FEDERAL RESERVE BANK OF CLEVELAND ANNUAL REPORT 1973

To the Banks in the Fourth Federal Reserve District:

We are pleased to present the 1973 Annual Report of the Federal Reserve Bank of Cleveland. The Federal Reserve System and this Bank were confronted with numerous economic and operating challenges last year.

The nation's output expanded throughout 1973, but the rate of expansion fell from an unsustainably rapid pace early in the year to a slow rate at year-end. Spending for housing and consumer durables weakened as the year progressed, shortages of materials emerged, productive capacity was strained, and inflationary pressures intensified. Energy shortages at year-end further aggravated the price situation and reinforced the slowing in activity that was already underway. In the international area, dollar devaluation, a turnaround in the balance of payments, oil price increases, and the oil embargo were the major economic events in 1973. The balance of payments responded favorably to a combination of forces. Poor harvests and a worldwide business boom, together with dollar devaluations, caused a surge in U. S. exports, resulting in a $1.7 billion trade surplus, compared with a deficit of $6.4 billion the previous year.

The central economic problem in 1973–domestic and worldwide–was inflation, which proved to be extremely difficult to curb. Excess demand in some sectors of the economy, domestic and international shortages of food, fuel, and other commodities, and the controls program itself, all contributed to the worst year of inflation since the Korean War.

Unsustainable growth in real activity and increasing inflationary pressures required the Federal Reserve to tighten monetary policy in 1973. The System used all of its policy tools: the discount rate was raised seven times between December 1972 and August 1973; reserve requirements were increased once on demand deposits and twice on large certificates of deposit; and open market operations provided reserves at a slower rate than in 1972. These efforts slowed the growth of monetary aggregates and, combined with intense demands for credit, resulted in some of the highest short-term interest rates on record. Money stock (M_1) grew 5.7 percent in 1973 after rising 8.7 percent in 1972. Interest rates on large certificates of deposit and Federal funds, which were near the 5 1/2 percent level as the year began, rose above 10 1/2 percent by late summer, and Treasury bill yields reached 9 percent.

These unusually high short-term rates prompted many investors to switch funds from deposits at thrift institutions to marketable securities, especially Treasury issues. The reduced flow of deposits into the thrift institutions forced them to curtail their mortgage lending during the second half of the year. This temporary disintermediation directly touched the Cleveland Bank. In late August, when short-term rates were at their peak, a Treasury auction of two-year notes drew bids totaling $55 million from investors in the Cleveland area. Attracted by an 8 3/8 percent coupon yield, investors jammed the Bank lobby to submit tenders for the notes.

Slower growth of real economic activity and monetary policy actions allowed interest rates to decline somewhat in the latter part of the year. Despite the moderation in economic activity, inflation remains a serious problem. The Federal Reserve continues to face the difficult challenge of choosing a policy designed to minimize the decline in real economic activity, without aggravating the already intense inflationary situation.

The year 1973 was also important and challenging in the operations of the Bank. It was the 50th year of operation in the Cleveland Bank's historic building, an occasion marked on August 26 by an Open House for employees, their families, and friends. A major operating objective of the Bank was accomplished this year with implementation of all four of the District's Regional Check Processing Centers. The Columbus office had begun accepting checks in December 1972. The Pittsburgh Branch and Cleveland head office RCPCs were put into operation in January 1973. The fourth RCPC began clearing checks at the Cincinnati Branch early in April. These new facilities represent one part of the Bank's continuing efforts to modernize the nation's payments mechanism. Another was the discussion with bankers in the District about an experimental point-of-scale payments network. These and other innovations move us toward the goal of a national electronic money transfer system.

Finally, we want to extend our warmest thanks to the many people–directors, officers, and staff of this Bank–who have contributed their time and effort so generously in 1973 as part of the Bank's efforts to respond to the many challenges confronting us. We ask for their continued help in meeting the complex tasks that are ahead.

Horace A. Shepard
CHAIRMAN OF THE BOARD

Willis J. Winn
PRESIDENT

THE FEDERAL RESERVE BANK OF CLEVELAND: Economic Role and Responsibilities

The Federal Reserve Bank of Cleveland is one of twelve regional banks in the Federal Reserve System. This Bank, the Branches in Cincinnati and Pittsburgh, and a Regional Check Processing Office in Columbus serve the Fourth Federal Reserve District, which includes the State of Ohio, eastern Kentucky, western Pennsylvania, and northern West Virginia. Numerous services are provided for banks and others, including collecting checks, providing currency and coin, and acting as fiscal agent for the U. S. Treasury. A major portion of Bank personnel is devoted to these operating activities at the four locations. In addition, a sizable number of employees are engaged in providing support services at the various facilities.

This Bank also shares in the Federal Reserve System's responsibilities for monetary policy. All Reserve Bank presidents regularly attend Federal Open Market Committee meetings with the seven members of the Board of Governors. The President of the Federal Reserve Bank of Cleveland is a voting member of the FOMC every other year—alternating with the President of the Federal Reserve Bank of Chicago. The Board of Directors of the Cleveland Bank is required to establish the Bank's discount rate every two weeks, subject to approval of the Board of Governors. Finally, the Bank, through its Examination and Supervision function, examines state member banks, administers Board regulations applicable to all member banks, and acts as the regulatory supervisor with respect to bank holding companies in the District.

Each officer and employee makes an important contribution to the achievement of the Bank's objectives, and the activities of each department would make an interesting story. Last year's *Annual Report* focused on the evolutionary developments underway in the payments mechanism and the role of Regional Check Processing Centers in the District. This year's *Annual Report* describes another facet of the Bank's many activities: Research. This section outlines the role that the professional economists and support staff have in meeting both Bank and System responsibilities. The second part is a report on a research study of manufacturing firm-commercial bank relationships in Ohio. The study is one example of the Department's efforts to improve understanding of banking practices and of the structure of banking markets in the Fourth District.

Broadly stated, Research's general purpose is to gather information and conduct analysis and research in connection with economic issues and problems related to the Bank's role in monetary policy and its regulatory and operating responsibilities. The Research staff, which is directed by a Vice President and an Assistant Vice President, includes a number of economists, a statistician, and other support personnel, including economic analysts, research assistants, secretaries, stenographers, library personnel, and publication specialists.

Resources available to Research are utilized in five areas to fulfill the Department's complex assignments.

1. Monetary Policy Support

Research maintains a flow of information, analysis, and advisory opinions to the Bank's President in connection with his monetary policy responsibilities and to the Board of Directors in support of discount rate activities. Research also provides a flow of information to Branch Boards of Directors. Staff economists have a number of economic and financial research projects underway in the monetary policy support area. For example, studies of the costs of inflation and unemployment and the regional impact of monetary policy are in process.

2. Banking Studies

The Department provides information and analysis and undertakes research in connection with economic aspects of the Bank's regulatory and operating responsibilities. In view of the Bank's and System's broad areas of concern in these matters, banking studies include financial and operational activities of the Federal Reserve System, commercial banks, and nonbank financial institutions. Several projects are in progress in this area, including studies of Federal Reserve Bank operations, commercial bank asset and liability management, and bank holding company activities.

3. Bank Structure Support

Research shares in the responsibility for analyzing bank merger and bank holding company activities with the Bank Examination and Supervision Department. The Department has specific responsibility for information, analysis, and advisory opinions in areas of competition and public benefits in connection with each application for a bank merger or a holding company acquisition.

4. Public Information

The Department shares some results of its monetary policy support and banking studies with the public as part of the System's public information responsibility. Three Bank publications *Economic Commentary, Economic Review,* and *Annual Report*—and speeches and lectures by staff personnel are used to accomplish this objective.

5. Library

The Research Department maintains a sizable business and financial library for the benefit of directors, officers, and staff of the Bank and the public. Special emphasis is placed on books, journals, Government documents, periodicals, and other material related to the monetary policy, regulatory, and operating responsibilities of the Bank.

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The following section of this *Annual Report* summarizes findings of a study of manufacturing firm-bank relationships in Ohio. The study is an example of the type of projects undertaken in Banking Studies.

RESEARCH REPORT:
A Profile of Manufacturing Firm-Bank Relationships

INTRODUCTION

In 1969, the Research Department conducted a study of the banking associations of a large number of manufacturing firms in Ohio. This study was designed to assist the Bank in its regulatory responsibilities with regard to bank mergers and holding company acquisitions. Manufacturing firms represent a significant proportion of the demand for banking services; therefore, this study provided valuable information on banking activities and markets. Significant changes have occurred in the economy, particularly in the financial sector, in the 1969-1973 period. Therefore, a survey was made last year to determine what changes, if any, had occurred in the way manufacturers in Ohio viewed their banking associations and what the implications are for banking markets.

The study's findings are likely to be interesting to a broad audience. Some bankers may find the conclusions support basic premises about business-bank relationships. Others might find some surprises in the results. Corporate financial officers may also be interested in the profile that emerged from this inquiry. Others involved in banking research may find the study to be a base for further analysis.

The results of both the 1969 and 1973 studies indicate that relationships between manufacturing firms and banks in Ohio are unique, local, and stable. Most firms maintain associations with one or a limited number of banks. They tend to expand bank affiliations, but seldom terminate an existing bank relationship. Also, most manufacturing firms, regardless of size, have strong ties to local or regional banking markets. Banks in Ohio vary from $500,000 to over $2 billion in total deposits and appear sufficiently diverse in size to permit most firms to choose local or regional banks for some or all of their services. The major reason for long-term local associations appears to be a concern with credit availability. There was almost no evidence that firms chose or would change banks on the basis of cost of services, or that bank-firm relationships were altered by interest rate fluctuations in national credit markets.

THE SAMPLE AND SURVEY QUESTIONNAIRE

The study focused on relationships of Ohio banks to the full spectrum of corporate customers. Approximately 500 manufacturing firms in Ohio responded with information that was used to analyze banking relationships in both 1969 and 1973. Firms in the sample were selected as a cross section of manufacturers in the State in terms of asset size and type of activity (see Table). Most of the respondents have less than $100 million in assets, which is representative of manufacturing in Ohio. Less than one percent of the total number of manufacturers in the State have assets in excess of this amount. The surveys included some subsidiaries or divisions of large corporations, and these firms were asked to indicate the extent to which they chose banking relationships. Finally, since firms less than four years old are not represented in the study, only a small percentage of the respondents have been in existence less than 10 years.

Questions were asked regarding number and type of bank or banks used, reasons for selection, location, services selected, and lending rates. The survey also probed for factors contributing to changes in firm-bank associations. In order to provide as much uniformity as possible in the responses, banks were described in the survey instructions as principal, alternate, or depository banks. Definitions of these terms are shown on the next page.

CURRENT PROFILE OF FIRM-BANK ASSOCIATION

Firms and Their Banks

Results of the 1969 study indicated that a manufacturing firm's relationship with its principal banks was unique, local, and stable. Uniqueness was demonstrated by the fact that an overwhelming majority of firms dealt with a single *principal* bank. Almost two-thirds of the firms sampled dealt with only *one* bank regardless of whether it was a principal, alternate or depository. The local character of relationships was highlighted by the predominant number of firms that preferred banks located in the same county as the firm. Long-term stability was evidenced by the fact that nearly 90 percent of the firms were associated with their principal bank over the firm's life span.

The 1973 study provided an opportunity to determine if the uniqueness, local orientation, and stability had persisted over the intervening period. Although there is evidence of some changes, they were not dramatic. Unique relationships appear to have declined slightly as fewer firms reported dealing with only a single principal bank. The number of firms using two or more principal banks increased in the four-year period, but the proportion of firms using alternate banks remained the same as in 1969. A large proportion of firms still obtain most banking services locally. However, some small reduction occurred in the stability of relationships as fewer firms were associated with principal banks over a company's life span.

Particular attention was paid to firms that changed principal banking associations. A number of firms added or dropped one of their principal banks, but did not alter all

Profile of Manufacturing Firms in Survey: 1973

Asset Classes

	Under $25,000	$25,000-$100,000	$100,000-$500,000	$500,000-$1 million	$1 million-$5 million	$5 million-$25 million	$25 million-$100 million	Over $100 million	Total Responses
Number of firms	19	94	193	56	81	20	11	14	488
Percent of Total	3.9	19.3	39.5	11.5	16.6	4.1	2.3	2.9	100%

Standard Industrial Classification

Number of firms	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	Total
Percent of Sample	44	1	3	6	13	14	13	61	23	7	12	3	24	30	81	98	20	9	6	20	488
Total	9.0	0.2	0.6	1.2	2.7	2.9	2.7	12.5	4.7	1.4	2.5	0.6	4.9	6.1	16.6	20.1	4.1	1.8	1.2	4.1	100%

20 – Food and kindred products
21 – Tobacco manufacturers
22 – Textile mill products
23 – Apparel and other finished products made from fabrics
24 – Lumber and wood products, except furniture
25 – Furniture and fixtures
26 – Paper and allied products
27 – Printing, publishing and allied industries
28 – Chemicals and allied products
29 – Petroleum refining and related industries
30 – Rubber and miscellaneous plastics products
31 – Leather and leather products
32 – Stone, clay and glass and concrete products
33 – Primary metal industries
34 – Fabricated metal products, except machinery & transportation
35 – Machinery, except electrical
36 – Electrical and electronic machinery, equipment & supplies
37 – Transportation equipment
38 – Measuring, analyzing and controlling instruments
39 – Miscellaneous manufacturing industries

banking relationships. The majority of these manufacturers added a bank in their respective counties, providing further evidence of the strength of local ties. One firm added, while another firm dropped, a bank located in a large money center. Almost all firms that changed principal banks switched to another bank in the same county.

Firms that do not have a principal bank located in the same county are still oriented to the region. Survey results indicated almost all of these firms banked in a contiguous county, often in the same metropolitan area. Only 13 firms in the 1973 sample listed out-of-state banks among their principal banks, and only two did not have a local or regional principal bank as well. Nine firms gave out-of-state banks as alternates in the 1973 survey, which represents a small decline from the earlier study. These firms were in the three largest asset classes.

A comparison of the number and size of banks used by firms of different sizes produced some surprising results. One-half of the largest non-subsidiary firms used only one principal bank, which was located in the same county as the firm. One-half of this group stated that they were associated with only one alternate bank, and the remaining

TYPES OF BANKS AS DEFINED FOR SURVEY OF MANUFACTURERS

A *principal bank* is defined as a bank–domestic or foreign–that performs a wide range of banking services for your firm, particularly with respect to checking accounts and the initiation of bank credit arrangements.

An *alternate bank* is one that provides a few banking services, but not a wide range of services, for your firm.

A *depository bank* is one that serves solely for the deposit and transfer of funds and does not provide other banking services.

firms used none. Additionally, several large firms dealt with a principal and an alternate bank in the $10 to $25 million deposit range. This is somewhat surprising. Conventional wisdom implies that small firms can be associated with all size banks, but that large firms must use large banks. Banks may be able to provide credit accommodations far in excess of their legal lending limit through participations or correspondent relationships.

It is evident that some changes have occurred in firm-bank relationships over time. The associations are somewhat less unique and stable than the initial study suggested, but manufacturing firms remain strongly oriented to banks in their local region. Banks are interested in fostering growth of manufacturing and employment within their banking market, and firms seem increasingly willing to rely on this mutual advantage.

Banking Services

The 1973 survey indicated that there was a noticeable increase in the variety of banking services used by firms of all asset classes. A substantial gain occurred in the number of firms that obtained term loans from their principal banks. Other services that showed increased usage were pension and profit sharing fund management and lock box services. The 1973 survey also showed that international banking skills were demanded by a number of firms in all asset classes, not just large firms. Principal banks are also providing computer services and wire transfers for several firms in all but the smallest size class. Responses indicated that cash management systems, a service first listed in the 1973 questionnaire, can be marketed to firms having less than $100,000 in assets as well as to larger firms.

Alternate banks are used for a few services, and the questionnaire attempted to determine reasons for such selections. A number of firms used alternates for specialized services, e.g., computer services and international banking, because such services were not available at principal banks. Some firms chose alternates because of cost of services or interest return on funds, but the number was small. An overwhelming number of respondents attributed the choice of an alternate to one of two reasons: diversification of services or convenience of location. In fact, convenience seemed to be a more important factor in the recent survey than in the 1969 study. While this could suggest that firms place a higher value on convenience than previously, the more likely inference is that more services are available at convenient locations considering the demand for a greater variety of services and the local orientation of firms.

"Prime" Borrowing Rate

The 1969 questionnaire asked firms to indicate whether their most recent borrowing had been "at, above or below" the prime rate. It was assumed that all firms would interpret *prime rate* as the national publicized bank rate charged the most credit-worthy large customers. However, over 70 percent indicated they had borrowed at or below prime. The magnitude of the response was puzzling in view of the size distribution of the firms in the survey. This raised an obvious question: When firms use the term "prime rate," are they referring to national prime, a regional prime, or the bank's prime for their risk class? The prime rate question was expanded in the 1973 survey in an attempt to provide an answer to this question. In addition to indicating whether firms paid below, at, or above prime, they were asked to state the rate paid and date of their last short-term borrowing. These answers were then compared to the national prime rate that prevailed at the time of their respective borrowings. (The two tier or "dual prime rate" was used in the analysis, if the borrowing occurred after April 16, 1973.) This comparison permitted a verification of whether or not firms were referring to the national prime rate when they responded to the question.

Forty-six percent of the firms supplying borrowing information demonstrated they were referring to the national prime rate. About one-fourth of these firms borrowed "below" the national prime rate. An equal number borrowed "at" national prime. Firms of all sizes were in the "below" and "at" prime groups.

Fifty-four percent of the firms that supplied borrowing information were not referring to the national prime rate. Firms in the group that indicated they borrowed "at" the prime rate were the ones most frequently referring to some other prime when they answered the question. There was some tendency for firms with less than $1 million in assets to be in this "at" prime group. This might be expected since small firms would be more apt to borrow most of their funds locally and may have been referring to a regional or bank prime in their responses. Also, large firms may obtain part of their short-term funds through the commercial paper market, so they are focusing on national conditions. The group that reported they borrowed "above prime" specified a rate that was equal to or less than the national prime. Therefore, the *prime* they were referring to must have been below the national prime.

Evidence from the 1973 survey lends support to the view that there are regional markets for corporate banking services. The fact that such a large percentage of firms think in terms of either a regional or bank prime for their risk class indicates that corporate borrowing for many firms (particularly firms less than $25 million in assets) is not carried out in a national market. It may be that regional rates are less volatile than the national rate; therefore, the positions of the firms relative to the national prime rate will vary over time. Nevertheless, the local and regional orientation has implications for commercial bank marketing strategy as well as for banking structure issues.

FORCES FOR CHANGE IN BANKING RELATIONSHIPS

Review

Changes in relationships of firms with their respective banks could result from internal dissatisfaction with current arrangements–price, convenience and service–or from external solicitation by other banks. The survey results indicated that firms were generally satisfied with current banking relationships. Less than one-half the firms reported they regularly reviewed banking connections. Several firms indicated they would only review associations when present arrangements became unsatisfactory. A greater percentage of large firms than small firms make a regular examination of their banking connections according to both the 1969 and 1973 results. Large firms generally use a greater number of banking services and, therefore, would have more incentive to undertake a regular examination.

Solicitation

Bankers have not been overly aggressive in soliciting new corporate business, which could partially account for lack of change in firm-bank relationships. Only 28 percent of respondents in 1969 and 33 percent in 1973 reported solicitations by banks other than their principal or alternates. The corporate banking service most frequently solicited in both surveys was "checking accounts." Short-term loans and term loans were the next two services offered most often.

The concept of regional markets for corporate banking services is again supported by evidence regarding the location of soliciting banks. Eighty percent of the solicited firms in the 1973 survey were contacted by at least one bank that was located in the same county as the firm. The vast majority of all banks that had solicited the firms in the survey were from Ohio. Only slightly more than ten percent of solicited firms in both 1969 and 1973 were contacted by banks headquartered outside of the State. (This represents less than four percent of all firms surveyed.) The two most frequently mentioned out-of-state locations were New York and California.

SELECTION OF PRINCIPAL BANKS: REASONS AND LOCATION

Reasons

Nearly one-third of the firms in both surveys ranked a "bank's ability to accommodate borrowings" as the most important reason for selecting a principal bank. The next three reasons, ranked in order, are "convenience of bank's location," "skilled management," and "size of bank." The reason cited most frequently by firms in both surveys was "the convenience of bank's location."

The fact that "ability to accommodate borrowing" was most often ranked first in both surveys indicates that manufacturing firms are very concerned about a bank's ability to serve their credit needs. This concern was expressed by all firms in all asset classes; there was no greater tendency for either large or small firms to rank this reason number one. In addition, it is apparent that a sizable number of all manufacturing firms felt that a principal bank should be located within a firm's immediate area. These results indicate respondents have a preference for local and regional markets for corporate services, with the choice of a particular bank based primarily on assurance of credit availability.

Location

Approximately two-thirds of the firms in both surveys indicated they would choose a bank located in the same city as the firm if they were to change principal banks. Firms that indicated that they would move to a national or regional financial center outside of Ohio were large firms. However, only ten percent of the firms surveyed in 1969 and four percent of those contacted in 1973 indicated they would make such a change. Generally, if firms were to change banks, they would stay in the city or county in which the firm is located.

CONCLUSION

The overall results of the study demonstrate that manufacturing firms in Ohio maintain an association with their principal bank or banks over a long period of time. Firms appear to be primarily concerned with a bank's ability to meet their credit requirements, which largely explains the apparent stability. The survey also shows that firms are strongly oriented to local or regional markets for banking services. Furthermore, many manufacturers do not associate their borrowing rate with the national prime rate.

The two major results, stability and local orientation, seem to confirm the impression that Ohio firms are primarily concerned with insuring credit availability through long-term and local relationships. Most large firms also use banks in their local or regional Ohio markets, although in some instances they use out-of-state banks as well. This local orientation may be the traditional pattern of "doing business," but it could change with the increasing use of electronic fund transfer systems. However, it is not certain that this technological development will totally alter local relationships if firms' short-term borrowing needs continue to be met by Ohio banks.

The results of this study may have been influenced by the time period in which it was conducted. The surveys were taken during two years of relatively restrictive credit market conditions, and firms may have been influenced by this experience.

The results of the study have implications for the Federal Reserve System's regulatory responsibilities. The study raises a number of questions about competitive conditions in banking markets. In addition, it demonstrates the importance of local or regional markets to most business customers of banks as well as to individual customers. This relationship between manufacturing firms and local banks is important in the analysis of competitive effects of bank mergers and holding company acquisitions.

Lorraine E. Duro *and* Robert F. Ware

COMPARATIVE STATEMENT OF CONDITION

ASSETS

	Dec. 31, 1973	Dec. 31, 1972
Gold Certificate Reserves	$ 826,468,966	$ 884,658,767
Special Drawing Rights Certificates	33,000,000	33,000,000
Federal Reserve Notes of Other Banks	89,057,025	76,473,234
Other Cash	32,268,113	39,446,403
Loans to Member Banks	95,300,000	193,500,000
Federal Agency Obligations – Bought Outright	148,558,000	98,156,000
U. S. Government Securities:		
Bills	2,829,082,000	2,220,402,000
Notes	2,945,259,000	2,745,605,000
Bonds	241,443,000	259,158,000
Total U. S. Government Securities	6,015,784,000	5,225,165,000
Total Loans and Securities	6,259,642,000	5,516,821,000
Cash Items in Process of Collection	445,093,515	596,580,121
Bank Premises	26,764,959	27,181,035
Other Assets	66,879,899	87,526,594
Total Assets	$7,779,174,477	$7,261,687,154

LIABILITIES

	Dec. 31, 1973	Dec. 31, 1972
Federal Reserve Notes	$5,243,462,679	$4,751,683,430
Deposits:		
Member Bank – Reserve Accounts	1,701,443,720	1,552,285,985
U. S. Treasurer – General Account	150,623,736	143,680,513
Foreign	23,660,000	26,390,000
Other Deposits	31,522,570	20,487,802
Total Deposits	1,907,250,026	1,742,844,300
Deferred Availability Cash Items	407,347,172	582,343,838
Other Liabilities	72,458,500	41,226,086
Total Liabilities	$7,630,518,377	$7,118,097,654

CAPITAL ACCOUNTS

	Dec. 31, 1973	Dec. 31, 1972
Capital Paid In	74,328,050	71,794,750
Surplus	74,328,050	71,794,750
Total Liabilities and Capital Accounts	$7,779,174,477	$7,261,687,154
Contingent Liability on Acceptances Purchased for Foreign Correspondents	$ 52,880,100	$ 16,289,000

COMPARISON OF EARNINGS AND EXPENSES

	1973	1972
Total Current Earnings	$370,183,112	$290,750,352
Net Expenses	34,856,286	28,094,398
Current Net Earnings	335,326,826	262,655,954
Additions to Current Net Earnings:		
Profit on Sales of U. S. Government Securities (Net)	(2,625,734)	229,761
All Other	899,838	97,522
Total Additions	(1,725,896)	327,283
Deductions from Current Net Earnings:		
Loss on Foreign Exchange Transactions (Net)	4,314,904	4,716,952
All Other	4,904	2,917
Total Deductions	4,319,808	4,719,869
NET DEDUCTIONS	6,045,704	4,392,586
NET ADDITIONS	–0–	–0–
Net Earnings before Payments to U. S. Treasury	$ 329,281,122	$258,263,368
Dividends Paid	$ 4,400,130	$ 4,205,725
Payments to U. S. Treasury (Interest on F. R. Notes)	322,347,692	250,144,793
Transferred to Surplus	2,533,300	3,912,850
Total	$ 329,281,122	$258,263,368

DISPOSITION OF GROSS EARNINGS

	1973	1972
TO U. S. TREASURY	88.5%	87.3%
DIVIDENDS	1.2	1.5
OPERATING EXPENSES	9.6	9.8
SURPLUS	0.7	1.4

FEDERAL RESERVE BANK OF CLEVELAND

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