1953
Annual Report
FEDERAL RESERVE BANK
of
CLEVELAND
FOURTH FEDERAL RESERVE DISTRICT
FEDERAL RESERVE BANK OF CLEVELAND,

Cincinnati and Pittsburgh, serving the Fourth
Annual Report

for the year

1953
January 20, 1954

To the Banks in the Fourth Federal Reserve District:

Though business and individuals use the facilities of banks each day and enjoy the convenience of the variety of services offered, few realize that there is, in fact, a nation-wide banking system privately owned and managed. The Federal Reserve Banks are an integral part of that system dedicated to "... the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture". They have other duties such as supplying currency and coin, collecting checks, and acting as fiscal agent for the government of the United States, all for the benefit of business and the public through the medium of the banks.

We are pleased to send you this report of Federal Reserve Bank of Cleveland, which reflects the dynamic character of business and agriculture in the Fourth Federal Reserve District and the adequacy and competence of its banks to meet the requirements for loans and banking services.

This has been a year of high business activity, low unemployment and profitable operations. It has brought a cessation of armed hostilities and a frontal attack on the economic elements contributing to a long inflation. The responsibilities of bankers to conduct their affairs in a sound but progressive manner have been accentuated by these developments.

The officers and staff of Federal Reserve Bank of Cleveland and branches at Cincinnati and Pittsburgh appreciate the cooperation and advice we have received from bankers and representatives of business, commerce and agriculture throughout our district. It has aided us immeasurably in carrying out our duties and enabled us to improve our operations.

John C. Veeder
Chairman

H. S. Altmann
President
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IN A YEAR characterized by uncertainty in the nation's money market, the point of greatest historical interest was the abrupt turn in financial sentiment which occurred early in June.

At the time when the wind shifted, the shrinkage in the market value of investment portfolios had reached a point where the flow of capital into productive enterprise might soon be noticeably impeded. The Victory Loan 2½%, to cite an example, had receded into the low 90s, and all other gilt-edge securities were being quoted at comparable discounts.

It is true that only a minute portion of the public debt had changed ownership at these low levels, and that most of the marketable debt had stayed in the same hands during the preceding cascade of prices. Nevertheless, the shrinkage of values had begun to affect, so to speak, every phase of investment activity and psychology. The severe markdown in bond prices—the sharp rise in the cost of money—meant that all kinds of fixed-income-producing property had suffered a sharp decline in capitalized value. More than once in the past, such an outwardly innocuous but substantial markdown of basic investment (as distinguished from speculative) values had preceded a reduction in capital expenditures and a slowdown in economic activity.

The question naturally arises as to how this situation had come about, and how or why it was alleviated.

Rise in Borrowing

During the latter months of 1952, economic activity had gradually reached what may be described as an overblown phase; as the new year dawned, trade and industry were booming along at an extraordinary pace. In many instances, capacity was being strained to meet demand.

Theoretically, full production and full employment should be no menace to stability. But business booms are usually accompanied by an undue and untenable rate of borrowing. This one was no exception.

The almost feverish rate of activity of a year ago was being financed to a disproportionate degree by a steady stream of credit expansion which could not be sustained indefinitely. Personal and corporate indebtedness was increasing much more rapidly than mere population growth required, and was reaching great and unfamiliar magnitudes. Participating in the scramble for funds were individuals seeking to finance home purchases and installment buying, business enterprises trying to expand physical facilities and to augment working capital, as well as state and local authorities intent upon an unprecedented program of public construction.

The flow of genuine savings, however substantial, was inadequate to meet the almost insatiable demand for new capital. In order to fill the savings gap, member banks in the country as a whole had become indebted to their respective Federal Reserve banks to the amount of nearly $1,500,000,000 (the largest volume of such borrowing since 1921) which in turn was used to support a much larger volume of new loans and investments.

The extent to which credit had been inflated was beginning to cause considerable uneasiness. It would hardly have contributed to long-term economic stability if at that juncture the Federal Reserve System had pursued a policy of extending central bank credit freely enough to permit every conceivable demand to be met. The industrial establishment of the nation was already bursting at the seams. The situation strongly suggested continued application of some restraint, perhaps some intensification of restraint, lest borrowing get out of hand, with adverse consequences to long-run stability, employment, and prosperity.

Steps Toward Caution

One of the first steps to be taken in the new year 1953, as a means of making further credit expansion less attractive, was the raising of the reserve banks’ discount rate from 1¾% to 2% at approximately mid-January. The higher rate was more nearly consistent with general market conditions and it also put the market on notice that
the rate of increase in private indebtedness was becoming a matter of increasing concern.

Concurrently the System also undertook to neutralize the inflationary potential of the return flow of currency which customarily occurs in January and February. By disposing of a substantial volume of short-term government securities, the System succeeded in absorbing an equivalent quantity of member bank reserves which otherwise could have been used as a basis for further credit inflation.

Meanwhile there was no diminution in the

**AN EVENTFUL YEAR IN THE MONEY MARKET**

**1953**

<table>
<thead>
<tr>
<th>Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A.</strong> Discount Rate (N.Y.) was increased to 2% (from 1 3/8%) on January 16.</td>
</tr>
<tr>
<td><strong>B.</strong> During first eight weeks of 1953, roughly $1 billion of currency returned from circulation; the reserves thus created were absorbed by the reduction in Federal Reserve holdings of governments.</td>
</tr>
<tr>
<td><strong>C.</strong> On April 8, the Treasury announced plans for raising $2 billion of new money. The new 30-year 3 3/4s were placed on sale on April 13.</td>
</tr>
<tr>
<td><strong>D.</strong> The Victory 2 1/2s dipped below 90 on June 1; other issues also established long-time lows on or near that date.</td>
</tr>
<tr>
<td><strong>E.</strong> Beginning with the first of May and extending over a ten-week period, System holdings of governments were increased by nearly $1.2 billion; most of the reserves thus released were used: (1) to reduce member bank indebtedness to the reserve banks, and (2) to meet outflow of currency.</td>
</tr>
<tr>
<td><strong>F.</strong> On June 24, it was announced that legal reserve requirements would be reduced by $13 1/2 billion in the first part of July.</td>
</tr>
<tr>
<td><strong>G.</strong> The protracted Korean talks culminated in a truce agreement on July 26.</td>
</tr>
<tr>
<td><strong>H.</strong> From about mid-August to the end of 1953, System holdings of governments were enlarged to accommodate the normal seasonal expansion of: (1) bank loans, and (2) currency in circulation.</td>
</tr>
<tr>
<td><strong>I.</strong> By December 10, the Victory 2 1/2s had recovered all of the first-half-year decline in prices. Other prime fixed-income securities had also risen appreciably from the May-June lows.</td>
</tr>
</tbody>
</table>
accelerated rate of business activity; in fact, employment and the physical output of goods and services established a new all-time high during the first half of the year.

Treasury Developments

The year was not very old, however, when the demand for credit was intensified by an untimely turn in Federal finances. Income-tax receipts during late March and in subsequent weeks fell appreciably short of earlier calculations. Until then it had been assumed that the acceleration of corporate income-tax collections under the Mills plan would make it unnecessary for the Federal Government to seek any new funds before midyear. But now it became obvious that the Treasury would have to borrow additional funds in competition with all other borrowers, and several months ahead of original expectations.

In the existing state of international affairs, the Treasury could hardly be denied priority. But how could the Federal Reserve System smooth the way for Treasury financing without giving both direct and indirect encouragement to all other kinds of borrowing? This dilemma evoked recollections of 1927-8-9 when it was found virtually impossible to prevent the gravitation of funds into the speculative markets. Suffice it to say that monetary policy continued to convey an attitude of "neutrality" in that, despite the Treasury’s need for funds and the strong private demand for capital, the System refrained from engaging in expansive open market operations. In April the Treasury undertook to raise $1,000,000,000 of new money by offering the investment market a 30-year 3¾% bond. Simultaneously it announced the intention of seeking another $1,000,000,000, over a period of two or three months, by the sale of additional 91-day obligations. The new pre-emptions placed a further strain on lending institutions, and intensified the competitive struggle among residual borrowers.

Strain and Relief

All lending institutions began to strive for greater liquidity, for fear of being unable to meet even the normal and routine demand which might be encountered. The strain was accentuated by the efforts of some borrowers to anticipate their needs, before the cost of borrowing should rise still higher.

During late April and continuing through all of May, interest rates rose rapidly to the highest point in ten or twenty years, or to put it another way, bond prices weakened to the lowest level in a decade or two. Short-term rates also were steadily stiffening, and, for some weeks in late spring, the Treasury had to pay around 2½-2¾% for 91-day money. The reaction was much sharper than had been anticipated, and than was warranted by the reserve position of member banks.

Meanwhile, in the first week of May, without abandoning the policy of maintaining steady pressure against excessive credit expansion in the environment of a business boom, the System had begun to buy short-term Treasury obligations in the open market, in order to prevent further attrition of member bank reserves through the normal springtime outflow of currency, and to enable member banks to reduce their indebtedness to the reserve banks. The acquisition of nearly $1,200,000,000 of short-term government securities (over a ten-week period beginning April 29) was roughly enough to neutralize the outflow of currency, and to allow member banks to reduce their indebtedness at the Federal Reserve banks to very low levels. By June 1, sentiment in the market changed, and bond prices started a rise which in six weeks recovered most of the April-May decline.

Reserve Requirements

Late in June the System announced that, effective early in July, member bank reserve requirements would be lowered by $1,150,000,000, which would automatically increase the potential lending (or investing) capacity of the banking structure by around $6,000,000,000. This was the monumental event of 1953 in the money market, for it released more potential credit at one stroke than was created by any six consecutive green bars in the accompanying chart. Yet this major credit-easing step actually seemed to provide very little further impetus to bond prices for some weeks, which suggests that no further ease in money rates was anticipated at a time when business was still so active and the demand for funds so great.

The resumption of open market purchases in September, even though on a comparatively small scale, revealed the intention of the System to provide funds adequate to meet normal fall re-
quirements for credit, and indicated that a decline in production and employment would not be exposed to an unnecessarily restrictive credit policy. Although the cost-of-living index was still creeping upward—at an almost imperceptible rate—the contemporary scene in late summer suggested that the danger of further inflation had been succeeded by the possibility of some retrenchment in business activity. The actual signing of the Korean Truce Agreement on July 26 occurred at a time when some hesitation in business was becoming visible in widely scattered spots. (There is no tangible evidence that the cessation of hostilities was a prime factor. The abnormal pace of the first half of the year probably was destined to subside sooner or later, short of broad-scale war.) By virtue of this second phase of open market purchases, enough reserves were made available to member banks so that bank credit might expand by normal proportions during the crop-moving and fall-buying season, over and above the customary outflow of currency and other restrictive factors such as gold exports.

Abatement of Pressures

The volume of purchases made in the August-December interval was roughly enough to offset the attrition of reserves stemming from the flow of money into circulation. (Some additional temporary accommodation was accorded to the money market during the final two weeks of December, not shown in the chart, in order to minimize the day-to-day drain of large corporate-income-tax payments as well as for customary year-end needs.)

Meanwhile, however, business activity had begun to recede slightly, borrowing from commercial banks had failed to come up to expectations, and member banks found themselves in a position of growing ease. The abatement of pressure is reflected by the fact that by December the price of Victory 2 3/8 had recovered all of the loss (and more) which had occurred in the first half of the year.

Meaning of the Swings

In review, it appears that the decline in bond prices (the rise in money rates) during at least the first four months of the year was entirely consistent with the Federal Reserve System's policy of restraint in the face of a business boom. The further drop in prices during May, however, occurred at a time when the System was taking action to relieve the pressure on the money market by enabling member banks to reduce their indebtedness at the reserve banks. The System's action was also in keeping with its avowed objective of fostering a monetary climate which is conducive to a high level of employment, stability in the general price level, and a gradually rising standard of living.

That underlying objective was unchanged throughout 1953. It was largely the failure of the investment market to recognize the fundamentals of that doctrine that produced the extremity in money rates near midyear. The events of 1953 emphasized anew the importance of a clearly enunciated monetary policy, as well as a clear understanding by the money market of the longer-range implications of such a policy.
The year in fourth district banking

The fluctuations of the money market during 1953, and attendant measures taken by the Federal Reserve System in the interest of financial stability (as described in the preceding pages), produced an impact upon the operations of banks in this District, as elsewhere in the nation. Anxieties and uncertainties, however, did not prevent the attainment of favorable scores for the year, as measured by various banking indicators.

Demand deposits at Fourth District banks held above those of 1952 during most of the year, as may be seen from an accompanying chart. During the final quarter, however, the margin over year ago was erased. Time deposits continued to expand throughout most of the year, reaching new all-time highs almost each week.

Total debits to demand deposits, though never reaching the all-time highs of December 1952, were generally above the comparable 1952 months.

Most of the proportionately large gains were recorded in the smaller centers in the District. During the last quarter of the year, debit activity failed to show the usual seasonal increase. Deposit turnover was slightly higher throughout 1953 than during 1952.

Loans

Loans to business concerns reflected both the strong and the weak aspects of 1953 banking operations. Such loans made by Fourth District banks reached a peak for the year in May, but subsequently showed a persistent decline. This was in contrast to the usual expectation that business borrowing would increase during the latter half of the year. As the accompanying chart shows, 1949 had been the last previous year in which a decline in outstanding business loans occurred during the second half of the year. (While loans in this District were showing a net decline, totals for the United States as a whole registered a less-than-seasonal increase during the second half.)

Much of the second-half decline in business loans in this District is ascribable to the reduced needs for borrowing on the part of the metal-products manufacturing group. This group has been paying off debt which was incurred in the early days of the post-Korean defense boom. Need for working capital has been met in considerable part from funds supplied internally from accelerated depreciation allowances, and from earnings retained from a high level of profits. However, a recent slackening in the volume of orders, combined with large inventories, may also help to explain the decline in the needs of the metals-industry group for short-term funds from banks.

Loans to business groups other than metals-products manufacturers also tended to register a decline in outstandings, or less-than-seasonal expansion, during the latter part of the year. Loans to sales finance companies, for example, posted an outright decline. The usual seasonal increase in borrowing for working capital and inventory purposes failed to take place among
such groups as food, liquor and tobacco manufacturers, commodity dealers, and retail and wholesale trade.

Real-estate loans and consumer loans, by contrast with business loans, continued to climb throughout the year 1953, although the pace of expansion in outstanding consumer loans slackened considerably during the latter part of the year. Outstanding consumer loans made directly by banks to individuals for purchases of autos and durable goods declined slightly in the closing months of the year, while purchases of instalment paper from dealers continued at relatively high levels.

**Investments**

Total investments held by Fourth District banks tended to decline during the first half of the year, as banks sought to maintain their reserve positions while the relative supply of credit was tightening. After June, however, bank portfolios of short-term Treasury securities expanded rapidly to the highest levels of the postwar period. (See chart.) Holdings of Treasury bonds, which had declined throughout most of the year, showed a pickup in the final quarter—a development associated in part with banks' desires to maintain earnings in the face of a slackening demand for business loans.

Substantial participation by Fourth District banks in the financing of public projects of state and local governments took place in 1953. During the second half, banks in the smaller centers reported large increases in holdings of this type of security.
Within the Fourth Federal Reserve District is produced more than two-fifths of the nation's steel, nearly two-fifths of the nation's rubber tires, about one-fifth of the nation's machinery and fabricated metal products, and somewhat more than one-tenth of the nation's transportation equipment.

The year 1953, taken in its entirety, was one of great activity and general prosperity for industries such as these, both on a nationwide scale and in this District. New production records for the year were scored in many instances. It is true that the gains from the previous year to some extent represented a catching up from the slowing effects of the 1952 steel strike, thus reflecting a partial transfer of business from one calendar year to the next. Nonetheless, the year-to-year increases for the most part represented new ground gained.

Equally important as the year's total, however, is the fact that relatively greater strength appeared during the first half of the year, while in the second half the direction of movement was generally downward. At the close of 1953 it was apparent that some sort of readjustment was in process. Business opinions differed widely as to whether the magnitude of change would be kept within limits even narrower than those of the very mild 1949 readjustment, or whether a more serious recession was in prospect.

Steel

The nation's steel furnaces during 1953 poured a record tonnage of steel ingots and steel for casting, amounting to about 112 million tons. Such an outpouring topped that of strike-torn 1952 by 20%, and beat the 1951 record of 105.1 million tons by nearly 7%.

The transition to a buyer's market in steel was accomplished rather smoothly during the year, and without the sharp break in production rates that has characterized similar periods in other years. From a first-quarter rate of 100% of capacity, the industry drifted downward to 99% in the second quarter, 93% in the third period, and to an estimated 88% in the final quarter. During December, the percentage fell to about 80% of capacity, due largely to a very sharp drop in the final two weeks of the year.

As buyers gained the upper hand in the second half of the year, expensive conversion deals were abandoned where possible, and premium-price producers brought their charges into line with competitors. In addition, major steel companies announced that freight absorption would be practiced on selected items to meet particular competitive situations. Buyers began to restrict purchases to mills located most favorably with regard to freight charges, and also began to insist on close observance of contract quality specifications.
The net result of such developments has been lower steel costs to consuming industries, and a brisk competitive fight for business.

Steel producers in the Fourth District felt such changes in market conditions, and operations in the District paralleled rather closely the national rate. Production was maintained at better than average rates, however, in the Wheeling area and in the Cleveland-Lorain area. Operations in Pittsburgh and Youngstown were about on a par with the national rate, but the Ohio River area slackened noticeably in the fall of the year.

Lake iron ore shippers—favored by an early start, an enlarged and faster fleet, and very good shipping weather—broke the 1942 annual record of 92 million tons by early November. By the end of the season, close to 96 million tons had been moved from Upper Lake ports.

**Autos**

Automobile parts, trucks, and other forms of transportation equipment make up an important segment of the Fourth District’s industrial pattern.

For the automobile industry throughout the nation, 1953 marked the end of the postwar seller’s market. The switch from a seller’s to a buyer’s market was heralded early in the year by rapidly mounting new-car inventories. Part of the accumulation took the form of replenishing stocks which had been depleted during last year’s steel strike. Part, however, was involuntary, leaving a large number of new cars on hand as the 1953-model year drew to a close. Although model changeovers curtailed production during the final months of the year, thus easing the upward pressure on inventories, sales efforts had to be greatly intensified in order to clear dealer lots for the 1954 models.

Despite the added sales effort needed to move cars in the closing months, 1953 proved a very satisfactory year by all past standards. In terms of both production and sales, it ranks second only to 1950. By year-end, about 6.1 million passenger cars had rolled off the assembly lines as compared with 1950’s 6.7 million units. Sales (registrations) for the year totaled about 5.6 million cars as against 6.3 million in 1950.

**Rubber Tires**

Total tire production in 1953 established a new record, but sales did not quite measure up to the 1950 boom total of almost 100 million units. The big expansion in automobile assemblies was the chief stimulant of the rubber industry. For the first ten months of the year, original equipment sales of passenger-car casings were running 49% ahead of the comparable 1952 period, while replacement sales during the same period just barely exceeded year-ago totals. Production and shipments of truck and bus tires for the same interval were close to their 1952 levels, but lagged behind a series of other postwar years.

Manufacturers cut back production in late spring after tire inventories had soared to their highest level in 24 years. This action, together with continued good sales, brought stocks of passenger-car casings down to 10.5 million units by the end of September, or some 18% below the mid-year peak. However, a rise in production in excess of that required to meet a spurt in auto output halted the inventory adjustment during October and brought stocks to 10.9 million casings, almost 33% above the year-ago level.

Some reduction in employment in Ohio rubber factories occurred during the final quarter of the year, in contrast to the fourth quarter of 1952 when the industry was gaining momentum in
preparation for the production race slated for early 1953.

Machinery and Appliances

Production of machinery held to very high levels during most of the year, with some tapering off observable in the autumn months. (See accompanying chart.) New orders dropped earlier and more rapidly than production in many lines.

Sharing in the recently reduced activity in the machinery lines were producers of agricultural machinery and tractors, and manufacturers of household machinery. To a lesser extent, some downward movement was experienced by producers of construction equipment, engines and turbines, and general industrial machinery.

Earlier in the year, at a time when most machinery lines were holding firm, producers of major household appliances and of radio and television sets found it necessary to effect sharp production cutbacks because of mounting inventories. About midyear, stocks in these lines were receding, but apparently the readjustment was not sufficient to prevent some further decline in production rates toward the end of the year.

General Economic Indicators

The industries just reviewed, which are of outstanding importance to this District, were not exceptional in their showing of brisk activity during 1953, coupled with signs of weakening toward year-end. The physical volume of industrial production scored an over-all 7% gain over the previous year, along with some observable slackening since July. Unemployment for the most part was at record low levels, and at no time constituted an appreciable problem; nevertheless, it was creeping up during the latter part of the year.

The Gross National Product, an estimated measure of the dollar value of all goods and services currently produced in the nation, increased by about 5% over 1952, although both third and fourth-quarter estimates were lower than those for the first half.

Relative price stability was an outstanding feature of the year 1953, with the important exception of the agricultural sector where the downward tendency of the two previous years persisted. Wholesale prices in the aggregate showed little change; the consumers' price index, due mainly to rent and service components, edged up slightly after a temporary weakening in the early months of the year; basic commodity prices showed no persistent trend throughout the year.

Whereas last year's Annual Report noted a turnabout in the inventory situation in the direction of renewed accumulation of stocks, an opposite shift must be noted for 1953. The rate of overall inventory accumulation showed marked signs of slackening during the third quarter of the year, and by the final quarter a net reduction was clearly approaching, if, indeed, it had not already been reached. Such a development played an important role in the recent reduction of Gross National Product and other general measures of activity, as well as in the affairs of the specific industry groups already noted. Its implications for the 1954 outlook were in the forefront of business discussion at year-end.
Farming enterprise in the Fourth Federal Reserve District, although perhaps it holds the spotlight of attention less frequently than the District’s heavy industry, carries a very strong weight in the nation’s agriculture. Ohio, for example, which is the one state completely within the District, ranks among the top seven states of the nation with respect to fifteen or more major farm commodities, including dairy cow numbers and the production of hogs, milk, eggs, corn, winter wheat, and soybeans. Ohio stands among the top dozen states in the production of many other principal farm products such as hay, rye, oats, sheep and lambs, and apples.

In western Pennsylvania, dairy operations are similar in scale and quality to those of northeastern Ohio. The eastern section of Kentucky, which also falls within the Fourth District and which includes most of the famous bluegrass area, accounts for nearly one-third of the nation’s growth of burley tobacco.

Here, as in the nation, 1953 fell short of being a banner year for agriculture. Farm prices continued the downward trend which prevailed throughout 1952 and most of 1951. Output was maintained at a very high level, despite drought conditions in some areas. Net farm income declined further to a point about one-fourth below the postwar record of 1947. Total indebtedness of farmers rose moderately. Some letup in farm buying of industrial goods was observed.

The factor most important in sustaining the farm economy was the continued growth in consumer income which supported a strong domestic demand for food. Foreign demand, on the other hand, fell sharply during 1952-53 from the unusually high points of the previous fiscal period.
Consolidated Figures for Main

**Highlights of '53**

**Consolidated Figures for Main**

<table>
<thead>
<tr>
<th>PHYSICAL QUANTITIES</th>
<th>DOLLAR AMOUNTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1953</strong></td>
<td><strong>1952</strong></td>
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<tr>
<td>CHECKS PROCESSED</td>
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<td>Government</td>
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<tr>
<td>All other</td>
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<tr>
<td>COIN RECEIVED</td>
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<td>DISCOUNTS AND ADVANCES</td>
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<td>SAFEKEEPING:</td>
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<td>Securities deposited and withdrawn</td>
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<td>Coupons detached and collected</td>
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<td>POSTAL MONEY ORDERS PROCESSED</td>
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Further growth in the volume of operations took place during 1953 for most departments of the bank, as indicated by the table and bar chart shown above. Increases over the previous year occurred both in terms of physical quantities of items handled and dollar amounts; in numerous cases, although not uniformly so, the rise in dollar volume was somewhat larger than the gain in physical volume.

The processing of checks, and of incoming and outgoing coin and currency, ran to moderately larger totals than the very high volume figures of 1952. A substantial rate of gain is observed for the dollar volume of government checks handled, attributable in large part to a change in the disbursing arrangements of the United States Navy. The wrapping of coin continued to show a marked increase in rate of activity, due to the popularity of this service with the commercial banks.

[14]
The substantial increase in volume of discounts and advances reflects primarily the increased use which member banks made of the borrowing privilege during the period of relatively tight money during the first half of 1953.

The volume of registered mail handled is one of the few activities which scored a reduced volume during the year. This is mainly because increased shipments of currency and coin to and from member banks are now handled by armored-car delivery; the latter operations are not reflected in the table and chart above.

The information depicted above is far from complete in its representation of the important everyday operations of the bank and its branches. Among the significant phases omitted are the handling of savings bonds and of other Treasury issues by the Fiscal Agency department of the bank. Some information on the latter, however, is provided elsewhere in this Report.
KEY:

- Group 1 banks, as classified by the Board of Governors of the Federal Reserve System, comprising banks with a combined capital and surplus of $2,000,000 or more.
- Group 2 banks: capital and surplus of more than $300,000 and less than $2,000,000.
- Group 3 banks: capital and surplus of $300,000 or less.

( ) Indicates that the specified number of branch offices of some member bank or banks is located at the city or town indicated; the main office may be elsewhere.
DURING THE year 1953, numerous member banks, because of growth, shifted from the group 3 classification to group 2. In addition, a number of branch offices were acquired by member banks — sometimes in the form of purchase or merger, and sometimes in the form of newly established offices.

The accompanying map brings the picture up to date as of December 15, 1953, showing the location of all member banks of the Fourth District with number of branch offices indicated in parentheses.
A new leased-wire system of communication for the entire Federal Reserve System was put into operation during July, 1953. It is an automatic teletypewriter system, which operates on duplex lines at a speed of 75 words per minute as contrasted with the 60-word speed of the former system.

The network is operated under contract with the long lines department of the American Telephone and Telegraph Company. It links together 46 stations in 37 cities throughout the country, including the 12 Federal Reserve banks and their 24 branches, the Board of Governors of the Federal Reserve System in Washington, the United States Treasury offices in Washington and Chicago, and the Washington offices of the Reconstruction Finance Corporation and the Commodity Credit Corporation.

Decision to adopt this highly modern system of teletype communication grew out of an extended study of the communications problem of the Federal Reserve System which was conducted by a subcommittee of the System's Conference of Presidents. Technical development work was carried out by the Bell Telephone Laboratories.

One of the important advantages of the change for this bank is that messages between the Cincinnati and Pittsburgh branches and other parts of the System now go direct to destination rather than being manually relayed at the Main Office. This arrangement not only expedites service at the branches, but reduces work load at the Main Office.

A fully automatic switching center for the entire network is located at the Federal Reserve
Bank of Richmond. The center is equipped so that multiple-address and group-code messages are distributed from a single transmission. The switching center is also equipped with an intercept machine which picks up misdirected messages, and, in addition, stores up any messages scheduled for an "out-of-service" line, releasing them only when the line is able to receive them.

The processes involved in sending and receiving messages over the new system are reduced to bed-rock simplicity, as may be seen from the accompanying photos. To send a message, the operator types it out on a special machine, using two code letters for office of destination and special functional codes for guiding the mechanism. The automatic closing of a circuit by the switching center then sends the impulses on their way, via Richmond, for almost instantaneous reception at the other end. Incoming messages are pulled from the receiving machine in a form suitable for immediate reading or delivery to the individual recipient.

About 400 messages, averaging 22 words in length, are handled daily at the Main Office alone. A considerable number of the messages involve telegraphic transfer of funds for commercial banks which are members of the Federal Reserve System. This important function of a Reserve Bank—more familiar to bankers than to the general public—was described as follows by President Wilbur Fulton on the occasion of the installation of the new system:

"It works this way. Let's say a customer of a member bank in the Fourth Federal Reserve District wants to get $5,000 to San Francisco, and fast, to complete a business deal. His bank would ask us to transfer the funds. We would deduct the $5,000 from the member bank’s account with us and wire the San Francisco 'Fed' to credit it to the reserve account of the proper bank in that city, on behalf of the person or corporation designated. The whole transaction might take less than half an hour."
The part played by this bank and other Federal Reserve banks in assisting the Treasury Department in the distribution of new securities is indicated by the accompanying illustrations. Refunding operations, which are in many respects similar to the processes involved in a new-money issue as depicted here, continued to be very important in 1953, and, in fact, bulked much larger in dollar volume than did the new-money issues.

1. Treasury officials determine that public debt financing will be required within 30 to 45 days to meet cash requirements of the Government.

2. Treasury officials meet with representatives of various banking, investment, savings, insurance and other groups to determine the amount of funds available for investment under varying terms and conditions.

3. Based on information secured in the conferences concerning the present money and securities market conditions, the Treasury makes a final determination as to the amount to be offered, the rate of interest, and the maturity.

4. The Treasury Department then instructs the twelve Federal Reserve banks to prepare, as fiscal agents of the United States, subscription forms and other necessary information regarding the new offering.

5. This bank (along with other Federal Reserve banks) forwards to all banking institutions and others concerned the announcement, regulations, forms, etc., covering the new issue.
Banking institutions forward subscriptions for the new issue for their own accounts and the accounts of their customers; subscriptions may be sent to the Main Office at Cleveland, or to the Cincinnati or Pittsburgh branches.

Reserve banks and branches advise the Treasury Department of amounts of subscriptions (usually by types of investors) that were received by deadline for subscriptions.

The Treasury determines the basis of allotment among the various types of purchasers, and advises Reserve banks of the decision.

Banking institutions and others are advised of the allotment basis and asked to remit for amount of subscriptions which were accepted.

Banks make payment for subscriptions for their own account and the account of their customers, by means of: (a) credit to Treasury Tax and Loan Account, provided they are qualified as Special Depositaries\(^1\), or (b) charges to their reserve balances at this bank, or (c) drafts drawn on their correspondent.

This bank and its branches effect delivery of the securities according to instructions of the subscribers.

---

\(^1\)When a bank makes payment for securities by credit to its Treasury Tax and Loan Account, its present cash position is not affected by the purchase of the securities.Shortly thereafter, however, the Treasury Department starts making calls against the Tax and Loan Account balances of the Special Depositaries (through the Federal Reserve Bank acting as agent) in order to replenish its cash. Payments made at such times by the Special Depositaries to the Federal Reserve Bank, for the account of the Treasurer of the United States, have the effect of reducing the reserves of the depository banks. The use of this mechanism relieves the shock of immediate withdrawals at the time of security purchases.
There is no good reason why every ragged dollar bill spotted by a bank in Seattle or Phoenix or Boston or Miami as being unfit for further circulation should be shipped all the way to Washington for verification and destruction, the Treasury has decided.

With this statement in July of 1953, the Treasury Department launched a new procedure for the destruction of worn-out United States currency—a procedure which had previously been worked out in consultation with the Federal Reserve banks, and which calls for the actual destruction of the bills at the Reserve banks instead of at the Treasury in Washington. Reduced shipping costs alone will result in savings of substantial sums.

The new arrangement, which went into effect at midyear at this bank and other Federal Reserve banks, applies only to U.S. notes and silver certificates. Procedures for disposing of unfit Federal Reserve Notes, as established by law, remain unchanged.

Here are the principal steps in the operation as it is now conducted at this bank: Currency deposited by commercial banks is sorted, as heretofore, by the Cash department. Bills unfit for further circulation are segregated. (The tests for fitness are not changed under the new procedure.) The unfit bills which take the form of U.S. notes or silver certificates are then counted and strapped in units of 100 each (according to denomination) with ten "straps" combined to make a bundle. Cancellation is effected by machine-punching four holes in each bill, with the holes shaped in the form of a letter "D" to designate the Fourth District.

After the Cash department has taken the steps just enumerated, the bundles of cancelled bills are charged to the Fiscal Agency department of this bank as representative of the U.S. Treasury Department. The Fiscal Agency department makes a proof and verification of the unfit currency in accordance with instructions outlined by the Treasury Department.
Finally, the bundles are placed in an incinerator which has been specially constructed for the purpose (see photo) and are destroyed under a heat of 2200 degrees Fahrenheit. The incinerator is gas fired, equipped with air-pressure blower, dual lock controls for cage and incinerator room, and other protective features such as screens to prevent pieces going up the stack. After the burning, all ash is carefully examined for completeness of destruction. Special supervisory procedures and personnel arrangements are geared to the nature of the task. When the destruction has been completed, the account of the Treasurer of the United States is debited for the amount of currency destroyed.

The large volumes of unfit currency which regularly go up in smoke may be judged by the fact that at this bank, alone, an average of about 7,000,000 bills of varying denominations were destroyed each month during the second half of 1953. The dollar total of bills destroyed amounted to about $10,000,000 per month. One-dollar bills predominate in the mixture that goes to the furnace; that is not only because of the importance of the one-dollar bill in general circulation, but also because this denomination wears out faster. According to Treasury estimates, a one-dollar bill has an average life of about 10 months. More than a billion of them are ordinarily in general circulation.

The procedure for destruction of unfit Federal Reserve Notes has remained unchanged, as mentioned earlier. The sorting out, counting, and cancelling of unfit Federal Reserve Notes is done at the Federal Reserve Bank by a process similar to that already noted for United States notes or silver certificates, but from that point forward, procedures differ. In the case of Federal Reserve Notes, the unfit bills which have been punched with four holes are then cut lengthwise into two equal parts. (See photo.) The halves are shipped on different days to the Treasury in Washington, where they are verified and then destroyed by incineration.

Altogether, the retirement of paper currency is a function almost as important as its issuance. Security and efficiency of operations are required, and proper timing of the elimination of unfit bills from circulation is important. It may well be imagined that the conduct of everyday business would be seriously impeded if dollar bills were permitted to reach a stage where they would disintegrate in the hand or in the wallet. Reference here is to the physical aspect, not to the problem of the buying power of dollar bills.
SOME ACTIVITIES on and off the job...

On these two pages will be seen a few of the activities which take place at the Main Office and at the Pittsburgh and Cincinnati Branches. Left-hand page refers to operations on duty. Right-hand page includes glimpses of social or leisure-time proceedings.
### COMPARATIVE STATEMENT OF CONDITION

December 31, 1953, and December 31, 1952

#### ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Dec. 31, 1953</th>
<th>Dec. 31, 1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold certificates</td>
<td>$1,770,533,128</td>
<td>$1,446,634,734</td>
</tr>
<tr>
<td>Redemption fund for Federal Reserve notes</td>
<td>82,246,913</td>
<td>85,474,610</td>
</tr>
<tr>
<td><strong>TOTAL GOLD CERTIFICATE RESERVES</strong></td>
<td>1,852,760,042</td>
<td>1,532,109,544</td>
</tr>
<tr>
<td>Other cash</td>
<td>24,612,855</td>
<td>21,490,858</td>
</tr>
<tr>
<td><strong>TOTAL CASH</strong></td>
<td>1,877,372,907</td>
<td>1,553,600,402</td>
</tr>
<tr>
<td>Discounts and advances</td>
<td>2,655,000</td>
<td>4,184,000</td>
</tr>
<tr>
<td>U. S. Government securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bills</td>
<td>220,398,000</td>
<td>74,064,000</td>
</tr>
<tr>
<td>Certificates</td>
<td>493,760,000</td>
<td>498,692,000</td>
</tr>
<tr>
<td>Notes</td>
<td>1,125,940,000</td>
<td>1,374,493,000</td>
</tr>
<tr>
<td>Bonds</td>
<td>309,094,000</td>
<td>451,402,000</td>
</tr>
<tr>
<td><strong>TOTAL U. S. GOVERNMENT SECURITIES</strong></td>
<td>2,149,192,000</td>
<td>2,399,101,000</td>
</tr>
<tr>
<td><strong>TOTAL LOANS AND SECURITIES</strong></td>
<td>2,151,487,000</td>
<td>2,403,285,000</td>
</tr>
<tr>
<td>Federal Reserve notes of other banks</td>
<td>13,707,500</td>
<td>12,312,000</td>
</tr>
<tr>
<td>Uncollected cash items</td>
<td>416,396,228</td>
<td>383,176,806</td>
</tr>
<tr>
<td>Bank premises</td>
<td>5,298,513</td>
<td>4,745,838</td>
</tr>
<tr>
<td>Other assets</td>
<td>12,546,945</td>
<td>15,735,369</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$4,477,148,883</td>
<td>$4,372,855,415</td>
</tr>
</tbody>
</table>

#### LIABILITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Dec. 31, 1953</th>
<th>Dec. 31, 1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Reserve notes</td>
<td>$2,463,794,755</td>
<td>$2,410,657,455</td>
</tr>
<tr>
<td>Deposits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member bank—reserve accounts</td>
<td>1,533,769,067</td>
<td>1,497,099,030</td>
</tr>
<tr>
<td>U. S. Treasurer—general account</td>
<td>38,382,198</td>
<td>15,316,010</td>
</tr>
<tr>
<td>Foreign</td>
<td>37,646,400</td>
<td>48,162,000</td>
</tr>
<tr>
<td>Other deposits</td>
<td>14,600,543</td>
<td>11,269,501</td>
</tr>
<tr>
<td><strong>TOTAL DEPOSITS</strong></td>
<td>1,624,299,787</td>
<td>1,572,446,541</td>
</tr>
<tr>
<td>Deferred availability cash items</td>
<td>293,806,191</td>
<td>299,245,872</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>1,355,581</td>
<td>1,431,138</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>4,383,256,314</td>
<td>4,283,781,006</td>
</tr>
</tbody>
</table>

#### CAPITAL ACCOUNTS

<table>
<thead>
<tr>
<th>Description</th>
<th>Dec. 31, 1953</th>
<th>Dec. 31, 1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital paid in</td>
<td>25,409,650</td>
<td>24,214,800</td>
</tr>
<tr>
<td>Surplus (Section 7)</td>
<td>57,647,949</td>
<td>54,064,650</td>
</tr>
<tr>
<td>Surplus (Section 13b)</td>
<td>1,065,665</td>
<td>1,065,665</td>
</tr>
<tr>
<td>Other capital accounts</td>
<td>9,898,785</td>
<td>9,789,294</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND CAPITAL ACCOUNTS</strong></td>
<td>$4,477,148,883</td>
<td>$4,372,855,415</td>
</tr>
<tr>
<td>Contingent liability on acceptances purchased for foreign correspondents</td>
<td>$ 2,201,754</td>
<td>$ 1,820,876</td>
</tr>
<tr>
<td>Industrial loan commitments</td>
<td>$ 748,100</td>
<td>$ 750,500</td>
</tr>
</tbody>
</table>

[26]
## Comparison of Earnings and Expenses

For the Years 1953 and 1952

<table>
<thead>
<tr>
<th></th>
<th>1953</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings</td>
<td>$47,470,927</td>
<td>$44,884,258</td>
</tr>
<tr>
<td>Expenses</td>
<td>10,154,318</td>
<td>9,492,114</td>
</tr>
<tr>
<td><strong>Net Earnings</strong></td>
<td><strong>$37,316,610</strong></td>
<td><strong>35,392,144</strong></td>
</tr>
</tbody>
</table>

### Additions to Net Earnings:

<table>
<thead>
<tr>
<th></th>
<th>1953</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit on U. S. Government securities sold (net)</td>
<td>184,975</td>
<td>188,345</td>
</tr>
<tr>
<td>All other</td>
<td>14,693</td>
<td>27,210</td>
</tr>
<tr>
<td><strong>Total Additions</strong></td>
<td><strong>199,668</strong></td>
<td><strong>215,555</strong></td>
</tr>
</tbody>
</table>

### Deductions from Net Earnings

<table>
<thead>
<tr>
<th></th>
<th>1953</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net additions</td>
<td>38,170</td>
<td>210,002</td>
</tr>
<tr>
<td>Transferred to reserves for contingencies</td>
<td>39,472</td>
<td>36,768</td>
</tr>
<tr>
<td>Paid U. S. Treasury (interest on F. R. notes)</td>
<td>32,294,472</td>
<td>30,743,128</td>
</tr>
<tr>
<td>Net earnings after reserves and payments to U. S. Treasury</td>
<td>5,065,735</td>
<td>4,822,250</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>1,482,486</td>
<td>1,406,069</td>
</tr>
<tr>
<td>Transferred to surplus (Section 7)</td>
<td><strong>$3,583,299</strong></td>
<td><strong>$3,416,181</strong></td>
</tr>
</tbody>
</table>

[27]
We are proud of the stature of men who have been taken into the national scene from the states in the Fourth Federal Reserve District. Federal Reserve Bank of Cleveland was signaly honored when Ray M. Gidney, president of this bank from September 16, 1944, was persuaded to accept the post of Comptroller of the Currency, which he did on April 16, 1953.

The appointment was highly gratifying to bankers throughout the United States, for it placed in this responsible office a man well known among bankers and one whose business life has been spent in commercial banks and with the Federal Reserve System. His understanding of the problems of banks and bankers is broad and practical. We, who have worked with him, know that his administration will add to the high prestige of the Office of The Comptroller of the Currency.
Appointment of Wilbur D. Fulton as President of this bank, to succeed Ray M. Gidney, was made on May 14, 1953, by the Board of Directors and approved by the Board of Governors of the Federal Reserve System. This was the high spot of a year of executive changes, some of which were interlocked with the change in the presidency.

As of January 1, 1953, Mr. Fulton had been named First Vice President to succeed William H. Fletcher, who had retired after 35 years with this bank. Mr. Fulton's previous career in banking had included 35 years of service, nearly 20 of which had been at this bank. His post, immediately prior to appointment as First Vice President, had been that of Vice President in charge of the Cincinnati Branch.

As of January 1, also, Roger R. Clouse, formerly Vice President, was named Vice President and Secretary, and Harold E. J. Smith was appointed Vice President.

Mr. Gidney's resignation as President occurred on April 16. About a month later, Mr. Fulton's appointment as President was announced. Simultaneously, Donald S. Thompson was named First Vice President.

Mr. Thompson had previously held the post of Vice President in charge of Research. His career as an economist had included service with several governmental and private research agencies as well as with the Board of Governors of the Federal Reserve System.

Merle Hostetler was named Director of Research, as of June 11, to take over Mr. Thompson's former duties. Mr. Hostetler, who had served 10 years with this bank, had previously been Manager of the Research Department, and then Assistant Vice President.

Richard G. Johnson was named at the July meeting of the Board of Directors to be Vice President in charge of the Cincinnati Branch. He had previously been Cashier of the Cincinnati Branch, culminating many years of service at that institution. In taking over the top post of the Cincinnati Branch, Mr. Johnson succeeded Wilbur T. Blair who had resigned as of July 15 to accept an important post with a steel manufacturing concern.

For a full roster of the officers and directors of the bank as of January 1, 1954, please turn the page.
DIRECTORS

JOHN C. VIRDEN (Chairman)
Chairman of the Board, John C. Virden Company, Cleveland, Ohio

LEO L. RUMMELL (Deputy Chairman)
Dean, College of Agriculture, The Ohio State University, Columbus, Ohio

JOHN D. BAINER, President
The Merchants National Bank and Trust Company of Meadville
Meadville, Pennsylvania

EDISON HOBSTETTER, President
The Pomeroy National Bank
Pomeroy, Ohio

J. BRENNER ROOT, President
The Harter Bank & Trust Company
Canton, Ohio

SIDNEY A. SWENSRUD, Chairman of the Board
Gulf Oil Corporation
Pittsburgh, Pennsylvania

ALEXANDER E. WALKER, Chairman of the Board and President
The National Supply Company, Pittsburgh, Pennsylvania

MEMBER OF FEDERAL ADVISORY COUNCIL

(from the Fourth District)

GEORGE GUND, President
The Cleveland Trust Company, Cleveland, Ohio

CINCINNATI BRANCH

DIRECTORS

JOHN C. BAKER (Chairman)
President, Ohio University
Athens, Ohio

HENRY C. BESUDEN, Farmer
Winchester, Kentucky

L. M. CAMPBELL, President
The Second National Bank
Ashland, Kentucky

FRED A. DOWD, President
The Atlas National Bank
Cincinnati, Ohio

JOSEPH B. HALL, President
Kroger Company
Cincinnati, Ohio

ANTHONY HASWELL, President
Dayton Malleable Iron Company
Dayton, Ohio

E. S. DABNEY, President
Security Trust Company
Lexington, Kentucky

OFFICERS

RICHARD G. JOHNSON, Vice President

PHIL J. GEERS, Cashier

FRED A. DOWD, President
The Atlas National Bank
Cincinnati, Ohio

JOSEPH B. HALL, President
Kroger Company
Cincinnati, Ohio

ANTHONY HASWELL, President
Dayton Malleable Iron Company
Dayton, Ohio

GEORGE W. HURST, Assistant Cashier

[ 30 ]
WILBUR D. FULTON, President
DONALD S. THOMPSON, First Vice President

ROGER R. CLOUSE, Vice President and Secretary
MERLE HOSTETLER, Director of Research
RICHARD G. JOHNSON, Vice President
JOHN W. KOSSIN, Vice President
ALFRED H. LANING, Vice President and Cashier
MARTIN MORRISON, Vice President
H. E. J. SMITH, Vice President
PAUL C. STETZELBERGER, Vice President
CARL F. EHRINGER, General Auditor
PHILLIP B. DIDHAM, Assistant Vice President

GEORGE H. EMDE, Assistant Vice President
JAMES R. LOWE, Assistant Vice President
JOSEPH M. MILLER, Assistant Vice President
HUGH M. BOYD, Chief Examiner
CHARLES J. BOLTHOUSE, Assistant Cashier
CHARLES E. CRAWFORD, Assistant Cashier
ELWOOD V. DENTON, Assistant Cashier
ELMER F. FRICEK, Assistant Cashier
GEORGE R. ROSS, Assistant Cashier
HARMEN B. FLINKERS, Assistant Secretary

HERMAN R. NEFF (Chairman)
President, The George S. Rider Company—Engineers, Cleveland, Ohio

H. P. LADDS (Vice Chairman)
President, The National Screw and Manufacturing Company
Cleveland, Ohio
SAM W. EMERSON, President
The Sam W. Emerson Company
Cleveland, Ohio

JOHN P. McWILLIAMS, Chairman of the Board
Youngstown Steel Door Company
Cleveland, Ohio
ARTHUR W. STEUDEL, President
Sherwin-Williams Company
Cleveland, Ohio

CLIFFORD F. HOOD (Chairman)
President, United States Steel Corporation
Pittsburgh, Pennsylvania

MONTFORT JONES, Professor of Finance
The University of Pittsburgh
Pittsburgh, Pennsylvania
PAUL MALONE, President
Second National Bank of Uniontown
Uniontown, Pennsylvania
WILLIAM B. McFALL, President
Commonwealth Trust Company of Pittsburgh
Pittsburgh, Pennsylvania

DOUGLAS M. MOORHEAD, Farmer
North East, Pennsylvania
ALBERT L. RASMUSSEN, President
The Warren National Bank
Warren, Pennsylvania
HENRY A. ROEMER, JR., President
Sharon Steel Corporation
Sharon, Pennsylvania

JOHN W. KOSSIN, Vice President
ARTHUR G. FOSTER, Cashier
W. HUNTER NOLTE, Assistant Cashier

JOHN R. PRICE, Assistant Cashier
JOHN A. SCHMIDT, Assistant Cashier
ROY J. STEINBRINK, Assistant Cashier