

11

TWELFTH ANNUAL REPORT
of the
Federal Reserve Bank
of Dallas

For the Year Ended
December 31
1926

Eleventh Federal Reserve District

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LETTER OF TRANSMITTAL

January 27, 1927

Gentlemen:

I have the honor to submit herewith the Twelfth Annual Report of the Federal Reserve Bank of Dallas covering the year ended December 31, 1926.

Respectfully,

C. C. WALSH,
Federal Reserve Agent

Federal Reserve Board,
Washington, D. C.

**DIRECTORS AND OFFICERS
OF THE
FEDERAL RESERVE BANK OF DALLAS
1927**

DIRECTORS

CLASS A

J. H. FROST, San Antonio, Texas
HOWELL E. SMITH, McKinney, Texas
W. H. PATRICK, Clarendon, Texas

CLASS B

J. H. NAIL, Fort Worth, Texas
FRANK KELL, Wichita Falls, Texas
J. J. CULBERTSON, Paris, Texas

CLASS C

C. C. WALSH, Dallas, Texas
S. B. PERKINS, Dallas, Texas
CLARENCE E. LINZ, Dallas, Texas

MEMBER FEDERAL ADVISORY COUNCIL

B. A. MCKINNEY, Dallas, Texas

OFFICERS

C. C. WALSH, Chairman and Federal Reserve Agent	LYNN P. TALLEY, Governor
CLARENCE E. LINZ, Deputy Chairman	R. R. GILBERT, Deputy Governor
CHAS. C. HALL, Assistant Federal Reserve Agent and Secretary	R. B. COLEMAN, Deputy Governor
W. J. EVANS, Assistant Federal Reserve Agent	FRED HARRIS, Cashier
R. L. FOULKS, General Auditor	W. O. FORD, Assistant Cashier
W. P. CLARKE, Assistant Auditor	W. D. GENTRY, Assistant Cashier
	J. L. HERMANN, Assistant Cashier
	E. B. AUSTIN, Assistant Cashier

CHAS. C. HUFF, General Counsel
LOCKE, LOCKE, STROUD & RANDOLPH, Counsel

EL PASO BRANCH

DIRECTORS

H. L. KOKERNOT, Alpine, Texas, Chairman	
E. A. CAHOON, Roswell, N. M.	G. D. FLORY, El Paso, Texas
A. P. COLES, El Paso, Texas	E. M. HURD, El Paso, Texas
M. CRUMP, El Paso, Texas	C. M. NEWMAN, El Paso, Texas

OFFICERS

M. CRUMP, Managing Director
ALLEN SAYLES, Cashier

HOUSTON BRANCH

DIRECTORS

E. A. PEDEN, Houston, Texas, Chairman	
GUY M. BRYAN, Houston, Texas	E. F. GOSSETT, Houston, Texas
FRED W. CATERALL, Galveston, Texas	DWIGHT P. REORDAN, Houston, Texas
R. M. FARRAR, Houston, Texas	J. C. WILSON, Beaumont, Texas

OFFICERS

DWIGHT P. REORDAN, Managing Director
L. G. PONDROM, Cashier
H. R. DeMOSS, Assistant Cashier

FEDERAL RESERVE BANK OF DALLAS

COMPARATIVE STATEMENT OF CONDITION

(In Thousands of Dollars)

RESOURCES

	Dec. 31, 1926	Dec. 31, 1925	Dec. 31, 1924
Gold with Federal Reserve Agent.....	38,488	24,269	37,186
Gold redemption fund with United States Treasury.....	2,609	2,351	1,978
Gold held exclusively against F. R. Notes.....	41,097	26,620	39,164
Gold settlement fund with F. R. Board.....	19,090	12,102	18,033
Gold and gold certificates held by bank.....	8,448	11,398	9,065
Total gold reserves.....	68,635	50,120	66,262
Reserves other than gold.....	8,137	5,749	8,948
Total reserves.....	76,772	55,869	75,210
Non-reserve cash.....	2,548	2,593	2,508
Bills discounted:			
Secured by U. S. Government obligations.....	1,594	1,924	246
Other bills discounted.....	3,178	2,083	2,467
Total bills discounted.....	4,772	4,007	2,713
Bills bought in open market.....	15,927	28,871	26,197
U. S. Government securities:			
Bonds.....	3,738	6,949	3,273
Treasury notes.....	3,813	17,236	16,998
Certificates of indebtedness.....	15,788	7,644	5,226
Total U. S. Government securities.....	23,339	31,829	25,497
Foreign loans on gold.....		273	228
Total bills and securities.....	44,038	64,980	54,635
Uncollected items.....	28,215	27,906	30,999
Bank premises.....	1,755	1,793	1,833
All other resources.....	358	1,192	1,793
Total resources.....	153,686	154,333	166,978

LIABILITIES

F. R. notes in actual circulation.....	48,803	47,437	55,641
Deposits:			
Member bank—reserve account.....	62,898	66,203	65,828
Government.....	1,257	776	1,665
Foreign bank.....	985	289	70
Other deposits.....	61	95	154
Total deposits.....	65,201	67,363	67,717
Deferred availability items.....	26,781	26,616	31,219
Capital paid in.....	4,302	4,267	4,131
Surplus.....	8,215	7,615	7,592
All other liabilities.....	384	1,035	678
Total liabilities.....	153,686	154,333	166,978
Ratio of total reserves to deposit and Federal reserve note liabilities combined (per cent).....	67.3	48.7	61.0
Contingent liability on bills purchased for foreign correspondents.....	1,976	2,462	1,622

TWELFTH ANNUAL REPORT
OF THE
FEDERAL RESERVE BANK OF DALLAS

The volume of transactions handled by the Federal Reserve Bank of Dallas exceeded that of 1925, yet due to the increased efficiency of the personnel, the departments of the bank as a whole functioned with fewer employes and at a smaller expense than in the previous year.

The trend of business activity in the Eleventh Federal Reserve District followed an irregular course in 1926, yet the volume for the year was maintained at near the high level of 1925. During the early months of the year quietude in trade prevailed, due to the effects of the 1925 drouth and the unseasonable weather in the spring. This period of dullness was followed by unusual activity in the summer and early fall, but the final quarter witnessed a substantial reduction in distribution, reflecting the effects of the decline in the price of cotton. Building was maintained at an exceedingly high level during the first four months, but reflected a downward trend during the remainder of the year. The production of petroleum, on the other hand, after declining in the early months, turned upward and toward the end of the year established a new high record.

The volume of agricultural production was the largest since 1919, and despite the low price of cotton the value of the crops produced in the district exceeded that of 1925. Although there was a heavy demand for agricultural credit due to the necessity of financing the purchase of feed, and notwithstanding the volume of carryover indebtedness at both banks and mercantile establishments is the largest in several years, the farmers are now fortified with an ample supply of feed, which will serve to lighten the cost of the 1927 crops and reduce the demand for agricultural credit.

A noteworthy feature of the year's developments was the steady improvement in business and industrial conditions in the western part of the district, where two of the leading industries, mining and livestock, showed an accelerated rate of recovery from the effects of the severe depression of 1920.

FEATURES OF OPERATIONS, YEARS 1926 AND 1925

	1926		1925	
	Number of Pieces	Amount	Number of Pieces	Amount
Loans, rediscounts, and investments:				
Notes discounted and rediscounted for member banks.....	39,201	\$ 223,653,238	27,619	\$ 123,701,701
Bills bought for our own account.....	7,464	75,979,251	10,056	118,700,851
Bills bought for other than our own account.....	1,215	9,494,827	857	7,417,546
Purchase and sale of securities for our own account.....	965	168,129,450	437	137,863,300
Purchase and sale of securities other than own account.....	704	32,904,219	789	31,557,376
Currency and Coin:				
Bills received and counted.....	43,952,161	201,982,801	43,232,734	209,027,202
Coin received and counted.....	33,981,452	9,419,690	34,061,246	8,902,578
Check Collections:				
Checks collected.....	34,804,452	7,443,727,908	33,619,439	6,996,631,274
Collection items handled.....	116,357	205,246,296	110,578	157,044,709
Return items.....	960,835	39,752,432	832,446	34,753,202
U. S. Government checks paid.....	795,795	86,807,218	776,599	90,262,937
U. S. Government coupons paid.....	603,544	5,017,339	670,991	5,227,035
Transfers:				
Transfer of funds other than five per cent fund of national banks.....	86,356	3,873,923,544	85,165	3,762,524,402
Transfer of funds for five per cent fund of national banks.....	17,773	38,936,039	17,685	36,255,336
Fiscal Agency:				
U. S. Securities issued, converted, redeemed, canceled and exchanged.....	57,534	96,042,089	74,610	136,407,926
Custody of Securities:				
Number of pieces received from outside sources.....	30,048	Not available	34,031	Not available
Number of pieces received inter-departmental transactions.....	28,555	Not available	55,605	Not available
Number of pieces delivered other than inter-departmental.....	33,820	Not available	30,478	Not available
Number of pieces delivered inter-departmental transactions.....	28,950	Not available	55,727	Not available

EARNINGS AND EXPENSES

The gross earnings of the bank in 1926 were \$2,127,049, as compared with \$1,813,626 in 1925, an increase of \$313,423, or 17.3 per cent. Of this amount \$462,841, or 21.7 per cent, resulted from the purchase of bills, as compared with \$522,599, or 28.8 per cent in 1925; \$525,993, or 24.7 per cent resulted from the discount and rediscount of paper, as compared with \$252,520, or 13.9 per cent in 1925.

Current net earnings in 1926 were \$948,318, as compared with \$590,282 in 1925. The average rate on bills discounted was 4 per cent, compared with 4 per cent in 1925; and on purchased paper 3.55 per cent, as compared with 3.18 per cent in 1925. The annual rate of net earnings to paid-in capital was 22 per cent in 1926, compared with 14 per cent in 1925.

Current expenses in 1926 were \$1,178,730, as compared with \$1,223,344 in 1925, a decrease of \$44,615, or 3.6 per cent.

On December 31, 1925, after adjustments necessary in closing the books for the year had been made, the bank's capital was \$4,267,000, and surplus \$7,615,000. Semi-annual dividends were paid to member banks on June 30 and December 31, 1926, at the rate of 6 per cent per annum. After making provision for depreciation allowances and reserves to care for possible losses, the balance in current net earnings of \$599,708 was transferred to surplus, making that account \$8,215,000 on December 31, 1926.

INVESTMENT OPERATIONS

At the beginning of 1926 holdings of Untied States securities were \$31,829,000, of which \$25,143,000 consisted of participation in purchases made by the Open Market Investment Committee. Holdings of bankers' acceptances amounted to \$28,870,000, or an aggregate of United States securities and bankers' acceptances of \$60,699,000.

During the year United States securities amounting to \$82,360,000 were purchased from other Federal reserve banks, member banks and in the open market, while securities aggregating \$90,850,000 matured or were sold, leaving the holdings

of United States securities at \$23,339,000 on December 31, a decrease of \$8,490,000. Of this decrease \$5,540,000 is represented by the participation in purchases of the Open Market Investment Committee, while \$2,950,000 represents sales from our own holdings.

The yield on Government securities remained fairly steady at about $3\frac{1}{2}$ per cent during the entire year.

At the beginning of the year holdings of bankers' acceptances amounted to \$28,870,000. This amount was gradually reduced to the minimum of \$7,576,000 on May 14, due to maturities during that period regularly exceeding purchases. From this figure the holdings were increased to \$15,980,000 on December 30, which was the maximum for the last half of the year, the holdings on December 31 amounting to \$15,926,000.

Bankers' acceptances amounting to \$75,979,000 were purchased from other Federal reserve banks, member banks, and in the open market during the year, while bills amounting to \$88,923,000 matured or were sold.

At the beginning of the year discount rates on bankers' acceptances ranged from $3\frac{1}{8}$ to $3\frac{3}{4}$ per cent, changing slightly from time to time, the range at the close of the year being $3\frac{1}{2}$ per cent to 4 per cent. The average yield on bankers' acceptances for the year was 3.55 per cent.

DISCOUNT OPERATIONS

The volume of paper discounted, rediscounted and purchased for member banks in 1926, including purchases of acceptances from other Federal reserve banks, as well as from member banks, was \$299,632,000, as compared with \$242,402,000 in 1925, an increase of \$57,230,000, or 24 per cent.

Of total amount of advances in 1926, 94 per cent was to national bank members, and six per cent to state member banks, as compared with 93 per cent to national bank members and seven per cent to state member banks in 1925.

During the first six months of the year the volume of

paper discounted (as of weekly report dates) fluctuated between a minimum of \$5,037,000 on February 10 and a maximum of \$14,122,000 on June 23. During the second half of the year the range was from \$25,261,000 on September 1 (the maximum for 1926) to \$5,555,000 on December 29.

The average daily holdings of bills discounted in 1926 were \$13,149,000, as compared with \$6,315,000 in 1925.

The number of applications for advances in 1926 was 3,940, as compared with 2,747 in 1925, and the number of banks served was 450, an increase of 89, or 24 per cent from 1925.

Of the total paper discounted in 1926, \$96,053,000, or 43 per cent, consisted of notes secured by Government obligations, compared with \$51,349,000, or 41 per cent, in 1925.

RESERVE POSITION

The bank's reserve position during the year has been subject to the usual seasonal fluctuations reflecting the changes in the demand for credit, volume of earning assets, deposit liability, Federal Reserve note circulation, and the extent to which it participated in open market investments.

For the first six months of the year the ratio ranged between a minimum of 45.1 per cent on January 6, when total cash reserves were \$49,057,000, to a maximum of 67.9 per cent on March 17, when total cash reserves aggregated \$65,859,000. During the last six months of the year the ratio fluctuated between a minimum of 52.1 per cent on August 4, when total cash reserves were \$48,880,000, to a maximum of 70.9 per cent on December 15, when total cash reserves were \$80,055,000.

CLEARING OPERATIONS

The volume of checks handled in 1926 totaled 35,600,000, amounting to \$7,530,535,000, an increase of 1,204,000 in number, and value of \$443,641,000 over 1925. The volume during the last three months of 1926 was exceptionally heavy, which is the seasonal trend due to utilization of funds realized through the marketing of fall crops. The daily average num-

ber of checks handled during this period was 135,000, as compared with 125,000 during 1925, and 120,000 during 1924. The maximum number of items handled at the head office in any one day was 132,695 on February 15, 1926.

The privilege of routing checks direct to other Federal reserve banks for credit on the books of this bank was availed of by 153 member banks in 1926. Notwithstanding the number of banks availing themselves of the direct routing privilege, which eliminates the handling of items in our office and in many instances enables the direct sending member to receive quicker credit, the year just ended witnessed a large increase in the number of checks which actually passed through the Transit Department.

During the year 960,835 checks were returned for various reasons, a ratio of one check returned for every 37 items handled. During 1925 the ratio was one to 38.

Clearings through the Reserve City Clearing House during the year aggregated \$1,131,641,000, as compared with \$1,032,229,000 in 1925.

Non-cash collection items handled in 1926 totaled 116,357, amounting to \$205,246,000, as compared with 110,578, amounting to \$157,045,000 in 1925.

The salary expense of the Transit Department was reduced 7 per cent in 1926 over 1925.

MOVEMENT OF MEMBERSHIP

On January 1, 1926, the total number of national banks in the district was 732. During the year 18 national banks were chartered; 22 were dropped through liquidation, mergers and other causes, making a net decrease of four, or a total on December 31, 1926, of 728.

On January 1, 1926, the total state bank membership was 128. During the year two state banks were admitted to membership. The membership of 17 state banks was terminated through liquidation, consolidations and other causes, making

a net reduction of 15, or a total state bank membership on December 31, 1926, of 113.

The total membership, by states, on December 31, 1926, was:

	National	State	Total
Arizona	5	1	6
Louisiana	15	1	6
New Mexico.....	21	1	22
Oklahoma	23	1	24
Texas	664	109	773
	728	113	841
Total.....	728	113	841

FEDERAL RESERVE NOTES

The volume of Federal reserve notes in circulation in 1926 was smaller than in 1925, the average being \$2,570,000 less than the previous year.

The following table shows the average, maximum and minimum circulation for 1926, as compared with 1925 and 1924:

	1926	1925	1924
Average	\$42,128,000	\$44,698,000	\$47,707,000
Maximum	51,970,000	54,020,000	58,664,000
Minimum	34,981,000	37,471,000	39,584,000

The minimum circulation in 1926 of \$34,981,000 was reached in May, while in 1925 the minimum was reached in July. The maximum circulation in 1926 of \$51,970,000 was reached on November 6, the amount being \$2,050,000 less than the maximum in 1925.

The decrease in average circulation was occasioned by the fact that prior to the movement of the cotton crop, the latter part of September, the demand for currency in the district was very light and much less than in 1925.

Because of the unusually large cotton crop and the heavy demand for currency which its movement made necessary, the average circulation from the latter part of September to the

closing of the year was much higher in 1926 than in the corresponding period of 1925.

BANK EXAMINATIONS

The Examination Department made 112 joint credit examinations in 1926 in conjunction with regular examinations conducted by the State authorities. Three independent credit examinations were made by the examiners and three non-member institutions were examined incident to application for membership in the Federal Reserve System. A total of 118 visits was made during the year to member and non-member banks, as compared to 147 in 1925. The field force consisted of two examiners in 1926, as against three in 1925.

Due to consolidations, voluntary withdrawals from the System, reorganizations and failures, state bank members in this district have decreased from 128 on December 31, 1925, to 113 on December 31, 1926. To this reduction in state membership and the improved condition of member banks generally is attributable the noticeable decrease in the activities of the department for 1926.

State banking departments in the district have accorded us excellent co-operation in the matter of joint examination work, and in Texas, where 109 of the 113 state member banks are located, most friendly relations have existed. Two representatives from the State department were assigned to work with two Federal reserve examiners in a series of continuous joint examinations including in the itinerary all state member banks located in Texas. Under this plan most of the examinations are made early in the year and are of much more value to the Discount Committee than if they were spread out over the entire year.

BANK RELATIONS

During the past year the Bank Relations Department conducted a total of 1,117 bank visitations, as against 1,077 in 1925. The field work in 1926 consisted of 848 regular visits to member banks, 259 to non-member institutions, and 10

special missions for other departments of the bank, including investigations of applications to organize new national banks.

Speakers were furnished for a total of 24 gatherings during the year, and a total of 1,450 visitors were conducted through the bank building.

During the latter part of 1926 the field men were utilized to great advantage in making a number of special surveys of troublesome credit situations that developed in various parts of the district after conditions in the cotton industry became acute. About one hundred of these situations were clarified by the detailed information obtained through these special visitations of our travelers.

All bankers' conventions, group meetings, and a number of formal bank openings in this district were attended either by field representatives or officers of this bank.

INSOLVENT BANKS DEPARTMENT

Thirteen member banks suspended business in 1926, of which seven were indebted to this bank to the extent of \$124,885.31. The indebtedness of three of these banks has subsequently been liquidated in full. After taking into consideration amounts charged to funds previously reserved for losses the net liability of all failed banks at close of 1926 amounted to \$91,569.94, from which no loss is anticipated.

The personnel of the department consists of four regular employees, two of which are field representatives.

INTERNAL ORGANIZATION AND PERSONNEL

The Board of Directors held ten meetings in 1926, with an average attendance of seven.

There were no changes in the personnel of the Board, nor were there any changes in the officers at the head office and branches in 1926.

At its meeting on January 7, 1926, the Board elected B. A. McKinney, Vice-President of the American Exchange National Bank of Dallas, and formerly Governor of this bank, as a

member of the Federal Advisory Council to represent the Eleventh Federal Reserve District for the year 1926.

The terms of Howell E. Smith, Class A Director, Group 2, and J. J. Culbertson, Class B Director, Group 3, expired on December 31, 1926. The annual election, conducted in November, resulted in the re-election of Messrs. Smith and Culbertson for three-year terms, beginning January 1, 1927.

On December 23 the Federal Reserve Board announced the redesignation of C. C. Walsh as Chairman of the Board and Federal Reserve Agent for 1927.

On December 17 the Federal Reserve Board announced the reappointment of Clarence E. Linz as Class C Director for the three-year term beginning January 1, 1927, and his redesignation as Deputy Chairman of the Board for 1927.

On December 31, 1926, the total number of officers and employes of the head office and branches was 423, a reduction of 16 from the number on December 31, 1925.

FISCAL AGENCY OPERATIONS

The volume of business handled, as fiscal agent for the United States, in 1926, was less than in previous years. The principal decrease was in original issues and redemptions of Government securities. Only three issues of Government securities were floated during the year, as compared to five in 1925, and there were five maturing issues, as compared to six in 1925. The volume of interest coupons handled for payment was slightly less than in 1925. There was a small increase in the number of exchange and transfer transactions in Government securities, and a small increase was also noted in the number of Government warrants handled.

The volume of transactions handled in connection with the safekeeping of securities, including interest coupons clipped, declined somewhat from the previous year.

At the close of September the remaining outstanding loans handled for the War Finance Corporation were transferred to

their other agencies, thus bringing to a close the operations for the account of the War Finance Corporation.

In keeping with the general decrease in the volume of transactions, the personnel of the department was reduced from 21 on December 31, 1925, to 18 on December 31, 1926, with a reduction in the annual salary rate from \$37,630 on December 31, 1925, to \$34,620 on December 31, 1926.

OPERATION OF BRANCHES

Conditions in the territory served by the El Paso branch present a more hopeful outlook than at any time for several years past. The year 1926 was marked by the expansion of agriculture, a materially improved physical condition of ranges and cattle, and a marked increase in the price of cattle. The mining industry, a most important one in the El Paso territory, is much improved, as compared with recent years. There are no indications of any lack of bank credit to satisfy the legitimate demands of the several industries.

The volume of business handled at the El Paso branch in 1926, compared with 1925, is shown in the following table:

	Number		Amount	
	1926	1925	1926	1925
Notes discounted and re-discounted	1,055	1,920	25,968,869	28,716,938
Currency and coin shipments received.....	4,232	4,643	38,621,232	37,305,426
Currency and coin shipments forwarded.....	3,820	3,584	37,626,971	40,125,898
Transfer of funds.....	9,825	11,243	164,887,764	202,631,848
Check collections.....	2,539,076	2,605,678	347,626,720	368,875,682
Treasury Warrants.....	152,545	185,391	16,432,592	19,869,130
Collection items handled....	14,182	15,842	11,525,360	10,504,426
Return items.....	47,607	47,937	2,983,043	2,942,037

At the beginning of the year 48 member banks (45 national and three state) were attached to the branch. One national and one state bank were admitted to membership during the year; three national banks were transferred to the Tenth District; one state bank terminated its membership by

voluntary withdrawal, and the membership of one national bank was terminated by absorption, leaving a total membership of 44 on December 31, 1926.

The expense of operation, excluding furniture and equipment, was \$120,486, compared with \$128,827 in 1925.

At the end of the year the branch had two officers and 45 employes, compared with two officers and 46 employes on December 31, 1925.

The volume of business handled at the Houston branch in 1926, compared with 1925, is shown in the following table:

	Number		Amount	
	1926	1925	1926	1925
Notes discounted and re-discounted	2,335	1,998	27,297,163	16,240,259
Currency and coin shipments received.....	4,939	5,317	70,655,029	61,085,388
Currency and coin shipments forwarded.....	6,285	5,547	68,144,678	59,660,569
Transfer of funds	22,293	22,338	1,288,539,690	1,177,384,564
Check collections	7,138,043	6,865,812	1,809,802,410	1,663,566,481
Treasury Warrants	171,063	154,703	17,415,512	16,326,985
Collection items handled....	32,527	30,190	79,369,298	71,206,308
Return items	153,376	140,872	8,210,906	7,128,019

The expense of operation, excluding furniture and equipment, during the year was \$168,086, compared with \$165,372 during 1925.

At the beginning of the year 146 member banks (122 national and 24 state) were attached to the branch. Three national banks were admitted to membership in 1926. Two of these succeeded non-member state banks, and one was the conversion of a state member bank. The membership of five banks (two national and three state) was terminated during the year, leaving total membership of 143 on December 31, 1926.

At the end of the year the branch had three officers and sixty employes, the same number as on December 31, 1925.