

Economic Developments

The year was one of transition for the economy of the Southwest. In this region, as in the nation, there was a "powering down" from the overly expansive inflationary growth of 1968 and 1969. As overall demand weakened, growth in output slowed. And with demand pressure on resources easing, some slack developed in the use of resources and growth in income and employment moderated.

National economic and financial developments were especially important to the region's performance. As restrictive monetary and fiscal policies took firmer hold in late 1969 and early 1970, the dampening effect on the Southwest became readily apparent.

Spending by consumers, businessmen, and others was increasingly inhibited by the constraint of tight money. And as the economy slowed, plans for future spending were subject to further revision. In addition, the Southwest felt the effects of substantial cuts in federal spending, especially outlays for defense and defense-related purposes.

The adjustments of 1970 created painful and somewhat difficult problems for the Southwest. The region, nevertheless, fared unusually well in transition — compared, certainly, with most other regions of the country. Hardest hit were regions with heavy concentrations of industries producing durable goods, especially consumer durables and defense-related items. But this type of manufacturing is less important in the Southwest than in most other regions. A sharp increase in production of crude petroleum in the second half of the year, substantial buoyancy in construction activity, and moderate gains in agricultural production also served to cushion the region's economic adjustment.

The nation's transition to a slower but sustainable level of economic activity had still not been accomplished at year-end. The most notable example, of course, was the persistence of

inflation throughout the year. But there were encouraging signs that a letup had begun. And although total real output continued well below its full potential and unemployment remained fairly high, there were hopes that this moderate pause in expansion had laid the foundation for more stable, less inflationary growth in the year ahead.

National Developments

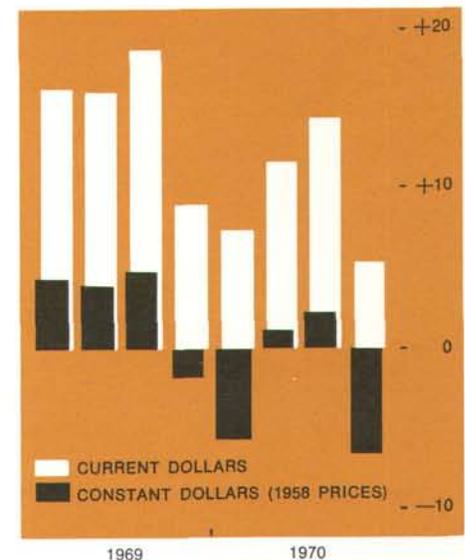
Economic. Growth in the nation's total spending for goods and services slowed significantly in 1970, increasing only about \$45 billion compared with \$66 billion in 1969. Moreover, all the 1970 rise in gross national product was accounted for by price increases. Real output of goods and services actually fell 0.4 percent, marking the first yearly decline in real GNP in more than a decade.

The sluggish pace of economic activity was evident in most major components of GNP. The rate of

GNP CHANGES

(Seasonally Adjusted Annual Rates)

Billion Dollars



SOURCE: U.S. Department of Commerce

growth in personal income declined to 7.0 percent from 8.7 percent in 1969, as layoffs and shorter workweeks cut deeply into the incomes of many people. A substantial increase in Social Security benefits, a 6-percent pay raise to federal employees, and substantial gains in wages and salaries of many private workers provided substantial support to personal income, however, and with the removal of the 10-percent surtax, disposable income actually increased faster than in 1969.

But while consumers had more income to spend, the rate of growth in personal consumption expenditures slowed to 6.8 percent from 7.8 percent the year before. Taking an increasingly more pessimistic view of the economy and their own financial positions, consumers sharply increased their rate of savings.

Consumption of durable goods was especially weak, declining 0.7 percent in current dollars and more than 6 percent in constant dollars. This weakness reflected both the propensity for consumers to postpone purchases of durable items in periods of economic uncertainty and the effects of a prolonged strike on auto sales.

Businesses also slowed their spending as a sharp drop in corporate profits, sluggish sales, and mounting excess capacity caused many companies to progressively trim their outlays for new plant and equipment. After increasing a substantial 12 percent in 1969, business fixed investment expenditures increased only 3.3 percent in 1970. In real terms, these expenditures declined about 3 percent.

With demand weakening—especially for durable goods — businesses also reduced their rate of inventory accumulation in an effort to hold stocks in line with the sluggish growth in sales. Businesses increased their

inventories about \$3.6 billion during the year. This was well below the \$8.5 billion increase in 1969.

Residential housing began to recover as substantial funds became available for mortgage lending through deposit inflows to savings and loan associations and mutual savings banks. But total expenditures on residential construction still dropped about 7.5 percent for the year, after increasing 5.6 percent in 1969.

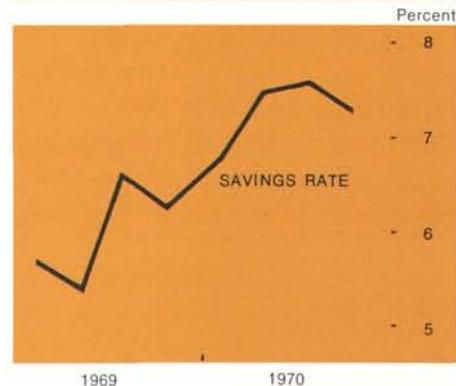
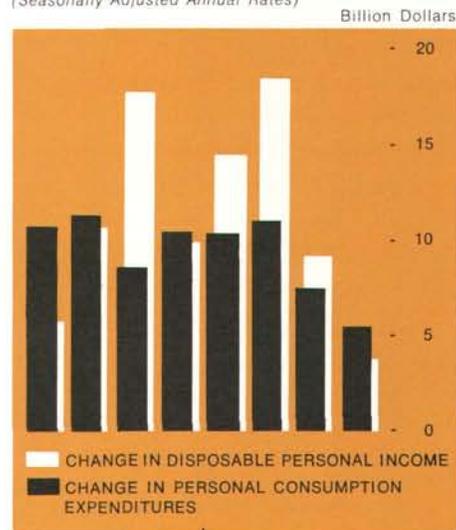
Government purchases also tapered off, rising only about 4 percent — the smallest increase in ten years. Expenditures by state and local governments rose 9 percent, only slightly less than the 10-percent increase in 1969. But federal purchases declined for the first time since 1960. Reflecting the military cutback in southeast Asia and a general reduction in the Armed Forces, outlays for defense were trimmed about 3 percent.

With output sagging, opportunities for employment deteriorated sharply and layoffs mounted. From 3.5 percent in December 1969, the unemployment rate soared to 6.2 percent in December 1970. During that time, the number of unemployed workers increased more than 2 million. About three-fifths of these had been laid off. Most of the others were women, teen-agers, and ex-GI's who could not find jobs.

Despite the weakness in overall demand, prices continued to rise in 1970, and at disappointingly high rates.

INCOME, CONSUMPTION, AND SAVINGS United States

(Seasonally Adjusted Annual Rates)

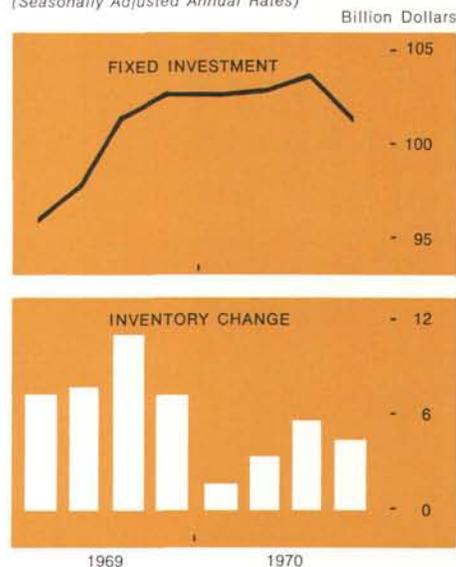


SOURCE: U.S. Department of Commerce

BUSINESS INVESTMENT

United States

(Seasonally Adjusted Annual Rates)



SOURCE: U.S. Department of Commerce

After the first quarter, however, there was some moderation in the rise of both wholesale and consumer prices. The slowing in wholesale prices centered in foods and in crude and partially processed materials. Prices of highly fabricated commodities rose unabated. The improvement at the consumer level mainly reflected greater stability in prices of food and mortgage financing.

Financial. Early in the year, monetary policy was relaxed somewhat to provide stimulus to the economy. As the year progressed, policy makers became increasingly concerned about the rising unemployment rate. Nevertheless, they avoided any sudden shift in policy that might rekindle inflationary fires and undo the progress made against inflation in 1969. Consequently, monetary policy was cautiously transformed from one of restraint to one of moderate expansion.

The influence of the easing in policy was felt most immediately in short-term interest rates. These rates began to drift downward early in the year and, despite short periods of backing up, continued to trend downward for the rest of the year. The decline in interest rates was aided by the slower pace of economic activity and, later in the year, by a lessening of inflationary expectations.

There was also a concerted effort, particularly by corporations, to lengthen the maturity structure of debts. This led to substantial corporate financing in long-term capital markets, with some of the proceeds being used to repay short-term debt.

Heavy financing in capital markets kept long-term rates from falling until about midyear. At that point, to avert a widespread liquidity crisis that might have followed the bankruptcy of the nation's largest railroad, the Federal Reserve suspended Regulation Q interest rate ceilings on large negotiable CD's maturing in less than three months. This action buoyed investor optimism, and long-term interest rates began to edge downward.

Also aiding the downward movement of both long-term and short-term rates in the second half of the year were four reductions in the prime rate (from 8 percent to 6¾ percent) and two reductions in the discount rate (from 6 percent to 5½ percent).

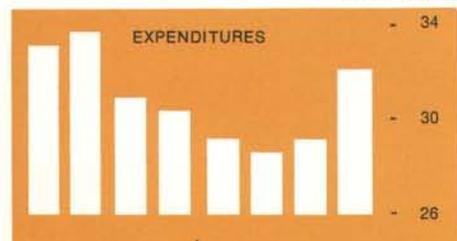
The decline in market rates of interest — in conjunction with a January increase in maximum interest rates that most types of depository financial institutions could pay — made yields on the deposits and shares of financial institutions more attractive relative to yields on market instruments. As a result of this and the rise in the personal savings rate, inflows of funds to these institutions, particularly banks, began to improve early in the year. It was not until after

RESIDENTIAL CONSTRUCTION

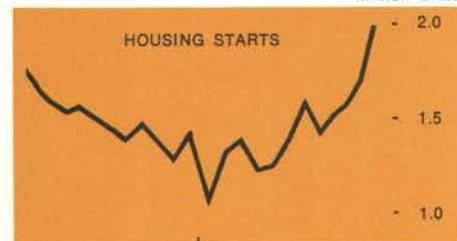
United States

(Seasonally Adjusted Annual Rates)

Billion Dollars



Million Units



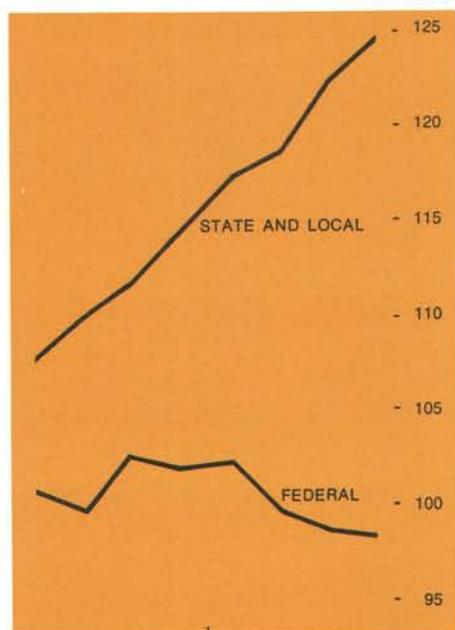
1969 1970

SOURCE: U.S. Department of Commerce

GOVERNMENT PURCHASES

(Seasonally Adjusted Annual Rates)

Billion Dollars



1969 1970

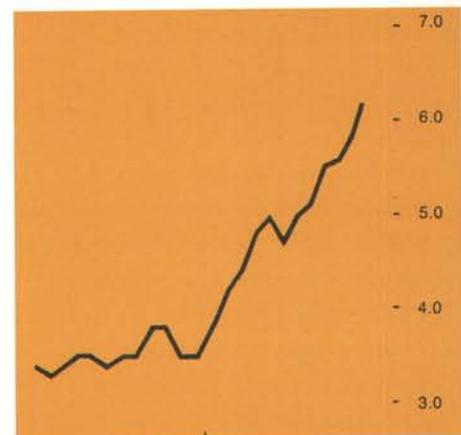
SOURCE: U.S. Department of Commerce

UNEMPLOYMENT RATE

United States

(Seasonally Adjusted)

Percent of Civilian Labor Force



1969 1970

SOURCE: U.S. Department of Labor

midyear, however, when the Board of Governors suspended interest rate ceilings on short-term CD's, that inflows of funds to banks began to pick up substantially.

Most large banks made immediate use of CD's as a source of funds. The amount of CD's outstanding at these banks doubled in the second half of the year, reaching more than \$26 billion by year-end. And with access to the CD market reestablished, banks began to reduce their borrowings from nondeposit sources, particularly from the Eurodollar and commercial paper markets.

This move away from the use of nondeposit sources of funds — and toward increased use of deposit sources — was aided in late summer by two changes in Regulation D. In August, the Board of Governors imposed a 5-percent reserve requirement on funds obtained by member banks through the issuance of commercial paper by their affiliates. At the same time, the Board reduced from 6 percent to 5 percent the reserves that member banks must hold against time deposits in excess of \$5 million.

Later in the year, however, the Board raised from 10 percent to 20 percent the reserves required from member banks against Eurodollar borrowings that exceed amounts that banks are allowed as a reserve-free base. This action was taken to slow

repayment of Eurodollar borrowings. The rapid repayment of such borrowing had been aggravating the nation's balance-of-payments deficit.

With the substantial increase in flows of funds to banks after midyear, banks began relaxing their lending terms and conditions. Banks had been tightening up on such terms and conditions in 1969 and early 1970. They had raised lending rates, compensating balance requirements, and standards of credit worthiness. They had also reduced the maturity of term loans and conducted stricter reviews of their customers' credit lines, especially those customers new to the bank or from out of town.

As the inflow of funds was renewed in the second half, however, these trends began to reverse and bank credit grew more rapidly. Credit increased at an annual rate of slightly more than 10 percent in the second half of 1970, compared with about 4.5 percent in the first half.

Despite more favorable lending terms and conditions at banks, loan demand remained weak. Moreover, the liquidity positions of banks had been seriously weakened during the long period of monetary restraint. In light of these circumstances, banks used more than 70 percent of their inflow of funds after midyear to purchase securities. These included short-term securities acquired to rebuild liquidity positions and long-term securities acquired to take advantage of the relatively high yields available.

Banks, however, were not the only financial institutions to experience an increase in the availability of funds in the second half of 1970. Flows of funds into savings and loan associations and mutual savings banks also increased in response to falling money market rates and the high rate of personal savings.

Consequently, these institutions were able to channel more funds into the mortgage market, easing pressures there somewhat.

Equity markets, too, shared in the revival. For example, the Dow Jones industrial price index rose fairly steadily from the low of 631 reached in the spring. By year-end, it had advanced to about 840, more than offsetting the decline in the early part of the year.

PRICE CHANGES

United States

(Annual Rates of Increase)



SOURCE: U.S. Department of Labor

Regional Developments

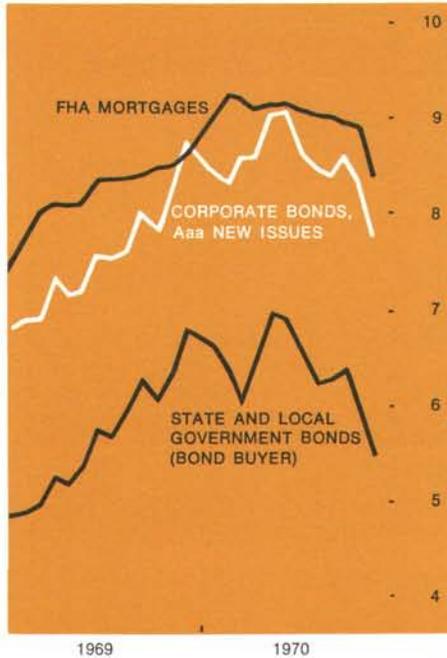
Economic. Growth in the economy of the Southwest slowed in 1970 as businessmen and consumers revised their spending plans downward in response to tight credit conditions and uncertain prospects for the future. Growth in new plant construction, for example, slowed markedly as many companies — faced with sluggish sales and dwindling profits — postponed their plans for expansion. And growth in cattle feeding — an industry that had added significantly to the region's overall production in recent years — tapered off substantially as the high cost of feeders and capital checked the spread of feedlots.

Still, when compared with the nation as a whole, the Southwest fared reasonably well, mainly because the industries exhibiting the greatest weakness nationally play a less important role in the economy of the Southwest. Manufacturers of durable goods, especially consumer durables and defense-related items, were particularly hard hit by the slowdown. But where such goods account for almost half the nation's total industrial production, they account for less than a fourth of the industrial output in the Southwest.

Moreover, in the second half of the year, production in the Southwest, especially in Texas and Louisiana, was spurred by a sharp increase in the production of crude oil. A shortage of tankers to transport foreign oil increased the prices of petroleum imports and stimulated demand for domestic crude. In response to these

CAPITAL MARKET RATES

Percent Per Annum

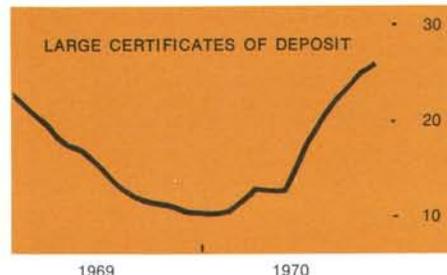
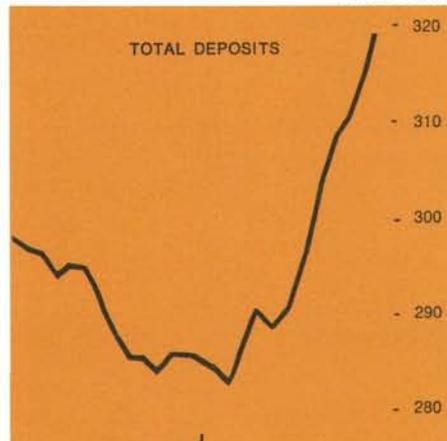


SOURCE: Board of Governors, Federal Reserve System

MEMBER BANK DEPOSITS

United States

Billion Dollars



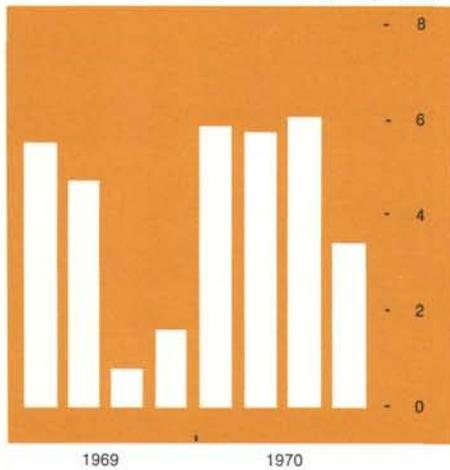
SOURCE: Board of Governors, Federal Reserve System

MONEY STOCK CHANGES

United States

(Annual Rate of Increase)

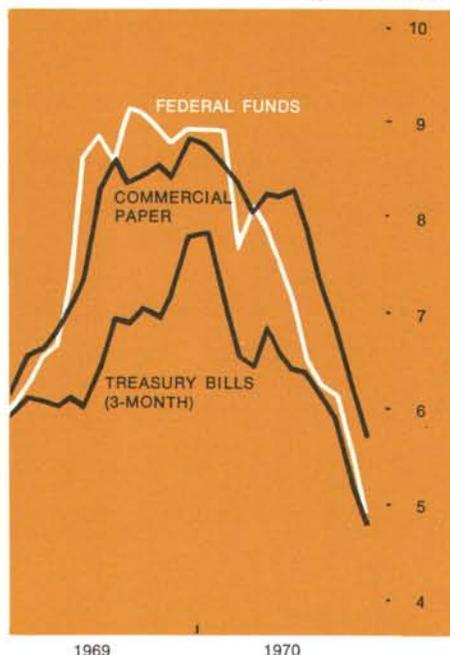
Percent Per Annum



SOURCE: Board of Governors, Federal Reserve System

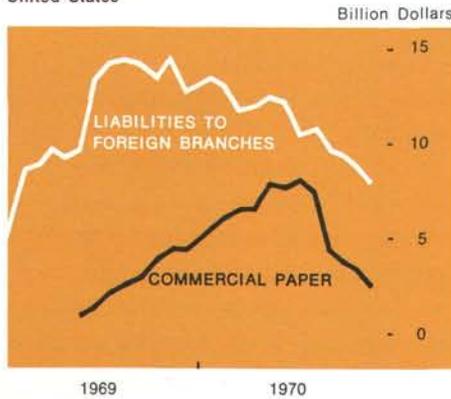
MONEY MARKET RATES

Percent Per Annum



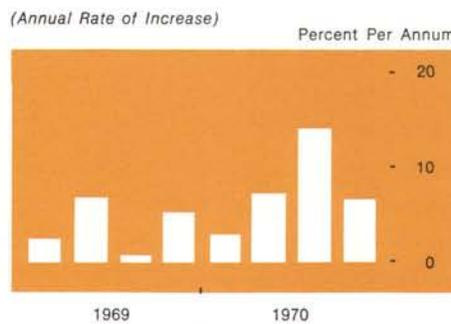
SOURCE: Board of Governors, Federal Reserve System

NONDEPOSIT FUNDS AT MEMBER BANKS
United States



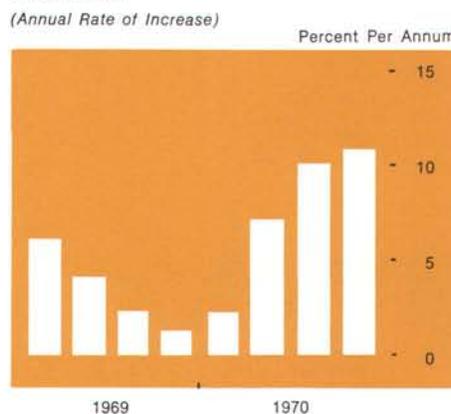
SOURCE: Board of Governors, Federal Reserve System

COMMERCIAL BANK CREDIT CHANGES
United States



SOURCE: Board of Governors, Federal Reserve System

SAVINGS FLOWS TO SAVINGS AND LOAN ASSOCIATIONS AND MUTUAL SAVINGS BANKS
United States



SOURCE: Board of Governors, Federal Reserve System

developments, agencies regulating oil production in Texas and Louisiana pushed oil allowables in those states to record highs.

The result was a rise in the region's industrial production in the fall — a rise that stood in sharp contrast to the sudden drop in national production brought on by a strike at a major automobile manufacturer. Although the auto strike had some impact on industrial output in the Southwest, the strength in crude oil production more than offset the weakness in durable goods manufacturing.

For the year as a whole, industrial production in Texas rose about 3 percent. That was only slightly less than the 5-percent gain in 1969 and considerably better than the national average. Nationwide, production fell almost 3 percent.

Agriculture, another key sector in the region's economy, also contributed to its strength overall. With generally favorable weather, crop production rose about 1.4 percent, after dropping more than 12 percent in 1969.

Although production of winter wheat declined, there were increases in the output of cotton, rice, sorghum grain, and most minor crops.

Livestock production, which has been the major source of strength in regional agriculture for several years, continued to expand but at a somewhat slower rate. The decline in the rate of increase to 3.0 percent from 5.9 percent in 1969 mainly reflected the slowdown in growth of cattle feeding.

With production increasing, farmers and ranchers in the Southwest received higher gross incomes. Production costs rose roughly the same amount, however, holding net income to about the same level as in 1969.

Construction activity was also quite buoyant in the Southwest. The total value of construction contract awards rose nearly 14 percent. By contrast, the year-to-year increase in 1969 amounted to only 1.6 percent.

Nonbuilding construction was especially strong, rising more than 22 percent after a decline of 10.7 percent in 1969. Nonresidential construction increased about 11 percent, or slightly faster than in 1969. And even residential construction was stronger than a year before, increasing about 10 percent compared with a gain of 4.3 percent in 1969.

Apartment building provided most of the stimulus for residential construction, and reconstruction in the Corpus Christi area after Hurricane Celia boosted construction overall.

Although industrial output continued to expand, employment opportunities in the Southwest were fairly weak. Much of this weakness resulted from the gains in production being in capital-intensive industries. But part of it was due to companies trying to relieve some of the strong wage-cost pressures on profits by trimming payrolls.

Total nonfarm wage and salary employment peaked in February and declined steadily for the next four months, reaching a trough in June. Payroll employment began to edge back upward after midyear but at year-end was still well below the high reached during the previous winter. The greatest weaknesses were in defense-related industries, as layoffs occurred in both the aerospace and electronics industries.

As the demand for labor slackened, unemployment became a growing problem. Rising almost continuously throughout the year, the average rate of unemployment for the region reached 5.0 percent by year-end — 1.6 percentage points higher than a year earlier.

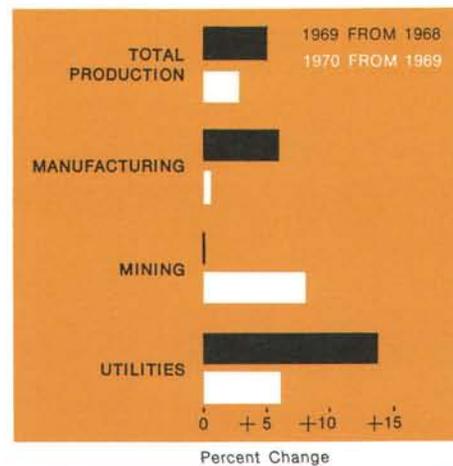
There were wide differences in unemployment rates within this five-state region, however. Both Texas and Arizona started the year with unemployment rates of 2.8 percent. By year-end, the rate had climbed to 4.5 percent in Texas and 4.6 percent in Arizona. The unemployment rate in Oklahoma stayed close to the five-state average throughout the year. But in Louisiana and New Mexico, the jobless rates were already about 5 percent at the start of the year and by December they had reached nearly 7 percent.

While most economic sectors showed greater strength in the Southwest than in the nation, this was not the case with retail trade. As employment opportunities deteriorated and

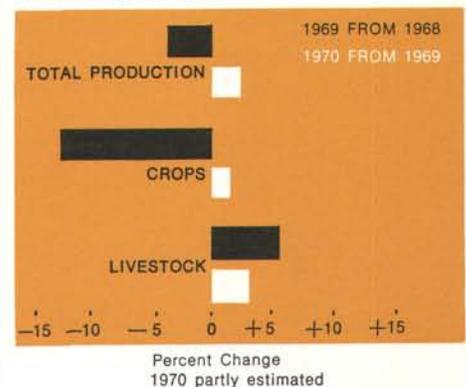
unemployment rose, retail purchases slowed. Department store sales showed an average gain of only 3 percent. Adjusted for price increases, the physical volume of goods sold in these stores probably declined.

Financial. Financial developments in the Southwest roughly paralleled those in the nation. The supply of lendable funds at banks was quite limited early in the year. Funds became more available as the year progressed, however, particularly after interest rate ceilings on short-term CD's were suspended at midyear. But with moderate loan demand, banks in the region followed those elsewhere in the nation in reducing their prime lending rates and in using a relatively large

INDUSTRIAL PRODUCTION IN TEXAS



AGRICULTURAL PRODUCTION
Five Southwestern States



SOURCES: U.S. Department of Agriculture
Federal Reserve Bank of Dallas

amount of their funds in rebuilding liquidity positions.

Part of the decline in deposits that plagued banks early in the year resulted from the loss of time and savings deposits, particularly CD's. But as monetary policy eased and short-term interest rates declined somewhat in the spring, time deposits began to flow into regional banks. Country banks received most of the inflow at first. Because customers of country banks are often less sensitive to changes in interest rates than customers of city banks, the small decline in market rates was enough to allow country banks to attract some funds. But with many customers of city banks continuing to take advantage of the still relatively attractive yields available on market instruments, this decline in market rates was not enough to cause any perceptible inflow of funds to these banks.

After the midyear suspension in Regulation Q ceilings on short-term

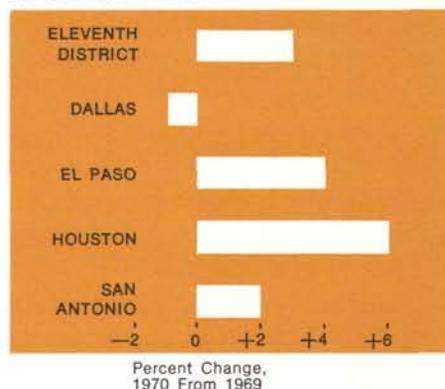
CD's, however, the increase in time and savings deposits at city banks far exceeded the increase at country banks. City banks moved quickly into money markets and obtained more than \$900 million in additional funds through the sale of CD's in the second half of the year.

Inflows of demand deposits also began to pick up later in the year in response to the easing of monetary policy and the decline in interest rates. But inflows of demand deposits, which are largely outside the control of banks, were somewhat larger at country banks than at city banks.

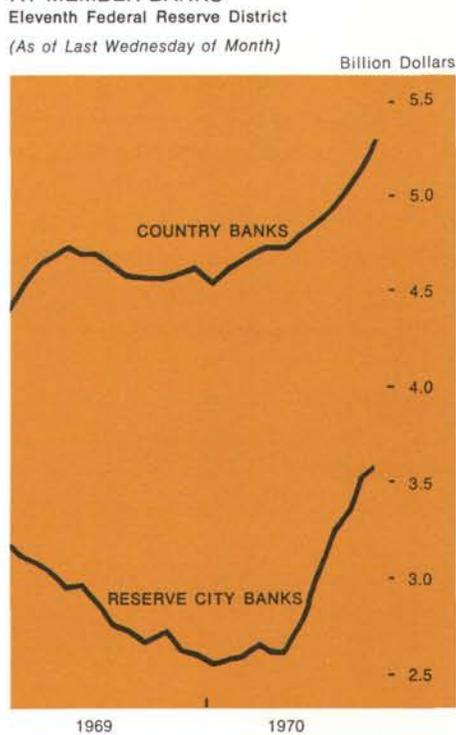
As total deposit inflows improved, banks became less reliant on nondeposit sources of funds. When deposits were scarce in 1969 and early 1970, banks in the Southwest sought and acquired substantial amounts of funds from nondeposit sources.

One of the main nondeposit sources of funds was the Eurodollar market.

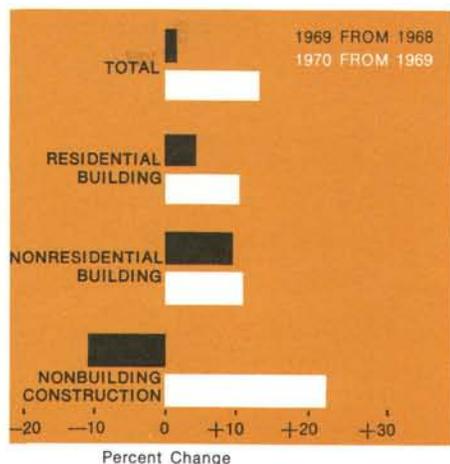
DEPARTMENT STORE SALES
Eleventh Federal Reserve District



TIME AND SAVINGS DEPOSITS AT MEMBER BANKS
Eleventh Federal Reserve District

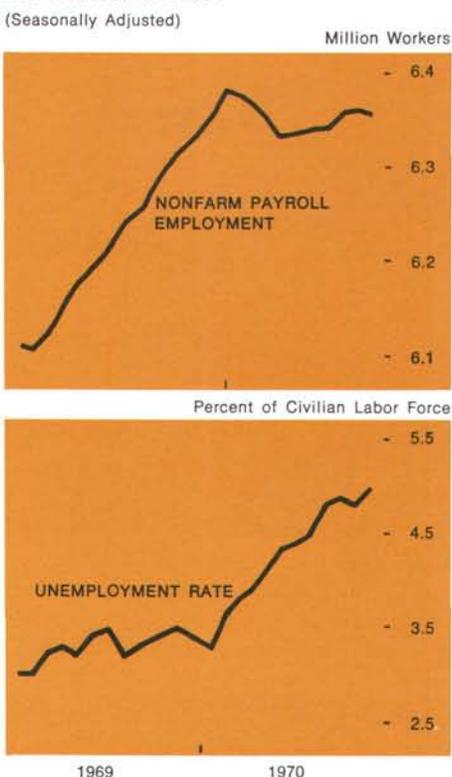


VALUE OF CONSTRUCTION CONTRACTS
Five Southwestern States



SOURCE: F. W. Dodge, McGraw-Hill, Inc.

EMPLOYMENT AND UNEMPLOYMENT
Five Southwestern States



SOURCES: State employment agencies
Federal Reserve Bank of Dallas

Before August 1969, no bank in the Eleventh Federal Reserve District had a foreign branch. But before the end of 1969, three branches had been opened overseas, and six more were opened in 1970. Borrowings by these banks in the Eurodollar market increased sharply in late 1969 and continued high until after mid-1970. But by year-end 1970, regional bank liabilities to foreign branches had fallen to about a fourth of the level reached in the early part of the year.

Banks in the District did not borrow foreign funds only through their branches, however. They borrowed an even larger volume of funds directly from foreign banks or through brokers. Funds obtained from such sources reached a high of about \$150 million in early 1970 but dwindled to a very low level by year-end.

The scarcity of deposit funds in 1969 and early 1970 also caused banks in the Southwest to increase their borrowings

from domestic sources. Borrowing at the Federal Reserve Bank's discount window reached about \$125 million early in the year, although such borrowing quickly dropped thereafter. No bank, in fact, borrowed at the window in December. Net bank borrowing in the Federal funds market was also large early in the year and then gradually subsided in the ensuing months.

In addition to these fairly conventional domestic sources, banks also made use of the commercial paper market, acquiring funds through their holding companies, affiliates, and subsidiaries. At mid-1969, when statistics on such borrowings were first gathered, there was only one bank in the District obtaining funds in this manner. But at one point in 1970, eight banks were borrowing fairly regularly in the commercial paper market. The issuance of bank-related commercial paper was heaviest, of course, in late 1969 and in early 1970. Borrowings reached about \$380 million in early spring, but they fell sharply after midyear, dropping to less than \$30 million.

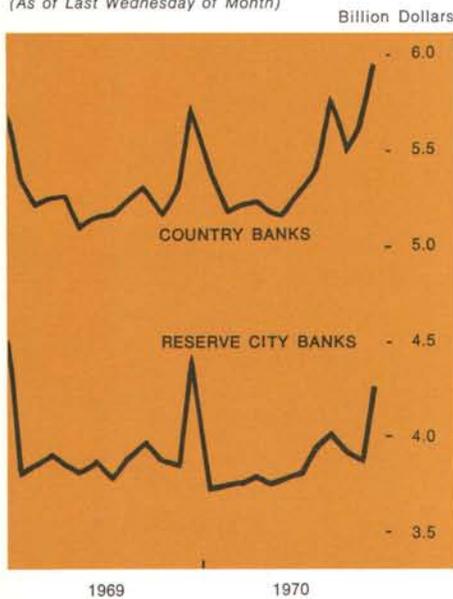
As might be expected, nearly all of the borrowing by banks in the Euro-dollar, commercial paper, or Federal funds markets or at the discount window was done by city banks. They were the banks hit hardest by deposit losses in 1969 and early 1970. But even with funds from these sources, the flow of total lendable funds to city banks was less than to country banks. When the CD market became accessible again at midyear, city banks actively made use of this source and the flow of lendable funds to these banks soon equaled that to country banks.

As a result, growth in credit was somewhat different at city and country banks during 1970. Total loans and investments gradually increased at

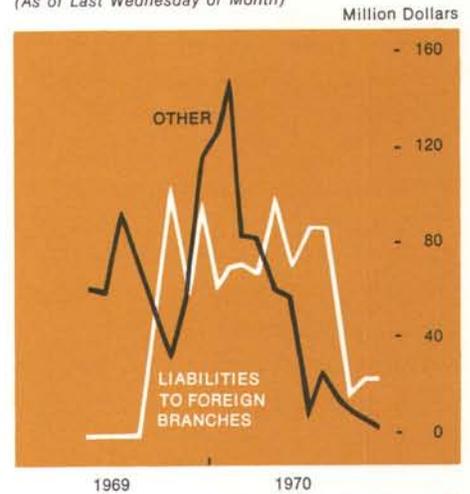
country banks throughout the first half of the year but remained almost unchanged at city banks — where funds were more limited. After midyear, however, credit at both types of banks began to rise rapidly. The rates of rise were about equal, reflecting heavy use of the CD market by city banks, on the one hand, and larger inflows of other deposits to country banks, on the other.

Despite differences in sources of funds, the allocation of funds among various kinds of assets was remarkably similar at both types of banks. Loan demands at both city and country banks were fairly subdued throughout most of the year, largely because of the reduced level of economic activity. Loans outstanding at both types of banks rose faster in the second half, however, particularly toward year-end. This improvement probably reflected largely the greater availability and lower cost of bank credit.

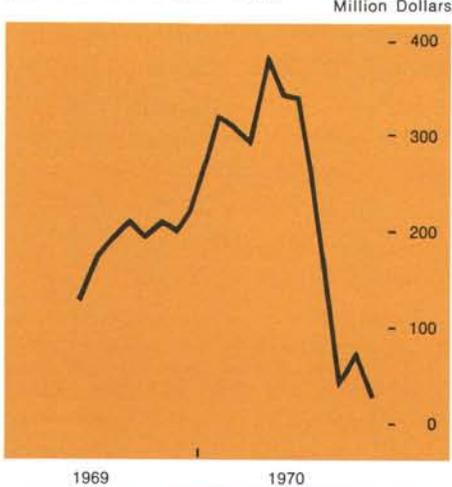
DEMAND DEPOSITS AT MEMBER BANKS
Eleventh Federal Reserve District
(As of Last Wednesday of Month)



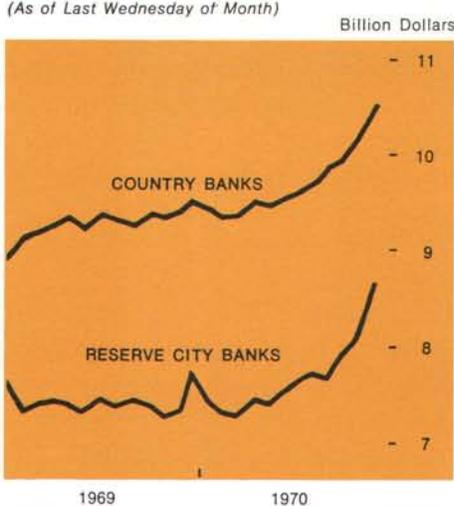
FOREIGN BORROWINGS BY MEMBER BANKS
Eleventh Federal Reserve District
(As of Last Wednesday of Month)



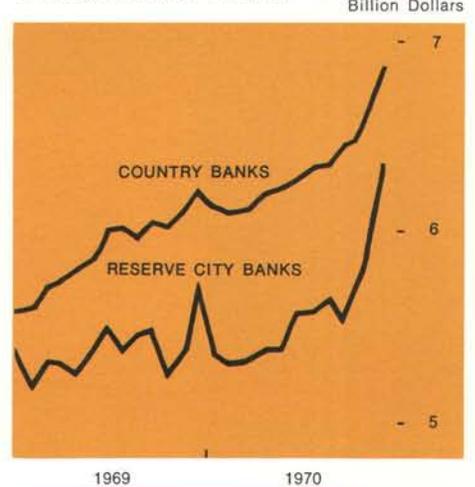
BANK-RELATED COMMERCIAL PAPER
 Eleventh Federal Reserve District Member Banks
 (As of Last Wednesday of Month)



LOANS AND INVESTMENTS AT MEMBER BANKS
 Eleventh Federal Reserve District
 (As of Last Wednesday of Month)



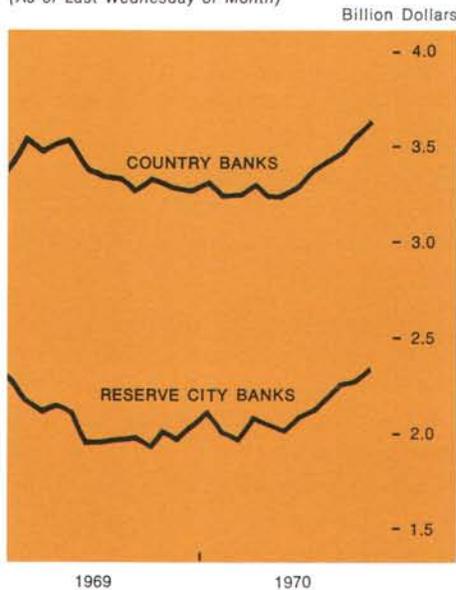
MEMBER BANK LOANS
 Eleventh Federal Reserve District
 (As of Last Wednesday of Month)



The inflow of funds to banks easily surpassed the volume needed to satisfy loan demand, however, giving city and country banks an opportunity to rebuild their liquidity positions — which had been substantially eroded in 1969 and early 1970. Although most of the reduction in security holdings during 1969 and early 1970 reflected liquidation of U.S. Government securities, banks rebuilt their holdings of these securities only moderately.

On balance, most of the buildup in bank holdings of securities in 1970 stemmed from net acquisitions of attractively priced municipal issues. Moreover, as liquidity positions improved, an increasing proportion of these acquisitions was in longer-term municipals — principally to take advantage of the relatively high yields available on these issues.

MEMBER BANK SECURITIES
 Eleventh Federal Reserve District
 (As of Last Wednesday of Month)



Reserve Bank Developments

Personnel

The ability of the Bank to attract and hold competent staff improved markedly last year. Persistent tightness in regional employment markets tended to ease throughout 1970, and with the change, employee separations slowed significantly. The rate of employee turnover for the year was 22 percent, or sharply below the level of 34 percent which held in 1969. Easier conditions in employment markets and reduced separations enabled the Bank to build its staff to the approximate level desired.

Total staff at the Bank's four offices, including all officers and permanent employees, was expanded nearly 9 percent last year. Most of the expansion was accounted for by increased security measures, expanded efforts in the research and data-processing functions, and further increases in the volume of checks, currency, food stamps, and Government securities processed by the Bank. At year-end, there were 1,113 officers and permanent employees at the four offices.

Structural adjustments and regular merit and promotional advances led to sharp increases in average salaries actually paid last year. Results of the Bank's annual salary survey conducted early in the year indicated that salaries paid for comparable jobs in Dallas, El Paso, Houston, and San Antonio had risen substantially since a similar survey a year earlier. Acting partly on the basis of these results, the Board of Directors authorized a special salary review that resulted in average salary increases of about 5 percent for most employees, effective June 1.

Increases in average salaries and expansion in the total staff gave rise to a substantial advance in the annual payroll rate of the Bank. By December 31, 1970, the annual salary rate had reached the level of \$8,062,000, up sharply from \$6,872,000 at the end of 1969.

Major improvements were also made in nonsalary benefits last year. The retirement program was changed to a noncontributory plan. Group life and survivors' insurance programs were revised. And health, disability, and death benefits were improved. Under the new insurance program, more protection was made available to employees during the years when family needs and responsibilities are greatest. Effective January 1, a thrift plan was established, with more than 72 percent of the staff electing to participate. And a travel-accident insurance program was established to provide protection for staff members traveling on Bank business.

For several years, the Bank has been committed to a policy of equal opportunity in all phases of employment and employee relations. In the past few years, however, positive action has been taken, resulting in substantial increases in minority employment at all four Bank offices. Last year, the level of minority employment rose 20 percent. As a result, minority employment accounted for 23 percent of the Bank's total employment at year-end, compared with 20 percent a year earlier. The dispersal of minorities among departments and into higher-level jobs also improved.



The Bank continues its participation in the National Alliance of Businessmen's program for the employment of hard-core unemployed and, in cooperation with public school systems, recruits several vocational office education students every year from high schools with large representations of minority groups. Other sources of minority applicants include the Urban League and the Opportunities Industrialization Center, a federally financed organization training the disadvantaged.

Efforts of employees at self-improvement were further encouraged during 1970 by enlargement of the Bank's educational and training program. Under the new program, which supplements American Institute of Banking offerings with college and technical courses and special supervisory and management courses, 71 employees attended courses financed wholly or in part by the Bank. On-the-job training is also offered as further encouragement to ambitious employees.

A broader feature of the Bank's work in personnel was a careful reworking of Bank organization. The Board of Directors and senior management collaborated in the development of a new organizational structure, the first phase of which was implemented at the start of 1971. Fundamental to this new structure are a more direct chain of command, a more limited span of control, and further downward delegation of responsibility. In effect, the Bank will be trying to streamline its organization to make sure that authority and responsibility are more directly placed.

There were two official retirements during 1970. Roy E. Bohne, senior vice president and cashier, retired after 32 years with the Bank, and Herman B. Hudson, assistant general auditor, retired after 45 years.

Communications — Data Processing

Two computer conversion programs were initiated last year to expand the Bank's communications and data-processing capabilities. One program involves conversion of the mode of communications, for certain internal purposes, from an automatic teletype-writer switching system to a new computer communications system. The other involves a major redesign of the computer system used for accounting and research purposes. By increasing the speed and efficiency of operations, these conversions will allow improvement in service to commercial banks and the general public.

The new communications system links all 36 offices of the Federal Reserve banks and branches, the Board of Governors, and the Treasury Department. The system is already carrying administrative messages for all offices. It is also handling transfers of funds and Treasury securities to all these offices except the Federal Reserve Bank of New York. And that bank is due to switch transfers of funds and securities to the new system during the first half of 1971.

The transmission of economic and other data is being tested, and indi-

cations are that sometime before mid-1971, data now being mailed or transmitted on regular low-speed terminals and lines can be switched to the new high-speed equipment. The changeover will be particularly helpful in speeding the transmission of statistical data to the Board of Governors. There is also the possibility that the high-speed terminals might eventually be used in check-clearing operations.

Based on projected increases in the traffic this system will need to carry, it is expected to meet all requirements for the handling of administrative messages, transfers of funds and Treasury securities, and data transmission for five years before a higher-capacity system is needed.

Changes in the accounting-research computer system will allow the Bank to switch the system shared by these two functions from a batch-oriented arrangement to an on-line management-information system using a combined accounting-research data bank. Working with an outside consultant, the Bank's own computer conversion committee has made considerable progress toward the changeover. A number of key computer programs were redesigned last year, and the basic configuration of the new system has begun to take shape.

The management-information system will be a totally integrated control system, with digital input and output characteristics providing random and sequential access to accounting, research, statistical, and other quantifiable data. The flexibility of the system will provide the Bank with the latest information from all departments for use in management decisions.



Much of the data generated within the Bank can be used for a number of purposes. The new data bank will further increase the usefulness of these data, however, by speeding reports to management. The integration of operational and research data, therefore, will provide the Bank with the nucleus of a practical management-information system complementing other planning and control systems.

The system will provide management a wide variety of operational, accounting, statistical, budgetary, and control reports, periodically or on demand. Eventually, data-collection terminals in the various departments of the Bank will allow data to be gathered directly from the originators. These terminals will also increase the speed of response to requests for information. A central computer will manipulate the data, and high-speed printers will produce statements, ledgers, and reports.



Research

The research function at the Reserve banks and Board of Governors has undergone rapid expansion in recent years. Because research is vital to the essential processes of central banking, continued emphasis and an increased commitment of resources are likely to be given to this activity in the future.

During the past two years, special attention has been given to the needs of the research function of this Bank. Beginning about mid-1968, firm plans were made to increase the economist and supporting staff of the Research Department, and vigorous recruiting efforts were launched later that year. The planned expansion of the professional staff was virtually completed last year. Additions made during 1969-70 raised the economist staff to a total of 14 persons at the end of last year, compared with only five persons at the end of 1968. Over the same two-year period, a net addition of nine other persons was made, comprised mainly of semiprofessional and supporting staff. Employment in the department reached a total of 50 persons on December 31, 1970.

A somewhat more formalized administrative structure for the department was initiated last year, and additional physical space was occupied. Both of these needs stemmed principally from expansion in the staff.

Administrative changes included the designation or creation of five functional groups within the department. These groups are comprised of personnel whose principal functions relate to administration, economic research, collection and processing of statistical data, publications and information, and the library. Three senior members of the economist staff were assigned certain administrative responsibilities involving direct supervision of research projects, and one of the three was designated to assist in the administration of departmental personnel and budget matters.

Space on the sixth floor of the building formerly occupied by the regional staff of the Federal Deposit Insurance Corporation was modified and refurbished early last year for occupancy by the research library. Upon relocation of the library to these new quarters, the vacated space on the seventh floor was adapted for use by the statistical and publications and information groups. New construction on the seventh floor also provided additional private and semiprivate office spaces for professional staff.

Three special projects drew rather heavily upon Research Department resources last year: redesign of the Bank's monthly *Business Review*, development of the Bank's new Annual Report, and the Bank-wide computer conversion program. All of these required substantial effort on the part of the professional and technical staff.

The first issue of the redesigned *Business Review* was published in January 1971. Significant changes included a new cover design, a new format for charts and tables, different typeface and columnar makeup, and a choice of new paper stock and ink color. Virtually all of the artistic and editorial competence required for the redesign of this publication was provided by departmental personnel.

Development of the Bank's new Annual Report was coordinated in the Research Department. Staff of the department worked closely with senior management and others of the Bank in developing overall content and format.

Special attention was given last year to the requirements of the Research Department for data-processing services. As a major user of statistical data, the department requires ready access to a wide range of current and historical information and the facility for applying rather sophisticated computational techniques to these data. Therefore, definition and implementation of research needs weighed rather heavily in the Bank's overall computer conversion effort.

Professional and technical staff of the department participated actively with others in the Bank in this conversion undertaking. The capability of the department to utilize the Bank's expanded data-processing facilities more extensively and effectively was greatly increased last year by addition to the research staff of a professional econometrician and two programmers.

A major portion of the department's total activities during 1970 was comprised of regularly recurring assignments. Economists researched and wrote the 15 articles published in the



Business Review. Three of these reflected studies that are of special interest to the region: industrial development on the Mexican border, growth of the plastics industry in the Southwest, and electric utilities in Texas.

The department developed a large number of research reports and memoranda for use by directors, senior management, and others in the Bank. Chart shows covering current economic and financial developments were prepared from time to time and presented on the occasion of meetings of the Board of Directors and seminars held for District commercial bankers. As usual, the department provided a large volume of regional statistical data to the Board of Governors and made special surveys and tabulations as requested by the Board.

With an expanded professional staff in the Research Department, efforts were made last year to bring economist talent to bear increasingly in two areas. First, with respect to bank merger and bank holding company cases, steps were taken to train and allocate additional economist personnel for this activity. With the Bank's total case load expected to increase, research efforts required in the assessment of market, competitive, and other factors are also expected to increase. Second, economists were encouraged last year to devote a greater measure of their total research attention and effort to the critically important problems involved in the formulation, execution, and appraisal of monetary policy.

It should also be noted that a number of departmental economists completed research last year the results of which were published, or are scheduled to be published, in professional economic journals.

The public service and information activities of the Research Department grew further last year. With an expanded staff of economists, the department handled a large number of

public speaking assignments involving contact with educational, civic, professional, governmental, business, and banking groups within the region. In the spring, the Bank sponsored its eighth Central Banking Seminar for 30 teachers of money and banking from District colleges and universities, and the departmental staff was heavily involved in the planning and execution of this continuing biennial program. The department serviced a large number of public requests for statistical data and other information pertaining to a wide range of economic and financial topics.

At the end of 1970, regular mailings of the *Business Review* totaled around 9,500 copies, a gain of about 12 percent from the year-earlier level. In addition to regular mailings, almost 10,400 copies of this publication were supplied in response to special requests. Regular mailings of the *Farm and Ranch Bulletin* rose to 6,800 copies at the year-end, up somewhat more than 1 percent for the year. The department continued to supply copies of its *Regional Economic Facts* (published in 1967) on request. Distribution of other publications included 900 copies of various topical booklets published by other Reserve banks and nearly 1,800 copies of *The Federal Reserve System — Purposes and Functions* published by the Board of Governors.

Regulations

A significant part of the Bank's regulations function was assigned to a new department early last year. Formation of the new Regulations Department reflects a substantial increase in the Bank's activity in this area of responsibility. There are two principal reasons for the increase. First, Congress has broadened the regulatory responsibilities of the Federal Reserve System significantly in recent years. Second, the business and financial community in the Southwest has become increasingly sophisticated.

A notable example of the additional responsibilities Congress has assigned to the Federal Reserve System is the 1968 Truth in Lending Act. This act directed the System to draft implementing regulations affecting almost every business extending consumer credit. More recently, Congress gave the System supervisory authority over the nation's some 1,200 one-bank holding companies.

Other recent enactments — to cite only a few — have expanded the System's margin requirements into over-the-counter securities trading, directed the System to write regulations regarding the issuance of unsolicited credit cards, and authorized the System to regulate member bank advertising relating to payment of interest on deposits. Each of these new delegations of authority has required a commitment of time and personnel at the Board of Governors and the Federal Reserve banks.

As business and financial activity has become more sophisticated in the Southwest, the Bank has been brought into fields of regulation that had not

been a major concern in this part of the country before. Prior to August 1969, for example, no bank in the Eleventh District had any overseas branches. And before 1968, no bank in the District had investments in overseas banks or any other direct investment in international banking. Since then, banks in the District have opened nine overseas branches, two have acquired stock in London banks, and four have invested in Edge Act corporations (federally chartered corporations organized to engage in foreign banking and finance). All these activities have come within the regulatory jurisdiction of the Federal Reserve System.

A similar situation has occurred regarding bank holding companies. The Federal Reserve System has had supervisory jurisdiction over multibank holding companies since 1956, but there was limited activity in this form of bank ownership in the Southwest until recently. At the close of 1969, for example, there were only four registered multibank holding companies headquartered in the Eleventh District. Three of these were in Texas. All three had been brought under the Bank Holding Company Act with the enactment of legislation, and none of the three had specifically applied to become bank holding companies. The fourth holding company, in New Mexico, was the result of a 1969 application approved by the Board of Governors.

Last year, however, saw the filing of the first application to form a new multibank holding company in Texas and the first four applications to expand existing bank holding companies in the Eleventh District — three from New Mexico and one from Texas. The new bank holding company in Texas was approved by the Board of Governors on October 22, 1970, and went into operation on December 10. All four applications to acquire new banks were approved.

Concurrent with the growth of interest in multibank holding companies, the nationwide trend toward the formation of one-bank holding companies was also seen in the District. At the close of 1970, Congress enacted the Bank Holding Company Act Amendments of 1970, sometimes referred to as the one-bank holding company legislation. These amendments brought one-bank holding companies under the supervisory jurisdiction of the Federal Reserve System along with multibank holding companies. At that time, there were roughly 100 one-bank holding companies in the District.

Faced with existing and potential increases in regulatory activity, management of the Bank felt that a Regulations Department would offer two advantages. First, it would centralize much of the Bank's regulatory work in one group. Second, by allowing this group to concentrate on regulations, the Bank would be provided a higher level of expertise in this complex area.

Although new to the Bank, this arrangement is not a unique solution. At least two other Federal Reserve banks have taken the same general approach, forming regulations departments staffed by examination and legal personnel. To some extent, the Board of Governors has also taken the same approach in handling margin regulations and truth-in-lending matters.

The new department was charged initially with the administration of seven Federal Reserve regulations — G, T, and U (margin requirements), K and M (international banking activities), Q (interest on deposits), and Z (truth in lending). Near the end of the year, an eighth regulation, Y (bank holding companies), was added.

The department's day-to-day activities are varied. One of its functions is the processing — in close cooperation with the staff of the Board of Governors — of various types of applications that must be made under Federal Reserve regulations. These include applications to become a holding company and for an existing bank holding company to acquire additional subsidiaries. Also, various applications in international banking must be processed, such as applications for a member bank to establish an overseas branch or purchase the stock of a foreign bank.

A typical application involves preliminary conferences with the applicant; consideration of banking, competitive, financial, and other factors (a task calling for close work with the Examination, Legal, and Research departments); and the preparation of a full report and recommendation to the Board of Governors.

The eight regulations administered through the department impose a number of reporting and registration requirements on banks and other firms. Under Regulation G, for instance, lenders of security credit other than banks and broker-dealers must register with the Board of Governors and file periodic reports. Bank holding companies must also file annual reports, which the new department reviews to determine the company's current financial position and whether its operations are still in accord with the law.

The department works closely with the Bank's Examination Department and the other two federal bank supervisory agencies — the Comptroller of the Currency and FDIC — in connection with violations of Federal Reserve regulations uncovered during ordinary bank examinations. Inspection programs are also required outside banking. The Regulations Department performs some of these inspections, and the Examination Department performs others. This year, for example, lenders of security credit were inspected for the first time for compliance with Regulation G. The District's two Edge Act corporations were also inspected for the first time.

One of the department's most important functions is simply to serve as the regional expert on the various regulations it supervises. Questions about these regulations arise frequently and are referred to the Regulations Department by banks, businessmen, and attorneys.

In addition, the department provides close liaison with regional offices of other agencies charged with the enforcement of Federal Reserve regulations, such as the New Orleans Regional Office of the Federal Trade Commission (truth in lending) and the Regional Administrator of National Banks (Regulations Q, U, and Z).

The department can often answer inquiries on the basis of previous Board of Governors' decisions. If a novel question arises, it can refer the matter to the Board in Washington for an opinion. In that case, the Regulations Department works closely with the staff of the Board of Governors to make sure the question is fully and fairly presented to the Board.

As with other of the Bank's activities, the regulations field is seldom static. Almost every session of Congress changes the regulatory responsibilities of the Federal Reserve System — sometimes radically. As the nation's regulatory structure becomes more complex — and experience suggests this is the long-term trend — the Federal Reserve System's regulatory role is very likely to become increasingly complex and diverse. Through the new Regulations Department, the Bank expects to keep pace with these developments and to meet its responsibilities in this area.



Protection

Protection of the Bank and its branches has been steadily strengthened in recent years. In line with a continuing review of its security needs and procedures, the Bank has enlarged, reorganized, and generally upgraded its guard force, modified entrances to buildings to prevent forced entry, installed exterior lighting, adopted new weapons, and initiated an intensive training program for guards.

Last year, installation of a new electronic security system was completed at the Dallas office and work on a similar system was started at the Houston Branch. Plans for such a system at the San Antonio Branch were almost completed, and similar plans for the El Paso Branch were started.

The nerve center of this system is a bulletproof control room from which the duty sergeant supervises the guard force and, if necessary, could take almost complete charge of the building's security. Working at a console of electronic displays and switches, he has continuous control of all entrances to the building and instant contact with areas where valuables are handled — including Bank trucks moving valuables on the streets.

Closed-circuit television, for example, gives the sergeant a clear view of all entrances to the building, and through remote-control devices at the console, he can close and lock outside doors. Also by television, he monitors security areas where tellers deal with commercial bank messengers and armored-truck drivers and locations where trucks are loaded and unloaded. And after hours, he monitors certain doors within the building.

Guards at posts throughout the Bank can make immediate contact with the control room by either telephone or tamperproof alarms. The control room can always reach guard posts, individually or collectively, through special phones.

Teller stations and other places where money and securities are handled are equipped with holdup alarms connected to the control room by electronically supervised circuits that cannot be broken without triggering the alarm. A similarly protected circuit connects the control room with an alarm in the Dallas police station, and special phones give the sergeant direct connections with the police and fire departments, the FBI, and Secret Service. Fire alarms are within a few feet of nearly every employee, and a panel in the control room indicates the location of any fire alarm set off in the building.



New night-watchman reporting stations are arranged so that guards touring the Bank after hours have to go into every area. These guards can contact the sergeant immediately by portable radio. A display panel in the control room reports a guard's progress as he makes his rounds from station to station according to a prearranged schedule that is changed often.

The system is built to continue functioning despite any outside interference. Not only is the control room bulletproof and the net of alarms tamperproof, but the system is equipped with emergency power sources that would allow the sergeant to continue his operations even if outside electrical services were interrupted.

In conjunction with its use of modern protection procedures and equipment, the Bank exercises strict control over visitors to the building. This program of visitor control is observed at all four offices. Inasmuch as officers and employees regularly wear identification badges when on Bank premises, visitors are also provided with a temporary identification badge when admitted to the building. Job applicants and certain other visitors are permitted access only to specified areas.

Branch Highlights

The three branches of the Federal Reserve Bank of Dallas, located in Houston, San Antonio, and El Paso, moved basically in tandem with the Head Office as System-wide projects in operations, research, and regulations impacted on their staff and official efforts. Meanwhile, local developments created special situations at each of the branches.

Increased work loads required additional staffing in various departments, and changes in commercial bank handling of transit items brought renewed efforts to meet check processing on a timely and reduced float basis. Not all these objectives were reached, especially in periods when transportation was interrupted, as in the case of San Antonio clearings of checks after Hurricane Celia struck the Corpus Christi area. Additional problems with routine mailings of checks brought new emphasis on courier deliveries, and there was some expansion of the courier service during 1970.

The branches were heavily involved in preparations for security construction. In the case of Houston, a contract was signed and construction started. Plans for similar work at San Antonio were developed, and beginning efforts were undertaken at El Paso.

Personnel turnover declined sharply at all offices of the Federal Reserve

Bank of Dallas, though at markedly differing rates. The Houston Branch had the most difficulty in reducing turnover since the labor situation in that large industrial city did not ease as quickly or to the same extent as in the other cities. All branches made significant progress in hiring minorities and exceeded the 1970 goal of at least a 10-percent increase in such employment. All offices made progress toward the proportionate employment

of minorities against the ratio of such minorities to total population.

Each branch continued to study its internal organization as a part of the whole reorganization analysis of District offices. While Head Office reorganization studies were completed and partially implemented by the end of the year, the branch studies will continue into 1971 for possible implementation this year. As the Bank's work shifts more toward research,



Board of Directors, El Paso Branch
Left to Right:
Allan B. Bowman, C. J. Kelly, Archie B. Scott,
Gordon W. Foster (Chairman for 1970),
Fredric W. Reed, Joseph M. Ray,
Sam D. Young, Jr., and Joe B. Sisler.

examination, regulation, and other staff functions, there will need to be continuing efforts to modernize the organizational structure of the Head Office and branches.

The emphasis on communications and computer conversion at the Dallas office was reflected at the branches with the installation of terminals for communications. Although the conversion of computer procedures and equipment focused on the Head Office

in 1970, analysis of branch terminal access to the main computer will be given greater attention in 1971. Also, basic studies of check processing by more sophisticated computers will be undertaken at all offices.

The three branches continued their participation in the setting of Bank-wide goals and targets. For each selected goal or target, the branches provided responses and generally accomplished the changes desired.



Board of Directors, Houston Branch
Left to Right:
A. G. McNeese, Jr., Henry B. Clay,
John E. Whitmore, Geo. T. Morse, Jr.
(Chairman for 1970 and 1971),
J. L. Cook, R. M. Buckley, W. G. Thornell,
and M. Steele Wright, Jr.



Board of Directors, San Antonio Branch
Left to Right:
Lloyd M. Knowlton, Ray M. Keck, Jr.,
Tom C. Frost, Jr., Francis B. May
(Chairman for 1970), Carl H. Moore,
W. A. Belcher, W. O. Roberson,
and James T. Denton, Jr.

Directors

Federal Reserve Bank of Dallas

Chas. F. Jones
*(Chairman and Federal Reserve Agent),
Vice Chairman of the Board,
Humble Oil & Refining Company,
Houston, Texas*

Philip G. Hoffman
*(Deputy Chairman), President,
University of Houston, Houston, Texas*

J. V. Kelly
*President, The Peoples National Bank
of Belton, Belton, Texas*

Murray Kyger
*Chairman of the Board,
The First National Bank of Fort Worth,
Fort Worth, Texas*

John Lawrence
*Chairman of the Board,
Dresser Industries, Inc., Dallas, Texas*

Carl D. Newton
*Chairman of the Board,
Fox-Stanley Photo Products, Inc.,
San Antonio, Texas*

A. W. Riter, Jr.
*President, The Peoples National Bank
of Tyler, Tyler, Texas*

Hugh F. Steen
*President, El Paso Natural Gas Company,
El Paso, Texas*

C. A. Tatum, Jr.
*President and Chief Executive Officer,
Texas Utilities Company, Dallas, Texas*

El Paso Branch

Joseph M. Ray
*(Chairman), H. Y. Benedict Professor of
Political Science, The University of Texas
at El Paso, El Paso, Texas*

Allan B. Bowman
*President and General Manager,
Banner Mining Company, Tucson, Arizona*

C. J. Kelly
*President, The First National Bank
of Midland, Midland, Texas*

Herbert M. Schwartz
*President, Popular Dry Goods Co., Inc.,
El Paso, Texas*

Archie B. Scott
*President, The Security State Bank
of Pecos, Texas*

Joe B. Sisler
*President, The Clovis National Bank,
Clovis, New Mexico*

Houston Branch

Geo. T. Morse, Jr.
*(Chairman), Vice Chairman of the Board
and Chief Operating Officer,
Peden Industries, Inc., Houston, Texas*

R. M. Buckley
*President and Director,
Eastex Incorporated, Silsbee, Texas*

Henry B. Clay
President, First Bank & Trust, Bryan, Texas

Kline McGee
*Chairman of the Board and Chief Executive
Officer, Southern National Bank of Houston,
Houston, Texas*

W. G. Thornell
*Chairman of the Board and President,
The First National Bank of Port Arthur,
Port Arthur, Texas*

John E. Whitmore
*Chairman of the Board,
Texas Commerce Bank National Association,
Houston, Texas*

M. Steele Wright, Jr.
*Chairman of the Board,
Texas Farm Products Company,
Nacogdoches, Texas*

San Antonio Branch

W. A. Belcher
*(Chairman), Veterinarian and Rancher,
Brackettville, Texas*

James T. Denton, Jr.
*Chairman of the Board and Chief Executive
Officer, Corpus Christi Bank and Trust,
Corpus Christi, Texas*

Tom C. Frost, Jr.
*President, The Frost National Bank
of San Antonio, San Antonio, Texas*

Ray M. Keck, Jr.
*President, Union National Bank of Laredo,
Laredo, Texas*

Irving A. Mathews
*President, Frost Bros., Inc.,
San Antonio, Texas*

Francis B. May
*Professor of Business Statistics and
Consulting Statistician to the Bureau of
Business Research, The University of Texas,
Austin, Texas*

W. O. Roberson
*President, First National Bank
at Brownsville, Brownsville, Texas*

Federal Advisory Council Member

John E. Gray
*Chairman of the Board and Chief Executive
Officer, First Security National Bank
of Beaumont, Beaumont, Texas*



Board of Directors,
Federal Reserve Bank of Dallas
Left to Right:
J. V. Kelly, A. W. Riter, Jr., Murray Kyger,
Philip G. Hoffman, Arthur F. Burns
(Chairman, Board of Governors),
Carl J. Thomsen (Chairman for 1970),
Chas. F. Jones (Deputy Chairman for 1970),
Carl D. Newton, Hugh F. Steen,
and C. A. Tatum, Jr.

Officers

Federal Reserve Bank of Dallas

P. E. Coldwell,
President

T. W. Plant,
First Vice President

Robert H. Boykin,
*Senior Vice President
and Secretary of the Board*

James L. Cauthen,
Senior Vice President and Controller

J. L. Cook,
Senior Vice President

Tony J. Salvaggio,
Senior Vice President and Cashier

Leon W. Cowan,
Vice President

Ralph T. Green,
Vice President

Carl H. Moore,
Vice President

James A. Parker,
Vice President

W. M. Pritchett,
Vice President

Fredric W. Reed,
Vice President

Thomas R. Sullivan,
Vice President

E. W. Vorlop, Jr.,
Vice President

Arthur H. Lang,
General Auditor

George F. Rudy,
General Counsel

George C. Cochran, III,
*Assistant Vice President, Assistant Counsel,
and Assistant Secretary of the Board*

Richard D. Ingram,
Assistant Vice President

Harry E. Robinson, Jr.,
Assistant Vice President

T. E. Spreng,
Assistant Vice President

E. A. Thaxton, Jr.,
Assistant Vice President

James O. Russell,
Chief Examiner

Sidney J. Alexander, Jr.,
Assistant Cashier

Carroll D. Blake,
Bank Relations Officer

Jesse D. Sanders,
Assistant Cashier

Robert Smith, III,
*Public Information Officer and
Assistant Secretary of the Board*

C. L. Vick,
Assistant Cashier

Robert A. Brown,
Assistant General Auditor

El Paso Branch

Fredric W. Reed,
Vice President in Charge

Forrest E. Coleman,
Cashier

Thomas H. Robertson,
Assistant Cashier

Houston Branch

J. L. Cook,
Senior Vice President in Charge

Rasco R. Story,
Cashier

J. Z. Rowe,
Assistant Vice President

John N. Ainsworth,
Assistant Cashier

R. J. Schoenhoff,
Assistant Cashier

San Antonio Branch

Carl H. Moore,
Vice President in Charge

Frederick J. Schmid,
Cashier

Thomas C. Cole,
Assistant Cashier

Robert W. Schultz,
Assistant Cashier

Volume of Operations

Federal Reserve Bank of Dallas
Head Office and Branches Combined

	Number of Pieces Handled ¹		Amount Handled	
	1970	1969	1970	1969
Discounts and advances	452	905	\$ 2,861,657,412	\$ 4,157,321,490
Currency received and counted	225,566,981	215,890,481	1,637,600,100	1,583,493,100
Coin received and counted ²	522,455,921	465,080,660	57,946,178	47,833,971
Checks handled:				
U.S. Government checks	39,335,538	35,692,703	11,403,777,595	11,941,019,564
Postal money orders	12,611,075	12,412,349	348,999,806	320,886,305
All other ³	448,174,773	420,288,521	185,117,568,750	140,684,720,248
Collection items handled:				
U.S. Government coupons paid	359,388	325,197	140,904,670	126,561,075
All other	757,422	718,234	295,057,995	280,091,107
Issues, redemptions, and exchanges				
of U.S. Government securities	11,485,780	11,831,772	14,984,476,388	15,147,789,720
Transfers of funds	447,665	404,830	629,512,772,594	471,632,911,806
Food stamps redeemed	46,134,152	11,982,934	70,077,516	16,138,917

¹ Packaged items handled as a single item are counted as one piece.

² Excludes coins handled in separating operation.

³ Exclusive of checks drawn on the F.R. Banks.

Statement of Condition

Federal Reserve Bank of Dallas

ASSETS	Dec. 31, 1970	Dec. 31, 1969
Gold certificate account	\$ 198,627,816	\$ 323,829,293
Special drawing rights certificate account	14,000,000	—
Federal Reserve notes of other Banks	40,393,552	28,808,750
Other cash	14,152,818	8,355,710
Discounts and advances	—	17,350,000
U.S. Government securities:		
Bills	1,176,026,000	957,783,000
Certificates	—	—
Notes	1,505,374,000	1,350,352,000
Bonds	133,176,000	150,402,000
Total U.S. Government securities	<u>2,814,576,000</u>	<u>2,458,537,000</u>
Total loans and securities	2,814,576,000	2,475,887,000
Cash items in process of collection	874,364,484	713,580,280
Bank premises	7,912,871	8,241,229
Other assets	39,082,005	130,812,358
TOTAL ASSETS	<u><u>\$4,003,109,546</u></u>	<u><u>\$3,689,514,620</u></u>

LIABILITIES

Federal Reserve notes in actual circulation	\$1,945,564,401	\$1,746,649,895
Deposits:		
Member bank — reserve accounts	1,257,292,413	1,222,308,848
U.S. Treasurer — general account	56,943,345	81,124,900
Foreign	7,000,000	7,410,000
Other	14,676,966	13,485,313
Total deposits	<u>1,335,912,724</u>	<u>1,324,329,061</u>
Deferred availability cash items	617,487,202	519,426,806
Other liabilities	25,855,519	24,409,458
TOTAL LIABILITIES	<u><u>3,924,819,846</u></u>	<u><u>3,614,815,220</u></u>

CAPITAL ACCOUNTS

Capital paid in	39,144,850	37,349,700
Surplus	39,144,850	37,349,700
TOTAL CAPITAL ACCOUNTS	<u>78,289,700</u>	<u>74,699,400</u>
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	<u><u>\$4,003,109,546</u></u>	<u><u>\$3,689,514,620</u></u>

Earnings and Expenses

Federal Reserve Bank of Dallas

CURRENT EARNINGS	1970	1969
Discounts and advances	\$ 2,263,362	\$ 3,116,739
U.S. Government securities	163,444,145	134,495,990
Foreign currencies	2,732,476	6,941,538
All other	57,764	70,455
TOTAL CURRENT EARNINGS	<u>168,497,747</u>	<u>144,624,722</u>
CURRENT EXPENSES		
Current operating expenses	15,630,521	13,322,637
Assessment for expenses of Board of Governors	1,186,300	852,600
Federal Reserve currency:		
Original cost, including shipping charges	1,138,809	1,193,511
Cost of redemption, including shipping charges	26,771	20,685
Total	<u>17,982,401</u>	<u>15,389,433</u>
Less reimbursement for certain fiscal agency and other expenses	1,024,945	960,534
NET EXPENSES	<u>16,957,456</u>	<u>14,428,899</u>
PROFIT AND LOSS		
Current net earnings	151,540,291	130,195,823
Additions to current net earnings:		
Profit on sales of U.S. Government securities (net)	363,538	—
All other	213,433	342,921
Total additions	<u>576,971</u>	<u>342,921</u>
Deductions from current net earnings:		
Loss on sales of U.S. Government securities (net)	—	255,237
All other	27,496	4,304
Total deductions	<u>27,496</u>	<u>259,541</u>
Net additions	549,475	83,380
Net earnings before dividends and payments to U.S. Treasury	152,089,766	130,279,203
Dividends paid	2,304,631	2,205,326
Payments to U.S. Treasury (interest on F.R. notes)	147,989,985	126,489,927
Transferred to surplus	1,795,150	1,583,950
Surplus, January 1	37,349,700	35,765,750
Surplus, December 31	<u>\$ 39,144,850</u>	<u>\$ 37,349,700</u>