

**SECOND ANNUAL REPORT**  
**OF THE**  
**FEDERAL RESERVE BANK**  
**OF CLEVELAND**

**FOR THE YEAR ENDED DECEMBER 31, 1916**



**WASHINGTON**  
**GOVERNMENT PRINTING OFFICE**  
1917

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## SECOND ANNUAL REPORT OF THE FEDERAL RESERVE BANK OF CLEVELAND.

D. C. WILLS, Chairman and Federal Reserve Agent.

It was to be expected that the Federal Reserve Bank of Cleveland from an earning standpoint would make a much improved showing in its operations for 1916 over 1915. The increase in revenue, however, did not come through rediscounting for member banks, but from the reserve bank's open market transactions and from purchases, conversions, and sales of United States notes and bonds. The net earnings for 1916 were sufficient to permit the charging off of the entire item of organization expense which appeared in the statement of December 31, 1915, and of all furniture and other fixtures except vault equipment and mechanical equipment which are being amortized.

On December 2 there was declared an initial dividend of 6 per cent per annum for the period to June 30, 1915. This dividend, amounting to \$143,236.51, was credited to the accounts of member banks December 30, 1916, with previous advice, in order to give them the opportunity of entering the dividend in their own earnings for the current year.

On December 31, 1915, the bank had 110 per cent of its capital in revenue-producing assets. At the close of 1916 this percentage had risen to 363 per cent, the daily average in 1916 being 246 per cent.

The following table shows the daily average of invested funds, earnings from investments, and rates of earnings for each month during the year:

*Daily average invested funds.*

	Bills dis- counted, members.	Bills bought in open market.	Municipal warrants.	United States bonds.	Total in- vested funds.
1916					
January.....	\$414,537.89	\$981,173.58	\$2,816,477.61	\$2,501,300.00	\$6,713,489.08
February.....	272,072.70	976,360.05	2,954,676.86	3,389,862.07	7,592,971.68
March.....	253,643.25	1,121,930.04	3,852,506.19	3,993,613.00	9,221,692.48
April.....	436,402.00	1,688,989.00	4,869,198.00	4,180,767.00	11,175,356.00
May.....	284,497.00	2,613,246.00	5,486,443.00	6,166,642.00	14,550,828.00
June.....	277,443.55	4,400,822.83	4,509,667.00	6,614,333.00	15,802,266.38
July.....	419,584.00	6,595,523.00	4,781,391.00	6,653,358.00	18,449,856.00
August.....	282,083.70	7,051,901.80	4,597,141.96	6,375,258.06	18,306,385.52
September.....	597,913.07	7,284,566.60	2,780,179.64	6,798,550.00	17,461,209.31
October.....	370,686.10	6,695,266.52	4,218,861.06	6,878,430.96	18,163,244.64
November.....	271,772.87	6,884,224.51	3,680,377.16	6,739,200.00	17,575,574.54
December.....	1,205,755.34	9,589,687.29	2,712,953.35	7,959,820.84	21,463,216.32

Daily average invested funds—Continued.

	Earnings.	Average rate on invested funds.		Earnings.	Average rate on invested funds.
		<i>Per cent.</i>			<i>Per cent.</i>
January.....	\$15,721.61	2.76	October.....	\$44,904.20	2.74
February.....	16,869.29	2.71	November.....	40,091.23	2.72
March.....	20,413.73	2.62	December.....	51,124.91	2.75
April.....	23,300.29	2.53			
May.....	29,821.61	2.44		391,927.80	
June.....	31,959.46	2.48	Profits realized on United States notes and bonds.	37,228.53	
July.....	39,826.01	2.55			
August.....	40,260.69	2.60			
September.....	37,634.77	2.63	Total.....	429,156.33	

RECAPITULATION.

Daily average of funds employed during year:	
Bills discounted—members.....	\$425,175.75
Bills discounted—bought.....	4,672,647.68
Municipal warrants.....	3,943,462.52
United States notes and bonds.....	5,692,548.42
Total.....	14,733,834.37
Volume of business handled:	
Bills discounted—members.....	6,792,429.30
Bills discounted—bought.....	27,542,002.24
Municipal warrants.....	10,660,237.45
United States notes and bonds.....	11,721,160.00
Total.....	56,715,828.99
Average rate of earnings for year:	<i>Per cent.</i>
Bills discounted—members.....	4.25
Bills discounted—bought.....	2.29
Municipal warrants.....	2.97
United States notes and bonds.....	2.54
Total funds employed.....	2.63
Earnings from discounts and investments:	
Bills discounted—members.....	\$18,064.41
Bills discounted—bought.....	106,993.11
Municipal warrants.....	116,925.13
United States notes and bonds.....	144,843.65
Total.....	386,826.30
Other earnings:	
Sundry profits.....	1,779.47
Penalties.....	3,322.03
Profits realized on United States bonds.....	37,228.53
Total.....	429,156.33
Average capital.....	5,982,695.00
Rate of gross earnings on capital.....	<i>Per cent.</i> 7.17

The following is a comparative balance sheet as at the close of business December 31 and 30, 1915 and 1916:

	1915	1916
<b>RESOURCES.</b>		
Bills discounted for members.....	\$527,762.01	\$1,006,773.50
Bills discounted, bankers' acceptances.....	803,724.54	10,153,694.75
Investments—short-time municipal obligations.....	2,846,067.50	2,634,589.64
United States bonds.....	2,357,000.00	7,979,460.00
	\$6,534,554.05	\$21,824,517.89
Premium and accrued interest on United States bonds.....	103,808.13	297,660.08
Cost of unissued Federal Reserve notes.....	42,757.61	39,544.25
Furniture, vault and other equipment.....	20,187.08	20,163.92
Expense, organization.....	55,774.48	
Expenses paid in advance.....	6,486.36	934.76
	62,260.84	

	1915	1916
<b>RESOURCES—continued.</b>		
Due from other Federal Reserve Banks, net.....	\$2,101,321.01	\$3,657,895.98
Due from banks and bankers.....		129,610.22
Deferred debits.....		10,417,595.49
Gold coin and certificates.....	\$9,593,320.00	\$15,761,382.50
Gold settlement fund, Washington.....	11,042,000.00	16,953,000.00
Gold redemption fund.....		42,250.00
	20,635,320.00	32,756,632.50
Legal-tender notes and silver certificates.....	1,206,352.00	484,417.00
Federal Reserve notes on hand.....	271,405.00	588,935.00
Other cash and coin.....	110,082.85	91,816.77
Mutilated currency forwarded for redemption.....		140,000.00
Other resources.....		28,554.65
	31,088,048.57	70,478,278.51
<b>LIABILITIES.</b>		
Capital paid in.....	5,941,150.00	6,021,800.00
Profit and loss account.....		94,797.44
Unearned interest and discount.....	21,337.34	37,978.59
United States Government deposits.....		974,809.73
Due to member banks (reserve account).....	25,121,175.38	54,586,226.61
Deferred credits.....		8,759,174.62
Other liabilities.....	4,385.85	3,491.52
	31,088,048.57	70,478,278.51
Federal Reserve notes outstanding.....	11,000,000.00	10,832,305.00
Gold deposited with or to the credit of the Federal Reserve Agent.....	11,000,000.00	10,832,305.00
Reserve required.....	35 % = 8,056,961.16	35 % = 17,482,104.85
Reserve carried.....	94.8 % = 21,845,777.65	66.6 % = 33,282,180.80
Excess reserve.....	59.8 % = 13,788,816.49	31.6 % = 15,800,075.95

The following is a detailed comparative statement of profit and loss account for the years 1915 and 1916:

*Profit and loss account.*

	1915	1916
<b>Earnings from—</b>		
Bills discounted, members.....	\$31,632.35	\$18,064.41
Bills discounted, bankers' acceptances.....	11,281.48	106,993.11
Investments—short time municipal warrants.....	55,971.66	116,925.13
United States securities.....	15,515.86	144,843.65
Sundry profits.....	823.88	5,101.50
Balance to organization expense.....	55,774.48	
Profits realized on United States securities.....		37,228.53
	170,999.71	429,156.33
<b>Expenses:</b>		
Current expense.....	123,197.63	185,251.94
Cost of issued Federal Reserve notes.....	9,014.25	5,870.44
Organization expense.....	37,377.56	
Commission paid.....	1,410.27	
Dividend paid.....		143,236.51
Profit and loss credit balance.....		94,797.44
	170,999.71	429,156.33

Percentage of net earnings to average capital 3.98 per cent.

The record of business and banking in district No. 4 for the year again proves the self-contained character of the district. The industries of the district not only were large beneficiaries of foreign orders, but shared in an enormous amount the domestic prosperity in such industries as steel, glass, rubber, petroleum, coal, electrical goods, automobiles, etc. Its rail, river, and lake transportation was taxed beyond capacity. Its agricultural products of corn, wheat,

oats, tobacco, sugar beets, hemp, etc., brought funds into the country banks in unprecedented amounts. Labor has been attracted to the district by the continuous advance of wages already high. In the steel and coal industries the available supply of labor has been insufficient and men by the thousands have been brought from other parts of the country, principally from the South. This remarkable situation has reflected itself in a number of directions. Trade of all kinds reports record figures. Statistics of traction travel, amusements and hotels furnish an added evidence of purchasing power of the people and their willingness to use it. Naturally the banks of the district have participated in this increase of the district's wealth and in its wide distribution. Savings banks and banks conducting savings departments report record totals of deposits, and record figures in the number of new accounts opened. The nation-wide thrift campaign has also stimulated savings in this period of increased earning power.

The following tables show the growth of resources during the year of the member banks, also comparative figures of deposits in State institutions as well as member banks in our three large centers. In the four reserve cities of this district clearings show an increase for the year of 36.5 per cent.

	Nov. 17, 1916.	Nov. 10, 1915.
Member banks, total resources.....	\$1,498,514,751	\$1,216,387,374
Deposits:		
Demand.....	930,705,126	714,122,364
Time.....	235,112,452	170,171,543

*Comparison of deposits of the national banks in the three largest cities in district No. 4.*

	Nov. 17, 1916.	Nov. 10, 1915.
Cincinnati, Ohio.....	\$97,410,620	\$81,512,677
Cleveland, Ohio.....	146,408,910	102,884,342
Pittsburgh, Pa.....	315,130,151	223,736,095
Total.....	558,949,681	408,133,114

*Comparison of deposits of the State banks and trust companies in the three largest cities in district No. 4.*

City.	State banks.		Trust companies.	
	Date.	Amount.	Date.	Amount.
Cincinnati, Ohio.....	Sept. 30, 1916	\$74,296,267	Sept. 25, 1915	\$66,439,542
Cleveland, Ohio.....	do	322,120,966	do	258,190,273
Pittsburgh, Pa.....	Nov. 17, 1916	277,588,040	Nov. 11, 1915	234,108,945
Total.....		674,005,273		558,738,760

Investment houses found a ready market for their securities within the district.

Generally the banks, member and nonmember, of this district have had on hand funds available for loaning in excess of the demands upon them, and there has been but slight demand for rediscounts during the year. Partial failure of crops in some counties, a shifting of public deposits in some communities, or other causes have led to sporadic demand for more funds than could be supplied locally, but in nearly every instance this demand has been short lived.

The following table shows the operations of the bank in rediscounts for member banks during the year, classifying the loans made as to kinds and maturities:

*Operations in discounts and investments department, year 1916.*

Bills discounted—members:

Commercial and agricultural paper.....	\$4, 232, 244. 04
Trade acceptances.....	175, 185. 26
Member bank collateral notes.....	2, 385, 000. 00
<b>Total.....</b>	<b>6, 792, 429. 30</b>
Average rate..... per cent..	4. 25

Classification by maturities:

Within 10 days.....	\$2, 288, 100. 00
11 to 30 days.....	3, 203, 600. 00
31 to 60 days.....	778, 100. 00
61 to 90 days.....	376, 000. 00
Beyond 90 days.....	146, 600. 00
<b>Total.....</b>	<b>6, 792, 400. 00</b>

The demand for money and rates of interest on loans throughout the district has changed very slightly during the year and there has been no cause for serious modification of the rates of rediscount in force at the Federal Reserve Bank of Cleveland. The following table gives the rates at the beginning of the year, and the changes made from time to time:

	Maturities.					
	10 days and less.	15 days and less.	Over 10 to 30 days, inclusive.	Over 15 to 30 days, inclusive.	Over 30 to 60 days, inclusive.	Over 60 to 90 days, inclusive.
<b>In force:</b>						
Jan. 1, 1916.....	3½		4		4	4½
Mar. 10, 1916.....	3½		4		4	4½
Aug. 1, 1916.....	3½		4		4½	4½
Sept. 15, 1916.....		3½		4	4½	4½
Jan. 1, 1917.....		3½		4	4½	4½

  

	Agricultural and live stock paper over 90 days.	Trade acceptances.			Open market purchases of bankers' acceptances.
		Not over 30 days.	Over 30 to 60 days.	Over 60 to 90 days.	
<b>In force:</b>					
Jan. 1, 1916.....	5	3½	3½	4	2 to 4
Mar. 10, 1916.....	5	3	3	3½	2 to 4
Aug. 1, 1916.....	5	3	3½	4	2 to 4
Sept. 15, 1916.....	5	3	3½	4	2 to 4
Jan. 1, 1917.....	5	3	3½	4	2 to 4

Bankers' acceptances form a considerable portion of the earning assets of this bank. There is a comparatively small amount of such business originating in this district, and practically all of these acceptances purchased by the bank have been secured through the Federal Reserve Banks of Boston and New York. At various times acceptances of three member banks of this district were held. The bank's officers have been constantly watchful of proper diversification of the acceptance lines purchased, both as to character of business and acceptors.

The following table succinctly shows the volume of business, classification by maturities, and character of acceptances dealt in during the year:

*Bills bought in open market (acceptances).*

Export and import.....	\$27, 237, 096. 49
Domestic.....	304, 905. 75
Total.....	<u>27, 542, 002. 24</u>
Average rate.....per cent..	2. 29
Classification by maturities:	
Within 10 days.....	0
11 to 30 days.....	\$1, 542, 425. 48
31 to 60 days.....	5, 788, 427. 94
61 days to 3 months.....	<u>20, 211, 148. 82</u>
Total.....	27, 542, 002. 24

This bank has been especially active in seeking to introduce in industrial and commercial pursuits the use of trade acceptances in place of open book accounts. What is known as the Trade Acceptance Primer, called "Why accept," was compiled in this bank, and through our agency over 120,000 of these pamphlets were distributed in 40 cities located in 19 States. A great deal of progress has been made and inquiries are received daily, not only from this district but from all over the United States, concerning the methods and manner of introducing this desirable change in relations between seller and buyer.

Statistics are not available at present covering the volume of trade acceptances now existing in the district.

While this bank has not been an active competitor in the general market for Government bonds the volume of dealings by the bank in these issues has been considerable throughout the year with substantial gain to the bank. The prices paid for bonds purchased have been maintained at a low average, and the cost of securities owned is less by a good margin than the present market price. The following table shows the bonds purchased during the year and held at the close of the year.

*United States note and bond operations.*

	Purchased.	Held Dec. 31, 1916.
2 per cent consols purchased in open market.....	\$3,196,900	\$903,900
2 per cent Panamas purchased in open market.....	2,125,000	1,500,000
3 per cent war loan 1918 purchased in open market.....	1,401,060	2,586,560
3 per cent conversion bonds.....	1,000	1,800
4 per cent of 1925 purchased in open market.....	1,629,200	2,369,200
1-year Treasury notes.....	50,000	618,000
Total.....	8,403,160	7,979,460

Average rate of earnings on United States notes and bonds, 2.54 per cent.

During the year the bank, in accordance with section 24 of the Federal Reserve Act, has converted United States 2 per cent bonds into 3 per cent 1-year Treasury notes and 3 per cent 30-year conversion bonds, as follows:

	Conver- sion.	On hand Dec. 31.
1-year 3 per cent Treasury notes received for 2 per cent bonds.....	\$1,658,000	\$618,000
30-year 3 per cent conversion bonds received for 2 per cent bonds.....	1,660,000	1,800
Total.....	3,318,000	619,800

All of the conversion bonds have been disposed of except \$1,800 par value, and several round blocks of the one-year Treasury notes have been sold. Some sales of other Government bonds have been made. The prices realized on all these transactions have resulted in a substantial profit to the bank. The following table shows bond sales during the year:

## Sales:

3 per cent Spanish war loan 1918.....	1,500
3 per cent 1-year Treasury notes.....	1,090,000
3 per cent 30-year conversion bonds.....	1,659,200
4 per cent of 1925.....	30,000
Total.....	2,780,700.00

Proper steps are being taken looking to the conversion of an additional amount of 2 per cent bonds during next year under the authorization of the Treasury Department and in accordance with the act.

From the foregoing table it will be seen that the bank owns \$2,586,560 par value of the 3 per cent Spanish war loan bonds of 1918 and \$2,369,200 of the 4 per cent bonds of 1925, the aggregate of which is available as security for Federal Reserve bank notes. If an emergency should arise in which the Federal Reserve notes of the bank would not suffice, this additional amount of currency would be promptly issued. The Comptroller of the Currency has printed and holds available for immediate issue \$5,000,000 of bank notes of this Federal Reserve Bank, which can be drawn upon when required.

In its operations in relation to the short-term borrowings of municipalities, as authorized under section 14 of the Federal Reserve Act, this bank has been specially helpful to member banks and to the municipalities served. There has been a constant effort on the part of the bank to standardize loans of this nature and to make them properly liquid investments, and this has been accomplished in practically every instance. The following table shows the volume of business of this nature handled, the time for which the borrowings were effected, and the average rate, as well as distribution and character of borrowings, whether State, county, city, town, or other political subdivision.

*Municipal warrants purchased.*

City.....	\$10,051,988.72
State.....	260,028.02
County.....	172,845.36
Other.....	175,375.35
Total.....	10,660,237.45
Average rate of earnings.....per cent..	2.97
Classification by maturities:	
Within 10 days.....	0
11 to 30 days.....	381,633.20
31 to 60 days.....	2,221,525.66
61 to 90 days.....	497,590.02
Beyond 90 days to 6 months.....	7,559,488.57
Total.....	10,660,237.45

The reserve position of the bank has been maintained throughout the year at a percentage without material variation. It has been the general policy of the bank, under existing conditions to maintain a reserve of 65 per cent to 70 per cent, so that the bank may be in position in case of unusual demand or stress to meet calls upon it without difficulty. The following table indicates the reserve position of the bank at the close of each month throughout the year:

*Changes in the reserve position of the bank during the year.*

	Required (35 per cent).	Carried.	Per cent.	Excess.	Per cent.
	<i>Dollars.</i>	<i>Dollars.</i>		<i>Dollars.</i>	
January.....	8,820,538.05	22,944,786.20	91	14,124,248.15	56.0
February.....	9,339,164.20	23,545,004.55	88.2	14,205,840.35	53.2
March.....	9,124,846.70	22,516,944.20	86	13,392,097.50	51.0
April.....	9,478,801.76	20,508,231.20	75.7	11,029,429.44	40.7
May.....	12,138,429.76	24,146,093.00	69.6	12,007,663.24	34.6
June.....	12,960,406.41	25,220,721.80	68.1	12,260,315.39	33.1
July.....	13,784,843.45	26,252,246.05	66.6	12,467,402.60	31.6
August.....	13,953,265.97	26,678,284.70	66.9	12,725,018.73	31.9
September.....	14,178,013.77	28,917,345.75	71.3	14,739,331.98	36.3
October.....	14,343,683.51	28,762,925.75	70.1	14,419,242.24	35.1
November.....	17,489,737.78	37,826,869.30	75.7	20,337,131.52	40.7
December.....	17,482,104.85	33,282,180.80	66.6	15,800,075.95	31.6

Below are shown the number of member banks which have liquidated during the year, as well as the number of new national banks formed, showing the total of member banks in this district to be 753 at the close of business for 1916. There is also indicated the distribution of member banks according to gross assets.

*Member banks, district No. 4.*

Number of member banks Dec. 31, 1915.....	762
New banks organized.....	1
	763
Closed by Comptroller of the Currency.....	2
Liquidated.....	8
	10
Number of member banks January 1, 1917.....	753
Distribution:	
In reserve cities.....	45
In other than reserve cities.....	708
	753

*Distribution according to assets.*

	Ken- tucky.	Ohio.	Pennsyl- vania.	West Vir- ginia.	Total Nov. 17, 1916.	Total Nov. 10, 1915.
Under \$100,000 assets.....	1	1	0	0	2	3
\$100,000 to \$200,000.....	10	31	13	0	54	69
\$200,000 to \$300,000.....	12	41	28	0	81	101
\$300,000 to \$500,000.....	16	52	71	2	141	147
\$500,000 to \$2,500,000.....	24	197	146	9	376	357
\$2,500,000 to \$20,000,000.....	5	46	35	2	88	75
Over \$20,000,000.....	0	5	6	0	11	10
Total.....	68	373	299	13	753	762

It has been reported to the Federal Reserve Bank that the reason for the liquidation of the eight national banks above reported which have converted into State banks was to enable them to make real estate loans to a greater extent than permitted under the national-bank act as amended, all of the banks being located in rural communities.

There have been adjustments of the capital stock of this bank owned by member banks by increases and reductions as shown by the following statement, leaving a net capital stock of the bank at the close of business December 31, 1916, of 120,436 shares, 50 per cent of which is fully paid.

Total capital stock Dec. 31, 1915.....	\$11,876,300
Stock allotted member banks for quarter ending:	
Mar. 31, 1916.....	\$48,800
June 30, 1916.....	47,700
Sept. 30, 1916.....	90,700
Dec. 31, 1916.....	68,900
	256,100
Total.....	12,132,400

## Stock surrendered, quarter ending:

Mar. 31, 1916.....	\$31, 200	
June 30, 1916.....	9, 700	
Sept. 30, 1916.....	34, 900	
Dec. 31, 1916.....	13, 000	
		<u>\$88, 800</u>

Total capital stock Dec. 31, 1916..... 12, 043, 600

Total paid-up capital stock Dec. 31, 1915..... 5, 938, 150

## Subscriptions paid in quarter ending:

Mar. 31, 1916.....	\$24, 350	
June 30, 1916.....	23, 900	
Sept. 30, 1916.....	45, 350	
Dec. 31, 1916.....	34, 450	
		<u>128, 050</u>

Total..... 6, 066, 200

## Cash subscriptions refunded for surrender of stock, quarter ending:

Mar. 31, 1916.....	\$14, 400	
June 30, 1916.....	6, 050	
Sept. 30, 1916.....	13, 850	
Dec. 31, 1916.....	10, 100	
		<u>44, 400</u>

Total paid-up capital stock Dec. 31, 1916..... 6, 021, 800

In its dealings with the trust companies and State banks of the district this bank has maintained an attitude of willingness to give all information requested concerning any of the features of the Federal Reserve Act, and it has constantly evidenced a cordial spirit toward all such institutions which have indicated or might show an inclination to join the Federal Reserve System. One large State institution in one of the important cities of the district is a member bank, and it is understood that several large trust companies and State banks are considering membership.

There can be no question that the year 1916 has witnessed further progress in the development of cordial relations between the Federal Reserve Bank and its member banks. There are quite a few of the member banks which continue more or less evidence of disaffection, but in the main all of these instances can be traced to an unwillingness to become informed concerning the facilities the system affords, or more often to the lack of occasion for using the Federal Reserve Bank or meeting its officers.

A table is appended giving the number of member banks for which rediscounts have been made during the year, the number of separate pieces handled, and the range of amounts of such rediscounts.

*Accommodation of member banks through discount and purchase of acceptances.*

	Banks accommodated.	Applications handled.	Number of pieces.
Kentucky.....	8	60	231
Ohio.....	32	152	1,060
Pennsylvania.....	9	26	106
West Virginia.....	1	2	4
Total.....	50	240	1,401

Amount of smallest note or bill rediscounted, \$31.  
Amount of largest note or bill rediscounted, \$100,000.

Thirteen meetings of the board of directors have been held during 1916, with an average attendance of seven. Twenty-five meetings of the executive committee were held. The executive committee always includes a quorum of members located in Cleveland, in order to facilitate prompt action on rediscounts. The other members of the committee alternate every 60 days.

Mr. John Stambaugh, treasurer of the Brier Hill Steel Co., Youngstown, Ohio, succeeded Mr. A. B. Patrick, of Salyersville, Ky., as a class B director on January 1, 1916. Otherwise the personnel of the board has remained the same as in 1915.

Mr. W. S. Rowe, president of the First National Bank of Cincinnati and class A director of this bank, was reelected for 1916 a member of the Federal Advisory Council, and serves on the executive committee of the council.

At the beginning of the year no marked changes were made in the internal organization of the bank, although owing to the resignation of the then acting assistant cashier, the auditor, Mr. M. J. Fleming, was made assistant cashier, the assistant auditor, Mr. W. F. Taylor, was made auditor; and Mr. L. W. Manning, who had been a member of the staff since the organization of the bank, was appointed assistant secretary. During the first half of the year only minor adjustments of duties were made. Since the inauguration of the collection system, it has been necessary to double the force of employees, and a number of changes in organization in the accounting and transit departments have been made, as a result of experiments with the aim of producing the best possible results. On July 1, the chief teller, who had served since the organization of the bank, resigned, to accept the position of secretary and cashier of a newly organized State bank in Akron, Ohio, and his place was filled by the appointment of the assistant teller, Mr. C. L. Bickford.

In all, 7 employees who were on the roll January 1, 1916, have since left, and there are 42 employees on the roll who were not in the employ of the bank on that date. The total roll of officers and employees is 65, including the department of the Federal Reserve Agent.

Conforming to the procedure suggested by the Federal Reserve Board to be adopted by banks where the Deputy Federal Reserve Agent is not active, the secretary of the Federal Reserve Agent, Mr. Horace G. Davis, was appointed assistant to the Federal Reserve Agent.

The executive and accounting offices of the bank have been located on the second floor of the Williamson Building, on one of the principal corners of Cleveland. The tellers' department surrounds the large armor-plate vault in the basement of the same building, and the transit department occupies a room which adjoins the fourth floor. This arrangement has proved satisfactory in respect to the transit department, but has been more or less unsatisfactory otherwise. The directors have therefore leased the corner room on the street floor of the same building, which has been used until recently as temporary quarters of the Union National Bank. This location is being prepared for our occupancy about the middle of January. These new offices, while not elaborate, are a more dignified and appropriate housing of the institution, and will permit of greater efficiency in conducting the bank's business, beside being more convenient for the member banks.

Two examinations of the bank were made during the year by the Federal Reserve Board examiner and his staff. Complete copies of the reports of both examinations were filed with the bank, and examined and initialed by each member of the board of directors. These examinations included an audit of the funds and accounts of the Federal Reserve Agent. The Federal Reserve Agent's funds are also audited periodically by a special examiner of the Federal Reserve Board.

On January 1, 1916, the Federal Reserve Bank of Cleveland became a Government depository, having been authorized by the Secretary of the Treasury to receive funds for the customs office and the collector of internal revenue. The balances at the close of each month in this account of the Government are shown in the following table:

*Government deposits.*

January 3.....	\$258, 851. 37	July.....	\$1, 948, 247. 84
January 31.....	435, 178. 31	August.....	2, 356, 055. 27
February.....	726, 226. 28	September.....	2, 241, 487. 51
March.....	891, 449. 89	October.....	1, 481, 872. 76
April.....	745, 676. 82	November.....	1, 543, 696. 24
May.....	908, 899. 28	December.....	974, 809. 73
June.....	3, 244, 249. 30		

By the opening of this account, and also by our dealings in Government bonds through purchases, sales and conversions (April, July, and October) active relations with the United States Treasury have been established.

The cordial spirit of cooperation between the officers of this bank and the chief national bank examiner of the district continues. By direction of the Comptroller of the Currency, the chief examiner held two conferences of his examiners in Cleveland during the year. The governor and chairman of the bank were present during part of the deliberations on each occasion, by invitation of the chief examiner.

At the close of 1915 there were outstanding approximately \$11,000,000 of Federal Reserve notes of this bank. The policy during 1916 has been to maintain this amount, except during a period when there appeared to be no pressing demand, and notes were being redeemed rather freely through the Treasury Department. We were able during December to accommodate member banks requesting new currency, by issuing in that month \$2,700,000 of Federal Reserve notes.

The deposit in the Federal Reserve Bank of gold certificates of the \$10 and \$20 denominations, the retirement of emergency and national bank currency of these denominations, and the increased demand for such notes for pay-roll necessities have all tended to a shortage of currency, and it has been the policy of the bank, where practicable, to issue its Federal Reserve notes to meet the needs of the district in this respect.

The following table shows the present status of the Federal Reserve Agent's account for notes issued:

*Cover of notes issued.*

Gold certificates.....	\$1, 870, 000. 00
United States Treasury gold order certificates.....	8, 350, 000. 00
	10, 220, 000. 00
Gold redemption fund with United States Treasurer.....	612, 305. 00
Total.....	10, 832, 305. 00

Below are given the denominations of all Federal Reserve notes issued and destroyed up to the close of 1916; and outstanding on that date:

*Denominations of Federal Reserve notes issued, destroyed, and outstanding.*

Denominations.	Issued.	Destroyed.	Outstand- ing.
Fives.....	\$3, 600, 000	\$1, 226, 960	\$2, 373, 040
Tens.....	3, 840, 000	1, 280, 965	2, 559, 035
Twenties.....	5, 440, 000	1, 108, 620	4, 331, 380
Fifties.....	950, 000	66, 750	883, 250
Hundreds.....	730, 000	44, 400	685, 600
Total.....	14, 560, 000	1 3, 727, 695	10, 832, 305

<sup>1</sup> Returned for destruction by Federal Reserve Agent.....	\$120, 000
Returned for destruction by Federal Reserve Bank.....	1, 380, 000
Returned for destruction by Treasurer of United States.....	2, 227, 695

3, 727, 695



The banks in the cities of Cincinnati and Pittsburgh have maintained substantial excess deposits in the Federal Reserve Bank since the inauguration of the collection system, by reason of their agreement that all checks upon them should be charged immediately to their accounts.

Since the amendment of September 7 permitting a portion of vault reserve of member banks to be carried in the Federal Reserve Bank, an additional amount of excess deposits has been transferred to the Federal Reserve Bank.

The following table shows the monthly averages of member bank deposits and overdrafts.

	Deposits.	Over-drafts.		Deposits.	Over-drafts.
January.....	\$25,895,145.21	.....	August.....	\$39,381,867.74	\$4,372.74
February.....	26,774,042.88	\$5,443.52	September.....	41,198,406.77	51,790.76
March.....	25,830,421.38	27,415.10	October.....	42,534,853.12	828.87
April.....	27,520,077.65	.....	November.....	53,747,310.14	.....
May.....	34,598,527.42	.....	December.....	54,586,226.61	228.22
June.....	36,552,713.60	.....	Average for year..	37,260,372.67	7,780.17
July.....	38,504,879.57	3,282.87			

The bank has been almost free of overdrafts, and such as have existed, being due to remittances through the collection system, have been promptly liquidated and the reserve balances restored.

Since the organization on July 15 of the collection system, weekly reports of net deposits of member banks have been required and with very few exceptions have been regularly furnished.

The copies of called statements of condition of member banks, as requested by the Comptroller of the Currency, have been promptly received, and recently a duplicate copy of the reports of examination by the national bank examiner has been supplied by the chief national bank examiner of the district for the confidential use of the Governor and the Federal Reserve Agent. These reports are carefully examined when received, and in this manner the officers of the bank have kept in close touch with the condition of the various member banks.

There have been two failures of member banks during the year, and from reports received three State banks have been obliged to close their doors. The national banks which have been placed in receivers' hands failed by reason of mismanagement and bad loans.

At the close of business for the year 1916 the Federal Reserve Bank of Cleveland had no past due paper upon its books, and had not suffered any loss whatever by reason of charging off doubtful or worthless assets. The loans maturing September 28, 1916, and October 1, 1916, to the city of Toledo, Ohio, upon pledge of current revenues were not paid when due. Under a decision of the supreme court of Ohio the city officials of Toledo had felt obliged to make full payment of the city's sinking-fund assessments, and by so doing

depleted the funds on hand from current revenues to such extent that payment of the floating indebtedness could not be made. After conference, it was agreed to extend the time of payment of the warrants held by this bank pending sale of deficiency bonds then in process of being issued. This deficiency bond issue has since been sold, and payment of the entire amount due the bank, with interest, is now being arranged.

Prior to July 15, 1916, when the general plan of clearings went into effect, this bank had in operation a voluntary clearing system in which 116 of our member banks participated. This system was of course discontinued on the above date. Coincident with the inauguration of the present plan of clearing, the Federal Reserve Bank became a special member of the Cleveland Clearing House Association, with clearing privileges and responsibilities only. The figures appended show the progress made in collecting checks. The list of State banks agreeing to remit at par is growing. The number of items and volume represented are also increasing.

*Clearings to July 15, 1916.*

	Number of items.	Amount.	Daily average.	
			Number of items.	Amount.
January.....	52,454	\$19,926,000	2,017	\$766,361
February.....	44,364	16,554,000	1,848	689,750
March.....	51,916	24,803,600	1,922	918,651
April.....	45,778	28,887,000	1,831	1,155,480
May.....	55,549	50,416,100	2,134	1,939,080
June.....	71,084	56,306,300	2,734	2,185,627
July.....	26,662	25,911,600	2,051	1,916,300

*Clearings after July 15, 1916.*

	Number of items.	Amount.	Daily average.	
			Number of items.	Amount.
July.....	118,924	\$54,310,350	9,148	\$4,177,720
August.....	286,668	120,685,287	10,618	4,469,825
September.....	354,174	163,662,697	14,167	6,546,508
October.....	397,818	189,574,370	15,193	7,582,975
November.....	392,587	219,220,650	15,704	8,768,826
December.....	445,951	209,933,421	17,838	8,397,337

NOTE.—Number of State banks in collection system December 30, 496.

Through the gold settlement fund at Washington we have been able to accept from our member banks, for credit, exchange on any of the Federal Reserve cities. Our member banks are able to replenish their reserves with us through deposits by their correspondents for our credit in the other Federal Reserve Banks, while we agree to furnish exchange for excess balances. The demand from our member banks for this service has been only nominal.

The establishment of the gold settlement fund has without doubt contributed to equalizing exchange conditions, and a constant scarcity of eastern exchange which existed in several centers of this district before the fund was available has now disappeared altogether. The following table shows the monthly aggregates of operations of this bank through the gold settlement fund for the year:

*Monthly totals of debits and credits to the Federal Reserve Bank of Cleveland in the gold settlement fund.*

	Debits.	Credits.		Debits.	Credits.
January.....	\$4,868,000	\$5,356,000	August.....	\$32,241,000	\$30,773,000
February.....	4,163,000	4,346,000	September.....	41,021,000	43,219,000
March.....	8,290,000	6,366,000	October.....	50,245,000	49,017,000
April.....	6,440,000	4,367,000	November.....	57,217,000	65,162,000
May.....	8,418,000	11,919,000	December.....	70,908,000	67,963,000
June.....	11,904,000	12,030,000			
July.....	12,714,000	13,822,000	Total.....	308,429,000	314,340,000

Balance December 30, 1915..... \$11,042,000  
 Balance December 28, 1916..... 16,953,000

The following is a comparative schedule of the borrowings of member banks in this district, at the dates of reports:

	Bills payable.	Rediscounts.	Total Nov. 17, 1916.	Total Nov. 10, 1915.
With banks outside of district.....	\$752,000	\$251,472	\$1,003,472	\$1,347,520
With other banks in district.....	1,203,927	443,879	1,647,806	2,824,540
With Federal Reserve Bank.....		274,853	274,853	540,161
Total.....	1,955,927	970,204	2,926,131	4,712,221
Per cent with Federal Reserve Bank.....		28.3	9.3	11.5
Per cent of rediscounts in district with Federal Reserve Bank.....		38.2		
Per cent of rediscounts in district with Federal Reserve Bank, 1915.....		45.6		

Information relative to applications for fiduciary powers granted under the provisions of section 11-k of the act, in accordance with the regulations of the Federal Reserve Board, is shown in the following exhibit:

Powers granted.	Ohio.	Pennsylvania.	Kentucky.	West Virginia.	Total.	Total granted since organization.
Trustee only.....	2				2	5
Registrar of stocks and bonds.....	1				1	2
Trustee and registrar of stocks and bonds.....	2				2	8
Trustee, executor, administrator, and registrar of stocks and bonds.....		1	2		3	6
Total.....	5	1	2		8	21
Applications pending trustee only.....				1	1	
Registrar of stocks and bonds.....	1				1	
Trustee and registrar of stocks and bonds.....	3				3	
For executor, administrator, and registrar.....		1			1	
Total pending.....	4	1		1	6	

The following is a statement of the number of applications for permission to serve as officers and directors of two or more banks, under the Kern amendment to the Clayton Act, handled by the Federal Reserve Agent in conformity with the Board's requirements.

*Interlocking directorates.*

Applications approved.....	205
Applications refused.....	11
Total.....	216
Applications pending.....	4

At the close of the year 1916 the Federal Reserve Bank of Cleveland occupies a position of unquestioned importance in its district. The inauguration of dividend payments has caused member banks to have a feeling of greater security in their investment in the capital stock. The new order of banking, noninterest-bearing reserve deposits, direct routing of checks and no remittance charge, liquidity of assets representing demand deposits, more general use of borrowers' financial statements, and other desirable changes from the old order, all have become better understood by banks and the public, and the new procedure is steadily gaining favor. A great advance has already been made, and the field of usefulness and service of the Federal Reserve Bank for the future appears broad and fertile. There is no question that the best banking opinion of the district tends more and more to recognize the Reserve Bank's ability to care for its members in an emergency and to meet its full responsibilities on any occasion.

This bank now has a force of trained officers and employees capable of handling its business satisfactorily and of expanding to meet future progress and growth. The earnings of the bank are now sufficient to meet its current operating charges and dividend requirements. The amount of the earnings will probably be augmented during the coming year so as to enable the bank to make payment of an additional amount of arrears in the cumulative dividend.

