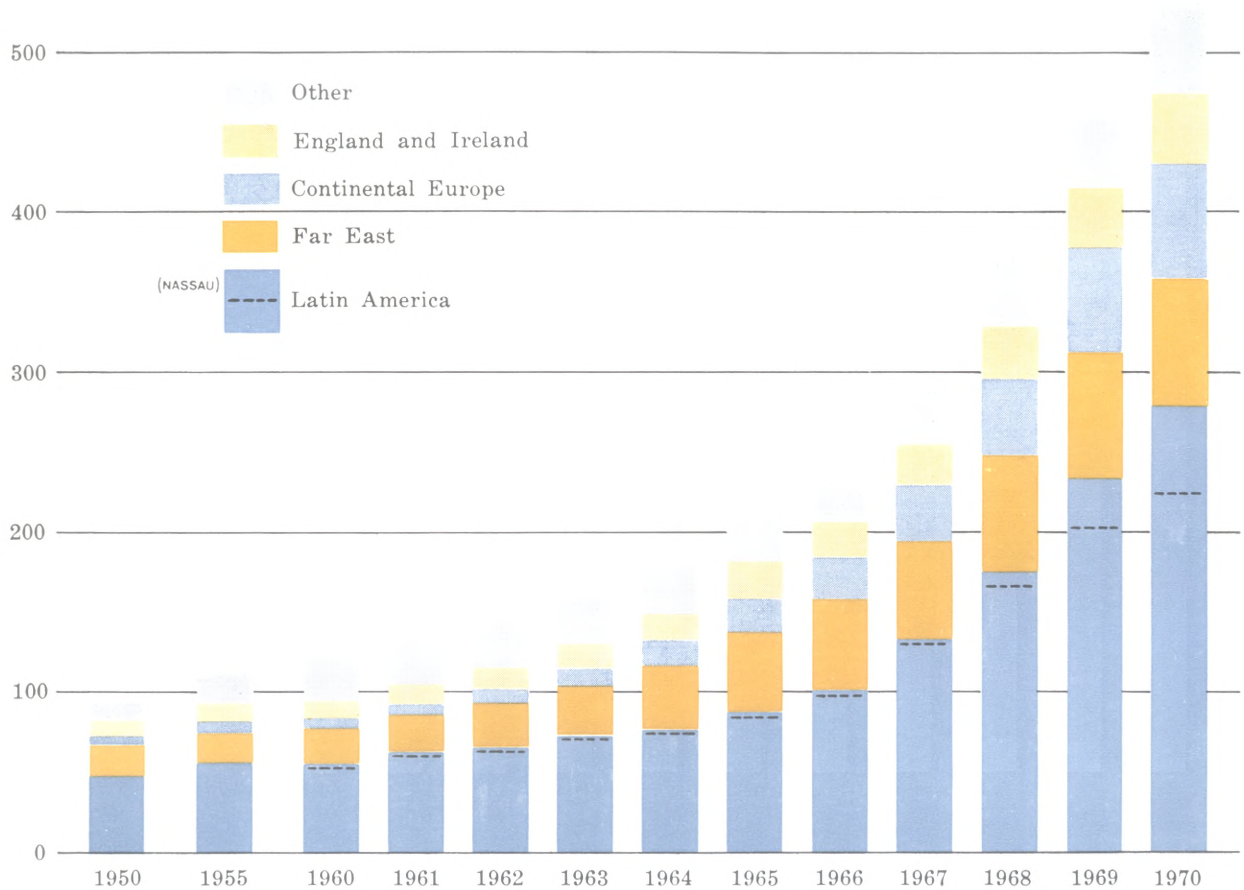
	1960	1965	1968	1969	September 1970[1]
Total claims	5,312	12,251	12,278	12,844	12,788
Short-term claims	3,614	7,734	8,711	9,606	9,646
Payable in foreign currencies	480	492	450	516	479
Payable in dollars	3,135	7,243	8,261	9,091	9,167
Loans	1,296	2,970	3,165	3,278	3,253
Collections outstanding	605	1,272	1,733	1,954	2,275
Acceptances made for foreign account	----	2,508	2,854	3,202	3,052
Other short-term dollar claims	1,233	492	509	656	587
Long-term claims	1,698	4,517	3,567	3,238	3,142
Payable in foreign currencies		9	16	18	28
Loans payable in dollars		4,508	3,158	2,806	2,739
To official institutions			528	502	447
To banks			237	209	244
To other foreigners			2,393	2,096	2,047
Other long-term claims			394	414	376
Total liabilities	21,279	26,064	34,883	42,674	44,481
Short-term liabilities	21,272	25,551	31,717	40,182	42,561
Payable in foreign currencies	113	59	636	429	360
Payable in dollars	21,159	25,492	31,081	39,753	42,201
Demand deposits	9,417	8,092	14,387	20,481	17,234
Time deposits		5,557	5,484	6,946	7,236
U. S. Treasury bills and certificates	7,639	8,356	6,797	5,015	10,856
Other short-term liabilities	4,103	3,487	4,413	7,311	6,875
Long-term liabilities	7	513	3,166	2,492	1,920
To international and regional organizations		311	777	889	851
To foreign countries		203	2,389	1,602	1,070
Official institutions			2,341	1,507	891
Banks			8	55	121
Other foreigners			40	41	58

[1] Preliminary.

Source: *Federal Reserve Bulletins.*

Chart 3

FOREIGN BRANCHES OF UNITED STATES MEMBER BANKS



Source: Board of Governors of the Federal Reserve System.

international finance although Agreement corporations have not enjoyed a similar revival. Chart 4 shows that the number of Edge firms grew from 6 at the end of 1959 to 63 at the end of 1969. National banks had over $547 million of capital invested in these subsidiaries. There were 69 Edge corporations with an estimated total capitalization of approximately $600 million and total resources of $3 billion at the end of 1970. Also, while precise data are not available, it is clear that direct investment by United States banks in foreign banking institutions has increased rapidly since the revision of Regulation M in 1967.

Another measure of the phenomenal growth in the international financing activities of United States banks is the recent growth in the bankers' acceptance market. Chart 1 shows that by the end of 1970 the volume of dollar acceptances outstanding had reached the $7 billion level. About 40 percent of these acceptances financed United States imports, a quarter financed exports, and a third financed goods stored in or shipped between foreign countries.

Incentives for Overseas Expansion

Growth in international trade and investment and the central role of the dollar in the world economy help explain the export of United States banking services. These underlying factors, however, do not fully explain the increasing tendency of United States banks to seek foreign locations for their international business. Two special incentives for overseas expansion have been the restrictions on capital outflows of the mid-1960's and the tight monetary policies of the late 1960's.

Table III

U. S. MEMBER BANKS' FOREIGN BRANCHES

A BALANCE SHEET RECORD, 1964-1969†

ASSETS: (Millions)	1969	1968	1967	1966	1965	1964
Cash, total	$ 8,004	$ 3,335	$ 2,397	$ 1,732	$ 1,510	$ 1,140
England and Ireland	5,806	2,201	1,543	1,057	877	489
Continental Europe	1,178	638	441	318	301	362
Latin America	267	251	212	173	175	138
Bahamas	507	*	*	*	*	*
Far East	146	150	137	118	76	69
U. S. overseas areas and trust territories	59	42	43	32	*	*
Other areas	41	53	21	34	81	82
Loans, total	12,979	9,225	6,551	4,951	4,610	3,217
England and Ireland	6,990	4,933	3,155	2,169	2,020	1,156
Continental Europe	1,813	1,416	1,120	753	664	377
Latin America	863	880	591	576	465	403
Bahamas	891	*	*	*	*	*
Far East	1,585	1,308	1,047	845	866	784
U. S. overseas areas and trust territories	703	551	500	470	*	*
Other areas	134	137	137	138	595	497
Due from head offices and U. S. branches, total	14,337	6,147	4,045	3,727	1,995	1,805
England and Ireland	9,836	4,291	2,712	2,613	1,083	900
Continental Europe	1,809	923	359	360	198	225
Latin America	26	97	119	85	131	160
Bahamas	1,328	*	*	*	*	*
Far East	408	418	422	395	359	311
U. S. overseas areas and trust territories	918	411	411	266	*	*
Other areas	12	7	21	8	224	209
Other assets, total	5,800	4,311	2,665	1,974	987	776
England and Ireland	2,121	1,752	768	606	277	145
Continental Europe	1,664	1,144	801	591	191	133
Latin America	428	508	348	218	107	109
Bahamas	267	*	*	*	*	*
Far East	1,118	787	660	450	399	379
U. S. overseas areas and trust territories	124	33	11	19	*	*
Other areas	78	87	78	90	13	10
Total assets	41,120	23,018	15,658	12,384	9,102	6,938
England and Ireland	24,753	13,177	8,178	6,445	4,257	2,690
Continental Europe	6,464	4,121	2,721	2,022	1,354	1,097
Latin America	1,584	1,736	1,270	1,052	878	810
Bahamas	2,993	*	*	*	*	*
Far East	3,257	2,663	2,267	1,808	1,700	1,543
U. S. overseas areas and trust territories	1,804	1,037	965	787	*	*
Other areas	265	284	257	270	913	798

CAPITAL CONTROLS The restrictions on capital outflows imposed in the mid-1960's were designed to curb the private capital outflow from the United States in order to reduce the deficit in the balance of payments to manageable proportions. But in shifting the demand for credit from the United States to Europe and the Eurodollar market, they forced United States banks to expand their overseas facilities and seek foreign sources of funds in order to participate in international finance.

The first of these measures was the Interest Equalization Tax, effective July 1963. Its purpose was to discourage foreign borrowing in United States capital markets by raising the effective interest cost to foreigners. The tax initially applied to securities

LIABILITIES: (Millions)	1969	1968	1967	1966	1965	1964
Demand deposits, total	$ 4,102	$ 3,443	$ 2,705	$ 2,649	$ 2,069	$ 1,918
England and Ireland	1,508	1,343	838	895	520	573
Continental Europe	791	623	569	589	488	388
Latin America	614	570	511	437	425	373
Bahamas	86	*	*	*	*	*
Far East	630	513	439	402	298	258
U. S. overseas areas and trust territories	402	294	245	237	*	*
Other areas	71	100	103	88	338	326
Time deposits, total	30,418	14,932	9,767	7,411	4,954	3,260
England and Ireland	21,223	10,501	6,534	4,832	3,193	1,762
Continental Europe	3,871	2,283	1,454	976	461	309
Latin America	344	638	372	342	226	203
Bahamas	2,733	*	*	*	*	*
Far East	1,020	839	777	717	652	623
U. S. overseas areas and trust territories	1,054	505	492	386	*	*
Other areas	173	166	138	159	422	363
Due to head offices and U. S. branches, total	806	738	536	607	1,227	1,134
England and Ireland	15	64	32	55	315	219
Continental Europe	117	105	28	47	247	307
Latin America	112	152	53	92	131	173
Bahamas	25	*	*	*	*	*
Far East	322	193	209	259	396	338
U. S. overseas areas and trust territories	213	223	213	150	*	*
Other areas	2	1	1	4	138	97
Other liabilities, total	5,794	3,905	2,650	1,717	852	626
England and Ireland	2,007	1,269	774	663	229	136
Continental Europe	1,685	1,110	669	410	158	93
Latin America	514	376	334	181	96	61
Bahamas	149	*	*	*	*	*
Far East	1,285	1,118	842	430	354	324
U. S. overseas areas and trust territories	135	15	15	14	*	*
Other areas	19	17	16	19	15	12
Total liabilities	41,120	23,018	15,658	12,384	9,102	6,938
England and Ireland	24,753	13,177	8,178	6,445	4,257	2,690
Continental Europe	6,464	4,121	2,721	2,022	1,354	1,097
Latin America	1,584	1,736	1,270	1,052	878	810
Bahamas	2,993	*	*	*	*	*
Far East	3,257	2,663	2,267	1,808	1,700	1,543
U. S. overseas areas and trust territories	1,804	1,037	965	787	*	*
Other areas	265	284	257	270	913	798

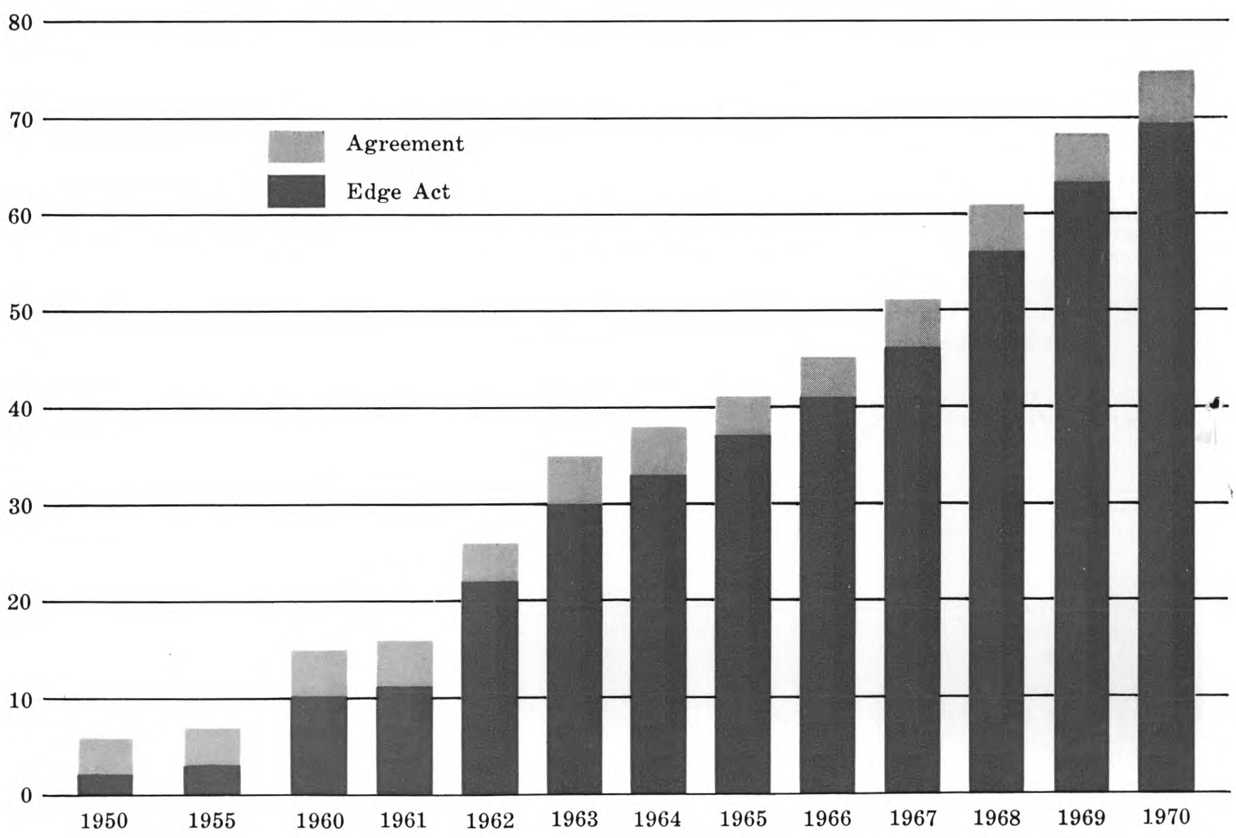
† As of December 31.
* Not reported separately.
Source: Board of Governors of the Federal Reserve System.

purchased from foreigners, but it was later extended to commercial bank term loans to foreigners.

Next came the President's Balance of Payments Program, inaugurated in February 1965. This program encompassed two companion measures of voluntary restraint on United States lending and investing abroad. The first of these, the Voluntary Foreign Credit Restraint Program, was administered by the Federal Reserve and applied to the lending and investing activities of commercial banks and nonbank financial institutions. Under this program ceilings were established on the outstanding claims of individual institutions on foreigners, and a set of guidelines was promulgated as ground-rules for a cooperative effort to limit capital outflows. The second program applied to direct investment abroad by nonfinancial corporations and was placed under the Department of Commerce. This program, which was made mandatory in 1968, limited the amount of United States financed direct investments abroad but placed no restrictions on investment financed by borrowing abroad. These constraints mean that beyond certain specified limits overseas expansion by American firms must be financed from foreign sources. They also mean that if United States banks

Chart 4

EDGE ACT AND AGREEMENT CORPORATIONS



Source: Board of Governors of the Federal Reserve System.

want to participate in financing the overseas operations of their domestic customers, they must obtain access to foreign sources of funds.

The indirect incentive for American bank expansion abroad provided by the direct investment controls is supplemented by the controls applied to the banks themselves. The extension of the Interest Equalization Tax to bank loans to foreigners of more than one year put United States banks at a disadvantage in competing with overseas sources of funds. Making foreign loans at a foreign branch or affiliate was one way to lessen this handicap and was deliberately encouraged by regulations.

A more important and a more direct inducement for overseas expansion was provided by the ceilings on the foreign credits of banks and their Edge and Agreement subsidiaries under the Foreign Credit Restraint Program. Even if United States firms had been permitted to finance their overseas operations from domestic sources, the restrictions on banks would have limited their participation. Since these restrictions did not cover their overseas branches or affiliates so long as the funds used were raised abroad, they provided an added incentive for banks to seek foreign locations and foreign sources of funds. This incentive, of course, was in addition to the existing one of financing foreign customers.

Given the important role of these capital control programs in stimulating overseas expansion by United States banks, it is not surprising that they should have affected its geographical pattern as well. In the years since the controls were instituted, the share of new branches and affiliates has increased in Continental Western Europe, an area where a large portion of United States direct overseas investment has been concentrated and an area where the ceilings on foreign lending have been especially restrictive. From the end of 1965 to the end of 1970, the number of foreign branches in Continental Western Europe increased from 21 to 71. While the guideline restrictions on the United Kingdom are less restrictive, its strategic location as the center of the Eurodollar market—so important to United States overseas interests the world over—has also attracted numerous new branches. United States banks now have 38 branches in London, compared to 21 as recently as 1965. Table III shows that the total assets of European branches have also increased faster than those of other major areas in recent years, although data for 1970 are not yet available.

The Foreign Credit Restraint Program has also influenced the recent pattern of foreign branching among United States banks. Since the initial lending ceilings were historically based—although this has since been modified—the larger banks with established international departments received higher ceilings and were not as restricted as smaller banks just moving into international business. Many of the latter had low historical bases (or if they had no historical base, received relatively modest special ceilings) and found a foreign branch or some type of foreign affiliation helpful in getting their international operations off the ground. This factor contributed somewhat to the recent increase in foreign branching by smaller, medium-sized banks. This, in turn, has been a major factor in the emergence of Nassau as an inexpensive access to the Eurodollar market.

TIGHT MONEY AND REGULATION Q

While the various capital control programs have encouraged banks to seek funds abroad to finance their foreign lending, tight monetary policies at home, especially in 1969, sent banks abroad in search of funds for domestic use. Rising interest rates in 1968 and 1969 coupled with interest-rate ceilings led to a heavy run-off of time deposits and forced many larger banks to seek funds elsewhere.

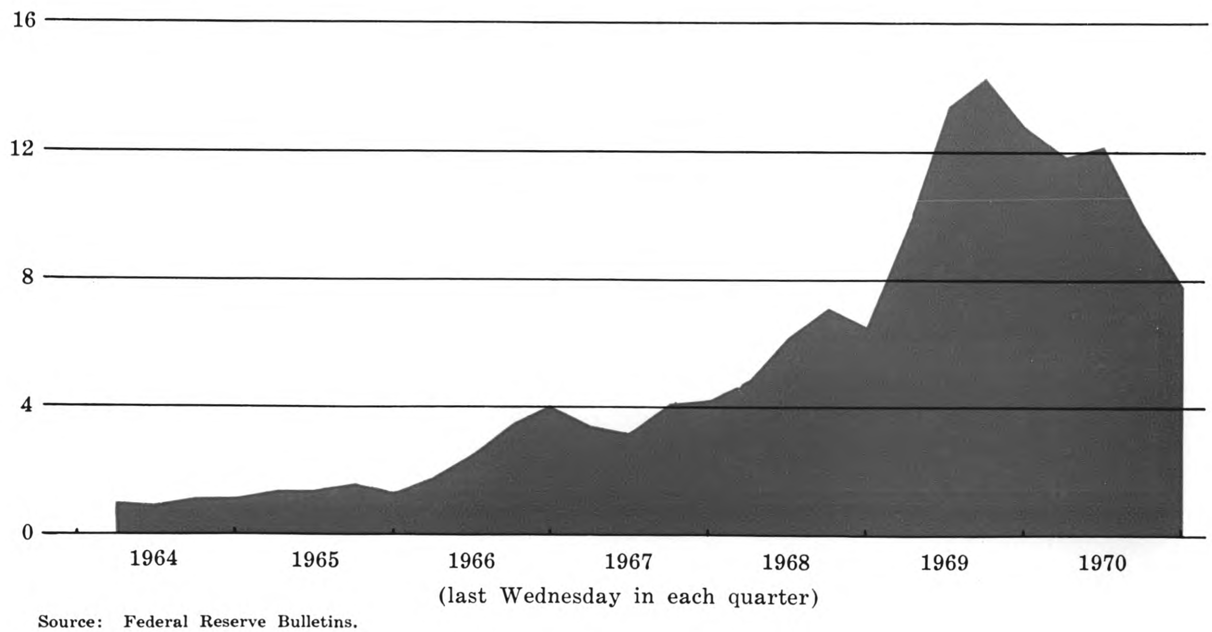
Unable to attract domestic deposits, many of these banks, especially those with foreign branches, turned to the Eurodollar market. Foreign branches increasingly borrowed Eurodollars and loaned the proceeds to their parent banks. Since domestic banks' Eurodollar borrowings were not classified as deposits, they were not subject to domestic reserve requirements or FDIC insurance premiums. They were, therefore, not subject to the same cost-increasing restrictions as domestic deposits. Neither were they subject to the interest-rate ceilings of Regulation Q. The liabilities of United States banks to their foreign branches, shown in Chart 5, reached a peak of over $16.5 billion in 1969 at interest rates in excess of 10 percent. The use of the Eurodollar market for domestic liquidity purposes is reflected in the composition of the foreign branches' balance sheet shown in Table III. Over half the increase in the branches' total deposits in 1969 was used to increase claims on their home offices.

The Board of Governors, effective September 4, 1969, imposed reserve requirements of 10 percent on banks' liabilities to their foreign branches in excess of the daily average amount outstanding in the four weeks ending May 28, 1969. The provision included an automatic downward adjustment of the reserve-free base as borrowings were repaid in order to retain their outstanding liabilities. Nevertheless, banks began to repay their borrowings, and that repayment was accelerated in 1970 by the easing of monetary policy and the partial suspension of Regulation Q. Liabilities of United States banks to their foreign branches declined from their peak of $14.5 billion in August 1969 to $8.6 billion in November 1970. To curb this repayment and its adverse effect on the official settlements measure of the deficit in the balance of payments, the Board raised the marginal reserve requirement to 20 percent, effective December 23, 1970, and changed the reserve-free base date to the computation period ended November 25. These measures were designed to discourage banks from losing their reserve-free bases by further reducing their outstanding liabilities. These regulatory changes have lessened the

Chart 5

LIABILITIES OF UNITED STATES BANKS TO THEIR FOREIGN BRANCHES

(billions of dollars)



Source: Federal Reserve Bulletins.

incentive to open foreign branches to attract deposits for domestic use. Of course, the other incentives for overseas expansion remain.

Recent Trends and Developments

In addition to the remarkable overall growth in international banking operations, several recent trends and developments are worth mentioning. Among the more notable is the growing involvement of major banks outside New York. Closely related to this trend is the new prominence of Nassau as a major access to the Eurodollar market, especially for the newer entrants into the international field. The emergence of multinational banks to serve the new breed of multinational business corporations is another recent development of far-reaching consequences.

MORE BANKS GOING INTERNATIONAL International banking in the United States has traditionally been dominated by a few large banks concentrated largely in New York. The deposits of their overseas branches now account for about a third of the total net deposits of New York banks. But while international banking is more important than ever to New York banks, their relative share has declined in recent years. New York Clearing House banks now account for about two-thirds of all United States banks' overseas deposits and assets, compared to three-fourths a couple of years ago.

Large and medium size banks all over the country have recently expanded previously dormant international departments or moved into the international field for the first time. Figures on the total number of banks with international departments or significant international business are not available. There are, however, approximately 170 banks currently reporting under the Foreign Credit Restraint Program. This means that 170 banks have total foreign assets of at least $500,000 each, the minimum limit for reporting under the program. This is, of course, quite apart from credit extended directly to domestic customers to finance their exports and imports.

Contrary to past experience, most of the banks establishing new foreign branches in recent years have been banks outside New York, with an increasing share of these branches representing the first foreign branch of banks just entering the international field. The recent growth in the number of foreign branches, phenomenal as it has been, does not adequately reflect the growing number of domestic offices involved. The number of foreign branches of member banks increased from 244 in 1966 to 532 in 1970—an increase of 118 percent. But the number of member banks represented by these branches increased from 13 to 79—an increase of 500 percent. Thus the number of member banks with foreign branches increased almost five times faster than the number of branches. This trend was especially pronounced in 1969 and 1970.

A similar trend may be developing with the reappearance recently of multiple-ownership Edge Act subsidiaries. As banks pool their resources and reduce the costs of international operations through multiple ownership, the number of banks represented by Edge subsidiaries increases faster than the number of subsidiaries. For example, one Edge Act corporation, organized in 1968, is now jointly owned by 18 regional banks including two in the Fifth District.

THE TREK TO NASSAU Closely related to the broadening of the base of international banking in the United States is the recent emergence of Nassau as a major center of Eurodollar activity in the Western Hemisphere. Nassau has become the most convenient and least expensive access to the Eurodollar market for many United States banks, especially those in the early stages of their international operations. At the end of 1970 the Bahamas had 60 direct branches of member banks, 52 of which were opened in the past two years. Most of the Nassau branches represent the only branch of their parent bank.

A Nassau branch offers many of the advantages of a branch in Europe, but at a fraction of the cost. Through a Nassau branch an American bank, even one with limited resources, can attract offshore deposits without domestic interest-rate ceilings or reserve requirements. It can make foreign loans not subject to the Interest Equalization Tax or the limits set by the Foreign Credit Restraint Program. It is also eligible to finance, through funds raised abroad, the overseas operations of American corporations under the Direct Investment Control Program. Finally, an American bank can use its Nassau branch, as well as foreign branches elsewhere, to augment its domestic resources with Eurodollar borrowings, although its ability to do so has been severely restricted by regulatory changes in 1969. At the end of 1969, Nassau branches had $1.3 billion in outstanding claims on their head offices out of $3.0 billion total assets. This 44 percent repatriation exceeded that of any other area except United States overseas areas.

Whereas branches in many areas offer a full range of local retail banking services, Nassau branches are essentially wholesale operations in the Eurodollar market. Indeed, Bahamian regulations permit only offshore business for banks chartered to engage in such business and prohibit the acceptance of local deposits.

Most Nassau branches—including all those of Fifth District banks—are essentially "shell" operations. All the business usually originates at the home office and is transacted there for the account of the Nassau branch. The "typical" Nassau branch of Fifth District banks may be characterized as a local address, telephone number, and a duplicate set of books. The physical facilities, usually a single office or even a single desk in an office, are rented. The routine Nassau bookkeeping is done at the instruction of the head office by a local "agent" firm on a fee basis. About the only tangible evidence of the Nassau branch at the home office, in turn, may be a special file cabinet or drawer, or a separate "in" box for the Nassau mail. These superficial arrangements are designed to provide a foreign address for business that is conducted at the home office. They are necessitated by the various capital controls and other restrictions on the home offices. The main substance to these arrangements is that loans made by Nassau branches be from funds raised abroad.

MULTINATIONAL BANKING Another significant and far-reaching recent development in international banking is the appearance of a new breed of multinational banks to serve multinational business corporations in international financial markets. These multinational consortia banks are the joint ventures of banks located in several different countries. They typically have their own identity and small staffs but derive tremendous financial strength from their large capitalization and strong backing from their parent banks.

The forerunner of the new multinational banks was established in 1964 without American participation. Others did not follow until 1967. Most of the 20 or so multinational banks in operation today are located in Europe, with the majority of them in London, and leading regional banks in the United States are well represented. For example, Rothschild Intercontinental, formed in London in 1969, is jointly owned by five European banks and banks in Cleveland, Houston, and Seattle. A Fifth District bank recently announced plans to form such a multinational bank in London in conjunction with a London merchant bank and four other major regional banks in the United States.

While these multinational banks usually have broad charters that permit them to offer a full range of commercial and investment banking services, they specialize in large medium-term loans to large international borrowers utilizing funds acquired in the Eurocurrency and Eurobond markets. Loan maturities generally range from two to eight years and are designed to fill the gap between short-term commercial bank loans and capital market credit. The principal borrowers are the large multinational business corporations, foreign subsidiaries of American corporations, and lately European government agencies and public utilities. Loans may be made by the banks directly, but more often they are made through the private placement of notes with other banks.

International Banking in the Fifth District

International banking on a scale worthy of the term has come to the Fifth Federal Reserve District only recently. While foreign trade has always been important to Fifth District states, its financing has traditionally been left to New York banks. A few District banks maintained token international departments, but these were modest operations devoted for the most part to collections and other miscellaneous services for regular domestic customers. Most of the limited international services were handled through New York correspondent banks. Only a handful of Fifth District banks could offer anything close to a full range of international banking services as recently as 1965.

The late movement of Fifth District banks into international finance is somewhat surprising in view of the District's large stake in international trade. Not only does much of the nation's foreign trade originate in the Fifth District, but a large part of it is shipped through Fifth District ports. During 1969, for example, almost a quarter of the nation's waterborne export tonnage went through Fifth District ports, most of it through the Hampton Roads ports of Virginia. Fifth District ports accounted for a tenth of the nation's import tonnage in 1969. In value terms, Fifth District ports accounted for 13 percent of United States waterborne exports in 1969 and nine percent of the imports.

During the 1960's Fifth District banks, along with the larger regional banks across the country, began moving into the international area. They not only made a bid for a share of the existing business, but many began to generate new business by pointing out the many profitable export and import opportunities to their customers. By the end of the decade there were probably 13 to 15 banks in the Fifth District that could offer "full service" international banking.

At the end of 1970 ten Fifth District banks had foreign claims large enough (at least $500,000) to report under the Foreign Credit Restraint Program. These banks reported foreign claims of $85 million, most of which were short term. Their short-term liabilities to foreigners were in excess of $140 million.

As their international operations grew, and because of the potential limitations on that growth imposed by the restrictions on capital outflows, Fifth District banks recently began to supplement their network of foreign correspondents with their own overseas facilities. By the end of 1970 six District banks had direct foreign branches, all of them in Nassau. Five banks had Edge Act corporations. As noted earlier, one Fifth District bank, in conjunction with other regional banks, recently formed a multinational bank in London. Another recently purchased considerable equity interest in a London merchant bank and opened two representative offices in Latin America.

Fifth District banks were among the first to go to Nassau to gain access to the Eurodollar market. Unlike many other banks, however, banks in the Fifth District have made no attempt to use those branches for domestic liquidity purposes. They have used them primarily as an external source of funds for foreign lending outside the limits imposed on home office lending under the Foreign Credit Restraint Program.

If international trade and investment continue to grow at record rates and if the trend of worldwide monetary and financial integration continues, the opportunities in international banking will expand further in the next few years. More and more banks in the nation, and in the Fifth District, will become bankers to the world.

HIGHLIGHTS OF 1970

EARNINGS AND CAPITAL ACCOUNTS Net earnings before payments to the United States Treasury increased $35,346,076.72 to a record $259,487,155.64 in 1970. Six percent statutory dividends totaling $2,100,487.09 were paid to Fifth District member banks, and $255,889,468.55 was paid to the Treasury as interest on Federal Reserve notes.

Capital stock rose $1,497,200.00 to $35,700,550.00 as member banks increased their stockholdings, as required by law, to reflect the rise in their capital and surplus. The Bank's surplus account increased $1,497,200.00 to a total of $35,700,550.00.

NEW BANK BUILDINGS Plans for the construction of a new building on the north bank of the James River were announced March 16. It is anticipated that the building will be a high-rise structure with considerable underground area for check processing, currency and coin operations, security courts, and vaults. A large portion of the site will be open space which will be landscaped and beautified to serve as a focal point for redevelopment of the "Main to the James" area in downtown Richmond. It is hoped that construction will begin in 1972, with occupancy by 1975.

In December 1969, the Department of Housing and Urban Development of the city of Baltimore granted to the Baltimore Branch the privilege of exclusive negotiation for a lot in the Inner Harbor project development area. This property, approximately 9,000 square feet, is bounded by Pratt, Calvert, Lombard, and South Streets and overlooks Baltimore's harbor. During 1970, the New York architectural firm of Francisco and Jacobus conducted a site evaluation and feasibility survey to determine the suitability of the location for a new bank building for the Baltimore Branch. The results of the study were that the proposed area is both desirable and adaptable to the needs of the Federal Reserve Bank. Planning is continuing on the development of this project.

DISCOUNT RATE On November 11, the Richmond Reserve Bank, with the approval of the Board of Governors, lowered its discount rate from 6 percent to 5¾ percent in an effort to bring the rate into alignment with other short-term interest rates.

In recognition of the further downward trend in short-term interest rates, the discount rate again was reduced from 5¾ percent to 5½ percent on December 11.

CHANGES IN DISCOUNT PROCEDURES On December 1, the Board of Governors announced certain changes in the procedures connected with the borrowing of funds from the Federal Reserve System. These changes, effective in February 1971, are:

1. The initiation of a "continuing lending agreement" as a substitute for the formal application and promissory note. A member bank would be obliged unconditionally to repay all advances made pursuant to the agreement.

2. The adoption of the practice of collecting interest on borrowings by member banks at the time the loan is repaid rather than deducting interest in advance.

3. The making of any changes in the discount rate immediately applicable to all outstanding borrowings.

CULPEPER FACILITY On August 20, 1970, the first "live traffic" moved through the new communications system located at our Communications and Records Center, Culpeper, Virginia. Wire transfers of funds and securities constitute the bulk of the present traffic, which also includes administrative messages.

Conversion to the new communications system has proceeded in phases and by the end of 1970 approximately 60 percent of the total teletype traffic among Federal Reserve offices throughout the country was being transmitted over the new computer-controlled network at a speed of approximately 150 words per minute. It is anticipated that complete conversion to the new system will be achieved by the third quarter of 1971, at which time economic research data will be moving over the network at an approximate speed of 3,000 words per minute.

ACCOUNTING AND BANK ACCOUNTS The installation, testing, and final switchover of the wire transfers of funds operation to the M-1000/M-37 private wire network occurred during 1970. This system is capable of transmitting and receiving transfers of funds among Federal Reserve Banks at 150 words per minute, an increase in the overall transmission rate of 40 percent in comparison with its predecessor, the 81-D-1 system.

A private-line network between this Bank and its member banks that will interface with the M-1000/M-37 system is being developed. Such systems will facilitate the transfers of funds between our member banks and those in other Federal Reserve districts with automatic processing of accounting entries and a minimum of physical handling.

CHECK COLLECTION A contract was signed with the Burroughs Corporation in January 1970 for installation of a third generation Model B-3500 check processing unit at the Richmond office. The equipment was installed in 1970, and the system's design and programming work was almost complete by the end of the year. It is expected that the processing of checks through the new system will begin during the first quarter of 1971.

FISCAL AGENCY On March 2, the Treasury Department increased the minimum for Treasury Bill tenders from $1,000 to $10,000. Also, a new $15,000 Treasury Bill was introduced, effective September 1.

On June 1, the rate on U. S. Savings Bonds held to maturity was increased from 5 percent to 5½ percent. The sale of U. S. Savings Notes, commonly referred to as "Freedom Shares," was terminated June 30. Freedom Shares were first offered to the public on May 1, 1967, with an approximate yield of 5 percent if held to maturity.

A switchover from the old 81-D-1 to the new M-1000/M-37 system for wire transfers of securities was made for all transactions except those involving the Federal Reserve Bank of New York. It is anticipated that the New York Bank will begin participating in early 1971.

NEW MEMBER BANKS Seven Fifth District banks became members of the Federal Reserve System during the year. Citizens National Bank of St. Albans, St. Albans, West Virginia, opened for business in January. First Manassas Bank and Trust Company, Manassas, Virginia, opened in April. The Suncrest National Bank, Morgantown, West Virginia, and Barbour County Bank, Philippi, West Virginia, began operations in June. Jefferson National Bank, Lynchburg, Virginia, opened in August. Bank of Warrenton, Warrenton, Virginia, started operations in October. In December, the Middletown National Bank, Marion County, West Virginia, began serving the public.

CHANGES IN DIRECTORS The election, by Fifth District member banks, of one Class A Director to a three-year term on the Richmond Board of Directors was held in the fall. Thomas P. McLachlen, President, McLachlen National Bank, Washington, D. C., was elected to succeed Giles H. Miller, Jr., Chairman of the Board, The Culpeper National Bank, Culpeper, Virginia, whose term expired December 31. H. Dail Holderness, President, Carolina Telephone and Telegraph Company, Tarboro, North Carolina, was re-elected to a three-year term as a Class B Director of the Richmond Bank.

Wilson H. Elkins, President, University of Maryland, College Park, Maryland, was reappointed Chairman of the Board and Federal Reserve Agent for 1971. Renamed as Deputy Chairman of the Board of Directors for 1971 was Robert W. Lawson, Jr., Managing Partner, Charleston Office, Steptoe & Johnson, Charleston, West Virginia. The Board of Governors also reappointed Stuart Shumate, President, Richmond, Fredericksburg and Potomac Railroad Company, Richmond, Virginia, to a three-year term as a Class C Director of the Richmond Reserve Bank.

The Board of Governors appointed Charles W. DeBell, General Manager, North Carolina Works, Western Electric Company, Inc., Winston-Salem, North Carolina, to a three-year term on the Board of Directors of the Charlotte Branch. Mr. DeBell succeeded William B. McGuire, President, Duke Power Company, Charlotte, North Carolina, whose term expired. John H. Fetting, Jr., President, A. H. Fetting Company, Baltimore, Maryland, was reappointed by the Board of Governors to a three-year term on the Baltimore Board of Directors.

The Richmond Board of Directors appointed J. Stevenson Peck, President, Union Trust Company of Maryland, Baltimore, Maryland, as a director at the Baltimore Branch succeeding Adrian L. McCardell, Chairman of the Board, First National Bank of Maryland, Baltimore, Maryland. The Richmond Board also reappointed James J. Robinson, Executive Vice President and Cashier, Bank of Ripley, Ripley, West Virginia, as a director of the Baltimore Branch. H. Phelps Brooks, Jr., President and Trust Officer, The Peoples National Bank, Chester, South Carolina, and C. C. Cameron, Chairman of the Board and President, First Union National Bank of North Carolina, Charlotte, North Carolina, were reappointed to three-year terms on the Charlotte Board of Directors.

FEDERAL ADVISORY COUNCIL The Board of Directors selected Joseph W. Barr, President, American Security and Trust Company, Washington, D. C., to serve as the member of the Federal Advisory Council representing the Fifth Federal Reserve District for the year 1971. Mr. Barr succeeded Robert D. H. Harvey, Chairman of the Board and Chief Executive Officer, Maryland National Bank, Baltimore, Maryland.

CHANGES IN OFFICIAL STAFF A number of changes were made in the official staff during the year. Effective May 1, Miss Elizabeth W. Angle was named Assistant Vice President in the Research Department.

Jimmie R. Monhollon was appointed Senior Vice President in charge of the Charlotte Branch effective July 1. He succeeded Edmund F. Mac Donald, who elected to take an early retirement after 24 years of distinguished service.

Albert D. Tinkelenberg joined the staff of the Culpeper Facility as Assistant Vice President on August 17.

The following promotions and changes were effective January 1, 1971. Raymond E. Sanders, Jr., was elected Senior Vice President and given responsibility for the Personnel, Protection, General Service, Money, and Printing and Supplies Departments. Welford

S. Farmer was appointed Senior Vice President and Special Legal Adviser. In addition to being in charge of the Discount and Credit Department, he has general supervision over the new building program and will handle special assignments. William F. Upshaw was named Vice President and General Counsel and is now in charge of the Legal Department. H. Ernest Ford was elevated to Vice President and will be responsible for the new building program and will work with Mr. Farmer. George B. Evans was promoted to Assistant Vice President in the Accounting and Bank Accounts Departments and Wenifred O. Pearce was elevated to Assistant Vice President in Check Collection. Hobert D. Pierce was named Assistant Cashier in charge of Building and Equipment and Barthonhue W. Reese was named Assistant Cashier in the Personnel Department.

At the Charlotte Branch, O. Louis Martin, Jr., was promoted to Assistant Vice President, and Charles H. Imel was named Assistant Cashier of the Culpeper Facility.

Summary of Operations

	1970	1969
CHECK CLEARING & COLLECTION		
Dollar amount		
Commercial bank checks[1]	189,905,006,000	154,553,326,000
Government checks[2]	15,503,843,000	14,184,745,000
Return items	1,746,610,000	1,055,809,000
Number of items		
Commercial bank checks[1]	636,923,000	499,162,000
Government checks[2]	68,261,000	66,058,000
Return items	7,359,000	5,898,000
CURRENCY & COIN		
Currency disbursed—Dollar amount	3,318,065,890	3,046,362,299
Coin disbursed—Dollar amount	147,146,575	150,655,860
Dollar amount of currency destroyed	1,131,836,112	1,079,930,385
Daily average of currency destroyed		
Dollar amount	4,438,573	4,235,021
Number	792,338	764,219
DISCOUNT & CREDIT		
Dollar amount		
Total loans made during year	5,126,845,000	10,698,050,400
Daily average loans outstanding	33,055,397	57,452,742
Number of banks borrowing during the year	95	112
FISCAL AGENCY ACTIVITIES		
Marketable securities delivered or redeemed		
Dollar amount	16,857,927,029	13,969,235,175
Number	355,646	352,267
Coupons redeemed		
Dollar amount	116,116,823	86,260,506
Number	366,297	304,453
Savings bond and savings note issues		
Dollar amount	361,648,172	371,618,450
Number	9,408,269	10,389,683
Savings bond and savings note redemptions		
Dollar amount	531,196,284	546,468,910
Number	11,946,924	12,309,004
Depositary receipts for withheld taxes		
Dollar amount	9,028,901,905	8,591,714,516
Number	2,134,725	1,975,201
TRANSFERS OF FUNDS		
Dollar amount	384,495,547,822	289,995,671,461
Number	425,529	389,437

[1] Excluding checks on this Bank.

[2] Including postal money orders.

COMPARATIVE STATEMENTS

Condition

ASSETS:	DEC. 31, 1970	DEC. 31, 1969
Gold certificate account	$1,043,808,340.57	$ 926,579,929.99
Special Drawing Rights certificate account	36,000,000.00	------------
Federal Reserve notes of other Federal Reserve Banks	82,642,870.00	67,815,864.00
Other cash	12,797,592.30	6,414,018.09
Discounts and advances	------------	12,150,000.00
U. S. Government securities:		
Bills	1,932,823,000.00	1,664,937,000.00
Certificates	------------	------------
Notes	2,474,114,000.00	2,347,358,000.00
Bonds	218,878,000.00	261,448,000.00
TOTAL U. S. GOVERNMENT SECURITIES	4,625,815,000.00	4,273,743,000.00
TOTAL LOANS AND SECURITIES	4,625,815,000.00	4,285,893,000.00
Cash items in process of collection	996,018,127.33	1,070,079,540.79
Bank premises	11,417,938.52	10,858,191.24
Other assets	58,185,422.04	137,232,291.92
TOTAL ASSETS	$6,866,685,290.76	$6,504,872,836.03
LIABILITIES:		
Federal Reserve notes	$4,604,378,958.00	$4,327,423,885.00
Deposits:		
Member bank reserves	1,306,815,256.74	1,089,525,344.69
U. S. Treasurer—general account	38,828,985.64	130,767,416.21
Foreign	6,375,000.00	6,760,000.00
Other	30,087,116.20	30,296,932.65
TOTL DEPOSITS	1,382,106,358.58	1,257,349,693.55
Deferred availability cash items	766,518,464.43	808,930,309.66
Other liabilities	42,280,409.75	42,762,247.82
TOTAL LIABILITIES	6,795,284,190.76	6,436,466,136.03
CAPITAL ACCOUNTS:		
Capital paid in	35,700,550.00	34,203,350.00
Surplus	35,700,550.00	34,203,350.00
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$6,866,685,290.76	$6,504,872,836.03
Contingent liability on acceptances purchased for foreign correspondents	$ 12,755,100.00	$ 7,586,800.00

Earnings and Expenses

	1970	1969
EARNINGS:		
Discounts and advances	$ 2,086,332.79	$ 3,404,671.02
Interest on U. S. Government securities	281,255,061.17	236,068,720.12
Foreign currencies	2,488,230.63	6,333,270.83
Other earnings	37,585.36	49,694.63
TOTAL CURRENT EARNINGS	285,867,209.95	245,856,356.60
EXPENSES:		
Operating expenses (including depreciation on bank premises) after deducting reimbursements received for certain Fiscal Agency and other expenses	23,289,429.24	18,843,497.13
Assessments for expenses of Board of Governors	1,084,700.00	780,700.00
Cost of Federal Reserve currency	2,815,300.03	1,892,778.10
NET EXPENSES	27,189,429.27	21,516,975.23
CURRENT NET EARNINGS	258,677,780.68	224,339,381.37
ADDITIONS TO CURRENT NET EARNINGS:		
Profit on sales of U. S. Government securities (net)	616,332.07	-------
All other	251,152.58	306,622.09
TOTAL ADDITIONS	867,484.65	306,622.09
DEDUCTIONS FROM CURRENT NET EARNINGS:		
Loss on sales of U. S. Government securities (net)	-------	448,948.42
All other	58,109.69	55,976.12
TOTAL DEDUCTIONS	58,109.69	504,924.54
NET ADDITIONS OR DEDUCTIONS	+809,374.96	−198,302.45
NET EARNINGS BEFORE PAYMENTS TO U. S. TREASURY	$259,487,155.64	$224,141,078.92
Dividends paid	$ 2,100,487.09	$ 2,008,397.94
Payments to U. S. Treasury (interest on Federal Reserve notes)	255,889,468.55	220,778,680.98
Transferred to surplus	1,497,200.00	1,354,000.00
TOTAL	$259,487,155.64	$224,141,078.92

SURPLUS ACCOUNT

	1970	1969
Balance at close of previous year	$ 34,203,350.00	$ 32,849,350.00
Addition account of profits for year	1,497,200.00	1,354,000.00
BALANCE AT CLOSE OF CURRENT YEAR	$ 35,700,550.00	$ 34,203,350.00

CAPITAL STOCK ACCOUNT

(Representing amount paid in, which is 50% of amount subscribed)

	1970	1969
Balance at close of previous year	$ 34,203,350.00	$ 32,849,350.00
Issued during the year	1,674,150.00	1,721,000.00
	35,877,500.00	34,570,350.00
Cancelled during the year	176,950.00	367,000.00
BALANCE AT CLOSE OF CURRENT YEAR	$ 35,700,550.00	$ 34,203,350.00

DIRECTORS

(December 31, 1970)

Wilson H. Elkins	*Chairman of the Board and Federal Reserve Agent*
Robert W. Lawson, Jr.	*Deputy Chairman of the Board*

CLASS A

Hugh A. Curry	*President, The Kanawha Valley Bank* *Charleston, West Virginia* *(Term expires December 31, 1972)*
Giles H. Miller, Jr.	*Chairman of the Board, The Culpeper National Bank* *Culpeper, Virginia* *(Term expired December 31, 1970)* *Succeeded by: Thomas P. McLachlen* *President, McLachlen National Bank* *Washington, D. C.* *(Term expires December 31, 1973)*
Douglas D. Monroe, Jr.	*President, Chesapeake National Bank* *Kilmarnock, Virginia* *(Term expires December 31, 1971)*

CLASS B

H. Dail Holderness	*President, Carolina Telephone and Telegraph Company* *Tarboro, North Carolina* *(Term expires December 31, 1973)*
Charles D. Lyon	*Retired President, The Potomac Edison Company* *Hagerstown, Maryland* *(Term expires December 31, 1971)*
Robert S. Small	*President and Chief Executive Officer, Dan River Mills, Inc.* *Greenville, South Carolina* *(Term expires December 31, 1972)*

CLASS C

Wilson H. Elkins	*President, University of Maryland* *College Park, Maryland* *(Term expires December 31, 1971)*
Robert W. Lawson, Jr.	*Managing Partner, Charleston Office, Steptoe & Johnson* *Charleston, West Virginia* *(Term expires December 31, 1972)*
Stuart Shumate	*President, Richmond, Fredericksburg and Potomac Railroad Company* *Richmond, Virginia* *(Term expires December 31, 1973)*

MEMBER FEDERAL ADVISORY COUNCIL

Robert D. H. Harvey	*Chairman of the Board and Chief Executive Officer, Maryland National Bank* *Baltimore, Maryland* *(Term expired December 31, 1970)* *Succeeded by: Joseph W. Barr* *President, American Security and Trust Company* *Washington, D. C.* *(Term expires December 31, 1971)*

OFFICERS

Richmond

Aubrey N. Heflin, *President*

Robert P. Black, *First Vice President*

Welford S. Farmer, *Senior Vice President and Special Legal Adviser*
Upton S. Martin, *Senior Vice President*
James Parthemos, *Senior Vice President and Director of Research*
Raymond E. Sanders, Jr., *Senior Vice President*
John G. Deitrick, *Vice President*
J. Gordon Dickerson, Jr., *Vice President*

H. Ernest Ford, *Vice President*
William C. Glover, *Vice President*
Arthur V. Myers, Jr., *Vice President*
John L. Nosker, *Vice President*
John F. Rand, *Vice President*
Aubrey N. Snellings, *Vice President*
William F. Upshaw, *Vice President and General Counsel*

J. Lander Allin, Jr., *Assistant Vice President*
Elizabeth W. Angle, *Assistant Vice President*
Clifford B. Beavers, *Assistant Vice President*
Lloyd W. Bostian, Jr., *Assistant Vice President*
Wm. T. Cunningham, Jr., *Assistant Vice President*
George B. Evans, *Assistant Vice President*
William C. Fitzgerald, *Assistant General Counsel*
John E. Friend, *Assistant Vice President*

Wenifred O. Pearce, *Assistant Vice President*
Chester D. Porter, Jr., *Chief Examiner*
Victor E. Pregeant, III, *Assistant Vice President and Secretary*
Frank D. Stinnett, Jr., *Assistant Vice President*
Andrew L. Tilton, *Assistant Vice President*
Albert D. Tinkelenberg, *Assistant Vice President*
William H. Wallace, *Assistant Vice President*
Jack H. Wyatt, *Assistant Vice President*

Fred L. Bagwell, *Examining Officer*
Wyatt F. Davis, *Examining Officer*
Charles H. Imel, *Assistant Cashier*
Hobert D. Pierce, *Assistant Cashier*

Joseph C. Ramage, *Assistant Cashier*
Barthonhue W. Reese, *Assistant Cashier*
Wilbur C. Wilson, *Assistant Cashier*

Joseph F. Viverette, *General Auditor*
G. Harold Snead, *Senior Adviser*

John C. Horigan, *Assistant General Auditor*

Baltimore Branch

H. Lee Boatwright, III, *Senior Vice President*
A. A. Stewart, Jr., *Vice President*
B. F. Armstrong, *Assistant Vice President*
E. Riggs Jones, Jr., *Assistant Vice President*
Gerald L. Wilson, *Assistant Vice President*
Charles P. Kahler, *Assistant Cashier*

Charlotte Branch

Jimmie R. Monhollon, *Senior Vice President*
Stuart P. Fishburne, *Vice President*
Boyd Z. Eubanks, *Assistant Vice President*
Winfred W. Keller, *Assistant Vice President*
Fred C. Krueger, Jr., *Assistant Vice President*
O. Louis Martin, Jr., *Assistant Vice President*

BRANCH DIRECTORS

(December 31, 1970)

Baltimore

James R. Chaffinch, Jr.	*Executive Vice President, The Denton National Bank* *Denton, Maryland* *(Term expires December 31, 1972)*
Tilton H. Dobbin	*President and Chairman of Executive Committee, Maryland National Bank* *Baltimore, Maryland* *(Term expires December 31, 1971)*
John H. Fetting, Jr.	*President, A. H. Fetting Company* *Baltimore, Maryland* *(Term expires December 31, 1973)*
James M. Jarvis	*Chairman of the Board, Jarvis, Downing & Emch, Inc.* *Clarksburg, West Virginia* *(Term expires December 31, 1971)*
Arnold J. Kleff, Jr.	*Manager, Baltimore Refinery, American Smelting and Refining Company* *Baltimore, Maryland* *(Term expires December 31, 1972)*
Adrian L. McCardell	*Chairman of the Board, First National Bank of Maryland* *Baltimore, Maryland* *(Term expired December 31, 1970)* *Succeeded by: J. Stevenson Peck* *President, Union Trust Company of Maryland* *Baltimore, Maryland* *(Term expires December 31, 1973)*
James J. Robinson	*Executive Vice President and Cashier, Bank of Ripley* *Ripley, West Virginia* *(Term expires December 31, 1973)*

Charlotte

H. Phelps Brooks, Jr.	*President and Trust Officer, The Peoples National Bank* *Chester, South Carolina* *(Term expires December 31, 1973)*
C. C. Cameron	*Chairman of the Board and President, First Union National Bank of North Carolina* *Charlotte, North Carolina* *(Term expires December 31, 1973)*
J. Willis Cantey	*President, The Citizens & Southern National Bank of South Carolina* *Columbia, South Carolina* *(Term expires December 31, 1972)*
L. D. Coltrane, III	*President and Trust Officer, The Concord National Bank* *Concord, North Carolina* *(Term expires December 31, 1971)*
John L. Fraley	*President, Carolina Freight Carriers Corporation* *Cherryville, North Carolina* *(Term expires December 31, 1971)*
William B. McGuire	*President, Duke Power Company* *Charlotte, North Carolina* *(Term expired December 31, 1970)* *Succeeded by: Charles W. DeBell* *General Manager, North Carolina Works* *Western Electric Company, Inc.* *Winston-Salem, North Carolina* *(Term expires December 31, 1973)*
E. Craig Wall, Sr.	*Chairman of the Board, Canal Industries, Inc.* *Conway, South Carolina* *(Term expires December 31, 1972)*