

annual **1970** report

When issued in 1971, the new Eisenhower dollar coin will become the first dollar coin produced by the Mint since 1935. The Eisenhower dollar will have the distinction of completing the series of coins—from the penny to the dollar—bearing profiles of former presidents.

The Eisenhower dollar shown on the cover bears the year 1970. It is a model only, used for display purposes. Actual minting of the new coin will begin in 1971, the earliest date to be used on the coins.

The front and back of the Eisenhower dollar were designed and executed by the U.S. Mint's chief sculptor and engraver, Frank Gasparro. The profile of the former president reflects the strength and character the artist perceived when he first saw Eisenhower. The artist's initials, FG, appear in the curved base of the bust.

The reverse of the coin symbolizes the Apollo 11 spacecraft, "The Eagle." It shows the bald eagle landing on the cratered surface of the moon, clutching an olive branch in each claw. The earth appears in the background above the eagle's head. Thirteen stars represent the first States of the Union. The designer's initials are below the tail feathers.

Front and back cover illustrations courtesy of the Office of the Director of the Mint, The U.S. Treasury Department.

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The new President of the Federal Reserve Bank of Chicago is an old hand in the world of banking and finance.

Robert P. Mayo brings to the Chicago Fed a firmly grounded and broadly based understanding of the formulation and implementation of national economic policies. It is knowledge gained on the job in cabinet level positions of Director of the Bureau of the Budget and Presidential Counsellor in the Nixon Administration, and prior to that, during nineteen years in the office of the Secretary of the Treasury. He brings, too, a knowledge of the Federal Reserve System and of commercial banking that is second to none.

In his new position, he intends to combine this background with long-standing interests in the problems and concerns of urban areas, the credit needs of the agricultural community, and in helping to expand the vital role of the Midwest in international trade and finance.

Both publicly and privately, Bob Mayo makes it plain that he is going to do everything in his power to insure that the Federal Reserve Bank of Chicago is ready to respond positively to the challenges of the changing environment.

Although born and raised in Seattle, Chicago is something of a second home for Mayo. From 1960 to 1968, he was vice president of the Continental Illinois National Bank and Trust Company, specializing in economics, trust investments, and public affairs. Even while he was Budget Director, the Mayos retained a permanent residence in the Chicago area.

Since settling in as president of the Chicago bank, Bob Mayo has been busy meeting people inside and outside the organization. If you haven't already met Mr. Mayo personally, and should you find yourself in the neighborhood of the Chicago Fed, be assured that the door to his office is always open to people like you who share his interest in the sound economic growth of the Seventh Federal Reserve District and of the nation.

Meet Bob Mayo



To the member banks of the Seventh Federal Reserve District:

1970 was a year of adjustment from the severe strains entailed in efforts to deal with the inflation that developed in the late Sixties. As the economy cooled and the gap between potential and actual production widened, monetary controls were relaxed and credit conditions eased. Continued upward pressures on wages and prices, however, required that monetary expansion remain moderate if inflation were not to be rekindled.

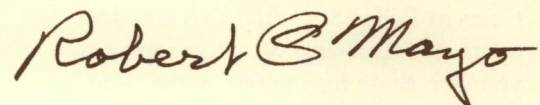
At year-end, both production and employment were at unsatisfactorily low levels, in part due to a prolonged strike in the automobile industry. A major challenge for 1971 will be to regain momentum in production and income growth without causing acceleration in prices. Banks, aided by the easier monetary policy that has evolved in recent months, undoubtedly will play an important role in meeting this challenge.

The financial statements of this bank reflect the pace of economic activity in the Seventh District and the impact of credit demands and monetary policy action on interest rates and the reserve base of the banking system. Total assets were more than \$14.8 billion on December 31, up \$1.2 billion for the year, compared with an increase of about \$850 million in 1969. Most of the funds supplied by the 1970 increase in assets were either absorbed by the expansion in Federal Reserve notes outstanding, reflecting the public's increased demands for currency, or added to the reserves of member banks to support a higher volume of deposits. Earnings on U. S. Treasury obligations, which constitute the principal earning assets of the bank, were about \$90 million higher in 1970 than in 1969. Federal Reserve purchases of U. S. securities are the major source of reserves to the banking system. Net earnings from all sources amounted to \$595 million, of which \$583 million were transferred to the U. S. Treasury.

This bank is continually seeking ways to better service the ever-accelerating flow of financial transactions. The huge volume of clearing operations, paper work, and physical handling of debt instruments, coupled with rising wage costs and security risks, demands better techniques and greater mechanization if the needs of the public are to be served. One large step toward breaking the logjam of transactions was accomplished when the Federal Reserve communications center at Culpeper, Virginia became operational in September. The Culpeper operation is already handling a large proportion of funds transfers that move through the Federal Reserve banks, and the changeover is expected to be completed early in 1971.

In addition to year-end financial statements, this report includes a summary of the major amendments to Federal Reserve regulations in 1970. The directors, officers, and staff join me in thanking you for your cooperation and assistance during the past year.

Sincerely,



Robert P. Mayo
President

Regulatory changes

Amendments to Federal Reserve regulations during 1970 were designed to maintain effective supervisory control in face of changing banking practices, and to aid in the battle against inflation, unemployment, and an international payments deficit. In the monetary policy area, the most significant rulings affected the ability of the commercial banking system to attract deposits and the Federal Reserve's control over the volume of bank liabilities other than deposits. Through other actions the Board strengthened its efforts to maintain sound banking, assure equitable application of rules, and promote more efficient use of Federal Reserve facilities.

As in other recent years, the Regulation Q ceilings on interest rates payable on time deposits had an important influence on the banking system's ability to expand credit. On January 20, 1970, the Board raised the schedule of maximum rates payable on time and savings deposits for the first time since April 1968. The change was intended to halt the decline in these deposits that occurred throughout 1969, and perhaps to have some anti-inflationary impact by encouraging longer-term savings.

A second major modification of Regulation Q was the suspension in late June of rate ceilings on large negotiable certificates issued for less than 90 days. This action, closely following the announcement of the Penn Central bankruptcy, permitted banks to acquire sufficient funds to refinance businesses that were unable to replace their outstanding commercial paper at maturity.

In other clarifications of Regulation Q, the Board narrowed the exemptions for foreign deposits to apply only to time deposits of foreign national governments and their official agencies, ruled that deposits in foreign branches guaranteed by domestic offices are not exempt, and allowed premiums given depositors for new accounts, if within specified value limits, to be classified as promotional expense rather than payment of interest.

The Board also clarified the distinction between deposits and certain types of nondeposit liabilities and specified

their status under both rate limitations and reserve requirements (Regulation D). On February 12, the Board specified that exemption from Regulations Q and D of federal funds purchased applies only to contracts with a bank (defined to include mutual savings and savings and loan institutions) selling funds for its own account. Effective June 30, 1970, the Board ruled that subordinated notes, to be exempt, must be unsecured, be sold in units of at least \$500, mature no sooner than seven years, and be approved by a federal supervisory agency as an addition to capital.

Effective September 17, following up a proposal first announced in 1969, the Board applied a 5 percent reserve requirement (but not deposit interest ceilings) to funds received by member banks through issuance of commercial paper by their affiliates. In the same action, the requirement against time deposits over \$5 million was reduced from 6 to 5 percent. This equalized the treatment of time deposits and commercial paper with respect to required reserves. The Board, in effect, defined as demand deposits such paper issued with maturities shorter than 30 days.

On November 30, the Board announced an increase, from 10 to 20 percent, in reserve requirements on Eurodollars borrowed above a bank's re-

serve-free base, and redefined the base period as the four weeks ended November 25. Declines in Eurodollar borrowings in later periods will entail equivalent reductions in the base. This amendment attempted to discourage repayment of Eurodollars occurring because the cost of obtaining funds domestically had dropped below Eurodollar rates—and thereby avert the resulting balance-of-payments effects—by penalizing the return to this market at a later time. This action accompanied the Board's approval of the second of two quarter-point reductions in the discount rate to a level of 5.5 percent.

Also in line with its less restrictive policy, and in view of a sharp reduction in the use of credit for stock purchases, the Board amended Regulations T, U, and G, effective May 6, to reduce margin requirements for stocks from 80 to 65 percent and for bonds convertible into stocks from 60 to 50 percent.

Several technical changes in rules governing lending by Federal Reserve Banks were approved in 1970. These included some liberalization in the interpretation of eligible paper, the substitution of "continuing lending agreements" for formal applications for individual loans, and the termination of the practice of making advances on a "discount" basis.

Maximum Interest Rates Payable by Commercial Banks

	January 1 1970	December 31 1970
Savings deposits	4.00	4.50
Time deposits—multiple maturity:		
30-89 days	4.00	4.50
90 days to 1 year	5.00	5.00
1 year to 2 years	5.00	5.50
2 years and over	5.00	5.75
Time deposits—single maturity:		
Less than \$100,000:		
30 days to 1 year	5.00	5.00
1 year to 2 years	5.00	5.50
2 years and over	5.00	5.75
\$100,000 and over:		
30-59 days	5.50	suspended
60-89 days	5.75	suspended
90-179 days	6.00	6.75
180 days to 1 year	6.25	7.00
1 year or more	6.25	7.50

Statement of Condition

Assets	December 31, 1970	December 31, 1969
Gold certificate account	\$ 2,209,626,441	\$ 1,468,276,254
Special drawing rights certificate account	70,000,000	—
Federal Reserve notes of other banks	60,299,000	48,507,800
Other cash	31,942,741	13,988,166
Discounts and advances:		
Secured by U. S. Government securities	2,550,000	18,575,000
Other	224,375,000	150,000
Total discounts and advances	\$ 226,925,000	\$ 18,725,000
U. S. Government securities	9,785,675,000	9,498,894,000
Total loans and securities	\$10,012,600,000	\$ 9,517,619,000
Cash items in process of collection	2,327,046,039	2,187,411,771
Bank premises	16,887,444	17,157,772
Other assets	124,793,062	360,736,256
Total assets	<u>\$14,853,194,727</u>	<u>\$13,613,697,019</u>
Liabilities		
Federal Reserve notes	\$ 9,003,044,980	\$ 8,458,223,356
Deposits:		
Member bank reserves	3,429,976,085	2,949,639,086
U. S. Treasurer—General account	103,606,870	107,734,777
Foreign	18,500,000	19,240,000
Other	282,154,793	51,385,120
Total deposits	\$ 3,834,237,748	\$ 3,127,998,983
Deferred availability cash items	1,713,965,571	1,733,807,384
Other liabilities	91,035,228	95,674,796
Total liabilities	<u>\$14,642,283,527</u>	<u>\$13,415,704,519</u>
Capital accounts		
Capital paid in	\$ 105,455,600	\$ 98,996,250
Surplus	105,455,600	98,996,250
Total liabilities and capital accounts	<u>\$14,853,194,727</u>	<u>\$13,613,697,019</u>
Contingent liability on acceptances purchased for foreign correspondents	<u>\$ 37,014,800</u>	<u>\$ 21,593,200</u>

Statement of Earnings and Expenses

Current earnings:	1970	1969
Discounts and advances	\$ 14,933,619	\$ 13,014,720
U. S. Government securities	614,380,420	522,446,794
Foreign currencies	7,276,478	17,951,710
All other	171,248	136,157
Total current earnings	<u>\$636,761,765</u>	<u>\$553,549,381</u>
Current expenses:		
Operating expenses	\$ 41,533,264	\$ 36,107,135
Federal Reserve currency	3,955,139	3,553,830
Assessment for expenses of Board of Governors	3,137,100	2,225,000
Total	<u>\$ 48,625,503</u>	<u>\$ 41,885,965</u>
Less reimbursement for certain fiscal agency and other expenses	<u>5,319,490</u>	<u>4,486,505</u>
Current net expenses	<u>\$ 43,306,013</u>	<u>\$ 37,399,460</u>
Current net earnings	\$593,455,752	\$516,149,921
Additions to current net earnings:		
Profit on sales of U. S. Government securities (net)	\$ 1,347,366	\$ —
All other	532,001	890,027
Total additions	<u>\$ 1,879,367</u>	<u>\$ 890,027</u>
Deductions from current net earnings:		
Loss on sales of U. S. Government securities (net)	\$ —	\$ 997,497
All other	27,210	2,358
Total deductions	<u>\$ 27,210</u>	<u>\$ 999,855</u>
Net deductions from (—) or additions to current net earnings	<u>1,852,157</u>	<u>— 109,828</u>
Net earnings before payments to U. S. Treasury	\$595,307,909	\$516,040,093
Dividends paid	\$ 6,065,780	\$ 5,779,678
Payments to U. S. Treasury (interest on Federal Reserve notes)	<u>582,782,779</u>	<u>504,505,165</u>
Transferred to surplus	<u>\$ 6,459,350</u>	<u>\$ 5,755,250</u>
Surplus account		
Surplus, January 1	\$ 98,996,250	\$ 93,241,000
Transferred to surplus—as above	6,459,350	5,755,250
Surplus, December 31	<u>\$105,455,600</u>	<u>\$ 98,996,250</u>

Statement of Operations

	Value		Number of items	
	1970	1969	1970	1969
	(millions)		(thousands)	
Clearing and collection				
Commercial bank checks	\$ 441,905	\$ 389,514	1,062,164	997,636
Government checks*	24,573	24,314	100,088	97,099
Other items	2,948	2,962	1,886	1,867
Currency and coin				
Currency received and counted	\$ 5,153	\$ 5,194	727,546	739,059
Coin received and counted	176	162	1,479,880	1,376,745
Unfit currency withdrawn from circulation	1,474	1,434	312,855	295,043
Safekeeping of securities				
Definitive securities**				
Securities received	\$ 5,217	\$ 5,045	345	381
Securities released	4,831	4,907	403	397
Coupons detached	194	178	2,924	2,999
In safekeeping on December 31	5,298	4,912	1,426	1,484
Book-entry Treasury securities				
Securities deposited	\$ 8,992	\$ 6,779	10	11
Securities withdrawn	8,299	7,454	10	13
On deposit on December 31	4,937	4,244	—	—
Discount and credit				
Total loans made during the year	\$ 43,949	\$ 21,153	—	—
Daily average outstanding	236	221	—	—
Number of banks accommodated	—	—	287†	332†
Investment				
Purchases and sales of securities				
for member banks	\$ 645	\$ 823	10	11
Transfer of funds				
Funds transferred	\$2,034,540	\$1,701,457	1,170	1,028
Services to the U.S. Treasury				
Marketable securities				
Issued:				
Bearer and registered	\$ 19,231	\$ 15,160	567	570
Book entry	3,638	2,574	5	5
Serviced:				
Bearer and registered	46,896	49,771	1,422	1,514
Book entry	12,654	10,533	11	13
Redeemed:				
Bearer and registered	22,985	20,936	1,443	1,291
Book entry	999	1,126	4	5
Savings bonds and savings notes				
Issued	\$ 1,261	\$ 1,293	26,157	27,938
Reissued and replaced	274	309	1,578	1,579
Redeemed	1,381	1,434	21,892	22,233
Federal tax deposit forms processed	\$ 23,671	\$ 24,252	4,535	4,344
Food stamps processed	\$ 224	\$ 86	166,474	67,148

*Includes postal money orders.

**Includes collateral custodies.

†Actual number.

Appointments, Elections, Promotions, Resignations, and Retirements

Appointments

Robert P. Mayo became President of the bank by appointment of the Board of Directors with approval by the Board of Governors of the Federal Reserve System. Mr. Mayo took office on July 29, 1970.

Ernest T. Baughman was appointed First Vice President of the bank, succeeding Hugh J. Helmer. Mr. Baughman, formerly Senior Vice President and Director of Research, started with the bank as an economist in 1946. He moved to his current position on April 1, 1970.

Karl A. Scheld, Vice President, was appointed Director of Research as of April 1. He joined the bank's Research Department in 1958, and became a bank officer in 1961.

Promotions

Roby L. Sloan, senior agricultural economist, became Assistant Vice President and administrative officer of the Research Department. Mrs. Patricia W. Wishart, formerly administrative assistant, became Assistant Vice President in charge of the statistical section of the Research Department.

At year-end, Arthur G. Stone and Thomas C. Tucker of the Planning Department, and Mrs. Charlotte H. Scott of Personnel were named Assistant Vice Presidents.

Resignations

Charles J. Scanlon resigned as President of the bank after 36 years of service. Mr. Scanlon's resignation was effective April 15, 1970. George G. Kaufman, Assistant Vice President and Economist, resigned October 21 to accept a professorship at the University of Oregon.

Retirements

Hugh J. Helmer elected early retirement effective April 1, 1970 after 37 years of service. Mr. Helmer was First Vice President of the bank at the time of retiring.

John J. Capouch, Assistant Vice President, retired after 37 years with the Chicago Fed.

Retiring with more than 45 years service were Joseph Budasi, Albert Morris, and William Smeatham of the Chicago bank and Frank E. De Yonker and Edward B. Tumey of the Detroit branch.

Retirees with more than 40 years service included:

Clara Heck	Daniel Thomas
William A. Henderson	William O. Wallace
Mary E. Scahill	Cecelia Wanks
John A. Shinn	

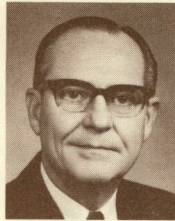
Fed employees who retired after more than 25 years of service with the bank included:

Mabel H. Buchanan	Edna F. Henneberry
Lenore C. Carlson	Eldon E. Hicks
William A. J. Dean	Lester C. Hyldahl
Bernice P. Garland	Stella G. Ludwig
Joseph George	Henry J. Pellicore
Fred S. Gobat	Genevieve T. Wendelken
Herbert Hardt	

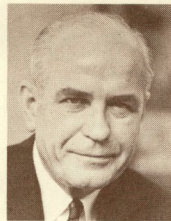
Directors

As of December 31, 1970

EMERSON G. HIGDON
 President
 The Maytag Company
 Newton, Iowa
Chairman and Federal Reserve Agent



E. G. HIGDON



W. H. DAVIDSON



W. H. FRANKLIN

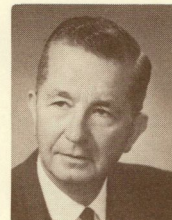
WILLIAM H. DAVIDSON
 President
 Harley Davidson Motor Co., Inc.
 Milwaukee, Wisconsin



M. C. LOCKARD



F. J. LUNDING



H. M. PACKARD

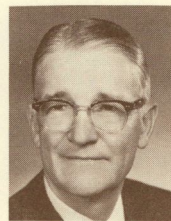
WILLIAM H. FRANKLIN
 President
 Caterpillar Tractor Company
 Peoria, Illinois

MELVIN C. LOCKARD
 President
 The First National Bank
 Mattoon, Illinois

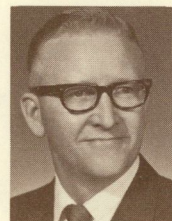
FRANKLIN J. LUNDING
 Chairman, Finance Committee
 Jewel Companies, Inc.
 Melrose Park, Illinois



E. B. SMITH



J. O. WAYMIRE



F. F. WHITMORE

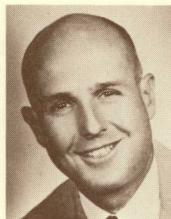
HOWARD M. PACKARD
 Vice Chairman
 S. C. Johnson & Son, Inc.
 Racine, Wisconsin

EDWARD B. SMITH
 Chairman of the Board
 The Northern Trust Company
 Chicago, Illinois

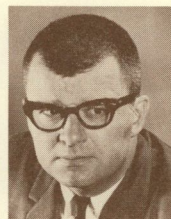
JOSEPH O. WAYMIRE
 Vice President, Finance (Retired)
 Eli Lilly and Company
 Indianapolis, Indiana

FLOYD F. WHITMORE
 President
 Okey-Vernon National Bank of Corning
 Corning, Iowa

L. WILLIAM SEIDMAN
 General Partner
 Seidman & Seidman, C.P.A.
 Grand Rapids, Michigan
Chairman



L. W. SEIDMAN



P. B. CLARK



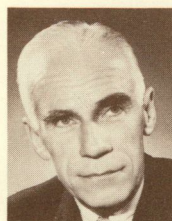
W. M. DEFOE

PETER B. CLARK
 Chairman of the Board and President
 The Detroit News
 Detroit, Michigan

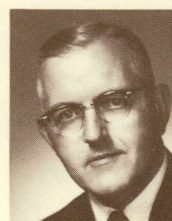
WILLIAM M. DEFOE
 Chairman of the Board
 Defoe Shipbuilding Company
 Bay City, Michigan



R. A. MEWHORT



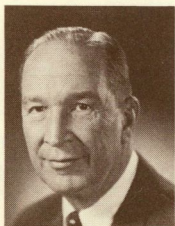
R. T. PERRING



B. P. SHERWOOD, JR.

ROLAND A. MEWHORT
 Chairman of the Board
 Manufacturers National Bank of Detroit
 Detroit, Michigan

RAYMOND T. PERRING
 Chairman of the Board
 The Detroit Bank & Trust Company
 Detroit, Michigan



G. L. WHYEL



D. M. GRAHAM

B. P. SHERWOOD, JR.
 President
 Security First Bank & Trust Co.
 Grand Haven, Michigan

GEORGE L. WHYEL
 President
 Genesee Merchants Bank & Trust Co.
 Flint, Michigan

Detroit Branch

Member of Federal Advisory Council

DONALD M. GRAHAM
 Chairman of the Board
 Continental Illinois National Bank and Trust Company
 Chicago, Illinois

ROBERT P. MAYO, President

ERNEST T. BAUGHMAN, First Vice President

CARL E. BIERBAUER, Senior Vice President
and Control Officer

JAMES R. MORRISON, Senior Vice President

DANIEL M. DOYLE, Senior Vice President

HARRY S. SCHULTZ, Senior Vice President

WARD J. LARSON, Senior Vice President,
General Counsel, and Secretary

BRUCE L. SMYTH, Senior Vice President

GEORGE W. CLOOS, Vice President and Economist

RAYMOND M. SCHEIDER, Vice President

LE ROY A. DAVIS, Vice President

KARL A. SCHELD, Vice President and
Director of Research

FRED A. DONS, General Auditor

JOSEPH J. SRP, Vice President

ELBERT O. FULTS, Vice President

LYNN A. STILES, Vice President and Economist

ARTHUR M. GUSTAVSON, Vice President

JACK P. THOMPSON, Vice President

EDWARD A. HEATH, Vice President

ALLEN G. WOLKEY, Vice President

RICHARD A. MOFFATT, Vice President

ARNOLD J. ANSCHUTZ, Assistant Vice President

WILLIAM T. NEWPORT, Assistant Vice President

BUDDIE J. BELFORD, Assistant Vice President

DOROTHY M. NICHOLS, Assistant Vice President
and Economist

HARRIS C. BUELL, JR., Chief Examiner

WILLIAM ROONEY, Assistant Vice President

CHARLES L. CARTER, Examining Officer

ROBY L. SLOAN, Assistant Vice President

ROBERT P. CORNELISEN, Assistant Vice President

ROBERT E. SORG, Assistant Vice President

FREDERICK S. DOMINICK, Assistant General Auditor

DAVID R. STARIN, Assistant Vice President

FRANKLIN D. DREYER, Assistant Chief Examiner

ADOLPH J. STOJETZ, Assistant Vice President

RUDOLPH W. DYBECK, Assistant Vice President

HILBERT G. SWANSON, Assistant Vice President

WILLIAM H. GRAM, Assistant General Counsel
and Assistant Secretary

EUGENE J. WAGNER, Assistant Vice President

VICTOR A. HANSEN, Assistant Vice President

CARL C. WELKE, Assistant Vice President

ROBERT JOHNSON, Assistant Vice President

ROBERT W. WELLHAUSEN, Assistant Vice President

ERICH K. KROLL, Assistant Vice President

PATRICIA W. WISHART, Assistant Vice President

JOSEPH G. KVASNICKA, Assistant Vice President
and Economist

THOMAS L. WOLFE, Examining Officer

Detroit Branch

DANIEL M. DOYLE, Senior Vice President

LOUIS J. PUROL, Assistant Vice President

GORDON W. LAMPHERE, Vice President and
Assistant General Counsel

RAYMOND A. REAME, Assistant Vice President

WILLIAM C. CONRAD, Assistant Vice President

RONALD L. ZILE, Assistant Vice President

