ANNUAL REPORT 1958



COMMERCIAL BANKING IN NEW ENGLAND

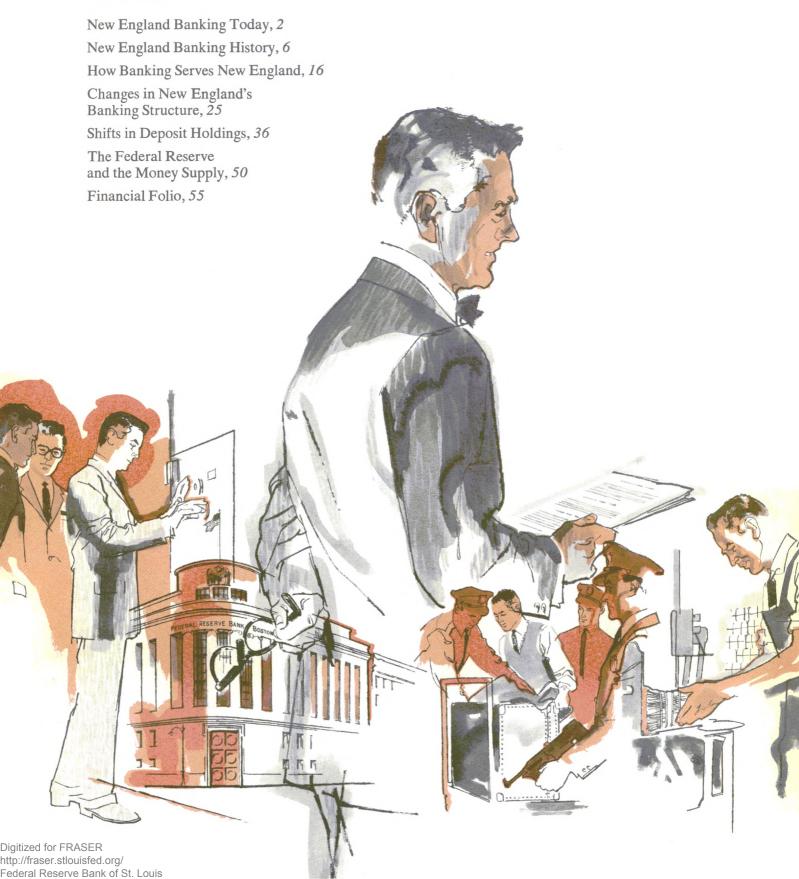












It is a pleasure to send you the 1958 Annual Report of the Federal Reserve Bank of Boston.

As is our custom, much of the report is devoted to an extended study of an important phase of the New England economy.

This year we present a review of the growth of commercial banking in New England from 1784 through 1958. In addition to discussing New England's early banking history and the region's numerous contributions to banking procedure, we have paid particular attention to significant changes which have occurred in the commercial banking structure since 1920, especially since 1945. While the statistics used here have been drawn from official sources, we hope their organization in the present form will fill a gap in New England's financial history and will prove interesting not only to bankers but to other readers as well.

The report also includes summaries of the Bank's operations. For the increasing efficiency of these operations, and for the assistance of our officers and staff in helping still further to expand the Bank's contributions to New England's economic progress, I extend my own thanks and those of our directors.

Our gratitude goes also to the bankers and business leaders of New England for their continuing generous co-operation.

President

January 26, 1959





NEW ENGLAND BANKING TODAY



It was on July 5, 1784, that New England's first commercial bank opened its doors to the 17,000 townsfolk of Boston. The Massachusetts Bank was unique — the first independent joint-stock bank to be chartered in the new nation, and its advent came some five years before Washington's inauguration as president. Others soon followed; of the nation's six oldest existing commercial banks, four are in New England.

Over the intervening 175 years, New England commercial banking has contributed immeasurably to the economic and social progress of both the region and the country. It helped build New England into one of the nation's most intensively-developed industrial areas, and it was New England money and enterprise which, among other ventures, pioneered the construction of western railroads and nurtured gold mining in California and copper mining in Montana. Today, New England banks not only continue to foster the region's people and their industries, but are stimulating the research, development and practicalities of the space age as well.

Here are the past and present of the region's commercial banking and something of its implications for the future.



At the end of 1958, the resources of New England's commercial banks were estimated at \$10.8 billion. Some 46 per cent of this total represented loans to industrial, commercial and trade groups and individuals, and 34 per cent represented investments in U. S. and other securities. At the same time, the banks had about \$12 billion of property under administration in personal trusts and in custody in their trust departments.

As in the nation, the institution of money and banking is vital to the region's economy and significantly influences practically all economic activities. It contributes its own strength or weakness and is in turn subject to these same forces should they develop in other parts of the economy.

In a narrow sense, commercial banking is the significant base of the entire financial structure. Commercial banks occupy a unique position. They are the only privately-owned institutions which can create money in the form of demand deposits through making loans. The activities of other financial institutions are dependent upon receiving money from other sources. In another sense, the banking system provides money, a common denominator in which all the activities of the economic system can be expressed.

The services provided by commercial banks, aside from the function of creating money, are essential elements in interrelating the whole range of economic activity—land, building, machinery, raw materials, people at work, legal obligations—and, more important, the results which they produce.

Commercial banking includes both national and state-chartered banks, with the latter embracing many trust companies which have specialized along commercial lines. Noncommercial or investment banking includes a few state banks, a number of trust

Position of Commercial Banks companies, mutual and stock savings banks, savings and loan associations and co-operative banks. Thus the New England banking system is composed of national banks operating under federal law, state banks operating under state laws, and a system of special institutions organized under state law or federal law, including a few fiduciary institutions, savings banks, savings and loan associations and co-operative banks.

As an employer, commercial banking in New England provides about one-fourth of the region's total employment in the financial community and more employment than several manufacturing industries which are important in the region. Banking employment has nearly doubled since World War II. The banks' regular staffs now comprise over 34,000 persons. In addition, a large number of professional and technically-trained persons are retained on a consulting or part-time basis. Measured by resources, commercial banking is significantly larger than several specialized types of financial institutions and is about half the size of the region's insurance companies. If the trust activities of the banks are included, they about equal the life insurance companies in size.

The Typical Commercial Bank The typical New England commercial bank, like the typical business concern or farm, is relatively small in size. Because New England is highly industrialized and densely populated, this typical bank is roughly twice the size of its national counterpart, however, and serves a larger number of persons and a more varied clientele. In contrast to those in some other areas, the typical New England bank serves both business and agriculture and in these activities there are many small enterprises with high-value-added products. Such a bank holds deposits of about \$6 million. It is chiefly a local institution whose stockholders, directors, officers and 7,500 customers are local people. The typical bank's loans tend to be tied to local business. Only its investment portfolio, seasonal holdings of commercial paper acquired through dealers or directly placed, and occa-

> National and State Commercial Banks in New England

Size Group	June 1	1920	June 1	1930	June :	1958
Loans and Investments	Number	%	Number	%	Number	%
Under \$150,000	17	2.3	16	2.3	8	1.8
\$150,000—\$250,000	30	4.1	11	1.6	1	0.2
\$250,000—\$500,000	87	12.0	44	6.3	8	1.8
\$500,000—\$750,000	94	12.9	67	9.5	4	0.9
\$750,000—\$1 million	74	10.2	56	7.9	8	1.8
\$1 million—\$2 million .	170	23.4	170	24.2	55	12.2
\$2 million—\$5 million .	164	22.5	204	29.0	135	30.0
\$5 million—\$10 million	53	7.3	75	10.7	105	23.3
\$10 million—\$50 million	33	4.5	54	7.7	101	22.4
\$50 million and over	6	0.8	6	0.8	25	5.6
TOTAL	728	100.0%	703	100.0%	450	100.0%

Estimates of Employment and Resources of Selected Financial Institutions in New England

Type of Institution	\$ Assets billions of dollars			Employment thousands of persons		
	1946	1954	1957	1946	1954	1957
Commercial Banks						
Banking Departments .	7.8	9.1	10.4	16.7	26.3	30.6
Trust Departments	5.0	8.5	11.5	2.2	3.2	3.5
Mutual Savings Banks	5.7	7.9	9.5	6.9	8.9	10.2
Savings and Loan Assoc. and Co-operative Banks	1.0	2.1	4.0	1.1	2.5	4.3
Life Insurance Companies	9.0	17.1	21.3	20.0	38.0	43.5
Other Insurance Companies	2.2	4.8	6.3	26.0	39.0	41.5
Investment Companies	0.8	2.5	3.1	0.8	1.6	2.0
TOTAL	31.5	52.0	66.1	73.7	119.5	135.6

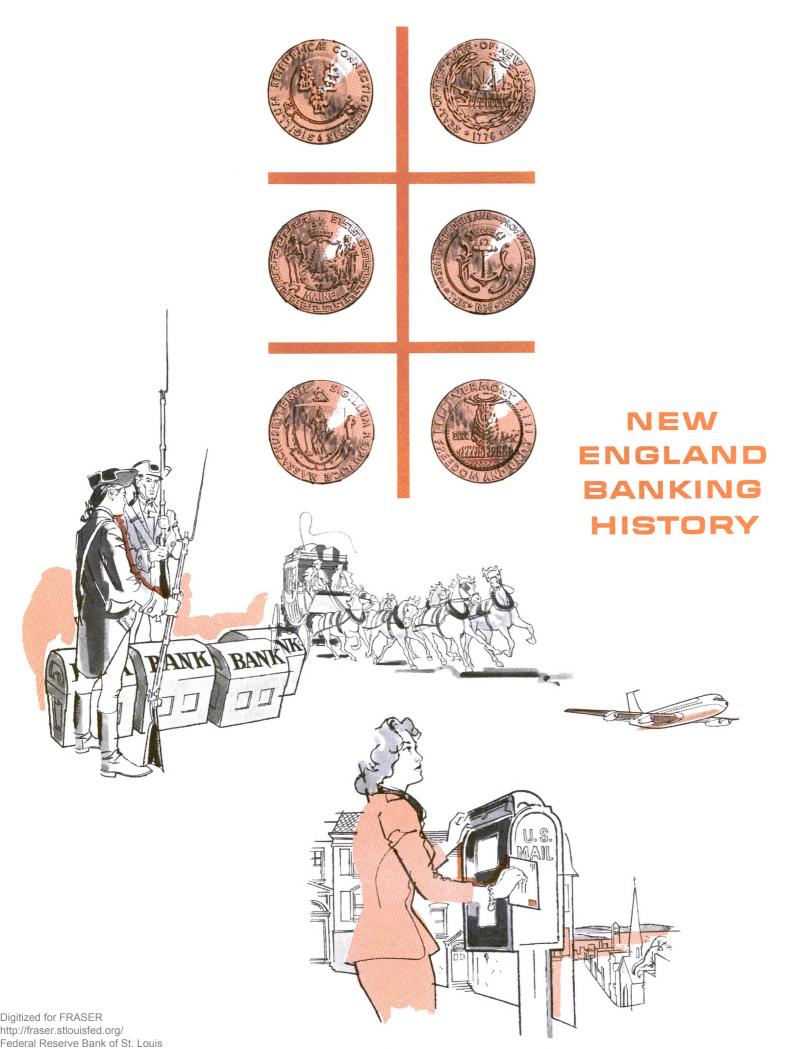
sionally a participation in loans with its city correspondent spread its risks to other areas.

The size of the region's banks varies greatly, however, with the largest bank holding deposits of over \$1.6 billion while the smallest has less than \$300,000. Seven banks are among the 100 largest in the nation and 19 are among the top 300. Several banks in the area trace an uninterrupted line of service back to the late 1700's and early 1800's and a large number are more than 100 years old. The region's larger financial centers like Boston, Hartford, New Haven, Portland, Providence, Springfield and Worcester contain banks having 50,000 to 100,000 or more customers and long-established relationships with a number of the largest corporations throughout the nation. Some of these banks are among the leaders in making loans to American industry.

A Boston bank is one of seven banks in the nation which operate one or more branches abroad. It was the second national bank in the nation to open a foreign branch under the authority of the Federal Reserve Act, establishing a branch in Buenos Aires in 1917 to serve better the New England wool and hide industries, and another in Havana in 1923 to serve the sugar trade with Cuba. The bank now has 15 branches in Cuba, Argentina and Brazil.

The banks in New England's financial centers, particularly those in Boston, serve as correspondents for other banks located in the region, the nation and abroad. The Boston banks have 3,200 correspondent banking accounts, about 2,000 of which are with New England institutions located in every city and county in the region. Some 650 accounts are carried for banks elsewhere in the nation and about 550 are for foreign banks.

Although the typical New England bank is an independent unit or single-office bank serving its respective community, some form of branch banking has been developed, as the law permitted, in all of the region's states except in New Hampshire where, since no permissive legislation exists, authorities prohibit it. Many of the region's larger banks have developed broad networks of branch offices which widen the opportunities for service and usefulness in neighborhood, suburban and rural areas.



New England's early banks were started under varying circumstances. After the Revolutionary War cut off the credit upon which colonial trade had depended, and at the same time undermined the paper money which the colonial governments had issued, commercial banking began to make headway in New England. The states of the new nation relinquished the right to issue bills of credit and the gap created brought about a demand for banking facilities. Within a few years banks were organized in Boston, Baltimore, New York and Philadelphia.

The Massachusetts Bank, the first independent joint-stock bank in the United States, was chartered under state law in 1784. It converted to a national bank in 1865 and, with its name changed through consolidation, continues business today with an unbroken management succession. In circulating the proposal for the bank, the founders stated that they had been "Taught by the Experience of many Nations that well regulated Banks are highly useful to Society, as they promote Punctuality in the Performance of contracts, increase the medium of Trade, facilitate the Payment of Taxes, prevent the Exportation of, and furnish a safe deposit for Cash, and in the way of Discount, render easy, and expeditious the anticipation of funds at the Expence only of common Interest." This bank and the others which followed were not banks of loan, discount and deposit as known today, but chiefly banks of note issue.

The early New England banks, like those elsewhere, were chartered by special acts of the legislatures of the respective states, and chartered banking in the region continued to be the dominant form until Congress passed the National Bank Act in 1863. The region's comparatively dense population, along with its active manufacturing and commercial interests and steady accumulation of capital, made it necessary and possible to provide banks. The legislatures granted charters with some freedom but surrounded the banks with a number of general regulations which conformed to a common type.

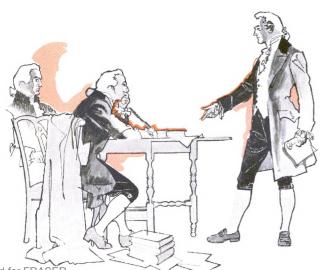
The typical New England bank was an incorporated company having reasonably broad banking powers. In every state the legislature placed the banks under the supervision of one or more commissioners provided with certain powers of inspection and investigation, and required that reports of condition of every bank be made to the state. New England requirements were among the most stringent in the nation and there was uniformity in the region. The conservatism in banking requirements saved the area from a flood of irresponsible facilities characteristic of some sections of the United States. The banks used their funds chiefly, and frequently exclusively, to purchase trade paper, and their bank notes were issued on the basis of general assets of the bank. To make counterfeiting more difficult, the practice was developed of mixing colored silk threads in the paper pulp from which the notes were made. The origin of this idea is attributed to the Massachusetts Bank. For almost the entire period preceding the National Bank Act of 1863, New England had a safe, adequate currency with a good diffusion of banking facilities. About one-third of the banks and more than one-fourth of the bank capital in the nation were in New England at the close of the early period in 1838.

In the Beginning

(Circular to the follectors Treasury Department in the State of Massachusetts) March 30-1790

In mune of the 20th November last I directed you to take you to take duplicate receits for all monies remetted by you to the Bank of Massa = - chusetts on account of the United States; one of which was intended to be transmitted to the Treasurer and the other to be retained by you.

As forme of the follectors have not fent on this receit under an impression that the same Should accompany their quarterly accounts; and as this mode in some instances will occasion as delay in the settlement of those accounts, it is my wish that the receit in question be in future sowarded to my Office immediately upon each payment made in the faid Bank in order that the same may be covered by a Warrant, and your account credited at the Treasury.



Jam Tu

Your Obed. ferrant Adametter

or FRASER http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis During the course of its development since 1784, New England banking, along with that of the nation, has changed from the function of note issue banking — supplying means of payment in the form of bank notes — to the function of deposit banking — providing means of payment in the form of checks.

In other areas chartered banking failed to display New England's systematic arrangement or to follow a consistent policy, and competition in many areas tended to be suppressed. The diversity in banking compelled a change, and the method of incorporation by general act — "free banking" — was added to the method of incorporation by special charter. Corporate banking was thus opened to anyone meeting the requirements of the laws; a specified number of persons complying with the requirements could take out a charter and enter the banking business. This change reflected the pressure for more liberal supplies of credit for economic expansion and also the need for a better note circulation. Provision for the general incorporation of banks, or "free banking," was introduced first in New York State in 1838. The idea of freedom in banking met with wide popular appeal. Laws were passed in most states following the pattern in New York, partly to systematize banking and partly because of the growing preference for general legislation rather than special in all possible cases. These general laws all provided some plan for a uniform note issue secured by state or federal bonds. With the development of "free banking" the business changed from the generally privileged character for which there was little governing legislation to a highly competitive business subject to legislation and supervision.

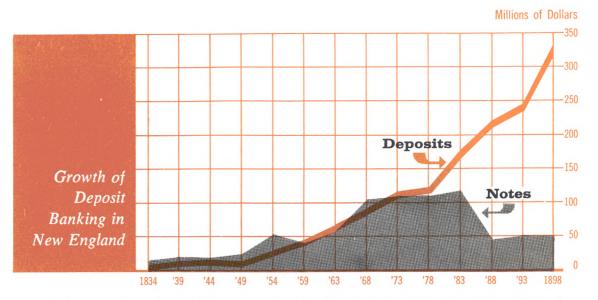
By the time of the National Bank Act, 1863, the "free banks" had come to hold the most important place in most states of the nation. The movement, however, never made headway in New England. Vermont, Massachusetts and Connecticut passed general banking laws in the early 1850's but Maine, New Hampshire and Rhode Island failed to do so. Several "free banks" were established in Massachusetts and Connecticut but they were relatively unimportant. In New England, chartered banks retained almost exclusive possession of the field until most of them converted to national banks under federal law. Up to the time of the National Bank Act no attempt was made to regulate banks by national laws. The state authorities were assumed to be the proper instrument for this purpose.

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In the period between 1838 and 1863, checks drawn on bank deposits superseded bank notes as the principal means of payment. After 1875, the use of bank notes began to decline, their place being taken increasingly by other currency forms and by bank deposits subject to check. This development in considerable part reflected a change in the character of economic life. With the growth of large-scale enterprise and improvements in transportation and communication, the volume of transactions and number of payments beyond local areas increased. Deposits subject to check came to be used as more convenient than currency, and the provision of bank credit in the form of deposits instead

Chartered vs. "Free" Banking

Rise of Deposit Banking



of notes became the principal function of banks. In 1829, banks in the cities of Boston and Salem, Massachusetts, reported a ratio of notes to deposits of 109 per cent and that of country banks in Massachusetts was 315 per cent. By 1875, the ratio for New England was 95 per cent. Today, for the nation as a whole, currency is about 25 per cent of demand deposits. Checks, however — deposit currency — are used to settle 90 per cent of all transactions.



Early Central Arrangements

Over the last century the banking structure has changed from a collection of individual institutions with relatively few connecting ties to one of institutions drawn closely together in an organic system, and its significance as a system lies in the interrelation of activities. In a general sense, this unity provided the strength needed to enlarge operations and broaden facilities.

The city of Boston early developed as the commercial and shipping center of New England and the seat of a large southern trade. As these functions grew, Boston's financial institutions developed and extended their influence. Banks throughout New England found it necessary to keep deposits in Boston and as a result there grew up a correspondent system — one of the most highly developed in the nation — which tended to unify the region's banks.

The correspondent banking system, with its clearings, dates from the Suffolk System established in 1824, when the Suffolk Bank of Boston instituted mutual redemption of bank notes. New England bank notes, already in high standing, became the soundest in the nation. The Suffolk Bank agreed to receive at par the notes of any bank keeping with it a sum sufficient for the current redemption of its notes and, in addition, a permanent deposit. The Suffolk Bank thus became a clearinghouse for notes of New England banks. The notes were sorted and redeemed and held subject to the order of the issuing bank. The notes of non-participating country banks were returned to their issuers for redemption in specie.

In acting as a redemption and clearing center for New England notes, the Suffolk Bank not only prevented undue expansion of the note issues of country banks, but also gave New England a sound and uniform currency readily acceptable at par in New England and other sections of the nation. The Suffolk plan succeeded in rendering some centralized banking services and was more efficient than anything that could be provided through legislation. Excessive issues of notes were quickly and rigidly checked. The commercial relations of the region were not subjected to sudden or intense demand for settlements from outside. The community had confidence in the value of assets made up of paper created in regular and prosperous business. The use of specie was economized and a smoothly-working credit system was produced in response to regular demands of business. Notes were substituted for coin and maintained at par with specie by influence at a central point. The Suffolk System continued in operation until 1866 when state bank notes were so heavily taxed by the federal government as to become unprofitable.

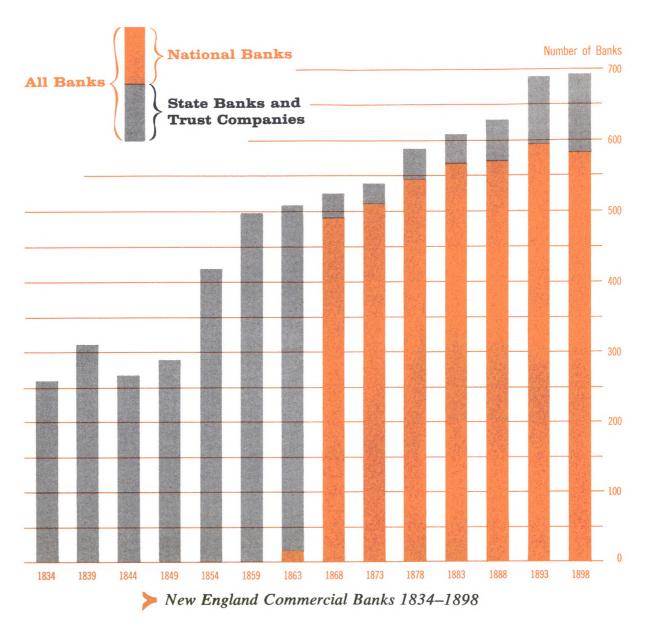
The clearinghouses set up in many cities after 1850 represented an important advance in developing understanding and co-operation, and later assisted in bank regulation. The first clearinghouse was established in New York in 1853 and the Boston Clearing House opened for business in 1856. Those in Boston and in other New England cities provided an efficient mechanism for clearance and collection of checks and other cash items. In 1899, after having been opposed by a majority of banks for a long period, collection of out-of-town checks was begun at Boston. After 1905, several other cities followed the example of Boston and their clearinghouses established country departments. Bankers state that the Boston country clearing arrangement was the most successful attempt to solve the problem of country check collection prior to the Federal Reserve System. The Boston plan was modeled after the Suffolk System and enabled the New England banks to distinguish themselves with respect to deposit currency just as they had distinguished themselves in the matter of bank notes. Checks circulated at par with notes. Organized clearing provides efficiency and economy in the use of reserves and brings greater effectiveness to the use of checks. To the extent that all banks participate in a centralized clearing, all debits and credits tend to equalize and offset each other, minimizing the use of reserves.



The passage of the National Bank Act of 1863, and its early amendments, marked the close of the era of state banking and the beginning of a closer federation of the banking system. The Act established an agency through which the currency was to be issued and provided the nation with a uniform currency and uniformity of supervision and regulation. Standards of banking requirements and practice were developed that were superior to those otherwise generally in force in the nation. But the Act also continued "free banking," thus providing for a continued extension of facilities. Practically all of the state banks in New England converted to national charters, a record which was not equaled in other regions.

The national system, however, failed to develop flexibility and to change as the economy changed, and defects developed with the passage of time. The system was concerned

The National Bank Act



chiefly with the safety and regulation of bank notes and little attention was paid to the demand deposits which were becoming the dominant part of the banking process. The most important defect of the national system was the lack of flexibility in the nation's currency and bank reserves.

The volume of national bank notes depended upon the amount of the government debt. The policy of debt repayment and other noncommercial factors, and the geographical distribution of issuing banks, were not related to the need for notes. Bank reserves were widely scattered among banks instead of being concentrated at a central point which would provide mobility. Furthermore, the method of collecting checks had become slow and expensive and was tied closely to the reciprocal balance arrangements.

The national banking system was generally found to be weak when strength was needed, with the banks failing to co-operate when co-operation was essential. Under the

correspondent system, banks in the larger centers acted in a dual capacity — as local banks to meet local demands and as central banks to serve other banks. Even during periods of normal business, extremely heavy seasonal demands for currency would bring about shortages of reserves, and declines in reserves tightened credit. If the shortage of bank reserves became acute, as was true in 1873, 1884, 1893 and 1907, it frequently led to a suspension of specie payments by the banks. Demands for reform became insistent during the latter part of the 1800's and early 1900's.

Meanwhile, trust companies chartered by special acts of the state legislatures increased in number in New England as in many other parts of the nation after about 1870. The New England states did not provide for incorporation of these companies under the general law until after 1900. Many of the early trust companies were organized primarily for other purposes and trust powers were granted as a secondary objective of incorporation. In other cases, the charter provided a threefold character: first, a bank with all banking powers except the right to issue notes; second, a savings institution; third, an incorporated executor, administrator and trustee of decedents' estates and "of the living who might desire to avail of its services."

By the early 1880's many of the trust companies were developing a generally broad banking business and began to compete actively with national banks. Later many of the trust companies were acquired by national and state banks to round out their business and provide trust services.



Although there had been two experiments with central banking in the United States before 1914 — the first Bank of the United States (1791-1811) and the second Bank of the United States (1816-1836) — it was not until the passage of the Federal Reserve Act that the country's banking system secured a permanent central organization.

The Federal Reserve System was designed to meet several general objectives:



- (1) Generally strengthen reserves so that they might be more readily used to enable banks in any section of the country to meet their obligations instead of suspending cash payments. Concentration of reserves was also designed to organize and consolidate the strength of the financial community.
- (2) Furnish an elastic currency which would expand and contract with the needs of business. Abolish the rigid and inelastic bond-secured currency as issued by national banks.
- (3) checl
- (3) Exercise the functions of a clearinghouse for its member banks in handling checks.
 - (4) Provide general supervision of banking at the federal level and exercise broad functions in connection with the money supply, leaving to the highly-competitive, privately-owned individual units the actual direction of the regular day-to-day business of banking, and to market forces and the individual units the allocation of the money supply among users.
 - (5) Help create conditions favorable to sustained high employment, stable values, growth of the country and a rising level of consumption.

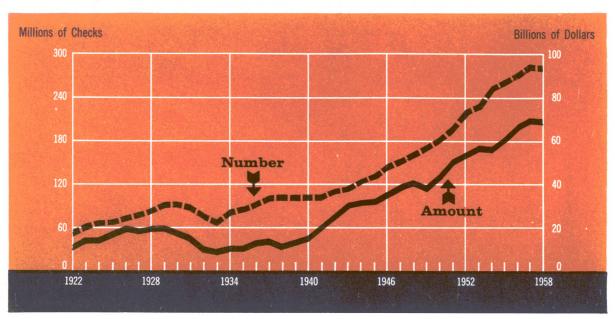
The Federal Reserve System The Federal Reserve Act provided for a system of 12 Federal Reserve Banks situated strategically throughout the country. The capital was subscribed by national banks, which were required to become members, and state banks and other financial institutions which elected to become members and qualified for admission to the System. The banking system thus became an association or federation of national and state banks united to a considerable extent through the district Federal Reserve Banks. Local administration of federal banking regulations and the means of strengthening banking facilities were provided through each Reserve Bank. The Federal Reserve Banks as a whole were placed under the general direction of the Board of Governors in Washington appointed by the nation's President. The Board would generally oversee and harmonize the operations of the Reserve Banks.

Thus the Federal Reserve System organized the banking units in the national and state systems into an integrated whole. The Act maintained "free banking," as it was then constituted, and did not call for a change in the banking system in a broad sense. Nevertheless, it provided the means for a further evolution and development of it. The Reserve System, in effect, united the reserves of thousands of small banks into a small number of combined reserves, which resulted in equalizing the strength of the banking community and making possible further economies in the use of reserves and a more efficient and effective use of bank capital. In New England, the Federal Reserve Bank was established at Boston to serve the six New England states, a closely-knit, highly-developed economic region. Later, Fairfield County, Connecticut, was assigned to the New York Reserve district.

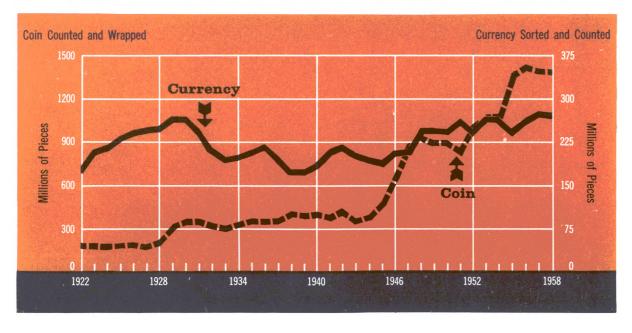
The organization of the Federal Reserve System, as reflected in its structure as well as in its operating and policymaking bodies, brings together both public and private interests. Some powers have been given to the central agency — the Board; some to its constituent parts — the Reserve Banks; and some to a combination of the two. The interest of the public at large is represented not only by the Board but also by the Class C directors of the Reserve Banks, who are appointed by the Board, and by the Federal Advisory Council. The System is at one and the same time national and regional, and through federating the banking structure provides both greater strength and flexibility.

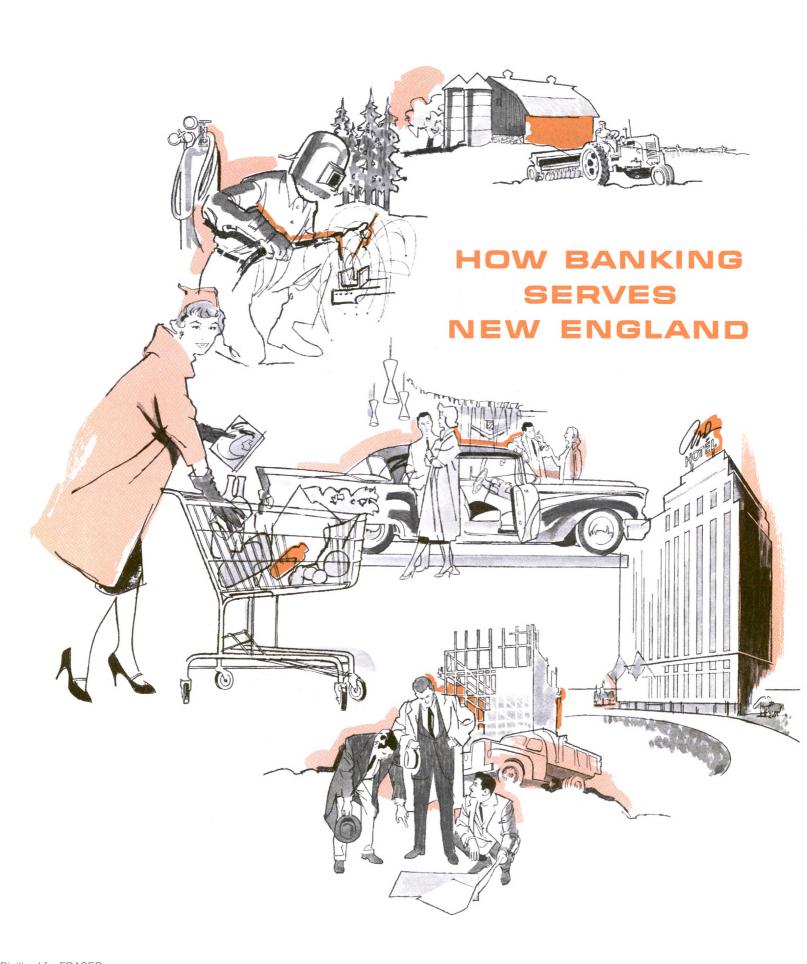
Besides carrying out its functions of regulating and supplying reserve funds, the Federal Reserve Bank of Boston provides several important services for its members and the banking community in general. The clearing and collection of checks is one of the most important of these — over one-quarter of a billion checks were handled during 1958. The Federal Reserve Bank services the region's supply of currency and coin, and provides needed fiscal agency services for the government. Other services available to member banks include the buying and selling of U. S. securities on their order, safe-keeping such securities and use of the Federal Reserve wire transfer service.

> Check Collections by the Federal Reserve Bank of Boston



Coin and Currency Handled by the Federal Reserve Bank of Boston





The financial services provided by commercial banks as a whole cover a wide range and include "retail" as well as "wholesale" banking. Retail banking serves both business and individuals in local markets — meeting the mass demand of small borrowers — while wholesale banking operations serve business and finance on a regional, national and international scale and involve lending substantial blocks of money to large borrowers. Although some banks confine their operations to a narrow field, others render such a variety as to be termed "department store" banks, and many place particular emphasis on consumer services.

Commercial
Banking
Services

The activities of banks touch the lives of almost every New Englander. One or another of the banks may make a small personal loan of \$100 or a commercial loan in the millions; accept a 50-cent weekly deposit in a Christmas Club or corporate deposits in the millions from firms in the region or the nation.

A New Englander may purchase an automobile with a loan from one of the region's banks, fill it with gas and oil purchased from a company financed by the bank, and drive it on a toll highway built with the proceeds of a bond issue held in part as an investment by the bank.

Another New Englander may own investment trust shares or other securities which were transferred into his name by a bank's corporate trust department and may keep them in a safe deposit box at one of the bank's branches where he maintains a savings or personal checking account.

A family may shop in a supermarket built with a construction loan made by the bank or live in a house which has been financed by a conventional, VA or FHA mortgage. Thousands of New Englanders and others elsewhere receive retirement income checks from corporations where they were once employed which are mailed to them by the bank's personal trust department which manages the pension fund.







An interesting feature of banking progress over the years has been the steady development and continuous change in functions and operations of banks. Despite change, lending to business continues as the bank's major function, takes a variety of forms and serves a number of purposes. Credit, in many instances, is granted under what is called "a line of credit" and is generally unsecured. If the credit runs for more than a year it is known as a term or intermediate loan. It may arise under a letter of credit and involve acceptance financing. Commerce and industry use bank credit to finance output, carry inventories, augment facilities, and market and distribute goods. Loans finance residential and commercial construction and "warehouse" mortgages pending final holding by insurance companies or savings banks. Loans aid those engaged in defense as well as private production. Some of the defense loans are guaranteed by the military services under the V-loan program administered by the Federal Reserve Banks as agents for the guarantors.

Services to Business

Percentage of Total New England Bank Loans (DECEMBER 1958)

fanufacturing and Mining Food, liquor and tobacco Textiles, apparel and leather		Total % ▼ 19.6	
Food, liquor and tobacco		19.6	
*			
*	2.6		
11	2.8		
Metal and metal products	6.5		
Petroleum, coal, chemical and rubber	4.2		
All other manufacturing and mining	3.5		
'rade		11.3	
Wholesale trade	3.8		
Commodity dealers	2.2		
Retail trade	5.3		
ther		20.5	
Sales finance	3.7		
Transportation, communication and public utilities	5.0		
Construction	1.9		
All other	9.9		
Total Business Loans		51.4	
Real Estate Loans			
oans to Individuals		24.7	
all Other Loans		5.9	

In extending loans to industry on a regional or national scale, the smaller banks generally work with their city correspondents. The correspondent offers aid and support to the smaller bank on loans involving specialized knowledge or requiring amounts exceeding the smaller bank's lending capacity. In a number of instances, the correspondent participates or carries the excess loan.

Although most of the business lending of the region's banks, as measured in dollars, is to large corporations, the greater number of commercial borrowers are relatively small firms whose loans range from a few hundred dollars to \$50,000. Boston banks attract loan business from all parts of the nation, either through correspondents or new business

departments, in successful competition with banks elsewhere. In many cases, banks have also been able to retain the business of firms which have moved away from the region. At the end of 1958, business loans of New England commercial banks totaled \$2.5 billion and represented over 50 per cent of total loans. Over the 13-year period since World War II, the dollar volume of business loans has more than tripled. Within the increased total, however, the proportion of loans to manufacturing, mining and wholesale groups has declined while the proportion of loans to sales finance, real estate, construction and service firms has increased. Shown in the table on the opposite page are the major business borrowing groups at the end of 1958.

The region's larger banks, particularly those in Boston, have developed specialists in handling loans to various industries. They have also contributed to the technique of lending. Many bankers attribute the first use of a term loan to a Boston bank in lending to a large metal fabricator in 1934. Since that date, term loans have become a large component of the loan portfolio of many of the nation's leading banks. This type of lending is widely used to finance business expansion programs. Such a loan runs for more than a year and provides for serial repayment. As district banks make term loans to industry, to that extent have the over-all financial requirements of business corporations been more adequately and flexibly served.

In 1945, a Boston bank entered into active competition with the long-established factors and was the first bank to operate its own factoring credit office in New York. Since that date the bank has become one of the top five lenders in total annual factoring volume.

Banks also provide the means for transferring funds rapidly and efficiently, provide domestic and foreign exchange and purchase and sell foreign currencies. In addition to the Federal Reserve wire transfer system, more than 200 commercial banks in 60 principal cities in the nation are linked through the "bank wire." A dozen or more of the region's banks participate in this facility.

The larger banks co-operate with financial officers of firms operating nationally in developing ways of accelerating the movement of their cash — "mobilizing money" — in the form of sales receipts, payroll funds and interregional settlements. An increasingly popular service is remittance banking, an arrangement with customer companies under which banks collect from post office lock boxes the invoices and payments returned to the company by its own customers. Checks are recorded on high-speed duplicating equipment and converted into available funds with a minimum of delay.

The foreign departments of the larger city banks provide broad facilities for international trade. They serve both foreign and domestic customers in facilitating the movement and interchange of the goods of the world. Transportation agencies, merchants and shippers use bank credit to move commodities overseas.

New England banks rank third in the list of the nation's institutions which create banker's acceptances and are exceeded only by the banks of the New York and San Francisco Reserve districts. Banker's acceptances are used principally to finance the movement of goods to and from the markets of the world. One Boston bank provides direct New York handling for these drafts through its Edge Act foreign banking corporation

Term Loans subsidiary, one of two such corporations in the United States offering this kind of service.

In another phase of their activities, a number of banks in each state in the region helped to organize the first development credit corporations in the nation, beginning in 1949 in Maine. These corporations lend funds to promising small business ventures which involve too much risk for direct bank lending.



Services to States and Municipalities Through their municipal bond departments, or through purchases of municipal securities, banks participate in the financing of schools, roads, waterworks, sewer systems and other public improvements for states and their political subdivisions. The region's banks perform this function by dealing in and underwriting the short- and long-term obligations which the governments offer at interest rates generally established by competitive bidding, although sometimes through negotiated sales.

The volume of revenue anticipation notes (short-term debt) issued by New England cities and towns is approximately \$300 million annually. Some 600 separate bond issues (long-term debt) aggregating about \$500 million, the proceeds of which are used to develop community facilities, have been offered annually in recent years. About half the proceeds of these issues have been used for school construction while another quarter has been spent on sewer, water and highway projects.

At present 10 of the region's larger banks handle almost three-quarters of the municipal financing in New England: five in Boston, two each in Hartford and Providence, and one in Portland. The balance is spread among a number of the smaller banks. The practice of placing municipal deposits with the low bidders on note issues has stimulated the activity of the smaller banks in this field as the tight money conditions of recent years have encouraged more vigorous competition for deposits. Frequently the smaller banks originate the loan and later sell it or participate in it with their correspondent. In other instances, tax notes may be sold to corporate customers. For the most part, short-term obligations are absorbed within New England.

Certain of the short-term credit requirements of Boston and Providence are supplied by arrangements designed to meet the particular needs of these cities. Boston usually borrows about \$80 million for tax anticipation purposes throughout the year, coming to the market on an average of every two weeks. The notes are always offered in the market for bidding and the syndicates which bid on these notes are generally headed by a New York bank or bond house. Boston banks, however, are always members of these syndicates.

Several years ago, the city of Providence and the commercial banks located there established a revolving credit plan designed to meet the city's bond anticipation requirements. Under the plan, a line of credit is set up, subject to annual or more frequent revision, which permits the city to follow its policy of entering the bond market only once each year. This avoids the necessity of issuing bond anticipation notes and having to go to the market for relatively small amounts of money. The interest rate is reviewed every six months and participating banks are assigned parts of the line on a capital-deposit formula basis.

Although commercial banks buy virtually all the short-term municipal notes issued, they seldom underwrite bond flotations. Instead, bond dealers, either in syndicates or individually, depending on the size of an issue, underwrite the long-term obligations. The banks, however, are of service to communities in connection with bond issues in a number of other ways: first, as adviser on technical details; then, as publicist of the issue; and finally, as certifying and paying agent. By helping organize municipal financial data in an orderly and uniform fashion, banks have significantly increased the number of bids received by communities in their area. In addition, a school for municipal officials originated by one of the Boston banks has attracted nationwide attention, and an annual forum for municipal finance officers was established several years ago by a Hartford bank. Other efforts are being made locally in this direction.

Commercial bank investments in municipal bonds in the region (both revenue and general obligations) increased from \$85 million in 1946 to \$767 million in 1958 — a somewhat faster rate of increase than in the nation.



Some 375 of New England's banks serve as qualified government depositaries, as did the Massachusetts Bank when designated by Alexander Hamilton as the first such state bank in the nation as early as 1789. It received the first deposit in February 1790.

Using commercial banks as part of the government depositary system provides an efficient way of transacting the government's business. The depositary system reduces to a minimum the effect of Treasury financial operations on the economic stability of the nation. Tax monies and the proceeds of the sale of government securities are accumulated in these accounts subject to a government order. The depositaries make possible a smooth flow of funds from the banking system to the Treasury and back again into the channels of trade through government disbursements.

In recent years the balance in these New England accounts has averaged \$200 million and ranged from a high of \$400 million to a low of \$50 million during the year, representing about five per cent of the total of such deposits in the nation. The tremendous growth in recent years of the federal government budget and of the public debt has made Treasury operations the largest and most important single influence on the flow of funds through the money market.

Commercial banks also assist the Treasury in the weekly sale and distribution of Treasury bills and other securities, including the sale and issuance of U. S. Savings bonds either by direct sales or servicing payroll savings plans.



New England banks also provide a variety of needed services — generally described as "retail banking" — for a large percentage of New England's people. Such services include regular savings accounts which draw compound interest, Christmas Club and tax club savings accounts, Register or money order checks, special checking accounts, safe deposit boxes, traveler's checks and the extension of personal credit.

Services to the Federal Government

Consumer Services The regular savings accounts aid and safeguard individual savings as well as make them more productive. Register checks, a form of personal money order, and special checking accounts requiring no minimum balance supply those without regular checking accounts with a means of transferring money and paying bills safely and conveniently at small cost. Safe deposit boxes protect valuables such as wills, securities, insurance policies and jewelry. Traveler's checks may be purchased for cash and, when properly validated, are considered the equivalent of cash throughout the world, thus protecting funds when traveling. The Register check originated by a Boston bank in 1937 is now widely used throughout the nation. All of these services have grown importantly since their introduction.

Personal or consumer instalment loans represent one of the most popular services and the one which has had the most significant growth. Such loans are made for individual, family, professional and small business use. Families borrow to consolidate debt, pay for medical care, travel, education and insurance, and to finance a variety of such major expenditures as automobiles, household appliances, and maintenance and repair of residential property. Those in the professions borrow to establish practices or to acquire "tools of the trade." Small business has borrowed to become established and to grow, to purchase equipment or to obtain working capital. Some banks have recently initiated term loans to small business for working capital or other needs running up to \$25,000 in amount with maturities up to five years. During the postwar period consumer loan service has grown in breadth and attracted a broader clientele.

Instalment Credit Instalment credit extended by commercial banks in New England has a long history. Several of the banks were the first, or at least among the very few early entrants into the field. A Boston bank began making loans to individuals for the instalment purchase of automobiles as early as July 1916. The bank began soon thereafter to finance purchases through dealers in the area. In 1920, a Bridgeport, Connecticut, bank offered co-maker consumer instalment loans through its "Industrial Plan." In November 1928, the Boston bank mentioned above further extended its service to the community by formally organizing a personal loan department. Since then the region's banks have developed means of meeting the full range of needs of wage earners, professional persons and small businessmen. The banks have also contributed to the various techniques used in extending credit in the consumer area. A recent contribution was the development of a "revolving" plan in 1955 by a Boston bank for using instalment credit for the purchase of a wide range of goods and services — a service which has been copied by banks elsewhere in the nation.

With the passage of the National Housing Act in 1934, a Boston bank was licensed on the opening day to offer loans for repair and modernization of residential property under Title I. This bank is among the nation's leading lenders in this field, and has held first place in New England since the inception of these loans, which have been offered widely throughout the district since the 1930's.

In the late 1920's, personal loan departments of the region's commercial banks accounted for an amount estimated at less than 10 per cent of the over-all total of consumer

loans in New England. Early in the period after World War II, when this type of lending was resumed on a broad scale, the area's commercial banks accounted for about 36 per cent of the total of these loans. At the end of the year 1958, commercial banks in the region reported close to \$725 million of consumer instalment loans, representing about 48 per cent of the total of such credit advances in the region.



The trust company is distinctly of American origin. The first of which a record has been preserved is the Massachusetts Hospital Life Insurance Company, chartered in Boston in 1818. In 1823, it received the express sanction of the state legislature to conduct trust business. The company wrote life insurance policies and annuity contracts and acted as trustee for invested funds contributed by a large number of individual investors. The trust or endowment business soon exceeded the life insurance business and by 1836 it had \$5 million of trust deposits. Between 1820 and 1830, the profession of private trustee came into prominence in Boston. The "Boston trustees" for a long period administered or controlled a larger aggregate of trust property than was held by the corporate trustees. They have played an important part in the management of New England property but gradually have been superseded in importance by corporate trustees.

By the latter part of the 19th century, trust business had become a new frontier of financial development and had taken on added importance with the rise of personal and industrial wealth. New England, because of its traditions in conservative property management has always been a leader. Currently, it is estimated that the region holds between eight and 10 per cent of the total trust business handled by banks in the United States. Nationwide, the real development of the trust business has occurred in the last 50 years. National banks were first granted trust powers under the Federal Reserve Act of 1913.

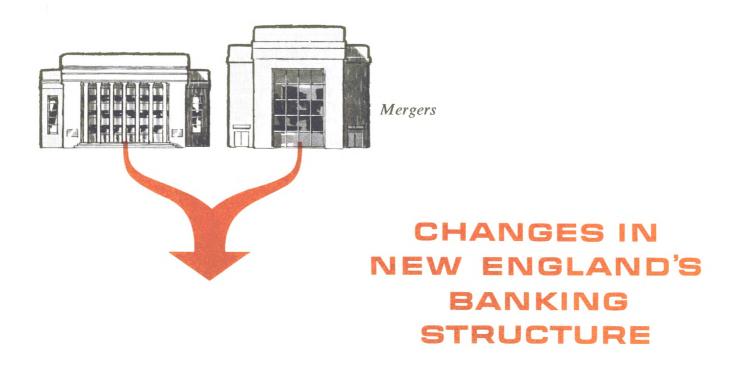
The region's banks now offer varied and extensive trust services through their trust departments. Since 1946 expansion has been significant, reflecting the increasing demand for various specialized trust services. Through their personal trust departments the banks serve as executors, guardians and trustees for individuals and participate in the management of funds for nonprofit institutions. The departments also supervise the investments of corporate and individual customers. Through their corporate trust departments, banks serve as trustees for bond issues, transfer agents and registrars for stock issues, paying agents for bonds and dividend disbursing agents. In 1958, more than 60,000 individuals and corporations and nonprofit organizations were using these services offered by district banks.

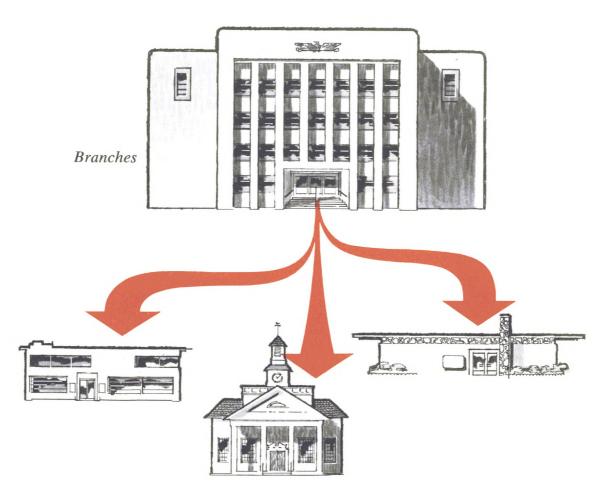
As a whole, the region's trust departments have shown a substantial increase in the volume of property under administration. Assets of personal trust departments in New England aggregated \$12 billion at the end of 1958, more than double the amount held at the close of 1946. About half of the property held in personal trust departments represented investment management agency accounts and custodies and the balance personal and court trusts. The former type of services has been among the most rapidly growing divisions of trust work in the postwar period.

Trust Services Pension trusts and profit-sharing plans have also grown significantly in importance in recent years, with an increasing number of corporations using the trustee form of providing employee benefits. A recent study indicated that at the end of 1957, more than \$19 billion of assets were held in pension trust funds of domestic corporations. The pension fund assets held by district banks constitute about four per cent of the total held by all trustees in the nation.

Common trust funds have been established by about 35 New England banks and have grown rapidly in recent years. Designed for smaller-sized fiduciary accounts, they offer diversified and economical handling to beneficiaries. At the close of 1958, aggregate assets of these funds were valued at about \$270 million, more than 10 per cent of the national total.

There has also been a significant growth in the volume of services offered by the corporate trust departments of district banks. Many of the larger banks have reported new appointments as trustees for corporate and municipal bond issues, transfer agents and registrars. This has followed the expanded trading on the security exchanges, increases in new security offerings, rights, stock splits and other corporate capital changes. A growing number of corporations have appointed district banks as co-transfer agents.





The number of commercial banks in New England reached a peak in the year 1920. There were then 728 units in operation, well distributed within and among the states. Since that year, however, the number of banks has declined and at the end of 1958 the total had been cut by two-fifths to 448 in number. The reduction in the number of banks has been concentrated in two periods — 1920-1934 and 1945-1958. The roster of banks was reduced by about one-fifth during the first period and by about one-sixth during the second period.

Stability in the number of banks has been considerably greater in New England than in the nation. More than half of the nation's banks disappeared as going concerns between 1921 and 1958, the number dropping from over 30,000 to about 13,500. In both the period of the 1920's and that since World War II, the reduction in number of banks has been more rapid in the nation than in New England.

In the region, the number of national banks has exceeded that of state banks and trust companies in every year since passage of the National Bank Act. At the end of 1958, there were 253 national banks and 195 state banks and trust companies. Total deposits then held by national banks amounted to about \$5.8 billion and those of state banks and trust companies were about \$3.8 billion.

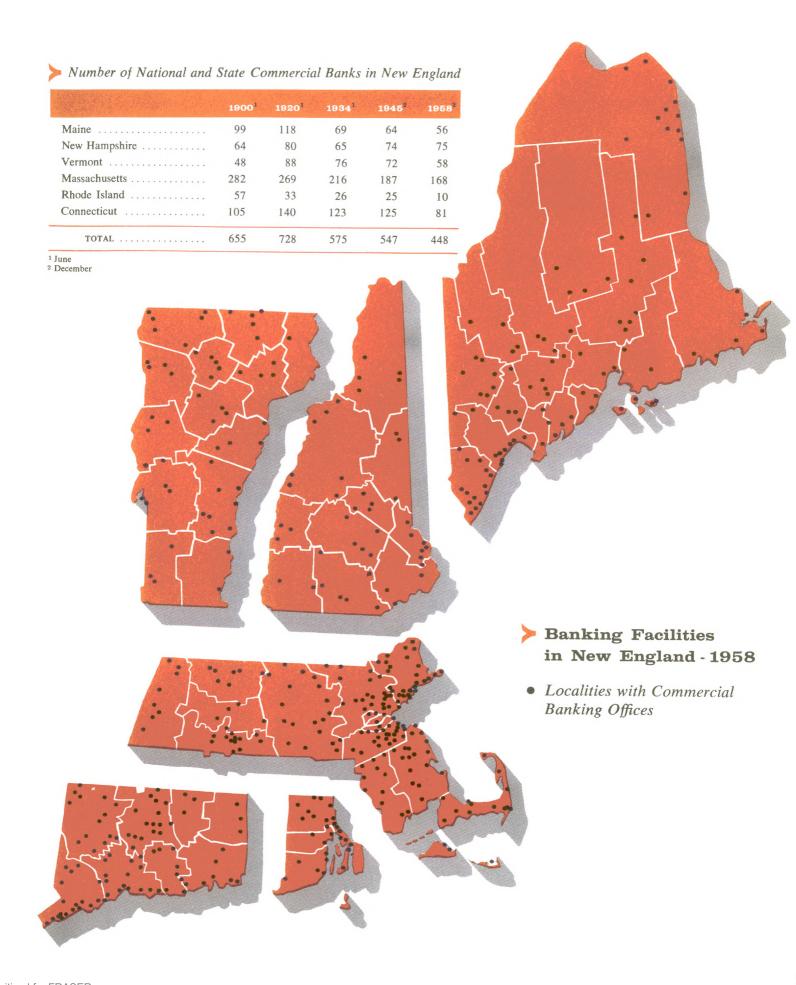
Federal Reserve membership in the first district (which excludes Fairfield County, Connecticut) now comprises 248 national banks and 39 state banks and trust companies. Together they control over 85 per cent of the banking resources of the district.

Several circumstances brought about the reduction in number of banks since 1920. Some failed, some merged and some became members of branch banking systems. With the spread of branch banking, however — which provided a number of new offices — and the chartering of a small number of new units, the district's residents are better served and have better access to banking facilities than in 1920. The number of banking offices has increased from 820 in 1920 to 1,150 at the end of 1958, with an increase reported for each state except Vermont and New Hampshire.

Because New England is densely populated it is reasonable to expect the average New England bank to serve a greater number of customers than its counterpart elsewhere. Since 1900 the population per bank in New England has consistently been higher than the national average — now about 22,000 per commercial bank as compared with 13,000 in the United States as a whole. Population per bank in the region rose from 8,500 persons in 1900 to 10,200 in 1920 and was 12,400 in 1931. It has nearly doubled over the last quarter century. This higher population per bank has been one reason why New England has had fewer bank failures than the rest of the country.

A good test of the availability of banking facilities is the distance the bank's customers have to travel to reach a banking office. The New Englander has always been fortunate in having banking services close at hand. In 1958, there were less than 60 square miles per banking office in the region as compared with the national average of about 140. The typical New England bank has increased in size four times by all measures, capital, resources or deposits, since 1913. At the same time, the banking-system has become more highly integrated.

Changes in the Banking Structure



Bank Failures

Until the early 1930's, bank failures were a serious national problem, although New England's record in this respect has always been better than that of any other area. This has also been true for every state in the region. The superior performance of New England banks stems from a pattern of general excellence and conservative management, stronger capitalization, larger average resource size and greater density of population per bank. Again, and in general, New England banks appear to have been established largely in response to demonstrated economic need, a fact not characteristic of some other areas.

The period from 1921 to 1936 was unhappily significant for American banking. These years were characterized by a consistent rise in failure rates, with the peak coming in the early 1930's. The failure rates during this period are shown geographically in the following table.

> Bank Suspensions 1921-1936

	Natio	onal Bank S Per cent of	uspensions	Sta	te Bank Sus Per cent of	pensions
Geographic Division	Number	Banks in Operation in 1920	Loans and Investments Million \$	Number	Banks in Operation in 1920	Loans and Investments Million \$
New England	62	15.2	153.0	80	25.0	364.5
Middle Atlantic	424	27.3	804.3	324	31.2	1,076.8
East North Central	534	39.1	1,125.5	2,404	60.0	2,108.4
West North Central	664	42.1	360.8	4,591	61.9	1,172.5
South Atlantic	281	30.6	325.4	1,590	65.1	885.3
East South Central	123	33.9	186.7	636	43.8	232.3
West South Central	279	27.2	159.9	1,088	48.8	443.6
Mountain	218	92.0	131.7	613	58.2	185.2
Pacific	134	27.9	158.1	299	33.0	171.8
UNITED STATES TOTAL	2,719	33.9	3,405.4	11,625	55.7	6,640.4

Most of the banks which failed were relatively small in size, whether measured by capital, resources or deposits, and were situated in smaller communities. Few of them were members of the Federal Reserve System and many had been in operation for only short periods. The climax of failures came with the bank holiday in 1933, with failures after that only sporadic. Since 1946, they have not exceeded an annual rate of one per 1,000 banks in the nation and have been practically nonexistent in New England.



Reasons for bank mergers vary not only within the region but within the same community. Such reasons include the desire to acquire branches, increase size and prestige, enlarge banking facilities, acquire complementary types of business, strengthen management, reduce overhead costs and avoid bank failures. And frequently merger is the only way that large holdings of bank shares, or closely-held shares, may be marketed in a block at a reasonable price.

There have been two waves of mergers among district banks, the first in the 1920's and the other in the postwar period. During the earlier period, the mergers were concentrated among banks in the larger cities of the region, primarily to develop city branch systems and to acquire comparatively undeveloped trust and other types of business. In a number of instances, consolidation made it possible to avoid failures. In Maine and Rhode Island, however, a substantial percentage of the consolidations involved the acquisition of branches in towns outside the head-office city. Between 1921 and 1936, there were 172 consolidations in New England. Although merger activity in the earlier period comprised a larger number of banks than in the later period, it involved a smaller volume of banking business.

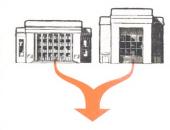
From 1945 through 1958, there were 118 mergers among New England banks, a movement paralleled in the rest of the nation. Connecticut reported the largest number of mergers while New Hampshire showed the fewest. The lack of branch banking authorization in New Hampshire is one reason for that state's small number of mergers. In contrast, the liberal Connecticut law has proved a stimulus to mergers.

A substantial proportion of postwar New England bank mergers has involved banks located in the same city. Usually the objective has been to bring together "wholesale" and "retail" banking, to round out the various services offered by a single institution and to enlarge facilities, thus placing the bank in a better position to attract or hold the business of large concerns as well as consumers. The rapid growth in the size of industrial firms and the postwar increase in the volume of business in general have necessitated larger banking units in order to fill the financing needs of firms and communities. Occasionally one such merger has provoked others as competitors seek to maintain relative positions and prestige.

An important proportion of the mergers involved banks in different cities of the same county or in contiguous counties. Usually these were the result of development of branch banking within county lines or larger areas as the state law permitted. The extension of branch systems was designed to tap business offered by the mass of consumers over as wide an area as possible. Sometimes mergers in the same city or territory were brought about to reduce overhead costs and occurred in several New England towns and cities which were "over-banked." In other cases, the bank acquired was in a declining community and costs in both merged banks were too high for potential returns as separate institutions. A relatively small number of mergers took place between banks in noncontiguous counties.

The source of a bank's charter does not seem to have been a factor in New England merger activity. The 118 mergers between 1945 and 1958 were about equally divided

Bank Mergers



among absorptions of national banks by nationals, nationals by state banks, states by nationals, and states by states.

There was a high degree of concentration in the New England merger activity of the postwar period — that is, a relatively small number of banks accounted for a large percentage of the mergers. In Connecticut, two banks accounted for 50 per cent of the mergers between 1945 and 1958. In Massachusetts, three banks accounted for over one-third of the mergers. In Rhode Island, over two-thirds of the mergers were accounted for by two banks, while one bank accounted for 30 per cent of Vermont's mergers. In New England as a whole, four banks were involved in 30 per cent of all mergers in the region, and 10 banks accounted for 45 per cent of all New England bank mergers.

A study of many merged institutions indicates that the absorbing banks were more profitable than those absorbed. While the absorbing banks showed an average of over seven per cent earned on capital, the absorbed banks earned less than six per cent. The absorbing banks carried down over 21 per cent of total income to profits. The absorbed banks netted only 19 per cent of gross income. The absorbing banks paid out a higher proportion of their average earnings in dividends and had a higher rate of risk assets to total assets. In addition, they had a lower capital-to-deposits ratio.

Publicity given to bank mergers in recent years overshadows the fact that a number of banks have not participated in the merger movement. This results in part from differences of opinion among bankers as to the clear-cut advantages of mergers. Some are reluctant to pay much of a premium for the stock of the bank which might be absorbed because premiums paid can only be written off out of earnings and the earnings must grow or one of the direct advantages of the merger is lost. Others point out the costs of possible misjudgment of an area's potential expansion and the loss of correspondent balances as country banks are absorbed. Some bankers question the wisdom of the retail banking which has characterized a number of recent mergers. They stress that there is always room for banks which offer specialized types of service.

New England Commercial Bank Mergers 1945-1958

1	945-1949	1950-195 4	1955-1958	Total
Maine	2	4	5	11
New Hampshire	1	1	1	3
Vermont	2	4	8	14
Massachusetts	16	7	11	34
Rhode Island	5	9	1	15
Connecticut	9	16	16	41
TOTAL	35	41	42	118

But even when banks are anxious to merge there are frequently practical difficulties standing in the way. Personnel problems are sometimes insoluble, with either or both banks unwilling to drop loyal personnel who would not be needed in the new institution. In others, the problem of price may be the factor preventing the merger. In general, absorbing banks are reluctant to pay more than book value because of the difference between book and market values which has been characteristic of most of the postwar period. Stockholders in many cases refuse to accept less than book value.



Mergers and the development of the branch system since the war have reflected the need for either enlarging facilities, reorienting the geographical structure of an institution, or both. The underlying factors include changes in living habits of the population and in the patterns of business development, and the rise of the middle-income group. As individuals have moved from large cities to the suburbs, they have contributed to the suburbs' tremendous growth. At the same time, cities themselves have experienced a relative decline. The rising middle-income group has been the chief migrant to the suburbs, and has become an important source of deposits and borrowings and a user of the banks' expanded consumer services.

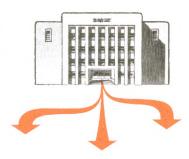
During the 1920's, most of the development of branch banking in the region occurred within the large cities. This expansion has continued in the present period and has now spread to many of the region's smaller cities. More significant, however, has been the establishment of branches in the outlying districts of metropolitan areas, with this activity growing more rapidly during the postwar than in the earlier period. The balance of the branching development has come with the establishment of state-wide systems or branches in counties not contiguous to head offices.

In 1920, 63 of the region's banks operated 92 branches. By 1931, the number of banks operating branches had increased to 86 and there were 236 branches. At the close of 1958, 157 banks operated about 700 branches. In the earlier period almost 60 per cent of the branches were located in the banks' head-office cities, whereas today only about 39 per cent of the branches are so situated. Approximately 42 per cent of the branches are in the same county but outside the head-office city, and 19 per cent are elsewhere. Branches now constitute 60 per cent of all banking offices in New England, and 35 per cent of the banks have branches. Most of the branches are in large cities and metropolitan areas and belong to large banks. But among these banks there is no close relationship between the size and the number of their branches.

A comparison of the growth rates of cities in which branches were established and the growth rates of head-office cities reveals that the branch cities averaged a 21 per cent increase in population from 1940 to 1950 as compared with only 7.6 per cent for head-office cities.

Even when banks located in relatively small cities have established branches, they have tended to do so not in communities of comparable size but in still smaller towns or villages. The basic reason for this appears to be the difference in population growth rates

Branch Banking



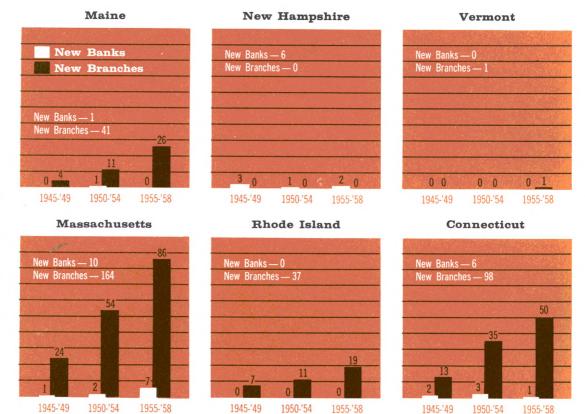
of different sections of New England. And where branches have been established in the same city as the head office, there is evidence that they have been put in relatively newly-developed and thus faster-growing portions of the city.

As families have moved to the suburbs they have also tended to take their banking business to the suburbs. Furthermore, the increasing congestion of city traffic has further stimulated the establishment of banking offices in less crowded suburban sections. There, banks or branches offer parking lots or drive-in-teller windows and otherwise provide convenient access to facilities.

New Commercial Banking Facilities in New England 1945-1958

Total
New England
Commercial
Banking Facilities
Established

New Banks	New Branches		
1945-'49	1945-'49		
6	48		
1950-'54	1950-'54		
7	111		
1955-'58	1955-'58		
10	182		
TOTAL	TOTAL		
23	341		



New England has also undergone considerable industrial change since the end of the war. Many textile firms have ceased operations or moved away, forcing communities into positive action to attract substitute industries. Ignoring the empty, multi-storied factory space, many new manufacturing firms have built plants on the peripheries of cities or located in modern industrial parks. This has reinforced the move away from the centers of cities by the labor force. Banks wishing to continue their growth followed the populace and industry to the suburbs.

Population and industrial shifts led to extending banking facilities chiefly through branches rather than through an increase in the number of unit banks. Many of the new banking offices have been established in relatively small communities. Bankers frequently point out that a branch can operate profitably in small towns and rural areas in which a unit bank could not survive because of the higher costs of unit operation.

Another reason for the greater increase in the number of branches as against the increase of unit banks has been the reluctance of supervisory authorities to grant new charters for banks in relatively small communities, and at times the difficulty of raising capital for new banks. Throughout most of the period, bank stocks were traded at less than book value. The stocks of New England banks absorbed in mergers after the war were quoted at an average of 54 per cent of book value at the time of absorption. Only in the last few years have the prices of many bank stocks reached book value. Because investors desiring to enter banking have been able to buy into existing banks at relatively low prices, there has been little interest in investing in new units.

About two-thirds of the branch banking development in New England since 1945 has come through the creation of new offices rather than the acquisition of existing units and their conversion to branches. This is a smaller proportion than that for the rest of the country and probably indicates that New England was less in need of new banking facilities than many other areas. In other instances, branch development has been expanded through the acquisition of existing units and their conversion to branches, particularly to expand retail banking. Usually it is more profitable to conduct retail banking through branches acquired through absorption rather than through the establishment of new offices. This also applies to other types of banking. Absorption of a unit bank minimizes promotional and construction costs and personnel recruitment. One further advantage of the merger route is the relative certainty of success. Operating data on an existing bank provide a basis for forecasting its probable performance as a branch office. While the change from unit bank to branch obviously will bring operating changes, a going institution affords a sounder base for action than does a newly-established office.



Federal law authorizes national banks to establish branches in states where branch banking is expressly permitted by state law. The geographical range over which national bank branches may be established is limited to that governing the branching of state banks. Enabling federal legislation was provided in 1927 by the McFadden Act and by the Banking Acts of 1933 and 1935. Currently all of the New England states except New Hampshire authorize some form of branch banking subject to specified conditions.

In Maine, branches have been operated since before 1895. The trust company law of 1907 expressly authorizes them, although branches had been permitted before that by special charter. Branches are presently permitted in the same county with the head office and in contiguous counties. They may also be established in towns in other counties if there are no existing commercial banking facilities or through absorption of a unit.

Branch
Banking
Laws

Massachusetts, by an act in 1902, permitted a state bank or trust company to establish a branch in the head-office city. In 1914 other branches acquired through consolidation were authorized. In 1928 one or more branches of a state bank or trust company were permitted within the city limits of the head offices. Finally, branches within county limits of the head-office city were authorized in places where there were inadequate commercial banking facilities by the act of 1934 and by subsequent legislation.

Rhode Island law has authorized the operation of branches on a state-wide basis since 1896. The general banking law of 1908 based on a revision of earlier law continued this authority.

There were a few branches in Vermont in the first years of the nineteenth century but they soon disappeared. Then, in 1929, Vermont officially permitted state-wide branches.

In Connecticut, although a few commercial banks operated branches at various times in the 1800's, there was no express authorization. Branches were prohibited by an act in 1902, but enabling legislation was passed in 1933 authorizing branches on a state-wide basis in towns in which there were no commercial banking main offices. Branches could also be operated if acquired through merger.

In New Hampshire in 1902 the Commissioner stated that although there was no law directly authorizing branches, and none was in operation, he was "not aware of any law which would prohibit such a practice within certain limits." The law is still silent on the subject and in recent years has been interpreted to prohibit branches.



Group and Chain Banking Some of the units in New England's banking structure have been associated through the mechanisms of group and chain banking. Such arrangements provide common services of one kind or another for the associated banks — ranging from developing uniform accounting systems and co-ordination of policies to investment advice and central purchasing of supplies. Groups and chains are generally found in those areas where branch banking is prohibited or restricted to narrow geographical areas.

Group banking is an arrangement by which three or more banks, each of which retains its identity, capital and personnel, are brought under common control by a holding company or holding company affiliate. Chain banking is a similar arrangement except that the individual units are owned or controlled, directly or indirectly, by any device other than that of a holding company.

Group and chain banking systems were developed in New England during the latter part of the 1920's and early 1930's, as they were in other sections of the country. At the end of 1931, there were 10 groups and one chain in operation in New England comprising 73 banks with 105 branches. Four of the groups and the chain operated in Massachusetts. Three groups in Connecticut, two groups in Maine and one group in Rhode Island associated banks in those states. Massachusetts had the greatest concentration of group operations, both in number and in resources involved, and the groups took the form of subsidiary holding companies. In the other states the over-all holding company

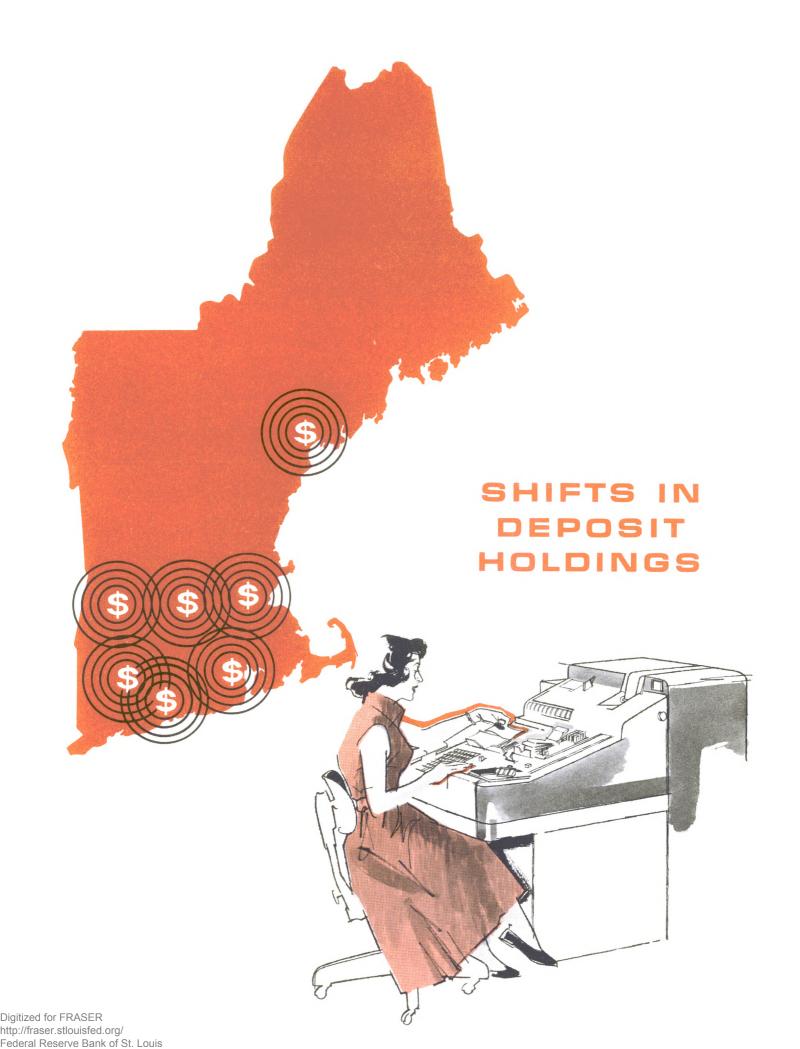
or the investment trust type of affiliation was used. During this period, there was generally close association among the units in the groups or chains.

Since the mid-1930's, group and chain banking have declined in importance. Even though the banks remaining in groups are larger in size, they control a substantially smaller percentage of resources currently and are fewer in number — 38 with 120 branches. In some cases the groups have consolidated into branch systems as the state law has permitted and the policy of the group management dictated. This action has been taken by groups in Connecticut, Rhode Island and Massachusetts.

At the present time there is one chain in operation in Connecticut associating three national banks. It was established early in the postwar period. Two groups established in the late 1920's remain in operation in Massachusetts. The affiliation which existed prior to 1933 between one Boston bank and the group was terminated following passage of the Banking Act of 1933 and the group has taken the form of an over-all holding company. It presently associates banks in counties in the vicinity of Boston and includes one bank in Springfield. The other group is headed by a Boston bank and associates banks in counties adjacent to the city. The chain still operating in Massachusetts was established in the 1920's but the community of interest among the members has become less strong.

One group established in 1930 continues to operate in Maine and comprises three banks headed by a bank in Bangor. There is also one group operating in New Hampshire headed by a holding company established in 1934 and associating six national banks in the two southern counties of the state.

The Bank Holding Company Act of 1956 requires, among other things, the approval of the Board of Governors of the Federal Reserve System before additional banks can be acquired by a bank holding company. Such a company is prohibited from acquiring a bank in another state unless specifically authorized by the statutes of the state in which the bank to be acquired is domiciled. It is also required to divest itself of non-banking interests.



Some Federal Reserve districts are predominantly industrial while others are mainly agricultural. Several contain financial and economic activities which have close ties with countries abroad. The differing economic structures of the 12 districts stimulate interregional trade and a net movement of funds from one district to another. The movements may be largely seasonal or they may represent longer-term adjustments in the regional balance of payments. Shifts in agricultural prices and production in relation to industrial production can cause a net movement of funds from one district to another. Federal government transactions, as they have increased in size since the war, also affect the economic relationships of regions. These transactions may speed or retard the changes in regional growth, production, population shifts and disposable income.

The districts which contain money markets with security exchanges and investment banking houses may at times attract large amounts of short-term balances and lose them at other times. Business funds are raised and accumulated in financial centers and then transferred in substantial amounts to production areas. Some districts are capital exporters and others capital importers. Evidence suggests that New England, as it has been traditionally, continues to be a capital export region on balance both for short- and long-term funds.

With the coming of World War II, the movement of funds among regions increased and changed. The main factors in the change were the development of defense industry and the consequent restriction of peacetime activity, and the large growth in government receipts and expenditures. Some areas experienced greatly increased economic activity through the development of defense industry. In others, such as the already heavily-industrialized New England, the expansion of production because of the plant dispersal policy of the War Production Board was relatively less. Funds were raised in financial centers and spent in the important war production centers. Interior banks drew upon their accounts in money centers to finance credit needs of defense industries and to buy government securities. The greatest gains made during this period were by those districts in which government expenditures were largest. In general, the complex of these long-run factors is chiefly responsible for the trends exhibited by deposits and for their distribution among as well as within regions, particularly since the war. During the postwar period, the rise of the middle-income group, the expanding volume of business,

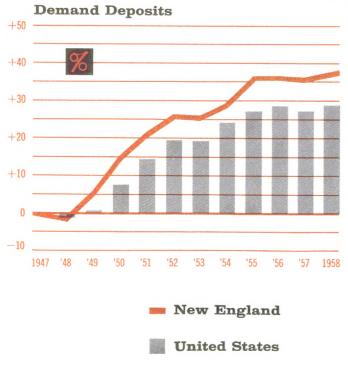
and related factors stimulated still further deposit changes.

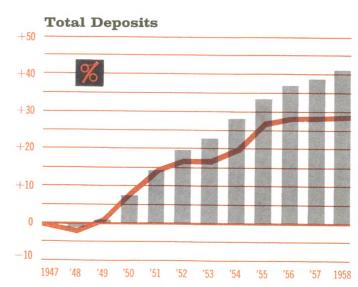
Until World War II, the total deposits (demand and time) of New England commercial banks increased at almost the national average rate. The war, of course, brought changes and New England during this period experienced an increase in the rate of deposit growth, but the rate of increase was slower than the nation's. The region's relative position, as measured by the total deposit ratio, declined from six per cent at the beginning of the war to five per cent at the close in 1945. A decline was also shown in the ratio of the Federal Reserve Bank of Boston's liabilities to the System's total, which dropped from over six per cent to 5.6 per cent.

changes in industrial structures, the rise of service activities, the increased size of banks

Why Deposits Shift Any comparison of total deposits of New England commercial banks with those of the nation will show substantially slower growth rates for the region during the postwar period, largely because of the smaller time deposit proportion of total deposits held by the region's banks. The average commercial bank in the region has a ratio of 25 per cent time to total deposits as contrasted with 31 per cent for its counterpart in the nation. Both city and country banks in New England generally have experienced a consistently slower rate of increase in these deposits than have banks elsewhere. Commercial banks in New England must actively compete with 338 mutual savings banks and 337 cooperative banks and savings and loan associations — which are well diffused throughout the region. These possess a long history and an impressive tradition. The New England states contain 65 per cent of the number and 27 per cent of the deposits of the mutual savings banks in the nation. Many commercial banks in New England accept savings deposits purely as a convenience for their customers or because competition from other

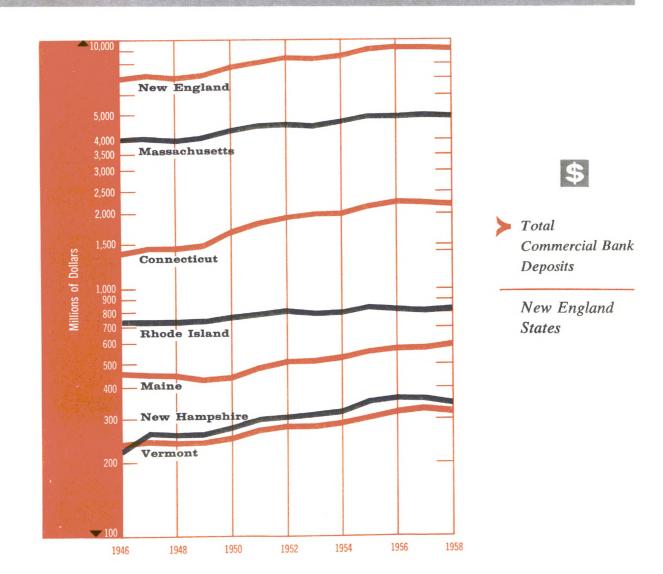
Commercial Bank Deposits — New England and the United States PERCENTAGE CHANGE SINCE 1947





commercial banks makes this a matter of policy. On the other hand, the savings banks carry operating balances with the commercial banks and in a number of instances own substantial proportions of their shares. Commercial banks elsewhere in the United States are frequently the only institutions to provide savings facilities in their communities.

Demand deposits in New England banks, however, have grown at a faster rate than those of the nation since 1947. For the period 1947-1958, New England's demand deposits increased 38 per cent as compared with only 29 per cent in the nation. The over-all district figure, however, conceals the significantly different rates of growth which have been shown by the several states. Massachusetts, holding over half of the region's demand deposits, has grown about as much as the national average. In contrast, Connecticut has experienced an 86 per cent increase in demand deposits, more than offsetting the relatively slower rates of growth reported by Rhode Island, Maine, New Hampshire and Vermont.



Deposit Shifts in the Region

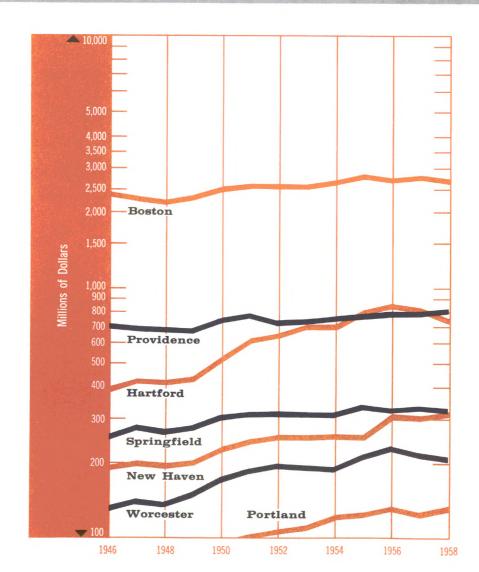
In 1920, Connecticut's commercial banks held about 17 per cent of New England's total deposits. By 1945, the holdings had risen to 20 per cent and a steady increase since then has brought the holdings to 23 per cent at the end of 1958. The only other state that has increased its relative share since 1920 is Rhode Island, which moved from about seven per cent in 1920 to 10 per cent in 1945. Since that date a gradual decline has occurred and at the end of 1958 the state held nine per cent of the region's deposits.

Since 1920, Massachusetts has experienced a slow but steady decline in its relative position. At that time, its banks had about 60 per cent of the area's total deposits. This proportion was generally constant until 1945 but since then it has fallen moderately, reaching 54 per cent in 1958. The three northern states have each shown small losses in relative position. From slightly over 15 per cent in 1920 their combined share had declined to just under 14 per cent at the end of 1958.

\$

Total
Commercial Bank
Deposits

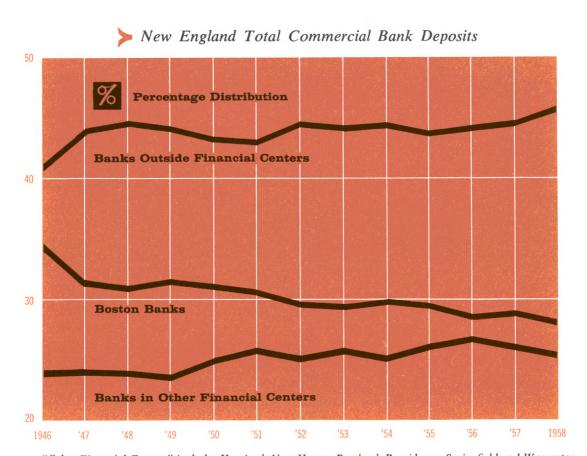
New England Financial Centers



40

Of perhaps more interest and significance are the changes which have taken place in the distribution of total deposits among the various important cities of New England. The relative positions of several of these have changed rather sharply in recent years, reversing earlier trends.

The reserve city of Boston, for example, had in 1920 only about 16 per cent of New England's commercial bank deposits, and in 1958 had over 28 per cent. This has by no means represented a steady increase, however, as in 1941 the Boston banks had over 40 per cent of the region's commercial bank demand deposits. But the percentage declined steadily after that date. This experience contrasts somewhat with that of the nation as a whole, where reserve city banks have increased their share of the country's deposits. Yet despite this relative decline, Boston banks have experienced steady growth in dollar amounts.



"Other Financial Centers" includes Hartford, New Haven, Portland, Providence, Springfield and Worcester.

The suburbs of Boston had their greatest relative growth in the 1920's, increasing their share of the region's deposits during the period from less than three per cent to about nine per cent. The latter figure has remained about the same since 1930, indicating that the growth in their banking resources has paralleled that of New England and that they have not experienced the percentage decline shown by the central city.

The important cities in Connecticut and central Massachusetts have shown the most rapid growth since 1920. Hartford is the most striking example. In 1920, Hartford banks held little more than two per cent of New England's commercial bank deposits, and less than six per cent in 1946. By 1958, however, its share had risen to about eight per cent. This rise has come principally from the extension of branch systems in the state. New Haven, Worcester and Portland have also improved their relative positions.







There are several reasons for the varying rates of deposit growth in the New England states and their important cities. The shifts in proportions held by the states is accounted for principally by the following factors, all of which are interrelated.

> (1) Connecticut has had the most rapid population and income growth of any state in the region, and has exceeded the national growth rate for both factors. Vermont and New Hampshire approximately equaled the rate of income growth in the nation, while in Massachusetts, Rhode Island and Maine it has been less rapid.



Factors in Regional Deposit Shifts

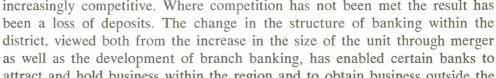


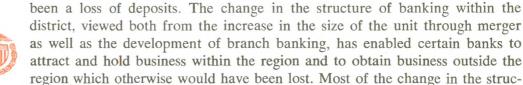
Among the forces which have contributed to these developments are shifts in the nature of economic activities and changes in the volume of business in general. Important in this connection has been the expansion of electronics and other research-based industries in particular and the durable goods industries in general. On the other hand, the decline of the textile industry and shifts in some farming activities have been depressing forces. Government spending for goods and services for defense, as well as for regular operations and social programs, have also been interacting and contributing factors.

(2) The changing competitive positions of the region's banks, both among themselves and with banks in the rest of the nation, have an important influence in the final determination of deposit totals. As business units have increased in size and as the volume of business has grown, banking has become

ture of banking has occurred in Connecticut, Massachusetts and Rhode Island, and has resulted in increasing the relative share of deposits of each state or







reducing deposit losses.



(3) As hitherto local firms have become divisions of national concerns, important financial arrangements have been shifted from the state where domiciled to elsewhere in the region or the nation, thus shifting deposits.

The change in the position of the cities must be viewed against the background of these several factors. In addition, a primary cause of the position changes has been the increased size of banks resulting from merger or the development of branch systems embracing wider areas. As a result, Hartford, New Haven, Providence, Worcester, Springfield and Portland have been able to attract business which previously went to Boston or New York City.



In reviewing deposit trends in New England, interesting contrasts are provided when the banks of the region are divided into three groups — Boston banks, other financial center banks and those outside these areas. From this viewpoint, Boston's share of the region's deposits has fallen, other financial centers have gained substantially and the remaining banks have gained only slightly. In the case of the banks outside Boston and the other financial centers, the extension of branch banking systems in Maine, Massachusetts, Rhode Island and Connecticut has resulted in some deposits which were formerly credited to a county, city or town now being reported by the parent bank which itself may be in a financial center. Thus, in Rhode Island, Providence has had only a small increase in population and industrial growth in recent years, but Providence banks have managed to hold their own because they have been able to take advantage of the growth of other cities and towns in the state.

Boston's share of the region's deposits has fallen from 32 to 28 per cent over the last 10 years. The ability of Boston city banks to hold the loss of position to this modest amount has resulted from the further expansion of their well-entrenched, county-wide branch systems. Otherwise the growth of suburban banking would have affected them more adversely.

Several other factors should be cited. Business deposits do not necessarily move in step with population. Larger firms, even those located in suburban areas, maintain their accounts with banks that are sufficiently large to be able to offer a line of credit consistent with the credit needs of the firm and to provide the large volume of services called for by the account. National and area chain stores operating numerous units within a single metropolitan area frequently concentrate their funds rather than scatter them among banks in each of the suburban areas in which they operate. Usually each unit carries a local bank account only for initial deposits of its receipts, obtaining change and other limited banking services. The funds are then customarily transferred to a city bank from which they are spent and invested. The accounts which migrate from the city consequently are mainly those of the smaller trade and service establishments and some of the professions that have no reasons for maintaining further connections with the larger banks. The deposits of industrial firms moving to the suburbs would probably remain with the city bank. Some loss, however, may be experienced in city deposits as large firms make local payroll and other arrangements for their decentralized plants.

Boston vs.
Other Areas in the Region

Trends in Interbank Deposits Large domestic interbank deposits have long been characteristic of the American banking system. From the early days, banks in the interior have found it convenient or necessary to maintain balances with banks in financial and commercial centers, and large-city banks have found such business to be profitable. The balances would be used for currency, payment of checks, issuance of drafts, purchase of securities and for money transfers. The correspondent system grew in importance as deposit banking developed. It was supported by the forces of competition and trade developments, particularly among different communities. Banks in financial centers became the focal points for country banks and those in smaller cities. Banks in the smaller cities were in a dual position. On the one hand, they were large depositors with the financial center banks and, on the other hand, they held sizable deposits of the country banks. Toward the close of the nineteenth century, correspondent banking became dominant largely because of the decentralized system of required reserves under the National Bank Act, the prohibition of branch banking and the lack of a central bank. It continues today but has become of less over-all importance because of further integration of the banking system.

Although domestic interbank deposit balances have grown steadily in dollar amount, they are less important in relation to demand deposits than in the period from the 1920's to the early 1940's. In 1934, interbank deposits represented nearly one-fifth of the nation's demand deposits. Now they account for less than one-tenth, at which figure they have remained stable in recent years.

The amount of domestic correspondent balances held by New England banks has increased between 1945 and 1958, reversing a decline which had been in progress since 1934 when they held 4.7 per cent of the nation's total. The share of New England banks rose from three per cent of the nation's domestic interbank deposits in 1945 to 3.8 per cent in 1958, a greater relative increase than any other Reserve district except Dallas. The Atlanta, Chicago and Philadelphia districts also improved their shares during the postwar period. Since 1934, the principal gainers have been the Atlanta, Dallas, Kansas City and St. Louis districts.

The changes in the distribution of domestic interbank deposits by districts reflect distribution changes among central reserve city, reserve city and country banks. In 1934, New York and Chicago banks held nearly half of interbank balances, whereas reserve city banks held 43 per cent and country banks only eight per cent. By 1945, the share held by the central reserve city banks was down to 40 per cent, reserve city banks had climbed to 50 per cent, and country banks increased their share to 10 per cent. Since that date, the shares have remained relatively constant.

The gain since the 1930's in the proportion of domestic interbank deposits by reserve city banks as a group, and the general stability in the proportion held during the postwar period, are accounted for by several factors. Among these are the growth in the size of country banks which have traditionally had close reserve city ties. As they have grown in size, the amount of deposits carried by them with other banks has likewise grown. The number of "money market banks" outside New York and Chicago has increased since the early 1940's. These banks have tended to economize in the volume of

Domestic Interbank Deposits

% of Total Held by:	1934	1939	1945	1949	1954 ▼	1958
Central Reserve City Banks	49	52	40	41	38	37
Reserve City Banks	43	41	50	50	52	52
Country Member Banks	8	7	10	9	10	11
ALL MEMBER BANKS	100%	100%	100%	100%	100%	100%

balances held in New York City and Chicago. They have also aggressively competed with central reserve city banks for correspondent business and for loans on a national and regional basis — an indirect generator of interbank balances. Another factor has been the general diffusion of industry throughout the United States and the continued industrial development of many areas first stimulated during World War II by the establishment of defense plants.



The proportion of interbank balances held by the reserve city of Boston, in comparison with those of New England country banks, has shown a movement somewhat in contrast to that in the nation. Although the proportion of the region's domestic interbank deposits held by Boston banks remained relatively constant from 1934-1945, at about 78 per cent, it has fallen steadily since 1945, and by June 1958 was 70 per cent. New England country banks presently hold 30 per cent of the total and have gained more relatively than the nation's country banks. Among the reasons for this development is the growth in the size of banks in Hartford, New Haven, Providence, Springfield, Worcester and Portland. This growth has enabled these banks to become less dependent upon balances with Boston or New York City banks. In addition, some of these banks offer their customer banks special services and have developed reciprocal participation agreements for business loans. Banks in some of these cities now handle a substantial proportion of state and municipal borrowing which previously went to Boston banks and in some cases to New York City. The end result has been a decrease in the size of the balances carried in Boston either in the form of municipal deposits or by banks for their own account which previously participated in local government financing with Boston banks. Furthermore, the absorption of banks in Connecticut and Rhode Island through branch development has eliminated certain country banks which previously maintained balances with banks in Boston and New York City.

Although Boston now has a smaller proportion of the district's domestic interbank deposits, it continues to be the region's significant city in this deposit category. Boston banks receive deposits from banks in every county in New England, from every state in the nation and from many countries abroad. In mid-1958, Boston ranked as the sixth

Interbank
Deposits in
New England

largest holder of domestic balances in the nation and fourth in holdings of foreign balances. Despite the widespread change in the nation's bank structure, the geographical distribution of deposits due to banks held by Boston banks has remained surprisingly constant for many years. In 1920, as in 1958, approximately 75 per cent of the domestic interbank deposits held by Boston banks were due to other New England banks.

Among the chief shifts which have taken place is that a larger portion of the deposits from outside the district have originated from banks in the South and a smaller portion from banks in the Midwest. These shifts in deposits reflect the rising development of new industrial areas as well as the relative decline of the older areas in the United States, and they indicate that Boston banks have remained competitive with banks in other sections of the country and have been able to hold old business as well as to attract new business.

There is a general relationship between interbank deposits and loans which are made by banks outside their own localities. Lending outside their own city is important to most Boston banks. During the 1800's, the customers of the larger New England banks, and to a lesser extent the banks themselves, helped to push the American frontier westward. Today, the region's banks are aiding in a more intensive development of some of the country's younger areas. And as was true in earlier periods, local or regional needs have been met and satisfied first.



Lending Outside the Region

New England banks, particularly those in Boston, make substantial commercial loans outside the region; in recent years the amount has occasionally approached \$500 million. The larger banks in the region compete directly for business with banks scattered over the nation. The major part of the lending outside New England is originated by district banks and they are responsible for the entire credit. Only 30 per cent involves participations with other banks.

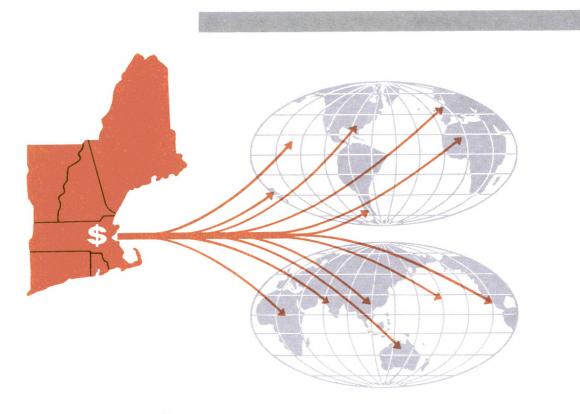
Boston banks lead the region in both the amount and number of commercial loans made in other parts of the nation. During the 1955-1957 period of record business activity, as much as 40 per cent of the outstanding volume, and five per cent of the number, of commercial loans of the Boston banks went to borrowers in other districts. The proportion of such loans has almost doubled since 1920. For the region as a whole, about one-quarter of the outstanding volume and two per cent of the number of loans were made outside the region during the 1955-1957 period, only moderately more than was loaned elsewhere in 1920. For both Boston and other New England banks, the amounts of these loans are large and they are well distributed geographically and by industrial classification.

Many of the loans made to outside borrowers by New England banks have gone to firms in businesses which are foreign to the region, including such commodities as cotton and wheat, and to the oil and motion picture industries. At times, almost 20 per cent of the volume has involved borrowers dealing in real estate — principally to provide warehousing arrangements for federally-aided mortgages pending final placement with institutional investors. Boston banks are prominent in these fields.

Distribution of Commercial Loans and Interbank Deposits¹ OF NEW ENGLAND BANKS

	1920		1957		
Location of Borrower or Source of Deposits by Geographic Divisions	Total Loans	Interbank Deposits	Commercial Loans	Interbank Deposits	
New England	81%	74%	75%	69%	
East	7	8	10	10	
South	2	5	7	12	
Midwest	8	9	5	5	
West	1	1	2	1	
Pacific	1	3	1	3	
UNITED STATES	100%	100%	100%	100%	

¹ Interbank deposit and loan data for 1920 from *Annual Report of the Comptroller of the Currency*, 1920, pp. 214-218. Interbank deposit data for 1957 based on a sample of New England banks. Loan data for 1957 are estimated on the basis of a *Survey of Business Loans* made by the Federal Reserve System and interviews with district banks. Loan data for 1957 are generally comparable with the Comptroller's data for loans in 1920 which were mainly commercial.



Business Loans of New England Banks Reach Around the World

Sales finance companies have also received a large proportion of the "outside" loans — sometimes as much as 25 per cent. At some of the banks outside Boston, credits to sales finance companies are the principal loans made outside New England. The southern textile industry has received as much as five per cent of the volume because the region's banks have successfully retained a large part of the business that they held when the firms were domiciled in New England. Other loans go to food, liquor and tobacco processors, metal manufacturers and trade and service firms.

The geographical distribution of loans made, and the sources of correspondent balances held by New England banks, have not changed substantially in over 40 years. Changes, where they have occurred, reflect shifts in the industrial pattern of the nation and a shift in domicile of some firms. A smaller percentage of the loan volume in recent years has gone to midwestern borrowers — an increased proportion has gone to the South and the Southwest.

The table on page 47 compares changes in the geographical distribution of loans and interbank balances over almost a 40-year period. In the earlier part of the period, the loan classifications are only generally comparable with those current today, and a large proportion of the business loans made to other regions took the form of commercial paper purchased from note brokers. Purchased paper originated with a variety of important industries, many of which used the commercial paper market as a substitute for, or to supplement, bank borrowing. Today, many of these firms borrow their total needs at the bank counter at the prime commercial loan rate. Purchased finance company paper represented only a modest proportion of the funds advanced outside the region in 1920, in contrast to the large proportion of direct commercial loans made to finance companies outside New England in recent years.



Lending in New England by "Outside" Banks Although the commercial loans made by district banks elsewhere in the nation are widely spread geographically, most of the commercial loans to district firms made by outside banks originate in New York City — which accounts for three-quarters of the total. The Philadelphia and Chicago districts loan two-thirds of the remainder, with Philadelphia district banks lending about twice as much to New England borrowers as banks in the Chicago district. Over two-thirds of the loans have been made to firms domiciled in the region in the textile, metal fabricating and transportation fields and public utilities.

Most of the loans go to firms in smaller cities and towns in New England, with a major portion concentrated in southern Connecticut. Over 20 per cent of the loans outstanding in the New Haven area (in dollar volume) were made by banks in New York City. In many cases, firms in the lower part of Connecticut tend to have their major banking connections more firmly established with New York banks than with New Haven, Hartford or Boston banks because, although the manufacturing plants are located in Connecticut, many have their administrative offices in New York City.

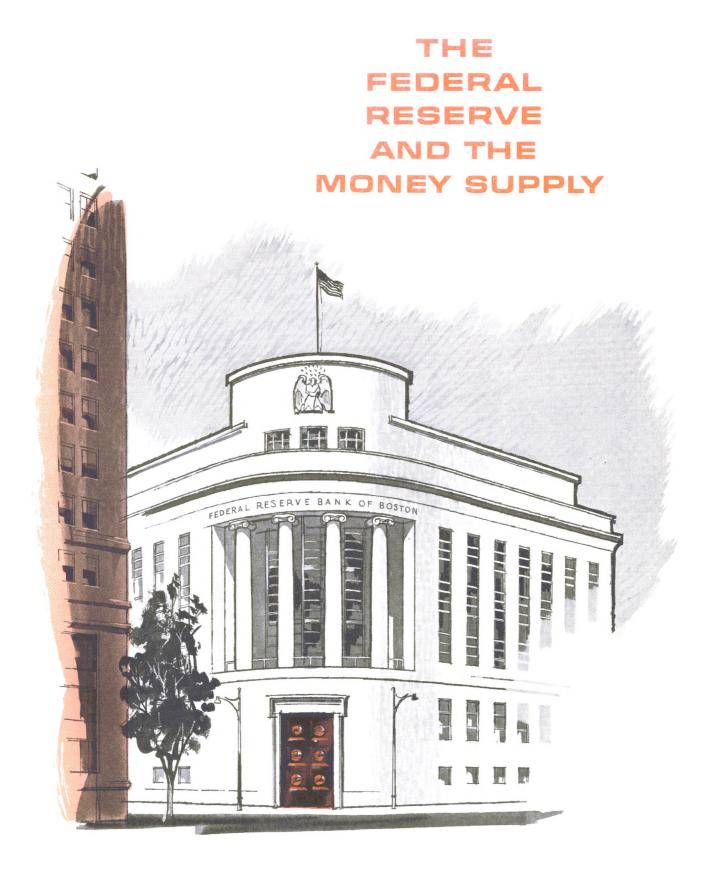
Some of the loans made in the region by outside banks go to firms in the district's large cities in direct competition with local banks. In other cases, the outside banks par-

ticipate the loans with local banks. Participations are important in the inflow of funds. Of the commercial loans secured from the Philadelphia and Chicago districts, about one-third involved participations. Only about one-fifth of the loans made by the New York banks were participations. The participation may arise in two ways. The size of the lending limit prevents the local bank from originating the credit so that an outside bank with which both the firm and the local bank have relationships will originate the credit and participate part of it back to the local bank which will service the loan. In other cases the local bank has a large enough lending limit to originate the credit but it wants more diversification. Accordingly it will participate a part of the credit with its correspondent in some city outside the region.



The larger financial center banks in the district also serve localities beyond their own metropolitan areas. In recent years, the volume of these loans has ranged near \$300 million, roughly two-thirds the amount of the loans placed outside the region. Boston banks are the leaders in this type of lending, as they have been since the early development of banking in the region. They generally place about 20 per cent of their loans in other parts of Massachusetts and elsewhere in New England. Banks in Providence, Hartford and New Haven follow suit, placing a little over 10 per cent of their loans outside their immediate lending area. The loans are made to a cross section of district industry and amount to about one-sixth of total business loans made by all district banks within the region. This relatively small percentage suggests that most of the interior banks have sufficient funds and service all or at least the great bulk of needs in their local areas. Participation occurs on only the largest loans or when diversification of risk is necessary. In some cases, the city bank and its country correspondent have developed working agreements or participations which relieve pressure at seasonal peaks or fill out the loan portfolio at seasonal lows in the respective banks.

Regional Lending by City Banks



Objectives of Monetary Policy

During the early 1900's, predominant attention was directed to money in the form of circulating currency when considering the monetary system and its relationship to economic activity. For about 20 years following the organization of the Federal Reserve System, emphasis was directed to the regulation of credit. During the Great Depression of the 1930's, attention turned to fiscal policy as the major instrument of economic policy. During World War II and into the postwar period, the operations of the federal government, and at times those of state and municipal government units, became important in their effects on economic developments. After the early postwar years, there was a general tendency, both here and abroad, to return to monetary policy as an important instrument of economic policy. Thus, since at least 1950, it has become customary to view monetary policy, fiscal policy and public debt management as complementary parts of economic policy objectives. Such objectives include realization of the potential for growth, avoidance of serious instability of production and employment and attainment of price stability.

The Federal Reserve System effectuates monetary policy largely by limiting or influencing the volume of member bank reserves which constitute the base for bank credit and the money supply. Except for infrequent changes in reserve requirements, the reserve base is regulated through open market purchases and sales of government securities and by discounting or lending to member banks. These operations add to or subtract from the reserve base as the System creates or extinguishes its own credit.

The use of bank credit by specific borrowers and sectors of the economy is influenced by its cost and the ability and willingness of the commercial banks to extend it. The ideal role of bank credit is to meet the needs of the economy without contributing to inflationary developments as competing demands for goods and services tend to press against available resources. The willingness of commercial banks to extend credit is influenced by the balance between reserves which are freely available and reserves which must be obtained from the Reserve Banks.

Discounting provides reserves to a specific borrowing bank at its initiative on a temporary basis subject to repayment. Purchases of government securities provide funds at the System's initiative to banks in general without provision for repayment. Reserves released through discounting, however, become diffused while reserves released through open market operations may be reabsorbed through later sales or redemptions of securities. Thus in broad effect, discounting and open market operations serve the same purpose.

All lending and investing transactions of the Reserve Banks create member bank reserves and cannot avoid doing so. Furthermore, any new reserves injected into the banking system support a multiple expansion of deposits by the commercial banking system. Under the fractional reserve system in the United States, changes in the supply of reserves have a multiple effect upon the volume of credit and the money supply. A bank obtaining reserves in excess of requirements may lend or invest only the amount of the excess; but when the funds thus loaned or invested are deposited by the recipient bank in the same

or some other bank, only a fraction of them has to be held by the bank as required reserves against deposits, and once again the remainder may be loaned or invested. In this way, the banking system may eventually build a total volume of credit equal to many times the supply available. The extent of the expansion depends on reserve requirement percentages and the types and distribution of deposits among banks.



Sources of Bank Reserves During the 45-year existence of the Federal Reserve System, the volume of member bank reserves in the nation has grown from roughly \$1.5 billion to nearly \$18.5 billion. In New England it has grown from \$75 million to \$771 million. What are the sources of these reserves and what are the uses to which they have been put? Is it correct to suggest that as deposits have expanded, member banks have been forced to turn over to the Reserve Banks sums to meet required reserves, thus depriving the commercial banks of funds that might have been put to some other use? Does the Reserve System depend upon these reserve funds for its own earnings?

Instead of obtaining any earnings from the deposits of member banks, the Reserve Banks have provided member banks with the reserve balances they needed to expand their loans and investments to the present level. In the long run, commercial banks gain or lose reserves as the result of changes in only three major factors: additions to the gold stock along with the inflow or outflow of gold, changes in currency in circulation, and the activities of the Federal Reserve Banks in expanding or contracting their loans and investments. One might consider that the Federal Reserve Banks could convert all of their reserve balances into Federal Reserve notes and deliver them to the member banks to be held in their own vaults as a cash reserve. There would be no change in the aggregate liability of the Reserve Banks. The gold now used to back up the deposits with the Reserve Banks would merely shift to backing up an equal amount of Federal Reserve notes and the Reserve Banks' earnings would be unaffected.

Over the years, the principal source of reserves of the commercial banks has been the Federal Reserve operations as shown in detail on the opposite page. The Federal Reserve Bank of Boston has supplied a proportionate share of these reserves to New England banks. On the whole, the earning assets of the Reserve Banks have tended to fluctuate inversely with the banking system's net acquisitions of reserves from other sources than Federal Reserve credit. For example, at times when commercial banks have obtained funds from additions to the gold stock or gold inflows, the Reserve Banks have contracted their own earning assets as a partial offset to the increase in reserves resulting from the gold gain. Growth in earning assets of the Reserve Banks has come about when, for reasons of national policy, additional reserves have been supplied by the System to the commercial banks.

The essential difference in the credit-creating process between the Federal Reserve Banks and the commercial banks is that the Federal Reserve Banks have been given the power to create *reserves*. Commercial banks as a system of banks have the power of creating *credit* but they *cannot* create reserves. The earnings of the Federal Reserve Banks

Changes in Factors Tending to Increase (+) or Decrease (-) Member Bank Reserves and Excess Reserves, DEC. 31, 1914 – DEC. 31, 1958

	Millions of Dollars							
Factor	1914-'20	'20-'29	'29-'33	'33-'40	'40-'45	'45-'50	'50-'58	'14-1958
Treasury factors	— 355	+ 343	+ 239	+ 1,510	+ 569	+1,600	+1,504	+ 2,410
Gold and foreign account transactions ¹	+1,108	+1,357	+ 41	+16,830	- 1,659	+2,607	-1,549	+18,735
Currency in circulation	-2,293	+ 747	- 941	- 3,213	-19,783	+ 774	-4,438	-29,147
TOTAL	-1,520	+2,446	- 660	+12,106	-20,870	+4,981	-4,483	- 8,000
Federal Reserve factors:								
Government securities	+ 287	+ 224	+1,926	- 253	+22,078	-3,484	+5,569	+26,347
Discounts, advances and industrial loans 2	+2,937	-1,923	- 793	- 221	+ 241	— 181	+ 43	+ 103
Float ³	+ 119	- 72	- 28	+ 60	+ 498	+ 790	- 72	+ 1,295
Other deposits and Federal Reserve accounts 4	- 262	- 101	- 71	- 395	_ 58	— 338	- 234	- 1,459
TOTAL	$+3,036^{5}$	-1,872	+1,034	- 809	+22,759	-3,213	+5,306	+26,241
Total reserves	+1,516	+ 574	+ 374	+11,297	+ 1,889	+1,766	+ 823	+18,241
Effects of changes in required reserves	-1,520e	— 668e	+ 558	- 5,541	- 7,046	-2,052	-2,063	-18,332
Excess reserves	— 4e	— 94e	+ 932	+ 5,756	- 5,157	— 286	-1,240	- 91

¹ Under the Gold Reserve Act of 1934 the price of gold was increased from \$20.67 to \$35.00 per ounce; this resulted in an increase of approximately \$3 billion in the nation's monetary gold stock and in Treasury cash. The effects of these changes have been included in the 1933-1940 data shown here.

e Estimated.

Note: Because of rounding, figures do not necessarily add to totals.

² Changes in this total prior to 1934 consist almost exclusively of changes in bills discounted and bills bought; those during and after 1934 include changes in industrial loans; and those after 1939 consist mainly of changes in advances.

³ The volume of checks credited to the member banks' reserve accounts with the Reserve Banks prior to actual collection.

⁴ Excludes foreign deposits; Federal Reserve accounts consist of capital accounts plus other liabilities and accrued dividends minus bank premises and other assets.

⁵ To make this total comparable with those for other periods shown, it has been adjusted downward by \$45 million. Such an adjustment has been necessitated by two features of member bank reserves in 1914: (1) member banks held some of their reserves outside the Federal Reserve Banks; and (2) member bank reserve balances held with the Reserve Banks were computed on a slightly different basis than in the later years shown in the table. See *Banking and Monetary Statistics*, p. 327.

derive from the powers granted by Congress to create reserves and to issue currency. Present financial institutional relationships and arrangements facilitate allocation of funds among different regions, industries and firms.

During the last 45 years, the Federal Reserve System, in conjunction with the highly-competitive, privately-owned commercial banking system, has aided in handling the changing transaction requirements of an economy whose population and labor force have increased 75 per cent and whose physical volume of production has quadrupled. The economy has greatly altered the types of goods produced, passed through the disruption of three wars and undergone basic shifts in the regional distribution of production capacity and population. These shifts have been marked within New England and the region has shared in national gain but to a relatively smaller extent than other sections of the United States.



The foregoing pages have demonstrated the essential strength of New England's commercial banking over a period of 175 years. They demonstrate, too, the persistent pioneering in money matters and the capacity for adaptation to change which have so long been characteristic of the region's banking.

New England's Banking Leadership

An area's financial stature is measured by much more than the simple sum of its assets. Other gauges of importance include the breadth and variety of the financial services offered its people and its businesses, the quality of these services, and the performance of special services not easily or satisfactorily available elsewhere. The record of New England's commercial banks on all these counts is impressive.

As one surveys the region's present prospect one may expect from its commercial banking that continuation of leadership which will help maintain New England as an area of significant economic progress.



FINANCIAL FOLIO

FEDERAL RESERVE BANK OF BOSTON





DECEMBER 31st

	1958	1957
ASSETS		
Gold Certificates	\$ 943,826,844.33	\$1,066,638,442.49
Federal Reserve Notes of Other Federal Reserve Banks	41,061,485.00	31,700,555.00
Other Cash	19,757,938.04	19,863,025.35
Loans and Advances	1,220,300.00	740,000.00
Industrial Loans	326,600.00	326,600.00
U. S. Government Securities	1,429,342,000.00	1,293,773,000.00
Uncollected Cash Items	405,506,308.39	467,095,945.20
Bank Premises	4,704,692.43	5,010,066.81
Other Assets	7,885,164.43	11,930,139.70
TOTAL ASSETS	\$2,853,631,332.62	\$2,897,077,774.55
LIABILITIES		
Federal Reserve Notes	\$1,630,425,040.00	\$1,638,156,245.00
Deposits:		
Member Bank Reserve Accounts	771,057,286.55	777,422,475.18
U. S. Treasurer-Collected Funds	21,009,386.28	38,076,894.10
Foreign	13,395,000.00	19,778,000.00
Other	2,201,820.85	3,105,923.41
TOTAL DEPOSITS	\$ 807,663,493.68	\$ 838,383,292.69
Deferred Availability Cash Items	338,324,065.99	344,346,515.88
Other Liabilities	1,068,354.73	548,904.03
TOTAL LIABILITIES	\$2,777,480,954.40	\$2,821,434,957.60
CAPITAL ACCOUNTS		
Capital Paid In	\$ 18,120,950.00	\$ 17,741,650.00
Surplus (Section 7)	50,115,887.86	47,012,676.68
Surplus (Section 13b)		3,010,527.20
Reserves for Contingencies	7,913,540.36	7,877,963.07
TOTAL CAPITAL ACCOUNTS	\$ 76,150,378.22	\$ 75,642,816.95
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	\$2,853,631,332.62	\$2,897,077,774.55



Comparative Statement of Earnings and Expenses

		1958		1957
Current Earnings:				
Advances to Member Banks	\$	338,937.68	\$	1,199,518.16
Foreign Loans on Gold		1,611.76		29,288.87
Industrial Loans		14,696.33		14,770.09
U. S. Government Securities — System Account	3	9,932,738.50	4	0,016,933.52
All Other		15,699.61		17,981.60
Total Current Earnings	\$4	0,303,683.88	\$4	1,278,492.24
Net Expenses		9,525,487.04		9,123,662.95
Current Net Earnings	\$30	0,778,196.84	\$32	2,154,829.29
Additions to Current Net Earnings:				
Profit on Sales of U. S. Government Securities (net)	\$	9,136.95	\$	9,847.62
Reimbursement for Fiscal Agency Expenses Incurred in Prior Years				94,314.23
All Other		290.59		981.82
Total Additions	\$	9,427.54	\$	105,143.67
Deductions from Current Net Earnings:				
Reserves for Contingencies	\$	35,311.71	\$	37,010.87
Retirement System (Adjustment for Revised Benefits)				543,884.00
All Other		1,279.65		1,307.28
Total Deductions	\$	36,591.36	\$	582,202.15
Net Deductions	\$	27,163.82	\$	477,058.48
Net Earnings Before Payments to U. S. Treasury	\$30	0,751,033.02	\$3	1,677,770.81
Paid U. S. Treasury (Interest on Federal Reserve Notes)	\$20	5,710,223.86	\$21	7,583,697.46
Dividends Paid		1,073,009.20		1,029,222.87
Transferred to Surplus (Section 7)		2,967,799.96		3,064,850.48
ransierred to ourplus (section /)		0,751,033.02	-	1,677,770.81

The *Total Assets* of the Bank were \$2.9 billion at the end of 1958, a decline of \$43 million. The principal changes during the year were a \$136 million increase in holdings of *U. S. Government Securities*, and \$9 million in *Notes of other Reserve Banks*. These increases were more than offset, however, by a decline of \$122 million in *Gold Certificates*, and a decrease of \$62 million in *Uncollected Cash Items*.

Gold Certificates. A gain of \$816 million on Treasury transfers to this district was more than offset by loss on private commercial and financial transactions with other districts. These transactions included payment for the increased holdings of *U. S. Government Securities* which represented our allocation of System Open Market Account. In part, the larger holdings reflected the policy of credit ease which prevailed most of the year as well as a proportionate share of the gold outflow to nations abroad.

Uncollected Cash Items on the asset side and Deferred Availability Cash Items on the liability side were both substantially lower despite almost as large a volume of check clearing activities as in 1957. Improvement in efficiency of operations and greater stability in the work force increased productivity. Float as a consequence was reduced.

The principal change in liabilities arose from a decrease in the *U. S. Treasurer's General Account* reflecting the heavy flow of government expenditures. The decline in *Federal Reserve Notes* in circulation, although offset somewhat by an increase in the holdings of notes of other Federal Reserve Banks, reflected the slightly lower volume of cash payments.

Member Bank Reserve Accounts decreased \$6 million, as did Foreign Deposits. Capital Paid In increased about \$400,000 and \$3 million was added to surplus. During the year, \$2,875,000 of the Surplus (Section 13b) was repaid to the Treasury and the remaining \$135,000 was transferred to Surplus (Section 7).

Net Earnings of \$30.7 million were \$926,000 lower than in 1957, reflecting lower average earning rates on securities held, a decrease in earnings on advances to member banks and an increase of \$402,000 in expenses. After dividend payments to member banks of \$1,073,000, 90 per cent or \$26.7 million of the Net Earnings was transferred to the U. S. Treasurer for payment of interest charges on Federal Reserve Notes levied under Section 16 of the Federal Reserve Act.

The Bank's ratio of *Gold Certificate* reserves to deposits combined with Federal Reserve Note liability decreased to 38.7 per cent as a result of the loss in *Gold Certificates*. At the end of 1957 this ratio was 43 per cent and at the end of 1956 it was 37.7 per cent.



		Average ieces or Units	Annual Total Volume in Dollars	
Transaction	1958	1957	1958	1957
Check Collections	1,131,499	1,143,971	\$70,216,508,144	\$70,609,468,038
Coin Counted and Wrapped	3,705,548	3,847,012	90,399,700	90,567,700
Currency Sorted and Counted	1,083,897	1,096,337	1,779,312,937	1,767,568,525
Noncash Collections:				
Notes, Drafts and Coupons (except U. S. Government)	4,146	4,119	393,409,976	391,136,601
Safekeeping of Securities:				
Received and Delivered	1,018	1,344	12,798,466,000	17,203,708,000
Coupons Detached	1,750	1,652	36,933,448	29,461,705
Transfers of Funds	369	349	61,500,282,099	51,376,020,560
Issues, Redemptions and Exchanges:				
U. S. Securities (Direct Obligations)	1,142	1,036	13,684,069,115	12,181,737,973
U. S. Savings Bonds	40,051	42,165	742,341,431	933,485,382
U. S. Government Coupons Paid (Direct Obligations)	2,301	1,901	141,443,185	110,416,090
Federal Taxes: Depositary Receipts and Direct Remittances	2,825	2,762	1,648,832,608	1,637,016,47
Currency Verified and Destroyed	246,123	268,629	87,670,000	95,268,000



First Year-End Statement of Condition - 1914

YEAR ENDING DEC. 31st, 1914, AS COMPARED WITH THE STATEMENT OF DEC. 31st, 1958

ASSETS	1958	1914
Gold Certificates	\$ 943,826,844.33	\$13,020,000.00
Federal Reserve Notes of Other Federal Reserve Banks	41,061,485.00	17,615.00
Other Cash	19,757,938.04	944,540.48
Loans and Advances	1,220,300.00	143,527.60
Industrial Loans	326,600.00	
U. S. Government Securities	1,429,342,000.00	
Uncollected Cash Items	405,506,308.39	2,149,254.51
Bank Premises	4,704,692.43	
Other Assets	7,885,164.43	
TOTAL ASSETS	\$2,853,631,332.62	\$16,274,937.59
LIABILITIES		
Federal Reserve Notes	\$1,630,425,040.00	\$ 99,120.00
Member Bank Reserve Accounts	771,057,286.55	14,210,590.47
U. S. Treasurer-Collected Funds	21,009,386.28	
Foreign	13,395,000.00	
Other	2,201,820.85	789.53
TOTAL DEPOSITS	\$ 807,663,493.68	\$14,310,500.00
Deferred Availability Cash Items	338,324,065.99	394,371.95
Other Liabilities	1,068,354.73	775.51
TOTAL LIABILITIES	\$2,777,480,954.40	\$14,705,647.46
CAPITAL ACCOUNTS		
Capital Paid In	\$ 18,120,950.00	\$ 1,618,924.99
Surplus (Section 7)		(Loss) 49,634.86
Surplus (Section 13b)		
Reserves for Contingencies	7,913,540.36	
TOTAL CAPITAL ACCOUNTS	\$ 76,150,378.22	\$ 1,569,290.13
TOTAL LIABILITIES AND		
CAPITAL ACCOUNTS	\$2,853,631,332.62	\$16,274,937.59

Volume Figures for the Year 1923*

AS COMPARED WITH THE VOLUME FIGURES FOR 1958

	Daily A Volume in Pi		Annual Total Volume in Dollars		
Transaction	1958	1923	1958	1923	
Check Collections	1,131,499	207,954	\$70,216,508,144	\$15,296,310,273	
Coin Counted and Wrapped ¹	3,705,548	646,385	90,399,700	20,170,203	
Currency Sorted and Counted	1,083,897	682,505	1,779,312,937	1,265,348,775	
Noncash Collections:					
Notes, Drafts, and Coupons (except U. S. Government)	4,146	2,393	393,409,976	722,650,630	
Safekeeping of Securities:					
Received and Delivered	1,018	607	12,798,466,000	1,833,971,533	
Transfers of Funds	369	164	61,500,282,099	4,112,272,823	
Issues, Redemptions and Exchanges:					
U. S. Securities (Direct Obligations)	1,142	1,127	13,684,069,115	183,017,250	
U. S. Government Coupons Paid (Direct Obligations)	2,301	18,020	141,443,185	69,761,374	
*Earliest year for which figures are availa ¹ Coin was not wrapped in 1923.	ble.				

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