

***A HISTORY OF THE FEDERAL RESERVE BANK OF DALLAS***

***1914-1960***

***By Herman. W. Kilman***

***VOLUME I***

***October 1961***



Figure 1 – Head Office Building

Head Office Building, Federal Reserve Bank of Dallas. View shows the front of the old building, after remodeling, and new addition at the rear. Enlargement and remodeling completed after fall of 1960.

## PREFACE

It has been the purpose of this review to trace the history of the Federal Reserve Bank of Dallas from its formative years to the present day [1960]. In doing that, an effort was made to picture the part the bank has played in the development of banking in the Eleventh Federal Reserve District. Beginning in 1914, the story covers a period of approximately 46 years. During that period, there have been many developments, including World War I, the depression of the early Twenties, the prosperity of the late Twenties, the great depression of the early Thirties, and World War II, all of which affected the bank in one way or another. I have endeavored to tell about some of the people who have worked at the Federal Reserve Bank and to give an insight into their personalities and characteristics.

Someone has said that an institution is the lengthened shadow of one man. This is not true in the case of the Federal Reserve Bank of Dallas. The institution is greater than any one man. It is true, however that three men who helped shape the bank's destiny for the first 39 years of its existence have had a great influence on its history. These three men were "Buck" McKinney, Lynn Talley, and Randle Gilbert. Each served as the bank's chief executive officer for many years, and each laid such a firm foundation that the institution continued strong and great under the leadership of the man who succeeded him.

The principal sources for the assembled material include the minutes of meetings of the Directors and of the Executive Committee, back issues of The Texas Bankers Record, files of The Dallas Morning News, circulars and bulletins of the Federal Reserve Bank, and correspondence files of former Federal Reserve Agents, Governors, and Presidents. Descriptions of many of the happenings are based upon personal recollections and conversations with other "old-timers" in the bank's service.

Many people have assisted me in this undertaking. I am grateful to all of them for their help. R. R. Gilbert read the first draft, and in his own handwriting made corrections and suggestions in his characteristic way. W. D. Gentry often talked about past happenings, and these reminiscences have provided the basis for some of the human-interest stories in the history. Sam Acheson of the Editorial Department of The Dallas Morning News made available to me a special file of correspondence relating to the

selection of Dallas as the location of the Federal Reserve Bank for the Eleventh District. William A. Philpott, Jr. of The Texas Bankers Record provided desk space in his office for a review of the past issues of the Record, which furnish much valuable information about the early history of the Federal Reserve Bank. Rex V. Lentz allowed me to read his unpublished manuscript on the history of banking in Dallas, which contains many interesting accounts of the establishment of the Federal Reserve Bank of Dallas. President Irons and other members of the special History Committee made many helpful suggestions. Miss Martha Lemmon, who was my secretary when this work was started several years ago, typed the first draft of the manuscript and assisted in the initial stages. My present secretary, Mrs. Madge Burton, has been very patient in writing the many revisions, and has been helpful in the preparation and arrangement of the completed book.

The narrative shows all changes in the official staff that occurred during the early years of the bank's existence and during the past few years. For the intervening years, such references are confined largely to changes in top management. However, Appendix A lists all changes in the official staff from the establishment of the bank until the end of 1960, regardless of whether they are listed in the narrative.

This is the story of a great institution. It has been difficult for me to treat the subject objectively because the Federal Reserve Bank of Dallas has been "part and parcel" of my life for such a long time. I have a sense of personal pride in the bank's great history and a feeling of gratitude that I am privileged to have been a member of its staff for almost 40 years.

A history such as this must be incomplete, for a complete history would be voluminous as to destroy its readability. It is possible that some of the items which have been omitted are just as important as those which have been included. I assume full responsibility for any errors and for any conclusions as to people and events.



Herman W. Kilman

October 1961

## Preface Update – 2022

Previous Federal Reserve Bank of Dallas officials have documented the bank's history in a linear year-by-year format by recounting minutes and presentations from the board of directors' meetings, the bank's public and internal announcements and communications, and other sources. Volume I covers the 1914-1960 period and was compiled by Herman W. Kilman, Assistant Cashier. Volume II covers 1961-1984 and was completed by Vice President William M. Pritchett and Assistant Vice President Theodore E. Spreng. In 2022, Bank Management and employees created Volume III covering 1985-2015.

In 2020-2021, bank management requested that I coordinate the review and preservation of the Volume I and II manuscripts. During the review, we were reminded how much culture and society had evolved over the previous 100 years. The reader may encounter policies, terminology, and other wording that may have been reflective of the culture at that time but are clearly not reflective of our organization's core values today, or societal expectations and standards. For example, Chapter X discusses the bank's policy to prohibit the employment of married women to make jobs available for men during the Great Depression, which was a common policy during that time period. In another example, an employee who was serving in the military during World War II used a slang term toward the enemy in a letter he wrote to the bank newsletter. For historical purposes, we allowed the original work to remain as-is other than minor editing. However, it is important to emphasize that our organization is completely committed to core values of integrity, respect, diversity, and inclusion.

Given the sensitivity of Federal Reserve Bank transactions, the original author redacted names of individuals, banks, companies, and cities (when referring to bank locations). The redactions mainly occur in the chapters discussing credit policies. The author frequently included correspondence between Federal Reserve Bank management and the management of commercial banks that needed to borrow from the Reserve Bank. The author included these letters to illustrate various concepts about Reserve Bank credit policies. Since the names of the commercial banks and bankers are not essential to the author's storytelling, we have elected to maintain those redactions. Please note that redactions are also included for similar reasons in the two appendices that discuss

industrial loans and V-loans. In addition, the Bank’s Legal department conducted a review and further redacted confidential supervisory information in 2021.

This version of Volume I was transcribed and reproduced in 2021 with word processing technology to increase its readability. The original manuscripts have been lost to history, and copies of the originals are of degraded quality as they are scanned copies of typewritten texts. Therefore, we have reproduced the volume, but we have done so in a way to maximize the historical nature of the original manuscripts and keep edits to a minimum. Volume I was written in 1961 so we avoided updating the writing style for the year 2022 and retained the authors’ original voices. Fortunately, the bank’s Archives team had high-quality scans of nearly every photograph in the original manuscripts. We utilized these photos in this current version; however, we did have to substitute similar, but not identical, photos in some isolated cases.

While reading Volume I, please note that the term “Governor,” used to denote the chief executive officer of the respective Federal Reserve Bank, was changed to “President” in 1936 under the passing of the Banking Act of 1935.

On a personal note, I share Mr. Kilman’s passion for the Federal Reserve, not only for the mission of the institution but for the leaders and staff who carry out that mission. I, like Mr. Kilman, served nearly 40 years, and I am also proud of the way Fed leaders have risen to tackle several critical financial crises, from the aftermath of 9-11 to the Great Recession of 2018 and even the COVID-19 global pandemic economic consequences.

Special acknowledgments go to the bank’s Archivists team - Carol Wattenbarger, Manager of Library Services, and Cristina Horak, Research Librarian and Archivist - for their untiring support throughout this reproduction effort. Special recognition also goes to Patricia Harris who did a fantastic job transcribing and reformatting the original manuscripts. If any historians or others are interested in reviewing the original manuscripts and supporting material, they may contact the bank’s Historical Library. Articles may be reprinted on the condition that the source is credited to the Federal Reserve Bank of Dallas.

Robert G. (“Bob”) Feil  
History Project Coordinator  
August 2022

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## **CHAPTER I**

### **THE BACKGROUND AND ORGANIZATION**

Following the money panic of 1907, the Congress of the United State appointed a National Monetary Commission, composed of Congressional leaders, to make a long-range study and to submit a plan for a general revision of the country's banking system. The Commission, which became known as the Aldrich Commission, under the chairmanship of Senator Nelson W. Aldrich of Rhode Island, continued its study for a number of years, and submitted its report to Congress on January 8, 1912. The report was referred to the Banking and Currency Committee of the House of Representatives, and a subcommittee headed by the Honorable Carter Glass of Virginia, began the work of drafting a new banking law. That committee, and successor committees from the House and Senate, considered various plans and ideas, and in September 1913, a "compromise" bill was submitted to Congress. After extended Congressional debate, that bill, which became known as the Federal Reserve Act, was finally passed, and approved by President Woodrow Wilson on December 23, 1913.

The purposes of the law were appropriately described in its forward, as follows:

An Act to provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

During the years of study and Congressional debate, it became evident that there were two schools of thought with respect to the proposed new banking system. One advocated a central bank, patterned somewhat on the order of the Bank of England; the other urged the establishment of a regional system, with a number of reserve banks located in various sections of the country. The principal supporters of the central bank idea were the northern and eastern interests; whereas, the southern and western groups generally advocated the regional system. The regional plan was strongly supported by President Wilson and the law, as finally enacted provided for "not less than eight nor more than twelve" Reserve Banks. Congressman Glass sponsored the regional plan. Mr. Glass (later U. S. Senator from Virginia) has been referred to as the "father" of the Federal Reserve System.

The law authorized the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, acting as “The Reserve Bank Organization Committee,” to designate the Federal Reserve cities and to divide the country into districts, “each district to contain only one of such Federal Reserve cities.” It was stipulated that the districts should be apportioned with due regard to the convenience and the customary course of business. The law provided further that a majority of the Organization Committee would constitute a quorum, with authority to act.

In the early part of 1914, the Organizational Committee started a nationwide survey to determine district boundaries and to decide upon the location of the Federal Reserve Banks. The Committee arranged to hold public hearings at leading cities in varied sections of the country in order to obtain information upon which to base selections. A total of 37<sup>1</sup> cities, through Clearing House Associations, Chambers of Commerce, and other representatives, asked to be designated as headquarters for a Federal Reserve Bank. It was announced that hearings for cities in the Southwestern area would be held at Austin, Texas, on February 9, 1914. At several Texas cities, including Dallas, Houston, and Fort Worth, committees were appointed to prepare and present data in support of their “claims” for a Reserve Bank location. Since the St. Louis and Kansas City hearings were held earlier than the one scheduled to be held in Austin, the Dallas group sent representatives to those hearings in order to get some “pointers” on the best way to present the arguments for Dallas. It was decided to prepare a brief to cover the Dallas case, to be supplemented by charts, maps, and photographs. The brief was in the form of an attractive printed booklet, bound in full Moroccan leather. The booklet was entitled “Texas and the Southwest, Book of Facts, An Argument for the Location of a Federal Reserve Bank at Dallas.”<sup>2</sup>

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<sup>1</sup> Page 210, Annual Report of Federal Reserve Board, 1915

<sup>2</sup> The files of the Federal Reserve Bank of Dallas do not contain a copy of this booklet. However, a copy is in the files of the Dallas Chamber of Commerce.

### Dallas Selected as Federal Reserve City

The Austin hearing was conducted by William G. McAdoo, Secretary of the Treasury, and David F. Houston, Secretary of Agriculture. At the beginning of the proceedings, the Organization Committee announced that it would make a careful study of all data upon returning to Washington, that it would “concede all oratory,” and “disregard local pride and prestige.” Under the procedure, witnesses were required to remain seated. (Secretary McAdoo stated that this would prevent long speeches, as very few people could make an oratorical address from a chair.)

The representatives from the various Texas cities first presented the case for Texas and then the cases for their own cities. The slogan had been “Texas first; the city after.” Their attitude was: “By all means, a Federal Reserve Bank should be located in Texas; we should like to have it in our city, of course; but if the committee determines that some other Texas city would be a more suitable location that will be all right with us.” The principal witness for Dallas was J. Howard Ardrey, Cashier of the City National Bank and spokesman for the Dallas Clearing House Association. Nathan Adams, then Cashier of the American Exchange National Bank, and other leading citizens spoke for the various business and commercial interests of the city. Mr. Ardrey apparently made a very good impression upon the Committee. After the hearings were over, Secretary McAdoo remarked privately: “Whoever prepared this brief did a damn good job and knew what the word ‘brief’ means.”<sup>3</sup> Inasmuch as it appeared that the Committee would give primary consideration to “the flow of trade,” the Dallas spokesman stressed the city’s banking resources, its superior communications, and its position as a jobbing, wholesale, and retail center. Even then, the rivalry between the cities of Dallas and Fort Worth was the subject of humorous remarks. One of the talking points of Fort Worth was its “13 rail connections.” Secretary McAdoo asked the Fort Worth spokesman if that city had a rail connection to Dallas, whereupon he replied, “Yes, but we seldom use it.” (The Texas Bankers Record, February 1914, page 7.)

The data submitted by the Dallas delegation included, among other things, an abstract of reports of National banks in the suggested territory. The territory suggested

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<sup>3</sup> Rex V. Lentz Manuscript

by Dallas, not only included the entire states of Texas, Oklahoma, and New Mexico, but also 96 percent of the state of Louisiana and 45 percent of the state of Arkansas.

The statistics with respect to the 943 National banks in the suggested territory showed aggregate individual deposits of approximately \$312,000,000, combined capital



Figure 2 – Signers of Organization Certificate. May 18, 1914

(On sidewalk) W. J. Bayersdorffer; (on first step, at right) T. C. Frost; (on first step by column) J. G. McNary; (on second step) R. H. Stewart\*; (on third step, at right) DeWitt C. Dunn; (at left) E. W. Kayser; (on fourth step, at right) Andrew Querbes; (at left) T. C. Dunn; (on fifth step, at right) Ned McIlhenny; (in middle) Jas. R. McKinney; (at left) B. A. McKinney. \*Mr. Stewart was President of the City National Bank of Dallas, where the signing ceremony took place.

of \$72,000,000, and combined surplus of \$34,000,000. The five National and five State banks in the City of Dallas had total deposits of \$31,899,635.14, combined capital of \$5,000,000, and combined surplus and profits of \$3,827,413.38. The population of the City of Dallas was 131,278.

The commercial statistics stressed the fact that Dallas led the world in the manufacture of cotton gin machinery, in the manufacture of harness and saddlery; and in the distribution of agricultural implements, second only to Kansas City. The claim was that Dallas led every other city in the Southwest in wholesale business, in factory output, in freight business, and in postal receipts. A photograph of the downtown section of Dallas showed as skyscrapers the Adolphus Hotel, the Southwestern Life Building, and the Busch Building. A two-story building was on the site which is now the location of the Magnolia Building. At that time, five electric interurban railroads with 156 daily trains radiated in seven different directions from Dallas. Nine truck line steam railroads radiated from Dallas.

Leaders in the efforts to obtain a Reserve Bank for Dallas realized that the Austin hearing did not close the case, and they continued to bring influence to bear upon the Organization Committee and upon other Government officials. They heard that Secretaries McAdoo and Houston were of the opinion that only eight Reserve Banks should be established. The Dallas people felt that if only eight banks were set up, the establishment of a Reserve Bank in Texas would be unlikely, as St. Louis, Kansas City, or New Orleans would probably be given preference. So, they presented vigorous arguments for twelve banks and at the same time kept Dallas' claims at the forefront. They worked through Col. E. M. House of Austin, unofficial adviser to President Woodrow Wilson, Tom Love of Dallas, who was likewise very close to the President, and Postmaster General Albert Sydney Burlison (a Texan), who was very influential with other Government officials. G. B. Dealey, The Dallas Morning News, Mark Goodwin, staff correspondent for the News at Washington, and some of their personal friends in the Nation's capital worked out a means of communication between Washington and Dallas. Goodwin or one of the other contacts would inform Mr. Dealey, by telegram, of developments at Washington, and instructions as to the next step to be taken or requests for additional information would go forward from the Dallas end of the line. To maintain confidentiality, secret code words were set up to avoid mentioning the names President Wilson, Secretary McAdoo, and Col. House.

During the time the Organization Committee was giving consideration to possible locations for the Reserve Banks, members of the Dallas group learned that Postmaster

General Burleson was planning a trip to Texas. It was decided that J. Howard Ardrey, representing the Dallas Clearing House Association, and Tom Finty, Jr., of The Dallas Morning News would go to St. Louis, ride back to Texas on the train with Mr. Burleson, and advance their reasons for the selection of Dallas as a Federal Reserve city. When they saw Mr. Burleson in the Union Station in St. Louis, they told him of their mission and invited him to come to their compartment on the train for a discussion of the matter. He appeared tired and told them that he would give them ten minutes. The conference started as soon as the train left the station. Mr. Burleson began asking questions, displayed great interest in the matter, and the conference did not break up until two o'clock the next morning. In retrospect, the Dallas leaders gave credit to Mr. Burleson for the ultimate selection of Dallas as a Federal Reserve city.

Another incident that is recalled as a visit to Washington by Tom Love. The Dallas people had asked him to go to Washington to promote the idea of twelve Reserve Banks. Mr. Love went straight to President Wilson, and his arguments apparently impressed the President favorably. A few days later, when Mr. Love happened to be in the office of Comptroller of the Currency, John Skelton Williams, he saw a map of the United State with twelve proposed Federal Reserve districts outlines; Dallas was shown as the location of the bank for the Eleventh District. The news of victory came on April 2, 1914, in the form of a telegram from Mr. Burleson to Mr. Dealey. With the news that Dallas had been selected, the other Texas cities sent their congratulations. These congratulatory messages were printed in the April 1914 issue of the Texas Bankers Record.

### Early Steps in Organization

After the Organization Committee established the Federal Reserve districts, it invited five banks in each district to be represented in the execution of a certificate of organization for its Reserve Bank. Each of the five banks selected to represent the Eleventh District named two of its officers to sign the certificate. The signing ceremony took place May 18, 1914, in the Directors' Room of the City National Bank of Dallas. The signers<sup>4</sup> of the certificate were:

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<sup>4</sup> Under the plan, the Certificate was to be signed by the President and the Cashier. In some cases, however, the President was unable to attend, and a vice president was appointed to take his place.

Jas. R. McKinney, Vice President, and B. A. McKinney, Cashier,  
Durant National Bank, Durant, Oklahoma

J. G. McNary, Vice President, and E. W. Kayser, Cashier,  
First National Bank, Durant, Oklahoma

T. C. Dunn, Vice President, and DeWitt C. Dunn, Cashier,  
Union National Bank, Houston, Texas

T. C. Frost, President, and Ned McIlhenny, Cashier,  
Frost National Bank, San Antonio, Texas

Andrew Querbes, President, and W. J. Bayersdorffer, Cashier,  
First National Bank, Shreveport, Louisiana

The Dallas Clearing House Association presented to each man a gold fountain pen to use in signing the certificate and to keep as a memento of the occasion. Following the signing ceremony, the Dallas Clearing House Association tendered a luncheon at the Adolphus Hotel which was attended by prominent bankers and business of the Southwest.

The Federal Reserve Act provides for nine Directors of each Reserve Bank, six of whom were elected by the member banks and three of whom were designated by the Federal Reserve Board. On May 30, 1914, a meeting was held in Dallas, attended by representatives of 526 member banks, when the following six men were nominated as Directors of the Federal Reserve Bank of Dallas:

Class A (representing member banks)

Oscar Wells, Vice President, First National Bank, Houston, Texas  
E. K. Smith, Vice President, Commercial National Bank, Shreveport,  
Louisiana  
B. A. McKinney, Cashier, Durant National Bank Durant, Oklahoma

Class B (representing commerce or agriculture)

Frank Kell, Capitalist, Wichita Falls, Texas  
Marion Sansom, Cattleman, Fort Worth, Texas  
J. J. Culbertson, Cottonseed Crusher, Paris, Texas

Subsequently, lists of these nominees and others who had been nominated by individual banks were mailed to all member banks, and when the ballots were counted, it

was announced that the six nominees named at the Dallas meeting had been elected. The Federal Reserve Board at Washington appointed the following Class C. Directors:

E. O. Tenison, Banker, Dallas, Texas  
W. F. McCaleb, Banker and Author, San Antonio, Texas  
Felix Martinez, Merchant and Cattleman, El Paso, Texas

Mr. Tenison was designated as Chairman of the Board of Directors and Federal Reserve Agent; and Mr. McCaleb was designated Deputy Chairman and Deputy Federal Reserve Agent. In accepting the appointment, Mr. Tenison stated that he had recently retired from active work after 36 years in the banking business, but that “the call to public service put up to me a responsibility which I felt I had no right to decline.” On January 13, 1913, Mr. Tenison had retired at 49 years of age, from the Presidency of the City National Bank of Dallas, where he had started as a messenger when a lad of 13.



Figure 3 – Original Board of Directors

(On first step, at right) Marion Sansom, Fort Worth; (at left) Frank Kell, Wichita Falls; (on third step, at right) E. O. Tenison, Dallas; (in middle) Felix Martinez, El Paso; (at left) Oscar Wells, Houston; (fifth step, at right) J. J. Culbertson, Paris; (in middle) E. K. Smith, Shreveport; (at left) B. A. McKinney, Durant, Director W. F. McCaleb was not present when this photograph was taken.

The first meeting of the Board of Directors of the Federal Reserve Bank of Dallas was held on October 16, 1914, in the Directors' Room of the City National Bank. One of



the directors, Oscar Wells, was elected by the other directors as Governor of the Bank. J. Howard Ardrey was elected a member of the Federal Advisory Council. Another item of business at the first meeting was the appointment of a committee to conduct an investigation as to possible quarters for the bank.

Under the procedure prescribed by the Federal Reserve Act, it was incumbent upon the Board of Directors to designate the terms of office for all Directors. At the first meeting, the terms of the Class A and Class B Directors were fixed as follows:

Class A:

Oscar Wells	1 year from January 1, 1915
B. A. McKinney	2 years from January 1, 1915
E. K. Smith	3 years from January 1, 1915

Class B:

Frank Kell	1 year from January 1, 1915
Marion Sansom	2 years from January 1, 1915
J. J. Culbertson	3 years from January 1, 1915

On October 20, 1914, representatives of the Reserve Banks met with the Federal Reserve Board in Washington for the purpose of setting the date for the opening of the Reserve Banks. The directors of the Federal Reserve Bank of Dallas advocated an early opening. The European War had broken out in July, and economic conditions in the United States were very unsatisfactory. This was especially the case in the agricultural regions of the county. Ocean shipping was tied up, and there was a congestion of wheat and cotton at the ports. Prices were low. It was the feeling of the directors of the Dallas bank that early openings of the Reserve Banks would tend to establish public confidence. The representatives of the other Reserve Banks felt the same way about the matter, and as an outgrowth of the Washington meeting, the Federal Reserve Board announced that all Reserve Banks would open for business on November 16, 1914.

The second meeting of the Board of Directors of the Dallas bank was held on October 29, 1914. At that time, bylaws were adopted. The original bylaws provided, in part, that the Executive Committee of the bank would be composed of the Governor, the Federal Reserve Agent, and one other director. At that meeting, it was voted to rent space in a building on Main Street, formerly occupied by a commercial bank (The Guaranty State Bank and Trust Company) to serve as temporary quarters for the Federal Reserve Bank

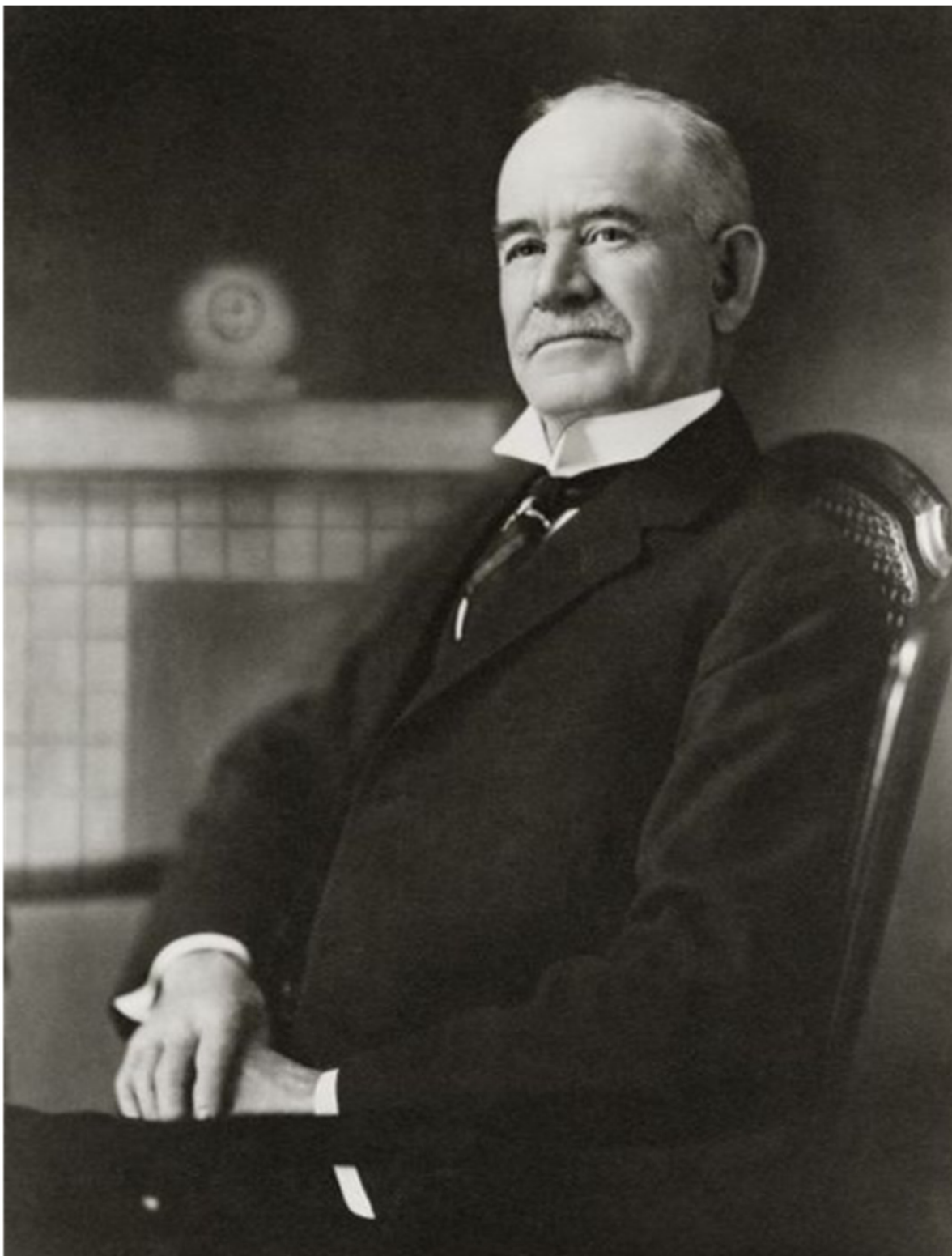


Figure 4 – E. O. Tenison  
First Federal Reserve Agent and Chairman of the Board. Served from opening of Bank on November 16, 1914, until resignation on January 6, 1916.

of Dallas. Charles C. Huff, a Dallas attorney, was appointed as Council for the bank. At that same meeting, the terms of office of the Class C Directors were fixed as follows:

W. F. McCaleb	1 year from January 1, 1915
Felix Martinez	2 years from January 1, 1915
E. O. Tenison	3 years from January 1, 1915

The third meeting of the Board of Directors was held on October 30, 1914. R. L. Van Zandt, National Bank Examiner, stationed in Fort Worth, was elected Vice Governor; J. W. Hoopes, Vice President and Cashier of the City National Bank of Galveston, was elected Cashier of the Reserve Bank and Secretary of the Board of Directors.

#### Open for Business

On November 16, the day the bank opened, a meeting of the Board of Directors was held in the new quarters. Mr. Wells submitted two reports, one as Governor of the bank and the other as Chairman of the Executive Committee. This pattern followed for several years.

Under the provisions of Section 2 of the Federal Reserve Act, National banks were required to make payment for their initial capital stock of the Reserve Bank in gold or gold certificates. The Reserve Bank also requested that, as far as practicable, member banks make deposits of their required reserves in gold coin or gold certificates, although they had the right to remit in gold or lawful money. Gold coin was accepted for, subject to weight, and all coin falling below the limit of tolerance was accepted only at bullion value. Some of the early employees of the Federal Reserve Bank of Dallas recall that there were quite a few complaints from member banks when "abrasion" charges were made. The original scales used in checking gold shipments are prized mementoes now located in the Dallas bank's vault.

#### First Discount Rates Established

One of the first items of business to be considered by the Directors was the establishment of discount rates. On November 10, before the bank opened for business, Chairman Tenison received the following telegram from H. Parker Willis, Secretary of the Federal Reserve Board:

Please wire as soon as possible what rate of discount you consider wise to start with. Board wants all replies in hand by Friday morning this week.

In reply, Mr. Tenison wired Mr. Willis on November 11, as follows:

Answering your telegram tenth we consider six percent is proper rate of discount to start with.

On November 12, W. P. G. Harding, member Federal Reserve Board, wired Mr. Tenison as follows:

Your proposed discount rate of six percent will be considered by Board tomorrow. Kansas City had suggested a seven percent rate. Are you sure that your loanable funds will justify lower rate than seven percent [?] Answer.

Mr. Tenison sent the following reply on November 13:

Answering your telegram twelfth, member banks now paying six maximum and seven would appear prohibitive. Our loanable funds cannot be determined until we know extent of available reserve notes or by Government deposit.

On November 14, Mr. Tenison received the following telegram from Mr. Willis:

The Federal Reserve Board has today established the rates of rediscount as follows New York and Philadelphia five and one half percent for bills and notes having a maturity of not over thirty days and six percent for paper with longer maturity. Boston, Cleveland, Richmond, Chicago, and St. Louis six percent for all maturities. Atlanta, Minneapolis, Kansas City, Dallas, and San Francisco six percent for bills and notes having a maturity of not more than thirty days and six and one half percent for those having a longer maturity. The Board took this action in accordance with the provisions of the Federal Reserve Act which authorized it to review and determine rates of discount fixed by each Federal Reserve Bank. Each of the banks was requested by telegraph to suggest a rate on discount for opening and all of these replies were tabulated. After full consideration of the facts in the situation, the Board has felt it incumbent to adopt a moderate and conservative policy at the outset in view of the fact that the exact conditions to which the banks will be subjected in operation cannot be precisely foretold. It is felt that the adoption of rates of rediscount which would adequately safeguard the resources of the various institutions would be the wisest policy at the beginning, particularly in view of the conditions already set forth in the Board's Circular No. 13. The Federal Reserve Banks have the right with the approval of the Board at any time to change the rates and the present rates are therefore to be regarded as provisional and subject to revision. The Board expects to be governed entirely by experience as the

new banks become firmly established and accumulate data which can be used for its guidance in reaching conclusions.



Figure 5 – Building in Which Bank Opened for Business

The Federal Reserve Bank of Dallas opened for business in temporary quarters on the ground floor of this building on November 16, 1914. The building was located on Main Street, where the Davis Building now stands.

The directors of the Dallas bank apparently thought the rates (6% and 6½%) established for it by the Federal Reserve Board on November 14 were too high, for on November 17, W. F. McCaleb, Deputy Reserve Agent, wired C. S. Hamlin, Governor of the Federal Reserve Board as follows:

Board in regular session fixed rate five and one half thirty days; six percent longer maturities, awaiting your determination. This the result of unanimous

judgement as to effect in this district. With present rate we have no applications for rediscount. Please answer immediately.

The Board wired the following reply:

Your wire making application as to discount rate received. Board has determined that for the present until further advice your rate should be six and six and one half as already fixed.

This was following on November 18 by a telegram reading:

Discount rates must be approved by the Board. Reserve banks are expected not to announce any suggested or desired rates until definitely approved here.

In reply to that telegram, Mr. McCaleb wrote Mr. Willis on November 19, as follows:

Your wire of the eighteenth instant, having to do with discount rates, is acknowledged. We beg to assure you that we shall respect your injunction.

Indeed, at no time, has our Board of Directors considered taking any step of importance without your approval, much less, surely would it fix finally a rate when the law specifically says this is a matter subject to review and determination by the Federal Reserve Board.

On November 24, Mr. Tenison, in reply to a letter from Mr. Harding regarding discount rates, wrote the following letter:

I beg to advise that up to the close of business today, this bank has offered and taken only \$100,000 of discount from member banks. More than one-half of the amount is less than thirty-day paper. Very few of the banks, even though they should have some occasion to discount, we do not think would consider doing so with us on a 6½% rate for longer maturities.

At the moment, if the rate were 5½% for thirty days and 6% for longer maturities, I believe that our member banks would feel more disposed to take advantage of such facilities than they will under the present conditions.

On November 30, Mr. Willis wired Mr. Tenison as follows:

At today's meeting the Federal Reserve Board discussed various communications regarding rediscount rates and voted that if you desire to establish a rate of six percent for all maturities the board is prepared to approve this rate and you may announce it.

On December 1, the following wire was sent to the Board:

Directors today fixed rate six percent for all maturities and are obliged for your concession. Think will work advantageously for us with member banks.

With the Board's approval, the Dallas bank in December made three additional changes in rates applicable to various maturities, and at the end of the year the discount rates were as follows:

5 percent for maturities up to 60 days  
5½ percent for maturities from 60 to 90 days  
6 percent for maturities in excess of 90 days

#### The Original Staff

Prior to and shortly after the bank opened, applications for employment were received from more than 1,000 persons. At first, only a small staff was needed. The original non-official clerical staff consisted of the following:

Sam R. Lawder  
W. J. Donald  
Fred Harris  
W. O. Ford  
C. B. Cooper  
Mrs. Margaret Kneisley  
J. R. Prentice  
Miss Sallie Baker  
I. B. Stitt  
Mrs. M. D. Carraway  
R. R. Gilbert

Of the original clerical staff, Messrs. Lawder, Harris, Prentice, and Ford are deceased. C. B. Cooper is now in the insurance business in Dallas. I.B. Stitt, after a brief tenure at the Federal Reserve Bank, was connected with commercial banks in Dallas for many years. He is now retired and lives in Dallas. W. J. Donald was Auditor at the Federal Reserve Bank for a time, later became a member of the examining staff of the Board of Governors of the Federal Reserve System and was Chief Examiner for many years. He is now retired and lives on a stock farm near Bowie, Texas. R. R. Gilbert rose through the ranks to become President of the Federal Reserve Bank on April 13, 1939. He served in that capacity until September 1, 1953, when he retired at age 65 under the rules of the Retirement System of the Federal Reserve Banks. At this writing he is Vice Chairman of



Figure 6 – Oscar Wells

First Governor. Served from opening of Bank on November 15, 1914 until resignation on February 24, 1915. the Board of the Republic National Bank of Dallas. Mrs. Kneisley, Mrs. Carraway, and Miss Baker left the service of the bank after a year or two and information is not available as to whether they are still living.

The report of Governor Wells, was submitted to the Board of Directors at its meeting on December 1, listed 27 officers and employees. The list included the original staff (with the exception of Miss Sallie Baker who apparently had resigned) and 12 additional employees. The names of the entire staff on December 1, 1914, with their assignments, are given below:



E. O. Tenison	Chairman of Board and Federal Reserve Agent
W. F. McCaleb	Deputy Federal Reserve Agent
Oscar Wells	Governor
R. L. Van Zandt	Vice Governor
J. W. Hoopes	Secretary of Board and Cashier
Chas. C. Hall	Secretary to Chairman
Sam R. Lawder	Auditor
Fred Harris	Mgr. Discount Department
J. R. Prentice	Mgr. Credit Information Bureau
I. B. Stitt	Assistant Manager Transit Department (Position of Manager vacant)
C. B. Cooper	Receiving Teller
R. R. Gilbert	Paying Teller
Penn Wooldridge	Receiving Teller
C. J. Kinsolving	Receiving Teller
W. J. Donald	Bookkeeper
Walter O. Ford	Utility Clerk
Sam McCord	Bookkeeper
Mrs. M. S. Kneisley	Stenographer
Mrs. M. D. Carraway	Stenographer
Miss Daisy Smith	Stenographer
L. R. Hancock	Transit Clerk
W. J. Mathis	Mailing Clerk
Miss Jane Fouts	Telephone Operator
Oscar Lewis	Porter
Chas. Thibodeaux	Porter
W. T. Edmiston	Night Watchman
Mr. Spencer	Night Watchman

The following examples represent a cross section of salaries paid: Cashier, \$5,000 a year; auditor, \$2,000; department manager, \$1,800; teller \$1,200; stenographer, \$900, night watchman, \$720; porter, \$600.

The Dallas Chamber of Commerce sponsored a dinner celebrating the opening of the bank. The dinner was held at the Oriental Hotel, with an attendance of 372. The December 1914 issue of the Texas Bankers Record carried a very interesting account of the occasion. That issue of the Record also referred to the first published statement of the Federal Reserve Bank of Dallas (11-20-1914), with the comment: "This is the first statement of the Dallas bank and will be looked upon by curious eyes in years to come." The statement follows:

Resources

Bills Discounted	\$ 19,133.35
Cash on Hand	<u>5,574,746.61</u>
Total . . . . .	\$5,593,879.96

Liabilities

Capital	\$ 957,001.45
Unearned Discount	123.73
Discount	3.25
Due to Member Banks	<u>4,636,751.53</u>
Total . . . . .	\$5,593,879.96

SOURCES

1. The Formative Period of the Federal Reserve System, W. P. G. Harding.
2. An Adventure in Constructive Finance, Carter Glass.
3. The Federal Reserve System, Paul M. Warburg.
4. Annual Report of the Federal Reserve Board, 1915.
5. The Texas Bankers Record, 1914 and 1915.
6. "Minute Book," Federal Reserve Bank of Dallas, Volume I.
7. Numbered Circulars, Federal Reserve Bank of Dallas, Volume I.
8. "A History of Banking in Dallas", unpublished manuscript by Rex V. Lentz.
9. Personal papers of the late G. B. Dealey, of The Dallas Morning News.

## **CHAPTER II**

### **THE EARLY YEARS – A FORMATIVE PERIOD**

The bank was faced with several problems from the beginning. First, the outbreak of the War in Europe in July had brought about a “cotton crisis.” The United States cotton crops in 1912 and 1913 had been sold at from 12 cents to 14 cents per pound. In those days, this was regarded as a satisfactory price. In 1914, an unusually large crop was raised in the United States, which depressed the price; moreover, the shipping “tie up” that resulted from the outbreak of the War had stopped the export of cotton. The cotton exchanges were closed, and the domestic mills bought “hand to mouth” at prices as low as 4½ cents a pound. This, of course, was disastrous to cotton farmers and to business in general in the cotton growing sections of the country. In order to relieve the situation somewhat, commercial banks throughout the country subscribed to a cotton loan fund, and the Federal Reserve Board agreed to act as a central committee for the administration of the fund. The plan was put into operation on November 30, 1914. While it had a good psychological effect, very little use was actually made of the plan. By that time, the Federal Reserve Banks had opened for business, thereby releasing a large amount of reserve funds which enabled member banks to make new loans and grant extensions of existing loans. Under the Federal Reserve Act, the required reserves were lower than the required reserves under the National Bank Act. For example, the “Book of Facts,” referred to above pointed out that, with the establishment of the Federal Reserve Banks, the reserve requirements of banks located in reserve cities would be reduced from 25% of demand deposits to 15% of demand deposits, and such requirements applying to “country” banks would be reduced to 12% from the previously existing requirement of 15%. The volume of cotton loans in the commercial banks of the district reached substantial proportions and there was some increase in the price of cotton, although it still sold at only six cents a pound in December.

The Reserve banks also had to cope with a “currency crisis” in the early days of their operations. At that time, the principal currency consisted of national bank notes, secured by Government bonds, which did not provide sufficient flexibility, particularly at certain seasons of the year. A measure of relief had been afforded by a provision of the Aldrich-Vreeland Act (passed in 1908) which allowed National banks to receive additional



Figure 7 – R. L Van Zandt  
Governor from early part of 1915 until January 1922.

## Chapter II – The Early Years – A Formative Period

circulating notes secured by commercial paper. Under the Aldrich-Vreeland Act, these “emergency provisions” expired by limitation on June 30, 1914, but the Federal Reserve Act contained a section which extended the provisions until June 30, 1915. It is interesting to note that newspapers and banking journals frequently refer to the Federal Reserve Act as the “new currency law.”<sup>5</sup>

Another problem concerned the clearing of the checks by the Federal Reserve Bank. This function was undertaken in a very limited way at first. In the beginning check clearing functions were confined to the handling of items drawn on the Federal Reserve Bank or on banks in the six cities in the district which had been designated as “reserve cities” under the provisions of the National Bank Act. The Federal Reserve Bank of Dallas issued a Circular on December 18, 1914, stating, in part, that “the function of clearing items is still being considered but without a definite solution.” General clearing operations, as such, did not actually begin until the spring of 1915 when approximately 75 banks participated in the plan on a voluntary basis.

In the early days of the Federal Reserve Bank of Dallas and, as a matter of fact, for several years, there was some uncertainty or confusion as to the authority and responsibilities of the Federal Reserve Agent. The Federal Reserve Board in its publications and in correspondence referred to the three Class C directors as “Government” directors. The Board in its first annual report referred to the Federal Reserve Agent as a representative of the Federal Reserve Board and stressed his “very large responsibilities.” Although the report brought out that it was not the intent of the Federal Reserve Act to constitute the Federal Reserve Agent the operating head of the bank, “he should be vested with the function of promoting the general interests and purposes of the System, assuring himself and this Board of the sound and impartial administration and efficient operation of the bank to which he was accredited.” The Federal Reserve Agent’s compensation was not fixed by the directors but by the Federal

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<sup>5</sup> In this connection, W. P. G. Harding, a member of the original Federal Reserve Board, on page 16 of his book, The Formative Period of the Federal Reserve System, states that “The maximum amount outstanding of this additional national bank note circulation secured by collateral other than Government bonds was about \$386,000,000, all of which was retired before the expiration by limitation of the law which authorized it.” In the Eleventh Federal Reserve District, the retirement of the “emergency” currency was accomplished largely through the use of the rediscount facilities of the Reserve bank; this will be covered in the discussion of the early use of the rediscount functions.



The first permanent home of the Federal Reserve Bank of Dallas, located at Commerce and Martin Streets. The bank moved into these quarters on October 30, 1915.

Figure 8 – First Permanent Home

The first permanent home of the Federal Reserve Bank of Dallas located at Commerce and Martin Streets. The bank moved into these quarters on October 30, 1915.

Reserve Board. While the records of the Federal Reserve Bank of Dallas do not reflect any material overlapping of functions during the first year or two, some questions did arise subsequently, which will be discussed at another point in this review.

## Chapter II – The Early Years – A Formative Period

### Early Staff Changes

In the early part of 1915, major changes occurred in the official staff of the Dallas bank. On February 24, Oscar Wells resigned as Governor to accept the presidency of the First National Bank of Birmingham, Alabama. Mr. Wells served as president of that institution for many years and was Chairman of the Board at the time of his death on May 30, 1953. Upon Mr. Wells' resignation Federal Reserve Agent Tenison was offered the position of Governor. He considered the matter for a few days and declined. R. L. Van Zandt, who had been serving as Vice Governor, was then elected Governor of the bank; J. W. Hoopes was promoted from Cashier to Vice Governor; and Lynn P. Talley, Cashier of the Lumbermans National Bank of Houston was elected Cashier of the Reserve Bank to succeed Mr. Hoopes. Inasmuch as Mr. Wells' resignation created a vacancy in the Board of Directors, it was necessary to elect a director to succeed him; whereupon, the member banks elected to that office John T. Scott, President of the First National Bank of Houston.

### First Permanent Quarters

Even with a small staff, the temporary quarters occupied by the bank proved to be inadequate. The vault space, particularly, was too small to serve the bank's needs. On April 20, the Board of Directors authorized the leasing of a building at Commerce and Martin Streets which had been occupied by a wholesale jewelry firm. Arrangements were made to remodel the building, construct suitable vaults, and make the entire building adaptable for bank purposes. The lease carried with it an option to purchase the building. After extended negotiations, it was decided to purchase the property, rather than lease it, and the purchase was completed on August 25, 1915. The aggregate cost, including vaults, fixtures and equipment, was \$185,000. The Federal Reserve Board did not learn of this transaction until after it had been consummated, and criticized the directors of the bank for taking such action without obtaining its prior approval. Matters were smoothed out, however, as the directors adopted a resolution expressing their regret and giving assurances to the Federal Reserve Board that approval would be obtained before taking such a step in the future. The resolution pointed out, however, that the Board at Washington had been furnished a copy of the lease agreement and that, inasmuch as it carried an option to purchase, and inasmuch as the Federal Reserve Board had not

## Chapter II – The Early Years – A Formative Period

objected to such provision, the directors of the Dallas bank felt that it would be in order to handle the matter on the local level to conclusion.

The bank moved to its new quarters on October 30, 1915, and the banking house was exhibited to member bankers and to the public with considerable pride. An article in the November 1915 issue of the Texas Bankers Record stated that, “The bank has the distinction of being the first to own and occupy its own quarters.”

### Change in District Boundaries

When the Federal Reserve districts were first set up, approximately half of the State of Oklahoma was included in the Dallas district. Some of the Oklahoma banks, particularly the ones located in the northern part of the district, felt that it would be more convenient for them to be included in the Kansas City district. After due consideration, the Federal Reserve Board on July 1, 1915, ordered that 121 Oklahoma banks be transferred from the Dallas district to the Kansas City district, following which Oklahoma representation in the Dallas district consisted of 42 banks located in eight southeastern counties of that state. The directors of the Dallas bank had made a very strenuous protest of the transfer, and subsequently, the Dallas and Kansas City Reserve banks became engaged in a controversy as to the basis of the payment of accrued dividends due the transferred banks. It was necessary for the Federal Reserve Board to settle the matter. Several of the transferred Oklahoma banks were indebted to the Federal Reserve Bank of Dallas at the time of transfer and that indebtedness was taken over by the Kansas City bank.

### Early Use of Discount Functions

Soon after the Federal Reserve Bank of Dallas began operations, it sent out a circular to member banks stating that it would receive applications for the rediscounting of commercial paper. The management of the bank was unable to forecast the extent of the possible loan demand from member banks, and some concern was felt as to whether the bank’s lending power at the outset would be sufficient to meet the loan demand. It so happened that many member banks immediately availed themselves of the rediscounting privilege. The first rediscount transaction was handled on November 20, only four days



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after the bank opened, and by December 30, 1914, a total of 65 member banks had used the Reserve bank's rediscount facilities.

In March, the Reserve bank forwarded to all member banks revised rediscount application forms to be used in submitted paper for rediscount. Also, during that month personal letters were sent to the head of each bank, informing them of the willingness of the Reserve bank to rediscount for them and "assist them in retiring their emergency currency."<sup>6</sup>

By the middle of 1915, loans to member banks had reached substantial proportions and continued in heavy volume until the end of the year. From the date of organization, and up to December 31, 1915, the Federal Reserve Bank of Dallas extended credit accommodation to 366 member banks in the aggregate amount of \$27,795,797. The management of the bank seemed to be gratified at the tendency of member banks to avail themselves of the bank's discount facilities. This was reflected by the following comment in the report made by Governor Van Zandt at one of the Board's meetings: "More than half of our member banks have availed themselves of our discount facilities .... During the early period of our existence a very large percentage of our banks openly exhibited a feeling of antagonism to the Federal Reserve System, but through a process of education this feeling is being gradually dissipated and hardly a day passes on which we do not have some evidences of a 'change of heart' on the part of some banker who begins to realize that we are using our efforts to develop the functions of the Federal Reserve Bank of Dallas for the benefit of its member banks and of the business interests of the Eleventh District." This subject was discussed in the bank's annual report for the year 1915, as follows:

Discount operations gradually gained strength until the time when, by the terms of the Aldrich-Vreeland Act, it became necessary to retire the emergency currency issued under that act. Member banks, having become

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<sup>6</sup> As heretofore indicated, the law required member banks to retire their "emergency currency" by June 30, 1915.

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FEDERAL RESERVE BANK, OF DALLAS, TEX.  
TO  
FEDERAL RESERVE BOARD, WASHINGTON, D. C.

Schedule of Bills Discounted--Customers Date NOV 26 1914

Date Discounted	OUR NUMBER	PAYER	PLACE	COLLATERAL	DUE	AMOUNT	RATE	DISCOUNT	PROCEEDS	ENDORSERS
11-20	A-1 A-2	DYER & LEE NORTH TEXAS DRY GOODS COMPANY	DURANT, OKLA. PARIS, TEXAS.	NONE NONE	2-1 12-19	4133.35 15000.00				

Approved by Oscar Wells  
W. F. McCaleb  
B. A. McKinney

Figure 9 – First Rediscount Transaction

Record of first rediscount business handled by Federal Reserve Bank of Dallas. Approved by Oscar Wells, Governor; W. F. McCaleb, Deputy Federal Reserve Agent; and B. A. McKinney, Director.

more thoroughly familiar with the operations of the bank and the rediscounting privileges afforded, practically the entire amount of outstanding currency was retired through the aid of this bank. This was one of the first evidences to the banking public of the real service that could be expected of the reserve banks, and the easy manner of accomplishment of this materially furthered the popularity of the bank with its members and brought home to them the great potentialities of the system, thus causing a steady continuance of our discount operations during the summer months, until the high figure of \$7,729,000 was reached on September 30. Since that date the fall movement of commodities has resulted in substantial liquidation, until at this time (December 31) our bills discount aggregate \$4,870,000.

On December 31, 1915, there were 600 member banks in the Eleventh Federal Reserve District and the bank's staff consisted of 31 officers and employees.

The bank paid its first dividend on January 11, 1916; however, since the earnings of the bank were not sufficient to provide for dividend payments for the entire calendar year 1915, the dividends covered only the period beginning November 2, 1914 (when the original capital stock payments were made) to June 30, 1915.

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The State banks in the Eleventh Federal Reserve District were slow in joining the Federal Reserve System, and by the end of 1916 only 10 State banks were members. Although the Federal Reserve Bank of Dallas welcome the application of eligible State banks, an aggressive membership campaign was not waged during the early years.

On January 6, 1916, E. O. Tenison resigned as Federal Reserve Agent and as director of the Federal Reserve Bank of Dallas. Thereupon, he established the private banking firm of E. O. Tenison and Sons, which was converted to the Tenison National Bank in 1917. On April 10, 1920, the Tenison National Bank was consolidated with the City National Bank; whereupon, E. O. Tenison became Chairman of the Board of the latter institution and served in that capacity until his death on February 17, 1924.

Judge Wm. F. Ramsey, an Austin attorney, who at one time had been engaged in the banking business at Cleburne, Texas, was appointed by the Federal Reserve Board as Class C director to succeed Mr. Tenison for the unexpired term ending December 31, 1917. He was also appointed Federal Reserve Agent for the year 1916. The appointment was effective January 15, 1916. In the meantime, Federal Advisory Councilman J. Howard Ardrey had resigned his position at the City National Bank of Dallas to become connected with a large New York bank. T. J. Record, President of the City National Bank of Paris, Texas, was elected a member of the Federal Advisory Council to succeed Mr. Ardrey. In the early part of 1916, there occurred the first official promotion from the ranks of employees of the Federal Reserve Bank of Dallas, when Sam R. Lawder, Manager of the Credit Department, was elected Assistant Cashier.

In the early part of 1916, the Federal Reserve Board abolished as an active salaried position at Reserve banks the office of Deputy Federal Reserve Agent, and ruled that the Class C director designated as Vice Chairman of the Board and Deputy Federal Reserve Agent should thereafter receive no salary, but merely receive the fee of a director when attending Board meetings. About the same time, W. F. McCaleb, who had held the position of Deputy Federal Reserve Agent since the bank was established, resigned in order to accept a position with the Bureau of Municipal Research of New York City. He also announced his plans to become a member of the faculty of a large university in New York. On February 10, W. B. Newsome, of Dallas, was appointed Class C director and designated as Vice Chairman and Deputy Federal Reserve Agent. On March 22 Director

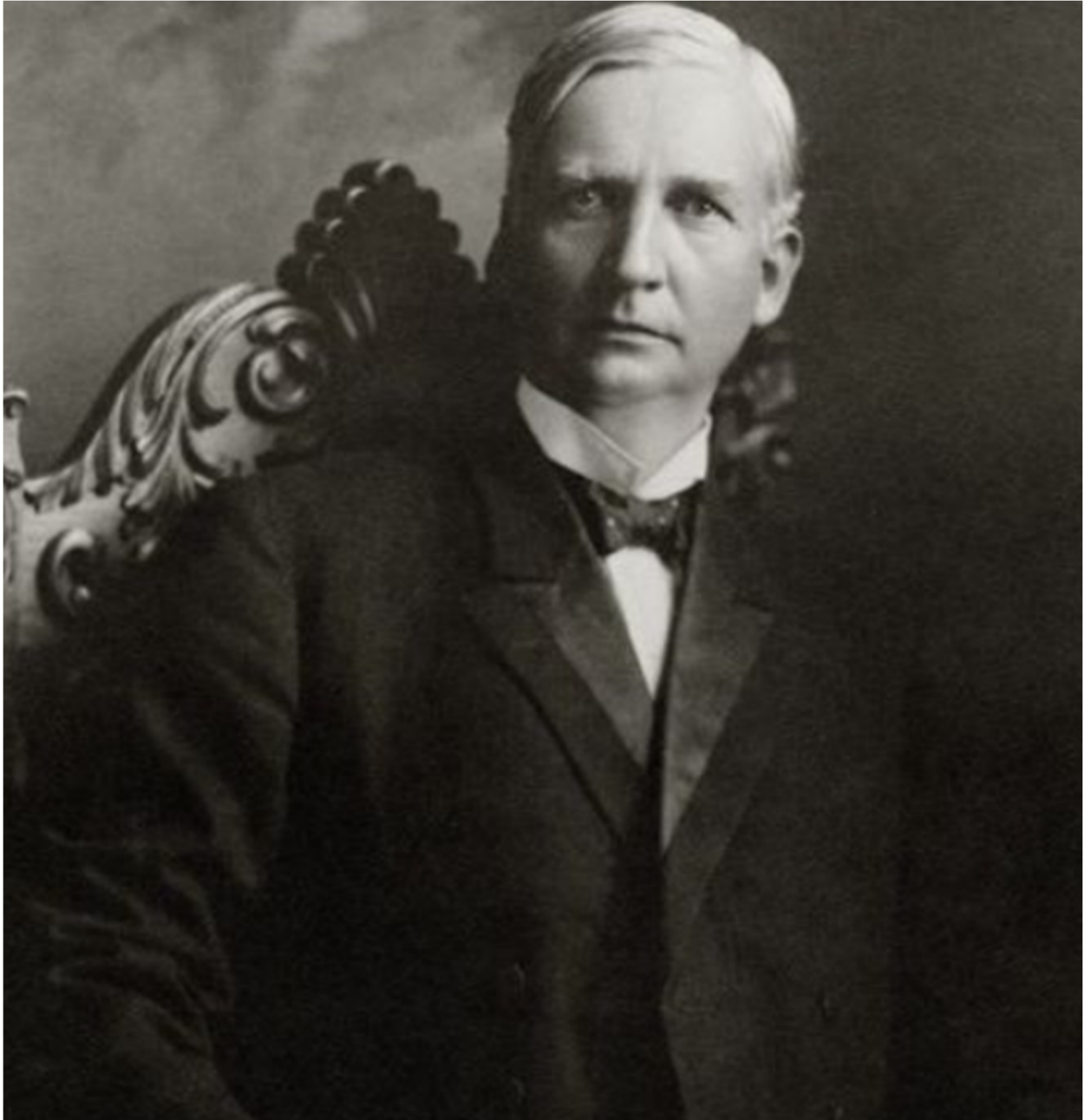


Figure 10 – William F. Ramsey  
Federal Reserve Agent and Chairman of the Board from January 15, 1916 until his death on October 27, 1922.

## Chapter II – The Early Years – A Formative Period

Martinez died, and H. O. Wooten, a prominent businessman of Abilene, Texas, was appointed Class C director to succeed him.

In April 1916, the Federal Reserve Bank of Dallas lost additional member banks to another district. At that time 16 member banks located in the State of Louisiana were transferred to the Sixth Federal Reserve District and were attached to the New Orleans Branch of the Federal Reserve Bank of Atlanta.

During 1916, further steps were taken by the Federal Reserve System to establish a satisfactory check collection procedure. In the spring of 1915, the Federal Reserve Bank of Dallas had tried a voluntary plan of clearing checks under a procedure providing for immediate debit and credit. Under the plan, the Reserve bank would give immediate credit for all checks sent to it by a member bank and at the same time would charge the member bank for all of its checks received from other banks. Although the voluntary plan was described by the Dallas bank as the “first step in improvement of present methods of collecting checks in the district,” it had the disadvantage, under the “charging” procedure, of requiring a bank to pay a check before the item was actually presented to it. Consequently, the plan was not successful, as very few banks participated. In the spring of 1916, the Board offered a substitute proposal based upon a collection system in which debit and credit would be deferred. The Federal Reserve Board and the various Federal Reserve Banks kept working at the problem, in order to arrive at some satisfactory method of clearing checks under the provisions of the original Federal Reserve Act which authorized the Reserve Banks to make collection of check “at par.” The problem was a most difficult one, as almost any plan advanced met widespread opposition on the part of the country banks and city banks as well. The country banks protested that a par clearance plan would deprive them of exchange charges which represented, in some cases, a substantial part of their total earnings. The idea was also opposed by the city banks, since the clearing of checks by the Federal Reserve Banks would prevent them from offering that service to country banks to help them attract their deposits.

After many months of intensive work on the part of the Federal Reserve Board and after conferences with representatives of the various Reserve banks, a check collection system went into effect at all Reserve Banks on July 15, 1916. The plan at first provided for the receipt by the Reserve Banks of checks on all member banks of the Federal

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Reserve System. A few months later, after Section 13 of the Federal Reserve Act was amended, the plan covered checks on all nonmember banks in the United States which could be collected at par, as well as checks on member banks. It provided for check collections between Federal Reserve districts, as well as within districts. At first the collection system of the Dallas bank was somewhat different from that of the other Federal Reserve Banks. With the approval of the Federal Reserve Board, Cashier Lynn P. Talley set up a plan for the Dallas bank under which the bank would operate as a “district clearing house.” Under that plan, the amount of checks sent to a member bank on a given day would be balanced against the amount of checks received from the member bank the same day and settlement would be made for the difference. The plan called for a service charge of two cents per item against those banks which sent to the Federal Reserve Bank checks on other banks for collection and credit. A statement of accumulated charges was rendered to each member bank once a month. The charge was reduced to 1½ cents per item in the latter part of 1916 and was removed entirely on June 15, 1918.

At the same time, the District Clearing House plan (DCH) was adopted, the Federal Reserve Bank of Dallas set up a “Reserve City Clearing House” (RCCH). This was a system of daily clearing and settlement of balances between banks located in the Reserve cities of the Eleventh District (Dallas, Houston, Galveston, Fort Worth, San Antonio, and Waco). Clearing House banks in the respective cities would send to the Reserve bank drafts drawn on other banks which were members of their local clearing house and the Reserve Bank would give immediate credit for such drafts presented to it, these drafts being marked “payable through Reserve City Clearing House.” The Reserve bank would notify the Managers of the local clearing houses of the resulting debit and credit balances; the Manager, in turn, would advise the local banks, and the local banks would advise the Reserve bank by telegraph or telephone as to how the debit balances would be covered or as to the disposition of credit balances.

At the time the RCCH arrangement was set up, the Federal Reserve Bank of Dallas had no Branches. At the present time, clearings at El Paso, Houston, and San Antonio are handled through the Branches. For Fort Worth clearings, the Reserve bank sends drafts drawn on the three largest Fort Worth banks to the drawee banks by messengers of those drawee banks who make daily trips to Dallas for that purpose. After receipt of the

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drafts, the drawee Fort Worth banks authorize the Federal Reserve Bank by wire to charge the amount of the drafts to their reserve accounts.<sup>7</sup>

Just here we shall get ahead of our story a few years and mention the outcome of the District Clearing House plan of the Federal Reserve Bank of Dallas. On March 1, 1920, the bank discontinued that plan. Under the new procedure, the amount of a cash letter sent to a member bank was charged to the bank's reserve account after the member bank acknowledged receipt of the cash letter. This system proved satisfactory as an operating procedure, but upon the advice of Council, after numerous bank failures in the district, the plan was discontinued on February 10, 1921, after which the Federal Reserve Bank of Dallas began forwarding checks for collection and remittance of proceeds.<sup>8</sup>

The annual report of the Federal Reserve Bank of Dallas for the year 1916 was very optimistic. Good crops had been raised in the district and had been sold at satisfactory prices, the livestock industry was prosperous, and deposits in member banks showed substantial increases. The report referred to the inauguration of the check collecting system, and includes the following comments about operations:

The operations of this bank for the past year have been, for the most part, entirely satisfactory. The fact of its existence has everyone engendered and maintained a spirit and feeling of assured confidence and has dispelled any fear which might otherwise be entertained of the danger of financial disturbances. Its growth in public favor is manifest on every hand. This growth has increased, and will continue to increase, as the basic principles of the system become better understood.

The operations of the Federal Reserve System have assured an adequate supply of money for the needs of legitimate business of the country. Our own operations have shown that with seasonal developments, the money supply has responded to the needs of legitimate commerce and has been adequate to meet the demands of the most exceptional seasons.

It has been our observation that as the banks in the district have studied the Federal Reserve Act and have become more familiar with the methods and operations of this bank, that they have become better satisfied, and a large

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<sup>7</sup> Description on operations of the Reserve City Clearing House obtained from Report of Examination of the Federal Reserve Bank of Dallas, February 13, 1917, by the Examiners for the Federal Reserve Board. Also, Annual Report, Federal Reserve Bank of Dallas, 1917.

Description of operations of District Clearing House obtained from booklet, "Administration of the Transit Department," by R. B. Coleman, Vice President, Federal Reserve Bank of Dallas, January 13, 1949.

<sup>8</sup> Administration of the Transit Department," by R. B. Coleman, Vice President, Federal Reserve Bank of Dallas, January 13, 1949.

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part of the antagonism toward the Federal Reserve System, which existed a year ago, has disappeared.

At the end of 1916, there were 621 member banks in the district. The staff was still relatively small, consisting of 63 officers and employees.

During the year 1916, additional dividends to member banks were paid, but there was still a “lag.” On September 15, 1916, dividends were paid for the period July 1, 1915 to December 31, 1915, and the December 31, 1916 payment covered only the period from January 1 to April 30 of that year.

Terms of some of the directors had expired at the end of 1916. Messrs. McKinney and Sansom were re-elected, each for a term of three years, and Mr. Wooten was reappointed as Class C director to serve for three years.

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1. The Formative Period of the Federal Reserve System, W. P. G. Harding.
2. Annual Reports, Federal Reserve Bank of Dallas.
3. “Minute Book,” Federal Reserve Bank of Dallas.
4. Numbered Circulars, Federal Reserve Bank of Dallas.
5. The Texas Bankers Record, 1916.



## **CHAPTER III**

### **WORLD WAR I AND AFTERMATH – EXPANSION OF OPERATIONS**

The year 1917 saw a marked expansion in the bank's operations and in its staff. On April 6, the United States declared war against Germany. Providing the mechanics of war financing became a very important function of the Federal Reserve System. All Federal Reserve Banks were called upon to assist the Treasury in the sale of Liberty Loan Bonds. At the Dallas bank, Deputy Governor Hoopes was assigned to directing the organization of Liberty Loan sales committees throughout the district. A Liberty Loan Department was organized; additional clerks were employed; and it was necessary to lease additional space in a nearby building in which to handle Liberty Loan transactions. The new department was placed under the supervision of Assistant Cashier Sam R. Lawder. Officers and employees worked under heavy pressure. With an inadequate and untrained staff, many errors and delays occurred in the handling of Fiscal Agency transactions.

In 1917, there was set up a new Treasury operation which became known as the "War Loan" deposit account and was so designated for many years. The Treasury had agreed to leave on deposit at national banks, at least for a time, the proceeds of bond sales, provided the banks pledged satisfactory collateral to those special deposits. At the Dallas Reserve bank, the Federal Reserve Agent and the Governor took upon themselves the work of examining and passing upon securities submitted by banks as "War Loan collateral." In that connection, the report of Governor Van Zandt submitted to the Board of Directors at its meeting on July 10, 1917, states: "The proceeds of the bonds are being expended so rapidly that it is very doubtful whether the redeposit of these funds is really worth anything to the banks in this district, especially in view of the necessary red tape incidental to getting the deposit." The Reserve bank's facilities were taxed to handle such a large volume of securities for the member banks and for the Government, and it was necessary to build additional tellers' cages and construct temporary vaults.

A very great expansion in discount operations took place during 1917. This resulted largely from the steps that were taken to finance the war effort. Banks themselves were buying substantial amounts of Government securities. Their customers, in the "Liberty Loan" campaigns, were being urged to purchase Government bonds. These

demands not only resulted in a decline in individual deposits but also brought about an increase in loans, as many banks made loans to their customer for the purpose of enabling them to buy bonds.<sup>9</sup> In 1916, the volume of discount operations had been small, but aggregate loans to member banks in 1917 reached approximately \$85,000,000. With respect to discount operations, the annual report for the year 1917 contains the following comment: “These functions are being rapidly developed and the growth in such operations in 1917 has really been phenomenal. As the banks use our rediscount facilities and become familiar with our requirements, they appreciate that the same are not onerous. They are assured every service consistent with sound banking principles.... The average individual knows but little of the operations of the Federal Reserve Bank, except that it is ‘a bank for bankers,’ and therefore, has no transactions with the public. There is, however, a growing appreciation in the public mind of what the institution means to the financial world and of the service rendered to member banks.”

### Staff Changes

Numerous staff changes took place in 1917. At the suggestion of the Federal Reserve Board, the bylaws were amended on March 6, 1917, and the title of “Vice Governor” was changed to “Deputy Governor.” On June 19, 1917, R. R. Gilbert, Manager of the Credit Department, was elected Assistant Cashier. In July, Charles C. Hall, formerly Secretary to the Chairman, was appointed Assistant Federal Reserve Agent. In September, R. B. Coleman, Paying Teller, was appointed acting Assistant Cashier, and was placed in charge of the Cash Department. On October 10, W. J. Donald, auditor of the bank, resigned and W. C. Weiss was elected to succeed him. In the fall of 1917, the War Loan Department was placed under joint supervision of Assistant Cashier Sam R. Lawder and Assistant Cashier Gilbert. In December, Messrs. Smith and Culbertson were re-elected Class A and Class B Directors for three-year terms; Judge Wm F. Ramsey was reappointed Class C director for a three-year term and designated Federal Reserve Agent for the year 1918. Referring to the re-election of Messrs. Smith and Culbertson, the bank’s

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<sup>9</sup> Although a substantial portion of the proceeds of the bond sales went into the war loan deposit accounts of the banks, not all of the banks made use of the war loan deposit facilities. Moreover, the Treasury withdrew the funds almost immediately, and in the final analysis there was a considerable drain on many of the banks.

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annual report deplored the fact that, of the 221 banks in the group eligible to vote for the Class A director, only 50 sent in ballots; and that only 25 banks out of a total of 201 eligible banks voted in the election for Class B director. “In such an important matter, and one so vitally affecting the bank, it would seem that our members . . . would, at least, take enough interest to vote.”

With respect to staff problems, the Executive Committee of the bank requested the Board of Directors to give it “a free hand” in the employment of additional clerical help and in making salary adjustments. The Governor’s report to the Board of Directors at its meeting on September 6, 1917, included these comments: “Our most capable men are having overtures made them from every direction, occasionally with success, and it is absolutely necessary that something be done to prevent our organization from being rendered worse than inefficient. We are in need of some capable clerks, both men and women, and would appreciate the directors bearing this in mind when they return to their homes.”

This Governor’s report at the November meeting referred, in complimentary terms, to the work performed in the War Loan Department by newly elected Assistant Cashier Gilbert, and stated further: “In like manner, I would go through our entire list of officers and employees who practically without exception have given the best that was in them to this institution, and have worked faithfully to see how much they could each accomplish, and not to see how early they could get away.”

### Signs of Growth

The annual report covering operations for the year 1917 referred to the expansion of operations and increased earnings. Total resources of the bank at the end of the year were \$116,000,000, as compared with \$62,000,000 at the close of 1916. At the end of the year, the staff, including the new War Loan Department, consisted of 168 officers and employees as compared with 63 at the end of 1916. There were 632 member banks.

The year 1918 marked the peak of the country’s war effort. Throughout the year, until the Armistice was signed on November 11, the winning of the war was the paramount objective of all segments of the economy. Additional burdens were placed on the Federal Reserve Banks, not only as a result of war financing requirements, but also as a result of the tremendous expansion in loan operations, the enlarged check clearing functions, and

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other activities. At the Dallas bank, Deputy Governor Hoopes continued to devote most of his time to directing the Liberty Loan campaigns in the district. The staff of the bank's War Loan Department was hard pressed to handle the work.

From time to time, the Federal Reserve Bank of Dallas appealed to the banks in the district to purchase Treasury Certificates of Indebtedness and to promote the sale of Liberty Loan bonds to their customers. The extent to which the bank brought pressure to bear is illustrated by a Circular dated January 22, 1918, entitled, "Duty of Banks in War Financing." Extracts from that circular are given below:

You must bring to yourself a realization of the fact that in order for our participation in the Great War to be effective and to result in an early and successful termination of the War, it will be necessary for you to do your part toward financing our Government.

At present, War is the business of the United States, and your every effort must be exerted toward making it a successful business.

Primarily the banks must bear an important part of this burden and for a time forget the pleasure and satisfaction to be derived from large earnings and use every available dollar in financing our Government between the bond issues by purchases of the several issues of Treasury Certificates of Indebtedness which are being offered from time to time.

THE FINANCING OF ENTERPRISES AND BUSINESSES NOT NECESSARY TO THE CONDUCT OF THE WAR NOR INCIDENTAL THERETO, AND THE FINANCING OF SPECULATION MUST IMMEDIATELY STOP.

While banks could probably make larger profits from such transactions, the rate of interest on these short time certificates of indebtedness is sufficiently large to give a fair return on the investment, and, as our President has said: "Patriotism and Profits must not be mentioned in the same breath."

No bank in the entire United State can afford to fail to subscribe for these certificates, and the time to send in your subscription is TODAY.

To some of you the purchase of these certificates may mean a sacrifice, but to what an infinitesimal extent does your sacrifice compare to that supreme sacrifice which is being made, and will be made, by thousands of our men who go to the front to do the actual fighting for us.

The Secretary of the Treasury has allotted to the Eleventh Federal Reserve District a minimum of Ten Million Dollars out of a total of Four Hundred

Million Dollars of the present offering of certificates, which are dated January 22, 1918, and will mature on April 22, 1918, and with proper response from our banks this minimum should be several times over-subscribed.

Read our Circular of January 18 announcing this offering and communicate with us immediately.<sup>10</sup>

#### Discount Operations

The bank's discount operations began to show a very rapid expansion in the early part of the year, and on May 25, 1918, the bank issued a Circular on the subject. Extracts from that circular are shown below:

Proper interpretation of the rediscount facilities of the Federal Reserve System will be found very helpful to member banks in the conduct of their business.

An important object to be obtained in the creation of the Federal Reserve System is to promote flexibility of bank reserves and the elasticity of the circulating medium, so that these two important elements in our financial structure can be made to respond to every demand of trade and commerce without undue disturbance.

The Federal Reserve System contemplates a legitimate control of the expansion of credit, rather than to make it possible by reason of the existence of the Federal Reserve System, for credit to expand to the point of inflation; and to increase or contract the supply of currency in exact proportion to commercial needs. In this light only can the Federal Reserve System be looked upon as a financial and commercial bulwark.

Where loan transactions are consummated upon the basis and with the thought that they may be immediately passed to the Federal Reserve Bank of which the bank making the loan is a member, the object of the Federal Reserve System is largely defeated, in that a general indulgence in this policy would create undue credit expansion.

Federal Reserve Banks should not be looked upon as a source of supply of loan capital, but as furnishing a facility for the maintenance or legal reserves against member bank's deposit liabilities. By reason of the Federal Reserve System furnishing a facility for the issuance of currency against the rediscount of eligible paper in the rebuilding of depleted reserves, member

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<sup>10</sup> The district banks apparently subscribed more than the minimum of \$10,000,000 allotted, as the Governor reported to the Board of Directors at its meeting on February 5, 1918, that the Reserve bank itself had subscribed for \$400,000 of these certificates "in order to bring the sales of this district up to \$13,000,000."

banks may meet the needs of their communities in a safe and legitimate way in a proper proportion to their resources. Whenever pursuance of such a policy expands the loan account in a legitimate way and according to seasonal requirements, or to satisfy existing conditions, to such an extent as to begin to encroach upon legal reserves, it is entirely proper to rediscount a sufficient amount of eligible paper to restore or maintain the required reserve balance with the Federal Reserve Bank. Should deposits decline prior to the normal period of seasonal liquidation, or during the period of normal loan expansion, reserves may be restored and maintained in the same manner.

In contradistinction to policies and customs prevailing in the inter-relations of such banks prior to the advent of the Federal Reserve System, it is unnecessary for banks to rediscount with the Federal Reserve Bank in anticipation of future needs, buy only to the extent necessary to maintain reserves as occasion arises.

Member banks should never place themselves in the position of acting as brokers between their customers and the Federal Reserve Bank by following the policy of lending freely upon the basis of rediscounting the paper, for the sake of an arbitrage profit equal to the difference between the rate at which they lend and at which they can rediscount.

The Governor's reports to the Board of Directors from time to time referred to the record-breaking volume of loans to member banks. At the July meeting, the Governor reported that during the month of June the bank had made loans amounting to approximately \$44,000,000 to 327 member banks. The report mentioned that "Yesterday a record for a single day was established when 530 notes were passed on by our Executive Committee." Further increase in loans occurred from month to month and in August it was necessary for the Federal Reserve Bank of Dallas to rediscount paper with other Federal Reserve Banks in order to maintain its own required reserves.

During 1918, for the first time to an appreciable extent, member banks in the Eleventh District utilized the facility of borrowing in the form of promissory notes under the authority given by an amendment to the Federal Reserve Act enacted on September 7, 1916. The original Act authorized rediscounts, but no authority was given at that time for Reserve banks to make advances on bills payable. Under the 1916 amendment, Reserve banks were authorized to make advances to member banks on their promissory notes, for a period not exceeding 15 days, secured by Government obligations or eligible paper. The bank's Circular of September 20, 1916, which announced the enactments of

the amendment state that “this service should assist our member banks in caring for any unusual temporary demands for funds pending receipt of anticipated collections . . . and in addition should enable them to keep their reserve deposits with this bank intact at all times.” The bank’s annual report for the year 1918 referred to large volume of promissory notes secured by Government obligations, with the following comment: “This method of temporary advances has proven attractive to member banks, but the purpose of the same has unquestionably been often misunderstood, and such facilities not infrequently abused. A large number of banks seem to look upon this institution as an inexhaustible supply of funds, and instead of using its rediscount machinery for the maintenance of reserves have sought advances for their own gain.”

The other Federal Reserve Banks were, likewise, experiencing a heavy volume of rediscounts, and this nationwide trend was viewed with uneasiness by the Federal Reserve Board in Washington. On November 19, 1918, W.P.G. Harding, Governor of the Federal Reserve Board, issued a circular letter to all the Reserve Banks on the subject, “Excessive Rediscounts by Member Banks.” The letter was quoted in full in a circular addressed to all member banks in the Eleventh District under date of November 29. The letter follows:

The attention of the Federal Reserve Board has been called to the fact that in some instances member banks have applied for and obtained rediscounts which appear to be largely in excess of their actual needs or the requirements of the community served and that they have used the proceeds of these rediscounts to purchase paper in the open market or to make loans to nonmember banks at a substantial profit to themselves.

The Board does not, of course, desire in any way to discourage the proper commercial activities of member banks nor to criticize the very natural desire of bank officers to increase the normal profits and business of their institutions. The Board deems its duty, however, to caution the bankers, who have rendered and are rendering such efficient services to the Government in the present circumstances, that profit-making and business expansion must, for some time to come, continue to be subordinated to the general welfare. There is no assurance that the cessation of hostilities in Europe will be followed by a reduction in demands made upon our banking resources.

Our credit resources must, therefore, be conserved and used to meet the actual requirements of the country at large, and when the needs of a given community have been supplied, there should be no diversion of resources

from other sections merely to increase the profits or the business of the banks in that community.

Rediscounting operations between Federal Reserve Banks are essential in many cases, and are being freely engaged in. They are made necessary by the Government's operations and by the seasonal requirements of the various Federal Reserve districts, but they ought not to be engaged in merely for the benefit of member banks of any particular Federal Reserve district as a means of enabling them to go outside of their natural field of activity to attract business or to make a profit. A member bank which has received from its Federal Reserve Bank accommodations sufficient for meeting its legitimate local demands should not be permitted to secure additional accommodation merely for the purpose of increasing its profits or expanding its business beyond reasonable limits.

A non-member bank which has contributed none of its resources to the Federal Reserve System ought not to be permitted to use a member bank as a medium or agency for the purpose of procuring accommodations from Federal Reserve Banks, unless upon presentation of the facts to the Federal Reserve Board such a course is found to be necessary or advisable in the public interest.

The duty is expressly imposed upon the directors of Federal Reserve Banks in extending accommodations to member banks to consider at all times the possible actual needs of all of their member banks. Section 4 of the Federal Reserve Act contains a specific provision that the directors of the Federal Reserve Bank "shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks."

Having knowledge of the fact that abnormal demands must be expected to continue, the directors of the Federal Reserve Banks should exercise a reasonable prudence in extending accommodations to any member bank, and should be satisfied, by proper inquiry or investigation, that the accommodation sought is for legitimate local requirements and not applied for merely for the purpose of increasing the profits or expanding the business of the borrowing bank. While the directors, with the approval of the Federal Reserve Board, might, by advancing the discount rates, curtail the credits extended to banks seeking rediscounts for the sole purpose of profit-making, such a course might work a hardship upon other member banks seeking rediscounts for their actual needs and might result in an enforced and premature liquidation of legitimate credit.



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Section 21 of the Federal Reserve Act provides in part that:

“Every Federal Reserve Bank may with the approval of the Federal Reserve agent or the Federal Reserve Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal Reserve Bank of the condition of its member banks and of the lines of credit which are being extended to them.”

While it is not desired that member banks should be required to incur any unnecessary expense in the matter of examinations, the Board suggests that in those cases in which member banks are borrowing greater amounts than appear to be justified by the actual needs of the bank, before such lines are further extended the member banks, should be required to make full disclosure of the lines of credit which it is extending, whether or not it is using the funds obtained from the Federal Reserve Bank to purchase paper in the open market merely to increase the profits of the bank and particularly whether it is being used by non-member banks, without the permission of the Federal Reserve Board, as a medium or agency for obtaining accommodations from the Federal Reserve Bank.

When deemed necessary, an assistant Federal Reserve Agent or representative of the Federal Reserve Bank might call personally upon the officers of the member banks whose rediscounts with the Federal Reserve Bank are out of proportion to their capital and surplus in order that the situation may be fully discussed and understood. In case any member bank should fail or refuse to furnish the Federal Reserve Bank with full information regarding its lines of credit, an examination should be made by the Federal Reserve Bank of its affairs and the facts reported to the Federal Reserve Board for such action as may be found to be necessary.

During the entire year, the aggregate amount of MBC [Member Banks Collateral] notes discounted, and commercial, industrial, and agricultural paper rediscounted for member banks reached \$1,047,000,000, as compared to \$85,000,000 in 1917. A total of 548 member banks rediscounted paper amounting to \$587,000,000 and 426 (some being the same banks) borrowed on bills payable to the extent of \$460,000,000.

As heretofore mentioned, State banks in the early years were reluctant to join the Federal Reserve System. In the Eleventh Federal Reserve District, there were only 11 State member banks on January 1, 1918, out of approximately 440 State banks that were eligible for membership. During the year, however, there was a great change in State bank attitude toward membership and by the end of the year the number of State member

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banks in the Eleventh District had grown to 97. The Dallas bank's annual report for 1918, states that the increase in the number of applications was apparently due in large part to the desire of State banks to become eligible for the benefits of the Reserve Bank's rediscount facilities.

In addition to the impact of the War on various segments of the economy, some parts of the district experienced a severe drought during 1918. Crop failures resulted and the livestock industry was adversely affected. In order to alleviate the financial stringency caused by the drought, the Treasury agreed to make special deposits aggregating \$5,000,000 in selected National banks in the drought-stricken areas. These special deposits were to be secured by appropriate collateral, and the banks were required to pay two percent interest. These funds were placed in the banks in March and, although they were subject to withdrawal on demand, the Treasury Department allowed the funds to remain on deposit several months.

The Government also took another step to render assistance to farmers and cattlemen. This was through the organization of the War Finance Corporation, which was authorized to make advances to banks on their promissory notes secured by a paper of farmers and cattlemen. In addition, the corporation set up a Cattle Loan Agency in the Eleventh District which was authorized to make loans direct to cattlemen. The Federal Reserve Bank of Dallas acted as fiscal agent of the corporation in connection with these loans. Marion Sansom, Fort Worth, Texas, a Class B director of the Federal Reserve Bank of Dallas, as appointed manager of the Cattle Loan Agency. The agency established offices at Dallas in a building adjacent to the Federal Reserve Bank.

Among other provisions, the War Finance Corporation Act authorized the formation of a National Capital Issues Committee, composed of three members of the Federal Reserve Board, to work through subcommittees in the various Federal Reserve districts. The object of the Capital Issues Committee was to assist war industries in obtaining essential credit and, at the same time, to discourage speculative stock issues. The subcommittee in the Eleventh District consisted of Judge Wm. F. Ramsey, Governor R. L. Van Zandt, and Howell E. Smith. Several hundred issues of securities were passed upon by the Capital Issues Subcommittee and most of these issues were approved. However, the rapid development of oil fields in West Texas had resulted in the flooding

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of the district with issues of stocks in newly organized oil companies. Proposed stock issues that appeared to be highly speculative and without merit were discouraged, and it was estimated that the subcommittee for this district effectively suppressed the issuance of securities amounting to approximately \$26,000,000.

Judge Ramsey's report submitted to the Board of Directors at its meeting on November 7, 1918 gave a detailed account of the various problems with which the management of the bank had to cope. He referred to the enlargement of the duties of the bank's officers, as a result of the "extraordinary conditions under which we have lived during the last year." He mentioned the large number of notes offered for rediscount, which increased the burdens of the Federal Reserve Agent and Governor, who served on the Discount Committee. He also referred to the War financing problems, the work of the Capital Issues Subcommittee, and the responsibilities incident to the operations of the Cattle Loan Agency. He stated: "I have often wondered just which one of my burdens of office involved the most responsibility," and continued by saying "I could never have gotten through any of this work without the cooperation and cordial good will and help of a very efficient staff."

### The Federal Reserve Agent

A reading of the Federal Reserve Agent's reports to the Directors during this period of the bank's history leaves the impression that Judge Ramsey regarded himself, in many respects, as the administrative officer in charge of the bank, and the dividing line between his responsibilities and the responsibilities of the Governor, as the chief executive officer, was not very distant. Although in subsequent years, as we shall discuss later, the Federal Reserve Board attempted to clarify the situation with respect to the areas of responsibility, it would appear that the Board's correspondence with the Federal Reserve Agent in the early years could be construed as encouraging him to devote his efforts to a large extent to the administration of the bank's affairs. For example, in the latter part of 1918, there was much correspondence between Judge Ramsey and the Federal Reserve Board on the subject of salaries and bonuses. Bonuses in nominal amounts had been paid in 1916 and 1917, and the Federal Reserve Board approved the payment of substantial bonuses at the end of 1918 to all members of the staff below the rank of Cashier. Although the directors had appointed a special salary committee of Class A directors to consider the

matter of salary adjustments for the year 1919, Governor Harding, of the Federal Reserve Board, stated in correspondence that inasmuch as Judge Ramsey was “the representative of the Federal Reserve Board in your district,” his recommendations would have great weight with the Board. Governor Harding’s letter to Judge Ramsey stated further that “moderate increases would be more apt to receive the approval of the Board than would large advances based on the bank’s earning power under the present abnormal conditions.”

Another example of apparent overlapping of administrative functions in the early years was a disposition on the part of Judge Ramsey to take the lead in the discussions and actions with respect to a reduction in the amount of member bank borrowings. As discussed later, he presented detailed reports to the directors on this subject, and at one meeting of the Board he suggested that a circular letter to member banks urging conservatism be sent out over his signature as Chairman of the Board of Directors.<sup>11</sup> The directors felt, however, that such letter should be signed by the Governor.<sup>12</sup> (Letter, May 7, 1920.)

#### El Paso Branch Established

Banks in the western part of the district, particularly in Arizona, New Mexico, and around El Paso in Texas, had complained about poor service from the Reserve Bank, due to the distance from Dallas, and requested that a Branch be established at El Paso. After considerable investigation, and upon the basis of surveys, the Dallas Board and the Federal Reserve Board approved the application. The Branch opened for business June 17, 1918, with temporary quarters in the First National Bank Building, and with a staff of 14. Sam. R. Lawder, formerly assistant cashier at the Head Office, was made manager of the Branch; J. M. Proctor, of El Paso was elected Cashier; and Paul Miller, of the Auditing Department at the Head Office, was appointed assistant Federal Reserve Agent and auditor of the Branch. The territory assigned to the El Paso Branch comprised the parts of the Eleventh District located in the states of Arizona and New Mexico, and certain counties in far west Texas. Sixty member banks included in those boundaries were

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<sup>11</sup> Minutes, Board Meeting, November 6, 1919

<sup>12</sup> Minutes, Board Meeting, January 6, 1920

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transferred from the Head Office to the El Paso Branch. By the end of the year, the staff at the Branch consisted of 34 officers and employees.

### Leased Wire System Started

In the early years, the means of communication between the Federal Reserve Board and the Reserve Banks was unsatisfactory, as the service provided by the commercial telegraph companies was subject to frequent delays and errors. In June 1918, arrangements were completed for the establishment of private wire service between the Federal Reserve Board and the various Reserve Banks and between the Reserve Banks themselves. This greatly speeded up System communications. In addition, the arrangement proved to be of direct benefit to member banks, as the new plan of operation included the making of telegraphic transfers for member banks with expense to them.

### Plans for New Building at Head Office

Due to expanded operations during 1918, which resulted in a substantial increase in staff, all departments at the Head Office were crowded. Operations were carried on in four different buildings, and it was necessary to establish a night force for the handling of a portion of the check clearing operations. This brought to the attention of the directors and the management of the bank the necessity for constructing a new building where all operations of the bank could be concentrated and which would provide space for future expansion. After full investigation, the bank purchased a site at Wood and Akard Streets, and architects were employed to draw plans for a new building. Minutes of directors' meetings at that time went into considerable detail as to negotiations for the lots and preparations for getting the building under way. Because most private engineers had gone into the Army, the bank obtained the services of the City Engineer of the City of Dallas to make a survey of the site for the building. The City Engineer would not accept pay for the services rendered for the bank, and stated this time belonged to the City. Consequently, the bank's Board of Directors authorized the purchase of technical books, at a cost not to exceed \$250, to be presented to the City and placed in the library in the City Engineer's office.

### Staff Changes

There were several staff changes during 1918. On April 5, Paul G. Taylor, of the South Texas Commercial National Bank, Houston, Texas, was elected Assistant Cashier of the Federal Reserve Bank of Dallas and was placed in charge of the District Clearing House Department. On the same date, R. B. Coleman, who had served for several months as acting Assistant Cashier, was elected Assistant Cashier. On June 3, Fred Harris, Manager of the Loan Department, was elected Assistant Cashier. In September, W. J. Evans, of the Federal Reserve Agent's Department, was appointed Secretary of the Capital Issues Committee. In September, there occurred the first death among the bank's staff since the bank was established. This was an employee of the DCH Department. In December, John T. Scott and Frank Kell were re-elected Class A and Class B directors respectively, for terms of three years; W. F. Ramsey was reappointed Chairman and Federal Reserve Agent for the year 1919; W. B. Newsome was reappointed as a Class C director for a three-year term beginning January 1, 1919, and was redesignated Deputy Chairman for the year 1919.

Due principally to the large volume of loans to member banks, gross earnings of the Federal Reserve Bank of Dallas showed a substantial increase in 1918, amounting to approximately \$2,090,000, as compared to \$568,000 for the preceding year. Expenses increased from \$168,000 to \$513,000. This year, for the first time, the bank was able to "catch up" on the payment of dividends to member banks. On June 30, dividends had been paid covering the period July 1, 1917 to June 30, 1918, after setting up a reserve of \$280,000 for depreciation in the value of holdings of United States securities. On December 31, a dividend was paid for the period of July 1 to December 31, 1918.

At the close of the year, the combined staff at the Head Office and at the El Paso Branch consisted of 403 officers and employees, as compared with a Head Office staff of 174 at the close of 1917. As heretofore mentioned, a large number of State banks became members of the Federal Reserve System during the year, and at the end of 1918, the total number of member banks in the Eleventh District was 727.

The War ended in November 1918, and the bank was destined to face many problems during the next few years as part of the postwar adjustment. Although a large portion of the district had experienced a severe drought in 1918, general business

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conditions were satisfactory. This was especially true in the larger cities near military posts and in the areas where explorations for oil were taking place.

### Postwar Expansion

The year 1919 showed a further expansion in operations of the Federal Reserve Bank of Dallas, in some respects far overshadowing the records made in 1918. The year marked the beginning of the reconstruction period following the close of World War I. The bank showed a phenomenal growth in resources that was accompanied by an abnormal expansion of credit. The credit demands taxed the resources of the bank. Government financing continued (the Victory Loan campaign was in May 1919) and in addition, the financing of trade and commerce in the district absorbed vast amounts of credit. In general, the transition from war to peace presented many economic problems.

Ordinarily banks in the Eleventh District had surplus funds in January and February as a result of collections on loans and increases in deposits during the preceding fall when crops were harvested, and generally the Federal Reserve Bank of Dallas showed a small volume of loans to member banks in the early part of the year. However, in January 1919, outstanding loans to member banks remained at the high figure of \$68,000,000. Cotton had been bringing 35 cents a pound in the middle of 1918, but the price dropped during the fall and winter months of that year, and farmers could not be prevailed upon to sell at lower prices. Accordingly, since the agricultural loans had not been liquidated, member banks in the agricultural areas of the district were not able to retire their rediscount lines with the Federal Reserve Bank as usual. The seasonal demand for member bank credit in the spring and summer of 1919 pyramided upon the carry-over lines, and during the year aggregate loans of the Federal Reserve Bank of Dallas to member banks amounted to approximately \$2,336,000,000. A substantial portion of the loans to member banks consisted of notes secured by Government obligations. In that connection, the bank's annual report for the year 1919 stated: "By the use of these advances, banks were able to subscribe more freely to the various issues of Government war obligations." Credit demands on the Federal Reserve Bank of Dallas became so heavy that the bank found it necessary to rediscount heavily with other Federal Reserve Banks in order to maintain its required reserves.

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During a portion of the year, the rediscount rates of the other Reserve banks were higher than the rates of the Dallas bank. Inasmuch as the discount rates of the other Reserve Banks were applied to the Dallas bank's rediscounts with them, it sometimes happened that the Dallas bank was paying higher rates to other Federals than it was receiving from its member banks, and such transactions actually represented a net loss to the Dallas bank. In 1919, the Dallas bank rediscounted paper with other Federal Reserve Banks in an aggregate amount of \$405,000,000, the maximum outstanding at any one time being \$35,000,000. The bank's interest payments on paper rediscounted with other Federals amounted to more than \$600,000. By the end of the year, however, its reserve position showed an improvement, and the Dallas bank was able not only to retire its rediscounts with other Reserve Banks, but also to rediscount paper for other Reserve banks.

Even though the war had ended, the Treasury continued to issue certificates of indebtedness, and considerable pressure was brought to bear upon commercial banks throughout the country to purchase these certificates. The Treasury had suggested to all Federal Reserve Banks, that in those cases where member banks were unable to handle such subscriptions within their own resources, the Reserve Banks offer to "carry" these investments for the subscribing banks. In connection with that suggestion, the Board of Directors of the Dallas bank on March 6, 1919, adopted a resolution to be submitted to the Treasury Department (with a copy to the Federal Reserve Board) reminding the Treasury that general economic conditions in the Eleventh District were unfavorable, and stating that in the Board's opinion there was a serious question as to whether it was a good policy to comply with the Treasury's request. The resolution pointed out that the Dallas bank was finding it difficult to maintain its required reserves and was under the necessity of rediscounting heavily with other Federal Reserve Banks; that a considerable portion of the district had experienced a drought; that the member banks were borrowing heavily for agricultural purposes; and that the proceeds of Government bond sales had been drained out of the district with comparatively small reimbursement in the way of Government expenditures within the district. The Treasury and also the Federal Reserve Board acknowledged receipt of these resolutions, but they urged the bank to do



everything possible, despite unfavorable conditions, to see to it that the Eleventh District would subscribe for its full quota of the certificates.<sup>13</sup>

With the close of the Liberty Loan campaigns, the bank's Liberty Loan organization was disbanded, and after the volume of operations started declining, the bank was able to bring about a reduction in the War Loan staff. At the end of the year, there were only 89 employees in that department, as compared to 162 in 1918. However, in view of the fact that the Federal Reserve Bank was to continue acting as Fiscal Agent for the Treasury Department, a permanent Fiscal Agency Department was organized.

#### The Par Campaign

As heretofore mentioned, when the check collection system of the Federal Reserve Banks went into effect on July 15, 1916, the plan at first provided for the clearing of checks on member banks only; however, by an amendment to Section 13 of the Federal Reserve Act on June 21, 1917, the Federal Reserve Banks were authorized to handle checks drawn upon nonmember banks in the same manner as checks drawn upon member banks, provided the nonmember banks would agree to remit to the Reserve Banks at par. Although the amendment permitted a member or nonmember bank to make reasonable exchange charges, in no case to exceed ten cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, the amendment provided that "no such charges shall be made against the Federal Reserve Banks."

At first the Federal Reserve Bank of Dallas did not make an aggressive solicitation for additions to the par list. However, in the summer and fall of 1919, the Dallas bank, as well as the other Reserve banks, inaugurated an intensive campaign to increase the number of banks on the par list. Rapid progress was made during that year in the development of the clearing and collection system, in spite of the fact that many banks were unwilling to give up the earnings incident to making exchange charges. The Federal Reserve Bank of Dallas started its par campaign on August 1, 1919, not only through

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<sup>13</sup> The bank's annual report for 1919 (page 15), after referring to the failure of the district, by a slight margin, to meet its quota for the Victory Loan, discussed the certificate sales as follows: "During the first half of 1919, the Treasury Certificates of Indebtedness sales organization naturally encountered the same difficulties, but with the exception of the offering of Treasury Certificates of Indebtedness in January and February 1919, this district has liberally oversubscribed its quota for every offering."

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correspondence, but also by personal calls by representatives of the Reserve bank. As a result, from August 1 to December 31, 1919, there were 914 additions to the par list, and by the end of the year, practically all of the banks in the Eleventh Federal Reserve District were on the par list.

The bank's Annual Report for 1919 referred to the fact that the inauguration of the par campaign engendered considerable ill feelings toward the Federal Reserve System in general and the Federal Reserve Bank of Dallas in particular. The report went on to say that "It has not been a stimulus to increase state bank memberships." Nevertheless, there was an increase of 18 in state bank memberships during the year, bringing the total number of state bank members in the Eleventh District to 115 at the end of 1919.

In conducting the par campaign, recourse was made in many cases to means of collection other than banks. It had been the custom of many small banks to refuse to remit the full-face amount for checks drawn upon them which were sent through the mails, but they insisted that inasmuch as the check called for payment in money at their counters and not for a remission by draft or otherwise, they could refuse to pay any check until it was presented at their counters. When a bank refused to remit for a cash letter without making deduction for exchange charges, the Reserve bank would make presentation "over the counter" by its representatives, or worked out arrangements whereby the express company or bonded agents would make presentation of the checks, and in all such cases par payment was demanded. These steps were necessary because the Federal Reserve Act prohibited any discount to be deducted from the face amount of checks presented by a Federal Reserve Bank. In some states, particularly in the southeastern section of the United States, attempts were made by state legislation to prohibit collection of checks at par by the Reserve Banks. The "battle" went on for several years, and on June 11, 1923, the United States Supreme Court handed down decisions in two par clearance cases (suits brought against the Federal Reserve Bank of Richmond and the Federal Reserve Bank of Atlanta). The effects of these two decisions were that the Federal Reserve Banks were authorized but not required to collect checks on nonmember banks which refused to remit at par. Thereupon, the Federal Reserve Board directed the Reserve Banks to discontinue the use of agents other than banks for the purpose of making collections at par of checks upon nonpar remitting banks. When the

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Board's Regulation J was amended in 1924, the amendment provided, among other things, that "no Federal Reserve Bank shall receive on deposit or for collection any check drawn on a nonmember bank which refuses to remit at par in acceptable funds."

Most of the bitterness in the Eleventh Federal Reserve District incident to the par campaign existed in that part of the district located in the State of Louisiana. In 1920, the Louisiana legislature passed bills which made it optional for a Louisiana banking institution to charge exchange for remitting for checks received from a Federal Reserve Bank, and in the latter part of 1921, the legislature of that state enacted more restrictive legislation. Following this legislation, many Louisiana nonmember banks asked to be removed from the par list. Most of these banks were visited and urged to reconsider, but by April 1922, around 45 were no longer on the par list. Even today (May 1961), the Transit Department records show that most of the nonpar banks in that district are located in the State of Louisiana.

As indicated above, considerable ill feelings on the part of nonmember State banks developed during the course of the par campaign. Some of the banks accused the Federal Reserve Bank of Dallas of accumulating large amounts of checks with a view of embarrassing the nonmember banks or forcing them to sign contracts. In reminiscences of happenings that occurred at that period of the bank's history, some of the staff members of the Federal Reserve Bank of Dallas, who acted as special agents in the collection of checks from nonpar banks, recall that the bankers would sometimes tender large amounts of silver and minor coins in order to delay the representative as much as possible to make it difficult for him to handle the cash payments. In that connection, one of the paragraphs contained in the "Instructions to Agents" reads as follows:

You may accept from the bank, if it is so desired, pennies, nickels, and minor silver coin up to the amount for which each denomination is legal tender. In the case of pennies and nickels, the amount which you are required by law to accept as legal tender, if tendered, is 25¢; dimes, quarters and halves, \$10.00. Silver dollars may be accepted in unlimited amounts if the paying bank so desires, they have the privilege of treating each check as a separate transaction.

The Board of Directors at the Federal Reserve Bank of Dallas was aware of the criticisms directed at the bank's representatives, but apparently believed these criticisms

were unfounded, as evidenced by the following resolution adopted by the Board at a meeting held on June 15, 1921:

BE IT RESOLVED, that the Board heartily approves the conduct of the officers of the Federal Reserve Bank of Dallas in handling par collections on non-member banks, and particularly approves the attitude of such officers in their treating such non-member banks with courtesy, fairness, and impartiality. It learns with pleasure that at no time has any imposition or hardship been imposed on such non-member banks and that at no time have checks been permitted to accumulate in large amounts with a view of embarrassing such non-member banks or forcing them to sign contracts to make collections or to join the Federal Reserve System, but that every convenience and facility have been accorded non-member banks in making remittances of checks drawn on them, even to the extent of taking exchange on points unavailable for immediate credit, which is not permitted member banks which carry reserve balances with us; and,

IT IS FURTHER DECLARED, that it is the settled policy of this bank to continue a course of fairness, courtesy, and consideration in our attitude and treatment of non-member banks on which we make collections of checks drawn upon them at par and no officer or employee of the Federal Reserve Bank is permitted, but is hereby expressly prohibited from, doing any act of any kind which will impose undue hardship or burden on non-member banks as to embarrass, oppress, or injure them.

#### Proposal to Establish Branches at San Antonio and Houston

During the year 1919, the matter of establishing additional Branches in the Eleventh Federal Reserve District received the consideration of the directors of the Federal Reserve Bank of Dallas and the Federal Reserve Board. On March 6, delegations from the San Antonio Clearing House Association and the Houston Clearing House Association appeared before the Board of Directors of the Dallas bank and presented formal applications for the establishment of Branches at their respective cities. The San Antonio group consisted of Messrs. J. N. Brown, J. H. Frost, J. K. Beretta, and Henry M. Hart. The Houston group consisted of J. A. Pondrom, J. C. Chidsey, D. W. Cooley, R. M. Farrar, and J. W. Hoopes (Mr. Hoopes had resigned his position at the Reserve Bank early in the year to accept the position of Vice President of the South Texas Commercial National Bank of Houston.) It developed that in some respects, the proposed boundary lines suggested by the San Antonio and Houston groups overlapped. Accordingly, the delegations, after consultation among themselves, adjusted the proposed boundary lines, and the Board agreed to consider the applications further on March 14. When the

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delegations appeared before the directors on March 14, Chairman Ramsey read to them a letter he had just received from Governor Harding of the Federal Reserve Board. Governor Harding stated that although the Board might be inclined to consider the establishment of one additional Branch in the Eleventh District, he was certain it would not give its approval to the establishment of two new Branches at that time. Judge Ramsey announced that, in view of the position of the Federal Reserve Board, it seemed necessary to proceed with consideration of the two applications on a competitive basis, with the view of establishing a Branch either at San Antonio or Houston, but not at both. In view of these developments, the San Antonio group withdrew its application, but gave notice that the application would be resubmitted later at a more propitious time. The Houston application was approved by the directors of the Dallas bank and was submitted to the Federal Reserve Board for its consideration. Although the Washington Board approved the application, it attached certain conditions to its approval which were considered “onerous” to the Houston people. While the records do not show all of these conditions, they do indicate that one was the requirement that the Houston group put on a campaign to obtain additional State member banks in the proposed Houston Branch territory. Chairman Ramsey went to Washington in April and prevailed upon the Federal Reserve Board to withdraw its conditions, whereupon the Board gave final approval to the application.

In May, the San Antonio group renewed its application for the establishment of a Branch. Governor Harding was visiting the Eleventh District at that time and was present at the meeting of the Dallas directors when the matter was considered. He outlined the general policy of the Federal Reserve Board on the establishment of Branch banks and counseled against any further movement to establish an additional Branch in the Eleventh District at that time. No action was taken just then by the Dallas Directors, but in September, the San Antonio group again renewed its application, which was discussed at length at a called meeting of the Board of Directors on September 16. By a majority vote, the Dallas Directors adopted a resolution recommending approval. Chairman

Ramsey voted “no,” and at his request his reasons for so voting, in the form of a lengthy memorandum, were incorporated in the minutes of the meeting.<sup>14</sup>

#### Houston Branch Opened

In the meantime, the Houston Branch had opened for business on August 4, 1919. One hundred and one member banks were transferred from the Head Office and assigned to the territory of the Houston Branch. Sam R. Lawder, former manager of the El Paso Branch, was designated manager of the Houston Branch, and E. F. Gossett, of Houston, was named Cashier. Paul S. Miller was transferred from the El Paso Branch to serve as Assistant Federal Reserve Agent and Auditor at Houston. At first, a portion of the first floor of the Hermann Building was used as quarters for the Branch, and for a time, the Branch used the vault facilities of the Union National Bank of Houston.

When the Houston Branch was opened, several employees were transferred from the Head Office to form the nucleus of the new organization, and the rest of the staff was recruited from Houston. The total staff consisted of 42 officers and employees, with aggregate annual salary of \$60,000. The salaries of the general clerks ranged from \$75 to \$125 a month, which seemed rather small under present day standards. However, the Federal Reserve Board in approving these salaries and authorizing the employment of a few additional clerks, called attention to the “large expense account” of the Dallas bank and its Branches, and concluded by stating that “the Board will expect your bank to keep close watch on expenses and eliminate all unnecessary items.”

When Sam Lawder was transferred to Houston, R. R. Gilbert, Assistant Cashier at the Head Office, was transferred to the El Paso Branch and designated Manager of that Branch to succeed Mr. Lawder. J. H. Niendorff, former Auditor in the Fiscal Agency Department at the Head Office, was appointed Assistant Federal Reserve Agent and Auditor at El Paso to succeed Paul S. Miller. In January, M. Crump had been elected Cashier at the El Paso Branch, succeeding J. M. Proctor, who resigned.

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<sup>14</sup> The principal reasons were (a) The Federal Reserve Board had already expressed opposition to another Branch and to approve would be an act of “bad faith” to the Federal Reserve Board, (b) some of the banks in the proposed territory could be served just as well by the Houston Branch or the Head Office, (c) the expense of operating a Branch at San Antonio could not be justified, and (d) if this application granted, would encourage other cities, such as Amarillo or Shreveport, to file applications for Branches.

### New Building for El Paso Branch

Due to the crowded conditions in the rented quarters of the El Paso Branch, the Board of Directors of the Dallas bank in May 1919, authorized the purchase of a lot on Myrtle Avenue for a building site, and requested the Federal Reserve Board to approve the purchase and to authorize the construction of a building. The Federal Reserve Board finally approved the transactions, but the minutes covering a meeting of the Dallas Board on November 6 referred to the fact that the consulting architect of the Federal Reserve Board had made “39 criticisms or recommendations” with respect to plans and specifications. After several consultations, the contract was awarded. According to figures submitted, the total cost would be \$135,000, including \$39,000 for the site.

### Head Office Building

At the Head Office, the staff continued to work under crowded conditions, and additional space was obtained in adjoining buildings, which afforded some relief. Vigorous efforts were put forth to expedite the start of a building on the lot that had been purchased in the preceding year. In June 1919, bids were received, and the contract was awarded to George A. Fuller and Company of New York. By the end of the year, the foundation was completed, and structural steel was erected.

### Staff Changes

In addition to staff changes already mentioned, several other changes were made at the Head Office during 1919. When J. W. Hoopes resigned as Deputy Governor to go to Houston, the office of Deputy Governor was consolidated with that of Cashier, and Lynn P. Talley was elected to the dual office. Charles C. Hall, Assistant Federal Reserve Agent, was elected Secretary of the Board of Directors to succeed Mr. Hoopes who had been serving in that capacity. Dwight P. Reordan, Assistant Manager of the War Loan Department, was elected Assistant Cashier to succeed R. R. Gilbert, who had been transferred to El Paso, The division of Statistics and Reports was established in the Federal Reserve Agent’s Department, and W. J. Evans was placed in charge of that work. In February, the “Office Service Department” was established at the Head Office to handle applications for employees, employee insurance, payroll vouchers, daily reports, time

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reports, purchases of supplies and equipment, and supervision of guards and porters. At the same time, a trained nurse was added to the staff.

In the latter part of the year, B. A. McKinney, Class A director, and Marion Sansom, Class B director, were re-elected for three-year terms. The term of H. O. Wooten, Class C director, expired December 31, 1919, and he was reappointed for a three-year term. W. F. Ramsey was redesignated Chairman of the Board and Federal Reserve Agent for 1920, and W. B. Newsome was designated Deputy Chairman.

### Personnel Problems

Throughout the year, the bank experienced employment problems, and the maintenance of an efficient organization was very difficult. As a result of the growth in operations, it was necessary to employ many additional people. Competition for capable employees was keen. Working conditions were unsatisfactory, particularly in view of the crowded quarters. Some of the “fringe benefits” to employees put into effect during the year included appropriations for welfare and educational work. The Federal Reserve Club was organized in June 1919, and in November, the Club began the publication of “Items,” an employee’ magazine, at the bank’s expense.

At the end of the year, a bonus was paid to all employees below the rank of Cashier, with the stipulation that such action would not constitute a precedent. A committee of the directors of the bank was appointed to consider salaries for the year 1920. In that connection, the salary scale of the DCH (Transit) Department, consisting of a preponderance of new employees, was very low indeed. As an illustration, the bank had granted salary adjustments to 45 Transit employees (about half of the Transit staff) on October 1, 1919, but a detailed list showed that even after these increases only five would receive a salary in excess of \$100 a month. The salaries of most of them ranged from \$70 to \$90 per month. The minutes of the meeting of the directors held in December referred to this situation and included a statement that in the Transit Department “a day’s work of from 12 to 15 hours has become a matter of course.” In order to improve the situation, a special bonus, in addition to the regular bonus, was awarded to the employees of the Transit Department, and steps were taken to increase the pay scale in that department.



Special Treasury Deposit

The City of Corpus Christi had experienced a disastrous storm in the fall of 1919, resulting in heavy loss of life and property. Chairman Ramsey, while on a trip to Washington, conferred with Hon. Carter Glass, Secretary of the Treasury, who had succeeded William. G. McAdoo upon the latter's resignation in December 1918, regarding the matter of affording financial relief to the Corpus Christi area. He suggested that the Treasury make a special deposit in the National banks in that section, but the Treasury decided that it would not be practicable to do so. Quoted below is a letter from Mr. Glass to Judge Ramsey, dated October 21, 1919:

I have given very careful consideration to your request that the Treasury make special deposits in the banks in and near Corpus Christi, Texas, to relieve the distressing situation created by the flood. I regret exceedingly that I have found it impossible to accede to this request. Prior to the creation of the Federal Reserve System, it had become the custom, and indeed was the duty, as a matter of necessity of the Secretary of the Treasury to grant relief under special circumstances by making special and extraordinary deposits. Since the creation of the System, and more particularly since its great and rapid development following the entrance of the United States into the war, it has not been necessary and has not been deemed desirable. The only exception which has been made was in the case of the \$5,000,000 fund which you yourself administered to relieve the drought conditions in the southwest country. That fund was established not only as a measure of relief, but because the drought threatened the cattle and grain in the region affected at a time when these things were vital to winning the war and when Mr. Hoover and others were straining every resource to get the maximum possible production. Secretary McAdoo felt that under these circumstances, he was justified rather as an extraordinary war measure, in making the drought relief deposits. Congress itself, in the War Finance Corporation Act, provided means also as a war measure of meeting similar situations and no further deposits of this sort were made. Notwithstanding that, the Treasury was subjected to grave embarrassment by the necessity of explaining and justifying the course it had pursued in the case of the Texas drought deposits, in the light of its necessary refusal to grant similar relief in other regions, and under the circumstances which, to the applicants at least, seemed equally meritorious. The Treasury is not a Department which can properly understand to mete out relief and dispense aid even in the worthiest causes. Its control of the Government deposits was given it for the purpose of meeting the current requirements of the Government and it is, of course, peculiarly objectionable to make such deposits in a form where prompt collection cannot be had. I believe that if the circumstances of this particular case seem to justify special relief by the Federal Government, the matter should be laid before the Congress.

I regret exceedingly my inability to accede to your request, more particularly as I realize the care and skill with which you administered for the Federal Reserve Bank the drought relief deposits, and I should be glad, if I could consistently do so, to testify to my confidence and appreciation by doing as you have suggested in this further case.

#### Credit Problems

The livestock industry in the Eleventh Federal Reserve District experienced a “come back” during 1919, and the effects of the drought of 1917 and 1918 were largely overcome. Good feed crops were made and the oil industry was prosperous. Although farmers were inclined to hold cotton for higher prices, considerable liquidation was obtained from that source during the fall months. The Federal Reserve Bank of Dallas had been assisting member banks in carrying Government obligations, but toward the end of the year, the Dallas bank began insisting upon liquidation. However, many member banks were heavily indebted to the Federal Reserve Bank at the end of the year.

In 1919, as the present writing, credit “controls” and the influence of the Federal Reserve Banks on the general economy of the nation were subjects for consideration by Federal Reserve authorities, That was long before the days of the Federal Open Market Committee (which did not operate on a statutory basis until authorized by the Banking Act of 1933, although it did operate on an informal basis earlier), and there was no effective way in which the Federal Reserve System could influence the money market in the present-day concept of central banking functions. The Reserve banks were still regional in character, in investment policies, as well as in other respects, as each bank acted independently in seeking profitable employment of funds. In the first few years of the System’s existence, when the total National debt was only one billion dollars, the “money market” was influenced more by bankers’ acceptance transactions than by Government securities transactions. At first, the earning assets of the Reserve Banks consisted of Government securities (a nominal amount), bankers’ acceptances purchased in the open market, municipal warrants, and a relatively small amount of loans to member banks. As time went on, and as the credit demand from member banks built up, the loan accounts of the Reserve Banks became of primary importance, overshadowing holdings of bankers’ acceptances and Government securities, even though the portfolio of

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Government securities reached substantial proportions as a result of the large increase in National debt incident to World War I.

During 1919, the public was urged to confine production to civilian goods that had been in short supply during the war and for a time after the armistice; banks were asked to restrict credit to legitimate production purposes, and not for speculation, The Federal Reserve Banks raised discount rates, but this was not wholly effective in restraining credit expansion. Incidentally, discount rates were not uniform, and changes by the various Reserve banks were not made concurrently. The individual Reserve banks, each in its own way and in the light of conditions existing in its own district, took measures to restrain undesirable credit expansion and to bring about a reduction in member bank borrowings. The annual report of the Federal Reserve Bank of Dallas for the year 1920 referred to this situation as follows:

The closing months of 1919 witnessed an era of reckless extravagance and indulgence in luxuries at a pace heretofore unequalled. After this period of "fictitious prosperity," as the result of abnormal profits, high wages, and high prices of commodities, attempts to restore financial operations to anything like a normal, or pre-war, basis were slow of accomplishment. In some Federal Reserve districts, discount rates were greatly increased in an effort to check speculation. In this district, however, it was not deemed expedient to unduly tax the agricultural and livestock interests, from which the greatest credit demands were had, and while rates were somewhat increased, the advance was not as great as in some other sections. It is still believed that this procedure was one of wisdom.

The thinking of the day in Federal Reserve circles is vividly portrayed in a Committee report adopted at the meeting of Federal Reserve Agents held in Washington in October 1919, reading as follows:

The normal check for the Federal Reserve Banks to use is a higher discount rate. But in the opinion of your Committee, the conditions prevailing at home and abroad, are so abnormal as to render this method not wholly effective of itself. The European countries are extremely short of goods, and we ourselves have not yet been able to satisfy the accumulated demand for goods resulting from two years of patriotic self-denial on the one hand and a more widely diffused spending power on the other. Furthermore, international trade is extremely unsettled, and all the important European exchanges are heavily in our favor. It is evident that the use of credit for producing the goods of which the world is short should not be unduly curtailed, and it seems equally evident that the immediate use of credit by those engaged in speculation in securities, land, and commodities to force

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prices higher is not only undesirable from its effect on the cost of living, but is laying the foundation for future collapse and depression.

Some increase in the bank rate, however, seems the necessary first step in any program for the restraint of undesirable credit expansion as an indication to the banks that, with the war financing of the Government now on a declining scale, the Federal Reserve Banks may be expected henceforth to function normally. But such increases, which need to be large or uniform in all districts, would be ineffective unless accompanied by a campaign, undertaken gradually and with great discretion, to secure greater moderation by banks in the extension of credit for speculative and other undesirable purposes.

The fact that Government financing is on a descending scale no longer seems to require such a degree of uniformity in Federal Reserve rates as prevailed during the war, when the Liberty Bond rate necessarily overshadowed all others and practically dictated uniformity. It is the belief of your committee that rates need no longer be established either simultaneously or at similar levels.

Your committee are of the opinion that the present preferential rate on government paper has served its purpose and may now or shortly be modified or withdrawn, and that in future rates at which Government secured paper is taken by Federal Reserve Banks should be such as not to permit rediscounting at a profit over the coupon or interest rate.<sup>15</sup>

Judge Ramsey read this report at a meeting of the Dallas bank's directors on November 6 and made a lengthy statement of his own views on the subject. He referred to the great expansion of credit in the Eleventh District and reminded the directors that the bank's resources had been taxed to the utmost.<sup>16</sup> He felt there should be some

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<sup>15</sup> The annual report of the Federal Reserve Board for 1919 made a similar comment about preferential rates on government paper, but the differentials between these rates and the rates for other types of paper were not discontinued by the Reserve Banks until 1921. Although for a brief period in the latter part of 1919, and in the early part of 1920, the rate at the Dallas bank for notes secured by Liberty Loan bonds was the same as the rate on commercial paper, there was still a differential with respect to notes secured by Certificates of Indebtedness, and the preferential rates were not abolished entirely by the Dallas bank until June 25, 1921.

<sup>16</sup> Although the war was over, the Federal Reserve System experienced difficulty in breaking away from the finance policies followed during the war. As heretofore mentioned, it had been necessary to continue the Treasury's borrowing operations for some time after the war was over. Therefore, the Federal Reserve authorities were faced with the problem of maintaining conditions in the money market favorable for continued Treasury borrowing operations while attempting to curtail inflationary pressures. Steps toward a tighter discount policy were not actually taken until the latter part of 1919 and the early part of 1920. (Discussed in detail by Charles E. Walker in Chapter I of his thesis, Federal Reserve Policy and the Government Security Market.)

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reduction of credits, but stated that the reduction “must be brought about without undue shock or too great suddenness,” that “a heavy burden rests upon the Federal Reserve Bank of Dallas to do whatever can properly be done to discourage banks from making speculative loans or tying up their capital in real estate investments or merely capital loans.” He went on to say that, “I have sometimes found that in the allurements and fascination of various speculations that have now and then yielded quick and large returns that too many of our people have rather lost sight of both the surer and more needed returns from honest, if homely toil. There is a scarcity almost everywhere of products of the farm, mines, and factory. Cost of living cannot and will not be reduced until production has practically met the insistent demands of consumption.”

In that day and time, as at present, member banks had observed the large earnings of the Federal Reserve Bank of Dallas and expressed a desire for more benefits of membership. On that point, the Judge remarked that, “It cannot be safely assumed that our earnings will continue on anything like so large a scale as they have done in the recent past. . . .A cumulative dividend at the rate of 6 percent per annum would seem to be a good investment. It is certain, too, in the nature of things, that the Federal Reserve Bank can never pay interest on deposits. Such a suggestion is out of harmony with the whole structure and conception of the Federal Reserve System.”

At the end of 1919, there were 758 member banks in the Eleventh Federal Reserve District and the combined staff at the Head Office and the El Paso and Houston Branches total 505, as compared with the total staff of 403 at the end of 1918.

### SOURCES

1. Annual Reports, Federal Reserve Bank of Dallas, 1917, 1918, and 1919.
2. “Minute Book,” Federal Reserve Bank of Dallas, Vol. I.
3. Numbered Circulars, Federal Reserve Bank of Dallas, 1917, 1918, and 1919, Volumes 1 and 2.
4. Correspondence Files, Federal Reserve Agent, 1918.
5. Decision in Richmond Par Case, North Carolina Supreme Court, Federal Reserve Board Letter X-3422, May 27, 1922.
6. “Administration of the Transit Department”, R. B. Coleman.

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7. “Federal Reserve Policy and Government Security Market,” Charles E. Walker.
8. Annual Report of the Federal Reserve Board, 1919.

## **CHAPTER IV**

### **THE EARLY TWENTIES – SOME TRYING YEARS**

The management of the Federal Reserve Bank of Dallas faced many problems during 1920 and 1921. This was a period of postwar adjustment throughout the Nation. Efforts were made to limit expansion of credit without duly interfering with the processes of production and distribution. The Eleventh Federal Reserve District experienced a severe agricultural and livestock depression. Member banks became overextended, borrowings from the Federal Reserve Bank reached such proportions as to overshadow the volume in preceding years, bank failures became frequent (reaching a total of 82 during 1921), and the discount policies of the Federal Reserve Bank were almost constantly the primary concern of the bank's management. To add to its troubles, the bank lost some of its top-level officers to commercial banks. Inasmuch as conditions and problems during 1920 and 1921 were almost identical, the developments during both years will be discussed together.

By the end of 1920, general economic conditions in the Eleventh Federal Reserve District had become very unsatisfactory. An unusually large cotton crop had been raised that year, and there was a heavy carry-over of unsold cotton into 1921. Whereas cotton had been selling at a price of 43 cents a pound in August 1920, the market fell to 10 cents a pound by the middle of 1921, rose to 20 cents in August, and declined again by the end of the year. There was a similar depression in the livestock market, and ranchers began selling some of their cattle. Accompanying these unsatisfactory conditions in the agricultural and the livestock industries was a decline in the price of oil from \$3.50 per barrel to \$1.75. The reduced buying power of the public made itself felt among wholesalers, jobbers, and retailers. Moreover, there was a slowing of business generally, as a result of price resistance on the part of consumers. This brought about a subsequent decline in merchandise prices, and business and industry in the district labored under the handicaps of a serious depression.

#### Credit Problems

During these two years, the management of the bank "viewed with alarm" the unprecedented demand for credit on the part of member banks. In 1920, the aggregate amount of credit extended to member banks, in the form of rediscounts and bills payable,

reached approximately \$2,277,000,000. This cumulative total was made up of more than 9,000 “offerings” and included renewals of MBC notes. Between 700 and 800 member banks, out of a total membership of 850, borrowed from the Federal Reserve Bank at some time during the year. The maximum amount of loans and rediscounts outstanding at any one time was \$117,000,000 which was reached in September, and which was to stand as a record for 35 years, or until 1955.<sup>17</sup> By the end of 1920, member bank indebtedness to the Federal Reserve Bank still amounted to \$97,000,000. This left the Federal Reserve Bank in an extended condition, with loan holdings of \$70,000,000 (after rediscounting \$27,000,000 with other Federal Reserve Banks), as compared with member bank reserve deposits of only \$47,000,000. In fact, in order to adjust its required reserve position, the bank found it necessary to rediscount with other Federals almost continuously from the latter part of April until the end of the year. Member bank borrowings continued in heavy volume into 1921, and by the end of June of that year, 672 banks were indebted to the Federal Reserve Bank to the extent of approximately \$72,000,000, of which approximately \$10,000,000 was rediscounted with other Federal Reserve Banks. By the end of 1921, loans to member banks were brought down to approximately \$50,000,000. Throughout the entire year, until December 15, the bank had rediscounts with other Federal Reserve Banks. The annual report stated that “had this inter-district accommodation not been extended, the bank’s adjusted reserve position would have reached the vanishing point on several occasions.”

#### Discount Policy

No attempt will be made to cover all the steps taken by the Federal Reserve Bank of Dallas during these trying years in its efforts to establish appropriate discount policies under existing conditions and to urge member banks to use caution in the extension of credit, but this record would not be complete without a rather detailed treatment of at least a few of those steps.

On April 13, 1920, subsection (d) of Section 14 of the Federal Reserve Act was amended so as to authorize the Reserve Banks to establish a progressive discount rate,

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<sup>17</sup> However, the 1955 high point of borrowings was represented by the indebtedness of only a few city banks secured by Government obligations. These borrowings were only for a temporary period of a few days at the end of the year.



to be based on the amount of loans made to the borrowing bank by the Federal Reserve; that is, the more borrowings the higher the rate. Only four of the Federal Reserve Banks actually used this weapon in an effort to control credits – Atlanta, Kansas City, St. Louis, and Dallas. Progressive rates were put into effect at the Dallas bank on May 21.<sup>18</sup> At that time, its rate on borrowing based on agricultural and commercial paper was 6 percent. Under the progressive schedule, the rate was stepped up by one-half of one percent when borrowings exceeded the member bank's capital and surplus, and was further increased by an additional one-half of one percent on each subsequent advance equal to 25 percent, or fraction thereof, of the capital and surplus.

On May 7, 1920, the Dallas bank had issued a two-page Circular letter to all member banks, calling attention to the amendment to the Federal Reserve Act authorizing progressive rates, and expressing the hope that it would not be necessary to apply them in the Eleventh District. At the same time, the bank discussed the credit situation fully and emphasized the necessity for member banks to follow conservative credit policies. The circular, addressed to the President of the member banks, was sent out by registered mail, with the request that it be read at the next meeting of the Board of Directors.

The Circular on May 21 announcing the establishment of the progressive rates again discussed the credit situation at length. Some of the extracts are shown below:

With the view of stabilizing conditions, discouraging excessive borrowings and of giving assurance that indispensable credit will be made available to all banks which are making needed loans, for purposes of raising crops and livestock, and for distributing merchandise and moving crops and livestock to market, we have decided that it is to the best interest of all concerned to make these rates effective at once. It is apparent that if we permit some banks to borrow beyond their proper limit, other banks equally deserving may be deprived of needed credit to which they are entitled.

Member banks should contract their borrowings by retiring their rediscounts in advance whenever possible, and the discount on paper retired before maturity will be rebated at our current discount rates according to the class of paper retired.

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<sup>18</sup> The Dallas bank abolished the progressive rate in February 1921, simultaneously with an increase in basic rates. Atlanta abolished its progressive rate on August 1, 1920, after using it for only a brief period, and St. Louis and Kansas City took similar action on June 23 and August 1, 1921, respectively. On March 4, 1923, Congress repealed the amendment to subsection (d) of Section 14 authorizing progressive rates.

Notwithstanding, the liberal construction, which, with the approval of the Federal Reserve Board, our Board of Directors has placed upon the amendment to Section 14 of the Federal Reserve Act, our Executive Committee feels that it is its duty to inquire into the necessity, on the part of the member bank, for all offerings of paper for rediscount, and will feel privileged to obtain from member banks information as to the purposes for which the proceeds are to be used by them, (unless such information is furnished by the offering bank in a letter of explanation accompanying the offering) and in its discretion may decline offerings for which a real need is not shown.

The progressive rates above described will be effective on and after the date of this circular, and will be applied to all accepted offerings received after this date, which when added to the paper already under discount, creates an amount in excess to the offering bank's capital and surplus or further increases that amount if already in excess of such capital and surplus, with the exceptions noted.

It is hoped and believed that with the co-operation of member banks, and with a general elimination of capital and speculative loans by all banks and the limitation of loans to the indispensable needs of actual production, manufacture, and distribution, this action will assure sufficient credit accommodations to all member banks.

In establishing the progressive rates, the bank provided for exceptions in the case of member bank collateral notes secured by Government obligations actually owned by the borrowing member. Moreover, at that time, there was a "preferential" rate in favor of member bank collateral notes secured by certain types of Government obligations. On June 10, 1920, the preferential rate was made applicable to all types of such securities, and also to rediscounts of customers' notes secured by Government obligations. Accordingly, Government-secured paper enjoyed a favorable position from two standpoints: (1) The progressive rate did not apply to bills payable thus secured, and (2) a "preferential" rate applied to bills payable and rediscounts secured by Government obligations.<sup>19</sup>

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<sup>19</sup> At various times during the existence of the Federal Reserve System, preferential rates for Government-secured paper have been established by the Reserve Banks. The first instance was in the spring of 1917, just after the first Liberty Loan campaign began, and the differential existed for several years. Preferential rates were again established in the latter part of 1939. At the Dallas bank, preferential rates were established on September 16, 1939. When a one percent rate applied to Government-secured obligations and a rate of 1½ applied to paper. The differential existed until March 21, 1942, when the rate on paper was lowered to one percent, the same as for Governments. On October 17, 1942, a preferential rate of

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At a meeting of the Board of Directors of the Dallas bank on June 7, 1920, a lengthy discussion ensued as to the wisdom of issuing “another” general letter to member banks regarding the necessity of conserving credit and curtailing loans. Some of the directors expressed the view that another letter on that subject might have a bad effect. The suggestion was made that newspaper columns would provide a means of bringing the matter to the attention of banks and the general public. Subsequently, the bank’s officers requested The Dallas Morning News to give an editorial treatment of the subject. The News complied with the request, and a very strong editorial appeared in the paper on Friday, June 11, 1920. In addition to speaking out against the action of some banks in advancing their loan rates to correspond to advances in the rediscount rates of the Federal Reserve Bank, the editorial discussed the value of the Federal Reserve System. It pointed out that it was not the purpose of the Federal Reserve System to enable member banks to make a profit out of their rediscount operations, but that the salient purpose was to create and maintain a reservoir of credit for use in times of stress. The bank had 3,000 copies of the editorial printed for general circulation in the district and a copy was sent to the Federal Reserve Board. The Board was so impressed with the editorial that it sent a copy to each Federal Reserve Bank, with the suggestion that it be brought to the attention of their member banks.

The progressive rates did not prove to be effective, and in spite of all the publicity, general appeals, and words of caution addressed to individual banks, some 500 member banks were still indebted to the Federal Reserve Bank of Dallas at the end of the year in the approximate amount of \$100,000,000. Upon instructions of the Board of Directors, the bank on December 15, 1920, issued a circular, over the signature of Governor R. L. Van Zandt, on the subject, “Credit Conditions and Loan Policy.” Because it gives such a clear picture of the policy of the Federal Reserve Bank of Dallas at that time, it is quoted below in its entirety:

At its last meeting, our Board of Directors made a careful review of the credit and financial situation in this district, and the future policy of this bank was

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one half of one percent was established on advances to member banks secured by Government obligations maturing in one year or less. This differential was removed on May 9, 1946. Inasmuch as the original Federal Reserve Act authorized the Reserve Banks to establish rates “for each class of paper,” no changes in the law were necessary in order to provide for preferential rates.

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the subject of considerable discussion and was given full and thorough consideration.

Following the discussion, I was authorized and instructed to communicate to the member banks of the district, the consensus of the views of the directors, which action seems timely and appropriate as we are just entering upon a new year.

It must be understood that we are fully aware of the fact that many banks receiving this letter have their affairs in sound and liquid condition, requiring no special admonition at our hands, but it is hoped that the views expressed herein are so sound and helpful that they may be of some benefit to all our banks.

We believe that the financial condition of the district is intrinsically sound, although the heavy decline in the prices of practically all products makes it necessary to somewhat readjust business to meet these changed conditions.

In bringing about this readjustment, we consider it indispensably necessary, and a matter of first importance, that all banks shall limit their loans to producing businesses and enterprises, absolutely declining all merely speculative loans and reducing to a minimum, loans of an investment nature. It appears equally essential that all banks having rediscounts or owing borrowed money should immediately take effective steps to secure liquidation for, although we are in the midst and nearing the end of the period when our seasonal liquidation normally takes place, we are now carrying an unduly large amount of rediscounts and loans for our member banks many of whose lines show little or no diminution from the maximum amount reached during the summer. Bearing this in mind, and also the fact that within a short while, the bank will be called on for funds for crop planting and for other seasonal needs, it seems proper to suggest to the banks that, before making commitments for the new year, they should give careful attention to the above suggestions as well as consideration to their ability, within their own resources, to take care of any and all loans made without resorting to excessive borrowing from the Federal Reserve Bank.

Section 4 of the Federal Reserve Act directs that in extending discounts, advances and accommodations to any one member bank, due regard must be had for the claims and demands of all other member banks. This provision should always be borne in mind by member banks for, under a rigid enforcement of this rule, the maximum limit of discount accommodation to any member bank would be in an amount substantially equal to two and one-half times the reserve of such member bank plus two and one-half times the amount of its paid-up capital stock in the Federal Reserve Bank.

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We have not heretofore found it necessary to make this measure of borrowing the limit or rule in this bank, but if it becomes necessary to limit borrowings by our member banks we shall not hesitate to do so.

At the beginning of the present year, many banks, in making their commitments, failed to give proper consideration to the fact that their unusually large deposits would prove unstable, and made loans with less conservatism than sound business prudence would suggest, with the result that they found themselves compelled to rediscount with us far more heavily than should have been necessary. In many of the banks, too large a portion of their funds became tied up in investment loans and too frequently in loans for speculative purposes. This policy should and must absolutely cease, and banks should not and must not make such loans with the expectation that funds with which to carry them may be obtained by rediscounting with us. The course of safety lies in granting credits only for productive purposes, and then only in conservative amounts.

We have repeatedly attempted to impress on our member banks the fact that they should not consider this bank a mere source of supply for loanable funds to permanently increase their lending ability, but that the rediscount privilege should be held in reserve for temporary emergencies, or to meet unusual demands of a legitimate and strictly seasonal character. Such was the primary purpose of our rediscount facility.

It seems important that this fact should be emphasized and member banks are urged to bear it in mind in shaping their loan policy during the coming year. They should limit their offerings to us to the lowest amount possible and send us only such paper as there is reason to believe will be actually retired at its maturity.

We have no power to control the interest rates charged their customers by our member banks, but we do feel that when you are called upon to make loans out of your own resources, for essential and productive purposes, these loans should not be burdened by an increased rate simply to give your bank a margin of profit, should it become necessary for you to rediscount with us.

Again, it seems worthwhile to call attention of our member banks to what seems to be a practice too generally adopted by many of them of borrowing heavily and continuously against Government securities. The rates heretofore adopted by our Board on notes secured by this class of security has undoubtedly encouraged the practice mentioned. While we regard an obligation of the United States as the best security in the world, it must nevertheless be remembered that a loan by us against such securities uses up just as large a part of our resources as if secured by commercial paper,

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or livestock, or farm products. It seems timely, therefore, to suggest payment or reduction in all such loans wherever at all possible.

With courage to meet the future and a firm determination to do our part, let us all resolve to get our feet down to earth, and plan to build wisely for the future. It does not need to be said that we shall be quick and eager to render any assistance reasonably within our power to those banks which need and are entitled to same. But, by all means let's get all of our banks out of the "brokerage house" class and bring them back to their rightful and proper status of conservative banking institutions. As an indispensable precedent to this condition, there must be a practically complete cessation of loans except for legitimate production and essential commercial needs, coupled with an orderly, determined, but not unnecessarily drastic, liquidation.

Such a policy generally and resolutely adopted and persevered in will, in a comparatively short time, work a wonderful change in this district. There are latent powers of liquidation in each community which can be discovered, which when worked out will reasonably insure not only safety to the bank, but credit availability for all legitimate demands.

Our Board earnestly requests that you read this letter to your directors at their next meeting and that you write us their opinion of the views and suggestions made herein.

In January 1921, because of a decline in the market value of Government securities, the bank fixed a loan value on Liberty Loan bonds at 85 percent of face and on Victory notes at 95 percent. Borrowing banks were told that they could pledge other collateral sufficient to make up the difference between the loan value of the Governments and the face amount of the bills payable. Some of the banks reduced their bills payable to the loan value of the pledged bonds instead of pledging additional collateral. In some cases, the banks sold their Government securities at a loss and paid off their notes to the Reserve Bank.

On February 15, 1921, the discount rate of the Federal Reserve Bank of Dallas was increased to 6 percent against Government securities and 7 percent against paper (up from 5½ percent and 6 percent, respectively), and the progressive rate was abolished. The circular announcing the change, which went out over the signature of Judge Ramsey, as Chairman of the Board of Directors, is quoted below:

Our Board of Directors, at the meeting held on February 7<sup>th</sup>, after full consideration, abolished the progressive rates of discount heretofore established and in force in this bank. At the same time, a rate of six percent

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per annum on all paper secured by Government obligations, and a rate of seven percent per annum on all other paper rediscounted by us, was established, effective February 15.

The rates of discount in the bank have, for almost a year, been substantially lower than those in force at the Federal Reserve Banks at the great financial centers in New York, Chicago, and Boston. In view of conditions in this district, we have, during the ordinary seasons of production and liquidation of the year just past, been reluctant to advance our rates of discount, though we have for many months been paying to other Federal Reserve Banks interest at the rate of seven percent on many millions of dollars, which we have advanced to our own banks at six percent and less. With the opening of the new crop season, we all deemed it a matter of simple justice to let our member banks know what our rate was to be. It should not be necessary, and we hope that this increase of rates by us will not result in any increases in rates by the banks to their customers.

After full discussion, it was determined to establish the rates above named, in line with the rates prevailing in the commercial centers. It is hoped that it will not be necessary to re-establish and put in force the progressive rates heretofore existing. However, if any considerable number of banks seek to impose undue lines of discounts upon us, it may become necessary to do so.

Again, the slightest reflection must convince all banks of the necessity of wisely husbanding their resources and extending loans only for production purposes and in such amounts only as a prudent regard for their own resources and the indispensable needs of their customers would suggest and permit.

It has always been the sincere wish and purpose of the Federal Reserve Bank of Dallas to be of real service in promoting the welfare and fostering the interests of banks and business interests, including livestock and agriculture, of this district. To do this, we should have the co-operation and support of our member banks in limiting credit to the absolute needs of production and distribution. It is believed that such co-operation and the practice of intelligent, if severe economy, that sufficient credit will be available for all legitimate business.

Finally, we beg to remind our member banks that there are many sources of liquidation yet to be availed of in practically every part of the district. It is of the highest importance that all available sources of liquidation be realized on and that as rapidly as practicable, the products of the farm, ranch, and shop be converted into money. If a wise policy along those lines is pursued, the situation will be immensely strengthened and improved.

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The raising of the discount rates caused quite a bit of discussion among bankers and resulted in considerable correspondence. Judge Ramsey replied as follows to a letter of complaint received from one of the member banks, and subsequently quoted his reply in a circular addressed to all member banks.

I am just in receipt of your letter of the 15<sup>th</sup>, with reference to interest rates. I am glad to have heard from you, and I want you to feel free at all times to write us about any matter in connection with the management of the Federal Reserve Bank of Dallas.

I note that the part of the circular which has prompted you to write is that which admonishes banks not to raise their rates. The admonition that you refer to is necessarily implied from what is said in the letter, and yet the suggestion is made modestly, I think, and respectfully. You seem to think we are inconsistent in advising our member banks that we are raising our rates and in the same paragraph tell them that they should not do the same thing we are doing; but, do you not overlook the fact that you have all along been lending money to your customers at a very considerable increase over the rates of the Federal Reserve Bank, whereas we have, for many months, been borrowing money from other Federal Reserve Banks at a considerably larger and heavier rate than we have been lending? In other words, you have all along been making money on such sums as you borrow from us, whereas we have all along been lending money to our member banks at considerably less than we have been paying other Federal Reserve Banks.

However, aside from that, you should remember, and of course recognize the fact, that it was never intended that the Federal Reserve Bank should be a mere source of loanable funds, or that loans should either be solicited or made by you with a view of passing them on to the Federal Reserve Bank for profit. The whole theory was that banks, as a rule, would make loans with reference to their own ability to handle them, depending upon securing funds by rediscount of their paper with us with a view of meeting unexpected withdrawals of deposits or such unusual seasonal needs as you would not be able to meet out of your own resources.

Even at our present rate, seven percent, you would have, under your statement, a profit on one percent on all loans and a profit of three percent on many loans. Of course, yours is not a large borrowing bank, and I am glad to say it has never imposed in any way upon our facilities. But, if to take care of your customers, you were required to borrow even a fairly considerable sum from us, under our rates and your rates, it would involve no loss to your bank, and yet would accommodate your customer and help out the business and commerce of the country. While we have no absolute control over rates charged by our member banks, we do feel that the slight increase in our rate should not be made the occasion generally of a raise of



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interest rates to the trade and commerce of the country. I am strongly inclined to believe that such a course by our member banks would be bad business for them and most unfortunate for the country at large.

Again, you seem to have the erroneous view and idea that our purpose in raising our rate was, and the effect of it would be, to increase our profits. The matter of profit has nothing to do with it at all. In fact, I am inclined to believe, and certainly strongly hope, that raising the rate may so focus attention upon the borrowing habit as to reduce our rediscounts and decrease our profits. The pretty heavy profits which Federal Reserve Banks have made have been misunderstood and the result has been unduly emphasized. This complaint usually comes from those who insist upon free extensions of credit, and from those also who are complaining that credit is being unduly restricted.

There is practically only one way in which the Federal Reserve Bank makes money, and that is by lending money to our member banks. If member banks would quit borrowing so heavily, our profits, of course, would immediately decrease.

Again, there is also another mistaken idea about the source of our profits. Our lending ability is largely dependent upon the note issuing power which is granted by the Government and which enables us to immensely increase the amount of credit we can extend to member banks. If we were limited solely to the capital invested by member banks and their reserve deposits, we should not today be making any considerable sum of money. Our lending ability is due largely to the note issuing power, which is granted as a franchise by the Government, to which, after accumulation of the surplus, practically all our profits go for the purpose of paying the national debt.

All these matters may have occurred to you, but the statement of them seems appropriate. We are hoping to be able to take care of the needs of the member banks in this district, but if we do this adequately, it is going to be absolutely essential that these needs be held to the lowest possible minimum and that all banks join us in an honest effort to restrict credits to indispensable needs.

I am glad to have heard from you and shall always be glad to discuss any matter relating to the management of the Federal Reserve Bank with you or with any other member banker.

The wording in this letter, in some respects, is remarkable similar to the present-day terminology used in Federal Reserve circles. For example, note the last sentence in the third paragraph of Judge Ramsey's letter:

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The whole theory was that banks, as a rule, would make loans with reference to their own ability to handle them, depending upon securing funds by rediscount of their paper with us with a view of meeting unexpected withdrawals of deposits or such unusual seasonal needs as you would not be able to meet out of your own resources.

Now, compare this with the following sentence in the statement of general principles as shown in the Foreword to Regulation A of the Board of Governors of the Federal Reserve System, as revised effective February 15, 1955:

Federal Reserve credit is generally extended on a short-term basis to a member bank in order to enable it to adjust its asset position when necessary because of developments such as a sudden withdrawal of deposits or seasonal requirements for credit beyond those which can reasonably be met by use of the bank's own resources.

Also, the Federal Reserve Banks are still finding it necessary, as the Judge did, to explain to member banks that the primary source of earnings to the Reserve Banks is the note-issuing power, and not reserve deposits.

### Further Rate Changes

Within a few months, the Reserve Banks began reducing their discount rates. At the Dallas bank, three reductions were made during the remainder of 1921, as follows: On May 16, to 6½ percent against Government securities and six percent against paper; on June 6, to 6 percent; and on November 4, to 5½ percent. The latter changes made no distinction between Government-secured and other type of obligations.

On page 236 of Governor Harding's book, The Formative Period of the Federal Reserve System, he referred to these reductions in rates as follows: "During the late summer and autumn of 1921, there were successive reductions in the discount rates of the Federal Reserve Banks based upon the improved reserve position and easier market rates. . . . These reductions, which were logical and were made in accordance with a definite policy, put an end to the clamor for lower rates, although critics still continued to denounce the Board for having approved the higher rates, which had prevailed when conditions were entirely different."

System Policies Criticized

There was widespread criticism of the policies of the Federal Reserve System and those of the individual Reserve Banks during the early Twenties. The Board [of Governors] was sensitive to these criticisms, as indicated by references to them in articles appearing in the Federal Reserve Bulletin from time to time and in the Board's annual reports for 1919, 1920, and 1921. These criticisms were also discussed at length in Governor Harding's book, The Formative Period of the Federal Reserve System. Since volumes have been written by others on this phase of the System's history, no attempt will be made here to develop the subject. It might be said, however, that in reply to accusations that it "caused" the deflation, the Board replied that the steps that were taken did not produce deflation, but merely prevented further inflation and checked unhealthy expansion.

In May 1920, at a joint meeting of the Federal Advisory Council, the three Class A (banker) directors of each Federal Reserve Bank, and the Federal Reserve Board, held in Washington, there was a general discussion and analysis of the credit situation throughout the country. Generally, the speakers referred to the current expansion of bank credits, extravagance, and speculation. One speaker said "It seems to me it would be very helpful if every bank in the country should constitute itself a missionary for thrift and saving and try to urge upon the workers, upon the laboring people, and upon those whose incomes have been swollen, the importance of laying up for the rainy day and for old age. . . .I was very much disgusted the other day to hear of my chauffeur buying about three silk shirts at ten dollars apiece." The general tenor of the meeting seems to be the necessity for checking further expansion and to bring about a normal and healthy liquidation without curtailing essential production, "...and in order that the banks may be prepared to meet the demands made upon them during the crop making and harvesting seasons." This conference, which was widely publicized, was referred to by critics as "the great conspiracy" and "the Crime of 1920."<sup>20</sup>

The Federal Reserve Bank of Dallas, in addition to discussing the credit situation by means of circulars, as quoted above, also discussed the subject in its annual reports. The report for 1921, referring to the over-extended condition of member banks, stated

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<sup>20</sup> The Formative Period of the Federal Reserve System, Harding, pp.168-179



Figure 11 – Original Building on Wood and Akard Street Site

The third home of the Federal Reserve Bank of Dallas, located at Wood and Akard Streets, the present site. Cornerstone laid April 2, 1920. New quarters occupied March 12, 1921. Note “vintage” automobiles.

that, “The management of the Federal Reserve Bank of Dallas, early recognizing the danger in conditions, immediately began effective measures to conserve credit and restrict advances to member banks to their indispensable requirements.” The report went on to say that “It was sought the cooperation of member banks in the reduction of borrowings; at the same time liquidation has not been insisted upon, or forced, where it meant disaster to the banks or undue losses to producers, either by the sale of commodities on a declining market or the sacrifice of livestock in an unfinished or unmarketable condition.” This restriction of credits brought on rather widespread criticism of the management of the Federal Reserve Bank of Dallas, and in spite of disclaimers, there were many charges of “forced” liquidation. Unfortunately, much of the correspondence with member banks during that period was destroyed in the middle

Thirties, under the System-wide rules setting up retention periods for various types of records and directing the destruction of old correspondence according to a schedule recommended by a System Committee on Destruction of Records. Certain members of staff of the Dallas bank at that time recall that many letters of complaint were received. It also appears that in some cases objection was made to the practice followed by the bank in requiring directors' guaranties and "additional collateral" when credit was requested by banks which were in an over-extended or unsatisfactory condition. By the execution of guaranties, the directors of the borrowing banks guaranteed the payment of the member bank's indebtedness to the Reserve Bank, and in the event the member bank closed, and the Reserve Bank was unable to collect all of the notes held under rediscount, recourse could be had against the directors individually for the remaining unpaid indebtedness to the Reserve Bank. By pledging "additional collateral," the bank submitted some of its customers' notes to the Reserve Bank to provide a "margin" over and above the amount of paper rediscounted. The margin required was usually 25%, although in some cases the requirement was established at  $33\frac{1}{3}\%$  or 50%.

Perhaps the strongest protests against the Dallas bank's policies in 1921 were made in connection with its suggestions to banks that had been borrowing from the Reserve Bank continuously over an extended period of time to sell their Government securities (at a loss) and retire their indebtedness. At that time, the prices of the securities were considerably below par. They had been acquired during the war and immediately thereafter, in response to appeals for patriotic support of the Government's requirements, and member banks felt that it was unfair to ask them to sell the securities at a loss in order to retire indebtedness at the Reserve Bank. Some protests were made to the Federal Reserve Board that the Dallas bank was using "pressure" to effect reductions in member bank borrowings, and there was considerable correspondence on the subject in the spring of 1921 between Governor Harding of the Federal Reserve Board, and Judge Ramsey, of the Dallas bank. While the Board agreed that the position of the Dallas bank was sound in its desire to effect liquidation from continuous borrowing banks that were not able to carry the bonds within their own resources, by suggesting that the bonds be sold, the correspondence pointed out that there was a considerable difference between

“suggesting” and “insisting.” The view was expressed that if the suggestion was made and it found that the bank addressed did not

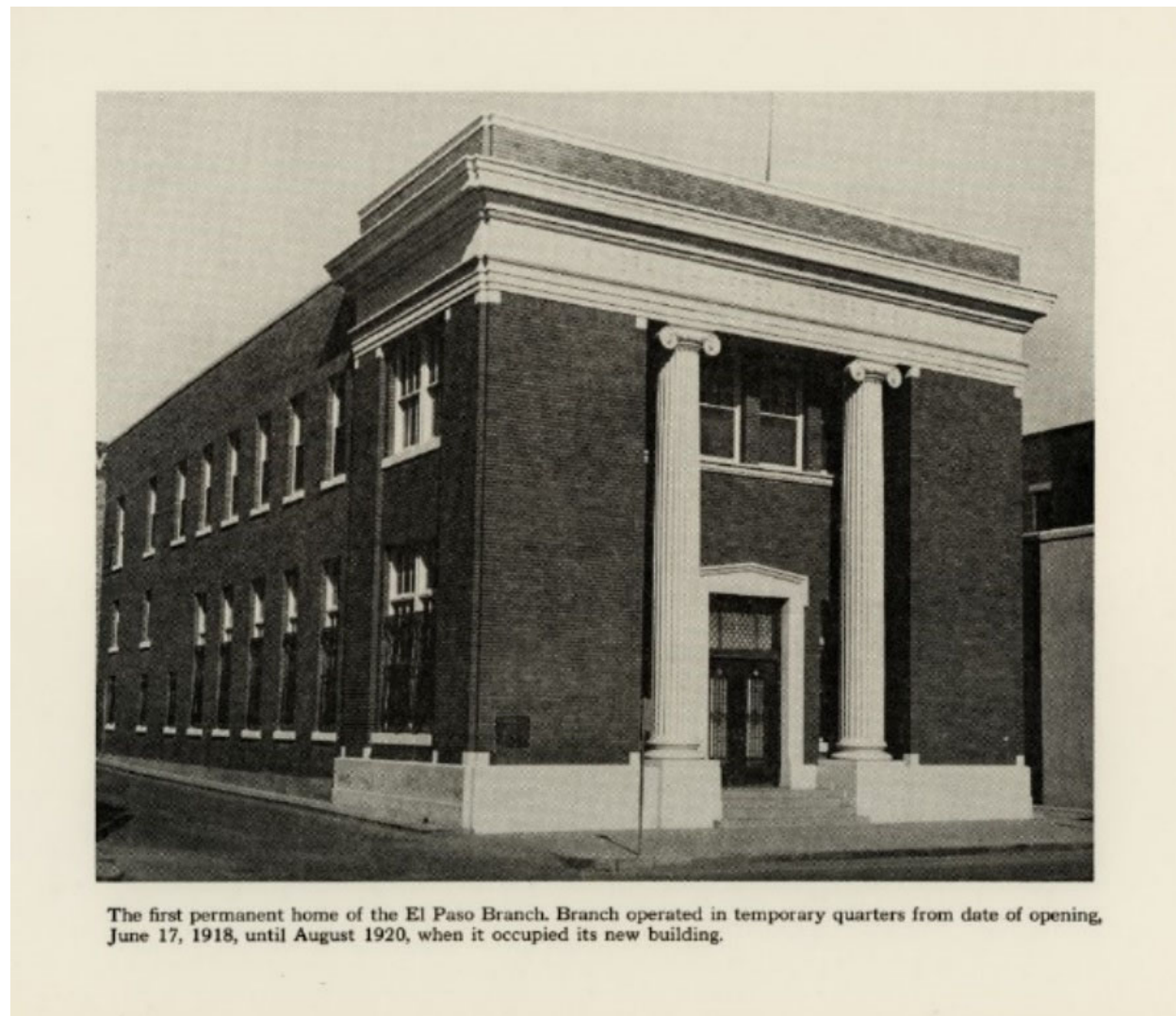


Figure 12 – El Paso Branch Building, 1918

The first permanent home of the El Paso Branch operated in temporary quarters from date of opening, June 17, 1918, until August 1920, when it occupied its new building.

regard the proposition with favor ‘but rather with extreme repugnance’ the matter be dropped for the time being and “taken up again in a tactful way later on.” Following this correspondence, the management of the Dallas bank decided to “put on the soft peddle” in the matter of writing banks about selling their bonds.<sup>21</sup>

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<sup>21</sup> Special history file; folder, “Sell Gov’t bonds and retire debt to FRB (1921).”

### Bank Failures

Throughout this period, the efforts of the management of the bank were directed toward improvement of the conditions of member banks in the district. It was the policy of the Reserve Bank to extend further credit to member banks when their condition justified. Nevertheless, a number of unsatisfactory bank situations developed, and the management of the Reserve Bank had frequent conferences with officers and directors of member banks who had been called in for the purpose of going over their affairs. The Reserve Bank officers assisted the National and State bank examining authorities in bringing about reorganizations of many weak banks. In spite of the best efforts, however, there were numerous bank failures. Most of the member banks that were closed were indebted to the Federal Reserve Bank, and the Reserve Bank was faced with the problem of collecting paper direct from the makers of the notes when the indebtedness of the failed banks could not be collected otherwise. Special field men were employed for this purpose, and an Insolvent Banks Department was established. During 1921, substantial losses were charged off and additional reserves were set up for probable losses on paper rediscounted for banks that later became insolvent.

A related problem concerned the disposition of checks involved in the failure of drawee banks. After unsatisfactory experiences, the bank issued a Circular on January 29, 1921, making it clear that the Reserve Bank would act only as an agent in handling checks for collection, and that all checks received by the Federal Reserve Bank would be forwarded for collection and remittance of proceeds. About this time, Governor Van Zandt started a custom, which was to continue for many years, of reporting to the Board of Directors at each meeting the status of the indebtedness of closed banks. He would give detailed information as to the total amount of outstanding indebtedness, how it was secured, and the amount of additional collateral held and the amount of collections made during the preceding month.

There grew up a public tension regarding banking matters, and frequently rumors would set off “runs” on banks. In May of 1921, the Security National Bank of Dallas experienced such a run, and the minutes covering the meeting of the Board of Directors of the Federal Reserve Bank was held on June 15 gave a detailed account of that situation. Long lines of depositors making withdrawals formed in front of tellers’ windows,

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and there was a large crowd in the street in front of the bank. The bank called on the Federal Reserve Bank for help, and substantial credit was extended in the emergency. A large amount of currency was delivered by the Reserve Bank in its truck, accompanied by messengers and guards, and exhibited to the crowd in the lobby. Chairman Ramsey and others made reassuring statements to the people crowding the bank's lobby, and the Dallas Clearing House Association and prominent businessmen assured their support of the Security National Bank in its difficulties. The excitement subsided and the member bank was able to reopen for business the following day without further unusual happenings. A few months later, however, it was necessary to reorganize the bank.

During the year 1921, there were 82 bank failures in the Eleventh Federal Reserve District. In view of bank difficulties, and public uneasiness, the Federal Reserve Board suggested to the Reserve Banks that every precaution be taken to safeguard confidential matters. The Board of Directors of the Dallas bank adopted a resolution in the spring of 1921 regarding the treatment of confidential matters by employees. The resolution read as follows: "In view of the sometimes exaggerated importance attached even to information or personal comments or statements made by Federal Reserve Bank employees concerning general banking matters, no employee of the Federal Reserve Bank shall in any way disclose to anyone, other than an employee or officer of the bank entitled thereto, any information obtained in the course of his or her work, or discuss any banking matters that may in any way concern or relate to the Federal Reserve Board, Federal Reserve Banks, or any member bank, with anyone not connected with the Federal Reserve Bank.... Anyone guilty of a breach of this rule will be subject to immediate dismissal."

### Bank Buildings

Satisfactory progress had been made in the construction of the new Head Office building at Wood and Akard Streets, and on April 2, 1920, the cornerstone laying ceremonies were held. Special invitations were issued to the officers and directors of the Reserve Bank, to the presidents or other designated representatives of commercial banks in Dallas, to City and County officials and Chamber of Commerce representatives, and to representatives of the contractors and architects. The program included the Invocation by Methodist Bishop E. D. Mouzon, a brief statement by Chairman Ramsey, the placing of



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the cornerstone and the deposit of articles in the receptacle, and the Benediction by Rev. Wm. M. Anderson, Jr., pastor of the First Presbyterian Church of Dallas. The articles placed in the receptacle included the following:

1. History of the bank up to that time, with sundry exhibits.
2. Copies of Dallas newspapers and other Dallas publications.
3. Architects' specifications of the building.
4. Complete roster of directors, officers, and employees of the Head Office and of the El Paso and Houston Branches.
5. Copies of annual reports of the Federal Reserve Bank of Dallas for each year through 1919.
6. Copies of annual reports of the Federal Reserve Board for 1918 and 1919.
7. Copy of Federal Reserve Act.
8. Copy of Charter of Federal Reserve Bank of Dallas.
9. Detailed statements of condition of Federal Reserve Bank of Dallas as of December 31, 1914 through 1919.
10. Copy of Federal Reserve Bulletin issued by Federal Reserve Board March 1920.
11. Reports of condition as of February 28, 1920, of all Dallas commercial banks.
12. Photographs of directors of the Federal Reserve Bank of Dallas.
13. Photographs of the officers of the Federal Reserve Bank of Dallas.

Special efforts were directed to the finishing of the third floor of the new building to which the Transit Department would be assigned, and that department occupied its new quarters on December 12, 1920. The other departments moved on March 12, 1921.

In August 1920, the El Paso Branch occupied its new building, construction of which had been started in November 1919.

The Houston Branch had outgrown its rented quarters, and in November 1920, a lot at the corner of Texas Avenue and Caroline Street was purchased for a consideration of \$65,000. In April 1921, work was begun on the new building for the Houston Branch, with the expectation that it would be completed by February 1, 1922.

### Staff Changes

In February 1920, the position of Deputy Governor and Cashier was divided. Lynn P. Talley continued as Deputy Governor, and Sam R. Lawder, theretofore Manager of the Houston Branch, was elected Cashier at the Head Office.

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In July 1921, Lynn P. Talley resigned as Deputy Governor and Sam R. Lawder resigned as Cashier, to accept official positions with the Security National Bank of Dallas, which was later reorganized as the Southwest National Bank. Mr. Talley's position was not immediately filled. R. R. Gilbert, Assistant Federal Reserve Agent, resigned that position, and was elected Cashier to succeed Mr. Lawder. In connection with the vacancy in the position of Deputy Governor, R. G. Emerson, Assistant to the Governor of the Federal Reserve Board at Washington, was loaned to the Dallas bank, and reported on July 2. In August, Mr. Emerson was elected Acting Deputy Governor.

### Other Internal Matters

In May 1920, the bank established the policy of requiring medical examinations of all new employees.

The records show that in December 1920, Cashier Lawder submitted a proposal for the classification of the jobs of employees and the adoption of minimum and maximum salaries. This plan was approved by the directors of the Dallas bank and was referred to the Federal Reserve Board. The records are obscure as to what happened then, but apparently the proposal was dropped. The detailed description of the plan and the terminology used are remarkably similar to the plan adopted 27 years later – in 1947 – under the direction of professional consultants.

During 1920, bonuses in the total amount of \$56,105 were paid to employees. These bonus payments were at the rate of 20 percent on annual salaries up to \$1,500; 15 percent above \$1,500 to \$3,000; and 10 percent from \$3,000 to \$5,000. No bonuses were paid to officers and employees whose annual salaries were in excess of \$5,000. This was the last time a bonus was paid at the Federal Reserve Bank of Dallas, as the practice was discontinued in 1921.

In 1920, due to the increase in volume of operations, it had been necessary to increase the staff, particularly in the Credit Department. At the close of business December 31 of that year, there were 613 employees at the Head Office and Branches, and there were 850 member banks in the Eleventh Federal Reserve District, (This represented net increase of 20 National banks and 72 State banks during the year.) On December 31, 1921, officers and employees of the Head Office and Branches totaled 637. Reductions in the Fiscal Agency and Transit Departments were more than offset by

increases in the Cash, Credit, Loan and Discount, and Service Departments. The increase in the Service Department followed the full occupation of the new building, requiring additional guards and porters, and new employees to staff the Cuisine Division. At the end of the year, there were 861 member banks in the Eleventh Federal Reserve District.

#### The Federal Reserve Agent's Functions

As heretofore mentioned, there was some confusion in the early days as to the respective functions of the Federal Reserve Agent and the Governor of the Bank. W. P. G. Harding, in his book, The Formative Period of the Federal Reserve System, brings out that in one Reserve Bank, the directors sought to make the Chairman the Operating Head of the bank, but the Federal Reserve Board declined to approve it. With respect to the Dallas bank, during the years that Judge W. F. Ramsey was Federal Reserve Agent, he appeared to be the dominant personality in the organization and took the lead in the performance of many administrative duties. Several functions were under his immediate supervision, as head of the "Federal Reserve Agent's Department." These included Member Bank Relations, Auditing, Examination, and Statistical. In addition, there were assistant Federal Reserve Agents at the Head Office and at the Branches. Judge Ramsey sometimes made direct recommendations to the Federal Reserve Board on the matter of salary increases for members of the staff under his supervision, without formal approval of the directors or of other officers of the bank. This is indicated in a letter the Judge wrote the Board in November 1920, about an increase for one of his assistants, wherein he stated, "while, of course, it is a matter our own Board has nothing to do with, as a matter of courtesy, I submitted the matter to them and they all agreed that from every standpoint he is entitled to this salary, which I now recommend."

The Federal Reserve Board, in a letter to Judge Ramsey dated April 27, 1920, had expressed the opinion that the staff under the supervision of the Federal Reserve Agent at Dallas was somewhat out of balance with the force required by the bank itself, both as to number and compensation, and seemed to be out of line with some of the other Federal Reserve Banks. The Judge wrote the Board a seven-page letter in answer to this criticism, complimenting the members of his staff for their efficiency, and as for himself, stating that "as a rule, I am the earliest officer to arrive at the bank and about the last to leave." He

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defended the organizational set-up of his department, but stated that he would be glad to consider suggestions for improvement or better organization. In reply, the Board did not make any specific suggestions, but pointed out that “it has always been the policy of the Board to distinguish between the functions of the Federal Reserve Agent and the functions of the Chairman of the Board of Directors and the directors. You can readily understand that if the activities of the Federal Reserve Agents and the various divisions under their control should be projected unduly into the operations of the bank, some justification might be given to the contention that the Federal Reserve Banks were being operated not by their directors, but by the Federal Reserve Board through the Federal Reserve Agents.” In furthering the correspondence, the Judge stated that it was his purpose to go into the matter fully to see whether he could, without loss of efficiency, “secure the cooperation of the bank proper to the end that I may be relieved of some of the detail work....”

Similar questions apparently arose from time to time at some of the other Federal Reserve Banks, for on September 30, 1921, the Federal Reserve Board sent out a general letter to all the Reserve Banks on the subject of “Salaries in Federal Reserve Agent’s Departments.” The letter directed that salaries in that department be fixed on the same basis as salaries for work of corresponding importance in other departments, and that recommendations be submitted to the bank’s Board of Directors or to the appropriate salary committee for concurrence or for independent recommendations. An exception was made, however, with respect to salaries of the Federal Reserve Agents themselves, and apparently the Board wished to continue the policy of fixing the salary of the Federal Reserve Agent without any reference to the local Board of Directors.

### SOURCES

1. “Minute Book,” Meetings of Board of Directors, Federal Reserve Bank of Dallas, 1920-1921.
2. Numbered Circulars, Federal Reserve Bank of Dallas, 1920-1922.
3. Annual Report, Federal Reserve Bank of Dallas, 1920-1921.
4. The Formative Period of the Federal Reserve System, Harding.

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5. Miscellaneous correspondence in Special History File, including folders containing letters relating to discount policies, Federal Reserve Agent's files for the 1920-1921; special folders "Sell Government bonds and retire debt to FRB (1921)" and "Cornerstone Laying 1920."

## **CHAPTER V**

### **FURTHER DEVELOPMENT OF CREDIT POLICIES**

The year 1922 marked a continuation of the credit problems that faced the bank in 1920 and 1921. The depreciation in the value of commodities that occurred in 1920 and crop failures in 1921 over a large part of the agricultural area had left many banks, particularly small banks in farming communities, in a distressed condition. Agricultural and livestock conditions in southeastern Oklahoma were very unfavorable. The livestock industry in west Texas and southern New Mexico suffered severely from the drought in that area and from a decline in livestock values. Cattle were not in condition to send to market, and some owners moved their cattle to old Mexico for pasturage. Some relief was provided by the War Finance Corporation which began making loans to banks and cattle loan agencies.

Early in the year, the Board of Directors of the Dallas bank gave special consideration to what credit policy should be followed in dealing with banks that had gotten in an overextended condition as a result of the depression of 1920 and 1921. The directors approved a policy of making advances to banks, even those in an extended condition, within reasonable limits of safety. The officers of the bank were directed to be helpful and constructive, bearing in mind the welfare of individual member banks, but at the same time giving primary consideration to the safety of the advances. There had been some bank failures, and, in that connection, the directors pointed out that further suspensions would not only affect well-managed and solvent institutions, but would probably result in heavy losses to the Federal Reserve Bank of Dallas. The officers of the bank, through conferences and correspondence, counseled with the officers of the problem banks, in an effort to bring about an improvement in their condition, and to explain the bank's credit policies and practices.

Member bank borrowings declined from approximately \$50 million at the beginning of the year to \$31 million in May. There was a seasonal increase to \$37 million in August, a decline to \$18 million in October, and a low point of \$14 million was reached by the end of the year. Although the total volume of loans to member banks was considerably less than in the preceding year, the number of banks served during the year through the rediscount function remained large; borrowing banks numbered 661, representing about

77 percent of the total membership. However, at the end of the year only 177 member banks were indebted to the Federal Reserve Bank of Dallas, as compared with 536 at the end of 1921.

On July 12, 1922, the Federal Reserve Bank of Dallas reduced its rediscount rate to 4½ percent, from the previously existing rate of 5 percent, which had been in effect since the early part of the year. In the early part of August, the Dallas bank announced that in the future it would increase to par the collateral value of Government securities submitted in connection with member bank notes payable to the Reserve Bank and in connection with rediscounts of customers' notes. For some time, the collateral value had been only 95 percent of face value.

With the lower level in rediscounts, there was a decline in the bank's earning assets, and efforts were made to offset this decline by increased holdings of bankers' acceptances and Government securities. The purchase of bankers' acceptances was made mostly through the Federal Reserve Banks of New York and Chicago; some purchases were made in the Eleventh District, which served to stimulate local interest in that type of instrument. Purchases of Government securities, principally Treasury certificates with short maturity, were made in the open market. At the end of the year, the bank's holdings of acceptances amounted to approximately \$27 million and its investment in Government securities amounted to approximately \$11 million.

During 1922, the volume of Federal Reserve Notes in circulation reached the low point since the early years of the bank's history, declining to \$25 million in June. With the movement of cotton in the early fall months, the seasonal demand for currency began, and the volume of Federal Reserve Notes in circulation reached \$44 million in October. The annual report for the year pointed out that this demonstrated the "elasticity" of Federal Reserve currency.

### Staff Changes and Other Internal Matters

At an executive session of the Board of Directors held on January 7, 1922, for the purpose of electing officers for the year 1922, two men were nominated for Governor – R. L. Van Zandt and B. A. McKinney. Mr. McKinney (a Director) retired from the meeting while the ballot was being taken. The vote was taken by written ballot. The tabulation

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showed four votes cast for B. A. McKinney and three for R. L. Van Zandt, and Mr. McKinney was declared elected Governor (the Chairman was excused



Figure 13 – B. A. McKinney

Governor from January 1922 until his resignation in May 1925. Again, served in that capacity from October 1931 until his death in April 1939. (Title changed to *President* on March 1, 1936.)



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from voting.) At the same meeting, R. G. Emerson, formerly Acting Deputy Governor, was elected Deputy Governor, and Val J. Grund, formerly on the staff of the Federal Reserve Examiners, was elected General Auditor of the bank to succeed Carl B. Teagarden, who had resigned in November, 1921; all other officers were re-elected. Mr. McKinney, who had served as a director of the bank from the time the bank was established, continued to serve as a director (although Governor) until the expiration of his term on December 31, 1922.

At a meeting of the Board of Directors held on February 11, 1922, the following statement was submitted in connection with the termination of the services of former Governor Van Zandt.

In the severance of the relations of former Governor, R. L. Van Zandt and the Federal Reserve Bank of Dallas, the directors voting for Mr. B. A. McKinney as the successor to Mr. Van Zandt, whose term of office had expired on December 31, 1921, hereby declare that they were actuated solely to the end that the interests of our institution might be best served, and such action was not intended as any reflection on Mr. Van Zandt or his integrity, honesty, or ability. The Board has for that gentleman the kindest feelings, and wishes for him the large measure of success that his ability warrants.

The Secretary was requested to place this statement in the minutes and furnish a copy under seal of the bank to Mr. Van Zandt.

A shadow was cast over the bank by the death of Judge William F. Ramsey, Chairman of the Board and Federal Reserve Agent, on October 27. He was 67 years of age at the time of his death and had been Chairman and Federal Reserve Agent since January 1916. The bank's annual report and the resolutions of the Board of Directors expressive of the regret of Judge Ramsey's death included the following comments: "His broad vision and intimate knowledge of the conditions in the district and sympathetic interest in the problems of the member banks earned for him the respect and high esteem of the banking fraternity. Through his kindness of heart and gentlemanly bearing, he had endeared himself to the officers and the employees of the bank."

On November 3, the Federal Reserve Bank appointed Director W. B. Newsome Chairman and Federal Reserve Agent, to succeed Judge Ramsey and to serve until December 31, 1922. In December 1921, Mr. Newsome had been appointed Class C

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Director for a three-year term beginning January 1, 1922, and had been designated Deputy Chairman for 1922. On December 27, Mr. Newsome was reappointed Chairman and Federal Reserve Agent, to serve in that position indefinitely. On December 11, the Federal Reserve Board appointed Clarence E. Linz, of Dallas, as Class C director, to serve until December 31, 1923, to fill the unexpired term of Judge Ramsey. In the latter part of 1922, W. H. Patrick, President of the First National Bank, Clarendon, Texas, was elected Class A director for a three-year term, to succeed B. A. McKinney, whose term expired on December 31, 1922, and who did not wish to continue as a director of the bank on account of his official connection with the institution.

On February 24, 1923, the Federal Reserve Board announced the appointment of Lynn P. Talley (then vice president of the Southwest National Bank of Dallas and formerly Deputy Governor of the Reserve Bank) as Class C director for a three-year term, to fill the vacancy which had existed by reason of the expiration of the term of H. O. Wooten on December 31, 1922. At the same time, the Board designated Mr. Talley Chairman of the Board of Directors and Federal Reserve Agent for the remainder of 1923. He qualified on March 15. That position had been occupied on an indefinite basis by Director Newsome since Judge Ramsey's death, and when Mr. Talley took office as Chairman, Mr. W. B. Newsome was redesignated Deputy Chairman for the remainder of the year 1923.

Throughout this period, the Federal Reserve Board at Washington was keeping closely in touch with the bank's internal affairs, in accordance with its general policy of giving close supervision to the operations of all the Reserve Banks. The Board was very meticulous in that respect; for example, no employment involving a salary of \$2501 or more per annum could be made without the advance approval of the Board. These instructions were included in a general letter issued by the Board on October 5, 1922, from which the following extract is quoted:

In order that the Board may keep its personnel records up to date, it should be advised by letter at the end of each month of the termination of the employment of any officer or employee receiving \$2501, or more per annum. New appointments of officers and employees at a salary of \$2501, or more per annum should be made subject to the approval of the Federal Reserve Board, and the Board's approval had before such officer or employee begins service with the bank.

On February 14, 1922, the new building of the Houston Branch was completed; the total investment in real estate, banking house, and fixtures was \$408,000.

On December 31, 1922, the total number of officers and employees at the Head Office and Branches was 600, as compared with 637 on December 31, 1921. At the end of the year, there were 861 member banks in the Eleventh Federal Reserve District, consisting of 662 National banks and 199 State banks.

### A Crucial Period

The next few years in the history of the Federal Reserve Bank of Dallas may well be called a crucial period. A large number of member banks closed, and many of them were heavily indebted to the Federal Reserve Bank. The bank sustained heavy losses. During 1921-22, the officers of the bank had been engaged in doing everything they could to get banks out of an overextended condition. During the next few years, from 1923 through 1925, their efforts were directed into three main channels of activity:

- (1) Cautioning banks about the dangers of getting into an extended condition,
- (2) Trying to save banks that were on the verge of failure, and
- (3) Collecting paper rediscounted for banks which subsequently became insolvent.

Member banks were urged to keep borrowings in proper relation to their own resources. When the affairs of a bank reached a critical stage as a result of losses in loans or overextension, its officers and directors were told that it was the primary responsibility of the owners (rather than creditors) to rehabilitate their institution. The management of the Reserve Bank, in exercising administrative control over the borrowings of individual member banks, established policies that were destined to stand for many years to come. These policies formed the basis for actions taken during this particular period and also carried through to the even more trying times in the early 30's.

Getting ahead of our story a bit, the administration of policies during a good part of this period was carried out by the management "team" of B. A. McKinney, Governor, and Lynn P. Talley, Federal Reserve Agent and Chairman of the Board of Directors. Buck McKinney and Lynn Talley worked together in a spirit of wholehearted cooperation. They saw "eye to eye" on policies. Both of them relied heavily on Randle Gilbert, first as Cashier and later as



Figure 14 – Lynn P. Talley

Federal Reserve Agent and Chairman of the Board from March 15, 1923 until his election as Governor, effective July 1, 1925, succeeding B. A. McKinney, resigned. Mr. Talley served as Governor until October 1, 1931, when he resigned in order to become Chairman of the Board of the Bank of America, in California.

Deputy Governor. All along, the directors of the bank were kept informed of the problems encountered in handling troublesome situations. The Governor's reports at Board meetings went into detail in the presentation of specific cases. The Board joined in the policy determinations and in general approved the actions taken by the officers of the bank.

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In emergency situations, it was necessary for the officers of the bank to make decisions immediately, without waiting for formal approval of the Board of Directors. This was understood by all concerned, and the Board cooperated to the fullest extent.

Occasionally, when time permitted, some of the directors were consulted by telephone in order to obtain their individual reactions to certain situations. More often a decision had to be made by the officers of the bank at a night or Sunday meeting as to whether sufficient assistance could be given to enable the member bank to open for business on the following morning.

Now, we shall review the period referred to above. We shall attempt to describe conditions as they existed at that time, with references to the most important happenings, and with presentations of a sufficient number of “case histories” to show what the problems were and how they were handled.

General conditions in the Eleventh Federal Reserve District showed some improvements during the year 1923, particularly in most of the agricultural areas of the district; however, conditions remained serious for the livestock industry, especially in Arizona and New Mexico. In southeastern Oklahoma, due to poor crops, the agricultural situation was unsatisfactory, and livestock conditions were also unsatisfactory. At the Reserve Bank, demand for credit became heavier as spring advanced, and by September 1, borrowings of member banks from the Federal Reserve Bank reached a peak of \$49 million. During the year, 617 member banks, or 72 percent of the membership, were served through the rediscount facilities. By fall, as a result of satisfactory crop markets in most sections of the district, and after considerable pressure from the Reserve Bank, the majority of the member banks were able to improve their condition, and by the end of the year only 98 banks were indebted to the Federal Reserve Bank. Member bank borrowings at that time were only \$9 million, which was the lowest point since February 1918.

During the summer of 1923, when rediscounts were fairly heavy, the Dallas bank's holdings of banker's acceptance were nominal, but they reached approximately \$48 million by the end of the year. Holdings of Government obligations fluctuated from approximately \$13 million at the beginning of the year to a nominal amount in the summer, up to \$12 million in October, and down to \$6 million toward the end of the year.

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In the Eleventh District, the volume of Federal Reserve Notes in circulation ranged from a low point of \$27 million on May 31 to a maximum of \$60 million on October 20.

On December 31, 1923, there were 557 officers and employees at the Head Office and Branches, as compared with 600 at the end of the preceding year. There were 863 member banks in the Eleventh Federal Reserve District, made up of 670 National banks and 193 State banks.



Figure 15 – Houston Branch Building, 1922

First permanent home of the Houston Branch, completed February 14, 1922. Branch had operated in rented quarters since its opening on August 4, 1919.

In 1924, agricultural conditions in the district were satisfactory and general business conditions were good. On the other hand, the livestock industry in the western part of the district continued to have its difficulties. There was a decline in loan demand on the part of member banks and the aggregate amount of rediscounts was approximately half of what it was during the preceding year. During the year, 492 member banks

borrowed from the Federal Reserve Bank, as compared with 617 during 1923. At the beginning of the year, rediscounts amounted to \$9 million, a peak of approximately 36 banks were indebted to the Federal Reserve Bank in the approximate amount of \$2,600,000. This was the lowest figure since the early part of 1918. On December 31, 1924, the total number of officers and employees at the Head Office and Branches was 486. There were 838 member banks in the Eleventh Federal Reserve District.

The year 1924 saw a change in the discount rate of the Federal Reserve Bank of Dallas; the rate was reduced from 4½ percent to four percent, effective July 16, 1924. The rate was not changed again until August 1927.

Although the central part of Texas suffered from a prolonged drought during the crop growing season, conditions in the other parts of the district were fairly good during 1925. On February 12, total deposits of the Federal Reserve Bank of Dallas reached approximately \$73 million which up to that time was the highest point of deposits in the history of the bank. There was a substantial decrease in the volume of loans to member banks during the year. Outstanding loans declined from approximately \$3 million at the beginning of the year to \$1.4 million in April, increased to \$12 million in August, and declined to \$4 million at the end of the year. The composition of the bank's earning assets, aside from loans to member banks, was fairly evenly divided between banker's acceptances and Government securities. Holdings of bankers' acceptances at the end of the year were around \$28 million, practically the same figure as at the beginning of the year. Holdings of Government securities on December 31, 1925, amounted to approximately \$32 million, representing an increase of around \$6 million from the figure at the beginning of the year; however, there had been wide fluctuations in holdings at various times during the year.

### Drought

Reference has been made to the drought that was experienced in south central Texas in the summer of 1925. The situation was most acute in 31 south central counties. In order to obtain firsthand information as to conditions, the Federal Reserve Bank of Dallas sent a special representative to that area to make a survey of the situation. He found that the corn crop was a total failure, and that other crops were light. The management of the Reserve Bank felt that in the drought area, there would be very little

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liquidation in the fall, with a substantial carry-over of farmer lines into 1926, and that the banks in the area would be greatly taxed to finance the 1926 crops. In anticipation of the heavy volume of rediscount accommodations, the management of the bank made an extensive study of the past records of all member banks in the area and analyzed each case to determine which banks would probably find it necessary to borrow during the succeeding year. Some of the banks were visited in order to familiarize them with rediscount requirements, and officers of other banks were invited to come to Dallas for a discussion of their affairs. In August, the Texas Railroad Commission granted the application of Texas railroads for a 50 percent reduction in freight rates on livestock feed moving into the drought area. Under the plan, adjustment of freight bills was made upon arrival of the feed shipment, such adjustments being based on certificates by local banks that the shipments would be supervised in such a way as to ensure the feed would be delivered to the farmers, and that no commercial interests would profit from the reduced rates. The Federal Reserve Bank of Dallas was asked to designate the local banks to handle those transactions. The Reserve Bank sent out a circular letter to all banks in the drought-stricken area where the reduced rates would be applicable, indicating that it would designate banks, whether member banks or not, upon receipt of their applications. In the fall of the year, the Federal Reserve Bank of Dallas made a second survey of the drought-stricken counties, and it appeared that, with a few isolated exceptions the banks had the situation well in hand. In general, there appeared to be a disposition to rely upon the community's own resources as a means of recouping the losses incident to the 1925 crop failure.

### Credit Problems – Bank Failures

As heretofore indicated, the management of the Federal Reserve Bank of Dallas during this period gave very close attention to those member banks which were overextended or had capital impairments as a result of losses classified by the examining authorities. As a result of the suggestions and assistance of officers of the Reserve Bank, many of these banks were reorganized and refinanced; in other cases, suspension was inevitable. A few examples as we discuss developments during these years will serve to illustrate some of the problems faced by the officers of the Federal Reserve Bank.



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Early in 1923, Governor McKinney went to El Paso and spent four days in conference with El Paso and New Mexico bankers in attempts to save a member bank in New Mexico. The bank was indebted to the Federal Reserve Bank in the amount of approximately \$585,000. Some of the bankers insisted that it was the duty of the Federal Reserve Bank to see the bank through, even to the extent of taking ineligible paper, regardless of the amount required. Governor McKinney would not agree to that course of action, but he did agree to increase the rediscount lines by approximately \$40,000 provided a sufficient amount of eligible paper could be found. The bank suspended business in October of that year, with indebtedness to the Reserve Bank amounting to approximately \$636,000. Although most of the customers' notes held by the Reserve Bank under rediscount were eventually collected from the makers, the Reserve Bank finally sustained a substantial loss on this indebtedness.

In August 1923, a serious state of affairs involving a bank in Oklahoma developed. The bank was heavily in debt to the Reserve Bank, and it was in a very unsatisfactory condition. Federal Reserve Agent Talley (Governor McKinney was on vacation) and Deputy Governor Emerson had several conferences with interested parties at Denison and Dallas at nights and on Sundays. Attempts to raise new capital for the were unsuccessful, and finally an agreement was entered into whereby another bank would take over the faltering bank. Under the arrangement, the Federal Reserve Bank agreed to release the acquiring bank from the endorsement liability on \$570,000 of receivables which the faltering bank had rediscounted with the Reserve Bank. In taking this action, it was recognized that the Federal Reserve Bank might suffer considerable loss as a result of the transaction. However, at that time, various banks in southeastern Oklahoma, closely affiliated with the institution, owed the Federal Reserve Bank approximately \$4,000,000, and it was felt that the position of more of those banks would be jeopardized in the event the bank was forced to close its doors. At the end of the year, the sum of \$500,000 was set up as a reserve for possible losses in connection with this transaction; eventually, the Reserve Bank's loss was approximately \$570,000. Incidentally, the faltering suspended business about two years later.

At a meeting of the Board of Directors held on August 17, 1923, there was a general discussion of the policy to be pursued by the Federal Reserve Bank of Dallas

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with respect to banks in an unsatisfactory condition. It was agreed that the officers of the Reserve Bank during the fall and winter would review these situations while the rediscounts were at a minimum and reach a definite and thorough understanding with each such institution as to the maximum amount of credit that might be expected from the Federal Reserve Bank during the following year. It was felt that such course of action was a better plan than to wait until a bank became heavily indebted to the Federal Reserve Bank and had exhausted its cash resources. At the September meeting, Governor McKinney told the Board of several conferences with officers of banks in this category. The directors discussed these matters fully and seemed to be in agreement that each such case necessitated special consideration in light of applicable circumstances.

During 1923, 15 member banks and 30 nonmember banks in the Eleventh Federal Reserve District closed their doors. Six of the member banks closed during the month of November. At the end of the year, a total of 28 insolvent banks were indebted to the Federal Reserve Bank of Dallas in the amount of \$2,482,000. Substantial amounts were charged off and set up as reserves for future losses.

It was the custom for the Governor's reports, submitted at the regular Board meetings, to include references of bank failures in other Federal Reserve districts, as well as in the Eleventh District. Three Reserve Banks, in addition to Dallas, were having their troubles. In 1923, there were 216 bank failures (member and nonmember) in the Minneapolis district, 106 in the Kansas City district, and 35 in the Chicago district.

Many legal questions were involved in handling the paper acquired from insolvent banks. This increased the importance of the work of Counsel E. B. Stroud. When Mr. Stroud was originally employed, Judge Ramsey was Federal Reserve Agent, and at that time the Legal Department was placed under the supervision of the Federal Reserve Agent. However, in the early part of 1923, the directors reconsidered the matter and it was agreed that the work of Counsel Stroud should properly come under the supervision of the Governor of the bank, with the Federal Reserve Agent being free to call upon him for any needed work involving the Federal Reserve Agent's Department.

In June, Mr. Talley attended the convention of the Panhandle Bankers Association at Plainview, visited Amarillo and two or three other towns in the Panhandle, then spent

two days visiting banks in Roswell and Carlsbad, New Mexico, and before returning to Dallas, visited several days at the El Paso Branch.

Because they give some insight into the problems of the day and reflect on the personalities of Lynn Talley and Buck McKinney, we are quoting some extracts from an exchange of letters between them while Mr. Talley was away. First, while visiting in Amarillo, Mr. Talley wrote Mr. McKinney a long letter in his own handwriting on hotel stationery, summarizing his contacts with bankers in that area, in which he said in part:

*Dear Buck:*

*Found Mr. F [a prominent Amarillo banker] blue anyway and added to by death of his bro-in-law Sunday. You know he takes everybody's troubles on himself. He seems hurt, but not complaining or criticizing about our action [Editor's Note: Apparently the imposition of additional collateral requirement in connection with his bank's rediscount line.] Seemed to think it a reflection of his bank and him. Got him to feeling better Monday night and he has just left here after a very cordial visit in his accustomed manner. We had a long talk about many things. Monday night we were at B's house and Mr. F. came over afterwards. He and B suggested a directors' guaranty, but I eased off because I feared it would put us in an embarrassing position later on. We want to continue to pass on the paper on its own merits and I was afraid he would send us paper that was not acceptable for our purposes and expect us to rely solely or largely upon the fact that we had his gty. Monday night he said they might have to get \$400,000 for the next 40 days. I thought he was overshooting his needs, but we would have no problem about meeting his requirements. Tonight, he seemed to feel better and did not refer again to amount, but said he thought 30 days would see a vast improvement. Mr. F. is the bank and would pledge every dollar of his own.*

*Mr. C couldn't get to the convention but came down here today to see me. He is a very fine gentleman, but I think shoots over the heads of his directors and customers. I mildly suggested this and he thanked me and seemed to take it as a compliment. He intimated some friction with*

*his board, due to the usual unpopularity of a bank manager when he asks his directors to pay the bank. He says we have been too indulgent with the bank in the past, and the board seems to think it's OK to owe us forever - but he doesn't feel that way. He says he is offering us some paper that he wants us to either send bank or require financial statements.... He owes us 88M according to my "Bible" and his max this year was 91. He strikes me as being all right and speaks my language.*

*Saw Mr. G and gave him a shot in the arm. Dwight says a good deep one. It takes a deep on for him though.*

*It is now eleven and I have to arise at 5:30 in the morning to get my train for Clovis.*

*Regards and don't work too hard.*

*Yours,  
Lynn*

Here are the extracts from Mr. McKinney's replay, addressed to Mr. Talley at the El Paso Branch:

Dear Lynn:

I appreciate very much the time you took at Amarillo to write me some of the details and experiences of your trip – it was all very interesting. Dwight had told me something about your interview with Mr. F, emphasizing the fact that you had stood your ground in a satisfactory way. I was a little bit surprised to learn of Mr. F's attitude, and yet when one stops to consider the burdens he is carrying these days, it is no wonder, and I feel that we should be fairly patient with him. Of course, you and I know that we have been very confidential with him, more so probably than with any other banker in the district, and have accepted any statement that he might make about the affairs of his bank or the affairs of any other bank which we might make inquiry. I especially think that you were wise in declining a guaranty from him. We do not need it as a credit proposition and if we accepted it, it might have the effect, as you say, of making him and Mr. B feel that we ought to take anything that they send down. I am quite willing to go along with you and grant his bank any reasonable increases in its line here.

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Your comments on Mr. C were particularly interesting. I have never seen him, but your interview with him convinces me that his bank should not give us any further trouble. Incidentally, I may say that whether they realize it at [REDACTED] or not, it was this bank that prevented the bank from going under.

Offerings have been heavy here all week and our discounts have increased appreciably. The faces of several new friends have appeared before the Committee. Your friend Mr. B. and Mr. M were in yesterday, and Mr. B of the [REDACTED] is here now. It looks as though we have both these situations worked up now to where the banks will try to save themselves rather than expect us to do it.

Sincerely,  
Buck

In the latter part of August, Governor McKinney visited several parts of West Texas and New Mexico where the banking situations were unsatisfactory, and then spent a few days on vacation in Santa Fe, New Mexico. While Mr. McKinney was away, Mr. Talley kept him informed of developments at the bank. On August 31, Mr. Talley wrote Mr. McKinney a long letter, extracts from which are given as follows:

Dear Buck:

As telegraphed on the 29<sup>th</sup>, we have called a meeting for the 13<sup>th</sup>. It seems to me that we are rapidly approaching a real necessity for starting some work on some of the situations that ought to be cleaned up this fall, together with other policies that we have in mind so I concluded that it was highly desirable, if not essential, that we have a Board meeting in September to go into these matters.

E wrote you fully, I understand, in reference to the crisis in the [REDACTED] situation. It has been most discouraging, and I think with the possible exception of C, the most distressing problem that we have ever had. It has been very difficult for E and me to overcome a feeling of real helplessness because there seemed to be no place to take hold. The worst part of the situation seemed to be that the Board of Directors of the bank was showing a strong tendency to disintegrate and each member try to save himself.

Following the actions of the our Executive Committee, we therefore were unwilling to extend any aid to meet daily needs until we could have a conference with as many of the H directors as we could get together and form some opinion of their attitude. S came down to see us yesterday morning and was very much disturbed and I think really frightened. F. E.

was also in town, so we arranged to have W. get as many of his Board together as possible and motor down to Denison to meet us there last night. E and I left here about five o'clock yesterday afternoon, and after a hard drive arrived in Denison at eight o'clock.

In conducting the conference, I set about first to knit the Board together, urging them to some efforts, and to try to awaken whatever hope and enthusiasm I could toward a feeling of success in saving the situation. In this I appeared to be right successful and although I was forewarned that he was extremely hardboiled and difficult to handle I concentrated on old K as the bell weather of the group and you can imagine my feeling of gratification when, although owning only \$2,000.00 worth of stock, he stated he would kick in cash on a voluntary assessment of 100%, and later said if the plan we were considering could be worked out, he would deposit \$20,000.00 in cash, additional. This had an electrical effect on the other directors and I polled them, getting a commitment from each one to stand by the guns and put the proposition over.

After W. left here Sunday, he was, with F. E.'s assistance, working on a proposition to raise \$100,000.00 in cash to pay in as a voluntary assessment. You can readily see that what he wanted to do was to get them to get up the \$100,000.00, restore confidence, and have the directors re-deposit the moneys which they have recently withdrawn. Our Mr. E. and their Mr. E. accompanied by our Mr. L., have made a thorough analysis of the paper we have here with the result that we probably have a loss of around \$300,000.00 and this loss, or more, would certainly be confirmed if the bank closed at the present time.

F. E. and the officers of the bank have made another classification of their assets and it is their opinion that there is something like \$403,000.00 losses in the bank. E. and I therefore have in mind that a concession of endorsement liability of \$200,000.00 as a minimum to \$300,000.00 as a maximum will be in line. We feel, of course, that if we could tide █████ over it would simply add to the amount of paper which we are able to collect this fall and later from the entire group of banks. This is the only way in the world, in our judgment, that the bank can be kept open and that would indicate the remotest possibility of its continuance.

Other matters in the bank are moving along about as usual except that we had the first occasion, on yesterday, to carry into effect some of the policies that you and I have been discussing. Bank B, which has already been in an unsatisfactory situation here, paid us down to \$6,000.00 but sent in an offering the other day for \$10,000. We held this offering up and asked them to come in for a conference. We learned in the conference that this was merely an entering wedge, and what they expected to do was to rediscount about \$30,000.00 immediately.

The conference developed that if we would grant their application made at this time, they would owe us by next June somewhere between \$85,000.00 and \$100,000.00, and we felt that this was entirely out of the question and frankly told them so. I trust that you will also approve of this action because if we are to carry out our policies, there are many other similar situations with which we shall have to contend.

Sincerely yours,  
Lynn

Even though general conditions showed considerable improvement during the year 1924, many member banks were still in a very unsatisfactory condition. During the year, 18 member banks suspended business, most of which were indebted to the Federal Reserve Bank, some in substantial amounts. For example, of the 11 member banks that closed in January 1924, five were indebted to the Federal Reserve Bank in amounts ranging from \$200,000 to \$500,000. Most of the chronic problem cases passed out of the picture during the year; others which were in a weakened condition, but has possibilities of internal improvement, were given special attention by the officers of the Reserve Bank, and those situations were materially strengthened.

The management of the bank was faced with numerous critical situations during the year. It made heroic efforts to save those banks where some possibility of survival existed and where failure of a bank might have repercussions over a large territory. It was recognized, however, that in those cases where a bank's unhappy situation was due to capital impairment on account of losses, or was due to bad management, the continuation of credit extension was not the answer, as it was felt that under such circumstances, it was necessary for the bank to be saved "from within" through the efforts of the banks' own directors and stockholders. Governor McKinney continued to make full reports at the Board meetings as to the problems encountered and the minutes show that, in general, the directors approved the policies followed and the actions taken by the officers of the bank in attempting to work out troublesome situations.

Perhaps the most important incident in the Reserve Bank's affairs during 1924 occurred in January when the ██████ got into difficulties.<sup>22</sup> That bank, with a capital of

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<sup>22</sup> Governor McKinney's report to Directors, February 7, 1924, "Minute Book."

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\$500,000 and surplus of \$40,000 had been examined a few weeks before, when the examiner classified losses amounting to \$500,000 or \$600,000, enough to wipe out the capital and surplus. In the latter part of January, a “run” developed and Managing Director Weiss of the El Paso Branch called Governor McKinney over the telephone late one afternoon, outlining the critical situation. The Governor caught the next train for the ■■■■■, arriving there on Sunday morning at nine o’clock. He found that a meeting of prominent citizens of ■■■■■ had been called to discuss ways and means of saving the bank. Analysis of the bank’s assets revealed that losses and undesirable paper amounted to \$800,000, or \$300,000 in excess of the bank’s capital. It was suggested that the Federal Reserve Bank of Dallas, which had already rediscounted a large amount of paper for the ■■■■■, purchase, \$550,000 of these questionable assets. Governor McKinney declined to do this. It was then proposed that the ■■■■■ citizens make a contribution of \$300,000 thereby eliminating the amount of the bank’s losses, and that \$500,000 be raised through a 100 percent assessment to be paid in by the stockholders of the bank. The Federal Reserve Bank was asked to make a \$500,000 deposit in the bank, pending the payment of the assessment, its \$500,000 advance to be repaid as the assessment fund came in from the stockholders. (The bank had already rediscounted a substantial amount of paper.) In the meantime, the president of another bank in ■■■■■ had wired Governor Crissinger of the Federal Reserve Bank, urging him to ask Mr. McKinney to be liberal in extending aid to the distressed bank. In his reply, Governor Crissinger stated that the Board had no power to order McKinney to do the things requested but would offer no objection to anything he might do in exercising his judgment to save the situation. Mr. McKinney realized that the bank’s action in making a special deposit might result in a loss, but after telephone conversations with Governor Crissinger, Mr. Talley, and some of the other directors of the Dallas bank, he agreed to the proposal.

Following all-day negotiations and discussions far into the night, the directors of the ■■■■■ held a meeting and approved the agreement under consideration. As part of the agreement, it was understood that, in the event the bank should suspend business before all of the assessment were paid in, the Federal Reserve Bank of Dallas would have a first and prior lien on the assets of the bank. On Monday morning, the El



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Paso Branch delivered \$500,000 in currency to the distressed bank and the excitement gradually subsided.

However, a few days after the events referred to above, the affairs of the bank again approached a crisis. Cashier Gilbert and Mr. Talley spent several days in ██████ around the middle of February and made their services available in trying to work out the unsatisfactory situation. A leading businessman accepted the position as Chairman of the Board of the bank, and Mr. Weiss resigned his position as manager of the El Paso Branch to become President of the member bank. [The officers of the Reserve Bank had nothing to do with the negotiations between Mr. Weiss and the representatives of the member bank.] Nevertheless, the situation did not work out and the member bank was forced to suspend business in May of 1924.

Then for a period of several months, the Reserve Bank experienced difficulty in obtaining repayment of the special advance and the substantial rediscount line. After several trips to El Paso and to Washington by Counsel Stroud and other officers of the bank and after much negotiation with the receiver of the ██████ and the Comptroller for the Currency, a settlement was finally made in December 1924.<sup>23</sup> Upon conclusion of the transaction the Federal Reserve Bank of Dallas sustained a loss of \$100,000. Mr. Weiss subsequently became an officer of a commercial bank in Phoenix, Arizona, and continued with that institution until his death a few years later.

From time to time, other serious situations were developing in the district, particularly in New Mexico. These received the careful attention of the officers of the Reserve Bank. Cashier Gilbert, of the Head Office, was stationed at the El Paso Branch for a time in order to assist the Branch officers in handling the problem cases. He made trips to the trouble spots in New Mexico. At his suggestion, the Head Office made large currency shipments to the El Paso Branch, for emergency use. The extra supply of currency served a good purpose. For example, in February 1924, a bank in New Mexico experienced a “run” which was checked when the El Paso Branch delivered to it by airplane \$500,000 in currency.

The Insolvent Banks Department was kept busy handling the paper rediscounted for banks which subsequently closed. Altogether, the department handled transactions

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<sup>23</sup> Governor McKinney's report to Directors, December 8, 1924, "Minute Book."

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with 43 suspended banks in 1924. Collections of approximately \$3,000,000 were made during the year and at the close of business on December 31, 1924, a total of 31 closed banks were indebted to the Federal Reserve Bank of Dallas in the net amount of \$2,000,000 (after charge-offs of approximately \$1,000,000). The department consisted of four office employees, 11 field representatives, and 13 livestock inspectors and caretakers.

In the foreclosure of mortgages covering livestock held as collateral to notes acquired from suspended banks, the Federal Reserve Bank of Dallas became owner of several thousand head of cattle, mostly in west Texas and New Mexico. It was necessary for the bank to make substantial advances for the preservation of this collateral. Since sufficient pasturage was not available in the areas where the cattle had been acquired, some of the livestock was shipped to Old Mexico for pasturage and some to Oklahoma. Many of the cattle died. By the end of 1924, the bank was able to dispose of most of its livestock holdings, the prices ranging from \$10 to \$25 a head.<sup>24</sup> The Reserve Bank received many complaints in connection with the collection of the paper and the disposition of livestock collateral. The complaints were that the bank had no regard for the interests of the mortgagors or other parties involved, that it forced the liquidation of its paper, that it sacrificed the value of the collateral for the sake of immediate sales, and that it demoralized the cattle market. The officers of the Federal Reserve Bank felt that many of these complaints were unfounded. At conferences with representatives of cattlemen's associations, the management of the Reserve Bank explained its position and stated that in disposing of these matters, it endeavored to cause the least possible disturbance to market conditions and to the cattle industry.

During the year 1925, 15 member banks suspended business, which was practically the same as during each of the two preceding years. However, most of the failures in 1925 occurred during the early months of the year, and things began to settle down somewhat after the middle of the year. The Insolvent Banks Department made total collections of approximately \$1,200,000, most of the livestock was disposed of, and the field staff of the Insolvent Banks Department was reduced to four, as compared with 11

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<sup>24</sup> Governor McKinney's report to Directors, October 7, 1924, "Minute Book."

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at the end of the preceding year. Losses amounting to approximately \$644,000 were written off and charged to the reserve that had previously been set up for that purpose.

Aside from bank failures, there were fewer troublesome situations than had faced the management of the Reserve Bank during the preceding year. By the middle of 1925, most of the banks that were in a critical condition had passed out of the picture and the condition of many others had been strengthened.

### The Guaranty Fund

During 1925, there was an important change in the make-up of the membership of the Eleventh Federal Reserve District. For many years, most State banks in Texas had been members of a “guaranty fund” under the State Banking Laws; however, so many State banks had failed during the early 20s, thereby causing a large number of assessments on the remaining members of the fund, that by 1925, many State banks began converting into National banks. In the Eleventh Federal Reserve District, 99 National banks were chartered during 1925, most of these representing conversions of State banks. At the end of the year, there were 860 member banks in the Eleventh Federal Reserve District, as compared with 838 on December 31, 1924, representing a net gain of 22 in membership. There was a net gain of 77 in National banks, and after suspensions, consolidations, conversions, etc., there was a net loss of 55 in state members.

### Open Market Operations

When the Dallas bank’s rediscounts began to decline, it sought investments either in the form of banker’s acceptances or Government securities, with the primary objective of maintaining earnings so as to meet expenses and pay dividends. As heretofore mentioned, the Federal Reserve Banks in the early years handled their own transactions involving purchases and sales of Government securities and bankers’ acceptances. Sometimes they dealt with member banks in their own districts, sometimes directly with other Reserve Banks, and sometimes with the Federal Reserve Bank of New York when that bank acted on behalf of the other Reserve Banks.

In the early part of 1923, steps were taken to centralize, under the supervision of the Federal Reserve Board, the open market transactions of the Federal Reserve Banks. At that time, there was established a new committee, to be known as the “Open Market

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Investment Committee of the Federal Reserve System.”<sup>25</sup> It consisted of representatives from five Reserve Banks (the Governors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, and Chicago). At the same time, there was established a “system open market investment account”, through which Government securities were purchased and prorated among the twelve Reserve Banks. However, no bank was obligated to participate until the transaction had been approved at the local level. Governor McKinney was somewhat disturbed as to whether pro rata allocations among all the Reserve Banks would give the Dallas bank sufficient earning assets to provide for possible losses, in addition to providing for expenses and dividends. He reported to the directors that he had discussed the “peculiar” condition in the Eleventh District with the Federal Reserve Board and the Open Market Investment Committee and had asked their sympathetic considerations in trying to keep the Dallas bank’s surplus funds, above its reserve requirements, fairly constantly employed. The directors of the Dallas bank at its meeting on April 7, 1923, adopted a resolution to the effect that the bank’s open market investment policies should give due recognition to the policy of the Federal Reserve Board in its efforts to bring such operations into a proper relation with the investment and credit position of the country as a whole, but that at no time should the bank’s participation in open market transactions impair its ability to take care of any legitimate rediscount demand coming from its member banks.

The year 1924 saw a marked change in the composition of the earning assets of the Federal Reserve Bank of Dallas. In the early part of the year, the bank’s investment account included only a small amount of Government securities, and the major portion of the earning assets was represented by banker’s acceptances, amounting to approximately \$49 million. By the end of the year, the investment account was almost evenly divided between Government securities and bankers’ acceptances. During a portion of the year, bankers’ bills were scarce and the difficulty in maintaining a satisfactory earning position was of some concern to the officers of the bank.

Early in the year 1925, with the drastic decline in loans to member banks when they reached the lowest point since 1917, the management of the Reserve Bank experienced a great deal of difficulty in acquiring a sufficient volume of Government

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<sup>25</sup> Governor McKinney’s report to Directors, April 7, 1923, “Minute Book.”

securities and bankers' acceptances to keep earning assets at a figure high enough to provide sufficient earnings to cover expenses, dividends, and losses. By the end of February, the Dallas bank's earning assets had declined to around \$36 million, as compared with \$54 million at the beginning of the year. For several months, the bank's earnings were not enough to meet expenses and provide for accrued dividends, much less take care of probably losses on account of failed banks. In that connection, the bank's Board of Directors authorized the officers to purchase long-term Government bonds up to \$10 million, independently of the System's Open Market Committee. There was considerable correspondence with the Federal Reserve Board regarding that action and, although the Board at first was reluctant to approve the transaction, Governor McKinney and Mr. Talley apparently made a satisfactory explanation of the circumstances, and steps were taken to acquire the independent holdings of Government securities over a period of time.<sup>26</sup>

Other Reserve Banks, in addition to Dallas, were badly in need of increased earnings; accordingly, several of the Reserve Banks which were in a satisfactory earnings position voluntarily withdrew from the participation arrangement in order that the remaining banks might have increased allocations to provide for charge-offs, as well as expenses and dividends. Prior to that action, while the Dallas bank was still operating at a deficit, the Federal Reserve Bank of New York let the Dallas bank have a large block of its bankers' acceptance holdings; also, the Dallas bank made some direct purchases of acceptances from the Federal Reserve Bank of St. Louis. By the end of October, the total earning assets of the Federal Reserve Bank of Dallas reached \$72 million, which was the highest point since June 21, 1921, and it became necessary to discontinue purchases of acceptances since the combined reserves had reached a low figure. Although gross earnings for 1925 were substantially less than for the preceding year, there was a decline in current expenses, and at the end of the year, the bank was able to transfer a nominal amount to surplus.

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<sup>26</sup> Minutes, Meetings of directors, March 10 and April 2, 1925.

### Executive Committee

In connection with an examination of the bank by examiners for the Federal Reserve Board, as of September 26, 1925, reference was made to the provisions of the bylaws<sup>27</sup> to the effect that the Executive Committee would consist of the Governor, the Federal Reserve Agent, and three directors to be selected by the Board, with regular meetings to be held on the second and fourth Thursdays of each month. The bylaws also provided that in the absence of the three members selected by the Board, the Governor and Federal Reserve Agent would act as a committee and their action would be subject to ratification at the next regular meeting of the entire committee. The examination report pointed out that no minutes were on file covering interim meetings of the Governor and the Federal Reserve Agent, nor was there a formal ratification by the Executive Committee of actions taken at such interim meetings. As an outgrowth of this comment, a procedure was established wherein minutes would be prepared covering the frequent (almost daily) meetings of the Governor and the Federal Reserve Agent, acting as the Executive Committee, these minutes were to be ratified at the next regular meeting of the entire Executive Committee, whereupon they would be submitted for approval of the Board of Directors at its next meeting.

### Staff Changes

On March 15, 1924, R. G. Emerson, Deputy Governor, resigned, and R. R. Gilbert, formerly Cashier, was elected Deputy Governor to succeed him.

In 1925, the most significant staff change occurred on May 16, when B. A. McKinney resigned as Governor to become a Vice President of the American Exchange National Bank of Dallas. Lynn P. Talley, Chairman of the Board and Federal Reserve Agent, was immediately elected Governor to succeed Mr. McKinney, with the understanding that Mr. Talley's change in position would become effective when his successor as Federal Reserve Agent and member of the Board of Directors was designated by the Federal Reserve Board. On June 12, the Federal Reserve Board announced the appointment of C. C. Walsh, a banker at San Angelo, Texas, as Class C director to fill Mr. Talley's unexpired term, and the Board designated Mr. C. C. Walsh as

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<sup>27</sup> As amended, January 6, 1920

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Chairman of the Board and Federal Reserve Agent for the remainder of 1925. He took office on July 1.

Governor McKinney's resignation had been presented at a meeting of the Board on May 5. In presenting his resignation, he stated that he had been very much attached to the Federal Reserve Bank of Dallas and to the System as a whole, and that it was with great regret that he left the organization. "The directors of the bank during all three years have shown me unusual consideration and have supported me in a manner that has gratified me beyond measure. I feel that it is a privilege accorded to few men to have such a delightful association as has been my lot with the fine men who have made up the Board of Directors of this institution. I shall always maintain a deep interest in the welfare of this bank and of the System, and trust that the directors will call on me freely whenever I can be of service."

After a considerable pause, indicating the reluctance of members of the Board to move the acceptance of the resignation, a vote was finally taken and the resignation was accepted with very deep regret and expressions of appreciation for Mr. McKinney's past service to the bank.

The statement of the Board of Directors adopted on that occasion and ordered to be incorporated in the minutes is quoted in full:

For the purpose of a record in the minutes of this bank, the members of the Board of Directors to express their keen regret to accept the resignation of B. A. McKinney as Governor of the Federal Reserve Bank of Dallas.

The resignation has been accepted because it is Governor McKinney's wish to retire from the bank's service to accept the First Vice Presidency of the American Exchange National Bank of Dallas, and although the members of this Board realize that Governor McKinney is exercising his personal prerogative to act in accordance with what he conceives to be his best interests, and can appreciate the attractive inducements and opportunities which are offered him in the new field, the fact remains that the loss of his official services to the Federal Reserve Bank of Dallas and to its constituency will be indeed difficult to overcome.

This Board also unanimously desires to go on record in expressing its high appreciation of his services to the bank and to the district, both as a Director and as an active official. From the inception of the institution, no one has shown greater devotion, more application, more intense loyalty to the

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interests of the bank and the banking, commercial, agricultural, and industrial activities in the district, than Governor McKinney. The Board moreover appreciates that his service to the bank and to the district has been performed at no little personal sacrifice, and he not only leaves the governorship of the bank with the best wishes and in the highest esteem of the members of this Board, but during his more than ten years' active identification with the bank, we have found no quarter in which he is not held in the highest esteem and respect as a man, as an official of the institution, and as a conscientious and capable banker.

In the most trying situation, he has shown great ability and courage, tempered with a rare discerning judgment that has brought even those who may have held different opinions to his own, close to him in a warm and lasting friendship.

Though the acceptance of his resignation marks a severance at this time of his official relationship to the Federal Reserve Bank of Dallas which has lasted continuously in the life of the institution, this Board is convinced that the influence of his fine character and great ability upon the policies and activities of the bank, as well as the great good which he has accomplished for the advancement of sound banking principles will last throughout the years.

This statement for our records would be incomplete should it not also be said that the members of this Board have greatly enjoyed their official and personal association with him, and while the close friendly relationship will continue, a hope is expressed that sometime in the future the official relationship may be renewed.





Figure 16 – C. C. Walsh  
Federal Reserve Agent and Chairman of the Board from July 1, 1925 until his retirement on December 31, 1937.

#### SOURCES

1. "Minute Book," Meetings of Board of Directors, Federal Reserve Bank of Dallas, 1922-1926, Volume 2.
2. Numbered Circulars, Federal Reserve Bank of Dallas, 1921-1925.

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3. Annual Report, Federal Reserve Bank of Dallas, 1923-1935.
4. Special History File, folder labeled “Corres. BAM, LPT, RRG – Policies.”
5. Special History Files. Reports of Insolvent Banks Department, 1924, 1925.

## **CHAPTER VI**

### **RESTRICTIVE CREDIT POLICIES, 1926 – 1927**

In January 1926, the directors of the Federal Reserve Bank of Dallas gave consideration to the credit policies to be followed during the year. They reviewed the policies that had been followed during the preceding two or three years, and without a formal vote being taken, "it was understood that in adopting a definite credit policy for 1926, the officers of the bank would be governed entirely by the circumstances and facts involved in each application, with due regard at all times to safeguarding the bank's interest, and limiting advances to actual necessities after a careful analysis of the condition of the applying bank and the physical conditions prevailing in its immediate trade territory." It was the consensus that overextended banks encumbered by frozen assets would be rehabilitated by their stockholders, rather than relying upon continuous borrowings from the Reserve Bank to "keep afloat," and that Reserve Bank credit should be used only for seasonal borrowings against paper representing current operations and in reasonable ratio to the borrowing bank's capital structure.

At a meeting of the Board of Directors on March 8, 1926, Governor Talley referred to the credit policies that had been followed in recent years and illustrated the application of those policies by summarizing the discussions that had taken place in conferences with member bankers. Mr. Talley said in part: "During 1921-22 and a part of 1923, we were engaged in doing what we could to get a large number of member banks out of an overextended condition, for which there is more or less abundant evidence that we were partly responsible, and we think in the present circumstances we should direct our efforts to preventing them from getting into an overextended condition, which would make unnecessary putting forth the efforts of 1921-22.... We are bearing constantly in mind that we should not take any action that would even have the appearance of credit restriction, yet at the same time we are convinced that we should not spare any effort to impress upon the minds of the managing officers of member banks, particularly country banks, that there is a proper ratio of borrowings to capital and other resources and there is a great danger in permitting their borrowed money to go beyond these limits." He referred to the practice that the Reserve Bank had following in 1923 in "pegging" the lines of member banks that showed tendencies of over-extension. During that period, through

correspondence or in conference, the Reserve Bank had endeavored to ascertain the amount of credit that would be required to meeting the applying bank's indispensable needs for the season, whereupon the line would be "pegged." Such banks were informed that they could not expect credit accommodation from the Reserve Bank beyond a stated amount and they were urged to establish their loan and collection policies accordingly. They were told that, although they might not be able to control the bank's deposits, they could control the loan volume and could follow a vigorous collection program. In discussing the credit policies for the year 1926, Mr. Talley referred also to the well-managed banks whose officers wished some assurance of credit accommodation from the Reserve Bank for the season and expressed the opinion that such banks be given "commitments" for reasonable lines of credit.

Following the presentation of Mr. Talley's formal report, supplemented by a verbal statement from him of the general policies which the Executive Committee had adopted in connection with advances to member banks in recent months, there was a full discussion of the matter. Each director expressed his opinion with respect to the policies followed by the committee in its consideration of requests for advances. In addition, they ratified the actions taken at the conferences referred to in the Governor's report.

Perhaps we can obtain a better "picture" of the bank's credit policy by showing a few "case histories" of troublesome situations that were discussed in Governor Talley's report referred to above and in other reports made from time to time during the year.

In January, the El Paso Branch committee had imposed a 25 percent collateral requirement in connection with the rediscount line for a bank in N.M., and also asked for evidence of priority of chattel mortgages and inspection reports in connection with several of the livestock notes included in a rediscount offering. The President of the bank refused to give consideration to these requests, criticized the Branch harshly for its attitude, and stated that he would arrange to retire the rediscount line within a few days unless the Branch committee waived its requirements. The matter was submitted to the Executive Committee at the Head Office which felt that the conditions imposed were warranted, and Managing Director Crump of the El Paso Branch was informed of the committee's approval of the action taken, with the suggestion that he write the bank that it would be

expected to retire the rediscount line promptly unless the conditions specified were complied with.

Early in February, the Cashier at a bank in Texas, visited the Reserve Bank at Dallas with a view to arranging for a line of credit for 1926. He indicated that he would probably find it necessary to borrow as much as \$300,000 during the year. Inasmuch as this seemed to be out of proportion to the bank's capital of \$60,000 and surplus of \$20,000, the committee indicated that it would be unwilling to make a definite commitment for a line of credit under such an ambitious program. The member banker returned on March 1, stating that he had revised his program considerably and did not expect to make as many loans as previously contemplated. In the meantime, the bank had borrowed \$50,000 from its correspondent. The Reserve Bank agreed to the loan of \$50,000, but, inasmuch as total borrowings of \$100,000 seemed rather full in proportion to the bank's capital investment, the committee imposed a 33 1/3 percent collateral requirement in connection with the rediscount line to be granted.

A commitment had been made to extend a bank (in the Houston Branch territory) a rediscount line of \$50,000 for the 1926 season. In view of the bank's extended condition, Managing Director Reordan of the Houston Branch visited the bank in February in order to confer with its management. At that time, the bank had borrowed heavily from correspondents, and owed a total of \$204,000, as compared with a capital investment of \$100,000; its loans were \$523,000, as compared with total deposits of \$325,000. The report covering a recent examination of the bank reflected sufficient losses to absorb the undivided profits and surplus and slightly impair the capital. During the visit, Mr. Reordan learned that the bank had loaned its own directors an amount equal to its capital. Mr. Reordan suggested that these loans be placed elsewhere and pointed out the necessity of obtaining liquidation wherever possible. It developed, however, that the directors' loans remained in the bank, and the institution continued to be a problem during the rest of the year.

In February, the President of a Texas bank applied for a line of credit in the amount of \$50,000 under a program that called for total borrowed money of \$200,000. Inasmuch as this appeared to be out of proportion to the bank's capital of \$50,000 and surplus of \$15,000, the Reserve Bank declined to make a definite commitment. Subsequently, the

member banker came to Dallas for the purpose of discussing the matter. At this conference, he revised his program downward, stating that he did not think it would be necessary to borrow more than \$158,000. After full discussion, the committee agreed to extend the bank a line of credit in the amount of \$50,000 upon the basis of a 50 percent margin on collateral. The Reserve Bank indicated, however, that in lending money it gave careful consideration to the question of whether it was subscribing to unsound credit policies that would result harmfully to member banks and to their communities. It was pointed out that the Reserve Bank's action in this case was in no sense to be construed as acquiescence in the member banks credit policies.

In the latter part of March, the cashier of [REDACTED], visited the Dallas bank, stating that the bank would like to borrow around \$60,000 during the season. He estimated that by midsummer his loans would be \$120,000, with deposits of only \$60,000. The bank's capital was \$37,000 and the surplus was \$5,000. The member banker stated that his directors owed their bank \$10,000. The committee indicated that the Federal Reserve Bank of Dallas would not be a party to a program that would result in the bank's getting into an overextended condition. Subsequently, the member banker wrote the Reserve Bank that the conference had given him just the backing that he needed to make his directors realize their duty to the bank in its situation. He reported that he had asked the directors to pay their lines and that he had already collected \$6,000 from them.

These are only a few illustrations of the many cases that were considered from time to time during the year. In that connection, Governor Talley made the following comments in his report to the directors at the meeting that was held on June 7:

We have been called upon during the last month to exercise our administrative control over the borrowings of those banks particularly for which and with which we fixed definite maximum lines in the early months of the year. In this connection we have felt that the principles upon which our original judgement was based still obtain and we cannot place ourselves in a position of responsibility for failure on the part of the managements of this group of member banks to make our policies conform to the limitations of their opportunities and available credit facilities.

In this report Governor Talley emphasized his feeling that a Federal Reserve Bank's duty was not performed if its only consideration in making an advance to a member bank was to make that advance in such a way that it would not lose money. In his opinion,

there was the greater duty that the Reserve Bank should have some regard for the depositors of the borrowing bank and should consider whether the advance might be used by the banks in such a way as to weaken the position of the depositors. He emphasized that in pursuing a conservative policy with regard to advances to its member banks, the Federal Reserve Bank was acting in accordance with the law and in harmony with the purposes of the Federal Reserve System.

As heretofore indicated, the credit policies of the Federal Reserve Bank of Dallas were administered by the Executive Committee, and their actions were brought to the attention of the directors by means of minutes covering meetings of the full committee or interim meetings when only the Federal Reserve Agent and Government were present. In 1926, at a meeting of the Board of Directors held on April 12, a procedure was adopted which provided for the delegation of some of the Executive Committee functions to a Discount Committee. It was provided that the Discount Committee would consist of the Governor, the Federal Reserve Agent, the two Deputy Governors, the Cashier, and the Assistant Cashier in charge of the Loan Department. The Governor was designated Chairman of the Committee, with the stipulation that in his absence the senior operating officer would serve in his stead. The Discount Committee was given authority to pass upon all loans and discounts, and the action of the committee, when approved by the Executive Committee, was deemed final.

A meeting of the Executive Committee was held on June 4, for the purpose of passing upon all credit commitments that had been made to member banks during the 1926 season prior to June 1. There was submitted a list of all banks indebted to the Federal Reserve Bank of Dallas on May 31, 1926. In those cases where definite lines of credit had been agreed upon, the amount of the commitment was indicated. Also, the list showed the collateral requirement, if any, imposed in connection with the rediscount line. After reviewing the list, it was voted that the Executive Committee approve the indebtedness of the banks named, the commitments indicated, and the collateral requirements set up.<sup>28</sup> This action was approved by the directors of the bank at the regular meeting held on June 7. Thereafter daily reports were made covering loan transactions

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<sup>28</sup> The list included a total of 122 banks in the Head Office and Branch territories which had been given commitments for specific lines of credit.

handled and commitments made either through correspondence or at conferences. The commitments were indicated in the minutes in the following fashion:

Correspondence (Letter RRG 6-1-26)

██████ Agreed to advance bank additional accommodation of \$25,000, making total of \$100,000.

██████ Agreed to extend bank rediscount line of \$25,000 or \$30,000, upon basis of 25 percent margin of collateral.

██████ Bank desired increase in present line of \$40,000. Agreed to make \$10,000 advance in form of MBC note, upon basis of 25 percent margin of collateral, with privilege of one renewal. It was the understanding that note should be retired from proceeds of certain collections mentioned in bank's letter of May 28.

██████ Agreed to extend bank rediscount line of line of \$30,000, upon basis of 25 percent margin of collateral.

██████ Agreed to advance additional accommodation of \$5,000, bringing total rediscount line up to \$35,000; line to be carried on basis of 25 percent margin of collateral.

Conferences

██████ Agreed to lend bank \$35,000 upon basis of 25 percent margin of collateral.

As indicated above, Governor Talley made full reports to the bank's Board of Directors regarding dealings with problem banks. Some of these reports were rather voluminous and cover several pages in the minutes of directors' meetings. For example, in Mr. Talley's report covering the operations of the bank during the month of November, which was submitted to the Board of Directors at its meeting held on December 7, 1926, he discussed at length the situation of a Texas bank. That section of his report is quoted verbatim as follows:



I spent the 29<sup>th</sup> and 30<sup>th</sup> of November in ██████ visiting with the officer and some of the directors of the ██████ Branch, and making a general inspection of that part of our activities. The principal object of my visit, however, was for a conference between Mr. C and myself, and Mr. F, Vice President of the ██████, and any other of the officers of that institution whom Mr. M might desire to have present. To this end I had previously made an engagement with Mr. M for three p.m. on Monday November 29.

A few minutes before Mr. C and I left the Branch to go to the bank for the conference I learned that Mr. R. H. Collier, Chief National Bank Examiner, together with his corps of assistants, was in ██████ for the purpose of examining the three National banks there. I was unwilling to proceed with the conference if it was Mr. Collier's intention to simultaneously begin an examination of the bank that afternoon, and thought that it would be better in the circumstances to return to Dallas without having the conference. Upon communicating with Mr. Collier over the 'phone, however, I found that it was his intention to begin the examination of [another bank] that afternoon just having completed the examination of the [one bank], and Mr. C and I, therefore, proceeded with our engagement.

I may briefly state that there had not appeared to be any favorable reaction to the suggestions in the conference with Mr. M on August 31 here in Dallas, and that upon meeting with Mr. M and Mr. R, the President of the bank, that attitude was not only confirmed, but these gentlemen took rather firm position to the contrary. Having discussed the matter with our Committee here, at which time the unanimous conclusion was reached that if no substantial progress had been made along the line of informing the directors generally of the condition of the bank, and there was no thought of making a provision for additional capital, or otherwise refinancing the bank, that we should require a margin of collateral to the extent of 50 % of the bank's borrowing from us, in the event that it sought to increase its line above the present figure of its indebtedness to us, viz., \$395,000. I made this decision known to Mr. R and Mr. M. The suggestion was not received kindly; as a matter of fact there was apparently some shock on their part that we would take this position.

The conference began about 3:20 and lasted until a quarter past eight in the evening, without intermission. Mr. R left the conference at 5:30. Before Mr. C and I left the conference we believed that we had made the position of this bank plain to Mr. M, and though he evidently felt that our position was unwarranted, he could not deny that we had a perfect right to dictate the terms upon which we would advance credit to his bank.

I am not attempting to give you even all of the high points brought out in the conference, but Mr. C is preparing a record of the substance of the conference, and expects to forward the original here for our files.

Mr. M asked me if I would continue the conference with Mr. R the next day, to which I readily assented. On the next morning Mr. M came to the Branch and advised me that Mr. R considered it unnecessary to go any further into the matter, that he had obtained all the information he desired from what Mr. M had told him of what transpired in the conference after Mr. R left it. Mr. M said that they were willing to take the responsibility of standing by their position, and for this bank I claimed the same privilege. Mr. M was quite affable, and seemed to have no animosity toward us for the position which I had expressed. He said, however, that the bank would not undertake to borrow any funds from a source that would require so heavy a margin of collateral as 50%. I said to Mr. M that while this was the percentage which we had definitely fixed in our minds, in view of the present situation, as we appraised it, at the same time we were willing to make it flexible and change our view if there was a change in the situation to warrant such action, but on the other hand we might as well say that we also reserve the right to make no further advances to the bank in the event that in our judgment conditions were not as good as they are now and would seem to justify the action.

The bank at the present time owes its correspondents \$1,000,000, owes us \$395,000, secured by bills receivable with a 20% margin, and owes the Treasury \$285,000, secured by bills receivable as represented by the balance in its War Loan account. It may be said, however, that the bank has at the present time a half million dollars of unpledged Government securities. Loans have declined from \$7,800,000 to \$7,300,000, and its deposits at the time of the conference were \$9,500,000, a figure some \$700,000 or \$800,000 below the best point for the year.

#### General Conditions in 1926

The trend of business activity in the Eleventh Federal Reserve District showed an irregular course in 1926. Trade was quiet in the early months of the year due to the effects of the 1925 central Texas drought and as a result of bad weather in the spring. There was increased business activity during the summer and early fall, with a “slow down” in the last quarter caused by a decline in the price of cotton. The volume of agricultural production in the district was the largest since 1919 and farmers were well supplied with feed for their livestock. The livestock industry in the western part of the district at last began to recover from the depression of 1920.

### Features of Operations

Discount operations showed an increase over the previous year. Aggregate loans to member banks amounted to \$223 million, as compared with \$123 million for 1925. From around \$5 million in February, loans increased to a peak of \$25 million on September 1 and declined to \$5.5 million by the end of the year. There was a smaller volume of other earning assets. At the end of the year, holdings of Government securities were \$23 million, as compared with \$32 million at the beginning of the year, and holdings of bankers' acceptances on December 31 amounted to \$16 million, as compared with \$28 million in the preceding January.

Due to higher level of rediscounts, earnings of the bank in 1926 were considerably larger than in 1925. After setting up a small amount for losses on account of failed banks, the bank was able to transfer approximately \$600,000 to surplus at the end of the year.

### Discount Rates

At a meeting of the directors on September 7, 1926, Governor Talley recommended that the Dallas bank's rediscount rate be increased from four to 4½ percent (New York had just increased its discount rate on August 13 from 3½ to four percent). Mr. Talley in a lengthy statement gave his reasons for making the recommendation. He stated that "In this I am unanimously supported by the Chairman of the Board [Col. C. C. Walsh] and the other officers of the bank." He concluded in his remarks by saying "I place the recommendations before you for a full discussion and I want to assure you that your executive officers will cheerfully abide by your decision regardless of what it is." The directors discussed the matter full and while they expressed agreement with the soundness of Mr. Talley's position, a majority of the Board felt that the rate should not be changed at that time and that the matter should be deferred for 30 or 45 days. In Governor Talley's report to the Board of Directors at its meeting on October 6, he brought up the subject again, stating in part that "your officers remain convinced that our rediscount rate should have been advanced at your last meeting and have seen nothing the developments of the last thirty days to change that view. . . ." The Board then voted that the rate be allowed to stand at four percent, and that if conditions necessitated a change prior to the next meeting, a special meeting be called to consider the matter. A meeting

was not held in November. At the December meeting, the matter was again discussed and it was voted to continue the existing rates without change.

#### Proposed San Antonio Branch

At a meeting of the directors held on October 6, a committee from the San Antonio Clearing House Association again presented an application for the establishment of a Branch at San Antonio. (In 1919, an application for a Branch at San Antonio had been declined by the Federal Reserve Bank at Washington.) At this meeting a committee of directors was appointed to investigate the matter and report back at the next meeting. A meeting was not held in November, and on December 7, the San Antonio Clearing House Committee again appeared before the Board and submitted additional data in support of its application. The matter was referred to the committee of the Board of Directors for further study.

#### Insolvent Banks

Thirteen member banks suspended business in 1926; however, only seven of these were indebted to the Federal Reserve Bank, and the aggregate amount of indebtedness was only \$125,000. By the end of the year, the net liability of failed banks to the Federal Reserve Bank of Dallas, after collections and charge offs, had been reduced to a relatively small amount, and the personnel of the Insolvent Banks Department consisted of four employees, including two field representatives. This represented a reduction from the field force of eleven men that were in that service on December 31, 1924. As heretofore mentioned, the field men were utilized in looking after the large number of cattle which had been acquired in the collection of notes held from suspended banks, and the bank was able to reduce this staff after the cattle were sold. It is interesting to note in a report covering the Insolvent Banks Department in December 1924, that the bank had been able to dispose of all cattle with the exception of approximately 5200 head. The report went on to say that "It will probably be necessary to take over several hundred head of cattle from the Carlsbad and Roswell area, but as they are taken over, they will be immediately shipped to market. Apparently, we will be entirely out of the cattle business by January 1, 1925."

### The Staff

At the end of the year, there were 423 officers and employees at the Head Office and Branches, representing a reduction of 253 in staff since the previous peak employment of 676 in April 1921. One of Governor Talley's reports to the Board of Directors mentioned that this reduction in staff had been accomplished in a large measure as a result of improvement in operating methods and increased efficiency, as most of the bank's operations reflected increased volume during these years. Fiscal Agency operations, on the other hand, had shown a marked decline, and at the end of 1926 only 18 people were employed in the Fiscal Agency Department.

### Membership

At the end of 1926, there were 841 member banks in the Eleventh Federal Reserve District, representing a net decrease of 20 from the previous year end. The total membership of 841 was represented by 728 National banks and 113 State banks. In April, two counties in New Mexico had been transferred to the Kansas City district and, as a result, two member banks in Albuquerque and one in Belin, New Mexico, became members of the Kansas City district rather than the Dallas district.

### Credit Policies in 1927

At a meeting of the Board of Directors on January 7, 1927, consideration was given to the credit policies that the Reserve Bank should follow during the year 1927.

After discussing the detailed statement of principles included in Governor Talley's report, it was decided that, in general, the policies followed in 1926 should be continued. In brief, two objectives were expressed; viz., first, to assist stronger banks in counteracting the detrimental effect of bank failure, and second, to hold down advances to banks that were in an overextended and unsatisfactory condition. In carrying out these policies during the year, the owners of the extended banks were urged to remove slow and frozen loans by payment of cash, in order to improve the bank's unsatisfactory condition and thus reduce the amount of borrowings. Conferences were held with representatives of a number of member banks in order to determine their borrowing program for the season, and to reach an agreement as to the amount of funds that would be expected from the Federal Reserve Bank. (The Reserve Bank was concerned about

the total amount that the member bank expected to borrow from all sources, and not merely the amount to be obtained from the Federal Reserve Bank.) In January alone, conferences were held with representatives of 40 member banks; the time devoted to such conferences ranged from a minimum of thirty minutes to a maximum of six hours, with the average time estimated at two hours.<sup>29</sup> In many cases, the Reserve Bank made commitments for specific lines of credit to be granted during the season. Some of these lines were in the amounts requested by the member bank, but in other cases, the line of credit granted was smaller than the amount applied for. Only two banks were refused credit outright.

As in 1926, the reports made by Governor Talley at directors' meetings from time to time during the year went into considerable detail as to the discussions at the conferences with member bankers, particularly when the officers of the Reserve Bank did not feel justified in going along with the member bank's borrowing program. The minutes of directors' meetings contain voluminous accounts of these conferences. The following examples of "problem" cases, as reported to the Board on September 7, 1927, are typical:

One bank had arranged for a line of credit of \$25,000 or \$30,000 early in the year, with the understanding that the amount would represent total borrowings from all sources for the season. By the middle of the summer, the rediscount line had reached \$17,500, and it developed that in addition, the bank had borrowed \$45,000 from correspondents. The management of the institution estimated that it would require additional borrowings of \$40,000 or \$50,000 to see the bank through and requested an increase of \$7,500 in the bank's rediscount line. Upon the basis of the program outline, the bank would owe \$110,000 at the peak of the season, as compared with a capital investment of \$30,000, and loans would aggregate \$265,000, as compared with the individual deposits of \$135,000. The Reserve Bank declined to grant the increase requested in view of the large amount of total borrowings but did agree to carry the \$17,500 line until fall. In the discussion, the management of the Reserve Bank told the President of the member bank that "if we had known in the beginning that the bank contemplated borrowing \$100,000 or more, we would not have been willing to open a rediscount line in any amount."

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<sup>29</sup> Governor Talley's report to Board of Directors, January 7, 1927.

The following extract from Governor Talley's report to the directors at their meeting on September 7, 1927, illustrates how much detail was given in the discussion of problem cases.

██████████ closed its doors on June 2, 1927 and a reorganization of the closed institution was brought about on August 8, 1927 when ██████████ succeeded ██████████. We [were unable] to see our way clear to make a commitment to the ██████████ for a line of credit during the 1927 season, or to make it an advance just prior to its closing. It appears that the management and directors of the ██████████ were particularly disappointed because we did not advance the bank funds to prevent the closing of the bank. At the beginning of the 1927 season, we were requested to extend ██████████ a line of credit, but in our conferences regarding the matter, we expressed an unwillingness to grant a seasonal accommodation in view of the extensive borrowing program of the bank. We indicated, however, that in the event an improvement in the underlying factors should be shown, later on, we would be glad to give consideration to the matter. Subsequent conferences developed the fact that no improvement was being made and we were unable to extend a seasonal line of credit. Just prior to the bank's closing we were again approached for a loan, and although it seemed to us that the bank's indebtedness at that time, which amounted to \$136,000, was unreasonable in comparison with a capital of \$60,000 and a surplus of \$25,000, we expressed a willingness to co-operate with the situation in connection with the Chief National Bank Examiner's efforts to adjust the matter, and stated that we should be glad to send the Assistant Manager of our Loan Department to ██████████ to join the National Bank Examiner for that section in a conference with the Board of Directors of the bank and other parties who might be interested. Our representative was told that in addition to the borrowings of \$136,000, the bank would need further accommodations of at least \$75,000, which would bring the total indebtedness up to \$211,000 as compared with a capital of \$60,000 and a surplus of \$25,000. At that time, the loans amounted to \$449,000 with the individual deposits of \$231,000, and it was estimated by the management of the bank that the deposits would go down to \$190,000. In view of these circumstances, we decided that we would not be warranted in making the bank an advance of \$35,000, that portion of its needs requested from us. In making this decision, we felt that an alternative position could not have been made in justice to sound banking principles and the best interest of other member banks, in view of the unsatisfactory ratios, the past history of the bank, and the policies of the management, and we were prevented from making an advance in the form of bills payable, endorsed by the directors, since the worth of the directors was nominal. After ██████████ closed, Mr. R. C. C. President of ██████████, and who is also interested in a number of other member and nonmember banks in West Texas, called upon us and indicated a desire to reorganize ██████████. Mr. C. stated that he and his associates proposed to take \$100,000 of paper out of the bank's assets and

substitute therefor a like amount in cash, and that a new charter would be obtained, and he asked if we would be disposed to loan the bank \$75,000 in the event the proposed plan should materialize. We agreed to loan the bank \$75,000 upon the basis of a 50% margin of collateral and a guaranty signed by the parties interested in reorganizing the institution, whose combined net worth was substantial. Immediately after the new bank opened, we made it an advance of \$65,000 upon this basis and our transactions with the new bank have been entirely satisfactory.

In some of the problem cases, credit was extended by the Reserve Bank upon the basis of directors' guarantees, and in other cases upon the basis of bills payable, personally endorsed by directors whose financial responsibility appeared sufficient to support the credit. In adopting such measures, it was felt that the directors who endorsed or guaranteed the member bank's line would take a more active interest in the bank's affairs.

#### General Conditions

Although there was some decline in business activity in the Eleventh Federal Reserve District during the year 1927, particularly in agricultural production, costs were lower than in several years, greater diversification was practiced by farmers, and demand for agricultural credit was on a smaller scale than usual. There was considerable improvement in the livestock industry and cattle prices were good. For the second time in history, total deposits of member banks in the Eleventh District, as reflected by the fall reports of conditions, reached more than one billion dollars.<sup>30</sup> [Editor's Note: Call reports in spring of 1961 show that one bank in the city of Dallas had total deposits slightly under one billion dollars!]

During 1927, the high point of member bank borrowings was only \$16 million,<sup>31</sup> as compared with a \$25 million maximum during the preceding year; the low point was \$878,000 on December 31, which was the smallest amount of member bank borrowings in many years. At the end of the year, the bank's holdings of the United States Government securities amounted to approximately \$32 million, as compared with \$23 million at the end of 1926. Holdings of bankers' acceptances were approximately \$16

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<sup>30</sup> Governor Talley's report to Board of Directors, November 22, 1927.

<sup>31</sup> Governor Talley's report to Board of Directors, October 7, 1927.



million at the beginning of the year, were reduced to \$5 million on August 15, and were increased to \$23 million at the end of the year.<sup>32</sup>

#### Establishment of San Antonio Branch

At a meeting of the Board of Directors held on February 7, 1927, the establishment of a Branch at San Antonio, Texas, was authorized, and that action was approved by the Federal Reserve Board. The Branch opened for business on July 5, 1927, occupying temporary quarters in the Frost National Bank building. The nucleus of the staff was composed of officers and employees transferred from the Head Office and from the El Paso and Houston Branches. M. Crump, formerly Managing Director of the El Paso Branch, was elected Managing Director of the new Branch, and C. B. Mendel, of San Antonio, was elected Cashier. Prior to the opening of the Branch in its temporary quarters, the Board of Directors of the Dallas bank and the Federal Reserve Board had approved the purchase of a lot on Villita Street as a site for permanent quarters for the Branch, and in December bids for the Branch building were received. Approximately 100 member banks were in the territory of the new Branch; these had been transferred from the Head Office territory and from the Houston and El Paso Branch territories. At the end of the year, the staff consisted of approximately 50 people.

#### Discount Rate Change

On August 12, 1927, the rediscount rate of the Federal Reserve Bank of Dallas was reduced to 3½ percent; the rate had been four percent since July 1924.

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On December 31, 1927, there were 438 officers and employees at the Head Office and Branches, and there were 807 member banks in the Eleventh District.

#### SOURCES

1. "Minute Book," Federal Reserve Bank of Dallas, 1922-1926, Volume 2.
2. "Minute Book," Federal Reserve Bank of Dallas, 1927-1929, Volume 3.

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<sup>32</sup> Annual Report, Federal Reserve Bank of Dallas, 1927.

Chapter VI – Restrictive Credit Policies, 1926 – 1927

3. Annual Report, Federal Reserve Bank of Dallas, 1923-1935.
4. Special History File, folder labeled “Insolvent Bank Reports, 1924, 1926.”

## **CHAPTER VII**

### **STOCKHOLDERS' MEETINGS**

The Federal Reserve Bank's restrictive credit policies in the middle Twenties, particularly as applied to overextended or weak banks, became well known throughout the district. Officers of some of the banks which felt the effects of these policies made complaints to other bankers and even to the Federal Reserve Board in Washington. Apparently as a result of this dissatisfaction, there was considerable agitation for a stockholders' meeting. Accordingly, on April 7, 1927, the Board of Directors of the Dallas bank voted to arrange for such a meeting, subject to the approval of the Federal Reserve Board in Washington. In discussing the matter, some of the directors expressed the opinion that they could see no objection to member banks' having such a meeting in their capacity as stockholders. Governor Talley stated that he had an open mind on the subject but feared that such a meeting might resolve itself into a debate with reference to the policies of the bank, the regulations of the Federal Reserve Board, or certain parts of the Federal Reserve Act. (Editor's Note: That is exactly what happened!) The Federal Reserve Board approved the proposed meeting, and on May 16, 1927, Colonel C. C. Walsh, Chairman of the Board of Directors, issued the following letter calling for a meeting of the bank's stockholders, to be held on June 15:

TO THE MEMBER BANKS OF THE  
ELEVENTH FEDERAL RESERVE DISTRICT

Gentlemen:

For some time past the officers and directors of the Federal Reserve Bank of Dallas have had under consideration the advisability of calling a meeting of the bank's stockholders, with a view of promoting a better understanding and closer relationship between the Federal Reserve Bank and its members, and to give the latter an opportunity to pass upon the desirability of forming a permanent organization and holding a stockholders' meeting annually in the future, as is now being done successfully in the Boston and Richmond districts.

At the May meeting of our Board of Directors, it was definitely decided to call such a meeting, which will be held at 10 A.M., Wednesday, June 15, 1927, in the Crystal Ball Room of the Baker Hotel, in this city.

## Chapter VII – Stockholder Meetings

You are cordially and urgently invited to send at least one of your officers or directors to this meeting and to participate freely in its deliberations and discussions.

Following adjournment of the meeting at noon, the visiting member bankers will be our guests at a luncheon in the Baker Hotel, and in order that we may make proper arrangements for this luncheon, we would like for each member bank to advise us the number of representatives it will send to the meeting. A card is enclosed, herewith for this purpose.

In the afternoon, there will be an opportunity to visit our banking rooms and to see the various departments of the bank in operation.

We await your reply with interest, and believe that the practical benefits to be derived from the meeting will fully justify the expense you will incur in sending at least one representative.

Yours very truly,

C. C. Walsh,

Chairman

The meeting was held on June 15, 1927, as scheduled, with a total attendance of 416. A court reporter was engaged to make a stenographic record of the proceedings. The record was later transcribed, printed in the form of a booklet and distributed to member banks. Colonel Walsh made an address with reference to the services provided by the Federal Reserve Bank, and Governor Talley made a report as to the operations of the bank. Counsel Stroud discussed the matter of negotiability of note forms. Following these talks, the meeting was turned over to the stockholders. A Stockholders' Association was formed, and an Advisory Committee consisting of eleven members was elected to serve for one year. Mr. W. W. Woodson, President of the First National Bank of Waco, Texas, was elected President of the Association, and presided during the remainder of the meeting. He was also elected Chairman of the Advisory Committee.

During the course of the meeting, various resolutions were adopted and miscellaneous subjects were discussed from the floor. Some of the city bankers criticized the Federal Reserve Bank for handling noncash collection items without charge, stating that this business rightfully belonged to the commercial banks; on the other hand, some of the country bankers stated that they received a great deal of benefit from that service.

## Chapter VII – Stockholder Meetings

Most of the questions from the floor were directed to Governor Talley. He was asked about member bank failures and to what extent the Federal Reserve Bank had helped the banks which had experienced difficulties. He reported that since 1921, 98 member banks and 257 nonmember banks in the district had failed, and that the Federal Reserve Bank of Dallas had suffered losses of approximately \$2,150,000 on paper acquired from banks that closed after the paper was rediscounted. He stated that at that time (June 15, 1927), 22 insolvent banks were indebted to the Reserve Bank in the approximate amount of \$1,100,000. Some of the bankers expressed the feeling that the Federal Reserve Bank of Dallas was not serving the member banks as it should, otherwise it would have experienced more losses. The question was asked, "Has it protected our member banks to the fullest extent?" Others referred to the amount of loans to member banks at that time (\$6 million), the amount of reserve deposits (\$60 million), and to the holding of Government securities (\$30 million) and bankers' acceptances (\$9 million). The implication of the questioning and comments was that rediscounts should have been higher and that the Reserve Bank's holdings of bankers' acceptances and Government securities should have been lower. Governor Talley explained that it was not customary for the Federal Reserve Bank to go to its member banks and ask them to borrow money and stated that it was apparent that too liberal extension of credit in the years beginning in 1918 and ending with 1922 was largely responsible for any of the bank failures that occurred. He referred to the fact that the Federal Reserve System had begun its career simultaneously with the World War and that the year 1923 was the first year in which the Federal Reserve System had an opportunity to exercise its normal function. He expressed the opinion that the Federal Reserve Banks started after abnormal conditions and with a misconception on the part of the officers and directors of the Reserve Banks (and on the part of the Federal Reserve Board as well) as to the purpose of the Federal Reserve Banks and the Federal Reserve System. He stated that officials of the System were now beginning to view its purpose properly and to recognize that member bank credit should be extended upon a sound basis, with due regard to the borrowing bank's own resources.

It was brought out at the meeting that the Federal Reserve Bank of Dallas probably would be able to build up its surplus within a short time to an amount equal to the subscribed capital stock (twice the paid-in capital), whereupon, under the provisions of

## Chapter VII – Stockholder Meetings

the Federal Reserve Act in effect at that time, it would begin paying a franchise tax. Some of the bankers present objected to paying to the Government a franchise tax and stated that the earnings should be apportioned to the member banks according to their deposits. Governor Talley pointed out that the Federal Reserve Notes are the direct obligations of the United States Government, and that the franchise tax was presumed to be a compensation for the Government guarantee of the Federal Reserve Notes. He explained that the Federal Reserve Notes are not issued by the Federal Reserve Bank, but they are issued to the Federal Reserve Bank. He also mentioned that a franchise tax arising out of excess earnings would go to a reduction of the public debt.

After further discussion of a wide range of subjects, the first stockholders' meeting adjourned with a vote of appreciation of the courtesies shown by the officers of the Federal Reserve Bank.

Other stockholders' meetings were held in 1928, 1929, 1930, and 1931. They followed the same pattern as the first meeting; the proceedings were recorded and reports thereof were distributed in the same manner. New members of the Stockholders' Advisory Committee were elected each year. The attendance was only 154 in 1928, 171 in 1929, 154 in 1930, and 241 in 1931. In view of the declining interest, no meetings were held after 1931.

A study of the record covering the stockholders' meetings leaves the impression that although some of the member bankers had some conception of the purpose and functions of the Federal Reserve Bank, many others, including some of the most prominent banks in the district, did not. Perhaps the most frequent subject of discussion was the disposition of the earnings of the Federal Reserve Bank, and from time to time resolutions were adopted calling for distribution of excess earnings to the stockholders rather than to the "Government." There was such a disposition to emphasize the regional character of the Reserve Bank and to ignore conditions in other Federal Reserve Districts. Some of the bankers remarked that the Dallas bank should not be influenced by System policies. They objected to an increase in the discount rate at a time when the member banks in the Eleventh District were borrowing.

"What we want is a cheap money rate to raise the crops."

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“Why did the directors of this bank raise our rate at a time when we were borrowing money?”

“Putting the rate up here doesn’t curb any speculation in New York.”

“It is manifestly unfair to this great section to jump up and change the discount rate overnight.”

In answer to these comments and questions, Governor Talley explained that there were factors in the rate that were national in their character – and that “unless the rates are on a proper level in this district in relation to the rate existing in other districts, particularly the Eastern, there is a tendency to either withdraw funds from or curtail balances in this district according to the differential.” At one meeting he estimated that funds amounting to approximately \$222,000,000 left the Eleventh Federal Reserve District over a period of several months due to a disparity in rates in this and other districts. In addition, some of the directors of the Reserve Bank tried to explain the various factors underlying rate changes, but to no avail. The questioning continued and the questioners apparently were “of the same opinion still.”

At one meeting, the Chairman of the Stockholders Advisory Committee in his opening remarks made the following comment regarding the disposition of Reserve Bank earnings:

It appears from the recent statement of the Federal Reserve Bank of Dallas that its surplus account will reach double the capital this year, and that all excess earnings will hereafter be paid to the U. S. Government as a franchise tax. It is, therefore, time for the members to give some consideration to the disposition of these earnings. Inasmuch as the Government does not contribute any capital to the Federal Reserve Bank, and their operations do not cost the Government any expense, it would appear fair and reasonable that such earnings, after all expenses have been paid, should be distributed among the members, based on their average deposits with the Federal Reserve Banks on which they draw no interest.

Another member banker, upon learning that the Federal Reserve Bank of Dallas had sustained a loss by participating in sales of United States Government securities by the System Open Market Committee, criticized that action and stated that “If the sustaining of that loss has been in cooperation with the Federal Reserve Board and Eastern Federal Reserve Banks in particular for the purpose of maintaining the level of the discount rate for the curbing of speculation, or anything else in which we are not

## Chapter VII – Stockholder Meetings

interested, then it occurs to me that the Federal Reserve Bank should determine its independence.”

At one meeting, the President of a small bank in central Texas spoke on the subject, “Relation of the Federal Reserve Bank to Members.” He stated that, in his opinion, the small banks did not receive any benefit from membership in the Federal Reserve System, but that the larger banks were satisfied. He stated that the individual Reserve Banks were merely Branches of the “Federal Reserve System;” that the control was in the hands of the Federal Reserve Board at Washington, “so you see that in order to understand our relations to the Federal Reserve Bank, we have to get rid of a lot of ideas about our rights and privileges in handling our own money.” He went on to say that the Dallas bank was controlled by the directors elected by the large banks and the three directors appointed by the Federal Reserve Board, and that the directors elected by the small banks were in the minority. “What do these minority directors amount to if they take a view contrary to the other directors?” He stated further that “so far as the majority of the directors having any interest of the small banks at heart, there is absolutely nothing to it if it conflicts with the interests of the big banks or of this great United States public policy view.”

At one of the meetings, a director of the Reserve Bank (J. H. Frost, President of the Frost National Bank of San Antonio), who was called upon to address the stockholders, referred to the complaints that had been made and stated that, in his opinion, when a critic familiarized himself with the operations of the Reserve Bank, his views of Federal Reserve policies and operations would change. He cited the experience of a friend who had been approached with reference to becoming a director of one of the Branches of the Dallas bank. At first the friend demurred, stating that he was out of sympathy with the operations of the Reserve Bank, and gave as one reason the fact that the rediscounts of the Federal Reserve Bank of Dallas were less than the rediscounts of any other Reserve Bank. He finally decided to accept appointment as a director of the Branch, and after serving for a time, his point of view changed. On one occasion after he became a director, he remarked that the banks had plenty of money, had no trouble in obtaining credit and, with no little pride, referred to the fact that the rediscounts at the Branch were negligible. “In other words,” said the speaker, “he gave me the same proof



## Chapter VII – Stockholder Meetings

to prove two different things. . . .Now he is on the Board and knows that the banks can get the money; formerly he felt that because the rediscounts were small that was evidence they could not get it.”

The stockholders’ meetings proved to be a “sounding board’ for various proposals by critics of the Reserve Bank. For example, one proposal suggested that the Stockholders’ Advisory Committee be consulted before the directors of the Dallas bank raised the rediscount rate; another called for the Reserve Bank to pay the traveling expenses of all member bankers who attended the stockholders’ meetings “so we can get some of our money back from the Federal Reserve Bank;” still another called for a detailed list of the salaries of all officers and employees to be made available to the stockholders. In most cases, the influence of the thoughtful and well-informed banks prevailed, and such proposals were voted down.

After two or three meetings, the critical atmosphere subsided somewhat, and more and more of the member bankers began to express approval of the policies of the Reserve Bank. For example, at one of the later meetings, a prominent banker (a former critic) stated that, “I, for one, believe that the credit policy pursued has been of immeasurable benefit to this district because it has taught us that money still has a value.... A fellow who continuously borrows money for the purpose of re-loaning it will sometimes come down a road where he cannot come out.” A committee report on “Cost of Operations and Disposition of Earnings” included the following statement: “There are so many of our members who have not taken into consideration the principal source from which the Federal Reserve Bank of Dallas has built up its surplus. It would be well to bear in mind that out of the present surplus of \$8,690,000 approximately \$8,250,000 has been derived from a profit on circulation which has been practically a gift or, you might say, a gift privilege granted by the Government in the Federal Reserve Act, which this committee believes the stockholders have not fully appreciated.”

Governor Talley’s reports presented at the stockholders’ meetings generally included a statement as to general conditions, a breakdown of earning assets, a statement of earnings and expenses, a schedule of volume and cost of free services rendered member banks, a classification and disposition of notes submitted for rediscount (including a schedule showing the percentage of paper rejected), a statement with respect

## Chapter VII – Stockholder Meetings

to closed banks, and other details of operations. His reports were usually followed by questions and comments from the floor.

The stockholders' meeting that was held on June 3, 1931 (the last one) was harmonious and was probably the most productive of the series. The country was in the midst of the great depression and the member bankers apparently realized as never before the value of the Federal Reserve System and the Federal Reserve Bank of Dallas. In Governor Talley's report, he stated that "notwithstanding the widespread effect of the present depression, the Eleventh Federal Reserve District finds itself in a comparatively favorable position. In the period from January 1, 1930 to May 23, 1931, there were 1,838 bank suspensions in the United States, of which on 58 (26 member banks and 32 nonmember banks) occurred in the Eleventh District." An address of this meeting by a prominent Dallas banker included the following words of commendation for the Federal Reserve Bank of Dallas:

This shareholder's group was organized and came into being as a protest against our Dallas bank, but all protests and differences seem to have been ironed out and our present position is one of tranquility and harmony, Justification for our continued existence will be demonstrated by the things we discuss here and the constructive work we may do The directorate of our Federal Reserve Bank is here to explain, to counsel and advise. Our Dallas bank is infinitely more than a place to carry our reserves and discount our paper. It is a vast bureau of information for the banking mind. It has a rapidly growing library on financial economy and has some of the finest minds of the country employed to gather and disseminate statistical information. It has a field force whose duty it is to keep in touch with not only the member banks but with every item of financial welfare in the nation. It should be the bankers' club for the district, and its services are manifold.

The meeting ended with a note of optimism in adoption of the report of the Resolutions Committee which included, among other things, the following comments:

We take pleasure in noting the favorable position of the banks of the Eleventh District as shown in the excellent report made by the Government of the Federal Reserve Bank of Dallas, indicating that the banks of this district are meeting present conditions with courage and ability. We regard the management of the Federal Reserve Bank of Dallas as capable and efficient and commend it for pursuing policies that are sound for meeting the exigencies of the present situation. It is gratifying to know the management was able to earn dividends without depleting the bank's surplus during the past year and the present year to date.

## Chapter VII – Stockholder Meetings

We recommend that member banks take greater interest in the election of directors of the Federal Reserve Bank.

We express our appreciation for the courtesies and entertainment, extended member banks by the Federal Reserve Bank of Dallas.

### SOURCES

1. "Minute Book," Meetings of the Board of Directors, Federal Reserve Bank of Dallas, April 7, 1927.
2. Circular Letter to member banks, May 16, 1927.
3. Proceedings of Meetings of Stockholders, 1927-1931, (In Federal Reserve Bank of Dallas Library).

## **CHAPTER VIII**

### **THE TALLEY HEARINGS**

About the middle of 1927, soon after the first stockholders' meeting was held J. P. Williams, President of the First National Bank of Mineral Wells, Texas, began a campaign for the removal of Lynn P. Talley as Governor of the Federal Reserve Bank of Dallas. He held meetings at various points in the district, sent out letters to member bankers, making inquiry as to whether they were satisfied with the Reserve Bank as then operated, visited most of the directors of the Reserve Bank, and conferred with members of the Stockholders' Advisory Committee. Following these activities, he addressed a letter to Colonel C. C. Walsh, Chairman of the Board of the Reserve Bank, stating that upon the basis of information he had obtained, there was widespread dissatisfaction with the operation of the Federal Reserve Bank of Dallas and that, in his opinion, Governor Talley should be removed from office.

After further correspondence and conferences, the Board of Directors of the Federal Reserve Bank of Dallas invited Mr. Williams to appear before it for the purpose of submitting such information as he might have as to the reported dissatisfaction. He was informed that the Board would be glad to hear any other member bankers who might wish to make statements relative to the policies of the Federal Reserve Bank of Dallas and the manner of their application by the Governor or any other officers of the bank. December 12, 1927 was set as the date for the hearing.

After the date for the hearing had been set, Mr. Williams was requested to furnish Chairman Walsh the names of witnesses he desired to be present at the hearing. Mr. Williams submitted a list containing 98 names, and these men were given a special invitation to appear at the hearing. In addition, a circular letter was addressed to all member banks in the district, giving notice of the meeting to be held, and inviting every member banker in the district who possessed information which he deemed important for the consideration of the Board to be present at the hearing. The Reserve Bank agreed to defray the traveling expenses of all member bankers in the district who desired to testify. Chairman Walsh received only 11 replies to the special letter of invitation. A few days before the hearing, he sent out tracers by telegram, and several additional acceptances were received.

## Chapter VIII – The Talley Hearings

The proceedings were held in the dining room of the Federal Reserve Bank, and continued for three days – December 12, 13, and 14. The services of a Chicago reporting firm were obtained for the purpose of taking down the testimony and compiling a record of the proceedings. Newspaper reporters were barred. Members of the Stockholders' Advisory Committee were invited to be present. Under the procedure adopted, the hearing was confined to the presentation of oral or written testimony by the complaining bankers, without cross-examination except by permission of the Chairman. However, it was agreed that the directors and the members of the Stockholders' Advisory Committee could ask questions. It was decided that a second hearing would be held at a later date for receiving the statements of member bankers who wished to voice their approval of the Reserve Bank's management and policies. It was also contemplated that at the second hearing pertinent data from the Reserve Bank's confidential records would be presented.

At the first hearing, 25 member bankers appeared and testified in person; and letters from 27 member bankers, referring to complaints of various kinds, were introduced into the record. At the second hearing, which was held on January 11, 12, 13, and 14, 1928, a total of 55 member bankers appeared in person and testified in support of the policies and management of the Federal Reserve Bank of Dallas. Letters of commendation were received from 152 banks and were introduced into the record.

W. E. Allen and T. P. Perkins, attorneys, represented Mr. Williams, and the Board of Directors of the Federal Reserve Bank of Dallas was represented by Chas. C. Huff, Eugene P. Locke, and E. B. Stroud, the bank's attorneys.

At the opening of the first hearing, Mr. Allen made a statement in which he indicated the nature of the complaints on the part of the member banks whose testimony was to be presented. These complaints, according to Mr. Allen's statement, included the following:

The lack of cooperation on the part of the Governor of the Reserve Bank with the member banks and, particularly, the smaller banks and those in rural communities.

A lack of sympathy, at times going to the point of arbitrary action and harsh words.

## Chapter VIII – The Talley Hearings

Mr. Talley, the Governor of the bank, is temperamentally unfit for the position.

Mr. Talley does not have the proper conception of the problems of the small banks.

The Governor's announced policy that the discount privilege should minimize as the Federal Reserve Bank continues to function.

He has announced that there are too many rural banks, that there is no need for rural banks, and that banking should be done in the larger centers.

The Governor has stated there are too many of the small banks and that he was going to help close them.

The complete record of each hearing covered several hundred typewritten pages. Members of the bank's staff subsequently prepared a digest of the record, which consisted of a summary of the testimony of the complainants and the bank's reply. The rebuttal testimony, submitted at the second hearing, included confidential information from the bank's records, such as reports and correspondence. This information was submitted by W. D. Gentry, Assistant Cashier, who had supervision of the Loan and Securities Department. The following condensations of testimony of complainants and replies thereto are typical:

Mr. B, President

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City in Texas

Mr. B, in his testimony, complained of the treatment received at a conference with several other officers of the Federal Reserve Bank, which he stated was in the fall of 1925. He stated that this was the last time he was in the Federal Reserve Bank. Mr. B testified that he had made no application for credit accommodation at that time, but had just dropped by for a friendly visit, being in Dallas on some other business; that his bank was not then indebted to the Federal Reserve Bank, but that he might need some money during the year, and merely wanted to know the possibility of borrowing in case it became necessary; that he met Governor Talley and the Deputy Governor Gilbert who questioned him about his situation, and that the conference lasted something like three hours; that Mr. Talley and Mr. Gilbert called in two or three of the other officers and that he had been in a few law suits but that had never been through an examination as thorough as the one these gentlemen gave him at that time; that Mr. Talley told him, among other things, that a country banker should not lend a farmer

any money to make a crop on; that loans should be advanced only against the crop after it had been gathered; that teams and tools were very poor collateral and should not be considered; that [Mr. Talley said he] had told one man he could go home and close his bank; that a lot of banks were experimental shops anyway; that there were too many country banks and a lot of them should be closed up and the community would be better off without them.

### REPLY

Mr. Gentry, in his testimony, established from the records of the Federal Reserve Bank that there was no conference with Mr. B in the fall of 1925, but that a conference with Mr. B took place on February 23, 1926, at which several officers of the bank were present. Mr. Gentry testified that the bank opened its line with the Federal Reserve Bank in 1925 on June 9 and closed it on December 30; that the line was reopened on February 24, 1926, the day following the conference, and closed again on November 15, 1926; that while the bank was not indebted to the Federal Reserve Bank on the date of the conference, the purpose of Mr. B's visit was evidenced by a letter received on the morning of the conference accompanying an application for rediscount and reading in part as follows:

“Please find enclosed our application covering twenty-eight notes aggregating \$20,175 for rediscount. We will thank you to please place the proceeds of this offering to our credit, and advise us by wire. We are having to ask you for this accommodation in order to meet decrease in our deposits due to the Tax Collector making his remittance to the State, as the remittance is now outstanding we will appreciate your prompt attention in handling these items for us.”

The following letter from Mr. B written a few days after the conference, was read into the record:

Some of the items in our offering of a few days ago were returned, and we are submitting another covering thirty-two items aggregating \$20,907.50 which we will appreciate your Committee passing upon and placing the proceeds to our credit. It will take a portion of this offering to take care of the \$44,000 transfer of a few days to the State, and we have another \$12,000 to be paid Monday to the State High Department, this will cover all of our transfers to the State and believe will take care of us for quite a while. You may rest assured that everything will be done that is possible to hold our requirements to the minimum.

We are very anxious that these items be accepted, so as to keep from impairing our reserve, we have not been penalized for four or five years, and we are very anxious to keep up that record.

## Chapter VIII – The Talley Hearings

I also wish to assure you that the writer enjoyed the conferences of a few days ago very much, and appreciate very much your views, and want you to know that writer is going to carry them out so far as humanly possible.

With best wishes and warm personal regards, I am.

Mr. Gentry also gave a summary of the credit relations with the bank during the years 1925, 1926, and 1927, which is shown on page 9 of the confidential record.

Messrs. Talley, Gilbert, Coleman, Harris, and Gentry who were present at the conference with Mr. B, each stated that Mr. Talley did not make the statements attributed to him by Mr. B: that a bank should not loan a farmer money to make a crop on; that teams and tools should not be considered as collateral; that a lot of banks were experimental shops anyway; that there were too many country banks and a lot of them should be closed up. They also stated that Mr. B was treated in a very courteous manner.

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Mr. H, President

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City in Texas

(Oral)

Mr. H testified that in May 1926 he had a conference with Governor Talley with reference to obtaining an increase in the line of credit of \$30,000 already agreed upon by the Federal Reserve Bank, and that Mr. Talley told him that he positively would not rediscount any further for the bank; that Mr. Talley told him to “go home and close his damn bank, that it would be a damn good lesson for the community,” and that it was not the duty of the country bank to take care of the farmers in making crops. . . .He felt that he was grossly mistreated at the conference. Mr. H also testified that the attitude of the bankers in his community was unfriendly toward the Federal Reserve Bank.

### REPLY

Testimony of Mr. Gentry brought out that the capital of the bank was \$50,000, and that the surplus was \$12,500; that on March 23, 1926, in a personal conference with Cashier S of the bank, the Federal Reserve Bank agreed to grant the institution a rediscount line of \$25,000 or \$30,000 during the season, with no collateral requirement, upon the basis of Cashier S's estimate that the total borrowings for the year from all sources would not exceed \$60,000; that on May 12, 1926, Mr. H, President of the bank, visited



the Federal Reserve Bank and requested an increase in the line previously granted by the Federal Reserve Bank, estimating that total borrowings for the year would probably amount to around \$93,000; that the Discount Committee of the Federal Reserve Bank did not feel justified in increasing the previous commitment in view of the borrowing program being so far in excess of the bank's capital investment; that in 1927 application was made by President H for a line of credit from the Federal Reserve Bank in personal conference on January 6 and January 14, but that the Discount Committee of the Federal Reserve Bank did not feel inclined to make a definite commitment for a total line of credit so early in the season, especially in view of Mr. H's estimate that his bank would probably find it necessary to borrow \$100,000 during the 1927 season; that the bank. . . borrowed a nominal amount from the Federal Reserve Bank in February and the early part of March upon the basis of bills payable; that in the latter part of March [the bank] indicated that there had been a revision in [its] borrowing program. . . stating that it probably would not be necessary to borrow more than \$76,500 from all sources, and requesting \$25,000 from the Federal Reserve Bank; and that the Federal Reserve Bank agreed to extend the line of credit requested, in view of the reduced estimate. Mr. Gentry also testified that the Federal Reserve Board was advised by Governor Talley of the credit relations with the bank during 1927.

Messrs. Talley, Gilbert, Coleman, Harris, and Gentry testified that they were present at the conference with Mr. H, and that Mr. Talley did not tell Mr. H to "go home and close your damn bank, it will be a damn good lesson for the community;" and that Mr. Talley did not tell Mr. H it was not his duty to take care of farmers in making loans for crop making purposes.

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Mr. B, Vice President  
[REDACTED]  
City in Texas

(Letter)

Mr. Williams read into the record a letter addressed to him by Mr. B, in which Mr. B stated that his experience was that the Federal Reserve Bank was so contentious as to the admissibility of paper that he had very little paper they would have.

REPLY

Mr. Gentry testified that it had been necessary bank because of the unsatisfactory showing of financial statements. Mr. Gentry also testified that Chairman Walsh had received the following letter from Mr. B, dated December 1, 1927:

## Chapter VIII – The Talley Hearings

“My dear Colonel:

I have been surprised today in receiving a letter from Mr. W. advising me that my name has been furnished him as one of the witnesses to make complaint before the Board of Directors of the Federal Reserve Bank on December 12.

I am writing to say to you that if my name has been used in such connection, it was used without my authority or permission and that I will not go before your Board as one of the complainants at that hearing.

With my personal regards and sincerely hoping that you are well, I am,

(Signed) Very sincerely yours,  
Mr. B, Vice President”

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Mr. B, Vice President  
[REDACTED]  
City in Texas

(Letter)

Mr. Williams read into the record a letter he had received from Mr. B, in which Mr. B stated that he did just as little business with the Federal Reserve Bank as he could; that he had known Mr., Talley for many years, “and have always found it difficult to get him to do business with us in a manner pleasing to us. He may have always been right;” that he believed if Mr. Talley could manage the bank without coming in contact with the customers and without the necessity of writing letters he would be very successful as Governor.

### REPLY

Mr. Gentry testified that the last time the bank applied for credit from the Federal Reserve Bank was in 1922 and that in that year the bank rediscounted to the extent of \$152,000; that Mr. Talley was not connected with the Federal Reserve Bank in any capacity during 1922; that he was at that time Vice President of the Southwest National Bank of Dallas; that the records of the Federal Reserve Bank do not show any complaint as ever having been made by Mr. B’s bank; that it is in the territory served by the Houston Branch, and that most of the correspondence between the bank and the Federal Reserve Bank would necessarily be carried on [with] the Houston Branch.

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## Chapter VIII – The Talley Hearings

Mr. S, President

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City in Texas

(Letter to Mr. Williams)

Mr. S stated that he was in sympathy with Mr. Williams' move against the Federal Reserve Bank of Dallas; that he thought the intention of the reserve act was good but that it was not worth anything to him; that he had not borrowed any money from it for several years; that they wanted to dictate the plan of loans and every note had to be held up under this iron-clad rule with a financial statement from the man who gave it; that whenever he made an offering for discount they would probably take about one-half which would be half his needs because he never borrowed more than he needed, thereby refusing any recognition of the financial standing of the institution making the offering; that they would penalize him for deficient reserve caused mainly by refusal for credit, that about all they undertook to do was to tell him what to do and when to do it; that he was so thoroughly disgusted with the management that he did not undertake to do any business with them, although they forced him to take stock and keep a reserve; that he thought a man who had any respect for himself and the institution he represented would do no more business with them than was actually forced on him; that it was the most uncompromising, commanding and demanding outfit he ever had any dealings with or knew anything about; that he tried to be loyal to his country and its laws but that it was impossible under such management.

### REPLY

Mr. Gentry testified that, with the exception of one rediscount offering for \$15,040.48 sent to the Federal Reserve Bank in June of 1926, the bank had not called upon it for credit accommodations since 1923; that from this offering the Discount Committee accepted and discounted 26 notes totaling \$8,819.35; that the 14 notes returned aggregating \$6,221.13, were returned for various reasons but principally on account of inadequacy of collateral securing the notes of makers with nominal net worth.

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Mr. B, President

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City in Texas

(Oral)

Mr. B testified in connection with a certain offering consisting of three notes aggregating approximately \$20,000 which was returned to his bank in full on account of chattel mortgages not constituting a prior lien to the notes offered; that he was reluctant to send in the offering referred to because he was afraid it would be returned.

REPLY

Mr. Gentry testified that the Discount Committee instructed that the notes referred to by Mr. B be returned in view of the fact that the mortgage did not provide a prior and specific lien for the particular note described in the mortgage but that it was in his opinion in which he believed the other members of the Committee would concur, that the Federal Reserve Bank could just as well have accepted the notes and asked Mr. B to furnish a subordination agreement. Mr. Gentry also testified that since 1920 the bank had borrowed from the Federal Reserve Bank every year, with the exception of 1925 and 1927, and that in 1926 notes amounting of \$58,000 were submitted, of which items totaling \$54,000 were approved by the Federal Reserve Bank; that generally the Federal Reserve Bank had been willing to accept most of the paper offered by Mr. B.

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As part of the record, Mr. Gentry testified with respect to the Reserve Bank's credit relations with a bank in Texas. Mr. Gentry stated that generally speaking the credit relations of the Federal Reserve with the bank had been satisfactory, although Mr. Williams had occasionally expressed some displeasure in connection with the return of notes. He referred particularly to correspondence regarding the return of paper of certain makers and read a number of letters concerning those transactions.

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Mr. Gentry also testified that the examiners of the Federal Reserve Board, in making periodical examinations of the Federal Reserve Bank of Dallas, reviewed the examination reports of all member banks and listed those banks which, in their opinion, required special care. He stated that of the 43 banks which were represented at the first hearing, either in oral testimony or by letter, 29 were listed by the Federal Reserve Examiners as requiring special care.

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The record covers the testimony of Mr. Williams at the first hearing, questions asked him by Counsel for the Reserve Bank and by the directors, and his replies. This part of the record, which includes the reading of certain letters, overs 155 pages. In his opening statement, Mr. Williams gave the

## Chapter VIII – The Talley Hearings

background of events leading to his decision to make an investigation regarding the operation of the Federal Reserve Bank of Dallas by Mr. Talley, and outlined the reasons why he thought Mr. Talley was not qualified to be Governor of the Federal Reserve Bank of Dallas.

In part, he stated that when he attended the stockholders' meeting in June, he found a very bitter feeling toward the Federal Reserve Bank; that following the stockholders' meeting he had some correspondence with Governor Talley regarding the amount of rediscounts reported at the meeting and thought it very strange that the amount was so small since in 1925 a freeze had destroyed the cotton crop in west Texas, central Texas had suffered a drought, and in 1926 the price of cotton was low; that he felt the Reserve Bank under Mr. Talley's management was not filling its proper place in the district since he (Mr. Williams) viewed the Federal Reserve Act as primarily intended for the purpose of supplying needed credit to member banks; that he was convinced the loans of the Federal Reserve Bank at that time did not in any way represent the legitimate demands of the member banks; that the Federal Reserve Bank's attitude toward rediscounts was forcing many of the best member banks to go to their city correspondents for borrowed money and pay a higher rate than the rediscount rate; that Mr. Talley and Mr. Talley alone, was responsible for the success or the failure of the Federal Reserve Bank; that Mr. Talley knew nothing of the operation of a country bank; that Mr. Talley stated in one of his letters that the rediscount function of the Federal Reserve Bank had already begun to dwindle in significance and to the extent that the Federal Reserve Banks carried on in an intelligent manner the open market operations, just to that extent would their operation of the rediscount function be minimized. Mr. Williams testified further that following the exchange of correspondence, he came over to Dallas and discussed the matter with Mr. Talley, with the hope that he could get Mr. Talley to "see the error and readjust his practices;" that he did not get anywhere with him. He reached the conclusion that he had a duty he could not avoid. He discussed the matter with his brother, Congressman Guinn Williams, and his brother told him to do what he thought best. In due time, he visited several of the directors of the Federal Reserve Bank of Dallas and found that the directors were very strong for Mr. Talley, so he realized he had to "show them." He sent out a letter to member banks on August 6, asking certain questions, including an inquiry as to whether they were satisfied with the operation of the Federal Reserve Bank.

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He came to the conclusion that there was no relief for the member banks, except through the elimination of Mr. Talley, and on September 14, he wrote Mr. Talley to that effect; that he would pursue the work of bringing about his retirement as Governor with courage and energy.

In his testimony, Mr. Williams gave a further account of the developments leading to the hearings, including meetings that he had arranged at Fort Worth, Abilene, and Lubbock. In response to the cross examination of Mr. Williams at the first hearing, he reiterated his feeling that the dissatisfaction with the Federal Reserve could not be overcome as long as Mr. Talley was head of the institution. The questioning of Mr. Williams by one of the directors brought out that Mr. Williams had not submitted his complaints to the Stockholders' Advisory Committee, and the director remarked: "... before getting ready to submit anything to the stockholders' meeting . . . you were having meetings organizing the complaining banks and crystalizing the sentiment of dissatisfaction which was then prevailing?" The Chairman of the Stockholders' Advisory Committee, in questioning Mr. Williams, brought out that he had expressed a willingness to call a meeting of the Advisory Committee at any time to meet Mr. Williams' convenience, and that he had asked Mr. Williams to refrain from publicly discussing the Federal Reserve Bank and Mr. Talley and come before the Advisory Committee; that the Advisory Committee would then submit the matter to the Bank's Board of Directors.

At the second hearing, which was held on January 11, 12, 13, and 14, 1928, Mr. Talley made an extended statement as to his background of banking experience, the evolution of the credit policies of the Federal Reserve Bank of Dallas, his personal banking philosophy, etc. The record of his testimony covered 63 pages. There follows a condensation of his statements.

In discussing the historical background of the Federal Reserve System and the evolution of credit policies, Mr. Talley stated that in the beginning, the management of the Federal Reserve Banks addressed themselves to the accumulation of their own resources and to devising a collection system in order to carry out the intention of Sections 13 and 16 of the Federal Reserve Act; that rediscount operations were nominal until the year 1918, following the entrance of the United States into the World War, but that during the next few years there was a tremendous expansion in advances to member banks;

that the school of thought which believed at the inception of the Federal Reserve System that its purpose was to avoid a dearth of primary credit predominated; that the policies pursued were based upon that principle. However, a large part of Reserve Bank credit was used to carry Government securities sold by the Treasury. Also, it was necessary to issue Federal Reserve Notes to accommodate the enormous increase in the purchasing power of the population which, in itself, caused a tremendous increase in prices and created the need for additional supplies of hand-to-hand money; that these factors and the large importation of gold contributed to a final recognition that a high rediscount rate was not effective as a deterrent to overextension of credit. Up to that time, no thought had been given to the administrative control of credit, but in May 1920, the Federal Reserve Bank and officials of the various Federal Reserve Banks came to a realization that all of the available credit had been absorbed and that the actual reserves of member banks and those of the Federal Reserve Banks had disappeared. The System was then forced to face the question of administrative control of credit and to endeavor to correct this situation which was the unavoidable result of war conditions.

Mr. Talley stated further that during the years 1921 and 1922, the Federal Reserve Bank devoted its best efforts to getting its member banks out of an overextended condition. He traced the development of credit policies of the Federal Reserve Bank of Dallas during the next few years, gave statistics as to the number of bank failures, the losses sustained by the Federal Reserve Bank of Dallas in an effort to keep banks open, etc. The credit situation from time to time was fully discussed at meetings of the directors of the Federal Reserve Bank of Dallas, and the credit policies that began to be set up in 1923 and 1924 became more effective in 1925, finally led to the following expression of definite policy and instructions to the officers of the bank to make it more effective:

The minutes of the meeting of the Dallas board in January 1926, show that after a general discussion of credit conditions in the district, which led to the expression of the thought that if banks which had survived the so-called deflation period had not restored themselves to a solvency and had not worked themselves out of an overextended condition they could not expect to depend upon the Federal Reserve or other credit agencies for the purpose of continuing to rely upon continuous heavy borrowing in order to keep afloat. It was the conclusion that such banks must be rehabilitated by their stockholders and that the use of credit by the members of the Federal Reserve Bank should represent seasonal borrowings against paper

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typifying current operations and in reasonable ratios to their invested capital and that the chief credit function of the Federal Reserve Bank is to extend credit for the accommodation of commerce, industry, and agriculture, and not to finance the reduction of slow or doubtful assets by member banks.

Mr. Talley's statement brought out that during the 1926, credit was extended by the officers of the Federal Reserve Bank upon the basic policy referred to above. Direct advances by the Federal Reserve Bank during the active borrowing season were liquidated in a comparatively satisfactory manner by the end of the year. These policies were continued in the early part of 1927, and the management of the Reserve Bank continued the practice of holding conferences with officers of member banks in order to assist them in working out their problems. Mr. Talley estimated that the difficult cases represented less than eight percent of the entire membership of the Federal Reserve Bank of Dallas. The banks were able to obtain satisfactory liquidation during the fall of 1927, and at the end of the year, they owed the Federal Reserve Bank less than \$1,000,000, the nearest they had come since 1917 to entirely liquidating their borrowings from the Federal Reserve Bank.

Mr. Talley testified that there was no wholesale restriction of credit on the part of the Federal Reserve Bank during 1927, as charged, that in only two cases was credit denied absolutely; that in only 13 cases was the amount applied or reduced; and that the definite commitments in specific amounts that had been made by the Federal Reserve Bank were not used in their entirety, since the credit was not needed.

The record of Governor Talley's testimony indicates that his conception of the role of the Federal Reserve Banks in stabilizing the credit supply through the operations of open market transactions (although worded differently) was in most respects in agreement with central banking thought as these lines were written (33 years later). This is illustrated by the following questions from his testimony:

Federal Reserve Banks cannot follow it as a principle of universal application that they should at all times buy in the open market sufficient securities to absorb their idle funds, that is to say the surplus of their deposits over the borrowing and rediscount demands of their member banks. Some other considerations exist to which they must give thought in investing such funds, such as: they cannot proceed upon the theory that always and at all times their funds must be remuneratively employed; money released by the Federal Reserve Banks for the purpose of



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investment in the open markets usually finds its way promptly into the vaults of the member banks and to that extent relieves their borrowing requirements; often times the needs of member banks may be satisfied by the Federal Reserve Bank quite as readily and as satisfactorily by thus releasing funds for investment as by extending credit in the form of loans and in rediscounts – frequently it is wise for the Federal Reserve Banks to make such investments primarily for the purpose of diminishing the needs of the member banks. On the other hand, member banks may be already provided with a plethora of money. In such event, the putting out of money by the Federal Reserve Banks for investments would seriously increase this plethora and quickly result in inflation. Wisdom would dictate in such circumstances the retention of money by the Federal Reserve Bank, though it be idle, and perhaps even the reduction of the volume of investments already held by collecting the same and sometimes by actually selling Government securities in order to absorb the plethora of funds already in the possession of the member banks.

With respect to the complaints as to Mr. Talley's attitude in conferences, he stated that he had always endeavored to be courteous, patient, and polite with member bankers and he deplored any impression that he was not sympathetic with them. He realized that when an emergency situation faced a member banker, remarks made in a conference are likely to be misunderstood and that "complaints of ill treatment circulate and spread among the banking fraternity like wildfire, and in the process, they are twisted and exaggerated, even though unintentionally."

The following are examples of oral testimony and letters in support of the policies and management of the Federal Reserve Bank of Dallas, as presented in the second hearing:

### ORAL TESTIMONY:

Mr. B, President, [REDACTED], Texas

Mr. B stated that the capital of his bank was \$100,000, with a surplus of \$20,000, and undivided profits of \$15,000; that the city had a population of around 2,000, that his relations with the Federal Reserve Bank had been pleasant and satisfactory; that his bank was not a chronic borrower, although in 1926, as the result of the drought in 1925, it was necessary to borrow; that the Federal Reserve Bank accepted \$46,000 out of paper amounting to \$47,000 which he submitted during 1926, returning two notes of \$500 each – he thought the Federal Reserve Bank should have taken one of the \$500 notes but since then he had put it in the refrigerator and it

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was still there – so they were about right; that he wanted a safe place in which to deposit his money. On cross examination, Mr. B testified that he did not recall that he had heard of any complaint during 1925, the year of the drought, about the Federal Reserve Bank not performing its proper function in reference to those banks which might have been stricken.

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Mr. R, President, [REDACTED], Texas

Mr. R stated that the capital stock of his bank was \$25,000, that it didn't have any surplus and that the undivided profits were \$1200; that his transactions with the Federal Reserve Bank had always been satisfactory; that his bank had borrowed money every year since he became connected with the bank in 1921; that he found the attitude of the Federal Reserve Bank in the past few years helpful and sympathetic; that some of his paper had been returned, but that he did not feel the Federal Reserve Bank had been unusually technical or strict; that recently on the occasion of an emergency, when another bank in his town closed, he expected a run, and that Mr. Gentry from the Federal Reserve Bank called him over the 'phone and asked if he needed any assistance; during the next few days he sent down \$8000 worth of paper and the majority of it was accepted and held in reserve; that if the Federal Reserve Bank hadn't helped his bank it could not have survived.

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Mr. J, President, [REDACTED], Texas

Mr. J testified that his bank had not borrowed from the Federal Reserve Bank in recent years, but that it had used its facilities in other respects; that his experience with the Federal Reserve Bank has been thoroughly satisfactory; that he had had personal contact with Mr. Talley, but had never been mistreated by him; that he had never noticed any disposition on the part of the Federal Reserve Bank to criticize or hurt a small bank; that he was thoroughly satisfied with the Federal Reserve of Dallas as it was now operated and that his was a State bank.

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Mr. C, Cashier, [REDACTED], Oklahoma

Mr. C testified that his bank had a capital of \$100,000 and a surplus of \$10,000; that he had been connected with the bank since 1918 and that since that time his bank had borrowed heavily from the Federal Reserve Bank every year; that he had had two conferences with the Federal Reserve Bank officers in the spring of 1926, and in the spring of 1927; that the nature of the treatment accorded him at these conferences was courteous; that each of them lasted about 15 minutes and that in each case the Federal Reserve Bank let his bank have what it asked for.

LETTER:

██████████  
City in TEXAS

December 10, 1927

Mr. C. C. Walsh, Fed. Res. Agent and Chairman of Board,  
Federal Reserve Bank  
Dallas, Texas

Dear Sir:

I am informed that Mr. Lynn Talley as Governor of the Federal Reserve Bank is to be charged with the following offenses:

1. Advising country bankers to lend a good portion of their funds by investing in short time Government securities in gilt-edged commercial paper and in Bankers' Acceptances.
2. Advising country bankers to advance more of their money on farm products already made and gathered and not so much on prospects.
3. Advising country banks not to lend money to farmers where the only way they could pay would be out of future crops.
4. Advising that any community is better off with a busted bank closed up than with its doors open.

I note that in the day's newspapers, he is charged with not understanding the needs of the small country banker, but his would-be successor has been circulating substantially the above mentioned four charges and if those charges are true, they certainly prove conclusively that Mr. Talley does know the needs of a small country banker.

There may be an occasional case where a farmer has suffered by lack of credit, but if there is one who suffers on this account, there are nine to one who suffer because of too much credit.

My first impulse was to say nothing in this ridiculous controversy, and I think I should have stayed with that impulse for I know that you, and your board, are capable of settling the matter.

Asking your pardon for this intrusion and assuring you of my confidence in your justness to decide the matter, I am,

Yours very respectfully,

(Signed) Mr. C  
President

At the conclusion of the second hearing, the Board of Directors of the Federal Reserve Bank of Dallas went into executive session for the purpose of weighing and considering all evidence submitted at both hearings. Consideration was then given to the matter of the election of the Governor of the bank to serve during 1928, and upon a majority vote, Governor Talley was re-elected.

The expense incurred by the bank in holding the two hearings was \$6,925.55.

In the spring of 1928, under the provisions of a bill introduced in Congress by Senator Earle B. Mayfield of Texas, a committee was appointed to make an investigation of the management of the Federal Reserve Bank of Dallas. Senator Carter Glass was Chairman of that committee. Senator Glass caused a circular to be issued to all the member banks in the Eleventh District announcing that a hearing would be conducted in Dallas in June 1928, [following the Democratic National Convention held in Houston], for the purpose of investigating the affairs of the Federal Reserve Bank of Dallas. The circular specified that only new information was to be considered. There was no response to the invitation to submit pertinent information, and the hearing was called off. In February 1929, Senate report #1679 was submitted to that body, which stated that no complaints had been made to the committee and that conditions in the Eleventh Federal Reserve District were good.

#### SOURCES

1. "Minute Book," Federal Reserve Bank of Dallas, 1927-1929, Volume 3, Minutes of Board of Directors for December 12, 1927, January 11, 12, 13, and 14, 1928.
2. Confidential Memorandum prepared for Counsel, covering Summary of Hearings. (In Special Historical File; also, complete record of hearings in Secretary's files, Records Vault.)
3. Mimeographed letters dated December 1 and December 2, 1927, addressed to certain member bankers, by C. C. Walsh, Chairman of the Board.
4. Circular letters dated December 29, 1927, and January 7, 1928, addressed to all member banks by C. C. Walsh, Chairman of the Board.

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### 5. Box 16140 in Archives.

## CHAPTER IX

### CREDIT PROBLEMS CONTINUE, 1928 – 1931

#### The Year 1928

Business and industry in the Eleventh Federal Reserve District during the year 1928 reflected a considerable improvement as compared to the year 1927. Agricultural production was good, the year was a profitable one for the livestock industry, and the oil industry experienced profitable operations. Nevertheless, there were 25 bank failures in the district during the year; of these, five were member banks, and only one was indebted to the Federal Reserve Bank.

#### Open Market Operations

At the beginning of the year, the Reserve Bank's holdings of Government securities were approximately \$32 million, represented by \$23 million in the System's participation account and \$10 million independent holdings. In the early months of the year, the Open Market Committee began selling Government securities in substantial amounts, in order to combat the steady and large expansion of credit which apparently was going into speculative channels. The System's holdings were reduced from \$426 million in the latter part of December 1927 to \$82 million by the end of May 1928, which brought the Dallas bank's participation down to approximately \$4,600,000. The participation remained at about that figure until the latter part of December, when the Dallas bank, on account of its low reserve position, sold to the Open Market Investment Committee its entire participation in the investment account, under a 90-day repurchase agreement.

At the spring Conference of Governors of the Federal Reserve Banks, held in Washington April 30 to May 2, the Conference adopted a resolution stating that "when the Open Market Committee was organized, all Federal Reserve Banks reserved the right to deal in Government securities in their respective districts as provided by law, but as a matter of policy, no Federal Reserve Bank would undertake to sell Government securities

for its own account in volume at a time when the Open Market Investment Committee is carrying out a policy of buying Government securities and vice versa.”<sup>33</sup>

#### Loan Operations

The volume of paper discounted for member banks showed a very substantial increase over the preceding year, reaching a maximum of \$34 million on September 4. More than 200 different banks used the Reserve Bank’s rediscount facilities during the year. Outstanding loans to member banks amounted to approximately \$11 million at the end of the year. The remainder of the bank’s earning assets on December 31, 1928, consisted of bankers’ acceptances amounting to \$26 million and \$10 million independent holdings of Government obligations.

#### Credit Problems

In general, the member banks in the Eleventh District showed a tendency toward more conservative operations during 1928, and they apparently began to have a better understanding of the policies of the Federal Reserve Bank. During the year, most of the lines of credit were arranged through correspondence and, although officers of some of the member banks visited the Reserve Bank of their own accord for the purpose of discussing credit matters, the management of the Reserve Bank did not have many occasions to take the initiative in inviting officers and directors of a member bank to discuss their problems in a personal conference. However, the management of the bank continued to watch closely the few member banks which were in an extended condition.

At practically every Board meeting, as in previous years, Governor Talley gave a report of credit relations with problem banks. His report at the October meeting discussed 16 such banks in rather detailed fashion, as shown in the following examples:

██████ in Texas: In the early part of this year following an examination of the bank, assets amounting to nearly \$250,000.00 were removed from the institution, principally through the payment of cash by the most substantial stockholders. In February, we made a commitment to extend the institution a rediscount line of \$75,000.00 upon the basis of a 25% margin of collateral (the capital is \$50,000.00 with a surplus of \$40,000.00). The bank obtained funds from us to the extent of our commitment, but it appeared that additional funds were needed and in July we increased our commitment to

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<sup>33</sup> Governor Talley’s report to Board of Directors at meeting June 8, 1928.

\$100,000.00. The bank's maximum line with us during the year amounted to approximately \$90,000.00, and in addition, it borrowed \$15,000.00 from other sources. Its indebtedness to us has now been reduced to approximately \$30,000.00. Although the condition of this bank was regarded by us as very unsatisfactory, we felt justified in going along with it in view of the financial responsibility of the stockholding interests and their disposition to take care of the situation.

██████ in Texas: Early in the year we made a commitment to extend this bank a rediscount line of \$22,500.00, and we later agreed to increase the line to \$26,500.00. The bank's maximum line during the year amounted to approximately \$25,000.00, which was carried upon the basis of a 50% margin of collateral. At the close of business October 9, the line had been reduced to \$8,700.00. (The capital of the bank is \$27,500.00, it has no surplus and during the year its deposits went down to around \$33,000.00 as compared with loans at the time of \$80,000.00.)

██████ in Texas: The bank's maximum borrowings from us during the year amounted to approximately \$31,000, and, in addition, it borrowed \$10,000 from correspondents. The capital is \$30,000 and the surplus is \$10,000. At the peak of the season, the bank's loans amounted to approximately \$103,000, as compared with deposits of approximately \$37,000.

██████ in Texas: As indicated in my reports to the Board earlier in the year, we were called upon for a line of credit from this bank, but we were not disposed to make a commitment at the time the request was made, because the examination report at that time indicated that the bank's capital was completely eliminated by losses. However, an assessment was later paid in and we expressed a willingness to extend the bank a rediscount line of \$25,000, the amount requested, upon the basis of a 25% margin of collateral. During the year, the bank borrowed from us to the extent of \$23,000 and the line now amounts to \$21,000, as liquidation has not yet begun in that section.

The Managing Director of the Houston Branch held a conference in the latter part of October with officers of a large Houston bank regarding that bank's use of the loan facilities of the Reserve Bank. During the conference, the officers of the member bank admitted that their bank had been borrowing funds from the Reserve Bank and re-lending the proceeds on the New York "Call Money" market. They stated further that they regarded this practice as entirely proper and legitimate. When these developments were reported to the Board of Directors of the Federal Reserve Bank of Dallas at the meeting



on November 7, the Board adopted a resolution to be sent to the member bank, reading in part as follows:

BE IT THEREFORE RESOLVED, that the unanimous opinion of the Board be expressed to the effect that such practice is entirely out of harmony with the intent of the Federal Reserve Act, and that it is, further, contrary to the views of the members of this Board as to what constitutes a proper use of the reserves of the member banks held in the Federal Reserve System.

#### Discount Rates

On February 8, the bank's rediscount rate was increased from 3½ percent to four percent. On May 8, a further increase of one-half percent brought the Dallas bank's rate up to 4½ percent. Apparently, the directors were reluctant to increase the rate in May, as the vote on the motion resulted in a tie, and the chairman cast the deciding vote for the increase. During July and August eight of the other Reserve Banks increased their rates to five percent, but no further rate change was made by the Dallas bank in 1928; a special meeting of the directors was held on August 8 for the purpose of considering the matter, and it was voted to continue the 4½ percent rate.

#### Improvement in Bank Relations

Although many of the complaints that were made at the Talley hearings were unfounded, the management of the bank recognized that there was room for improvement in the bank's relations with member banks, and steps were taken to bring this about. For example, whenever it became necessary to return a very large portion of a rediscount offering, the paper was returned in person by a member of the bank's staff, rather than by mail. In that way, a banker could be given detailed information as to the reasons why the notes were not acceptable and he could be assisted in preparing an offering of eligible and acceptable paper. That such a policy was beneficial is evidenced by the following letter that the bank received after a visit to a bank in west Texas by C. M. Rowland, Manager of the Loan Department:

We are taking occasion at this time to thank you for sending Mr. Rowland out to us. We feel that his visit has been very beneficial to us. We are beginning to feel that all our differences with the Federal Reserve Bank were misunderstandings. You see, it had been like this with us: We were compelled to keep a reserve with you and then go elsewhere for funds. Personally, I had been giving serious consideration to falling out of the



First permanent quarters of San Antonio Branch. Branch opened for business July 5, 1927, in rented quarters. Own building completed in October 1928.

Figure 17 – San Antonio Branch Building, 1928

The San Antonio Branch opened for business July 5, 1927, in rented quarters. Their permanent building was completed in October 1928.

System. I now feel that you are to be of profitable help to us in the future. We are going to give you further trial and we hope that we understand each other.

We want to again thank you for sending Mr. Rowland to us. He came to us in the attitude of helping us and we appreciate it.

We want to say this much more for Mr. Rowland: If you have another thickheaded contrary member banker, we believe that if you could send Mr. Rowland to him that reconciliation would be affected.

The Reserve Bank also began the practice of arranging for some of its officers, in addition to representatives of the Bank Relations Department, to visit member banks on

regular bank relations trips whenever feasible, and during 1928, there was a substantial increase in the number of member banks visited by officers and department heads. At one of the Board meetings in 1928, the directors gave consideration to the purchase of automobiles to be used for bank visitations, but it was decided not to provide automobiles for that purpose. During the discussion, Governor Talley expressed opposition to the proposal by stating that: “in the first place, the use of automobiles is the most expensive form of travel; in the second place, it is impossible to avoid or perhaps prevent the use of automobiles for personal purposes at times when they are not actually in use for the specific purposes for which they were purchased. I readily concede that although many more points can be visited in a day’s time, or a shorter space of time, than can be accomplished in traveling by rail, this can be readily overcome by using bus transportation, which is just as comfortable, and would avoid the investment in and the depreciation of automobiles, together with all of the other undesirable features of providing them.”<sup>34</sup>

#### San Antonio Branch Building Completed

On October 6, 1928, the San Antonio Branch occupied its new building. Construction had been started in January 1928 and the building was completed on October 4. It was a two-story and basement structure, 60 feet by 80 feet, in Classic design. The total cost of the building was slightly under \$179,000. One of the San Antonio newspapers published a special Federal Reserve section commemorating the event, which included various articles about the establishment of the Branch and photographs of the building, officers, and employees.

#### Discount Committee Minutes

Beginning in February 1928, there was a change in procedure with respect to the recording of committee action on rediscount and credit transactions. Theretofore, such transactions had been considered by the Governor and Federal Reserve Agent, acting on behalf of the Executive Committee, and covered in the minutes of daily meetings of the Executive Committee. Under the new procedure, such transactions were considered

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<sup>34</sup> Governor Talley’s report to Board of Directors, December 7, 1928.

by the Discount Committee and covered in minutes of that Committee, which in turn were given consideration by the Executive Committee at separate meetings.<sup>35</sup>

#### Franchise Tax Paid

In 1928, for the first time in its history, the Federal Reserve Bank of Dallas paid a franchise tax, since the net earnings, after making statutory provision for surplus, were sufficient to allow the payment. The tax amounted to approximately \$290,000.

On December 31, 1928, the total number of officers and employees at the Head Office and Branches was 433, and there were 795 member banks in the Eleventh District.

#### The Year 1929

Financial conditions in the district were uncertain throughout 1929, particularly in the latter part of the year when the big stock market “crash” occurred. Earlier in the year there was substantial borrowing at the city banks in the Eleventh District by large corporations which had been accustomed to obtaining funds in the open market, but which now began to borrow heavily in this district because the interest rates in the Eleventh District were lower than the rates in the East. Moreover, some of the district banks experienced larger than usual withdrawals of deposits by local customers who were engaging in stock market operations. Unsatisfactory conditions in the district were aggravated by a short cotton crop coupled with low prices for the product due to the poor grade of the staple as a result of excessive rains at harvest time.

Early in 1929, the Federal Reserve Board addressed a special letter to the Reserve Banks on the subject of the credit situation and the proper use of Federal Reserve credit, as follows:<sup>36</sup>

The firming tendencies of the money market which have been in evidence since the beginning of the year – contrary to the usual trend at this season – make it incumbent upon the Federal Reserve Banks to give constant and close attention to the situation in order that no influence adverse to the trade and industry of the country shall be exercised by the trend of money conditions, beyond what may develop as inevitable.

The extraordinary absorption of funds in speculative security loans which has characterized the credit movement during the past year or more, in the

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<sup>35</sup> Minutes of Meeting, Board of Directors, March 7, 1928.

<sup>36</sup> Minutes, Meeting of Board of Directors, Federal Reserve Bank of Dallas, February 7, 1929.

judgment of the Federal Reserve Board, deserves particular attention lest it become a decisive factor working toward a still further firming of money rates to the prejudice of the country's commercial interests.

The resources of the Federal Reserve System are ample for meeting the growth of the country's commercial needs for credit, provided they are competently administered and protected against seepage into uses not contemplated by the Federal Reserve Act.

The Federal Reserve Act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal Reserve Banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims for rediscount facilities at its Federal Reserve Bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans.

The Board has no disposition to assume authority to interfere with the loan practices of member banks so long as they do not involve the Federal Reserve Banks. It has, however, a grave responsibility whenever there is evidence that member banks are maintaining speculative security loans with the aid of Federal Reserve credit. When such is the case, the Federal Reserve Bank becomes either a contributing or a sustaining factor in the current volume of speculative security credit. This is not in harmony with the intent of the Federal Reserve Act nor is it conducive to the wholesome operation of the banking and credit system of the country.

You are desired to bring this letter to the attention of the directors of your bank in order that they may be advised of the attitude of the Federal Reserve Board with respect to this situation and the problem confronting the administration of the Federal Reserve Banks. The Board would like to have from them an expression as to:

- (a) How they keep themselves fully informed of the use made of borrowings by their member banks,
- (b) What methods they may employ to protect their institution against the improper use of its credit facilities by member banks, and,
- (c) How effective these methods have been.

The Board realizes that the problem of protecting the credit situation from strain because of excessive absorption of credit in speculative security loans is attended with difficulties. It also realizes that there are elements in the situation which are not readily amenable to recognized methods of banking control. The Board nevertheless believes that, however difficult, the problem can be more completely met and that the existing situation admits of improvement.

The Federal Reserve Bank awaits the reply of your directors to this letter and bespeaks their prompt attention in order that it may have their reply at an early date.

The letter was submitted to the Dallas Board at its meeting on February 7. In reply, the directors adopted a lengthy and detailed statement which brought out that they endeavored to keep themselves informed as to the use of borrowings by analyses and information furnished by the Discount Committee; that the use of the rediscount rate was not wholly effective in discouraging improper borrowings but helped some; and that administrative measures were taken in those few cases where it appeared member banks were borrowing from the Federal Reserve Bank and at the same time placing money on call, such measures being in the nature of an expression of opinion that such use of Federal Reserve credit was improper. At the same meeting, by a close vote (the deciding vote being cast by the Chairman) the bank's discount rate was increased from 4½ percent to five percent but the change did not become effective until March 2, as the Federal Reserve Board delayed its approval.

#### Credit Problems

Although there was a decline in the number of problem banks, at almost every Board meeting during the year, there was an extended discussion of speculative credit, continuous borrowings, and problem banks. On March 7, the following statement was adopted:

That it is expressed as the general policy of this bank that close attention and individual treatment be given to all those banks that have heretofore shown a tendency to borrow almost continuously from this bank for long periods of time, and in amounts out of proportion to the borrowings of other member banks.

At a meeting on October 7, it was deemed desirable that the policies of the Federal Reserve Bank of Dallas, as they pertained to credit extended to member banks, be reiterated; whereupon the following resolution was adopted:

NOW THEREFORE BE IT RESOLVED that it is the opinion of this Board that the amount of credit extended to any member bank should bear some reasonable proportion to the borrowing bank's capital, surplus, and undivided profits and to the contribution of the borrowing bank to the Federal Reserve Bank of Dallas. The exact amount of credit to be extended under any given state of facts cannot be determined in advance but by determining

upon and fixing a line of credit, due consideration should be given to the principle above stated as well as to other factors of an emergency nature or otherwise surrounding the particular borrower at the time application for credit is made.

#### Loan Operations

In spite of the increase in discount rate in February, member bank borrowings at the Federal Reserve Bank of Dallas in 1929 were larger than any year since 1923, reaching a maximum of \$48 million in September. In amount, the major portion of the borrowings throughout the year represented indebtedness of city banks, a substantial amount consisting of bills payable secured by Government obligations. Although a large number of country banks also were indebted to the Reserve Bank, the aggregate amount of their borrowings represented a small percentage of the total.

#### Open Market Operations

In early 1929, the System Open Market Committee continued selling Government securities in order to take funds out of the market and stem the tide of speculation. By the end of June, the System's holdings of Governments amounted to only \$17,550,000, as compared with \$83,000,000 at the end of November 1928, and \$400,000,000 in the early part of 1928. On March 18, the Dallas bank, which had surrendered its System holdings in the preceding December, resumed its pro rata participation in the System's open market Government transactions, and at the end of June, its participation amounted to approximately \$1 million. The Open Market Committee resumed buying Governments in the latter part of the year. By the end of the year, the System's holdings of Governments had increased to approximately \$122 million and the Dallas bank's participation was around \$7 million. The bank's independent holdings of Governments remained in the neighborhood of \$10 million throughout the year. At the beginning of the year, holdings of bankers' acceptances amounted to \$25 million, reached a minimum of \$5 million on August 13, and amounted to approximately \$9 million on December 31.

#### Job Classification Plan

In the spring of 1929, the Federal Reserve Board submitted to the Reserve Banks a proposal to analyze each job in the bank, classify the various positions, and establish a range of minimum and maximum salaries for each classification. The Dallas bank

appointed a committee of directors and a sub-committee of officers to consider the matter, and after several months' study, the plan was submitted to the Board of Directors at its meeting on November 7, 1929, and approved. This was the beginning of the simplified classification plan designated by the Federal Reserve Board as the "Form A" plan, which was used by the Federal Reserve Banks for many years until a more elaborate plan was adopted in 1947.

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At the end of 1929, for the second time, the Dallas bank paid a franchise tax; the amount of tax paid was \$259,000.

On December 31, 1929, the total number of officers and employees at the Head Office and Branches was 425. There were 756 member banks in the Eleventh Federal Reserve District, representing a net decrease of 39 during the year, brought about by liquidations and mergers.

#### The Years 1930 and 1931 – The Recession Begins

These years marked the beginning of the nation-wide recession which was to culminate in the "great depression" of 1933 and 1934. In the Eleventh District there was a prolonged drought in 1930, which adversely affected agriculture and the livestock industry. Moreover, there was a marked decline in prices. In 1931, physical conditions were much better as a result of good rains. During the year, production of agricultural commodities was high, and range conditions were favorable for livestock; however, there was a continued decline in prices. For example, the price of cotton reached as low as 6½ cents per pound. Oil production in 1931 rose rapidly following the development of the prolific East Texas oil fields, which had been discovered in 1930. Operations, however, were unprofitable, as the price of crude oil reached a very low level, and proration restrictions became necessary.

During both 1930 and 1931, there were nation-wide banking disturbances, with a large number of bank failures throughout the country. While the bank mortality rate was not as high in the Eleventh District as in some of the other districts, it was bad enough. During 1930, there were approximately 1,200 bank failures in the United States, of which 40 were in the Eleventh District. These figures included member and nonmember banks. During 1931, there were around 2,300 bank failures in the United States, and 93 in the



Eleventh District.<sup>37</sup> This was the highest total ever reached in the Dallas district, exceeding the previous record number of failures in the year 1921, when 82 banks suspended business. The banks suspended in the Eleventh District in 1931 included 41 member banks, of which 37 were indebted to the Federal Reserve Bank at the time of closing. In addition to bank failures, there were numerous consolidations, absorptions, and voluntary liquidations. Suspensions reached their peak in October 1931; during that month alone, there were 504 bank failures in the United States and 33 in the Eleventh District. There was a very large increase in Federal Reserve Notes in circulation, which was attributed to the hoarding of currency on the part of the public.

#### Features of Operations

In 1930, loans to member banks amounted to approximately \$17 million in the early part of the year, decreased to \$6 million in April, gradually increased to almost \$15 million on August 31, and amounted to \$4 million on December 31. In 1931, loans to member banks reached a high point of \$26 million on November 3 and amounted to \$10 million at the end of the year.

At the beginning of 1930, the bank's holdings of Government securities amounted to approximately \$25 million, represented by \$15 million as its participation in the System's Open Market Investment Account, and \$10 million in independent holdings. By the end of the year, the participation account amounted to \$21 million and the independent holdings remained at approximately \$10 million. While there were some fluctuations in 1931, the total holdings of Governments showed about the same ranges as in 1930.

The bank's holdings of bankers' acceptances at the beginning of 1930 amounted to \$9 million, reached a peak of \$16.6 million on March 1, declined to approximately \$3 million in June, and stood at \$8.5 million on December 31, 1930. In 1931, holdings of bankers' acceptances reached a peak of \$23 million on October 17 and stood at approximately \$2 million on December 31.

During several months in 1930, the Federal Reserve Bank of Dallas operated at a deficit, in other months, however, a profit was shown. Net earnings at the end of the year

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<sup>37</sup> Governors' reports to Board of Directors, January 7, 1931, and January 7, 1932.

were sufficient to pay dividends, leaving a nominal amount (\$9,000) to be paid to the United States Government as a franchise tax. In 1931, there was a further decrease in earnings, and current net earnings at the end of the year showed a deficit of approximately \$44,000; however, the bank realized a profit of approximately \$375,000 on sales of United States securities from the investment account, and, after allowing for reserves and other deductions, approximately \$112,000 was available for dividends. Inasmuch as dividend requirements at the end of the year amounted to approximately \$255,000, the additional amount needed was withdrawn from surplus. In addition, approximately \$1,100,000 was withdrawn from surplus and set up as a reserve for depreciation on United States securities owned.

The management of the bank took steps to effect economies in every way possible without impairing service to member banks, and about the middle of the year 1931, there was some reduction in staff at the Head Office and Branches. A bulletin to the staff was issued on the subject of “small economies,” in which employees were asked to keep telegraph and telephone expense down, to be sparing in the use of stationery and supplies, to avoid the unnecessary use of electric lights, etc. The bank discontinued the publication of the employees’ magazine, Items.

During this period, the banks in the Eleventh District evidenced very little interest in the Treasury Department’s invitations for tenders to Treasury Bill issues. Very few tenders were made; the average rate frequently was lower than the interest rates paid by correspondent banks on demand deposits. Accordingly, in many cases, when banks in this district had surplus funds, they permitted these surpluses to remain with correspondents rather than investing them in short-term Governments. (Later, the Bank Act of 1933 prohibited the payment of interest on demand deposits.)

#### Internal Organizations and Personnel

On December 31, 1930, the total number of officers and employees at the Head Office and Branches was 414, and there were 720 member banks in the Eleventh Federal Reserve District. On December 31, 1931, the total staff numbered 393 (a decrease of 21 since the end of the previous year) and there were 644 member banks in the district, a net decrease of 76.

On October 1, 1931, Lynn P. Talley resigned as Governor of the bank to accept the position of the Chairman of the Board of the Bank of America National Trust and Savings Association of California, and B. A. McKinney, Vice President of the First National Bank of Dallas, was elected to succeed Mr. Talley. Thus, Mr. McKinney for the second time, became Governor of the Federal Reserve Bank of Dallas. Mr. Talley had been employed as Chief Executive of the California institution by New York interests who had gained control from the Giannini interests. However, Mr. Talley resigned his position when the Giannini interests regained control of the bank on February 15, 1932.<sup>38</sup> Subsequently in that year, Mr. Talley became connected with the Reconstruction Finance Corporation in Washington, where he held an important position in that institution for several years. When his health began to fail in the summer of 1935, he returned to his former home in Dallas, and lived in retirement until his death on October 7, 1942.

#### Credit Relations with Member Banks

During this period of banking unrest and public uneasiness, the relations of the Federal Reserve Bank of Dallas with its member banks took on even greater importance. There was an abnormal decline of deposits in banks during 1930 and 1931, with only slight increases in the fall. Loans were high with very little reduction at the normal liquidating season. A large number of member banks took recourse to the “discount window” at the Federal Reserve Bank in order to provide for the decline in deposits. For example, in 1930, almost 375 banks borrowed from the Federal Reserve Bank of Dallas, yet the largest amount of borrowings outstanding at any one time was only \$14,500,000. It was the policy of the Federal Reserve Bank to extend credit only for the purpose of meeting the indispensable needs of the borrowing banks and to keep the amounts of advances down as low as possible. This was a continuation of the credit policy that had been put into effect in the latter Twenties. In retrospect, it would appear that the restrictive credit policy that had been in effect in the Eleventh Federal Reserve District over a period

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*[Editor’s Note: Page is missing from the original manuscript.]*

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<sup>38</sup> Biography of a Bank, James, pp. 343-344.

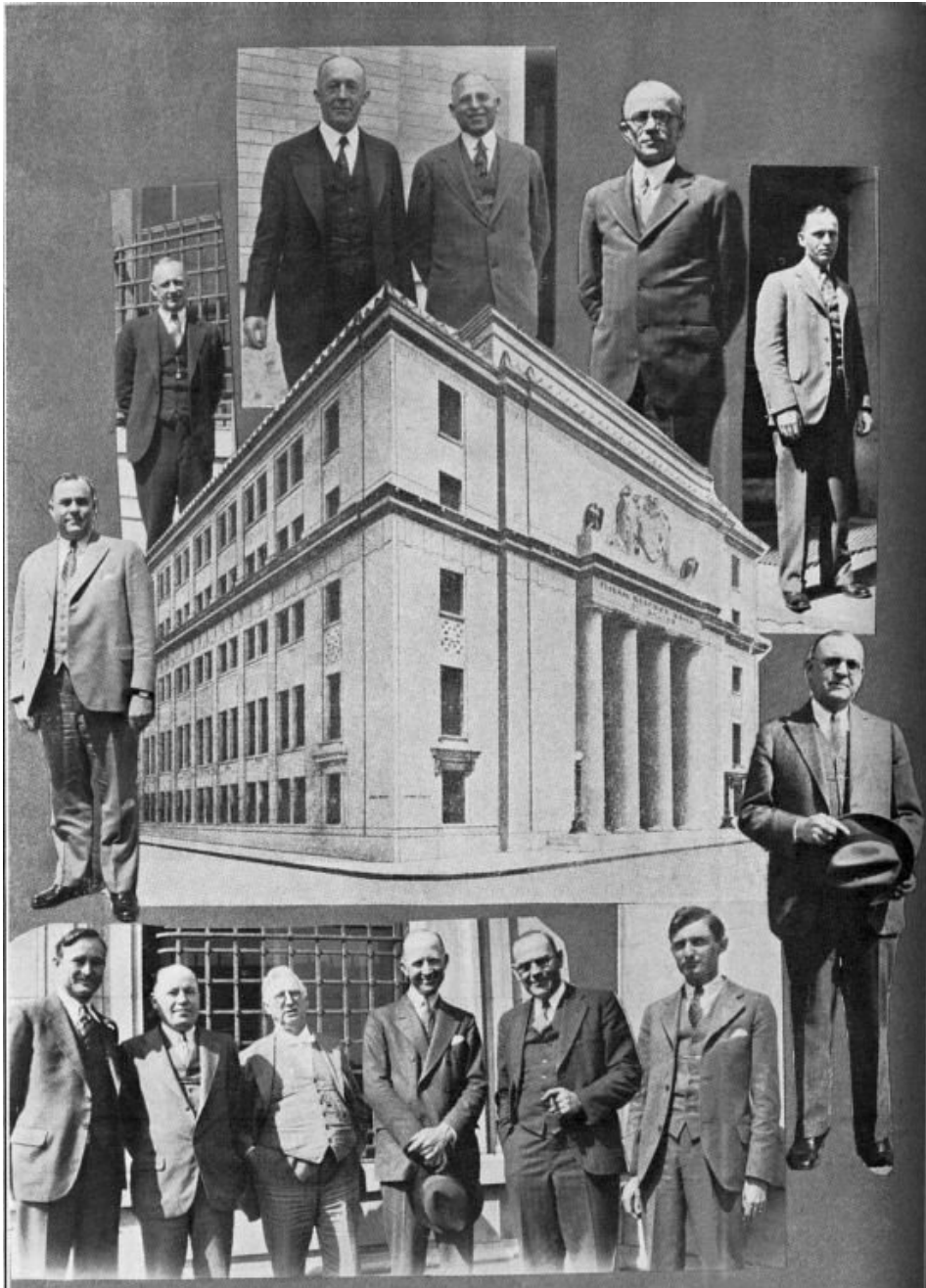


Figure 18 – Officers of the Federal Reserve Bank of Dallas, 1930

Bottom row, left to right: C. C. True, Assistant Auditor; W. O. Ford, Assistant Deputy Governor; C. C. Walsh, Federal Reserve Agent; Charles C. Hall, Assistant Federal Reserve Agent; R. B. Coleman, Deputy Governor; L. G. Pondrom, Assistant Cashier. At left: R. R. Gilbert, Deputy Governor; R. O. Webb, Assistant Cashier; Fred Harris, Cashier; W. P. Clarke, Auditor; W. J. Evans, Assistant Federal Reserve Agent; E. B. Austin, Assistant Cashier; and Lynn P. Talley, Governor.

... planes were small, with room for only two or three passengers, in addition to the pilot, and the space was crowded, with the pilot, the bank's officer, the guard, and the large case in which the currency was carried. The small towns did not have airports, and sometimes it was necessary for the plane to land passengers in a pasture at the edge of town. On one occasion, it was necessary to utilize a mowing machine to cut a path through a sunflower field in order that the plane might take off to return to Dallas.

In the latter part of 1931, public uneasiness over the banking situation became acute, culminating in a wave of hysteria. Sometimes a casual, innocent remark would "trigger" a bank run. In some cases, the banks imposed limitations on deposit withdrawals. For example, in October, 1931, as a result of the failure of several banks in the lower Rio Grande Valley, a number of institutions in that section held a meeting and adopted resolutions which provided, in part, as follows: "No depositor would be permitted to withdraw in cash an aggregate of more than \$50 a week; no depositor would be permitted to withdraw in cash or by check or draft, or otherwise during any one week, an aggregate of more than five percent of the amount to his credit (exceptions – to meet payrolls or other bona fide business demands). Moreover, no withdrawal of deposits from savings accounts would be allowed except after notice and except upon expiration of the time specified in the passbook.<sup>39</sup> The policy of limiting withdrawals was also put into effect in several towns in west Texas and in other sections of the district.

Banking difficulties during this period were not confined to small towns; some of the large banks in several good-sized cities in the district had their troubles. Some of these banks had been borrowing continuously and excessively and, in some cases, substantial amounts of assets had been classified by examining authorities as unsatisfactory. A few of these banks were forced to suspend business, while in other case, the banks were strengthened by payment of assessments by stockholders, or the situation was improved by consolidation with other institutions. Deputy Governor R. R. Gilbert performed valuable services in helping work out these unsatisfactory situations not only through conferences in Dallas, but also by visiting the trouble spots and assisting the interested parties in discussions and negotiations.<sup>40</sup>

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<sup>39</sup> Minutes, Meeting of Board of Directors, November 1931.

<sup>40</sup> Folder labeled, "Credit Relations with Member Banks in Early Thirties," in Special History File.

By the end of 1931, the number of member banks in the Eleventh Federal Reserve District had declined to 644 from the high point of 868 in 1921. A breakdown of members on these dates as between National and State banks is shown below:

	<u>National</u>	<u>State</u>
December 31, 1921	661	207
December 31, 1931	568	76

#### Changes in Discount Rates

The changes in the discount rate of the Federal Reserve Bank of Dallas in 1930 and 1931 are shown in the following schedule:

February 7, 1930	Reduced from 5% to 4½%
April 7, 1930	Reduced from 4½% to 4%
September 8, 1930	Reduced from 4% to 3½%
May 7, 1931	Reduced from 3½% to 3%
October 20, 1931	Increased from 3% to 4%

During this period, there was variation in the discount rates of the Reserve Banks, and some of the banks changed their rates frequently. The record shows a reluctance on the part of the Dallas Bank to change its rate, and sometimes the Dallas Bank would wait several weeks or months before “falling in line” with the majority of other Reserve Banks. In fact, the individual directors exercised independence of judgment and often requested that their votes be recorded when a proposal for a rate change was not passed unanimously. For example, when the rate change was considered on April 7, 1930, the vote was even divided “for” and “against” the motion to reduce the rate to four percent, and the Chairman cast the deciding vote to reduce the rate. Again, there was one dissenting vote when the rate was further reduced to 3½ percent on September 8, 1930; and when the rate was reduced to three percent on May 7, 1931, the vote was six “for” and three “against.” Part of the time the rates at New York and Boston were lower than those of the other Reserve Banks. In June 1931, the New York bank had a rate of 1½ percent, Boston had a two percent rate, four banks had a 2½ percent rate, five (including Dallas) had three percent, and one had 3½ percent. Some of the Reserve Banks, including New York and Boston, changed their rates twice in October 1931. New York’s rate first was changed from 1½ percent to 2½ percent, and later in the month to 3½ percent. Boston’s rate was changed from two percent to 2½ percent early in the month,

and was further increased to 3½ percent in the latter part of the month. By December 1931, ten Reserve Banks had a rate of 3½ percent, and two, including Dallas, had a rate of four percent.

### Open Market Transactions

During part of 1929, in view of the tremendous expansion of credit which was going into speculative channels the Federal Reserve System had been using its influence toward monetary “firmness.”<sup>41</sup> With the advent of the business recession in the latter part of 1929, and in the early part of 1930, the System changed its policy to one of monetary “ease.”<sup>42</sup> This latter policy was generally followed during 1931.

In April 1930, the System committee known as the Open Market Investment Committee, which had been operating since April 1923, was disbanded, and in its place was set up a new committee designated as the “Open Market Policy Conference.” Under the new procedure, the Conference was composed of a representative of each Federal Reserve Bank (the Investment Committee had been composed of representatives of five Reserve Banks and that Committee had been under the general supervision of the Federal Reserve Board). The representative of the Federal Reserve Bank of New York was elected Chairman of the newly organized Conference. The Executive Committee of the Conference consisted of the Chairman and the representatives of the Federal Reserve Banks of Boston, Cleveland, Philadelphia, and Chicago. These five banks were the same banks that had constituted the discontinued Open Market Investment Committee. It was understood that there would be “reasonable” rotation in membership of the Executive Committee after the first year. Under the procedure, the recommendations and conclusions of the Conference, when approved by the Federal Reserve Board, would be submitted to each Reserve Bank for determination as to participation in any purchase or sale recommended. In case of dissension, the dissenting bank was expected to acquaint the Federal Reserve Board and the Chairman of the Executive Committee with the reasons for its dissension.<sup>43</sup> The Conference was authorized to convene upon its own motion, after consultation with the Federal Reserve

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<sup>41</sup> Annual Report of the Federal Reserve Board, 1929.

<sup>42</sup> Annual Report of the Federal Reserve Board, 1930.

<sup>43</sup> Federal Reserve Board Letter X-6556, dated March 31, 1930.

Bank, or a meeting could be called at any time by the Board itself. The Conference held frequent meetings during 1930 and 1931.

In Governor Talley's reports to the Board of Directors from time to time, he informed them of the actions taken at the meetings of the Open Market Investment Committee and its successor, the Open Market Policy Conference. In these reports, he also discussed developments in the money market and gave his analysis of such developments. In one of these reports<sup>44</sup> he referred to the earlier purchase of \$50,000,000 of Government securities by the Federal Reserve Bank of New York for its own account in which participations were offered to other Reserve Banks. A few of the Reserve Banks, including Dallas, declined the participation. In Governor Talley's opinion this purchase contributed to an artificial ease in the money situation and he felt that no further initiative steps should be taken by the System. Later in the spring, Dr. W. Randolph Burgess, then Deputy Governor of the Federal Reserve Bank of New York and secretary of the Open Market Policy Conference, informed Mr. Talley that the Board of Directors of the Federal Reserve Bank of New York was of the opinion that the System should purchase an additional \$50,000,000 in Governments. Mr. Talley informed Dr. Burgess that he would vote in opposition to that procedure but that if a majority of the members of the Conference voted in the affirmative and that if action was approved by the Federal Reserve Board, the Federal Reserve Bank of Dallas would take its participation. Additional purchases of \$50 million were made during the month of June, and the Dallas bank accepted its pro rata participation. However, Governor Talley expressed his views in opposition to the System policy in his report to the Board of Directors at the June meeting, as follows:

I cannot say to this Board too strongly that I am thoroughly opposed to this action. I am convinced that these open market operations, and particularly so as they continue, are simply creating the very condition that the System will have to undertake to correct later on, and I am not sure but what embarrassment will ensue as a result of the necessity for such correction. It is clearly an expedient and arbitrary action in the face of a period of reaction to induce and promote the institutional buying of long term bonds. In my judgment, whenever the market is thus artificially stimulated, we shall have a corresponding artificial increase in bond prices with corresponding reduction in yield that will tend to absorb a floating supply of funds that have become redundant purely through business recession. As has been pointed out clearly in the earlier part of this report, when and if such funds are

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<sup>44</sup> Governor Talley's report to the Board of Directors, April 7, 1930.



absorbed and are later on needed for business purposes, a depression in bond prices will gradually ensue with a corresponding increase in yield and will bring about losses in institutional purchases for which no other agency than the Federal Reserve System will be responsible.

The Federal Advisory Council, in a meeting held in Washington on November 18, 1930, discussed the matter of open market operations and rediscount rates and adopted a recommendation stating in part that, "In the opinion of the Federal Advisory Council, the present situation will be best served if the natural flow of credit is unhampered by open market operations or changes in the rediscount rates. The seasonal demands during the balance of the year should be met by rediscounting on the part of the member banks."

In January 1931, the Open Market Policy Conference adopted a resolution to the effect that the System should follow an easy money policy in the best interests of trade and commerce. They concluded, however, that there was an undue excess of funds in the principal money centers just at that time, and felt that it would be desirable to dispose of some of the System's holding of Government securities if it would not create a tightening of the money position. However, from time to time during 1931, as the depression grew in momentum, and as large gold imports were offset by withdrawals of currency for hoarding, the System resumed its purchases of Governments and by the end of the summer the System's holdings amounted to approximately \$525 million, as compared with \$377 million a year earlier.<sup>45</sup>

Governor Talley felt that the open market policy, once developed, should be modified or reversed at the proper time, and it was his opinion that in some cases the reversal or modification had not been made soon enough; at one meeting of the Board, he stated that "there is a serious question whether the System has not been continuously on the wrong side in the open market operations." He stated further: "The System has no asset with which it can properly control the volume of credit without first acquiring a portfolio by purchases, and the very act of purchasing in itself sets up a condition that the System is trying to fortify itself against. This is strikingly true in situations that involve the tightening of commercial credit or credit generally. The System is reluctant to make purchases in order or credit generally. The System is reluctant to make purchases in order

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<sup>45</sup> Deputy Governor Gilbert's report to Board of Directors, September 8, 1931.

to increase the volume of credit which is legitimately required and also, in period of ease, the System has not in the past had a portfolio that it could dispose of in order to withdraw from the market funds which cannot be used for legitimate purposes.” He went on to say that “I am still unconvinced that it is a function of the System to make a bond market, and by injecting reserve funds into the market to stimulate purchases, the inevitable result is to cause institutional buying with excess reserves.”

#### Repairs and Alterations

As a result of the widening of Akard Street by the City of Dallas in 1931, it was necessary to make certain repairs and alterations to the front of the Bank’s building. There was included in the same contract the building of a new directors’ room on the fifth floor, repairs to the cooling and ventilating system, and other repairs and alteration of the fourth and fifth floors. The total cost of all this work was slightly more than \$50,000, which was far below the original estimates. At one of the stockholders’ meetings, Governor Talley reported that “we have a little difficulty, when we award one of these contracts or subcontracts, to keep the fellow who gets the contracts from kissing us on both cheeks.”

#### Proposed Amarillo Branch

On April 7, 1930, a committee representing the Amarillo Clearing House Association appeared before the Board of Directors and renewed the application filed on June 1929 for a Branch of the Federal Reserve Bank of Dallas to be established at Amarillo. A special committee composed of three directors was appointed to make a study of the application. The committee submitted its report on June 30, which contained the data assembled in its study, but no recommendation as to approval or disapproval was made. The Board voted to “pass the matter” until the next regular meeting. On July 7, 1930, the application was again considered, and after informal discussion, it was voted that action on the applications be deferred. Apparently, the matter was then dropped, as the minutes covering subsequent meetings of the Board of Directors contain no reference to the Amarillo application.

SOURCES

1. Annual Report of the Federal Reserve Board, 1929, and 1930.
2. Annual Report, Federal Reserve Bank of Dallas, 1928, 1929, 1930, and 1931.
3. “Minute Book,” Federal Reserve Bank of Dallas, 1927 – 1929, Volume 3, and 1930 – 1931, Volume 4.
4. Special History File.
5. Biography of a Bank, (History of Bank of America) by James.

## **CHAPTER X**

### **THE GREAT DEPRESSION, 1932 – 1934**

The period covered by the next two or three years is generally referred to as “The Great Depression.” In 1932, for the third consecutive year, business activity and general economic conditions in the Eleventh District declined to a lower level. While agricultural production was above the average, low prices continued. Construction activity registered a sharp decline. There were 38 bank suspensions (member and nonmember) in the Eleventh District in 1932. During the first part of 1933, business activity in the district declined to a new low level, and the construction industry suffered a heavy decrease in volume. Although there was some improvement in the agricultural situation, the livestock industry was adversely affected by unfavorable range conditions and low prices. The nation-wide disturbances, culminating in the “moratorium” in March (discussed later), were reflected in the Eleventh District by numerous liquidations and consolidations. In 1934, some improvement in general conditions, as well as in the banking situation took place.

In 1932, loans to member banks at the beginning of the year amounted to approximately \$10,000,000, increased to a maximum of approximately \$19,000,000 on July 28, and amounted to approximately \$5,000,000 at the end of the year. Holdings of Government securities at the beginning of the year amount to approximately \$30,000,000, represented by independent holdings of \$10,000,000 and approximately \$20,000,000 participation in the System’s Government securities holding. Various fluctuations in the latter account occurred during the year, and on December 31, 1932, the participation had increased to approximately \$36,000,000. The bank’s independent holdings of \$10,000,000 in Governments remained the same. Holdings of bankers’ acceptances reached a maximum of \$4,500,000 in June, but the account was closed out completely in October and no more purchases were made during the remainder of the year. Current net earnings were not sufficient to pay dividends to member banks, and it was necessary to provide for part of the dividend payment by a reduction in surplus. On the other hand, approximately \$1,100,000 that had been withdrawn from surplus at the end of 1931 and set up a reserve for depreciation on United States securities was restored on December 31, 1932.

Transit Department operations during 1932 showed a marked decline, with a decrease of approximately 16 percent in the number of checks handled. The demand for currency continued strong, some of which was attributed to the hoarding of currency on the part of the public. Fiscal Agency operations showed a decreased in volume, and at the end of the year, there were only 14 employees in that department.

#### Change in Discount Rate

On January 28, 1932, the discount rate of the Federal Reserve Bank of Dallas was reduced from four percent to 3½ percent. No further changes were made in the rate during the year.

#### Reconstruction Finance Corporation

The Reconstruction Finance Corporation Act, approved on January 22, 1932, authorized the Corporation, among other things, to make loans to member and nonmember banks and to other financial institutions. Agencies of the Corporation were established at Dallas, San Antonio, El Paso, and Houston, and in each case, quarters were assigned the agencies on the premises of the Federal Reserve Bank or Branch. The Reserve Banks were authorized and directed to act as custodians, depositaries, and fiscal agents for the Corporation. The Corporation made its first loan in the Eleventh District in March, and by the end of the year had made 238 loans amounting to approximately \$28,000,000. This amount included loans amounting to approximately \$6,000,000 to 77 member banks and around \$8,000,000 in loans to 101 nonmember banks. Other loans were made to insurance companies, building and loan associations, and other organizations. Also, some “relief” loans were made. In response to inquiries from member banks as to the advisability of applying for credit from the RFC, the management of the Federal Reserve Bank of Dallas stated that it would be the bank’s policy to continue to extend its rediscount facilities to member banks in a normal way. Generally, member bank borrowings from the Corporation were against assets ineligible for rediscount, which, although ultimately collectible, would require a long period of time in reducing to cash.

Soon after the R. F. C. began operations, the Chief National Bank Examiner for the Eleventh Federal Reserve District (R. H. Collier) addressed a letter to National banks in the district which were then borrowing or were likely to borrow during the season,

directing their attention to the assistance that might be rendered by the Corporation. Copies of these letters were furnished the Federal Reserve Bank. The form of letter is shown below:

In connection with your present borrowed money, or your possible needs for the year, your attention is directed to the assistance that may be had from the Reconstruction Finance Corporation. It is not contemplated that banks having a character of assets that will enable them to borrow through the usual channels, for seasonal needs, will resort to the corporation for funds, but its facilities are available if needed, and should you conclude that it can render you a service not to be had elsewhere, it is suggested you confer with the management of the corporation, so that you may understand the procedure.

This is a time when credit should be used very judiciously, as borrowed money, like deposits, must be repaid. To quote a well-known authority:

“Credit is exactly like morphine. In the hands of those who understand its dangers as well as its benefits, in an emergency, it is a most useful and helpful invention. But either credit or morphine used habitually leads inevitably to the gutter.”

While it is hoped that we have touched the bottom of the present depression and that better conditions are ahead, yet we cannot disregard the fact that all the products of the Eleventh Federal Reserve District are selling at a low level and we cannot expect any marked improvement until present surplus of cotton, wool, mohair, livestock, wheat, lumber, oil and minerals, is needed and can be bought and paid for by the consumers. Until that time comes (and let us hope that it is not too far distant) we should as prudent business men carry on banking operations cautiously and with circumspection. Borrowing customers must, with discretion, be helped, but they should have a full realization that they can also be helpful by liquidated their borrowing.

I shall appreciate a present expression from you as to your plans, whether you have made arrangement for your needs, and I should also appreciate having a copy of the general ledger figures of the bank.

#### Amendments to Federal Reserve Act

On February 27, 1932, Congress added two new sections to the Federal Reserve Act “to provide means for meeting the needs of member banks in exceptional circumstance.” Section 10(a) authorized the making of loans against “ineligible” assets to groups of member banks and Section 10(b) authorized until March 3, 1933, advances to individual member banks having a capital stock not exceeding \$5,000,000 each. Under

both sections, advances could be made only if the banks were without adequate amounts of eligible and acceptable assets to enable them to obtain sufficient credit accommodations from the Federal Reserve Bank under other provisions of the Act, and only upon the approval of not less than five members of the Federal Reserve Board.

Section 10(a) from the beginning was a permanent provision of the Federal Reserve Bank, but the Federal Reserve Bank of Dallas has never had occasion to make an advance to a group of member banks under that provision. Under the law, the rate on such advances is not less than one percent above the discount rate. On February 3, 1933, Section 10(b) was extended until March 3, 1934, and other extensions and minor changes were subsequently made. On August 23, 1935, Section 10(b) was made a permanent feature of the Federal Reserve Act, and the requirement that advances might be made only in exceptional circumstances was removed. At the same time, the rate applicable to 10(b) loans was set at not less than one-half of one percent higher than the regular discount rate, instead of not less than one percent higher as theretofore provided. Although a few 10(b) loans have been made by the Federal Reserve Bank of Dallas through the years, it has been the policy of the Dallas bank not to encourage borrowing under this provision, and member banks have shown very little interest in it.

On July 21, 1932, Section 13 of the Federal Reserve Act was amended so as to provide that in unusual and exigent circumstances, the Federal Reserve Board, by affirmative vote of not less than five members, might authorize Federal Reserve Banks to discount notes, drafts and bills of exchange for individuals, firms and corporations. The law placed various restrictions upon such discounts, including a provision that evidence must be submitted that the credit could not be obtained from other banking institutions. Although this is a permanent feature of the Federal Reserve Act, the Federal Reserve Bank of Dallas has never had occasion to handle a transaction of this nature; however, a few inquiries have been received through the years.

On February 27, 1932, Section 16 of the Federal Reserve Act was amended so as to authorize Federal Reserve Banks to pledge direct obligations of the United States (in addition to gold, gold certificates, and eligible paper) as collateral to Federal Reserve Notes. This authority was subject to the approval of the Federal Reserve Bank and carried the expiration date of March 3, 1933. Subsequent amendments removed "gold" as eligible

collateral and granted extensions of the authority. By Act of Congress on June 12, 1945, this authority was made permanent.

#### Share-the-Work Program

In the latter part of 1932, several of the Federal Reserve Banks announced their participation in a nation-wide “share-the-work” movement. This plan was designed to contribute to the relief of the unemployment situation by shortening working hours, reducing salaries, and hiring additional employees. The Board of Directors of the Federal Reserve Bank of Dallas, at its meeting on December 28, 1932, approved the “share-the-work” plan for the Head Office and Branches, to be effective for a period of six months from January 1, 1933. This provided for a reduction of one-half day per week in the working time and for a deduction of five percent from salaries of officers and employees. Under the plan, this reduction in payroll was to be used in payment of salaries of additional employees to be hired on a temporary basis. As indicated later, this plan was in effect at the Dallas bank for only a few months.

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On December 31, 1932, the total number of officers and employees at the Head Office and Branches was 383, representing a decrease of 10 since the end of the preceding year. At the end of the year, the position of Assistant Cashier at the Houston and San Antonio Branches was abolished. (For some time, there had not been an Assistant Cashier at the El Paso Branch.) At the end of 1932, there were 599 member banks in the Eleventh Federal Reserve District, as compared with 644 at the end of the preceding year.

#### Credit Relations with Member Banks

During the course of the year, almost 300 member banks received the benefit of the credit facilities of the Federal Reserve Bank. Nearly all of these were “country” banks, and in most cases the amount borrowed by the individual bank was relatively small. Only in especially serious cases were the credit relations discussed in detail in Governor McKinney’s reports to the Board of Directors. However, the credit files reflect sympathetic, yet firm, treatment of the problem banks. Many of the small country banks were having



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difficulty in surviving under the depressed conditions that prevailed. For example, the situation of a small country bank in East Texas is vividly portrayed by correspondence in January 1932, and in a report covering a visit made to the institution in the spring of that year by a representative of the bank relations staff. Pertinent extracts from these records are shown below:

Mr. R. R. Gilbert, Deputy Governor  
Federal Reserve Bank  
Dallas, Texas

Dear Sir:

I have been thinking I would like to have some word from you. It would cost about fifteen dollars to make the trip but if you think best, I will come. Would like to have your idea as to about how much to put out this year. We did not pay a dividend this year as we have some loss and impossible to state how much.

We have lots of feed and foodstuff this year. Our loans are down more than deposits, proportionately speaking. I look for the deposits to go lower than last year, which was \$33,000. It looks like hard sailing.

A few of my best customers borrowed from Texas Cotton Finance Corporation last year, I understand they will not make loans this year. Some of our people are very much opposed to the new cotton law. They state the reduction is too much and quite a few are at a loss as to how to plant crop this year.

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The debts against our land looks too big. There are good men that have given up because they could not pay interest and taxes, as for me, as long as my mind will function, I will try, and I love advice from men who I have confidence in.

For your comparison, I am enclosing herewith a statement of recent date also a statement as of one year ago.

Yours very truly,

Mr. S

President

Mr. S, President

██████████  
City in Texas

Dear Mr. S,

This is to acknowledge receipt of your letter of January 22, furnishing information regarding your personal situation at this time, and enclosing comparative statements of your bank as of January 21, 1931, and January 21, 1932.

The statements have been examined by our Committee with interest, and it has been observed that your loans at this time are somewhat lower than they were on the same date last year, and that while your deposits are also slightly lower, your cash position seems to be better.

We appreciate your request for an expression of our opinion regarding the amount of new loans or additional advances you ought to make this year, but we feel that this is a matter which lies wholly within the discretion of the officers and directors of your bank, and we are not in position to advise you along that line. In view of the general conditions and prevailing prices, we feel it might be the course of wisdom to pursue a conservative policy during the present year.

While we don't think it is necessary for you to go to the expense of making a special trip to Dallas for the purpose of discussing your bank's program for the year, if you happen to be down this way any time we shall be glad for you to come in and see us.

With kindest regards, I am,

Yours very truly,

R. R. Gilbert  
Deputy Governor

MEMBER BANK RELATIONS DEPARTMENT  
MEMORANDUM – REPORT ON BANKS VISITED<sup>46</sup>

Comparative Figures

	<u>5-10-29</u>	<u>5-10-30</u>	<u>5-10-31</u>	<u>5-10-32</u>
Loans and Discounts	\$87,000	\$82,000	\$72,000	\$61,000

<sup>46</sup> Report made by Frank Betts, then special representative of Member Bank Relations Department. Mr. Betts is now President of the American National Bank of Beaumont, Texas, and Federal Advisory Councilman for the Eleventh District.

## Chapter X – The Great Depression, 1932 - 1934

Cash and Exchange	9,000	8,000	7,000	8,000
Capital	30,000	30,000	30,000	30,000
Surplus	7,500	10,000	10,000	10,000
Undivided Profits	3,993	1,497	1,563	1,325
Deposits	62,000	45,000	44,000	39,000

Even in ordinary times, volume is insufficient here to enable the management to earn a reasonable return to the shareholders on their investment. During the past three years, volume has dwindled as a result of falling commodity prices, and the general economic situation, and the matter of earning a profit has been virtually an impossibility. In fact, had there not been at the helm of this little financial ship a man like Mr. S, who is a close lender and a vigorous collector, in all probability, it would not now be afloat.

Although the bank's ratios normally are unsatisfactory about nine months out of each year, attributable largely to the fact that, in an effort to pay expenses and take care of losses, loans have been expanded each year to a point far beyond the community's contribution in the form of deposits, it must be admitted that Mr. S has both lent and collected his bank's money in a commendable way insofar as individual loans are concerned. He has kept the institution solvent, but volume has shrunk to such a low figure that the question arises as to the justification of its continuance as a bank.

As a result of an analysis of his situation early last year by Mr. Gilbert, Mr. S determined to hold his loan account down somewhat in 1931, the result being that the year's high point was \$77,000, as compared to \$96,000 in 1930. He is very much pleased that he did not expand his loans to a higher figure inasmuch as he feels that he collected about all that could have been collected out of this community last fall – more loans would have meant just that much more carryover. The season was started with loans at \$52,000, the high point was \$77,000, and the 1931 fall low point was \$54,000. He didn't quite get back all he put out.

After reaching a low of \$44,000 in the summer of 1930, deposits rebounded to \$77,000 in the fall of 1930, then eased off to \$35,000 by 8-29-31 and recovered to only \$49,000 in the fall of 1931 (10-26-31). The trend is obvious.

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Mr. S is very friendly toward our bank and regards Mr. Gilbert highly.

### The Year 1933

The year 1933 was an eventful one in banking and in the history of the Federal Reserve Bank of Dallas. Of particular importance were the following developments:

- (1) The “Moratorium” (a nation-wide bank holiday) in the early part of March;
- (2) The Emergency Banking Act, passed on March 9; and
- (3) The Banking Act of 1933 passed on June 16.

In the early months of the year, the northern and eastern states experienced widespread banking difficulties. Deposits declined sharply. The hoarding of currency and gold on the part of the public was intensified, and there was a marked decline in the gold stocks of the commercial banks and of the Federal Reserve Banks as well. There were many bank failures. In the latter part of February, authorities in various states in the north and east, in order to check the withdrawals of gold and currency, declared “moratoriums,” or bank holidays; the wave of moratoriums spread to the southwest, and finally to the far west, and by March 3, proclamations temporarily closing banks had been issued by the Governors or legislatures of almost all the states.

On Friday, March 3, the Governor of Texas issued a proclamation declaring a banking holiday and moratorium in the state for a period of five days, from March 3 to March 7.<sup>47</sup> The Board of Directors of the Federal Reserve Bank of Dallas held a called meeting on Sunday, March 5. Governor McKinney reported to the directors that he had been in communication with the Federal Reserve Board and with the Governors of some of the other Reserve Banks. He stated that, in his judgment, if the Federal Reserve Bank of Dallas opened for business on Monday, March 6, it would be impossible for the Dallas bank to meet the demand upon it for gold in exchange for Federal Reserve Notes. (The Federal Reserve Act provided that Federal Reserve Notes were redeemable in gold upon demand.) After full discussion, the directors ordered that the Federal Reserve Bank of Dallas and its Branches remain closed on March 6 and 7 and authorized the Executive Committee to close the bank for such further time as might be available and consistent with state or national proclamations.

On March 6, President Franklin D. Roosevelt issued a proclamation directing all banking institutions in the United States to observe a bank holiday for the period March 6 to March 9. In the proclamation, he authorized the Secretary of the Treasury to prescribe

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<sup>47</sup> Minutes, Meeting of Board of Directors, Federal Reserve Bank of Dallas, March 5, 1933.

regulations under which the banks would be permitted to reopen. On March 9, he issued another proclamation continuing the bank holiday until further notice.<sup>48</sup>

In the meantime, on March 9, the Emergency Banking Act was passed by both Houses of Congress and was immediately signed by the President. Among other things, the Act authorized the Secretary of the Treasury to require all holders of gold and gold certificates to turn such holdings over to the Treasurer of the United States; for their holdings they would be paid an equivalent in other forms of coin or currency. The Act also authorized National banks to issue preferred stock and the Reconstruction Finance Corporation to purchase preferred stock of National banks, State banks, and trust companies; authorized the Comptroller of the Currency to appoint “conservators” of National banks found to be in unsatisfactory condition, in order to conserve the assets of such banks for the benefit of depositors and other creditors; and authorized Federal Reserve Banks to make advances to individuals, firms, and corporations secured by direct obligations of the United States.

On March 11, President Roosevelt issued a press statement announcing that all sound member banks would be reopened progressively during the next few days, under licenses to be issued by the Secretary of the Treasury, and that the authorities in the various states had been requested to permit the good nonmember State banks to reopen under the same schedule. On Sunday, March 12, the President delivered a radio address to the people of the United States with respect to the banking situation. He outlined the steps that had been taken by the Government and other steps that would be taken to correct the bad banking situation.

The Secretary of the Treasury first authorized the Federal Reserve Banks and the licensed member banks in the twelve Federal Reserve cities to reopen on March 13. Sound member banks located in other cities having recognized Clearing House Associations were authorized to reopen on March 14. Approved banks in the remaining cities and towns were authorized to reopen on March 15.

Under the authority given by the Board of Directors on March 5, the officers of the Federal Reserve Bank of Dallas had suspended its normal banking operations until

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<sup>48</sup> These and other developments in March covered in Bulletin of Federal Reserve Board for March and April 1933.

Monday, March 13, which was the date specified by the Secretary of the Treasury for the reopening of the Reserve Banks. On March 6, most of the clerical employees of the bank had been instructed not to report for work until further notice, but the officers and certain members of the staff, including most of the Loan Department personnel, were required to remain on emergency duty in order to furnish the Secretary of the Treasury information needed by him for the granting of licenses to reopen. The Reserve Banks had been requested to review examination reports and bank records and to submit to the Secretary of the Treasury their recommendations as to which banks should be permitted to reopen. The wires were kept open almost “around the clock” and the officers of the Dallas bank devoted long hours, day and night, to the review work, and to furnishing wire reports to Washington.

In reviewing the examination reports and other records as a basis for recommending whether a bank should be allowed to reopen, the Reserve Bank committee appraised the subject bank’s assets (principally loans) in the light of their value in a “going” bank, and not upon the basis of what the assets would bring under forced liquidation.

A total of 574 member banks out of a membership of 588 applied to the Federal Reserve Bank of Dallas for licenses to reopen. Of the applying banks, 515 were licensed for a full reopening as of the close of business March 15, and by the middle of April, 16 additional banks were licensed. The remaining 43 banks were not licensed for reopening, as they did not meet the requirements imposed by the Secretary of the Treasury. During the succeeding weeks, many conferences were held with bank examiners and with representatives of member banks which had not been licensed, and the Reserve Bank officials made every effort to help those institutions get their affairs in order so as to permit them to reopen. Some of these banks were placed in the hands of “conservators,” some were consolidated with other institutions, and a few of the State banks in that group withdrew from the Federal Reserve System. The latter banks were returned to the exclusive jurisdiction and control of the State Banking Department.<sup>49</sup>

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<sup>49</sup> Governor McKinney’s report to the Board of Directors, April 10, 1933.

The Banking Act of June 16, 1933

The Banking Act of 1933 made sweeping changes in and additions to the Federal Reserve Act. It also amended numerous provisions of the National Bank Act. The new law was designed to provide better supervision of banking in the United States and to safeguard the public. Among other things, it –

Set up an Open Market Committee, composed of 12 members, one member to be selected by each Federal Reserve Bank annually.<sup>50</sup>

Created a Federal Deposit Insurance Corporation<sup>51</sup> which would insure deposits of stockholders banks within certain limitations; all banks that were members of the Federal Reserve System were required to become stockholders of the Federal Deposit Insurance Corporation, and nonmember banks were permitted to become stockholders, under certain circumstances. Federal Reserve Banks were required to become “Class B” stockholders of the Corporation; each Federal Reserve Bank to subscribe to stock in an amount equal to one-half of its surplus on January 1, 1933. The Dallas bank’s subscription was \$4,359,338.

Prohibited member banks of the Federal Reserve System from paying interest on demand deposits, and authorized the Federal Reserve Board to limit, by regulations, the rate of interest to be paid on time deposits.

Removed “double liability” on stockholders of National banks.

Authorized the Federal Reserve Board and Federal Reserve Banks to take steps to prevent use of bank credit for speculative purposes, and to obtain information as to improper use of Federal Reserve credit.

Perhaps the most interesting development that followed the enactment of the Banking Act of 1933 was the marked decrease in demand deposits of the New York City banks and the substantial increase in member bank reserve deposits at the Federal Reserve Banks in other districts, including the Federal Reserve Bank of Dallas. Inasmuch as the Banking Act of 1933 prohibited the payment of interest on demand deposits, many of the member banks in the Eleventh District, being unable to receive payment of interest on their balances with city correspondents, permitted their reserve balances to

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<sup>50</sup> Composition of Open Market Committee later changed by the Banking Act of 1935.

<sup>51</sup> F.D.I.C. provisions later materially changed by Banking Act of 1935.

accumulate at the Federal Reserve Bank. Member bank deposits at the Dallas bank increased from around \$48 million at the end of May 1933, to approximately \$100 million in December, which was the highest mark on record up until that time. As a result, for an extended period of time, member banks had on deposit at the Federal Reserve Bank of Dallas a very substantial amount of “excess” reserves. Governor McKinney, in one of his reports to the Board of Directors, commented that if the prohibition of the payment of interest on demand deposits continued to be as effective as it started out to be, it would result in the commercial banks in the various Federal Reserve Districts investing their surplus funds themselves, rather than “dumping” those funds on New York and permitting the commercial banks of that city to employ them, as had been the case in previous years.

#### Features of Operations – 1933

Outstanding loans to member banks at the beginning of the year amounted to around \$5 million and increased to a maximum of nearly \$9 million by the end of April. Outstanding borrowings were gradually reduced during the remainder of the year and amounted to less than \$600,000 on December 31. At the beginning of the year, the bank’s holdings of United States Government securities amounted to approximately \$45 million, represented by \$10 million independent holdings and \$35 million participation in the System’s Open Market Investment Account. The participation was increased to \$56 million later in the year, and combined holdings on December 31 amounted to approximately \$66 million. At the beginning of the year, holdings of bankers’ acceptances were less than \$1 million, but purchases were made from time to time through the Open Market Policy Committee, and holdings at the end of the year amounted to around \$9 million.

Gross earnings were considerably less than in the preceding year and expenses were greater. Operations resulted in a deficit of almost \$500,000. The bank’s surplus was reduced in order to provide for this deficit and to pay dividends to member banks.

At the end of 1933, there were 599 member banks in the Eleventh Federal Reserve District, representing a decrease of 40 as compared with this figure at the close of 1932.



### Share-the-Work Program in Effect

Early in January, announcements were made in newspapers that the Federal Reserve Bank of Dallas and its Branches would participate in the “share-the-work” program. (The Board of Directors had authorized participation in its December 1932 meeting.) Following these announcements, the Head Office received 315 applications for employment, and numerous applications were received at the Branches. Under the program, 35 temporary employments were made at the Head Office and Branches. Originally, it was contemplated that the plan would be effective for a period of six months from January 1, 1933, but it was extended to July 31, 1933, when the arrangement was discontinued. At that time, some of the temporary employees were dismissed, while others were employed on a permanent basis. The salaries of the other officers and employees were restored to their former amounts “without deduction of five percent for the share-the-work plan.” Later in the year additional employments were made in accordance with the program of the National Recovery Administration, and on December 31, there were 459<sup>52</sup> officers and employees at the Head Office and Branches.

### Married Women Employees

On August 24, 1933, the Cashier of the bank issued the following bulletin with reference to the employment of married women:

Having in mind the present-day policy of many other corporations and the economic factors involved, the management of the bank has for some time been giving consideration to the policy that should be adopted with respect to the employment of married women. The subject has been discussed at meetings of the Executive Committee and of the Board of Directors. A decision having been reached, I am giving you below an outline of the policy that has been adopted and will be followed in the future:

1. Hereafter no married women will be employed by this bank or its Branches.
2. The marriage of a single female employee will automatically terminate their employment with this bank.
3. Married women who are now in our employ and who have husbands capable of supporting them will be replaced as soon as it can be done without any unnecessary hardship and without

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<sup>52</sup> Including 31 “temporary” employees.

jeopardizing the proper functioning of the various departments of the bank. While it is not contemplated that new employments will necessarily be made solely for the purpose of replacing such employees, men and single women will be given preference where they possess the necessary qualifications, and this will also be true in making reductions in personnel.

In view of the long and faithful service of many of this class of employees, and in order to show them the utmost consideration, it was felt that an announcement should be made at this time of the policy determined upon in order that those who may be affected may adjust their affairs accordingly. It is regretted that this policy will result eventually in the termination of the services of employees who have demonstrated their ability and loyalty to the institution, and the management of the bank will take great pleasure in being of all the assistance to them that it properly can.

In due time, the services of practically all the married women in the bank were terminated. Some of these returned to full-time home duties, and a few obtained other employment in the business world. When the newspaper learned of the employment by other concerns of married women who had been dismissed by the Federal Reserve, some of the papers published critical articles to the effect that these employments should not have been made, when there were so many men with families walking the streets without jobs.

#### Commodity Prices

As these lines are written, it is difficult to visualize the low prices that were in effect in 1933. Advertisements in the Dallas papers for March 10, 1933, showed the following prices:<sup>53</sup> Milk 3¢ a quart, bread 5¢ a loaf, eggs 10¢ a dozen, bacon 12¢ a pound, prime rib roast, 19¢ a pound, ham 13¢ a pound, butter 25¢ a pound; and General Motors advertised a new Chevrolet Coach at a price of \$455 f.o.b. Flint, Michigan.

#### District Developments

Notwithstanding the unfavorable aspects of the economy, business activity in the Eleventh Federal Reserve District began to turn upward in the latter part of 1933. Deposits of banks at the close of the year were considerable higher than a year earlier, and loans were lower. Business conditions at the end of the year were summed up in the bank's

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<sup>53</sup> Quoted in 35<sup>th</sup> Anniversary issue of Items, November 1949.

annual report as follows: “Taken as a whole, the agricultural, commercial, industrial, and banking interests of the district substantially improved their position during the past year, and at its close found themselves well advanced in the process of adjusting themselves to a new basis of values and well-fortified with cash and credit resources to meet the problems of the year 1934.”

#### The Year 1934

In their effect upon the Federal Reserve Bank of Dallas, perhaps the most outstanding events during 1934 were the following:

1. The establishment of the Retirement System of the Federal Reserve Banks.
2. Authority for Federal Reserve Banks to make direct loans to industry.

#### Retirement System

The Retirement System of the Federal Reserve Banks was established on March 1, 1934. Governor McKinney, of the Federal Reserve Bank of Dallas, was a member of the organization committee. Upon organization, approximately 98 percent of the officers and employees of the Federal Reserve Banks and the Federal Reserve Board enrolled as members. The plan provided for contributions by the banks as well as by their employees and contemplated the retirement of employees at age 65, with the payment of retirement allowances based on length of service and salaries paid. The general administration of the System was placed in a Board of Trustees. One trustee was appointed by each Reserve Bank and one was elected by the members in each Reserve Bank. Deputy Governor R. B. Coleman was the first representative of the Federal Reserve Bank of Dallas and Mac C. Smyth was elected to represent the members at the Head Office and Branches, each to serve for a three-year term.

#### Industrial Loans

On June 19, 1934, Congress passed an amendment to the Federal Reserve Act authorizing “industrial” loans to be made by Federal Reserve Banks. A new section, Section 13(b), was added to the Federal Reserve Act. This provided that in exceptional circumstances, when it appeared an industrial or commercial business was unable to obtain requisite financial assistance on a reasonable basis from the usual sources, the

## Chapter X – The Great Depression, 1932 - 1934

Federal Reserve Bank was authorized to make loans, on a reasonable and sound basis, for the purpose of providing such business with working capital. The maturity of such loans could not exceed five years. The law also provided that the Reserve Bank could give a commitment to a commercial bank covering a working capital loan made by such bank, whereby the Reserve Bank would agree to take over a designated portion of the loan, upon the request of the lending bank. In order to enable the Reserve Banks to make these loans and give these commitments, the Secretary of the Treasury was authorized to repay the Reserve Bank a portion of the amounts that had been paid in by them for Class B stock in the Federal Deposit Insurance Corporation, these sums to become a part of the surplus funds of the Reserve Bank. The amount paid to the Federal Reserve Bank of Dallas and set up as a "13-b surplus" was \$1,251,788.08.

On July 14, 1934, the Federal Reserve Bank of Dallas addressed a circular letter to all banks in the Eleventh Federal Reserve District enclosing a copy of Regulation S of the Federal Reserve Board which related to loans by Federal Reserve Banks for industrial or commercial purposes. Under the law, provision was made for the appointment in each Federal Reserve District of an Industrial Advisory Committee of not less than three nor more than five members, engaged in industrial pursuits, to serve without compensation. The appointment was to be made by the Reserve Bank, subject to the approval of the Federal Reserve Board. The law provided that the committee would consider all applications for loans and transmit the applications to the Reserve Bank with the committee's recommendation. The members of the Industrial Advisory Committee for the Eleventh District, as announced on July 18, were:

Lewis R. Ferguson of Dallas, Texas  
Vice President and General Manager, Lone Star Cement Company

Will B. Marsh of Dallas, Texas  
President, Chronister Lumber Company

Charles R. Moore of Dallas, Texas  
President, Austin Bridge Company

Clarence Ousley of Fort Worth, Texas  
President, Globe Laboratories

W. B. Wise of Greenville, Texas  
President and General Manager, Farmers and Merchants  
Compress and Warehouse Company

Before the first meeting of the Committee was held, Mr. Wise resigned and T. M. Cullum of Dallas, Texas, President, Cullum and Boren Company, was appointed in his place.

Widespread publicity was given to the industrial loan facilities of the Reserve Banks, and by the end of August, approximately two and one-half months after the law was enacted, the Federal Reserve Bank of Dallas had received around 1,000 inquiries from prospective applicants for industrial and commercial loans, and had received 226 applications, aggregating \$6,335,000. By the end of the year, the Federal Reserve Bank of Dallas had received approximately 1,300 inquiries from prospective applicants for loans and had received 371 applications to approximately \$11 million.

The flood of applications began to subside in 1935. Only 90 applications were received during the year. Only a few were received in 1936, 1937, and 1938. After 1938, the use of the industrial loan facility at the Dallas bank was practically dormant, although a few scattered transactions were handled in later years. There is shown below a report of industrial loan applications handled by the Federal Reserve Bank of Dallas from June 26, 1934, to December 31, 1957. (Last report F.R. 417 submitted to Board of Governors. Law was repealed in 1958.)

	<u>Number</u>	<u>Amount</u>
Applications received	515	<u>\$ 17,590,660</u>
Action taken:		
Loans made	102	\$ 4,952, 396
Applications withdrawn	43	1,301,400
Approved, but terms not accepted by applicant	15	1,158,750
Reductions in amounts (net)	0	1,919,054
Rejected	<u>355</u>	<u>8,259,060</u>
	515	<u>\$17,590,660</u>

At the outset of the industrial loan program in 1934, the management of the Federal Reserve Bank of Dallas agreed to consider the applications in a broad and liberal way in order to render maximum service to business concerns, and yet comply with the provisions of the law. It was felt that a good record in that field would strengthen the prestige of the Federal Reserve System and build up the confidence of the public in its

usefulness and importance. At the beginning of the program, it was necessary to augment the staff of the Loan Department to enable it to handle the applications submitted. In addition, the bank engaged the services of a certified public accountant on a temporary basis, and for a short time, a loan officer of one of the local commercial banks was employed by the Reserve Bank to assist in the work. For the most part, however, these activities were handled by the bank's regular staff. Several of the bank's officers devoted the greater portion of their time to this activity. In view of the "border line" character of most of the applications, it was necessary to exercise unusual care in appraising the credit data. Generally, the collateral consisted of mortgage upon land, buildings, and machinery or the assignment of receivables. Some field work was necessary in appraising the value of the collateral, and when loans were approved, the bank's legal staff had the responsibility of preparing the loan documents, examining titles, etc.

Various types of businesses were represented by the loans made by the Dallas bank. They included manufacturers, and wholesale and retail merchants. The types of businesses included cottonseed oil mills, hosiery manufacturers, broom and mop factories, machine shops, wholesale nurseries, laundries, retail furniture dealers, and retail grocers. The smallest loan made was in the amount of \$250, and the largest was for \$250,000. The largest number of loans made were in amounts from \$1,000 to \$5,000; ranking next in number were loans in the \$25,000 to \$50,000 range. In most cases, the final maturity of the loan was the maximum five-year period provided by the law; some were payable in monthly installments, while others were payable quarterly, semiannually, or annually.

In retrospect, it would appear that the industrial loan program of the Federal Reserve Bank of Dallas served a useful purpose. In the depression years, some commercial banks were not in position to make long-term, working capital loans. The Reserve Bank was thus able to supply some worthy borrowers with needed credit accommodation. On the whole, the collection experience of the Dallas bank was good. In a few cases, amounts were set up as reserves for losses, but recoveries were subsequently made in all instances, and no actual loss was sustained.

As shown in the schedule provided earlier in this chapter, a large percentage of the applications filed with the Federal Reserve Bank of Dallas were rejected. Many

proposed loans were either ineligible under the law or were without satisfactory credit basis.

Many applications were filed under a misapprehension as to the terms of the law. Some applicants seemed to feel that they were entitled to loans under the Government's "relief" program. The bank's credit files contain numerous amusing, if not ludicrous cases. An elderly couple, who operated a café and rooming house in a frame building in a small north Texas town, filed an application for a \$25,000 loan. The proceeds were to be used to retire indebtedness against town property, to repay indebtedness to various individuals, and to cover an unpaid pledge to a church building fund. The collateral tendered did not appear sufficient to secure the loan, and the application did not show evidence of the ability of the applicants to repay the loan out of earnings, other than assurance that the loan would be paid if oil could be discovered nearby which would bring in more customers. The applicants were very much disappointed in the rejection of the loan and requested reconsideration, first in the reduced amount of \$10,000, and later for \$5,000, but the committee felt that the loan was not justified, even in the reduced amount.

A small printing concern in Dallas filed an application for \$1,000, to be repaid at the rate of \$20.00 per month over a period of five years. The applicant's financial statement showed a net worth of approximately \$1,500, with total indebtedness in approximately the same amount. The collateral tendered consisted of miscellaneous print shop equipment, several years old, valued by the maker at approximately \$2,300. When the application was declined, the proprietor of the business wrote Governor McKinney a long letter, stating that the Government had given away millions of dollars, and that the Government, "in passing its numerous relief measures, intended that persons in my circumstances were the ones to be benefitted." The records show that Governor McKinney had a personal conference with the applicant in response to his letter, explaining why the loan could not be made.

A mortuary business, with a net worth of approximately \$4,800, applied for a loan of \$1,000, payable at the rate of \$200.00 annually for a period of five years. About half of the loan would be used to organize a burial insurance association to operate in connection with the mortuary, most of the rest for repairs to equipment, including a hearse. The

collateral consisted of funeral equipment valued by the application at \$2,400 and insured for \$600. The application was declined.

The bank's experience in handling some of the problem loans will be discussed in a special section of the Appendix.

#### General Conditions

Business conditions in the Eleventh Federal Reserve District showed some improvement in 1934, as compared with the preceding year. There was a gain in wholesale and retail trade, with department store sales showing a substantial increase. However, a large part of the district experienced a drought, and agricultural and livestock conditions were unsatisfactory. The banking situation reflected a noticeable improvement. Member bank borrowings at the Federal Reserve Bank remained at a low level throughout the year. The reserve deposits of member banks rose substantially and excess reserves were maintained in large volume throughout the year. Outstanding loans to member banks amounted to less than \$1 million at the beginning of the year, and during June, July, and August the average amount outstanding was only \$400,000. In May, for the first time since the Branches were established the Branches did not have any outstanding advances to member banks in their territories. At the end of the year, only one bank was indebted to the Federal Reserve Bank of Dallas; that loan was in the amount of \$12,000 and was secured by Government obligations. This was the low point of member bank borrowings since the latter part of 1914.

At the beginning of the year, the bank's total holdings of Government securities were \$66,475,000; its participation in System holdings was increased by \$5,000,000 in February, and total holdings amounted to \$71,475,000 on December 31.

During the year 1934, there were no member bank suspensions in the Eleventh Federal Reserve District.

#### Discount Rates

On February 8, 1934, the discount rate of the Federal Reserve Bank of Dallas was reduced from 3½ percent to three percent.



### Internal Organization

On December 1, Fred Harris, Cashier, who had been ill for several months, resigned. The resignation was effective December 31, 1934, whereupon Mr. Harris entered upon disability retirement under the provisions of the retirement system. He continued to reside in Dallas for several years and passed away on June 23, 1944. Mr. Harris was one of the original employees with the Federal Reserve Bank of Dallas. Following Mr. Harris' resignation, Deputy Governor R. B. Coleman was elected to the position of Cashier in addition to that of Deputy Governor. No other changes in the official personnel of the bank were made during the year.

On December 31, 1934, the total number of officers and employees at the Head Office and Branches was 468.<sup>54</sup> There were 568 member banks in the Eleventh Federal Reserve District.

### SOURCES

1. Annual Report, Federal Reserve Bank of Dallas, 1932-1934.
2. Federal Reserve Bulletin, Board of Governors of the Federal Reserve System, 1932-1935.
3. "Minute Book," Federal Reserve Bank of Dallas, 1932-1934.
4. Digest of Rulings of Board of Governors to October 1, 1937 (Textual Changes in Federal Reserve Act made by Banking Act of 1933.)
5. Loan Department Special File, "Banking Holidays and Moratorium, 1933."
6. Numbered Circulars, Federal Reserve Bank of Dallas, 1932-1934, Volume 4.
7. Unnumbered Circulars, Federal Reserve Bank of Dallas, 1933-1935, Volume 4.
8. Items, Federal Reserve Bank of Dallas, 1949-1950.

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<sup>54</sup> Including 43 "temporary" employees.

## CHAPTER XI

### RECOVERY AND STABILITY, 1935 – 1940

Although it may be said that it took several years for the Nation to completely recover from the “Great Depression,” a start was made in 1935, and considerable improvement was evidenced during that year in the Eleventh Federal Reserve District. An increase was shown in sales of department stores in principal cities. The distribution of merchandise at wholesale showed an increase, and debits to individual accounts at banks in the principal cities were the largest reported in five years. The volume of construction work registered a marked gain, the physical volume of agricultural production was substantially larger than in the preceding year, and there was a marked recovery in the physical condition of the district’s ranges and livestock. Livestock prices were substantially higher than in the preceding year. The banking situation was marked by a rise in deposits of member banks to a new high level and an increase in loans and investments. Member bank borrowings at the Federal Reserve Bank were at a low level throughout the year and reserve deposits were maintained in a volume greatly in excess of requirements.<sup>55</sup>

#### The Banking Act of 1935

Important changes were made in the Federal Reserve Act by the Banking Act of 1935, which was signed by the President of the United States on August 23. It defined more clearly the responsibilities of the Board in Washington and of the regional Reserve Banks and clarified a number of features of the administration of the System. It affected the operations of the Federal Reserve Bank of Dallas, as well as those of the other Reserve Banks, in many respects. A portion of the Act related to the insurance of deposits. Still another section contained clarifications in the technical provisions of banking law.

Among other things, the new law:<sup>56</sup>

- Changed the name of the Federal Reserve Board to the “Board of Governors of the Federal Reserve System,” with longer terms and larger salaries for its members. Effective February 1, 1936, the Board, instead of consisting of six appointive members, with the Secretary of the

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<sup>55</sup> Annual Report, Federal Reserve Bank of Dallas, 1935.

<sup>56</sup> Digest of Rulings of Board of Governors to October 1, 1937 (Textual changes in Federal Reserve Act).

Treasury and the Comptroller of the Currency as ex officio members, would have seven appointive members, with no ex officio members.

- Provided for the reorganization of the Federal Open Market Committee, as of March 1, 1936, to consist of seven members of the Board of Governors and five representatives of the Federal Reserve Banks. Previously, the Open Market Conference consisted of one representative from each of the twelve Federal Reserve Banks, and its actions were subject to the approval of the Board. Under the new procedure, one of the five Reserve Bank representatives was to be elected by the directors of the Federal Reserve Banks of Boston and New York; one by the directors of the Federal Reserve Banks of Philadelphia and Cleveland; one by the directors of the Federal Reserve Banks of Chicago and St. Louis; one by the directors of the Federal Reserve Bank of Richmond, Atlanta, and Dallas; and one by the directors of the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco.<sup>57</sup>
- Changed the titles of certain officers at the Reserve Banks, effective March 1, 1936; provided for a President and Vice Presidents at each Federal Reserve Bank, rather than a Governor and Deputy Governors as theretofore. The President was designated as the Chief Executive Officer of the bank; the President and First Vice President to be appointed by the bank's Board of Directors with the approval of the Board of Governors, each for a five-year term.
- Amended Section 10(b) of the Federal Reserve Act, relating to advances to member banks secured by "ineligible" collateral, so as to remove the previous requirement that such advances be made only in "exceptional" circumstances. Changed the interest rate on such advances to not less than one-half percent higher than the discount rate, instead of one percent higher as theretofore.
- Clarified and altered the power of the Board of Governors to change reserve requirements of member banks. The Act of May 12, 1933 has authorized the Federal Reserve Board, in case of emergency, and with the approval of the President, to change reserve requirements in its discretion. The Banking Act of 1935 authorized the Board of Governors, upon the affirmative vote of not less than four of its members, "in order to prevent injurious credit expansion or contraction," to change reserve requirements of member banks to percentages not less than those in effect at that time, nor more than twice such amount. The declaration of

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<sup>57</sup> Further amended by Act of July 7, 1942, with different groupings, beginning with the term commencing March 1, 1943. For example, the Dallas bank is now in the same group with Atlanta and St. Louis, and New York, standing alone, elects a representative annually.

## Chapter XI – Recovery and Stability, 1935 – 1940

an emergency and the approval of the President were no longer required.

- Required each Reserve Bank to establish discount rates every 14 days “or oftener, if deemed necessary by the Board.”
- The section of the Banking Act of 1935 that related to the insurance of deposits contained a complete revision of section 12B of the Federal Reserve Act. Under the new law, \$5,000 was designated the maximum amount to be insured for one depositor; the maximum was later raised to \$10,000. (Further changes were to be made by the Act of September 21, 1950, under which Section 12B was withdrawn from the Federal Reserve Act and the Federal Deposit Insurance Corporation was covered by a separate act.)

### Internal Organization

On December 5, 1935, the Board of Governors of the Federal Reserve System announced that since the Board would be reorganized on February 1, 1936 (under the provisions of the Banking Act of 1935), it had been decided to have the designations of all Chairmen and Federal Reserve Agents expire on March 1, 1936, in order that the new Board could exercise the prerogative of making these appointments. Accordingly, the Board redesignated C. C. Walsh as Chairman and Federal Reserve Agent for the Dallas bank, only for a period from January 1 to February 29, 1936.

### Reserve Deposits

On January 25, member bank reserve deposits at the Federal Reserve Bank of Dallas reached approximately \$132 million, representing a new high point in the history of the bank. Required reserves were approximately \$60 million. Therefore, member banks of the Eleventh Federal Reserve District were carrying excess reserves amounting to approximately \$72 million. Member bank deposits in the Eleventh District reached \$142 million by the middle of February, when excess reserves amounted to approximately \$75 million. At the end of the year, Reserve Bank deposits were approximately \$124 million and excess reserves amounted to approximately \$60 million. The excess reserves of all member banks of the Federal Reserve System reached a total of \$3.3 billion early in

## Chapter XI – Recovery and Stability, 1935 – 1940

December, which represented a new high mark in the history of the Federal Reserve System.<sup>58</sup>

The annual report of the Board of Governors for the year 1935 includes a record of a meeting of the Board on December 18, 1935, at which the subject of excess reserves of member banks was considered. At that meeting, the members of the Board expressed their opinion that while improvements had been made in business and financial conditions, the country was still short of a full recovery; and that, although the volume of member bank reserves was excessive, no increase in reserve requirements should be made at that time, but the problem should be studied further “in order that appropriate action may be taken as soon as it appears to be in the public interest.”

### Reconstruction Finance Corporation

Operations of the Reconstruction Finance Corporation in the Eleventh Federal Reserve District continued to be very active during 1935. In January, the Reconstruction Finance Corporation made advances in the district amounting to approximately \$1,100,000, and at the end of the month, Reconstruction Finance Corporation advances, including loans, preferred stock, and capital debenture purchases, etc., amounted to \$151 million. Other advances during the year are show below:<sup>59</sup>

February	\$ 2,480,000
March	3,520,000
April	2,280,000
May	1,900,000
June	6,827,000
July	12,420,000
August	4,076,000
September	1,626,000
October	1,726,000
November	261,000
December	2,699,000

From the time of its establishment up to and including December 31, 1935, the Reconstruction Finance Corporation had made advances in the Eleventh Federal

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<sup>58</sup> Annual Report, Board of Governors, 1935, page 11.

<sup>59</sup> Governor's reports to Board of Directors.

Reserve District amounting to approximately \$191 million; of that amount approximately \$81 million had been repaid, leaving around \$110 million outstanding.

#### Discount Rates

There were two changes in the discount rate of the Federal Reserve Bank of Dallas during 1935. On January 8, the rate was reduced from three percent to 2½ percent, and on May 8, the rate was reduced from 2½ percent to two percent. In connection with the latter change, the Board of Directors at its meeting on May 7 considered the Federal Reserve Board's letter of May 2, 1935, on the subject of prevailing discount rates to Federal Reserve Banks, reading as follows:

At the present time, discount rates at the Federal Reserve Bank vary from 1½ percent to 2½ percent, the higher of these rates being in effect at Richmond, Minneapolis, Kansas City, and Dallas, the two percent rate at Boston, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, and San Francisco, and the 1½ percent rate at New York.

The Federal Reserve Board has recently given consideration to the basis for the present level of rates and for the differentials in the rates at the different reserve banks. During the discussion, attention was called to the fact that member banks in all Federal Reserve Districts have a large volume of excess reserves; that short-term market rates are at the lowest levels of modern times, and other rates are also low and declining; and that the spread between the discount rates and open-market acceptance rates has grown to such an extent that there is now no apparent relationship between them.

It was recognized in the discussion that the possibility of borrowing by member banks is not a factor at this time, but the question was raised whether failure to lower the discount rates may lend support to the criticism that the Federal Reserve Banks are not using all the means within their power to assure the continuance of easy money conditions and whether therefore, a reduction of rates might not be desirable in order to avoid such a criticism.

In the circumstances, the Board desires that the matter be considered by the officers of the Federal Reserve Banks with their directors at the earliest opportunity and that the Board be advised as to the conclusions reached.

In this connection, there is attached for your information, a copy of a memorandum which sets forth some of the reasons for suggesting that the question be considered at this time.

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The reading of the letter developed a discussion on the advisability of a change in the discount rate in effect at the Federal Reserve Bank of Dallas, and at the conclusion of the discussion, it was voted to lower the discount rate from 2½ percent to two percent.

In connection with the provisions of the Banking Act of 1935, which required the Reserve Banks to establish discount rates every 14 days, the Board of Directors of the Federal Reserve Bank of Dallas at its meeting on September 8, 1935, adopted the following resolution:

That the Executive Committee of this bank or the Subcommittee thereof be, and is hereby authorized every 14 days hereafter, until otherwise determined by this Board, to reestablish and continue without change the schedule of rates of discount and purchase as shall have been previously established and fixed for this bank.

The Executive Committee was thus authorized to reestablish rates, but apparently the Board desired to reserve to itself the prerogative of making changes in the discount rates.

### Salaries

In his report to the Board of Directors at its meeting on March 12, 1935, Governor McKinney stated that the last general revision of salaries of employees of the bank had been made in 1929 and that, with every few exceptions, salary adjustments during the preceding six years had been made only in connection with promotions. He pointed out that some of the employees were inadequately paid; in fact, the salaries of 63 of them were at or below the minimum for their classifications as established by the bank and approved by the Federal Reserve Board. (This was under the “Form A” classification plan which had been approved by the Board of Directors on November 7, 1929.) Upon his suggestion, the directors instructed the management of the bank to make an analysis of the salaries of the employees for the purpose of making adjustment in cases where they were inadequately paid.

With respect to the matter of salaries, it appeared that the Federal Reserve Board, about this time, was cautioning the Reserve Banks about increases in salary expense. On April 13, 1935, the Board addressed the following letter to the Chairman at all of the Reserve Banks:

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In reviewing statements furnished at the end of the year by the Federal Reserve Banks on salaried paid officers and employees, it is noted that the average salary paid employees increased at ten of the Federal Reserve Banks during the year ended January 1, 1935, the increases for the System as a whole being from \$1,555 to \$1,585.

While salary increases in individual cases may be necessary, it is felt that under existing conditions such increases during the current year should not result in an increase in total salary payments or in average salaries unless a study indicates that the salaries paid to employees by the Federal Reserve Bank are materially out of line with those paid by local member banks for comparable services.

In approving personnel classification plans for the Federal Reserve Banks, the Board stated that it was with the understanding that the salary ranges provided for the respective positions are consistent with salaries paid for similar work by local banks, and in case your bank has not made a comparison in recent months between salaries paid by your bank and its Branches, if any, and by local member banks, it is suggested that such a comparison be made at your early convenience.

The Board will appreciate your furnishing it with such information in sufficient detail to show how salaries paid by the Federal Reserve Bank and each of its Branches compare with salaries paid for similar work by local member banks.

The minutes of the meeting of the Board of Directors held on May 7, 1935, show that the Dallas bank furnished the Federal Reserve Board a detailed comparison of the salaries paid by the Head Office and Branches with those paid by local commercial banks for similar work. Apparently, this comparison reflected a lower level of salaries at the Reserve Bank than at local member banks, for at the same meeting the directors approved salary adjustments aggregating \$16,988 on an annual basis for 138 employees, representing an average annual increase of \$123.

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On December 31, 1935, the total number of officers and employees at the Head Office and Branches was 476, including 10 temporary employees, as compared with 468 at the end of the preceding year. There were 554 member banks in the Eleventh Federal Reserve District.



General Conditions, 1936 – 1940

During the next few years, from 1936 through 1940, the Nation gradually recovered from the “Great Depression,” and banking throughout the country reached a position of relative stability. With respect to the Eleventh District, the Federal Reserve Bank of Dallas did not show any spectacular change in the principal items on its statement of condition, as had been the case in some of the previous periods in the bank’s history. Throughout this period, loans to member banks were nominal, never exceeding \$150 thousand in any of the year-end statements, and aggregating only a few million dollars at the peak. Holdings of Government securities most of the time ranged between \$85 million and \$100 million. Industrial loans and commitments showed a gradual decrease, amounting to less than \$300 thousand by the end of 1940 down from approximately \$2,400,000 in the early part of 1936. Most of the bank’s earnings were derived from its participation in the System’s holdings of Government security. After payment of dividends, the bank was able to make relatively small additions to surplus at the end of each year, except in 1938 when there was a small deficit.

The operations in the various departments of the bank remained at a fairly constant level, except check clearing operations, which showed a gradual increase in the number and amount of checks handled. Government checks, particularly, showed an increase in volume. During 1935 and 1937, a large number of “Work Relief” checks were handled; these were generally in small amounts. The average Federal Reserve note circulation remained fairly constant, year-end figures amounting to \$82 million in 1936, \$91 million in 1937, \$79 million in 1938, \$79 million in 1939, and \$84 million in 1940.

There was one exception to the more or less static condition during this period. That was the rapid growth in member bank deposits, as shown by the following year-end figures:

December 31, 1936	\$168,000,000
December 31, 1937	191,000,000
December 31, 1938	183,000,000
December 31, 1939	217,000,000
December 31, 1940	240,000,000

As a result of the inflow of gold from abroad, the reserves of member banks throughout the country increased rapidly during 1936. Excess reserves reached

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substantial proportions, around \$3 billion. In order to forestall the threat of inflation, the Board of Governors in July 1935 and January 1937 took steps to double the reserve requirements of member banks, up to the maximum permitted by the Banking Act of 1935.<sup>60</sup> First, the Board increased the requirements by 50 percent, effective August 16, 1936. One-half of the remaining increase became effective March 1, 1937, and the other half on May 1, 1937. After these increases, the reserve requirements on demand deposits were:

If in a Central Reserve City	26 percent
If in a Reserve City	20 percent
Country Banks	14 percent

The requirement on time deposits was six percent for all banks.

Even after these increases became effective, member banks of the country continued to carry excess reserves in substantial amounts. In the Eleventh District, for example, at the end of December 1937, when the required reserves of member banks were approximately \$145 million, member bank deposits at the Federal Reserve Bank of Dallas stood at \$191 million, representing excess reserves of \$46 million, or 32 percent above requirements.

In view of a decline in business in the latter part of 1937, and the early part of 1938, and “as a part of the Government’s program for the encouragement of business recovery,” the Board of Governors in April 1938<sup>61</sup> reduced by one-eighth the reserve requirements, which left the requirement on demand deposits:

If in a Central Reserve City	22¾ percent
If in a Reserve City	17½ percent
Country Banks	12 percent

The requirement on time deposits was set at five percent for all member banks.

By the end of 1938, deposits of the banks in the country were larger than at any previous time, and excess reserves continued to build up. The trend continued into 1939 and was greatly accelerated in September of the year when war broke out in Europe. The war crisis brought an increased flow of gold to this country, and by the end of 1939, gold

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<sup>60</sup> Unnumbered Circulars, Federal Reserve Bank of Dallas, dated July 17, 1936, and January 30, 1937, Volume 5

<sup>61</sup> Unnumbered Circulars, Federal Reserve Bank of Dallas, April 16, 1938, Volume 5.

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holdings in the United States reached the highest in history. This circumstance, together with the expansion of loans and investments of the commercial banks, carried bank deposits to a new high level. Excess reserves rose to more than \$5 billion by the end of the year. Similar conditions existed in 1940. As a result of the war situation in Europe and the National Defense Program in the United States, bank deposits continued to increase, and at the end of 1940, excess reserves amounted to around \$7 billion.

### Discount Rates

Very few changes were made in the discount rate of the Federal Reserve Bank of Dallas during this period. On August 31, 1937, the basic discount rate was reduced to 1½ percent from the two percent rate that had been established on May 8, 1935. On September 14, 1939, the bank established a “preferential” discount rate of one percent on bills payable secured by Government obligations.

### Organizational Changes

In March 1936, the Board of Governors redesignated Col. C. C. Walsh as Chairman of the Board of Directors and Federal Reserve Agent at the Federal Reserve Bank of Dallas for the period from March 1 to April 30, 1936 his salary to be continued through April 30. Subsequently, the Board redesignated Col. Walsh to serve in those capacities from May 1 to December 31, 1936 on an honorary basis without salary. Inasmuch as the term of Col. Walsh as Class C director did not expire until December 31, 1937, the Board later redesignated him as Chairman and Federal Reserve Agent for an additional twelve months, and he served the entire year 1937 without salary.

Those provisions of the Banking Act of 1935, which changed the titles of certain officers at the Reserve Banks and fixed five-year terms for the President and First Vice President became effective March 1, 1936. At a meeting of the Board of Directors of the Dallas bank on May 9, 1936, Chairman Walsh announced the approval by the Board of Governors of the appointment of B. A. McKinney as President, and R. R. Gilbert as First Vice President, for terms of five years beginning March 1, 1936.

About the middle of March, at the call of Chairman Eccles of the Board of Governors, a meeting of the Presidents of the Reserve Banks was held in Washington. This meeting was called for the purpose of discussing the transfer to the banks of the

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nonstatutory functions then performed by the Chairmen and the Reserve Agents, as well as the reorganization of the personnel and operating procedures of the Reserve Banks with a view to economy and more efficient operations. Upon his return to Dallas, President McKinney appointed a committee consisting of Cashier Coleman, General Auditor Clarke, and Assistant Cashier Austin to make a thorough study and analysis of expenses at the Head Office and Branches, and to report their findings to the Executive Committee.

The special committee of officers of the bank which had been appointed to make a survey with respect to matters of expense and economies in operation was assisted by Managing Director Crump of the San Antonio Branch, who was given a special assignment at the Head Office for a few weeks to work with the committee. Upon completion of the study, the committee prepared a report which was reviewed by a committee of the Board of Directors. That committee, in turn, brought in its report and recommendations at an executive session of the Board on June 17, 1936. The report and plan outline therein were approved. During the next few months, the officers of the bank carried out the recommendations, which included, among other things, a revised personnel classification plan, consolidation of certain departments, retirements of several employees, and terminations of others. President McKinney, in his report to the Board of Directors on September 9, stated that the changes had affected a savings in excess of \$40,000 per annum and that additional savings would be made as a result of further economies.

In connection with the changes in duties and responsibilities of the Chairman and Federal Reserve Agent, whereby he would serve on an honorary basis, there was a reorganization of the Federal Reserve Agent's department. As a part of the reorganization and following the survey of operations of the entire bank, W. J. Evans, who had been serving as Assistant Federal Reserve Agent, was elected Assistant Vice President of the bank on August 7. At the same time, he was appointed secretary of the Board of Directors, succeeding Charles C. Hall, whose position as Assistant Federal Reserve Agent was given non-official status. On October 5, Mr. Evans was elected Vice President, to continue as Secretary of the Board.

Form of Minutes

At a meeting of the Board of Directors on September 9, Secretary Evans suggested that consideration be given to the advisability of omitting from the minutes the full text of the monthly reports of the President and General Auditor and including them by reference only. He also suggested the omission from the minutes of the names of individuals offering and seconding motions. He pointed out that the proposed changes would condense and simplify the minutes. After discussion, it was voted to defer action until a later date. The records show that, although the suggestion with reference to motions and seconds was adopted shortly thereafter, the full reports of the President and Auditor were incorporated in the minutes through January 1938 and it was not until February of that year that these reports were omitted from the minutes. Thereafter, these reports were bound in separate volumes.

Resolutions on Retirement of Colonel Walsh

The Board of Directors at its meeting on April 7, 1936, had appointed a committee to prepare suitable resolutions with respect to the forthcoming retirement of Col. Walsh. These resolutions were submitted to the directors on September 9, 1936, and unanimously adopted. Certain extracts are quoted below:

WHEREAS, on April 29, 1936, Honorable M. S. Eccles Chairman of the Board of Governors of the Federal Reserve System, in a telephone conversation from Washington, D. C., advised Colonel Walsh that the members of the Board of Governors desired that his term of service as Chairman and Federal Reserve Agent of the Federal Reserve Bank of Dallas should not expire on April 30, but that it be extended to December 31, 1936, on an honorary basis, and that he continue in office as such during the period stated; and,

WHEREAS, Colonel Walsh graciously consented to accept this further appointment from May 1 to December 31, 1936, inclusive, with the finesse and urbanity that comport most gracefully with his natural dignity and courtliness of mind and manner; and,

WHEREAS, It is the sincere desire of every member of the Board of Directors of the Federal Reserve Bank of Dallas that Colonel Walsh be made to feel and comprehend the high esteem and love which we entertain for him,

NOW, THEREFORE, BE IT RESOLVED, that during the incumbency of Colonel Walsh in the responsible position which he has occupied so ably, both as Chairman and Federal Reserve Agent of the Federal Reserve Bank of Dallas from July 1, 1925, to the present time, September 9, 1936, covering a period of more than eleven years, he has brought to his bank an alert, diplomatic, and facultative mind of splendid exactness. His has been a mentality that has functioned directly, objectively, and precisely.

In all of our deliberations as a Board, he has been at all times as dignified, as sincere, as frank and as polite as he has been gracefully firm. In every instance where he has exercised authority, he has consistently and uniformly shown a degree of patience and delicacy of thought and action that has at all times commanded our complete admiration and respect. There is nothing of the charlatan or the sophist in his nature. Where stratagem has been necessary to preserve order or to conciliate differences, he has resorted to it with an impartiality and thoughtfulness so inherently characteristic of a mind that thinks in terms of service and with a heart that is wholly responsive to the ideals of humanitarianism.

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We are truly mindful that responsibilities so diversified and numerous could have easily confused any experienced executive, but there has been no time in the course of our deliberations when the Colonel appeared in the least confused or uncertain as to the proper course of procedure; neither had he the least difficulty in defending his position. At all times he definitely and accurately measured each responsibility with correctness, and he has met the most trying exigencies arising from any unusual situation with the calm politeness of a Chesterfield and the mental temperament and reaction of a Disraeli. No emergency has perturbed his poise, nor has any conflict with men or measure vexed his mind.

We are comforted in the knowledge that his financial affairs are in such excellent condition that they give him little or no concern, and that he may now find time for a justly earned repose for travel within the borders of his own beloved country, or to foreign lands should the lure attract him to them, or for a leisure hour in an easy chair on his sun-kissed veranda or an additional hour in the early morning in his beautiful flower garden, where the modest corn flower, the graceful lily, and the stately rose bear unmistakable witness to an intellect that is in happy communion with the beauties of nature, and a soul that cherishes an undying love for the good, the true, and the beautiful.

We now express to Colonel Walsh our appreciation of his loyal friendship, in his broad culture, his sterling character, and his fine humanism. We felicitate him on the high esteem in which he is held by his associated, his

fellow citizens and those who have known him in all walks of an eventful life. We congratulate him on the possession of a business integrity, a practical Christianity, and a happiness that can only come from the love and respect of his fellow man.

BE IT FURTHER RESOLVED, that as a testimonial of the love and esteem which we bear our retiring Chairman, Colonel Walsh, it is requested that a copy of this resolution be spread upon the minute book of the Federal Reserve Bank of Dallas, that it may be preserved permanently in the archives of the bank, and that an additional copy be written or engraved on parchment or paper with seal or scroll attached and delivered to Colonel Walsh in remembrance of our pleasant associations during the past eleven years, and that the same be evidenced by the signatures of each member of this Board.

In accordance with the provisions of the “Bonus Act,” passed by Congress in the early part of 1936, the Federal Reserve Banks were appointed fiscal agents of the Treasury in making payment in bonds and cash of adjusted service certificates issued to the veterans of World War I. The bonds were issued in \$50 denomination, and Treasury checks were issued for fractional amounts. At the Federal Reserve Bank of Dallas approximately 1,250,000 bonds were inscribed for issuance to the veterans (an average of ten bonds for each veteran). Shipments were made by registered mail, with delivery to the addressee only. The bonds were non-negotiable but could be redeemed at any time after the issue date. Approximately 94,000 registered letters were sent out. The bonds amounted to approximately \$45 million and checks for the odd amounts aggregated to approximately \$2 million. The Dallas bank used 31 employees in handling inscriptions and mailing the bonds, and most of the work was completed by June 15, 1936. At first, post offices were the paying agencies, but in the early part of 1937, the Reserve Banks were designated as places for redemption of these bonds. By that time, however, most of them had been cashed.

#### Open Market Operations

In June 1936, the Federal Reserve Bank of Dallas disposed of its independent holdings of Government securities amounting to \$10 million which had been carried for a number of years. These holdings were taken over by the System open market account, and the Dallas bank was allowed the market price on the bonds. This transaction resulted

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in a profit of approximately \$600,000.<sup>62</sup> At the end of the year the bank used these nonrecurring profits in reducing the carrying figures on land, buildings, and equipment at the various offices, and in setting up reserves for contingencies. Immediately following this transaction, the Dallas bank was allotted an additional participation of approximately \$8,500,000 in the System account; accordingly, the net reduction in holdings of Government securities was \$1,500,000.

In the latter part of 1936, there was brought about a reallocation of the participations of the various Reserve Banks in the System's holdings of Government securities. The Federal Reserve Bank of Dallas was allotted an additional participation of approximately \$7 million which brought its total holdings of Governments, for the first time in his history, to an amount in excess of \$100 million.

### Miscellaneous

In the early part of 1937, the bank completed the installation of a new air conditioning system and made other repairs and alterations to the Head Office building. The total cost amounted to approximately \$150,000.

In April, the bank inaugurated a comprehensive program of regular and systematic visits to member and nonmember banks by officers of the Head Office and Branches. Prior to that time, the officers had made occasional visitations so that every member bank in the district would be visited by one or more of the officers at least every two or three years. Under the plan, the visitations would be made by automobile. It was believed that the enlarged program of bank relations activities would result in more friendly relations with the member banks and would enable the bank to serve them "more intelligently and more effectively."

Early in June 1937, at a Joint Conference of Presidents of the Federal Reserve Banks and the Board of Governors of the Federal Reserve System, it was informally agreed that, in view of the increased cost of living, the Reserve Banks should give consideration to granting salary increases to the lower-salaried employees of the respective banks. At the Dallas bank, the Salary Committee made a review of the salaries of the employees, particularly those in the lower brackets, and submitted

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<sup>62</sup> Minutes, Meeting of Board of Directors, July 13, 1936.



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recommendations for adjustments in the salaries of 243 employees at the Head Office and Branches. These recommendations were approved, and the increases became effective July 1. The employees affected represented 58 percent of the total staff of 418 permanent employees. The aggregate amount of the increases was approximately \$25,000. About half of this amount was made up of a flat increase of \$120 per annum for those employees whose salaries ranged between \$960 and \$1,380 per annum. No increases were made for employees receiving salaries of \$2,100, or over, per annum.

In the fall of 1937, the Commodity Credit Corporation announced that it would make cotton loans to producers on the basis of nine cents per pound for the better grades and staples, with smaller loans on low-grade cotton. It was expected that most producers would place their cotton under the loan.

Governor McKinney's report to the Board of Directors at its meeting on October 5, 1937, included some statistics on unemployment as compiled by the National Industrial Conference Board. According to the Conference Board's estimates, the total number of unemployed persons in May 1937, was 6,250,000 as compare with 15,000,000 in March 1933.

From time to time over a period of years, the Federal Reserve Bank of Dallas had made available the sum of \$3,500 for emergency loans to employees. The fund was accumulated from protest fees and was maintained as a deposit at a local commercial bank. It developed, however, that the fund was not sufficient for that purpose. At the December meeting, the directors voted to transfer the "notary" fund to the profit and loss account and that the Discount Committee be authorized to make loans to employees out of the bank's funds. At first, the aggregate amount of such loans outstanding at any one time could not exceed \$6,000, but in later years, this was increased to \$7,500, and finally up to \$15,000, the present maximum [as of 1961].

The term of Col. C. C. Walsh as Class C Director expired on December 31, 1937, and director J. H. Merritt, whose term as Class C Director would expire on December 31, 1938, was appointed as Chairman of the Board and Federal Reserve Agent for the year 1938.

At meetings of the Board of Directors held on January 5 and February 10, 1938, consideration was given to the desirability of purchasing certain business property

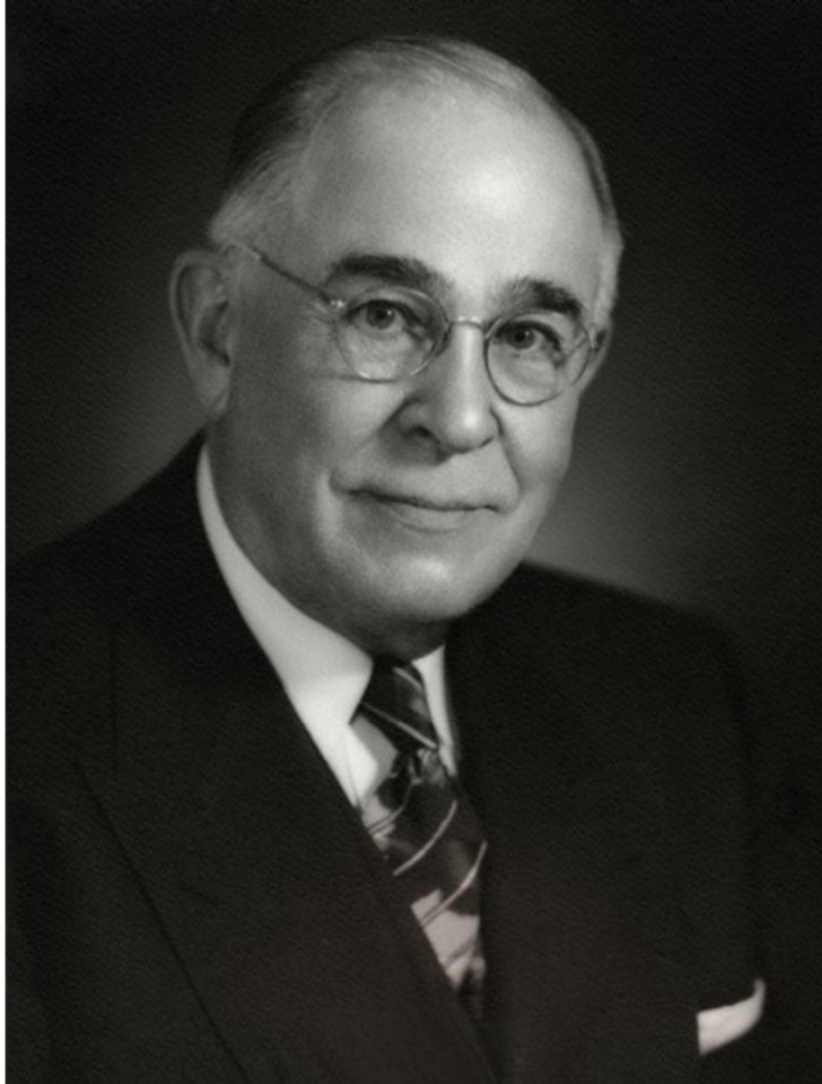


Figure 19 – R. R. Gilbert

President from April 1939 until his retirement in August 1953. Mr. Gilbert, who was one of the original employees of the Federal Reserve Bank of Dallas, served as the Chief Executive Officer of the Bank longer than any other person.

adjoining the premises of the Houston Branch. It was the judgment of the directors that the property should be acquired in order to afford the Houston Branch adequate protection against possible development of “undesirable environment” and also for the purpose of making provision for future expansion. At the February meeting, purchase of the property at a price not to exceed \$30,000 was authorized, subject to the approval of the Board of Governors of the Federal Reserve System. At the directors’ meeting on June 9, the completion of the negotiations for the purchase of the property was announced, and it was agreed to lease the building to a business concern which was then occupying the property.

At a meeting of the directors on December 8, the Board authorized the making of certain alterations and repairs to the Houston Branch building. That project included the installation of air conditioning equipment. Authorization to carry the program to conclusion was delegated to the Executive Committee with the understanding that the necessary expenditures would be subject to the approval of the Board of Governors of the Federal Reserve System.

At a meeting of the Board of Directors on October 13, the Board approved the transfer of Calhoun and Refugio Counties, Texas, from the San Antonio Branch territory to the Houston Branch territory, effective November 1, 1938.

In December, the Board of Governors announced the reappointment of J. H. Merritt as Class C Director for a three-year term beginning January 1, 1939 and designated him a Chairman and Federal Reserve Agent for the year 1939.

#### B. A. McKinney Dies; R. R. Gilbert Elected President

In the early part of 1939, the bank sustained a double loss in the deaths of President B. A. McKinney and General Auditor W. P. Clarke. Mr. Clarke passed away on March 31 after an extended illness, and Mr. McKinney's death occurred on April 2 after a brief illness. At a called meeting of the Board of Directors on April 4, after a discussion of the situation in connection with the two vacancies of the official staff, it was decided to defer action with respect, thereto, until the next regular meeting of the Board. The files of The Dallas Morning News show that several prominent men in the district were mentioned as possibilities for President of the Reserve Bank, including Director Ed. H. Winton of Fort Worth, Director J. E. Merritt of McKinney, Ben H. Wooten, of the Federal Home Loan Bank, of Little Rock, Arkansas, and R. R. Gilbert, First Vice President of the Reserve Bank. On April 13, Mr. Gilbert was elected President of the bank to fill the vacancy caused by Mr. McKinney's death and to serve during the unexpired portion of the term of office ending February 28, 1941; that action was approved by the Board of Governors. At the meeting, it was decided to defer action with respect to the other vacancies in the official staff pending further study of the situation. At the same meeting, resolutions concerning the deaths of Messrs. McKinney and Clark were adopted. The resolutions with respect to former Present B. A. McKinney are quoted below:

## Chapter XI – Recovery and Stability, 1935 – 1940

We, the directors of the Federal Reserve Bank of Dallas, having been profoundly shocked and saddened by the sudden passing from this life of our friend, “Buck” McKinney, the beloved President of this organization, whose death occurred on April 2, 1939, desire to register in the permanent records of the bank, a memorial of our deep and abiding appreciation of his life, character, and public services.

Ours has been the rare privilege of having been associates and co-laborers with a man who, through his genius of long-range vision, a comprehensive understanding of sound banking principles in relation to the economic problems of our time, and a gift for effective leadership, made possible by a peculiarly magnetic personality, has definitely advanced the welfare and progress of his generation by his constructive and historic contributions to the guidance and development of the Federal Reserve System.

From the time he helped launch the System into actual operation by signing the articles incorporating this bank until the day an inscrutable Providence removed him from our midst, his time, his energies, his fine mental faculties were unselfishly devoted to the up-building and defense of the world’s greatest banking system. His zeal for service to this cause was insatiable, as evidenced by his serving successively as an organizer of our bank, a charter member of its Board of Directors, the Chief Executive of the bank in two distinguished tenures of office, a member of the Federal Advisory Council, and recently a member of the System’s Open Market Committee.

We hereby record our belief that the key to his successful life lies in the simple fact that all of his personal traits including, not only his genial temperament and unique talents, but also even his few small human faults, were of such a character as to endear him to, and inspire the confidence of, all with whom he came in contact.

Not the least of the many endearing and intrinsically valuable traits for which he will be long remembered was his unflinching sense of humor. It frequently served as a sparkling and refreshing foil to the prosaic and sometimes somber overtones of our board’s deliberations. On such occasions, his gentle thrusts of wit and banter – as tonic and stingless as shafts of morning sunlight – served to imbue our deliberations with a cohesive spirit of good comradeship and a new sense of balance and perspective.

Democratic in the extreme was his attitude toward his fellowmen; yet he was unmistakably a member of that small, select aristocracy that nature manages to raise up in every generation – clean, upright, high-minded, souls who keep their thoughts, hopes, and aspirations constantly reaching toward the higher things of life.

Be it recorded here, as it is in the open book of our departed President's life, that largely by dint of his own efforts toward self-improvement he succeeded in attaining the goal of his earliest and strongest ambition, which was to become a highly-educated, cultured, Christian gentleman. He exemplified in the highest sense, the philosophy of the sage who wrote:

“The heights by great men won and kept,  
Were not attained by sudden flight,  
But they, while their companions slept,  
Were toiling upward toward the night.”

To the same lofty planes of life he did all in his power to take with him his loved ones, his bank associates, his employees, and the people of his city, state, and nation.

NOW, THEREFORE, BE IT RESOLVED,

That in the passing of

BUCKNER ABERNATHY McKINNEY

the Federal Reserve Board has suffered an irreparable loss, the State of Texas has given up one of its most loyal and distinguished sons, and the Federal Reserve System has lost one of its outstanding builders and staunchest champions.

BE IT FURTHER RESOLVED,

That this resolution be inscribed in the minute book of this bank, and that copies thereof be transmitted, as testimonials of our heartfelt sympathy, to the surviving members of our deceased President's family and to the Board of Governors of the Federal Reserve System.

#### Other Staff Changes

At a meeting of the Board of Directors on May 11, W. H. Holloway was elected General Auditor of the bank succeeding Mr. Clarke. On June 8, E. B. Stroud was elected First Vice President of the bank for the period from June 15, 1939, to February 28, 1941, succeeding Mr. Gilbert, and that action was approved by the Board of Governors of the Federal Reserve System. He was also elected General Counsel of the bank for the period June 16 to December 31, 1939. In view of the election of Mr. Stroud as General Counsel, it was voted to terminate as, at the close of business June 15, 1939, the contract under

which the firm of Locke, Locke, Stroud, and Randolph had been serving as the bank's counsel.

R. B. Coleman had been serving as Vice President and Cashier of the bank. At the meeting at which Mr. Stroud was elected First Vice President, Mr. Coleman was continued as Vice President, and W. O. Ford, formerly Assistant Vice President, was elected Cashier of the bank.

#### Policy on Advances Against Government Securities

At a meeting of the directors on April 13, consideration was given to a letter addressed to the bank by the Board of Governors under the date of April 7, 1939, requesting an expression of the views of the bank's directors in regard to the matter of dealing with any financial emergency that might arise in the event of an early outbreak of hostilities in Europe. It was the view of the directors of the bank that in the event of a war emergency a reassuring statement should be issued to the public in regard to the bank's readiness to lend financial support to holders of Government securities. It was felt that such statements should include an announcement that the bank would continue to make loans to member banks secured by Government obligations up to the par value of such securities. In the discussion, the members of the Board expressed the view that no change should be made at that time in the bank's rediscount rate to member banks (which was 1½ percent), and that no change should be made in the 2½ percent rate on loans to nonmember banks and others secured by Government obligations. They expressed the further thought that nonmember banks and others should continue to obtain their credit accommodations through regular banking channels, if possible, rather than resort to the Federal Reserve Bank credit.

On April 26, at a called meeting of the Board of Directors, further consideration was given to the matter of emergency advances against Government securities in the event of an outbreak of hostilities abroad. President Gilbert reported that at a recent conference of Reserve Bank Presidents with the Board of Governors, it was the consensus that in the event of such a contingency, the Board of Governors should be in a position to promptly announce the willingness of all Federal Reserve Banks to make loans to nonmember banks against Government securities at the same rate of discount applicable to similar loans to member banks. After full discussion, a resolution was

adopted which provided, in part, that if at any time in the future, the Board of Governors should for any reason deem it advisable and give its approval, the Federal Reserve Bank of Dallas would make advances to nonmember banks against Government obligations at par, at the same rate of discount applicable to similar loans to member banks.

On September 14, President Gilbert read to the Board an announcement made by the Board of Governors relating to emergency advances by Federal Reserve Banks to nonmember banks against Government obligations, where upon the Board established a discount rate of one percent on advances made to nonmember banks as well as to the member banks against Government securities. Only one loan has ever been made to a nonmember bank by the Federal Reserve Bank of Dallas under this authority. It was for \$25,000 and was outstanding for three weeks.<sup>63</sup> The basic discount rate to member banks against paper remained at 1½ percent and the rate of advances to individuals, firms, and corporations (other than banks) remained at 2½ percent.

#### Enlargement of Head Office Building

The report of examination of the Dallas bank by the examiners of the Board of Governors, as of February 7, 1939, referred to the overcrowded conditions at the Head Office building. (The overcrowding was due primarily to the large number of “temporary” employees required for handling R.F.C. and C.C.C. work.) The report pointed out that the increased volume of work made it necessary to use all possible space, including corridors and hallways. Shortly thereafter, the bank employed an architect to analyze the situation and to submit recommendations as to the enlargement of the building. On June 8, the Board of Directors appointed a building committee, consisting of three directors, to assist the officers of the bank in their study of the problem. On July 13, President Gilbert submitted various preliminary plans prepared by architects involving structural alterations and additions designed to provide the desired additional space. The plan, which was regarded as the best solution to the problem was one which called for filling in the existing light court and adding a sixth floor to the building. After further study and investigation, it was also deemed advisable to include a new archives vault, to be constructed

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<sup>63</sup> President Gilbert’s report to Directors, March 1946. Loan Department records show that this loan was made to a nonmember bank in Louisiana on August 9, 1943, and was paid off September 3, 1943.

## Chapter XI – Recovery and Stability, 1935 – 1940

underground at the rear of the building. In due time, the plans were submitted to the Board of Governors for approval and, on September 7, 1939, the Board notified the bank of its approval of the plans, as submitted, and also approved the addition of a seventh floor, with provisions that the seventh floor would not be finished at that time. It was later developed, however, that by the time the rest of the building was completed, there was a pressing need for the seventh floor and, on February 8, 1940, the Board of Directors authorized the expenditure of a sum amounting to more than \$600,000 for the entire project, including the completion of the seventh floor and including the installation of a new air conditioning system throughout the building. The action was approved by the Board of Governors. The building project was completed in the latter part of 1940, at a total cost slightly in excess of \$600,000.

At a meeting of the Board of Directors held on December 12, 1940, the Board approved plans for a banquet and special reception to be held in the latter part of January 1941, celebrating the completion of the enlargement of the bank's Head Office building.

### Change in Branch Territory

At the request of the Marfa National Bank, Marfa, Texas, Presidio County was transferred from the San Antonio Branch territory to the territory of the El Paso Branch, effective June 1, 1940.

### National Defense Program

As a part of the National Defense Program, which received much impetus during the year 1940, Congress passed the "Assignment of Claims Act" on October 9. This removed the previously existing statutory prohibition against the assignment of claims arising from a Government contract. The purpose of that legislation was to assist business concerns which might need financing in connection with contracts awarded by the Government covering the acquisition of emergency plant facilities or for the production of supplies. The National Defense Advisory Commission encouraged the business concerns, large and small, in various parts of the country to bid on these contracts or subcontracts. At each of the 12 Federal Reserve Banks and 24 Branches, an officer was designated to serve as field representative, to consult with businessmen and bankers with respect to the procedure to be followed in obtaining Government contracts, and to advise



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with them as to the means of obtaining needed credit if it was not available from the usual sources. In the Eleventh District, the following officers were designated for that purpose:

E. B. Stroud, First Vice President  
Federal Reserve Bank of Dallas  
Dallas, Texas

E. B. Austin, Acting Manager<sup>64</sup>  
Federal Reserve Bank Branch  
San Antonio, Texas

W. D. Gentry, Managing Director  
Federal Reserve Bank Branch  
Houston, Texas

J. L. Hermann, Managing Director  
Federal Reserve Bank Branch  
El Paso, Texas

The Federal Reserve Bank of Dallas sent out circulars from time to time, asking banks in the Eleventh District to call to the attention of their customers the needs and requirements of the War and Navy Departments and the desire of the procurement officers to spread orders for defense needs among the smaller business concerns of the country. The bank also circularized the district as to needs of the Services for specific supplies. For example, in the construction of numerous Army camps in the Eleventh District, large quantities of windows, window frames, door frames, and other mill work were needed. The Reserve Bank, at the request of the Defense Commission, sent out a circular to all banking institutions in the district, asking for lists of potential supply sources of these items. Upon receipt of that information, the names of the potential suppliers were forwarded to Washington by wire.

### Uniform Policy Regarding Employees Entering Military Service

In the latter part of 1940, the Conference of Presidents of the Federal Reserve Banks adopted a policy providing for uniform treatment of employees at the Federal Reserve Banks who might be called into the military service of the United States. This plan, among other things, provided for re-employment upon return from military service,

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<sup>64</sup> Managing Director Crump absent for extended period on account of illness.

## Chapter XI – Recovery and Stability, 1935 – 1940

restoration to membership in the Retirement System upon return from military service, with full credit for the period of such service; and reimbursement of the cost of premiums for National Service Life Insurance. The Board of Directors of the Dallas bank, on November 14, adopted the overall policy and, in addition, authorized the payment up to one month's unearned salary to its employees entering military service.

The statistics with respect to personnel and membership for the period 1936 to 1940 are shown in the following schedule:

	<u>Total Staff</u> <sup>65</sup>	<u>Member Banks</u>
December 31, 1936	444	550
December 31, 1937	633	551
December 31, 1938	609	544
December 31, 1939	693	544
December 31, 1940	647	568

(Staff figures for the last four years include large number of temporary employees – mostly in the CCC Department.)

### SOURCES

1. Annual Report, Federal Reserve Bank of Dallas, 1935 – 1940.
2. Federal Reserve Bulletin, Board of Governors of the Federal Reserve System, 1936 – 1940.
3. "Minute Book," Federal Reserve Bank of Dallas, 1935 – 1940.
4. Digest of Rulings of Board of Governors to October 1, 1937 (Textual changes in Federal Reserve Act made by Banking Act of 1935).
5. Annual Report, Board of Governors of the Federal Reserve System, 1935.
6. "Organization and Expense Survey," 1936. (Report of Special Committee) Filed in Special Historical Files.
7. Unnumbered Circulars, Federal Reserve Bank of Dallas, 1936 – 1939, Volume 5, and 1940, Volume 6.

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<sup>65</sup> Head Office and Branches.

## CHAPTER XII

### THE WAR YEARS, 1941 – 1945

The National Defense Program became greatly intensified during 1941. This brought about economic and financial problems that were of much concern to the Federal Reserve System in its efforts to forestall the development of inflationary tendencies. The volume of physical production in the United States was greater than ever before, and the vast expenditures of the military program created additional problems in the monetary field. In order to bring these problems to the attention of the Congress of the United States, a special report to the Congress was made by the Board of Governors of the Federal Reserve System, the Presidents of the Federal Reserve Banks, and the Federal Advisory Council. This joint report was submitted to the President of the Senate and the Speaker of the House of Representatives on December 31, 1940. In the introduction to the report, it was stated that “This step is taken in order to draw attention to the matter of preparedness in our monetary organization at a time when the country is engaged in a great defense program that requires the coordinated effort of the entire nation.”<sup>66</sup>

The report referred to the huge amount of excess reserves (around \$7 billion), the large volume of demand deposits and currency, the creation of additional deposits by the purchase of Government securities by banks, and the expansive effects of the defense program. It pointed out that the Federal Reserve System had found itself in the position of being unable effectively to discharge its responsibilities, and that its authority was inadequate to cope with existing and potential excess reserve problems. Among other things, the report recommended that the Federal Reserve System be given broader authority to increase reserve requirements; that the defense program should be financed by drawing upon existing deposits rather than by creating additional deposits through bank purchases of Government securities; that the Treasury is authorized to issue any type of securities which would be especially suitable for investors other than commercial banks, and that the larger portion of defense expenditures be met by tax revenues rather than by borrowing.

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<sup>66</sup> Federal Reserve Bulletin. January 1941, page 1-2; and Circular dated January 3, 1941, issued by Federal Reserve Bank of Dallas.

## Chapter XII – The War Years, 1941 – 1945

In February 1941, the Public Debt Act of 1941 was passed by Congress and signed by the President.<sup>67</sup> Among other things, the new Act raised the debt limit of the Federal Government from \$49 billion to \$65 billion.<sup>68</sup> The Act also authorized the Treasury to issue savings bonds and savings certificates, thus opening the way for financing part of the defense program by the sale of securities to individuals and other non-bank investors.

### The Defense Program

In the spring of 1941, steps were taken by the National Defense Advisory Commission to enlarge the organization and personnel at the field offices located in the Federal Reserve Banks and Branches in order to speed up the production of defense equipment and supplies, especially through subcontracting. The program included the establishment of a new organization known as the Defense Contract Service, to be staffed by outstanding industrialists and businessmen.<sup>69</sup> Charles R. Moore, a member of the Industrial Advisory Committee of the Federal Reserve Bank of Dallas, and President of the Austin Bridge Company of Dallas was appointed District Coordinator for the Dallas area. A. J. Langford, formerly manager of the Ford Motor Company plant at Dallas, was appointed District Manager. These men, with clerical staff and engineers, maintained offices at the Federal Reserve Bank of Dallas. First Vice President E. B. Stroud and the managing directors of the respective Branches were designated Federal Reserve Contract Officers for the Eleventh District. The Federal Reserve officers were available for consultation about financial problems and contract provisions.

In 1941, the Eleventh Federal Reserve District continued to feel the effect of the defense program, but to a much greater extent than in the preceding year. Additional army camps were established and new industrial plants were constructed. For example, in April, there occurred the formal opening of the North American Aviation airplane factory, located at Grand Prairie, Texas, and that company soon began delivering trainer airplanes to the Government. At the outset, many workers were employed at the plant, and the Federal Government began the construction of a housing project at Grand Prairie.

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<sup>67</sup> Federal Reserve Bulletin, July 1941, p. 609.

<sup>68</sup> Compare this with the debt limit of \$300 billion established during World War II and \$298 billion at this writing – August 1961.

<sup>69</sup> Circular, "Defense Contract Service," dated March 12, 1941, issued by Federal Reserve Bank of Dallas.

## Chapter XII – The War Years, 1941 – 1945

This activity was the forerunner to the employment of many thousands of workers at the plant during the war years.

In President Gilbert's report to the Board of Directors at its meeting on June 19, 1941, he stated that the effect of defense production upon economic activity in the Eleventh District was assuming increasing importance, and listed defense contracts amounting to approximately \$500,000,000 awarded in the district prior to May 31, 1941, in the following categories:

Construction and equipment of airfields	\$ 49,000,000
Construction and equipment of army camps	40,000,000
Construction and equipment of plant facilities	55,000,000
Construction of housing facilities	6,000,000
Construction of shipways, vessels, etc.	157,000,000
Production of airplanes	163,000,000
Production of textile products	9,000,000
Production of petroleum and petroleum products	10,000,000
Miscellaneous	<u>18,000,000</u>
Total	<u>\$507,000,000</u>

As demand for raw materials for defense purposes became intensified throughout the Nation, Congress enacted legislation providing for the application of priorities to a large number of commodities. This was a forerunner to the drastic steps that were taken after the United States actually entered World War II.

### Regulation W

In August 1941, the President of the United States issued an Executive Order providing for the control of installment credit. The control was based on specifying maximum maturities of installment paper and specifying minimum down payments for articles sold through installment credit. The Executive Order pointed out that the control of installment credit was necessary because liberal terms for such credit tended to stimulate the demand for goods produced with materials, skills, and equipment needed for defense, and for the purpose of restraining inflationary tendencies. Under the Order, the Board of Governors of the Federal Reserve System was given the responsibility of administering the control measures. Accordingly, "Regulation W" was issued by the Board of Governors on August 21, 1941, to become effective September 1, 1941.<sup>70</sup> The

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<sup>70</sup> Circular dated August 26, 1941, issued by Federal Reserve Bank of Dallas.

## Chapter XII – The War Years, 1941 – 1945

regulation initially prescribed installment credit terms applicable to 24 different items of consumer durable goods, designated as “listed articles.” The maximum maturities of all types of installment credit was set at eighteen months and maximum amounts of credit varied according to the different “types” of articles. For example, installment credit on automobiles could not exceed  $66 \frac{2}{3}$  percent of the value of the car; whereas, credit on furniture could be extended to 90 percent of the value of the article. Details of administration were handled through the Federal Reserve Banks and Branches. At the Dallas bank, the administration of the regulation was handled in the Loan and Securities Department; the early part of the program was carried out under the general supervision of First Vice President Stroud and the direct supervision of Assistant Cashier Austin. At the outset, it was necessary to increase the staff in order to issue licenses, prepare circulars, handle correspondence, etc.

From time to time, the Board of Governors issued amendments to Regulation W. Some of these were merely technical, but others changed the requirements as to down payments and maximum maturities. Early in 1942, as a part of the “all out” war effort (war had been declared on December 7, 1941), President Roosevelt outlined to Congress a seven-point program for the purpose of preventing an undue rise in living costs. One of these points related to credit and stated, “To keep the cost of living from spiraling upwards, we must discourage credit and installment buying.” On May 6, 1942, the Board adopted Amendment Number 4 to Regulation W, which was much more restrictive than the original regulation. It increased the required down payments, shortened maximum maturities, and also covered charge account sales of “listed articles.” Between May 1942, and December 1, 1946, a total of 17 additional amendments to the regulation were adopted, but essentially the provisions of the regulation as revised in May 1942, remained in effect during the remainder of the war period, and beyond. The regulation was not discontinued at the close of the war but was continued on a peacetime basis as a “factor in the maintenance of economic stability.” However, it was modified on December 1, 1946, and its terms were much less restrictive. Regulation W was terminated on November 1, 1947.<sup>71</sup>

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<sup>71</sup> Circular dated October 27, 1947, issued by Federal Reserve Bank of Dallas.

### Open House

In January 1941, the Federal Reserve Bank of Dallas celebrated the completion of the enlargement of the Head Office building. On Friday evening, January 24, a dinner was held at a local hotel for the bankers of the district, at which several members of the staff of the Board of Governors of the Federal Reserve System were present. On Saturday evening, January 25, there was held an “Open House” in the bank building for the citizens of Dallas. Vice President W. J. Evans was Chairman of the General Arrangements Committee charged with the responsibility of planning and carrying out the various events incident to the celebration.

### Internal Matters

The completion of the enlargement and remodeling of the Head Office building came at an opportune time, for it was during the year 1941 that the number of officers and employees at the Federal Reserve Bank of Dallas reached a new peak, up to that time. On January 1, 1941, the total number of officers and employees at the Head Office and Branches was 643. By May 31, the number of people in the bank’s service had reached 1,250, or almost twice the number at the beginning of the year. The increase in personnel was caused principally by the exceptionally heavy volume of work handled by the CCC Division at the Head Office in connection with cotton loans. Most of the new employees were employed on a temporary basis. The fluctuation of employment in that division is shown by the following example: On January 1, there were 138 employees in the Commodity Credit Division. In February, 185 temporary people were added to the CCC staff. In March, 196 additional people were employed for the CCC Division. There was a further increase of 152 employees during April. By May, there were 644 employees in the CCC Division, including a “night force” of around 300 people. After the middle of the year, there was a decrease in volume of work in the CCC Division. Approximately 350 people were released in July and August, and the night force was discontinued. Further releases of personnel were made later in the year, and on December 31, 1941, the combined staff at the Head Office and Branches had been reduced to 764.

The large amount of marketable Government securities issued during the year and the intensified campaign for the sale of savings bonds to individuals resulted in a substantial increase in the activities of the Fiscal Agency Department at the Federal

Reserve Bank of Dallas. The number of employees in the department increased from 18 at the beginning of the year to 71 by December 31, 1941.

The activities in connection with the Treasury's "freezing" of foreign trade funds in the United States resulted in the organization of a new department at the Federal Reserve Bank of Dallas. This department called the Foreign Funds Control Department, was organized in August 1941, with a staff of 11 employees.<sup>72</sup>

In view of the increase in cost of living, the Board of Directors of the Federal Reserve Bank of Dallas at its meeting on November 15, 1941, authorized the payment on a quarterly basis, beginning with the period from October 1 to December 31, 1941, of supplemental compensation equal to six percent on the first \$1,800 of annual salary to each member of the staff receiving less than \$6,000 per annum. It was agreed to review the matter again within the next 90 days, with the understanding that the payment of such allowances could be modified or discontinued by the Board at any time.

#### Miscellaneous

In November 1941, the Board of Governors of the Federal Reserve Bank of Dallas again raised reserve requirements to the statutory maximum. (The requirements had previously been raised to that figure in the spring of 1937 but had been reduced by one-eighth in the spring of 1938.) After these increases, the reserve requirement on demand deposits for banks in central reserve cities was 26 percent; for those in reserve cities, 20 percent; and for those in country banks, 14 percent. The requirement on time deposits was six percent for all banks. Even after these increases were made, the excess reserves of member banks in the United States still remained at around \$4 billion.

On November 5, 1941, the outstanding Federal Reserve Notes of the Dallas bank reached a new peak of approximately \$136 million, approximately \$38 million higher than a year earlier.

During 1941, seven State banks in the Eleventh District were admitted to membership in the Federal Reserve System, bringing the total state bank membership up to 93, as compared with a lower point of 49 in August, 1933.<sup>73</sup> The total membership

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<sup>72</sup> President Gilbert's report to directors, September 11, 1941.

<sup>73</sup> The all-time high point of state bank membership – 208 – had been reached in August 1921.



## Chapter XII – The War Years, 1941 – 1945

on December 31, 1941, including 481 National banks and 93 State banks, was 574, the largest since May 1933.

Loan operations during 1941 were nominal. At the peak, only 20 member banks were indebted to the Federal Reserve Bank, and maximum member bank borrowings amounted to only \$1,007,000. At the end of the year, two member banks were indebted to the Reserve Bank in the amount of \$109,000. There was very little industrial loan activity; on December 31, 1941, only four concerns were indebted to the Federal Reserve Bank of Dallas in the aggregate amount of \$244,000.

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On December 7, 1941, following the sudden attack upon Pearl Harbor by Japan, the United States entered into World War II. All defense plants immediately went on a seven-day week basis and there followed rationing, allocation of materials, etc., that were to affect the people of the United States during the War years. The most drastic steps included the banning of sales of tires and tubes and new passenger automobiles, followed by rationing, price controls, and wage controls.

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Early in 1942, the Board of Governors announced the designation of Jay Taylor, of Amarillo, Texas, as Chairman of the Board of Directors of the Dallas bank and as Federal Reserve Agent for the year 1942. In those capacities, Mr. Taylor succeeded J. H. Merritt whose term as Class C Director had expired at the end of 1941.

In January, rumors were circulated throughout the Nation that the Government planned to confiscate or freeze bank accounts and other funds of the public. The Treasury issued statements to the effect that such rumors were unfounded and that anyone circulating them would be acting against the welfare of the Nation. On January 22, the Federal Reserve Bank of Dallas issued a circular to all banks in the district quoting the Treasury's statement regarding these rumors. The widespread publication of these statements was intended to counteract the "scare buying" of goods, the withdrawal of deposits, and the hoarding of currency.

Soon after the first of the year, there was a marked advance in the price of cotton, and producers sold, at very satisfactory prices, their "equities" in cotton, which had been placed in the Government loan. In some cases, these equities brought as much as \$18

## Chapter XII – The War Years, 1941 – 1945

per bale. Accordingly, the Federal Reserve Bank of Dallas received many release requests, and it was necessary to again increase staff in the CCC Division to handle these transactions.

In view of war conditions, the Federal Reserve Banks were requested to obtain fingerprints of their officers and employees and forward them to the Federal Bureau of Investigation in Washington to be filed in its Civil Identification section. The Federal Reserve Bank of Dallas and its Branches cooperated in that program, and in the early part of 1942 forwarded the fingerprints of officers and employees to Washington. Periodically, the fingerprints of new employees were obtained and added to the F. B. I. files.

On March 21, 1942, the Federal Reserve Bank of Dallas established a rate of one percent per annum on all discounts and advances under the provisions of section 13 and 13(a) of the Federal Reserve Act. This action lowered the discount rate on other classes of paper to the rate that had been established theretofore on member bank notes secured by Government obligations.

The position of Assistant Cashier at the Houston and San Antonio Branches had been abolished in 1932. At a meeting of the Bank's Board of Directors on March 19, 1942, these positions were re-established; J. Lee Cox was elected Assistant Cashier at the Houston Branch, and H. K. Davis was elected Assistant Cashier at the San Antonio Branch.

### The V-Loan Program

When the United States entered World War II, in December 1941, war production became a matter of paramount importance. The Armed Services were in need of vast quantities of ammunition, ordnance, airplanes, food, and other supplies. Moreover, it was necessary to rapidly construct army camps, naval bases, and air bases for the training of soldiers, sailors, and aviators. The handling of such large supply and construction contracts was beyond the normal financial capacity of many of the firms which were invited to bid on the contracts. A step had been made toward solving the problem during the Defense Program which got under way in early 1941, when many commercial banks had made loans to contractors and had protected themselves by taking assignments of the proceeds of the contracts, as authorized under the provisions of the Assignment of

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Claims Act of 1940, which became effective on October 9 of that year. That plan, however, did not go far enough, and the Government authorities turned their attention to devising a more effective plan for financing war production. Accordingly, on March 26, 1942, President Franklin D. Roosevelt issued Executive Order No. 9112, which authorized the War Department, the Navy Department, and the Maritime Commission to guarantee designated portions of loans that might be made by banking institutions for the purpose of financing war production. Under the Executive Order, Federal Reserve Banks were designated fiscal agents of the Armed Services in arranging for financing and in the execution of the guarantees under such regulations as the Board of Governors of the Federal Reserve System might prescribe. On April 6, 1942, the Board of Governors issued its Regulation V which set forth, in general terms, the procedure to be followed by the Reserve Banks. Thus, guaranteed war production loans became known as “V” loans.

Under the provisions of the Executive Order and Regulation V, it was the function of the Reserve Banks to assist in arranging for suitable financing for war production, to make investigations as to the credit standing and financial responsibility of the borrowers, and to submit the report and recommendation to the service concerned as to approval or disapproval. These applications were transmitted through the Board of Governors to the War Department, Navy Department, or the Maritime Commission, as the case might be.

Many small and moderate-sized contractors and subcontractors whose production was deemed essential to the war effort were borderline credit risks or had very large credit requirements in proportion to their capital. In that connection a press statement issued by the White House regarding Executive Order No. 9112 stated that peacetime credit standards would be relaxed in the case of guaranteed loans. Although there were many “marginal” loans, the Reserve Bank usually set up the credit in such a way as to minimize the risk to the financing institution and to the guarantor as well, and at the same time to expedite production. The plan operated in this fashion:

When the contract for the manufacture of shells, for example, was awarded by the War Department, the contractor would go to his bank of account and apply for a loan, the proceeds of the contract to be assigned to the bank as collateral to the loan. The bank would then file its application, through the Federal Reserve Bank, for a guarantee of the War Department against loss on the major portion of the loan. As a guarantee fee, the

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financing institution would pay a fee to the guarantor representing a percentage of the interest charged the borrower, under a “sliding scale” of fees; the larger the percentage of guarantee, the greater the fee; for example, an 80 percent guarantee would call for a fee of 10 percent of the interest on the loan, whereas, a 90 percent guarantee would call for 20 percent of the interest. In most cases in the Dallas district, the applications covered 90 percent of the amount of the loan, leaving the bank’s “exposure” at 10 percent. Upon approval of the application, the Federal Reserve Bank, as agent of the War Department, would execute a guarantee agreement in favor of the applying bank, and the bank would then make advances to be used in the performance of the contract, including the purchase of raw materials, payment of labor costs, etc. Under the arrangement, the War Department had been put on notice that the proceeds of the contract had been assigned to the bank, as the shells were manufactured and delivered, payment would be made to the bank rather than the borrower. Usually, the loan agreement provided for release of some of the funds to the contractor from time to time in the further performance of the contract. Upon final completion of the contract, the loan would be paid in full and the remaining funds, if any, would be made available to the borrower.

At the Federal Reserve Bank of Dallas, the V-loan operations were handled in the Loan and Securities Department, under the supervision of First Vice President E. B. Stroud. The first application was received on April 20, 1942, two weeks after Regulation V was issued. Many of the applications submitted during the early part of the program involved construction loans to contractors engaged in building army camps and air bases. Subsequent applications included loans to shipbuilders, manufacturers of ammunition, ordnance and plane parts, and food processors. Perhaps the most unusual case was a loan to a Waco concern for the purpose of financing a contract for the relocation of a number of cemeteries that were in the area acquired by the Government for the establishment of Camp Hood. At the start of the program, Major Crawford T. Johnson, Jr., who in civilian life had been a prominent businessman in Birmingham, Alabama, was assigned to the Dallas bank as liaison officer for the Head Office and Branches. It was his responsibility to make an investigation as to the underlying contract for which a guarantee had been requested and to issue a “Certificate of Necessity.” After the volume of applications increased substantially, Captain George Stubbs was assigned as Major

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Johnson's assistant. Subsequently, Major Johnson was promoted to Lieutenant Colonel and Captain Stubbs was promoted to Major.

At the Dallas bank, the facilities of the Credit Department were devoted largely to the handling of applications for guarantee of war production loans and keeping closely in touch with the commercial banks which had made the loans. The Reserve Bank's responsibility not only involved the investigation of the applications, but also the furnishing of progress reports and other information that might be desired by the Services. Although most of the guaranteed loans were in the amount of \$100,000 and under, there were several large loans of a million dollars and over. A loan for \$3 million involved the manufacture of shells, one for \$5 million covered the manufacture of bomb bay doors, gun turrets, and other airplane parts, and the largest in the district – for \$10 million – covered the furnishing of powdered eggs and other food products to the armed services. The smallest application was in the amount of \$1,500.

Under the procedure followed at the Dallas bank, applications were submitted to the Discount Committee for a thorough discussion of each case and for a decision as to whether to recommend approval or disapproval. At first, the liaison officers showed some inclination (in the opinion of the officers of the bank) to take an over-active part in making credit investigations and in carrying on negotiations with the commercial banks; however, the bank's officers felt that these activities were in the area of the responsibility of the Federal Reserve Bank. The matter was frankly and fully discussed at a conference, and a definite understanding was reached as to the area of responsibility of the respective parties. The liaison officers and the bank's officers worked in harmony and cooperated fully in carrying out the program. They all had respect for the other person's views, and there grew out of their association a very close personal friendship between the liaison officers and the members of the bank's staff who worked on the V-loan program.

An actual "case history," giving all the factors involved in the credit investigation and the submission of an application to Washington, will serve to picture the Reserve Bank's functions in handling V-loan applications. This is shown in the Appendix.

During the war years, the Federal Reserve Bank of Dallas received 276 applications for guarantees of loans amounting to \$99,995,303. A total of 239 loans, aggregating \$82,313,300, were approved and guarantees were thereupon executed by

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the Reserve Bank. Although there were numerous problem loans which required much time and attention on the part of the financing institution, the service concerned, and the Reserve Bank, most of these loans worked out satisfactorily. In a few cases, the commercial bank called upon the service to take over the loan under the terms of the guarantee and to account to the bank for the guaranteed portion of the loan. Sometimes the financing institution was asked by the guarantor to continue “servicing” the loan, while in other cases the loan was serviced by the guaranteeing agency or by the Federal Reserve Bank. In only two cases were losses sustained; these amounted to \$119,839. Expenses applicable to the program amounted to \$101,157. However, inasmuch as the guaranteeing agencies had received guarantee fees amounting to \$283,431, the services had a net return of \$62,435 from this district.<sup>74</sup>

Following the outbreak of the Korean conflict in 1950, Congress passed the Defense Production Act of 1950, under which a V-loan program, similar to the V-loan program during World War II, was inaugurated. The program was carried out under the provisions of Executive Order No. 10161, issued by President Harry S. Truman on September 9, 1950, and Regulation V of the Board of Governors of the Federal Reserve System, as revised, effective September 27, 1950. The V-loan program during the period of the Korean conflict was on a much smaller scale than had been the case during World War II. At the Dallas bank, 47 applications involving loans amounting to \$32,327,000 were received. Of these, 29 applications amounting to \$22,885,000 were approved, 7 applications amounting to \$4,575,000 were rejected, and 11 applications amounting to \$4,867,000 were withdrawn.<sup>75</sup>

At a meeting of the Board of Directors of the Dallas bank on May 14, 1942, Chairman Jay Taylor announced that he had been appointed a Major in the United States

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<sup>74</sup> President’s semiannual report to directors, August 1, 1945; and Loan and Securities Department report dated February 18, 1945.

<sup>75</sup> Received	40 original applications	\$31,342,000
Received	7 supplemental applications	<u>985,000</u>
	47	\$32,327,000
Approved	22 original applications	\$21,900,000
Approved	7 supplemental applications	<u>985,000</u>
	29	\$22,885,000

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Army, and the directors thereupon granted him a leave of absence for the duration of his service in the Army.

The war conditions resulted in an increase in personnel problems at the Federal Reserve Bank of Dallas, due primarily to the loss of men to enter military service. During the first few months of the War, around 100 men from the Reserve Bank and its Branches entered military service, and it was difficult to replace them. More female help was employed by the bank than ever before, and by the fall of 1942 there were approximately as many women as men employed at the Head Office and Branches. Steps were taken to train suitable employees for key jobs in the organization, and employees of the bank were requested to suggest to friends and acquaintances, who might be available and qualified, to file formal applications with the bank for employment.

By the end of the year, the problem with respect to “turnover” became intensified. In President Gilbert’s report to the Board of Directors in November, he pointed out that during the first 10 months of the year 447 employees resigned and 764 new employments were made. Employees worked long hours, and overtime payments reached a substantial amount. The personnel situation was particularly difficult in the Fiscal Agency and Transit Department due to the greatly increased volume of work in those departments, a large part which had to be handled by inexperienced people. The bank continued to pay supplemental compensation. The rate of such payments was increased to 10 percent (from six percent) per annum on the first \$1,800 of annual salary and six percent on the next \$1,200 annual salary. This applied to all officers and employees receiving salaries not to exceed \$6,000 per annum. At the end of the year, the Board of Directors of the Dallas bank voted to make future payments of supplemental compensation on a current basis instead of quarterly theretofore.

On August 31, 1942, there occurred the death of Miers Crump, Managing Director of the San Antonio Branch. E. B. Austin, Assistant Cashier at the Head Office, was elected Managing Director of the San Antonio Branch to succeed Mr. Crump, and there were the following resultant changes: W. E. Eagle, Cashier at the San Antonio Branch, was elected Assistant Cashier at the Head Office; Claude M. Rowland, Manager of the Loan and Securities Department at the Head Office, was elected Cashier at the San Antonio Branch to succeed Mr. Eagle; Grover C. Page, an employee of the El Paso Branch, was elected

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Cashier of that Branch to succeed Allen Sayles, who was transferred to the Head Office as Manager of the Loan and Securities Department.

On October 17, the Federal Reserve Bank of Dallas reduced its discount rate to one-half of one percent (had been one percent) on advances to member banks secured by Government obligations maturing within one year. The rate on paper and on advances secured by Governments of longer maturities remained at one percent. No other change in the discount rate was to be made until May 9, 1946.

In President Gilbert's report to the Board of Directors at the meeting held on November 19, 1942, he referred to the heavy borrowings by the Government due to rising costs of the War, and he discussed the campaigns for the sale of Government securities. He pointed out that approximately 25 percent of the total Government expenditures for the current year would be derived from taxes, and 75 percent from borrowings. He stated that the public debt had reached \$91 billion on September 30, as compared with \$58 billion on the corresponding date in 1941, and quoted estimates that the total public debt would reach around \$140 billion by June 30, 1943.

The upward trend in reserve balances of member banks in the Eleventh Federal Reserve District continued at an accelerated rate during the year and reached a new peak of \$464 million on December 3. Excess reserves reached a new peak of approximately \$128 million.

There was a constant increase in the Dallas bank's Federal Reserve Note circulation, from a minimum of \$132 million early in the year, circulation increased to \$185 million by the end of August and reached a maximum of \$252 million in the latter part of the year.

During the year, the Board of Governors made three reductions in the reserve requirements applicable to demand deposits of member banks in central reserve cities: on August 20, from 26 percent to 24 percent; on September 14, from 24 percent to 22 percent; on October 3, from 22 percent to 20 percent. Although these changes did not directly affect the member banks in the Eleventh District, the banks were informed of the reductions by means of circulars issued by the Federal Reserve Bank of Dallas.

At the request of the First National Bank of Alpine, Texas, the county in which it was located (Brewster County) was transferred from the territory of the San Antonio



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Branch to the territory of the El Paso Branch. This action was approved by the Board of Directors of the Federal Reserve Bank of Dallas at its meeting on December 17, 1942, the transfer to become effective January 2, 1943.

At a meeting of the Board of Directors of the Federal Reserve Bank of Dallas on December 17, 1942, President Gilbert submitted a letter from the Board of Governors of the Federal Reserve System expressing the opinion that the Executive Committee of the Federal Reserve Bank of Dallas should be composed exclusively of members of its Board of Directors, including the Chairman. (At the Dallas bank, the Executive Committee had included the President of the bank as one of its members.) After discussion, it was voted to acquiesce in the suggestion made by the Board of Governors, and steps were taken to prepare the necessary amendments to the bank's bylaws.

On December 31, 1942, there were 570 member banks in the Eleventh Federal Reserve District, and the combined staff at the Head Office and Branches totaled 1,127 people.

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On February 11, 1943, the bank's bylaws were changed so as to provide for the change in the composition of the Executive Committee which had been approved by the directors at its meeting on December 17, 1942. As changed, the Executive Committee consisted of the Chairman of the Board and four other directors, and the President of the bank was no longer a member of that Committee. At the February meeting, the bylaws of the El Paso, Houston, and San Antonio Branches were also changed. As amended, the Managing Officer of the Branch was discontinued as a member of the Branch Board of Directors and his title was change back to "Manager" rather than "Managing Director."

At a meeting of the directors of the Dallas bank on March 23, President Gilbert referred to the substantial expansion that had occurred in the scope and volume of the bank's functions since the country's entrance into the War and recommended that the bank's staff include an additional Vice President. After full discussion, W. O. Ford, formerly Cashier, was elected a Vice President, and the following staff changes were made: W. D. Gentry, formerly Manager of the Houston Branch, was elected Vice President and Cashier at the Head Office; H. R. DeMoss, formerly Cashier at the Houston Branch was elected Assistant Cashier at the Head Office; E. B. Austin, formerly Manager

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at the San Antonio Branch, was elected Manager of the Houston Branch; Allen Sayles, formerly Manager of the Loan and Securities Department at the Head Office, was elected Cashier at the Houston Branch, and L. G. Pondrom, formerly Assistant Cashier at the Head Office, was elected Manager at the San Antonio Branch.

During several months in the early part of 1943, First Vice President and General Counsel E. B. Stroud was absent on account of illness. B. Magruder Wingfield, Assistant General Counsel of the Board of Governors, was assigned to the Dallas bank on a temporary basis to look after the bank's legal work during Mr. Stroud's absence. Mr. Stroud returned to his duties on July 1, 1943, and Mr. Wingfield returned to his post at Washington.

At a meeting of the Board of Directors on June 21, 1943, Dr. Jas. C. Dolley, of the University of Texas, was elected Economic Advisor on a part-time basis. Under the arrangement, Dr. Dolley would spend three days every other week at the bank and would accompany President Gilbert on trips to attend meetings of the System Open Market Committee or other committee meetings. Later (June 8, 1944), Dr. Dolley was elected Director of Research and Statistics, on a full-time basis, for a period of one year.

On September 9, 1943, the title of the executive officers at the Houston and San Antonio Branches was changed from "Manager" to "Vice President in Charge." This was brought about by means of an amendment to the bylaws of those Branches as adopted by the Board of Directors at the Head Office on September 9. The changes in title were announced to all member banks in the district by a Circular letter dated September 20, 1943. Coincidentally, E. B. Austin was elected Vice President of the bank and continued to serve as Managing Officer of the Houston Branch, and L. G. Pondrom was elected Vice President and continued to serve as Managing Officer of the San Antonio Branch. The announcement as to the changes in title included the following explanation: "This action has been taken by our Board in recognition of the financial, industrial, and economic importance of the areas served by our Branches at these two centers and, also, in recognition of the increased powers and expanded activities of these Branches."<sup>76</sup> The reaction of the member banks in the Houston and San Antonio Branch territories was very favorable, but the reaction in the El Paso Branch territory was unfavorable, and some

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<sup>76</sup> Circular, Federal Reserve Bank of Dallas, September 20, 1942.

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vigorous protests were made by the El Paso bankers. Nevertheless, a corresponding change in title of the executive officer at the El Paso Branch was not made until November 1, 1945.

On October 15, 1943, the rules of the Retirement System of the Federal Reserve Banks were changed in several respects. One change provided that the Presidents of the Reserve Banks would serve as representatives on the Board of Trustees for their respective institutions. In view of that change, Vice President W. O. Ford submitted his resignation as representative of the Federal Reserve Bank of Dallas on the Board of Trustees, and President R. R. Gilbert was elected to succeed him. Other changes in the rules included a liberalization of benefits and a reduction in the basic rate of interest for actuarial calculations to three percent, from the previously existing rate of four percent, to bring the rate more in line with the actual and anticipated earning rate. These changes required substantial lump-sum contributions by the Reserve Bank. The Dallas bank's current rate of contribution was raised to 9.69 percent of the total payroll, as compared with 5.06 percent in effect previously.

During the year, eight banks in the Eleventh District became members of the Federal Reserve System, and there were three withdrawals; the net increase of five brought the total number of member banks in the district up to 575 on December 31, 1943.

The circulation of the bank showed a further increase during the year, outstanding Federal Reserve Notes at the end of 1943 reaching a new peak of \$417,000,000, which was \$165,000,000 greater than a year earlier.

Member bank reserve accounts at the Reserve Bank continued to increase, amounting to approximately \$520,000,000 on December 31, 1943, as compared with \$468,000,000 at the end of the preceding year.

For the eleventh successive year, the number of checks handled showed an increase over the previous year. The number of items handled on one day by the Transit Departments at the Head Office and Branches reached a new peak of 407,617 items on November 8, 1943. The increase was accounted for largely by Treasury checks.

In June, the War Manpower Commission informed the Board of Governors that the operations of the Federal Reserve Banks and Branches had been designated essential

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activities. This meant that an employee could not transfer to another job without a “Statement of Availability;” if a worker should terminate his employment in an essential industry without a Statement of Availability, a period of thirty days would have to elapse before his application for new employment was exempt from the requirements of the plan. Then, in October, Dallas was designated as a critical labor shortage area, and the “waiting period” was increased to sixty days.

Numerous personnel problems were encountered during the year, due to the market expansion in personnel, the loss of men to the armed services, and the high rate of personnel turnover. During the year, it was necessary to make 1,610 new employments to replace a total of 1,268 leaving the bank’s services, and to provide for additions to the staff. At the beginning of the year, there were 1,131 officers and employees at the Head Office and Branches. There was a constant increase in personnel during the early months of the year, and an all-time peak of 1,582 was reached on August 31, 1943.<sup>77</sup> There was some reduction in the latter part of the year, and on December 31, 1943, the combined staff at the Head Office and Branches totaled 1,474. In President Gilbert’s report to the Board of Directors covering the bank’s operations for the year, he stated that an important problem was the training and assignment of women to positions previously held by experienced men; “but the women on the whole have done remarkably well in maintaining a high standard of work.”

It was in 1943 that the so-called “Management Committee” at the Head Office had its beginning. President Gilbert, in his report to the Board of Directors at its meeting on November 11, 1943, referred to this Committee as follows: “I have appointed a Management Committee composed of the five Vice Presidents at the Head Office, for the purpose of advising and otherwise assisting me with problems of bank policy and procedure. The Committee meets regularly, and the meetings are frequently attended by junior officers and department heads.”

At a meeting of the Board of Directors held on December 9, 1943, President Gilbert recommended that a Personnel Department be constituted at the Head Office and that new employments and other personnel work be centralized in one department under the supervision of a personnel director. (Therefore, employment interviews had been

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<sup>77</sup> President Gilbert’s reports to Board of Directors, September 1943, and February 1944.

conducted by the junior officers in charge of the various depts., and personnel records were kept in a division of the Service Department.) Mr. Gilbert's recommendations were approved, and as a result, the following staff changes were made:<sup>78</sup>

- (1) Allen Sayles, Cashier of the Houston Branch, was transferred to the Head Office as Personnel Director and elected an Assistant Cashier of the bank.
- (2) C. M. Rowland, Cashier of the San Antonio Branch, was elected Cashier of the Houston Branch.
- (3) J. L. Cook, Assistant Cashier of the Houston Branch, was elected Cashier of the San Antonio Branch.
- (4) Howard Carrithers, Manager of the Foreign Funds Control Department at the Head Office, was elected Assistant Cashier of the Houston Branch.

During 1943, all officers and employees at the Head Office and Branches were purchasing savings bonds through the payroll deduction plan. Purchases amounted to 10.8 percent of the payroll at the end of December.

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The year 1944 showed marked increases in the activities of the Federal Reserve Bank of Dallas, most of which related to, or were an outgrowth of, the conduct of the War. Almost every month showed a new peak in circulation and in member bank reserve balances. The Dallas bank's circulation increased from \$425 million on March 1 to \$543 million by the end of November and stood at \$546 million on December 31. Member bank reserve balances stood at approximately \$525 million in the early part of the year, reached a new peak of \$561 million on June 13, increased further to \$628 million by the middle of November, and stood at \$643 million at the end of the year. Excess reserves of member banks in the district ranged around \$100 million during most of the year. The Dallas bank's holdings of Government securities amounted to around \$400 million in the early part of the year, reached \$556 million in the latter part of June, reached \$666 million by the middle of December, and stood at \$672 million at the end of the year.

Loans to member banks during the year were nominal. Only a few banks borrowed from the Reserve Bank, and outstanding loans to member banks on December 31, 1944,

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<sup>78</sup> The changes in assignments of Messrs. Cook and Rowland became effective February 1, 1944, whereas the other changes became effective January 1, 1944.

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amounted to only \$200,000. Transit operations showed a marked expansion; a new peak in activity was reached on November 13 when 534,000 items were handled. On May 20, the last remaining industrial loan on the books of the Federal Reserve Bank of Dallas was paid in full.

The facilities of the bank were utilized by the Treasury Department in connection with the various War Loan drives. Emphasis was placed upon the sales of savings bonds. Officers and employees of the bank continued their purchases of savings bonds, with approximately 100 percent participation.

By 1944, around 250 employees at the Head Office and Branches were in the armed forces. During the war years, the bank remembered these employees at Christmas time by mailing parcels to all of them. This was under an arrangement with a New York firm which mailed out the gifts to the mailing list supplied by the bank. The parcels went all over the world.

At a meeting of the Board on May 11, 1944, the bank's bylaws were changed so as to provide that the Executive Committee would consist of only three members, the Chairman of the Board and two other directors; theretofore, the Executive Committee had been composed of five members.

In September, E. B. Stroud tendered his resignation, effective October 1, 1944, as First Vice President and General Counsel of the bank in order to re-enter the general practice of law. Mr. Stroud's resignation was accepted and W. D. Gentry, Vice President and Cashier, was elected to succeed Mr. Stroud as First Vice President. Mr. Stroud was engaged on a fee basis, to perform such general legal services for the bank, from month to month, as might be necessary.

E. B. Austin, who had been Vice President of the Houston Branch, was elected to Vice President and Cashier at the Head Office to succeed Mr. Gentry. L. G. Pondrom was transferred from the San Antonio Branch to the Houston Branch as Vice President, and W. H. Holloway, General Auditor, was elected a Vice President and designated to have charge of the San Antonio Branch. F. T. Novey was elected General Auditor.

At a meeting of the Board on October 13, a resolution was adopted in which the Executive Committee, in consultation with the senior officers of the bank, was directed to select and employ a General Counsel at the earliest practicable date.

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At the end of the year, there were 1,306 officers and employees at the Head Office and Branches, and there were 579 member banks in the Eleventh Federal Reserve District, representing a net gain of four member banks during the year.

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During 1945, there was a further expansion of operations of the Federal Reserve Bank of Dallas, with a substantial increase in the principal items in the bank's statement of condition. Total assets on December 31, 1945, amounted to \$1,541,000,000, as compared with \$1,315,000,000 on December 31, 1944. The bank's holdings of Government securities amounted to \$943,000,000, representing an increase of \$277,000,000 during the year, member bank reserve balances increased from \$643,000,000 to \$765,000,000, and Federal Reserve Notes in circulation increased from \$546,000,000 to \$618,000,000.

On June 12, 1945, the Federal Reserve Act was amended so as to require the Federal Reserve Banks to maintain reserves in gold certificates of not less than 25 percent against its deposits and against its Federal Reserve Notes in actual circulation; this represented a reduction from the previously existing reserve requirement of 35 percent against deposits and 40 percent against Notes. At the same time, the authority of the Reserve Banks to use direct obligations of the United States as collateral to Federal Reserve Notes was made a permanent feature of the Act.

Member bank borrowings from the Reserve Bank in 1945 were nominal. Only 11 banks borrowed from the Reserve Bank during the year and maximum borrowings amounted to only \$8,000,000.

At a meeting of the Board of Directors on February 8, First Vice President Gentry announced that the Wage and Hour Division of the Department of Labor had made an investigation at one of the other Federal Reserve Banks and had found that certain employees had been erroneously classified as exempt from the provisions of the Fair Labor Standards Act. He stated that the officers of the Dallas bank had made a review of its method of classifying employees and that it appeared some of the employees theretofore deemed exempt from the provisions of the law should be reclassified and given a nonexempt status; in such event they would be entitled to retroactive and current overtime payments. Subsequently, representatives of the Wage and Hour Division of the

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Department of Labor were invited to review the status of the bank's employees and, as a result, almost 100 of the bank's employees were reclassified. Accordingly, at its meeting on June 14, 1945, the Board of Directors of the bank authorized the payment to these employees of overtime compensation aggregating approximately \$42,000, retroactive over a period of approximately four years.

In a letter dated March 31, 1945, Dr. James C. Dolley tendered his resignation, effective May 15, 1945, as Director of Research, in order to accept the position of Vice President of the University of Texas at Austin. At its meeting on April 12, the Board of Directors of the Dallas bank adopted the following resolution with respect to Dr. Dolley's resignation:

BE IT RESOLVED, that we hereby accept with deep regret the resignation of Dr. James C. Dolley as Director of Research of this bank, effective May 15, 1945, which he has tendered in that he might accept the Vice Presidency of the University of Texas.

Be it further resolved that we hereby record and tender to him our appreciation and thanks for the excellent and valuable work which he has performed for this bank during the past two years, not only in projecting and consummating many important studies of current economic and legislative problems of concern to this bank, but also in presenting the results of his studies with such clarity, precision, and simplicity as to carry conviction to the minds of his hearers with regard to the soundness of his conclusions concerning the problems under consideration.

Be it also resolved that we tender him our best wishes for a career of ever increasing successes and usefulness in the field of higher education to which he is about to return; that a copy of these resolutions be furnished to him; and that a copy be spread upon the minutes of this Board as a lasting testimonial of the high esteem and respect in which we hold him.

To succeed Mr. Dolley, Dr. J. W. Irons, of the University of Texas, was elected Director of Research for a period of 12 months beginning July 1, 1945. He obtained a leave of absence from the University of Texas for one year to accept this appointment.

On June 14, Chairman Jay Taylor announced to the Board of Directors that he was returning to civilian life after serving more than three years as an Officer in the United States Army.

At a meeting of the Board on October 11, President Gilbert reported that J. L. Hermann, Manager of the El Paso Branch, would retire, effective November 1, 1945. W.



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E. Eagle, Assistant Cashier at the Head Office, was elected a Vice President of the bank and designated as the Managing Officer of the El Paso Branch. By this action, the Board assigned the same title to the Officer in charge of the El Paso Branch as had been made effective at the other Branches in September 1943.

Also, at the October meeting, President Gilbert announced that Vice President W. J. Evans would retire on November 1, 1945. Upon Mr. Gilbert's recommendations, Mr. Evans was re-employed and re-elected as Vice President of the bank and Secretary of the Board for the period November 1 to December 31, 1945, at his existing salary less the pension portion of his retirement allowance payments for that period.

In President Gilbert's report to the Board of Directors on June 14, 1945, he referred to the return of employees from military service and announced that up to that time 273 employees at the Head Office and Branches had served in the Armed Forces, distributed as follows:

Dallas	183
El Paso	19
Houston	43
<u>San Antonio</u>	<u>28</u>
Total	273

He stated that although some former employees had accepted employment elsewhere upon their discharge from the armed forces, it was anticipated that most of them would return to the bank. He reported that the officers of the bank were making a study with respect to the assignment of returning servicemen and women to suitable positions in the organization.

Effective September 15, 1945, the liaison office of the War Department theretofore maintained the Federal Reserve Bank of Dallas was closed, and Lt. Col. Crawford T. Johnson, Jr., announced that he would return to civilian life.

At a meeting of the directors on November 8, 1945, it was voted to discontinue as of January 1, 1946, the payment of supplemental compensation to officers and employees and to increase the basic salaries for each position by an amount equal to the supplemental compensation theretofore paid.

On November 8, A. C. Michaelis was elected an Assistant Cashier of the bank, effective November 16, 1945; for some time, Mr. Michaelis had been in charge of the

## Chapter XII – The War Years, 1941 – 1945

bank's Personnel functions, without official title, following the resignation of Assistant Cashier Allen Sayles on September 1, 1945.

At the close of business on December 31, 1945, the total staff of the Head Office and Branches was 1,222, representing a reduction of 84 during the year. There were 585 member banks in the Eleventh Federal Reserve District. Nine State banks in the district had joined the System during the year, thus bringing the state bank membership up to 118, which was the largest number in 20 years.

### SOURCES

1. Annual Report, Federal Reserve Bank of Dallas, 1941 – 1945.
2. "Minute Book," Federal Reserve Bank of Dallas, 1941 – 1945.
3. Reports of President to Board of Directors, 1941 – 1945.
4. Unnumbered Circulars, Federal Reserve Bank of Dallas, 1941 – 1945.
5. Joint Report to Congress, Federal Reserve Bulletin, January 1941.
6. "Regulation of Consumer Installment Credit," by T. W. Plant, (Thesis, Rutgers Graduate School of Banking, 1950).

## CHAPTER XIII

### THE POSTWAR PERIOD, 1946 – 1949

At the beginning of the year 1946, the Board of Governors designated J. R. Parten as Chairman and Federal Reserve Agent for the year 1946, and appointed R. B. Anderson, General Manager, W. T. Waggoner Estate, Vernon, Texas, a Class C Director for a three-year term. The Board designated Mr. Anderson as Deputy Chairman for the year 1946.

The year 1946 saw a liberalization of the personnel policies of the bank and an enlargement of the scope of activities of the Personnel Department. Salaries of officers and employees were adjusted upward during the year.

In putting into effect the liberalized personnel program and in considering salary matters, a Personnel Committee from the bank's Board of Directors was appointed to advise with the management of the bank from time to time. This Committee consisted of Director R. B. Anderson as Chairman, and Messrs. George A. Hill, Jr., and Frank Turner as the other two members.

The bank put into effect a revised vacation policy, under which the vacation schedule was set up on a graduated basis according to years of service. The plan provided for a maximum of four weeks' vacation for those with 25 years or more of continuous service.

A program to analyze and evaluate each job within the bank was started, this program constituted a basis for a new personnel classification plan.

The bank adopted a revised insurance plan for hospitalization, medical, and surgical services, under which the bank would pay two-thirds of the cost, the remaining one-third to be paid by the employee. By the end of the year, approximately 85 percent of the personnel was enrolled under the plan.

In the latter part of the year, the employees' recreation room, which had been utilized for work space during the war period, was reopened. The bank resumed publication of the employees' magazine, Items, with a full-time editor.

In June, the Board of Trustees of the Retirement System of the Federal Reserve Banks adopted certain changes in its rules and regulations, which provided for a liberalization of benefits for employees upon retirement.

On May 1, the bank's salary rates were raised by 15 percent "across the board," and in December the directors approved a further 10 percent general increase in salaries of employees to become effective January 1, 1947. At the same time increases were made in the salaries of certain junior officers in order to maintain an equitable spread between their salaries and those paid to employees under their supervision

During April 1946, application cards for union membership were circulated among the employees at the Head Office by the Office Employees International Union, affiliated with the American Federation of Labor. On November 26 an election was held which resulted in a majority of the employees voting against joining the union.<sup>79</sup>

At the meeting of the Board of Directors on January 10, R. R. Gilbert was re-elected as President and W. D. Gentry was re-elected First Vice President, each to serve for a period of five years commencing March 1, 1946. This action was approved by the Board of Governors. On April 19, 1946, W. H. Irons, who had served as Director of Research since July 1, 1945, was elected a Vice President of the bank.

On March 16, 1946, the special discount rate of one percent per annum on advances to nonmember banks secured by Government obligations, which had been established on September 1, 1939, was eliminated, and the rate reverted to two percent, the same rate that was applicable to advances to individuals, partnerships, and corporations.

On May 9, at a regular meeting of the Board of Directors, the bank eliminated the preferential discount rate of one-half percent on advances to member banks secured by obligations of the United States with a maturity of one year or less. With that action, a uniform rate of one percent was effective on all advances to member banks secured by Government obligations, regardless of maturity. Extracts from President Gilbert's report to the directors in which he discussed the matter are quoted below:

When the preferential discount rate of one-half of one percent on advances to member banks secured by United States Government obligations maturing or callable in one year or less was established by the twelve Federal Reserve Banks during October, 1942, it was recognized by the Board of Governors and by the banks as a temporary wartime measure. The System realized that the war financing program would require substantial purchases of Government securities by banks and felt that a

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<sup>79</sup> Announcement to all Officers and Employees, November 27, 1946.

preferential rate for advances secured by short-term Government obligations might encourage member banks, particularly those outside of financial centers, to invest a larger part of their excess reserves in such Government securities. The Board of Governors stated its opinion, however, when the rates were established, that under ordinary circumstances such preferential rates were inadvisable and, therefore, should be eliminated when the wartime need had passed.

To continue the rate in effect under present conditions would perpetuate a measure which has outlived its usefulness. Moreover, it would encourage member banks to monetize further the national debt and to participate indirectly in a further speculative expansion of credit. Furthermore, these disadvantages would ensue without gain to the Treasury with respect to the interest cost paid on the national debt. The continued purchases of Government securities by banks would also result in a decline in yields to even lower levels than those prevailing recently, and that development would lessen the incentive to save and would affect adversely various investor groups, particularly insurance companies, savings banks, endowment and trust funds, and individuals.

The Board of Governors and the Open Market Committee have made an unequivocal commitment to the Treasury to support the Government security market, and in such a manner as to assure an orderly market at all times and to avoid any increase whatsoever in the amount which the Treasury would have to pay on its debt in connection with refunding requirements. The commitment virtually means that the Open Market Committee will maintain the pattern of rates agreed upon with the Treasury early in the war for an indefinite period or until debt management problems or other financial developments induce the Treasury to consider a change in its policy. In view of this commitment and recognizing the System's responsibility for the control of credit, the Treasury recently agreed to acquiesce in the System's decision to eliminate the preferential rate.

It is my opinion that the commitment, which, in effect, means the maintenance of the pattern of rates for an indefinite period, while necessary under existing conditions, places the System in a rather difficult position, I hope, however that conditions will permit a reconsideration of the matter within a reasonable period.

During the year, a number of employees, formerly in the Armed Services, were re-employed. In his annual report to the Board of Directors, President Gilbert reported that from the time the Selective Services Act became effective in 1940 up to the end of 1946, a total of 285 employees at the Head Office and Branches had served in the Armed Forces, and that 152 returning veterans had been re-employed up to that time.

Subsequently, an honor roll was prepared. This honor roll lists the names of 288 bank staff members who had served in the Armed Forces, of which 189 were from the Head Office, 47 from the Houston Branch, 32 from the San Antonio Branch, and 20 from the El Paso Branch. The following six were killed in action: From the Head Office staff, Edward E. Burlew, Tom C. Cheaney, Jr., William S. Council, William F. Lambert, and Roy K. Reynolds; from the Houston Branch staff, Raymond F. McFarland.

At a meeting of the directors on September 11, 1947, First Vice President Gentry reviewed the job classification plan which had been worked out by the staff over a period of several months, with the assistance of professional personnel consultants. The plan had been considered and approved by the Executive Committee. The directors ratified the action of the Executive Committee in approving the plan and authorized its inauguration on October 1, 1947. The plan had already been approved in substance by the Board of Governors at Washington. In developing the plan, all jobs at the Head Office and Branches below the officer level were analyzed and evaluated, 16 salary grades were established with minimum and maximum salaries for each grade, and a manual of procedure for the administration and maintenance of the plan was prepared for the use of the supervisory staff. The directors also approved such salary adjustments as might be necessary in order to bring the salary of each employee to the minimum of his job grade.

During the year, the bank adopted the policy of recognizing all officers and employees who had had 25 years, or more of continued service. Dinners were held in November at Dallas and at each of the Branch cities honoring a total of 94 members of the staff who had completed 25 years, or more, of continuous service, and on these occasions service emblems were presented to the honorees.

Early in the year, the Board of Directors formally approved a broad and comprehensive bank and public relations program, which included visits to practically all member and nonmember banks in the district, addresses to be made at bank and civic meetings by representatives of the Reserve Bank, the sponsoring of Bankers' Forums, and official representation at a larger number of conventions and conferences.

Effective July 1, 1947, war loan deposit accounts again became subject to the usual reserve requirements and to Federal Deposit Insurance Corporation assessments. (During most of the war period, these deposits were excluded from reserve requirements

and Federal Deposit Insurance Corporation assessments.) Generally, excess reserves were accumulated in anticipation of this change and there was no undue strain on the banks in the Eleventh District in providing the additional reserves.

In 1947, for the first time, the Reserve Banks paid an interest charge on outstanding Federal Reserve Notes not covered by gold certificates. During that year, the Board of Governors invoked the authority granted under the provisions of Section 15 of the Federal Reserve Act to levy this charge, and the Reserve Banks' payments were made to the Treasury. The reasons for, and the purpose of the Board's action, were given in an announcement to the press on April 24, 1947, as quoted in the Board's Annual Report for the year 1947.<sup>80</sup> In brief, the announcement pointed out that the authority had not been used previously because of the existence, prior to 1933, of the so-called franchise tax provisions of the law which had a similar effect; "that is, of transferring excess earnings of the Reserve Banks to the Treasury." However, in the amendment of the Federal Reserve Act on June 16, 1933, when Federal Reserve Banks were required to use one-half of their surpluses to subscribe for stock of the Federal Deposit Insurance Corporation, the franchise tax provisions had been eliminated in order to permit the Federal Reserve Banks to restore their surplus accounts from future earnings. By the end of 1946, the surpluses of the Reserve Banks had reached the totals of their subscribed capital accounts, and the Board thereupon levied the interest charge for the year 1947.

In accordance with the provisions of an act approved August 5, 1947, the Federal Deposit Insurance Corporation paid to the United States Treasury the sum of \$139,000,000 to retire its stock which the Federal Reserve Banks were required to purchase when the Corporation was established in 1933. The F.D.I.C. stock held by the Federal Reserve Bank of Dallas, aggregating about \$4,360,000, was surrendered on September 17, 1947, to the Treasury for delivery to the Corporation for cancellation.<sup>81</sup>

President Gilbert, in his report to the Board of Directors at a meeting held on July 10, 1947, referred to Treasury operations, and brought out that during the fiscal year ended June 30, 1947, net receipts of the Treasury aggregated approximately

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<sup>80</sup> Annual Report of the Board of Governors of the Federal Reserve System, 1947, p. 83.

<sup>81</sup> Annual Report to the Board of Directors (1947), submitted by R. R. Gilbert, President (in Bank Library).

## Chapter XIII – The Postwar Period, 1946 – 1949

\$43,259,000,000, with total expenditure of \$42,505,000,000, leaving a budget surplus of \$754,000,000. This was the first budget surplus since 1930.

On July 8, 1948, Harry A. Shuford was elected Counsel for the bank to succeed Hubert D. Johnson, who had resigned in order to become connected with a firm of attorneys in Dallas.

In October 1948, the Board of Governors of the Federal Reserve System approved a policy for the uniform treatment of employees at Federal Reserve Banks entering service in the Armed Forces of the United States under the Selective Service Act of 1948 and that policy was adopted by the Federal Reserve Bank of Dallas. This policy provided substantially the same benefits as those made available to employees who entered military service during World War II. In brief, the policy provided for reinstatement of an employee, under certain conditions, at the expiration of his military service; reimbursement for part of the premiums paid on National Service Life Insurance; the payment of one-half month's unearned salary at the time of entering military service; and the payment of one-half month's salary if and when the employee returned to service with the bank.

On January 8, 1948, the Board of Directors of the Reserve Bank established a discount rate of 1¼ percent per annum on advances to and rediscounts for member banks; this represented an increase in the one percent rate established May 10, 1946. On August 13, the rate was further increased to 1½ percent.

Under authority of the Joint Resolution of Congress approved August 16, 1948, the Board of Governors reissued Regulation W to become effective September 20, 1948, providing for the control of consumer installment credit. The revised regulation was in substantially the same form as it was when it expired on November 1, 1947.<sup>82</sup> At the Federal Reserve Bank of Dallas, these functions were reactivated, and the staff was composed of employees transferred from other departments and a few new employees. This authority, under the terms of the legislation, expired on June 30, 1949, and the regulation was terminated automatically on that date. It was to be reinstated again in the latter part of 1950, following the outbreak of the Korean War in the spring of that year.

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<sup>82</sup> Annual Report of the Board of Governors of the Federal Reserve System, 1948.



Effective September 12, 1949, the Head Office and Branches began to operate on a forty-hour, five-day work-week basis. Under that program, some departments were closed on Saturdays, some operated on Saturdays with a skeleton force, while other departments maintained full operations, with the employees in those departments being given a day off on a rotating basis.

In the Eleventh Federal Reserve District there was a period of economic readjustment immediately following the end of World War II as a result of the closing down of numerous war plants, which caused sharp declines in industrial production and in employment in localized areas. However, these postwar production and labor problems had less adverse effect upon the economy than had been expected and, after a year or two, substantial industrial expansion took place, particularly in the Gulf Coast area where many large chemical plants were established.

The war had brought about a tremendous growth of manufacturing in the Southwest and had given a marked impetus to the industrialization of the area. Favorable climatic conditions, abundance of natural resources, and the availability of labor were the chief factors that led to the establishment, during the war, of aircraft, ordnance, synthetic rubber, and chemical plants, as well as the building of shipyards.

Chemical facilities near Houston, Beaumont, Texas City, and Corpus Christi manufactured superphosphates, sulfuric acid, synthetic rubber components, caustic soda and other products. Galveston, Houston, Orange and Beaumont were the sites of large shipyards. Aircraft plants, as well as plants for the manufacture of iron and steel products, were located in the Dallas-Fort Worth area. Ordnance plants were constructed near Waco in Central Texas and near Texarkana and Marshall in East Texas. Carbon black plants and refineries were built near Amarillo, Borger, and Dumas in the Texas Panhandle.

At the close of World War II, there arose the problem of the conversion of industrial facilities to peacetime operation and the disposal of plants that had been used primarily for supplying military requirements. Many of these plants were readily convertible and became important additions to established industries. In this category were carbon black, petrochemical and other chemical installations, as well as refineries, and food processing plants. On the other hand, ordnance installations, such as shell-loading plants, presented

a particular problem since these were located away from large centers of population and their equipment was not readily adaptable to other uses.

On the whole, conversion of war manufacturing facilities after World War II was accomplished successfully. During the four or five years following the close of the war, the industrial development in the Southwest continued at a rapid rate. There was a pent-up civilian demand for hundreds of products that had been in short supply during the war. But of even more importance was the rapid growth of new industries, such as chemicals, synthetics, and plastics, involving the use of the basic resources in the Southwest, particularly petroleum and natural gas. The trend toward diversification of industry was speeded up as the expanded Southwest market attracted plants and Branches of large corporations with headquarters in the North and East. For example, the establishment of several large chemical plants in the Texas coastal area, which involved capital expenditures of millions of dollars, had a far-reaching effect upon the economy of the district during the next few years as a result of the sale of huge quantities of products manufactured by these plants. And then, about the middle of 1950, came the outbreak of hostilities in Korea, which served as a further stimulus to the industrial expansion of the Eleventh Federal Reserve District. This will be discussed in the next chapter.

Borrowings from member banks from the Federal Reserve Bank of Dallas during the period 1946 to 1949 were relatively light. Only a few banks found it necessary to borrow. Such borrowings were generally of short duration and in the form of bills payable secured by Government obligations.

During this period, the volume of check collections handled by the Transit Department continued to show an increase from year to year.

Federal Reserve Notes circulation, which had expanded rapidly during the war period, returned to a more normal pattern of seasonal fluctuation in 1946 and was fairly stable during the postwar period. The following schedule shows the year-end figures as given in the bank's annual reports:

December 31, 1946	\$604,000,000
December 31, 1947	624,700,000
December 31, 1948	634,700,000
December 31, 1949	640,300,000

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The reserve balances of member banks in the district fluctuated rather widely during the postwar period. The average of such balances during December of each year is shown in the following schedule:

December 31, 1946	\$772,000,000
December 31, 1947	847,000,000
December 31, 1948	971,000,000
December 31, 1949	811,000,000

During most of this period, excess reserves continued rather high, the excess reserves averaging in the neighborhood of \$100,000,000 during each December and ranging in varying amounts in other months.

The fluctuation in average reserve balances in 1948 and 1949 was due in part to changes in reserve requirements during those years. In the latter part of 1948, there was an increase in reserve requirements – the increase being two percent on demand deposits and 1½ percent on time deposits. The new requirements were 21 percent of demand deposits for reserve city banks and 15 percent of demand deposits for country banks, and, for all banks, seven percent against time deposits. In 1949, three reductions in reserve requirements took place. By the end of the year, the requirements were 18 percent of demand deposits for reserve city banks and 12 percent of demand deposits for country banks. The requirement against time deposits was five percent.<sup>83</sup>

The Dallas bank's average participation in the System's Open Market Investment account during each of these four years is shown in the following schedule:

<u>Year</u>	<u>Amount</u>
1946	\$877,000,000
1947	913,000,000
1948	972,000,000
1949	846,000,000

The following schedule shows the number of member banks in the district and the number of officers and employees at the Head Office and Branches at the end of each year:

	<u>Number</u>	<u>Combined</u>
	<u>Member Banks</u>	<u>Staff</u>
December 31, 1946	596	1108

<sup>83</sup> Annual Report of the Board of Governors of the Federal Reserve System, 1949, pp. 4 and 5.

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December 31, 1947	614	920
December 31, 1948	620	954
December 31, 1949	623	951

### SOURCES

1. Annual Report, Federal Reserve Bank of Dallas, 1946 – 1949.
2. “Minute Book,” Federal Reserve Bank of Dallas 1946 – 1949.
3. Reports of President to Board of Directors, 1946 – 1949.
4. Annual Report, Board of Governors, 1946 – 1949.
5. Unnumbered Circulars, Federal Reserve Bank of Dallas, 1946 – 1949.
6. Announcements to Officers and Employees at the Head Office and Branches, 1946 – 1949.
7. “The Economic and Banking Development of the Southwest 1940 – 1952,” Herman W. Kilman. (Thesis, Rutgers Graduate School of Banking)

## **CHAPTER XIV**

### **THE FIFTIES**

In contrast to the excitement of the formative years of the Federal Reserve Bank of Dallas and the dramatic events that took place in some of the other periods of the bank's history, the past ten years [the Fifties] have been relatively calm. On the whole, general economic conditions in the district have been good, the commercial banks have been growing, and the Reserve Bank has had no credit problems as it did during the Twenties and Thirties. For the most part, reserves were supplied to, or taken from, the banks through the System's open market operations. In some cases, individual banks met their needs for reserves through the use of the discount window at the Reserve Bank for temporary periods, but the number of borrowing banks in the Eleventh District has remained relatively small, and in only a few instances has the management of the Reserve Bank had occasion to discuss continuous borrowings with the management of member banks. The combined staff at the Head Office and Branches has become stabilized at the 900 to 1000 level, as compared with a peak employment of 1582 during World War II.

At the end of this chapter, we shall combine the statistical material for the entire period rather than show it chronologically at year-end periods, as was done in other sections of this review.

#### The Korean War – Controls Reinstated

In the spring of 1950, there was an outbreak of the Korean War. This brought about a wave of "scare" buying on the part of the United States public. It was accompanied by heavy purchases by wholesalers and retailers, not only for replacements, but also for the building up of inventories in anticipation of possible shortages. Prices of goods rose, wage rates were increased, and the general economy took on inflationary aspects. In view of that situation, various steps were taken by Governmental authorities for the purpose of curbing inflation and setting up credit controls and other types of controls. These various steps were authorized under the provisions of the Defense Production Act of 1950, which was approved by the President on September 8, 1950. That Act also contained various provisions relating to the expediting of defense production.

## Chapter XIV – The Fifties

One of the first steps in the direction of credit controls was taken on September 18, when the Board of Governors of the Federal Reserve System reinstated Regulation W relating to the control of consumer credit. On September 27, as one of the steps to expedite defense production, the Board of Governors issued Regulation V in revised form. This was the regulation that had been in effect during World War II, which covered the execution of guarantees of loans made to finance defense contracts. (As indicated in Chapter XII of this review, the volume of Regulation V loans handled by the Federal Reserve Bank of Dallas during the Korean War period was much less than during World War II.) On October 12, 1950, the Board of Governors issued Regulation X, which placed restrictions on real estate construction credit in much the same manner as applied to consumer credit. Regulation X specified maximum amounts to be borrowed, maximum maturities, and minimum amortization requirements for the extension of credit on residential construction. For example, the regulation called for down payments ranging from 10 percent on residences costing \$5,000 and under, and up to 50 percent for those costing \$25,000 and over.

Another development under the authority granted by the Defense Production Act of 1950 as the establishment of the so-called “Voluntary Credit Restraint” program, announced by the Board of Governors of the Federal Reserve System on March 12, 1951. This was under the provisions of Section 708 of the Act, which authorized the President of the United States to encourage financing institutions to enter into voluntary agreements and programs calling for the reduction of speculative and nonessential lending. By Executive Order, the President delegated this authority to the Board of Governors of the Federal Reserve System. There was appointed by the Board of Governors a national committee known as the Voluntary Credit Restraint Committee. This committee consisted of 12 members, four representing life insurance companies, four representing investment bankers, and four representing commercial banks. The national committee appointed subcommittees throughout the United States to be available for consultation with individual financing institutions and to assist them in determining the application of the program with respect to specific loans. Banks and other lenders were urged to refrain from making loans not necessary to financing the defense program and not essential to the needs of agriculture, industry, and commerce. From time to time, the Voluntary Credit

Restraint Committee issued bulletins on various phases of the program. For example, one bulletin dealt with the matter of inventory financing. It pointed out that inventories at wholesale and retail establishments were at peak levels and the committee expressed the hope that all financing institutions would refrain from financing inventory increases above normal levels relative to sales, and would encourage borrowers with excess inventories to bring their inventory positions in line as promptly as practicable. Another bulletin related to the matter of financing for capital expenditures. This bulletin urged financing institutions to exercise great care in extending credit for investment purposes and to confine such credit to projects essential for the defense program. Still another bulletin urged the Governors of all states, the mayors of major cities, and the financial officers of political subdivisions to postpone state and local Government borrowings wherever possible. The committee stated that if such loans were not urgently needed for the preservation of public health or safety, or for the purposes directly related to defense, they should be deferred.<sup>84</sup>

In the Eleventh Federal Reserve District, the subcommittee representing the life insurance companies, the investment bankers, and the commercial banks took their work seriously and held frequent meetings. While it is difficult to measure the full effect of the program, it appears the efforts in achieving the objectives of the program met with a considerable measure of success. The committee representing the commercial banks was particularly effective, as evidenced by the declining trend of loans shown by reports made by the weekly reporting member banks.<sup>85</sup> W. D. Gentry, First Vice President of the Federal Reserve Bank of Dallas, served as Liaison Officer in assisting the regional committees in presenting the program to lenders, and the facilities of the Reserve Bank were made available for the printing and mailing of circular letters.

The credit controls and progress referred to above were in operation for varying periods of time. Regulation W was suspended on May 7, 1952, by the Board of Governors of the Federal Reserve System. On June 30 of that year, the System's authority to regulate consumer credit lapsed, and Congress failed to enact legislation extending such authority. The Voluntary Credit Restraint Program was suspended on May 12, 1952.

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<sup>84</sup> Various bulletins in Unnumbered Circulars file of Federal Reserve Bank of Dallas for 1951, Volume 16.

<sup>85</sup> Annual Report, Federal Reserve Bank of Dallas, 1951.

Regulation X, applicable to real estate credit, was suspended on September 16, 1952. The Defense Production Act (including the defense loan guarantee provisions) has been extended from time to time, and under the terms of the present law, is due to expire on June 30, 1962.

#### Wage Controls

The Defense Production Act of 1950 also provided for wage and salary stabilization and for the control of prices. On January 25, 1951, a general wage-price freeze was announced. Subsequently, wage and salary stabilization authorities issued a regulation which provided for adjustments of wage and salary inequities arising from the increases in the cost of living. The regulation allowed an increase up to 10 percent above the level of January 15, 1950, without further approval of the Wage Stabilization Board. Subsequently, and from time to time, other regulations were issued to provide for such adjustments as were determined necessary to prevent or correct hardships and inequities. In this connection, the Federal Reserve Bank of Dallas, on April 1, 1951, granted a six percent increase in salaries of employees at the Head Office and Branches. This action was taken in the belief that such increase was fully authorized and within the limitations fixed by the Wage Stabilization Board. The Board ruled, however, that an increase in salary structure which had been made on October 1, 1950, (although salaries were not increased by the full amount of the increase in structure) was chargeable against the regulation permitting general salary increases up to 10 percent. The bank disagreed with the interpretation of this regulation, but it was necessary to comply with the decision of the Wage Stabilization Board. Accordingly, some of the six percent salary adjustment was cancelled, but after consultations with representatives of the Wage Stabilization Board, adjustments in other categories were permitted as an offset and finally the Reserve Bank was held to be in compliance with the general wage regulations.<sup>86</sup> No further difficulties along that line were encountered by the Reserve Bank, and wage controls were suspended on February 6, 1953, by Executive Order of the President of the United States.

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<sup>86</sup> Wage Stabilization files in Personnel Department section of Archives Vault.



On January 25, 1951, R. R. Gilbert was re-elected President and W. D. Gentry was re-elected First Vice President, each for a five-year term beginning March 1, 1951.

Leave Policy

On February 8, 1951, the Board of Directors of the bank approved a uniform leave policy with respect to absences because of illness or for other reasons. From the early days of the establishment of the bank, leaves had been granted for legitimate reasons, in the light of the circumstances applying to each particular case, but the policy had not been formalized by a written guide. The formalized policy provided for sick leave with pay for varying periods of absence, based upon length of service. The schedule provided for payment of full salary while absent on account of illness, for periods of time ranging from one-half month for new employees to 12 months for employees with length of service of 15 years or over. Leaves of short duration would be granted for other reasons, such as weddings, illness in family, deaths, and funerals. An extract from the announcement explaining the leave policy is shown below:

The adoption of a fixed sick leave policy does not establish a right under which an employee may claim this type of leave as time off. The length of the maximum paid sick leave will be based on the employee's length of continuous service, as calculated from the date of his employment to the date the leave begins, according to the following schedule.

Period of employment prior  
to commencement of leave  
Salary payment during leave

Not over 6 months	Full salary for one-half month
Over 6 months, but not over 1 year	Full salary for one month
Over 1 year, but not over 3 years	Full salary for two months
Over 3 years, but not over 5 years	Full salary for four months
Over 5 years, but not over 7 years	Full salary for six months
Over 7 years, but not over 10 years	Full salary for eight months
Over 10 years, but not over 15 years	Full salary for 10 months
Over 15 years	Full salary for 12 months

Paid sick leaves will not be cumulative; each period of illness will be treated separately, the leave to be considered upon the merits of the existing case. Although such factors as the employee's record in the bank, attitude, and previous absences will be taken into consideration in reviewing the case, prior absence on account of illness will not be a deciding factor in the determination of the period of leave to be granted for a current illness. It is

recognized that in some cases, the schedule will not be applied in its maximum scope, if circumstances do not appear to warrant such action. Any unusual cases which may involve longer leave periods than those specified in the schedule will be submitted to the Executive Committee for consideration. Sick leave requests are to be made by the supervising officer through the use of a memorandum addressed to the senior officer having supervision of personnel functions, indicating the type of illness or accident necessitating the leave.

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On January 1, 1951, members of the bank's staff became eligible for Social Security benefits, under a plan whereby Social Security benefits were combined with those provided by the Retirement System of the Federal Reserve Banks.

At a meeting of the Board of Directors on July 12, 1951, approval was given to a plan whereby an employee of the Federal Reserve Bank, under the provisions of a Group Life Insurance contract, would be given insurance equal to his basic salary earned during the 12 months of service prior to death. This group insurance, the full cost of which was borne by the bank, was in addition to the death benefit provisions of the Retirement System.

#### The Treasury – Federal Reserve Accord

The bank's Annual Report for the year 1951, submitted to member banks by a covering letter from President R. R. Gilbert, contained this statement: "The most important credit development during 1951 was the change in System policy with respect to par support of the prices of Government securities." This had reference to the agreement, thereafter known as the "Accord" that was reached between the Treasury Department and the Federal Reserve System following a series of discussions and events during January and February 1951. This agreement was set forth in a joint announcement on March 4, 1951, by the Secretary of the Treasury, and the Chairman of the Board of Governors and of the Federal Open Market Committee of the Federal Reserve System, as follows:

The Treasury and the Federal Reserve System have reached full accord with respect to debt-management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the

## Chapter XIV – The Fifties

Government's requirements and, at the same time, to minimize monetization of the public debt.<sup>87</sup>

By way of background, when the United States entered World War II in December 1941, the Board of Governors of the Federal Reserve System issued the following statement:

The System is prepared to use its powers to assure that an ample supply of funds is available at all times for financing the war effort and to exert its influence toward maintaining conditions in the United States Government security market that are satisfactory from the standpoint of the Government's requirements.<sup>88</sup>

Under that policy, the Federal Reserve System adopted a program, through the use of open market operations, of stabilizing the rate structure and prices of Government securities. This meant that the Federal Reserve System obligated itself to purchase Government securities in whatever amount was necessary to prevent their prices from falling below par. This policy was followed all during the War and during the postwar period until the "accord" was reached in March of 1951.

While the System was operating under this policy, it could not exercise effective control over bank reserves, as changes in bank reserve requirements and discount rates would not mean very much when the prices of Government securities were "pegged." Accordingly, discussions were held between Treasury and Federal Reserve officials in 1948 and 1949, looking to a solution of the problem, and with the outbreak of the Korean War in the spring of 1950, which was followed by great inflationary pressures upon the economy, the situation became intensified. After further extended discussions, when it was agreed that everything possible should be done to coordinate the debt-management responsibility of the Treasury with the Federal Reserve responsibility for restraining credit expansion, the "accord" was reached and the Federal Reserve System was thus enabled to exercise much more effective control over bank reserves. The Annual Report of the Federal Reserve Bank of Dallas for the year 1951 referred to this development as follows:

The policy of supporting prices of Government securities at par, especially under conditions of strong inflationary pressure, such as prevailed during the last half of 1950, resulted in a loss of control over bank reserves by the

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<sup>87</sup> Unnumbered Circulars, Federal Reserve Bank of Dallas, March 3, 1951, Volume 16.

<sup>88</sup> Federal Reserve Bulletin, January 1942, p. 2.

Federal Reserve System and tended to shift the exercise of that basic central banking function to private banking and non-banking investors. As other loan and investment opportunities became more attractive than Government securities to private lenders, they sold Governments to obtain funds for other uses; and the System was obligated under the par support policy to purchase these securities in very large amounts – in fact, in whatever amount was necessary to prevent their prices from declining below par. In other words, the System, through this process, was compelled to participate in the monetization of Government securities.

With the abandonment of the policy of par support . . . the System was able to exercise more effective anti-inflationary control over bank reserves.... The result of more effective System control over bank reserves was quickly apparent in higher rates of interest, as well as in the more restrictive availability of bank credit.... Although there was naturally some concern and uncertainty regarding the possible market consequences of such a fundamental change in policy as abandonment of par support, active market conditions were generally very orderly throughout the last three quarters of the year and required comparatively little System intervention. With the removal of the “pegs,” prices of Governments moved lower. As the market moved lower, however, considerable support was obtained from purchases in the market by nonbanking investors.

This analysis of the situation, as given soon after the “accord” was reached, has been borne out in later years, and the System has been able to pursue a much more flexible policy in the past decade. The necessity for a flexible monetary policy was discussed by Watrous H. Irons, President of the Federal Reserve Bank of Dallas, in an address at the annual convention of the Texas Bankers Association in May 1958. During the address, Mr. Irons pointed out that flexibility had been demonstrated on several occasions since the “accord.” Extracts from his remarks are given below:

Our type of dynamic private enterprise economy requires a flexible monetary policy. While monetary policy alone cannot assure economic stability, it can do much to limit inflation during the speculative, boom phase of the cycle, and much to cushion recession and provide an atmosphere conducive to recovery during the downward phase. However, the monetary authorities must always be in a position to shift from ease to restraint, or from restraint to ease, as business conditions change.

The Federal Reserve authorities have been able to pursue a flexible policy during the seven years since the Treasury-Federal Reserve accord. Since that time, policy has shifted direction three times in response to changing business conditions. In mid-1953, the policy of restraint was shifted rapidly to ease as recession set in; in late 1954, policy was shifted gradually toward

restraint as recovery from the mild and short-lived recession got under way; and in late 1957, policy was shifted rapidly from restraint to ease as inflationary pressures abated and recessionary pressures began to mount. Just as a dynamic economy requires flexible credit policies, flexible credit policies are possible only if interest rates are, in turn, flexible. The interest rate for any particular type of credit extension is a price, and it serves the same function, in a sense, as the price of bread, or the price of automobiles. Under inflationary conditions, when monetary policy is restrictive, interest rates tend to rise as prospective borrowers find that there is not sufficient credit available to satisfy all of their desires for funds. It is a simple situation of excessive demand relative to limited supply. While it might be possible to hold interest rates down temporarily by creating additional amounts of money (or credit), to do so would defeat the basic purpose of monetary policy by directly feeding the fires of inflation. In an inflationary situation, it is the excessive flow of spending relative to productive capacity, available raw materials, and available labor supply that causes trouble; thus, spending must be dampened temporarily rather than encouraged. Consequently, monetary policy as a restrictive device can exert its full effectiveness only if interest rates are free to rise in response to demand and supply forces.<sup>89</sup>

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In January 1952, Assistant Vice President and Secretary Morgan H. Rice, who had accepted a special appointment with the State Bank of Pakistan, was granted a leave of absence for a period of one year. Subsequently, Mr. Rice's contract with the State Bank of Pakistan was extended for a period of four months, and the leave of absence was likewise extended.

In a letter dated April 1, 1952, Leon Daniels, who had been Auditor of the bank since November 1, 1950, submitted his resignation effective at the close of business on April 30. G. R. Murff, Assistant Secretary of the Board of Governors of the Federal Reserve System, Washington, D. C., was elected General Auditor to succeed Mr. Daniels. Mr. Murff reported for duty on June 1.

On May 8, Harry A. Shuford, Counsel of the bank, was elected Vice President and General Counsel. It was understood that in his capacity as Vice President, Mr. Shuford would be assigned certain administrative responsibilities.

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<sup>89</sup> Watrous H, Irons, "Business Conditions and Credit Policies," The Texas Bankers Record, Volume XLVII, No. 9 (May 1958), pp. 72-73.

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In connection with the resignation of Director G. A. Frierson in the early part of 1952, the Board of Directors of the Dallas bank adopted a resolution expressing its appreciation of his services to the Federal Reserve Bank of Dallas. The copy of the resolution was printed in Old English characters on parchment paper and enclosed in a leather folder bearing an embossed copy of the bank's emblem on its cover. Upon motion made and carried, it was voted that in the future, upon the occasion of a Director of the Head Office or of one of the Branches leaving the Board, copies of any resolutions which might be adopted be set forth in appropriate form and enclosed in a leather folder for presentation to the outgoing director.

From time to time during 1952, negotiations were conducted for the purchase of property at San Antonio, Texas, to be used as a site for the construction of a new building to be occupied by the San Antonio Branch. At a meeting of the Board of Directors on July 10, Vice President Austin reported that the purchase of property known as the "Gibbs MacDaniel" property had been completed. There was located on this property a large, two-story, stone house, known as the Vance House, built in 1857-59. It was reputed that this house at one time had been the headquarters of General Robert E. Lee, of Confederate Army, and the San Antonio Conservation Society asked that the bank take appropriate steps to preserve the building. However, this request could not be granted, and in the latter part of September, destruction of the building was begun. As a result of the destruction, the bank received considerable adverse newspaper publicity. Upon completion of the San Antonio Branch building in the latter part of 1956, a marble commemorative plaque, bearing an inscription in recognition of the historical significance of the site, was placed on the grounds outside of the building. This action counteracted the previous unfavorable attitude of some of the San Antonio residents.

At a meeting of the directors on September 11, 1952, Chairman Parten stated that he had made a study of the available facilities and work space at the Head Office and at each of the Branches, and had found that the quarters were wholly inadequate. In that connection, the Board voted to authorize the President of the bank to contact a real estate agent in order to ascertain the possibility of purchasing property adjoining the Head Office building. Subsequently, a contract was signed for the purchase of the American Bus Lines

property directly east of the Head Office building, and negotiations were begun to acquire also the Nardis property adjoining the American Bus Lines property on the South.

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The bank's Annual Report covering the year 1953 stated that economic activity in the Eleventh Federal Reserve District was maintained at very high levels. In the early months, an undercurrent of further inflation seemed to exist; whereas, in the later months, a note of readjustment developed. Agriculture was adversely affected by a severe drought and the continuation of a decline in farm prices; however, industrial activity was maintained at a high rate and the production of crude oil and natural gas rose to new records. A high rate of construction activity prevailed.

On August 31, 1953, R. R. Gilbert, who had been President of the bank since April 13, 1939, and R. B. Coleman, who had been Vice President since March 1, 1936, retired under the provisions of the Federal Reserve System retirement plan. Mr. Gilbert had been connected with the bank since its opening on November 16, 1914, and Mr. Coleman had been in the bank's service since July 2, 1915.

At a meeting of the Board of Directors held on September 10, 1953, the following resolution was adopted in connection with President Gilbert's retirement:

WHEREAS, Robert Randle Gilbert retired as President of the Federal Reserve Bank of Dallas on August 31, 1953, after serving the institution in various capacities for 39 years;

NOW, THEREFORE, BE IT RES OLVED, That –

The directors of the Federal Reserve Bank of Dallas express their warm and devoted friendship and great admiration for

ROBERT RANDLE GILBERT

whose distinguished service exemplifies his native endowments, his extraordinary diligence, his capacity for friendship, and his qualities of leadership. We treasure and cherish his friendship because of his kindly and lovable disposition, his unfailing smile, his sterling character, his deep integrity, and his acute sense of justice. We admire him for his outstanding diligence and efficiency, his broad knowledge and keen understanding of banking, finance, industry, and business; his sound and seasoned judgment; and his outstanding leadership in banking and finance and in civic affairs. These qualities have enabled him to exert a strong and wholesome influence upon central banking policies in the Nation and upon commercial

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banking operations in the region, making his service of inestimable value to the Eleventh Federal Reserve District.

AND BE IT FURTHER RESOLVED, That this resolution be spread upon the minutes of the Board and a copy transmitted to former President Gilbert.

A similar resolution was adopted with respect to Mr. Coleman. On October 26, 1953, Vice President Mac C. Smyth, who had been a member of the bank's staff since February 1, 1917, passed away.

At a meeting of the Board of Directors on March 12, Chairman Parten announced the appointment of a Head Office building committee consisting of directors D. A. Hulcy, Hal Bogle, and J. B. Thomas. Mr. Hulcy was designated chairman of the committee.

At the meeting of the Board of Directors on November 12, there was presented a resolution adopted by the Board of Directors of the El Paso Branch on October 15, 1953, in which that Board expressed the view that the El Paso Branch was inadequate and antiquated and recommended that immediate action be taken toward the acquisition of land and the construction of a new building. After discussion, the Head Office Board voted to authorize the Chairman to appoint a committee consisting of an operating officer of the bank and two directors to work with a building committee to be appointed by the Board of Directors of the El Paso Branch for the purpose of conducting investigations and making recommendations to the Head Office Board of Directors. Thereupon, Chairman Parten appointed to such committee Directors Hal Bogle and J. Edd McLaughlin and Vice President E. B. Austin. Mr. Bogle was designated chairman.

At a meeting of the Head Office Board of Directors held on December 10, there was submitted an extract from the minutes of the Board of Directors of the Houston Branch held on November 19, 1953, relating to the need for enlarged facilities at the Houston Branch. After consideration of the various factors involved, it was voted to authorize the Chairman to appoint a committee consisting of an operating officer and two directors to work with a building committee to be appointed by the Board of Directors of the Houston Branch for the purpose of conducting investigations and making recommendations to the Head Office Board of Directors. Chairman Parten appointed a committee consisting of Directors P. P. Butler and Robert J. Smith, and Vice President E. B. Austin. Mr. Butler was designated chairman of this committee.



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Figure 20 – Watrous H. Irons

President, Federal Reserve Bank of Dallas. Elected President in February 1954, succeeding R. R. Gilbert, who had retired.

At a meeting of the Board of Directors held on January 14, 1954, there was a full discussion of the matter of building programs at the El Paso and Houston Branches. It was voted, subject to the approval of the Board of Governors of the Federal Reserve System, to authorize the El Paso and Houston Branch building committees, in conjunction with the respective Head Office building committees for Branch buildings, to locate a suitable site for the building in each Branch city, to obtain options on the property, and to authorize Vice President Austin to go to Washington to make a personal presentation of the programs to the Board of Governors.

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The office of President of the Federal Reserve Bank of Dallas had been vacant since the retirement of R. R. Gilbert on August 31, 1953. On February 11, 1954, at an executive session of the Board of Directors, Watrous H. Irons, who had been Vice President of the Dallas bank since April 19, 1946, was elected President, succeeding Mr. Gilbert, for the unexpired portion of the five-year term ending February 29, 1956.

On March 11, 1954, Morgan H. Rice was elected Vice President and Secretary of the Board, and T. W. Plant was elected Vice President. Mr. Rice had been Assistant Vice President and Secretary of the Board, and Mr. Plant had been Assistant Cashier. At the same meeting, Howard Carrithers, formerly Assistant Cashier, was elected Assistant Vice President; Phillip E. Coldwell was elected Director of Research; James A. Parker was elected Director of Personnel; and George F. Rudy, formerly Assistant Counsel, was elected Assistant Counsel and Assistant Secretary of the Board.

At a meeting held on April 8, 1954, the Board reviewed the negotiations which had taken place over a period of several weeks with respect to the acquisition of the Nardis property, adjacent to the American Bus Lines property which had been previously acquired in connection with the proposed expansion of the Head Office facilities. At this meeting, upon motion made and carried, it was voted to authorize the officers of the bank to complete the purchase of the Nardis property. The Board of Governors had theretofore informed President Irons that it would interpose no objection to the purchase of the property.

In July 1954, contracts were signed for the construction of a new building for the San Antonio Branch, at a cost of approximately \$1,400,000. Under the plans, the building (including two basement areas) would provide 90,000 square feet of floor space. Ground was broken for this building on August 9.

On September 9, 1954, the following staff changes were made, to be effective January 1, 1955: Thomas A. Hardin was elected Assistant Cashier at the Head Office, William M. Pritchett was elected Executive Assistant at the Head Office; Carl H. Moore was elected Assistant Cashier at the San Antonio Branch. At the same meeting, it was voted, effective January 1, 1955, to transfer W. H. Holloway, Vice President in Charge of the Houston Branch to the Head Office, and to designate him as Vice President and

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Cashier, and to transfer J. Lee Cook, Vice President and Cashier, to the Houston Branch and to designate him as Vice President in Charge of that Branch.

On November 12, Thomas R. Sullivan was elected Assistant Cashier at the Houston Branch, effective January 1, 1955.

General conditions in the Eleventh Federal Reserve District during 1954 were considered satisfactory. Resource, capital accounts, and net profits of member banks in the district increased to record levels. The bank's Annual Report pointed out that 1954 opened on a note of economic uncertainty and closed in an atmosphere of general optimism; that a pattern of recession, stability, and recovery was reflected in the economic developments of 1954.

In spite of drought conditions in some sections of the district, total agricultural production was equal to that of the preceding year, although cash receipts from farm marketings declined slightly as a result of the lower agricultural prices.

At a meeting of the Board of Directors held on June 9, 1955, the matter of the preparation of a history of the Federal Reserve Bank of Dallas was discussed. There follows an extract from the minutes of the meeting:

President Irons referred to the desirability of collecting material and preparing a History of the Federal Reserve Bank of Dallas. He pointed out that within a few years the officers and employees who had been associated with the bank during most of its existence would be retiring and that unless the information were obtained now, it might become impossible to recapture the important happenings during the formative years of the bank. He referred to the project now under way for the preparation of a History of the Federal Reserve System and stated that, as this bank was cooperating in that project, considerable work would be requested. He stated that it probably would be necessary to assign qualified personnel directly to the project which would remove them temporarily from their regular duties. After a discussion of the matter, the consensus of the directors was that the President should proceed with the study in a manner that seemed most appropriate for collecting and preserving the information pertaining to the History of the Federal Reserve Bank of Dallas.

On September 8, 1955, the Board of Directors elected Howard Carrithers, formerly Assistant Vice President and a Vice President of the bank, and placed him on special assignment at the El Paso Branch from November 1 through December 31, 1955. At the same time, Mr. Carrithers was designated Vice President in Charge of the El Paso

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Branch, effective January 1, 1956, to succeed C. M. Rowland, who would retire on December 31, 1955.

At a meeting of the Board of Directors held on January 12, 1956, Carl H. Moore, formerly Assistant Cashier at the San Antonio Branch, was elected Assistant Cashier at the Head Office, to be transferred to the Head Office on February 1, 1956. At the same time, W. M. Pritchett was elected Assistant Cashier at the Head Office; T. A. Hardin was elected Assistant Vice President; and Frederic W. Reed was elected Assistant Cashier of the San Antonio Branch.

On January 12, the Board of Directors of the Dallas bank, subject to the approval of the Board of Governors of the Federal Reserve System, elected Watrous H. Irons, President, and W. D. Gentry, First Vice President, each for a five-year term beginning March 1, 1956.<sup>90</sup> These appointments were approved by the Board of Governors.

At a meeting of the Board of Directors held on June 14, 1956, it was voted, subject to the approval of the Board of Governors of the Federal Reserve System, to authorize the construction of a new building for the Houston Branch at an estimated total cost of \$2,276,000.

On July 12, the Board reviewed the final plans and specification for the new El Paso Branch, and upon motion made and carried, it was voted, subject to the approval of the Board of Governors, to authorize the construction of the building at an estimated cost of \$1,161,000. Subsequently, at a meeting on October 11, the Board approved contracts covering the entire El Paso project at a cost of \$1,210,000.

On July 12, Charls E. Walker, formerly of the bank's Research Department, who had been on leave for approximately a year while employed on a special assignment at the Republic National Bank of Dallas, was elected Economic Advisor of the Reserve Bank, effective September 1, 1956. Also, on July 12, James L. Cauthen was elected Assistant Cashier of the bank.

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<sup>90</sup> Mr. Gentry's reappointment subject to his mandatory retirement at age 65.



Present quarters of San Antonio Branch. Formal opening of new building celebrated October 11, 1956.

Figure 21 – San Antonio Branch Building, 1956  
Formal opening of new building celebrated October 11, 1956.

On October 11, the new building at the San Antonio Branch was occupied. In celebration of that occasion, there was held a joint meeting of the Head Office Board of Directors and of the directors of the El Paso, Houston, and San Antonio Branches. The meeting was also attended by Charles N. Shepardson, a member of the Board of Governors, and Robert F. Leonard, Director of the Board's Division of Bank Operations. Another feature of the celebration was a dinner held on the evening of October 11. In addition to the persons who attended the Board meeting, bankers in the San Antonio area and prominent businessmen of the city of San Antonio were invited to attend the dinner.

On July 5, 1956, ground was broken for a new Houston Branch building on the block bounded by San Jacinto and Caroline Streets and Jefferson and Peace Avenues. Plans provided for three floors above the ground, as well as a basement and underground security court, with the new building to provide 93,000 square feet of floor space.

On November 15, 1956, ground was broken for a new El Paso Branch building on the half-block bounded by Main, Stanton, and Kansas Streets, and the Texas and New Orleans Railroad. The building plans provided for two stories above ground, a basement, an underground security court, and 42,000 square feet of floor space.

Continuous Borrowings

During the year 1956, around 50 member banks utilized the credit facilities of the Federal Reserve Bank. Although member bank borrowings were generally in fairly small amounts and for temporary periods, a few cases of continuous and rather substantial borrowings came to the attention of the management of the Reserve Bank. These cases were reviewed carefully and discussed fully with the management of the member banks in that category. The matter of continuous borrowings had been referred to in the forward to Regulation A, as revised effective February 15, 1955, which stated, in part, that “Federal Reserve credit is generally extended on a short-term basis to a member bank to enable it to adjust its asset position when necessary because of developments, such as a sudden withdrawal of deposits or seasonal requirements for credit beyond those which can reasonably be met by use of the bank’s own resources.” Also, “Under ordinary conditions, the continuous use of Federal Reserve credit by a member bank over a period of time is not regarded as appropriate.”

As an example of administrative attention given to borrowings that appeared to be in a continuous category, there is shown below an exchange of correspondence in the summer of 1956 between First Vice President Gentry and the president of the borrowing bank:

July 26, 1956

Mr. A. B. B, President

[REDACTED]  
[REDACTED], Texas

Dear Mr. B:

In reviewing member bank borrowings for the six months’ period ended July 25, 1955, our Discount Committee notes that your bank has been indebted to the Reserve Bank 156 days of the 182-day period. Peak borrowings have

amounted to \$3,000,000, and average daily borrowings for the entire period have amounted to \$1,978,021.98, which is equal to about 50 percent of your reserve requirement.

In this connection your attention is called to the foreword to Regulation A, a statement of general principles regarding the use of Federal Reserve credit. You will note that Federal Reserve credit, except under unusual or emergency conditions, is generally extended on a short-term basis in order to enable a bank to adjust its asset position, when necessary, because of developments such as sudden withdrawals or certain seasonal requirements for credit, but that the continuous use of Federal Reserve credit over a considerable period is not regarded as appropriate.

We would be interested in knowing what plans you may have in mind toward adjusting your position so that it will not be necessary for you to make such continuous use of Federal Reserve credit.

Very truly yours,

W. D. Gentry  
First Vice President

In response to President Gentry's letter, the president of the bank responded, as follows:

July 28, 1956

Mr. W. D. Gentry, First Vice President  
Federal Reserve Bank of Dallas  
Dallas, Texas

Dear Mr. Gentry,

Your letter of July 26<sup>th</sup> inquires about our plans toward adjusting our position so it will not be necessary to make such continuous use of Federal Reserve credit.

We, of course, find it advantageous to use Federal Reserve credit rather than to make additional sales of our Government bonds, all of which are yielding in excess of three percent.

There has been an expression at some time in the past that I recall to the effect that the use of Federal Reserve credit for the purpose of avoiding liquidation of Government bonds is not contrary to the wishes of the Federal Reserve Board. We realize, however, that our use of this credit has been continuous and relatively substantial.

It is our plan, unless instructed to the contrary by your bank, to continue use of this credit until the end of the year, at which time, in view of conditions existing, we will make liquidation of sufficient bonds to relieve this situation. We hope that this will be permitted.

Yours very truly,

A. B. B  
President

Mr. Gentry's reply to Mr. B's request is as follows:

July 30, 1956

Mr. A. B. B, President

[REDACTED]  
[REDACTED], Texas

Dear Mr. B:

We have your letter of July 28 in response to ours regarding the continuous use of Federal Reserve credit by your bank during the past six months. You state that you find it advantageous to use Federal Reserve credit rather than make additional sales of Government bonds, all of which are yielding your bank better than three percent. Ordinarily, of course, it is advantageous to borrow at a lower rate than the rate at which loans are made, or money is invested. Profits from rate differentials may very well be an incident to appropriate borrowings, but the use of Federal Reserve credit primarily and expressly for the purpose of profiting from rate differentials through purchases of Government securities in the open market is, as in the case of continuous borrowings, not considered appropriate.

In reviewing your balance sheets, as reported to us weekly, we observe that in the past four months (since the week ended April 4) you have liquidated your investment in Treasury notes amounting to \$5,838,000, and have increased your holdings of Treasury bonds by \$7,979,000 to a total of \$14,789,000. These weekly reports, of course, do not reflect the changes in your statement figures taking place between weekly reporting dates, but several successive reports during this period reflect a total investment in Government bonds of around \$12,800,000, and during this four-month period, your other principal statement items, such as deposits and loans, do not appear to have fluctuated substantially.

You state it is your plan, unless instructed to the contrary, to continue the use of Federal Reserve credit until the end of the year, at which time you will make liquidation of sufficient bonds to relieve the present situation. This is a matter we would prefer to discuss with you in a personal conference.



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Please let us know when it is convenient for you to pay us a visit in order that we may make our arrangements.

Very truly yours,

W. D. Gentry  
First Vice President

The reply to Mr. Gentry's letter follows:

July 31, 1956

Mr. W. D. Gentry, First Vice President  
Federal Reserve Bank of Dallas  
Dallas, Texas

Dear Mr. Gentry:

Thank you for your letter of July 30<sup>th</sup>.

I would welcome an opportunity to discuss with you our use of Federal Reserve credit. It may be possible that I will be able to be in Dallas before leaving on our summer trip next week, but it is not likely due to our Directors' Meeting and other pressing matters.

If you do not hear from me within the next few days, you will know that I will be in touch with you about the first week in September.

I trust you find this satisfactory.

Yours very truly,

A. B. B  
President

Mr. Gentry's response to Mr. Brown's request follows:

August 1, 1956

Mr. A. B. B, President

[REDACTED]  
[REDACTED], Texas

Dear Mr. B:

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Thank you for your letter of July 31, It will be entirely satisfactory for you to pay us a visit in the early part of September for the purpose of discussing your bank's use of Federal Reserve credit., if for any reason, it is not convenient for you to visit us before that time.

Best regards.

Sincerely yours,

W. D. Gentry  
First Vice President

On September 5, 1955, the member banker called on President Irons and First Vice President Gentry, and at this conference, the bank's continuous use of the Reserve Bank's discount facilities was discussed fully. Messrs. Irons and Gentry pointed out that the bank should make whatever adjustment in its asset position that would be necessary to avoid such frequent and continuous use of the discount window in the future. The records show that the bank retired its borrowings shortly after the conference and remained out of debt for a few months, but that it resumed continuous borrowing about the middle of 1957.

In August 1956, a member banker wrote President Irons about the desirability of permitting member banks to renew 15-day notes secured by Government obligations. This led to a discussion of continuous borrowings, as evidenced by the following exchange of correspondence:

[REDACTED]  
[REDACTED], TEXAS  
August 31, 1956

Dr. Watrous H. Irons, President  
Federal Reserve Bank of Dallas  
Dallas, Texas

Dear Dr. Irons:

Legitimate commercial and industrial growth in the Southwest in the past few years has been tremendous and it continues, as you well know. Banks, quite properly we think, have endeavored to aid in that growth by extending to worthy and deserving depositors, reasonable amounts of credit to care for current – not capital – needs. This has resulted in rather full loan accounts. In addition, crops are now moving. The demands by cotton

merchants and rice millers are substantial and for the next several months will increase. This adds to the burden, but crops must find their way into the channels of trade. Bank credit in large amounts is essential to the process.

Present Federal Reserve Bank policy, as I understand, opposes member bank borrowing on their 15-day notes collateralized by U. S. Government securities for periods in excess of 15 days. If longer terms are needed, eligible and acceptable paper should be tendered for rediscount.

As you also know, many banks have found it necessary to sell their short term and even intermediate Government holdings in order to play what they conceive to be their proper role in supporting business and agricultural interests of the character heretofore described. They possess only longer term bonds selling below par. If these cannot be used as collateral except for brief periods, alternatives are to rediscount (at a higher rate), sell the bonds at a loss or restrict loans. The Government wants purchasers of savings bonds to retain them. For the same reason, retention of bonds by banks would seem desirable. Moreover, banks do not want to take bond losses, nor do they want to pay any more interest than is necessary. It would seem that the interests of all could well be served with harm to none if the Federal Reserve Banks, for a period, would permit renewals of 15-day notes.

It may be argued that to do so, would let the bars down and invite more inflation. Some banks might unwarrantedly and unreasonably expand their loan operations, concurrently and dangerously diminishing necessary secondary reserves. Some might even use that credit to speculate in sub-par bonds. It would seem those undesirable contingencies could be guarded against by requiring the 15-day notes to be accompanied by certificates (in suitable phraseology) to the effect that the proceeds had been or would be used to care for the current operating needs of commercial and industrial business concerns.

Further, this relaxation of policy might well be for say, six or eight months only – the likely duration of the crop moving season.

Finally, a borrowing bank's limit might be fixed at, say 100% or even 50% of its combined capital stock and surplus.

It is hoped that what is written above will not be taken as presumptuous. Presumption is by no means intended. It is believed, however, that much aid to the banks and to the economy would follow if appropriate steps are taken to make available for a temporary period a reasonable portion of the credit now frozen in sub-par U. S. Government bonds.

Respectfully,

(Signed) C. D. B  
Vice President

The response to Mr. B's inquiry is as follows:

September 6, 1956

Mr. C. D. B, Vice President  
[REDACTED]  
[REDACTED], Texas

Dear Mr. B:

I appreciate very much your letter of August 31 outlining your understanding and views regarding certain matters relating to the user of Federal Reserve credit by member banks. Your letter certainly is not presumptuous and I am very glad of this opportunity to reply to the points you have raised.

The general principles underlying the use of Federal Reserve discount facilities are summarized briefly in the foreword to Regulation A, a copy of which is enclosed with this letter. These principles assume that, in general, Federal Reserve credit will be extended on a short-term or temporary basis to help member banks meet such needs as a deficiency in reserve positions as a result of – for example – unanticipated deposit withdrawals; seasonal requirements beyond those which might reasonably be expected to be met by use of the member bank's own resources; and requirements due to other short-run developments arising out of the production and distribution of goods and services, in business, industry, and agriculture.

The key to the availability of Reserve Bank credit, as a general rule, lies in whether the need for such credit represents an appropriate use of Reserve Bank credit and whether the use of Reserve Bank credit is discontinuous in contrast to continuous.

While it is not possible to be definitive and precise with respect to all possible cases, I believe the foreword to Regulation A indicates, in a general way, what might be regarded as appropriate use of Reserve Bank credit and what might be regarded as inappropriate.

You will also note that the foreword to Regulation A indicates that except under unusual circumstances, the continuous use of Reserve Bank credit by a member bank over a considerable period of time is not regarded as appropriate. "Continuous" could be regarded as meaning the borrowing for a substantial number of consecutive days, or possibly borrowing within a considerable number of consecutive reserve periods – thus, in fact, tending to average out reserve positions. In other words, Federal Reserve credit,

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properly used, should help meet short-term current needs – not capital needs – for I think we would be in agreement that a bank should, as a general rule, operate within its own resources to the extent that might reasonably be expected of it.

While it is the policy of this bank to make advances against member bank notes secured by Government securities for 15-day periods, there is no prohibition and, in fact, it would not be this bank's practice to refuse to renew such notes for more than one period – assuming that the use of the credit could be regarded as appropriate and had not been extended to the point where it could be regarded as continuous.

You are misinformed in your understanding that the rate charged by Reserve Bank is higher when eligible and acceptable paper is rediscounted than when advances are made to member banks against Government securities. The rate is the same in each case and at present is three percent. However, it does not necessarily follow that an offering of eligible and acceptable paper, with maturities in excess of 15 days, would justify an extension of Reserve Bank credit on a maturity basis different than that being observed with respect to advances against Governments.

Obviously, in a matter having so many variables as the borrowing and use of credit, it is only possible to establish general principles for guidance and then attempt to handle each individual case within the spirit of those principles. I hope that this letter may be of some assistance to you; if, however, you do have any further questions, I would appreciate very much your calling me, for I should enjoy discussing the matter with you. On my next trip to [REDACTED], I will try to visit with you a bit – first, for the pleasure of the visit, and, secondly, to try to answer any further questions that you may have.

With cordial regards.

Sincerely yours,

Watrous H. Irons  
President

In reply to Mr. Iron's correspondence, the following was sent:

[REDACTED]  
[REDACTED], TEXAS

September 7, 1956

Dr. Watrous H. Irons, President  
Federal Reserve Bank of Dallas

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Dallas, Texas

Dear Dr. Irons:

Thank you for your letter of September 6.

We are in complete agreement respecting the use and abuse of Reserve Bank credit. Whether the temporary practice described in my letter of August 31 would violate the principle is the point which we need more light.

The foreword to Regulation A states in part, "Federal Reserve credit is generally extended on a short-term basis to a member bank in order to enable it to adjust its asset position when necessary because of developments such as a sudden withdrawal of deposits or seasonal requirements for credit beyond those which can reasonably be met by use of the bank's own resources."

Paragraph six of your letter of September 6 reads as follows:

"While it is the policy of this bank to make advances against member bank notes secured by Government securities for 15-day periods, there is no prohibition for, and in fact, it would not be this bank's practice to refuse to renew such notes for more than one period – assuming that the use of the credit could be regarded as appropriate and had not been extended to the point where it could be regarded as continuous."

Due to the drought and disappointing crop returns, our correspondent bank deposits are not showing the usual increases which we normally expect at this season. At the same time, and this may seem paradoxical, it is a fact that the current demands of cotton merchants and rice millers are such that we are considerably taxed to handle them within our own resources. In sum, the "seasonal requirements for credit beyond those which can reasonably be met by use of the bank's own resources" are close upon us. We could handle the burden by selling a sufficient amount of Government bonds, but that would entail a loss. That would be operating within our own resources, but we don't relish taking a loss just to meet a temporary condition. We therefore would like to be accorded the privilege, if needed, of renewing our 15-day notes during the present crop moving season. This does not mean that our obligation would reach a figure and remain constant. It would rise and fall as our reserve position demanded. At the moment, we have no need to borrow, but we are yet to see the peak of commodity loans. We are simply looking ahead.

It seems to me this would be a most helpful and constructive service which could be granted without doing violence to sound policy. Your further comment will also be helpful.

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You are cordially invited to visit us when next in [REDACTED]. It will be a pleasure to see you.

Sincerely,

(Signed) D. C. B  
Vice President

Mr. Iron's response to Mr. B's letter is shown below:

September 14, 1956

Mr. C. D. B, Vice President

[REDACTED]  
[REDACTED], Texas

Dear Mr. B:

Your letter of September 7 was received while I was in Washington, D. C. attending certain meetings and today is the first opportunity I have had to reply. I hope my delay has not been a cause of inconvenience to you.

I don't know that there is very much that I can add to my letter of September 6, in which I stated that it is only possible to establish general principles for guidance and then attempt to handle each individual case within the spirit of those principles. In my judgment the spirit of those principles, as set for in Regulation A, clearly implies among other things, a short-term, temporary, discontinuous use of Federal Reserve credit by a member bank as a general policy.

In your letter of September 7, you suggest that more information regarding the "temporary practice" described in your letter of August 31 would be helpful. In discussing this matter in your letter of August 31, with respect to time periods, you refer at one point to "the next several months" and at another point to "six to eight months only."

Consistent with the principles set forth in the foreword to Regulation A, and as a general indication of the policy of this bank, I do not believe that the bank's discount committee could regard a borrowing period of several months or six to eight months as discontinuous. A borrowing period of such length would, as a general rule, be regarded as continuous and contrary to the spirit of the regulation.

I hope this supplement to my former letter clarifies the question, but if I can be of further assistance, please let me know.

With cordial regards.

Sincerely yours,

Watrous H. Irons  
President

- - - - -

At a meeting of the Board of Directors held on June 13, 1957, the following individuals were elected to the official positions indicated, effective September 1, 1957: Frederic W. Reed, formerly Assistant Cashier at the San Antonio Branch, was elected Cashier of the El Paso Branch; Alvin E. Russell, formerly Cashier of the El Paso Branch, was elected Assistant Cashier of the San Antonio Branch; F. J. Schmid, of the San Antonio Branch, was elected Assistant Cashier of that Branch; B. J. Troy, formerly Assistant Cashier at the Houston Branch, was elected Cashier of that Branch; W. C. Hartung, of the Houston Branch, was elected Assistant Cashier of that Branch.

At a meeting of the Board of Directors held on October 10, 1957, T. A. Hardin, formerly Assistant Vice President, was elected Vice President of the bank, and Charls E. Walker, formerly Economic Adviser, was elected Vice President and Economic Adviser. At the same meeting, Carl H. Moore, formerly Assistant Cashier, was elected Assistant Vice President. All of these changes were to become effective January 1, 1958.

The new building at the El Paso Branch was completed in the latter part of 1957, and the completion of the new facilities was formally celebrated on January 9, 1958, at a joint meeting of the Board of Directors of the bank and of the Board of Directors of the El Paso, Houston, and San Antonio Branches. This meeting was held in the Director's room of the new building. Charles N. Shepardson, member of the Board of Governors; Woodlief Thomas, Economic Advisor to the Board of Governors; and Robert F. Leonard, Director of the Division of Bank Operations of the Board of Governors, also attended the meeting. The celebration included a luncheon and dinner and a tour of the new building.



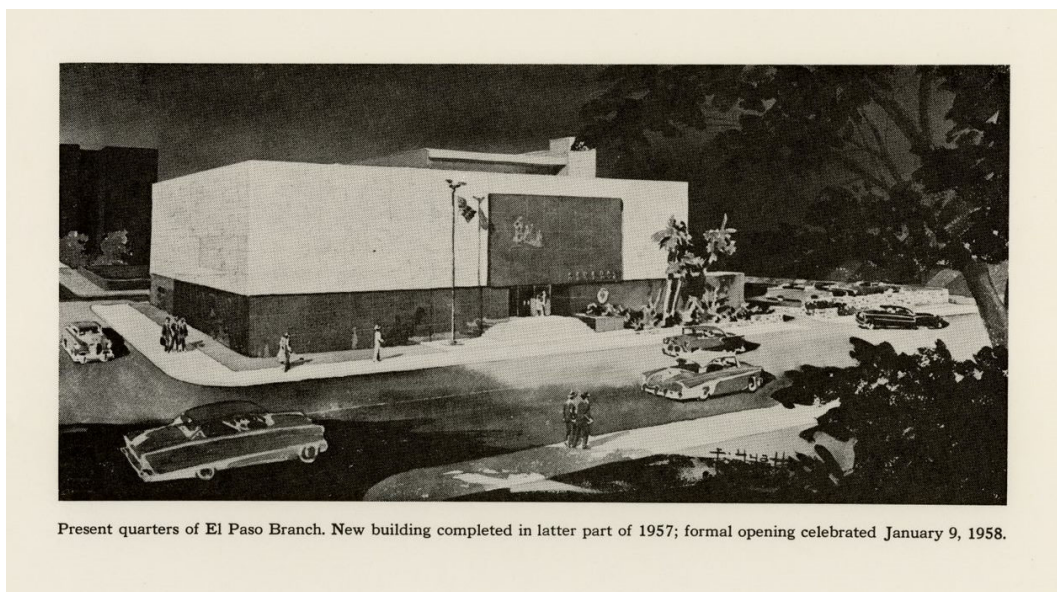


Figure 22 – El Paso Branch Building, 1958

Second permanent quarters of the El Paso Branch. The new building was completed in the latter part of 1957; and the formal opening celebrated January 9, 1958.

On April 10, 1958, the Board of Directors of the Federal Reserve Bank of Dallas and its El Paso, Houston, and San Antonio Branches held a joint meeting in the newly opened building of the Houston Branch. This meeting was also attended by Mr. Robert F. Leonard, Director of the Division of Bank Operations at the Board of Governors. The celebration included a luncheon and dinner as well as a tour of the new facilities.

At a meeting of the Board of Directors held on June 12, 1958, President Irons announced that bids for the construction of the new addition to and the remodeling of the Head Office building had been received and tabulated and that the low bid had been submitted by Robert E. McKee, General Contractor, Inc. After full consideration, upon motion made and carried, it was voted, subject to the approval of the Board of Governors, to accept the McKee bid for the general contract and the bid of the Mosler Safe Company for vault doors and vault interior equipment, the total estimated construction cost to be approximately \$7,766,000.

At a meeting of the Board of Directors held on September 11, T. W. Plant, formerly Vice President, was elected Vice President and Cashier of the bank, effective October 1, 1958, succeeding W. H. Holloway, who would retire on September 30, 1958. It was also voted that Vice President E. B. Austin, who was scheduled to retire on October 31, 1958,

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upon retirement, would be employed as Consultant to the President, a non-official position. Unfortunately, however, Mr. Austin died in El Paso on September 14, 1958, as a result of a heart attack. At the time of his death, Mr. Austin was visiting the El Paso Branch, checking up on some matters involving the new building. He had been in the service of the bank for 41 years and during the last few year, had been devoting his time principally to the building programs at the Head Office and Branches. At a meeting of the directors on October 9, the following resolution was adopted regarding Mr. E. B. Austin:

We, the directors of the Federal Reserve Bank of Dallas having been saddened by the sudden passing from this life on September 13, 1958, of a beloved officer of this bank, Earl Bowen Austin, desire to record our sorrow and the sense of great loss suffered by this institution.

Throughout his 41 years of faithful and proficient service, he demonstrated his unflinching sincerity, his competence, and sound judgment, his capacity for hard work, his eagerness for accomplishment, his knowledge of bank operations, and his versatile nature. He was a man who calmly accepted his assignments, mastered the techniques for handling them, and then performed in a superb manner. These qualities enabled him to rise step by step from clerk through various other positions relating to nearly all phases of the Bank's operations to the high office of senior Vice President, performing the most difficult assignments. The buildings for the Bank's Branch offices stand as a monument to the excellence of his performance, his mastery of detail, and his love of the beautiful.

NOW, THEREFORE, BE IT RESOLVED, That we, the directors of the Federal Reserve Bank of Dallas, express admiration for his conscientious devotion to duty, honor his memory, and pay tribute to his character, integrity, and ability as we record our sorrow at his untimely departure from our midst and extend our sincere sympathy to his bereaved family.

BE IT FURTHER RESOLVED, That this resolution be spread upon the minutes of the Board, and that a copy be transmitted with our sincere condolence to his family.

With respect to Mr. Holloway's retirement, the Board of Directors, at the meeting on October 9, adopted a resolution expressing their friendship and esteem for him and their appreciation of the important contribution he had made to the operations of the bank during his long years of service.

During 1958, there were eighteen retirements of officers and employees at the Head Office and Branches and five deaths in active service.



Figure 23 – Houston Branch Building, 1958

Second permanent home of the Houston Branch. Formal opening of the new building celebrated April 10, 1958.

At a meeting of the Board of Directors held on January 8, 1959, Vice President and General Counsel Harry A. Shuford was elected, subject to the approval of the Board of Governors, First Vice President of the bank, effective March 1, 1958, for the unexpired of a five-year term ending February 28, 1961. Mr. Shuford was to replace First Vice President W. D. Gentry, who was scheduled to retire on March 1. In connection with Mr. Gentry's retirement, the Board of Directors on March 12 adopted a resolution expressing high esteem for Mr. Gentry and their appreciation of his contribution to the Federal Reserve Bank of Dallas and his influence upon commercial banking operation policy in the district during his 43 years of service with the Reserve Bank.

At a meeting of the Board of Directors held on February 12, 1959, Carl H. Moore and James L. Cauthen were elected Vice Presidents of the bank; George F. Rudy was elected General Counsel and Assistant Secretary of the Board; Robert H. Boykin was elected Assistant Counsel; Thomas R. Sullivan and R. E. Bohne were elected Assistant Cashiers at Head Office; and Rasco R. Story was elected Assistant Cashier at the Houston Branch. Vice President Moore was designated to have charge of the San Antonio Branch.

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On March 12, Vice President and Economic Adviser Charls E. Walker was granted a leave of absence for a period of one year in order to enable him to accept a special assignment as Economic Advisor to Secretary of the Treasury Robert A. Anderson.

On June 11, the following changes in the official staff were made, effective July 1, 1959: Thomas R. Sullivan was promoted to Assistant Vice President with supervisory responsibility of bank examination, succeeding Chief Examiner Moss E. Hulseley, Jr., who had resigned to accept a position with a commercial bank; James O. Russell was promoted to Chief Examiner under the direct supervision of Mr. Sullivan; Assistant Cashier W. M. Pritchett was elected Assistant Vice President; E. A. Thaxton, Jr., was elected Assistant Cashier.

At a meeting of the Board of Directors on October 8, 1959, it was voted that, effective January 1, 1960, the title of Director of Personnel James A. Parker be changed to Vice President.

At a meeting of the Board of Directors on March 10, 1960, a leave of absence for Vice President and Economic Charls E. Walker was extended for one year from April 17, 1960, on the same terms and conditions as the original one-year leave, which had been approved in March 1959.

At the same meeting, President Irons stated that for some time the members of the Board of Governors had been talking with him regarding the need for additional legal talent to relieve the acute situation existing at the Board, and that they had urged him to lend the services of the General Counsel George F. Rudy to the Board for a period of one year. Upon motion duly made and carried, it was voted to authorize the loan of Mr. Ruby's services to the Board of Governors for one year from April 1, 1960.

In view of the pending retirement of Vice President and Secretary Rice on November 1, 1960, and the loan of General Counsel and Assistant Secretary Rudy to the Board of Governors, the Board of Directors of the Dallas bank, on April 14, designated Vice President Murff as Acting Assistant Secretary.

On October 31, Vice President and Secretary Morgan H. Rice retired under the provisions of the Retirement System of the Federal Reserve Banks. It was announced that Mr. Rice had accepted an assignment as Adviser to the Central Bank of Nigeria. Following Mr. Rice's retirement, the directors of the Dallas bank, at a meeting on

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November 10, adopted a resolution expressing their warm friendship for Mr. Rice, their appreciation of his contribution to the bank's progress during his 40 years of service and wishing him much success in his new assignment.



Figure 24 – Addition to Head Office Building, 1960  
Head Office building addition completed in 1960

At a meeting of the directors on October 13, Phillip E. Coldwell, Director of Research, was appointed Vice President of the bank, effective November 1, 1960. Mr. Coldwell would succeed to the supervision of the research function of the bank upon the retirement of Vice President and Secretary Rice. Vice President and Acting Assistant Secretary G. R. Murff was appointed Acting Secretary of the Board of Directors and Assistant Cashier Herman W. Kilman was appointed Assistant Secretary of the Board, effective November 1, 1960. At the same meeting, Assistant Vice President Pritchett was appointed a Vice President of the Bank, effective January 1, 1961.

The enlargement and remodeling of the Head Office building was completed in the fall of 1960, and in the latter part of September, President Irons sent out a letter of invitation to representative bankers in the Eleventh Federal Reserve District to an informal Open House to be held on Wednesday, October 19, and Thursday, October 20. The bankers were invited to view the new and remodeled quarters and to observe the bank in operation, as well as to join members of the staff at a buffet luncheon in the bank's dining rooms. In connection with the Open House, senior members of the staff served as tour guides for visits through the entire building and answered questions with respect to the bank's operations. Many beautiful floral offerings were on display in the main lobby of the building, and the bank's quarters throughout presented a very attractive appearance. Approximately 235 bankers visited the bank on these two days.

Earlier in this chapter, some of the more important events that took place during the past ten years or so have been discussed, more or less in chronological order. In addition, certain other developments, either originating in this period of the bank's history or receiving more emphasis in recent years, are worthy of note and are given topical treatment under the following headings: Open Market Procedures, Budgetary Controls, Mechanization and Automation, Special Staff Functions, and Executive Development.

#### Open Market Procedures

An important development during the past decade has been the wide participation of the various Federal Reserve Banks in the policy decisions and the Open Market Operations of the Federal Open Market Committee. The first step was taken in June 1955, when the Committee amended its regulation relating to Open Market Operations of Federal Reserve Banks so as to discontinue its Executive Committee. This action was described in a paragraph on page 48 of the Annual Report of the Board of Governors, for the year 1955, reading as follows:

Executive Committee discontinued. The Federal Open Market Committee, comprising the seven members of the Board of Governors and five of the Presidents of the Federal Reserve Banks, amended its regulation relating to Open Market Operations of Federal Reserve Banks, effective June 22, 1955, so as to discontinue its executive committee, which was a standing committee consisting of three members of the Board and two Reserve Bank presidents. The executive committee, which was established following the Banking Act of 1935, was discontinued in view of the availability of more

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swift and certain travel facilities that facilitate the attendance of the members of the Federal Open Market Committee at regular meetings and make it possible to gather members for special meetings on short notice when necessary.

Previously, the Executive Committee met at frequent intervals for the purpose of handling open market transactions, and the full Committee discussed policy matters at quarterly meetings. The presidents of all of the Reserve Banks were invited to attend the quarterly meetings. Following the discontinuance of the Executive Committee, a procedure was established whereby the Federal Open Market Committee would meet at intervals of approximately three weeks, the presidents of all the Federal Reserve Banks would be notified of such meetings, and all of them would be expected to attend. It is customary, at these meetings, for the various presidents, regardless of whether they are members of the Committee, to give reports of economic conditions in their respective districts. In addition, although the right to vote is restricted to the members of the Committee (and to alternate members in the absence from a meeting of the member for whom such alternate is elected), all of the presidents are encouraged to give their views regarding any policy matters that may be under discussion. Moreover, the review of the monetary situation at the meetings covers all aspects of monetary policy, including reserve requirements and discount rates, in addition to open market operations.

All of the Reserve Bank presidents contribute their judgment and experience in the consideration of monetary policy matters during the course of these meetings and in the absence of a difference of opinion among the members of the Committee (which would be reflected in the record of the votes of the members), the actions taken usually represent a pooling of the judgments of members and nonmembers alike.

Although the Federal Reserve System, by evolutionary process through the years has taken on many of the characteristics of a central bank, the fact that the presidents of the Reserve Banks have such an important part in the determination of monetary policy and the handling of open market operations is an indication that the regional characteristics of the Federal Reserve System are being preserved.

Budgetary Controls

Another development in recent years has been the increased emphasis placed upon budgetary controls. During 1947, the Board of Governors of the Federal Reserve System requested the Federal Reserve Banks to reinstate the former practice of preparing annual budget estimates. That practice had been discontinued in 1942 when the Reserve Banks experienced difficulties in estimating with reasonable accuracy the probable costs of performing the various functions under wartime conditions. The reinstatement of the practice was in accordance with the Board's letter of February 4, 1947, addressed to the Presidents of all Federal Reserve Banks with a copy to each Chairman, reading in part as follows:

Now that the war is over, the Board has decided to ask the Federal Reserve Banks to resume the submission of annual budgets which were temporarily discontinued in 1942 upon the recommendation of the President's Conference, because of the difficulty in estimating in advance the cost of the various war activities they were constantly being asked to perform. Some of the Banks have continued to operate under a budget procedure, although this submission of a budget to the Board was not required.

Responsibility for supervision and control of the costs of operating the Reserve Banks, including expenses incurred by them as fiscal agents of the United States, is shared by the boards of directors and officers of the Banks and the Board of Governors. As the agency of the Government charged with responsibility for general supervision of the Reserve Banks, the Board should be able to demonstrate wherever necessary that it is in a position to, and does adequately supervise expenditures of the Reserve Banks for salaries and for other purposes. This subject was discussed during the last meeting of the Chairmen's Conference, and the Board desires to discuss the matter with the Presidents at the time of their next conference in Washington.

Upon receipt by the Board, the budgets will be analyzed carefully, and in case the Board wishes further information with respect to any items included therein, it will communicate with you. Should it appear at any time that expenses for a given function.... will exceed the budget, the Board should be advised in advance as to the probable amount and the reasons therefore.

During the next few years, the Board of Governors placed more and more importance upon the preparation and submission of budget estimates. In the Board's letter of August 31, 1949, there was given a complete outline of the budgetary procedure



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to be followed by the Reserve Banks, which, among other things, provided for the budgets to be forwarded each year so as to reach the Board's office not later than October 1. In 1950, a special committee, consisting of representatives of the Chairman and Presidents of the Federal Reserve Banks and the Board of Governors, was appointed to study and submit a report on the problems involved in effective budgetary control of expenses of the Federal Reserve Banks. The special committee prepared a report in May 1951, but it was not distributed at that time. After further study, the committee submitted a report in July 1953. As an outgrowth of that report, a procedure was developed whereby the budget of each Reserve Bank would be accompanied by statements evaluating the bank's activities in the fields of personnel, research, and statistics, and bank and public relations.

In acknowledging and accepting the budget estimates, the Board usually took advantage of the opportunity to say a word of caution; for example in the Board's letter of April 20, 1954, which notified the Dallas bank of the Board's acceptance of the revised 1954 budget, the following statement was made: "This acceptance is with the full expectation that throughout the year the directors and officers of the Bank will maintain close control over expenses and endeavor to keep them at a minimum consistent with efficient operations and within the budget provisions." Sometimes the Board would select certain functions for special comment; for example, in the Board's letter of December 13, 1954, which notified the Dallas bank of its acceptance of the 1955 budget as submitted on September 10, 1954, the Board stated that it had "noted with some concern the consistent growth of expenditures for the Bank and Public Relations function." The Board referred to educational functions such as flannel-board presentations, seminar-type meetings, and economic forums, and expressed the opinion that such efforts in proper proportion were fully justified. The question was raised, however, as to whether other types of expenditures, such as for visits to member banks and membership dues should be curtailed. In his reply of January 14, 1955, President Irons stated that the Board of Directors of the Federal Reserve Bank of Dallas had made a careful reappraisal of the bank and public relations budget and had concluded that the budget was a conservative one, and revealed no areas of expense reduction that would be desirable, assuming that an effective bank and public relations program was the objective. His letter made the following comments:

Our directors strongly believe – and I concur fully in their belief – that bank visitation annually of all member banks and some nonmember banks by the officers of this bank is one of the most valuable and important elements of our bank and public relations program. We would be extremely reluctant to reduce the scale of that program. Furthermore, while the directors and officers of the bank recognize fully the importance and value of such bank and public relations activities as central banking seminars, economic forums, relationships with teachers of money and banking, and various types of flannel board presentations, we do not rate their effectiveness above that of the results obtained by our bank visitation program.

Of course, it is our feeling that each type of activity mentioned above should be carried on within reasonable limits. However, if budget reasons should become compelling, it would be the decision of our Board of Directors and of the officers of this bank to retrench in the area of the seminars, flannel board presentations, and other similar activities and continue our bank visitation activities at least at the levels contemplated in the 1955 budget.

The Board of Directors of the bank also reviewed our contemplated expenditures for membership dues and donations and meetings and conferences and concluded that such expenditures represent a reasonable minimum and are entirely appropriate in the terms of our bank and public relations policy.

If I can supply any other information in connection with this matter, I will be glad to undertake to do so. I do feel, however, that our directors are of the opinion as indicated above, that the budget as submitted, in whole and in part, is a conservative one which they would be willing to defend as directors of the bank.

In the Board's letter of December 19, 1955, which referred to the Dallas bank's budget for 1956, as submitted on September 22, 1955, the following statement was made:

. . . it is noted that for the last two years, the number of employees budgeted by your Bank has been about five percent in excess of the number actually employed. It is possible that the difference may have been caused, in part, by improvements in efficiency that exceeded expectations. Such improvements are, of course, gratifying and the men responsible should be encouraged to continue their efforts in this direction. However, the Board requests that the probable improvements, along with the lag in filling vacancies and other factors affecting the number of employees, be taken fully into account to improve the accuracy of future budgets.

In President Iron's reply, dated December 28, 1955, he stated that the reason the number of persons actually employed was less than the number budgeted was due to the

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Fiscal Agency operations of the bank, with most of the problem being centered in the Commodity Credit Corporation Department. In that connection, he made the following comments:

Perhaps we should be able to estimate employee requirements with respect to public debt and CCC operations more accurately, but I must confess that we have not been able to do so. The problem seems particularly impossible with respect to CCC operations. There are so many factors involved with regard to the CCC, including entrance of cotton in the loan, release of cotton, reconcentration, the rate of progress of processing at the New Orleans CCC office, foreign and domestic demands for cotton, and so on, that I will just have to admit that our best estimates seem to be little better than guesses. I hope we will do better this year in that respect, but if we do, I think we will not be able to take much credit for it, for it will be sheer coincidence.

In operating the CCC department, we have tried to maintain actual employment at a minimum consistent with maintaining our operations on a current basis, and we are doing that. We never know, however, when we may be flooded with a movement of cotton in and out of the loan and, consequently, we may have leaned a little bit on the liberal side in our estimates of that item.

With respect to public debt and other Treasury fiscal operations, some changes in Treasury policies and procedures, of which we were not aware, have tended to reduce our work staff and, also, estimates provided us by the Treasury with respect to certain fiscal agency operations have not been much more accurate than some of our own guesses on this area of operations.

I realize that it is not wholly defensible to think in terms of anything less than the entire bank's employment, but I believe that with the exception of the public debt and CCC operations, our estimates are really very close to actual. Incidentally if any of the Board's staff can give us any suggestions as to how to estimate more accurately CCC requirements, I would be delighted to have them.

In a letter dated August 6, 1958, addressed to the president of each Reserve Bank, Wm. McC. Martin Jr. [William McChesney Martin Jr.], Chairman of the Board of Governors, suggested that members of the Board would like to have the opportunity to discuss informally with each president any proposals that might be reflected in the budgets before the budgets were put in final form. The following paragraph explained what Chairman Martin had in mind:

These discussions might, for example, touch upon such matters as contemplated changes in policy and type of level of activities in connection with Bank Relations, Research and Employee Relations programs, particularly with respect to substantial new projects or substantial expansion or reduction of existing projects; changes under consideration with regard to Bank publications; selectivity of salary increases to be recommended for officers, and possible changes in salary structures of employees; consideration that is being given to sizeable purchases of furniture, fixtures, and mechanical equipment; and contemplated major repair and alteration projects that will be not capitalized.

Then he went on to say that, “The Board’s thought was that there would be better mutual understanding of policy position and operating needs if such matters could be discussed before they become firmly entrenched in a budget that has been put into final form.”

Following that suggestion President Irons wrote Chairman Martin a letter on August 8, 1958, outlining the matters that he thought might be appropriately discussed. On August 19, he had a conference in Washington with Governors Balderston and Shepardson when the significant aspects of the 1959 budget of the Federal Reserve Bank of Dallas were discussed. At that conference, President Irons was handed a short statement prepared by Governor Balderston on the respective roles of the Reserve Bank and the Board of Governors on the budgetary procedure. This statement is quoted below:

To avoid confusion, it is helpful perhaps to distinguish between the respective roles of budgeting, operating, and examining. The budget for each of the 12 Banks and for the Board itself should represent a carefully considered plan of action. In its preparation, it should represent what funds line officers seek for the effective operation of their department. It should also reflect what the President of each Bank believes the several departments really need after he has received the benefit of objective staff analysis of what the line officers propose. In short, budget data should derive from two sources: line and staff.

The Board of Governors, in turn, should look upon the budget as presented by the directors and officers of each Bank as a long-range plan representing what ought to be spent to carry on effectively the volume and kind of activities that can be forecast at the time the budget is prepared. The results, when reviewed and approved by the Board of Governors, should be looked upon as a guide to action, and neither as a policeman inhibiting a flexible response to changing situations nor as representing the Board’s approval or disapproval as to how the money should be spent in detail. In short, approval of budget totals for separate categories does not carry with it any expression of the Board’s views as to the soundness of what is done

or the correctness as to how it is done. Subject to such broad policies as seem necessary for the discharge of the System's responsibility to the Congress, operating responsibility is left strictly in the hands of the directors and officers of each bank.

Because of its statutory and public responsibilities, however, the Board of Governors has an examining force that, among responsibilities, reports to the Board of Governors departures from System policy so that they can be reviewed by the directors of each Bank and by the Board of Governors itself to determine whether or not they are wise and politic in the light of the System's responsibilities.

In succeeding years, President Irons has discussed, usually in August or September, with members of the Board, the proposed budget of the Federal Reserve Bank of Dallas before the budget was placed in final form.

As indicated above, the Board of Governors attaches a great deal of importance to the preparation of the budgets of the various Federal Reserve Banks. This is illustrated by Chairman Martin's letter of May 23, 1960, addressed to the President of each Reserve Bank. That letter is quoted below in its entirety:

The Board's review of the 1959 Budget Experience Reports of the Federal Reserve Banks raised, amid much that was gratifying, some concern about the over-budgeting for salaries of employees. As may be noted from the enclosed summary of the reports received from all Banks, actual salaries on a System basis last year were \$3.1 million (about four percent) under the budget. Standing alone, this would not be cause for disturbance. The Board's concern, however, is with the fact that 1959 marked the second successive year in which all of the Reserve Bank's over-budgeted the amount provided for salaries of employees. This situation has let the Board to believe that it might be desirable at this time to restate its views with respect to the budget system.

The Board looks upon the Reserve Banks budgets as forecasts of costs and operations for the coming year, rather than a ceiling on amounts that can be spent. Such a system does not necessitate the provisions for contingencies that are frequently found in appropriate-type budgets. Therefore, it is the Board's hope that the annual budgets will reflect as fully as possible actual expectations, and will take into account possible improvements in efficiency, probable difficulties in filling positions, and other factors usually responsible for over-budgeting employees' salaries.

It is recognized that, if this kind of tight budgeting is followed, from time to time, salary costs will be in excess of the amounts provided in the budgets. In fact, the Board would expect that in any one year as many Banks might

be over their budgets as were under, and that over a period of years actual expenditures of any one Bank might be over its budget as often as they are below it. The Board's concept of the budget procedure assumes the same careful consideration of the reasons for over-budgeting as for over-expenditures.

Let me emphasize at this point that I sincerely hope this letter will not be construed as implying that the Board is more interested in performance close to budget than it is in efficient operations, or that it minimized the recognition due those who have been able to effect savings. On the contrary, the Board believes that the stern challenge of a tight budget will spur efforts toward savings and will make more meaningful the achievement when savings are accomplished under such conditions

The Board suggests that each year, when the budgets are being planned, it might be well to convey these views to those persons at your Bank who are responsible for the budget proposals. The enclosed analysis of the 1959 Budget Experience Reports may be helpful in this connection.<sup>91</sup>

In review of the budget files of the Federal Reserve Bank of Dallas, particularly those for the last few years, shows that the directors and officers of the Dallas bank have an awareness of the extreme importance in budgetary matters. As a matter of fact, it might be said truthfully, that that entire organization is "budget conscious." Budget estimates are prepared with very great care, are reviewed in detail by the budget officer, are discussed at length by the top management, and are considered conscientiously by the bank's directors. It would appear that the Dallas bank is in accord with the Board of Governors in the objective of "holding expenses at a level consistent with economical and efficient operations."

#### Mechanization and Automation

A very important development at the Federal Reserve Bank of Dallas during recent years has been the adaptation of mechanical procedures to more of the bank's operations. Originally, during the early years of World War II, punched card equipment was used only by the bank's Fiscal Agency Department. This equipment was installed for the primary purpose of compiling reports and performing certain other work for the Treasury Department, particularly in connection with the payment of savings bonds.

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<sup>91</sup> Special budget files in Accounting Department source for material in this section.

Gradually, over a period of years, some of the other departments of the bank found that the equipment could be used advantageously for some of their operations, and they began to utilize the equipment at times when it was not required for Treasury work. For example, in 1947, the Research Department began to use the equipment in compiling the data abstracted from condition reports of member banks and, beginning in 1953 such equipment was used for some of the bank's safe-keeping operations. As time went on, more and more of the bank's operations were handled by the use of this equipment, and finally, in May 1958, a separate Machine Processing Department was established. At that time, plans were made to move as rapidly as feasible to the mechanization of these operations of the bank which would provide a good machine application. Since that time, numerous procedures have been converted to punched card operations, and nearly every department of the bank has been affected. Although not all inclusive, the following lists show some of the major operations now being performed for the various departments:<sup>92</sup>

Accounting Department

- (1) Preparation of credit advices and entries covering direct sent cash letters and cash letters processed by this bank.
- (2) Preparation of debit statements showing cash letters sent direct to other Federal Reserve offices.
- (3) Posting of member bank accounts statements.
- (4) Posting of Federal debit and credit statements.
- (5) Processing reports of deposits.

Cash Department

In connection with custody of securities, preparation of:

- (1) Proof of daily transactions.
- (2) Notice of maturing securities.
- (3) Lists of securities held for banks furnished various examiners, upon request, at time of examination.
- (4) Lists of all securities held for banks and others furnished Federal Reserve examiners and auditors of this bank in connection with examinations and audits.

Fiscal Agency Department

- (1) Posting Treasury Tax and Loan ledgers; preparing withdrawal drafts and special redeposit drafts; quarterly reports.
- (2) Preparing Withheld Tax records.
- (3) Preparing Savings Bond sales statistics.
- (4) Posting Series E consignment ledger.

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<sup>92</sup> Special file in the Machine Processing Department.

Personnel Department

- (1) Preparation of payrolls:
  - a. Registers and checks.
  - b. Salary expense distribution.
- (2) Preparation of monthly claims for reimbursable salaries and related expenses.
- (3) Preparation of quarterly reports of Withheld Tax and Social Security Tax and annual W-2 forms and reports.
- (4) Posting of employees' Savings Bond ledger.
- (5) Preparation of Annual Report to Board of Governors.

Research Department

- (1) Preparation of data from quarterly condition reports.
- (2) Preparation of data from earnings and dividend reports.
- (3) Compiling operating ratios.
- (4) Preparation of monthly report of department store sales.
- (5) Preparation of various reports in connection with surveys made by Board of Governors.

Service Department

Furniture and Equipment inventory.

During the year 1960, the management of the bank decided to install the recently developed IBM 1400 Series Data Processing System designed for accounting purposes as soon as the equipment might become available. An order was placed for the equipment and delivery is expected in the early part of 1962. Looking toward the eventual installation of these high-speed, electronic machines, plans were made in the latter part of 1960 to provide special training for certain key employees in various departments of the bank who, after testing, appeared to be adaptable to machine operation procedures. It was contemplated that these men would be detached from their regular assignments for a period of several months and would be assigned during that period to "programming" the procedures to be put on the 1400 Series machines.

In addition to bringing about a broader application of automation to general accounting and reporting procedures, the Federal Reserve Banks during the past few years have taken steps to affect further mechanization of check handling operations.<sup>93</sup> For many years, the Reserve Banks have been using IBM proof machines in the listing

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<sup>93</sup> Special file in the Transit Department.



## Chapter XIV – The Fifties

and balancing of checks cleared through them. In 1957, the Federal Reserve Banks, in cooperation with the American Bankers Association, began a study relating to the possible use of Magnetic Ink Character Recognition as a common machine language for the automatic processing of checks. A committee of officers of several of the Reserve Banks was appointed and the committee has been working for a number of years on a program for improving and speeding up the check-handling procedures. The System committee asked manufacturers of various types of equipment to submit proposals for new, high-speed, document-handling machines under specifications calling for a standard type font for magnetic ink imprinting on checks. In due time, several concerns submitted proposals, and five of them were directed to proceed with the manufacture of prototype machines to be tested by the Reserve Banks in actual operations. In the latter part of 1959, five of the Federal Reserve Banks were selected as locations of pilot installations, the equipment for each installation to be supplied by a different manufacturer. By the end of 1960, installations had been completed in two of the banks selected for the testing operations, and it was expected that the installations would be made in the other three banks in the early part of 1961. The Federal Reserve Bank of Dallas was an important part in the program, as one of its officers is a liaison member of the System committee, and the bank from time to time has issued circulars to all banks in the Eleventh Federal Reserve District calling attention to the importance of the check mechanization program. In the meantime, many commercial banks throughout the country have proceeded with the preprinting of transit number-routing symbols and account numbers in the approved locations on their checks. The Federal Reserve Bank of Dallas has made several surveys in order to determine the progress being made by the commercial banks in the Eleventh District in preprinting their checks. One of the surveys showed that 70 percent of the banks located in the Reserve cities of Dallas, El Paso, Houston, and San Antonio, and 50 percent of those located elsewhere in the district have begun encoding their checks.

### Special Staff Functions

During the Fifties there was brought about a further development of certain staff functions of the bank. These functions, as carried out by the Personnel Department, the Research Department, and the Bank and Public Relations Department, represent

auxiliary or service functions which are distinct from the work performed in the operating departments. Although, as previously indicated in this review, the enlargement of the scope of activities of these three departments actually began to take place earlier, their full development was not achieved until recent years. That the importance of such functions is recognized throughout the entire Federal Reserve System is evidenced by the fact that since 1954 the Annual Budget Report of each Reserve Bank has included statements evaluating the bank's activities in the fields of Personnel, Research and Statistics, and the Bank and Public Relations.

As heretofore indicated, a liberalized personnel program was inaugurated at the Federal Reserve Bank of Dallas in 1946. As time went on, personnel functions became more and more important and the organization of the Personnel Department was given added strength when its operations were placed under the supervision of a senior officer with full-time assignment to the administration of the Bank's personnel program. With the attainment of its full growth and a competent staff, the principal activities of the Personnel Department now include the recruitment, selection and placement of personnel, the administration and maintenance of the bank's job classification and salary administration program, the preparation of payrolls and related records, the encouragement of the education of employees through the American Institute of Banking and regional schools of banking, the training of employees for further development, and the sponsoring of various types of welfare activities and services. Included in the basic "fringe" benefits provided by the Bank and administered through the Personnel Department are medical and first-aid facilities, cafeteria service in the form of noon lunches, a partial contributory hospital-medical insurance coverage, group life insurance, and a retirement plan.<sup>94</sup>

The scope of activities of the Research Department has been extended materially during the past few years. The basic objective is to provide for the benefit of officers, directors, and the Board of Governors of the Federal Reserve System, the best and most pertinent economic information available, accompanied by appropriate analyses and interpretations. Its principal activities include the following:

1. Studying, analyzing, and reporting on the problems of monetary policy and credit control;

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<sup>94</sup> "Evaluation Statement of Personnel Department," Budget for 1960.

## Chapter XIV – The Fifties

2. Compiling and interpreting basic statistical data and other economic information so as to portray current trends and to provide the basis for policy decisions in all areas of System responsibility;
3. Collecting and compiling statistical data and other economic information so as to provide the basis for the interpretation and analysis of regional developments;
4. Distributing to member banks and the general public various statistical computations;
5. Conducting various surveys undertaken by the bank and participation in surveys conducted by the Board of Governors;
6. Answering requests for economic information from bankers, professional men, business men, industrialists, and educators.<sup>95</sup>

Along with the transition of Federal Reserve Banks from the original status of primarily regional institutions to the present day, when the System operates in many respects as a central bank, the functions of the Research Department have taken on more and more importance. The economic information assembled and compiled at the various Reserve Banks is given great weight by the Federal Open Market Committee and the Board of Governors of the Federal Reserve System in considering the problem of monetary policy and credit control.

As heretofore mentioned, the Board of Directors of the Federal Reserve Bank of Dallas in the early part of 1946, formally approved a broad and comprehensive Bank and Public Relations program. The basic objective of the Bank and Public Relations function is to bring about a better understanding of the System's purposes, responsibilities, policies, and operations. Supplementary objectives include the building of a closer working relationship between the Federal Reserve Bank of Dallas and the member banks in the Eleventh District, and to inform the business, agricultural, and banking interests of the district of the various services which the bank is in position to offer. In carrying out these objectives, scheduled visits to banks in the district are made by officers and senior employees. These visits provide an opportunity to become better acquainted with the staffs of the banks and to assist them with any problems which may arise in their relations

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<sup>95</sup> "Evaluation Statement of Research Department," Budget for 1960.

with the Reserve Bank. In addition, information relative to agricultural, business, and economic conditions in the area visited is obtained and included in a written report which is circulated among the officers of the Head Office and Branches. Other activities include attendance at meetings and conferences, addresses by members of the staff in response to requests from banking, business, and civic groups, furnishing movie films about the Federal Reserve System to be shown before groups such as civic clubs, college classes, high school classes, etc. Another important activity is the conducting of individuals and groups through the buildings at the Head Office and Branches; the visitors have shown much interest in inspecting the new buildings and obtaining a better idea of the bank's operations.<sup>96</sup>

#### The Executive Development Program

For a number of years, the directors and the management of the Federal Reserve Bank of Dallas have been concerned about the matter of providing qualified replacements for members of the official staff who were approaching retirement age. For example, President Gilbert, at a meeting of the Personnel Committee of the Board of Directors held on September 5, 1951, brought to the committee's attention the necessity for an effective executive training and development program "in view of the retirements of a number of officers of the bank which are likely to occur during the next five to ten years."

Along the same line, President Irons, at a meeting of the officers of the bank held on April 14, 1954, stated that the weakest link in the bank's organization was the shortage of personnel qualified and capable to replace key employees and officers reaching retirement age in about five years. He pointed out that within a very few years, a large proportion of the officers of the bank would reach retirement age and that it was essential to have trained people to replace them. President Irons went on to say that aggressive and continuous attention should be given to this problem and requested that a list be prepared showing the names of those employees who had the potential to assume the responsibilities of an officer of the bank within five years, provided adequate encouragement and assistance were given them by the bank. President Irons discussed

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<sup>96</sup> "Evaluation Statement of Bank and Public Relations Department", Budget for 1960.

this matter fully at a meeting of the Personnel Committee of the Board of Directors held on July 7, 1954. Extracts from the minutes covering that meeting are given below:

President Irons discussed in detail the substance of a memorandum dealing with the requirements of an executive development program. In this discussion, he covered the following aspects of the problem:

1. The principal losses to the bank through retirement of officers and senior nonofficial employees during each of three periods: (a) 1954 through 1957; (b) 1958 through 1960; and (c) 1961 through 1964. Losses in the period 1958 through 1960 were emphasized as being most critical since several of the senior officials would be included.
2. The personnel in the bank's employ now regarded as having the greatest potential for development in the near and intermediate-term future.
3. Certain problems which must be solved in one way or another if a program for developing executive material is to be effective.
4. The means of achieving continuous and adequate "on the job" developments and growth of potential executive material through the utilization of existing positions where feasible, and through the creation of certain new positions at: (a) the official level, (b) the senior nonofficial staff level, and (c) the junior nonofficial staff level...
5. Some of the administrative and organization requirements of such an executive development program to assure that the objectives will be realized at the most appropriate times.

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During the discussion, consideration was given to the various features of the program as means of accomplishing the objectives of providing adequate material for future executives of the bank. After thorough consideration, upon motion duly made and unanimously carried, it was voted to recommend to the Board of Directors that it approve the general principles outlined in the plan, including the creation of the official and nonofficial positions as suggested, and to authorize the management to proceed as expeditiously as consistent with an orderly and progressive implementation of the program....

At a meeting of the officers of the bank held on June 14, 1956, President Irons reviewed the results of the Executive Development Program and expressed his views regarding the progress that had been made. There followed a general discussion of the

overall program, its results and problems, and the means by which it could be made more effective.

One aspect of the development program has been the practice, for a number of years, to assign promising young men to various departments of the bank, on a rotating basis for “on the job” training. From time to time these men are transferred from one department to another in order to broaden their experience in the bank and to enable the management to evaluate their over-all capabilities. Supervising officers make semi-annual reports covering the progress and development of men under observation. As vacancies in the organization occur, the men who have shown satisfactory progress are considered for specific assignments to positions at a higher staff level.

In carrying out the development program, steps have been taken by the management of the bank to apply it to the official level as well as to the nonofficial level, in order to broaden the experience of the officers. This has been accomplished by rotation of departmental assignments and by changes in alternate assignments. For example, at a meeting of the officers on August 26, 1957:

President Irons stated that, after discussing the subject with First Vice President Gentry, he had decided to make changes (effective September 1, 1957) in the departmental assignments of some of the officers at the Head Office. He pointed out that several of our officers will be retiring within the next two years and that the purpose of the changes was to broaden the experience of the other officer. He then distributed to each officer a revised schedule, dated August 26, 1957, of the regular and alternate departmental assignments, which was followed by a brief discussion.

As had been foreseen, several senior officials of the bank retired in the period 1958 through 1960, and the bank was able to fill these vacancies from within the organization by the promotion of younger men who had shown potentialities of assuming positions of senior responsibility.

#### Statistical Material

Certain statistical material as of year-end for the years 1950 through 1960 is shown in the following schedules:

<u>Date</u>	<u>Member Bank Reserve Accounts</u>	<u>Federal Reserve Notes in Actual Circulation</u>	<u>Participation in System's Open Market Account</u>
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December 31, 1950	\$ 891,000,000	\$639,000,000	\$ 941,000,000
December 31, 1951	1,011,000,000	702,000,000	1,129,000,000
December 31, 1952	1,051,000,000	759,000,000	1,101,000,000
December 31, 1953	1,050,000,000	744,000,000	1,006,000,000
December 31, 1954	1,040,000,000	739,000,000	978,000,000
December 31, 1955	1,020,000,000	720,000,000	978,000,000
December 31, 1956	1,013,000,000	726,000,000	978,000,000
December 31, 1957	996,000,000	748,000,000	929,000,000
December 31, 1958	970,000,000	798,000,000	1,028,000,000
December 31, 1959	973,000,000	816,000,000	1,062,000,000
December 31, 1960	971,000,000	836,000,000	1,087,000,000

<u>Date</u>	<u>Member Banks in Eleventh Federal Reserve District</u>	<u>Total Employment Head Office and Branches</u>
December 31, 1950	630	935
December 31, 1951	633	951
December 31, 1952	633	963
December 31, 1953	635	993
December 31, 1954	632	974
December 31, 1955	634	975
December 31, 1956	633	1,034
December 31, 1957	634	1,020
December 31, 1958	631	1,017
December 31, 1959	633	1,001
December 31, 1960	632	995

<u>Changes in Discount Rate</u>		
<u>Date</u>	<u>From</u>	<u>To</u>
August 25, 1950	1½ percent	1¾ percent
January 23, 1953	1¾ percent	2 percent
February 15, 1954	2 percent	1¾ percent
April 23, 1954	1¾ percent	1½ percent
April 14, 1955	1½ percent	1¾ percent
August 4, 1955	1¾ percent	2 percent
September 8, 1955	2 percent	2¼ percent
November 22, 1955	2¼ percent	2½ percent

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April 12, 1956	2½ percent	2¾ percent
August 27, 1956	2¾ percent	3 percent
August 12, 1957	3 percent	3½ percent
November 29, 1957	3½ percent	3 percent
February 13, 1958	3 percent	2¾ percent
March 13, 1958	2¾ percent	2¼ percent
May 8, 1958	2¼ percent	1¾ percent
August 21, 1958	1¾ percent	2 percent
October 23, 1958	2 percent	2½ percent
March 5, 1959	2½ percent	3 percent
May 28, 1959	3 percent	3½ percent
September 10, 1959	3½ percent	4 percent
June 9, 1960	4 percent	3½ percent
September 8, 1960	3½ percent	3 percent

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In covering a period of almost 46 years, this review has described many happenings that have occurred during the existence of the Federal Reserve Bank of Dallas, including two World Wars and two serious depressions. By sheer coincidence, the closing note (see schedule above) touches on the matter of discount rates which was one of the first items of business considered by the directors of the bank at the time of its opening. From a small beginning, with total resources of only \$5,500,000 shown in the first published statement, the institution has grown to a \$2 billion bank, as reflected by the following Statement of Condition:

Statement of Condition  
Federal Reserve Bank of Dallas  
December 31, 1960

ASSETS

Gold certificate account	\$ 731,394,963.80
Redemption fund for Federal Reserve Notes	<u>32,693,136.17</u>
Total gold certificate reserves	764,088,099.97
Federal Reserve Notes of other Banks	24,646,600.00
Other cash	15,265,157.01
Discounts and advances	814,000.00
U. S. Government securities	



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Bills	116,877,000.00
Certificates	365,108,000.00
Notes	502,996,000.00
Bonds	<u>102,486,000.00</u>
Total U.S. Government securities	<u>1,087,467,000.00</u>
Total loans and securities	1,088,281,000.00
Dues from foreign banks	825.03
Cash items in process of collection	259,467,958.26
Bank premises	13,900,431.99
Other assets	<u>8,620,432.64</u>
TOTAL ASSETS	<u>2,174,270,504.90</u>
LIABILITIES	
Federal Reserve Notes in actual circulation	\$ 835,972,900.00
Deposits	
Member bank – reserve accounts	971,083,292.56
U. S. Treasurer – general account	53,390,099.41
Foreign	12,412,000.00
Other	<u>3,423,107.94</u>
Total Deposits	1,040,308,499.91
Deferred availability cash items	226,450,052.54
Other liabilities	<u>1,027,352.45</u>
TOTAL LIABILITIES	<u>2,103,758,804.90</u>
CAPITAL ACCOUNTS	
Capital paid in	\$ 23,503,900.00
Surplus	47,007,800.00
Other capital accounts	--
TOTAL CAPITAL ACCOUNTS	<u>70,511,700.00</u>
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	<u>\$2,174,270,504.90</u>

The names of the five men who constituted the official staff when the bank opened for business on November 16, 1914, are shown in Chapter I of this review. The official staff at the Head Office and Branches on December 31, 1960, is listed below:

Officers, Federal Reserve Bank of Dallas  
December 31, 1960  
Head Office

Watrous H. Irons	President
Harry A. Shuford	First Vice President
James L. Cauthen	Vice President
P. E. Coldwell	Vice President
T. A. Hardin	Vice President
G. R. Murff	Vice President and Acting Secretary of the Board

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James A. Parker	Vice President
T. W. Plant	Vice President and Cashier
L. G. Pondrom	Vice President
W. M. Pritchett	Vice President
Charls E. Walker <sup>97</sup>	Vice President and Economic Adviser
Arthur H. Lang	General Auditor
George F. Rudy <sup>98</sup>	General Counsel and Assistant Secretary of the Board
Robert H. Boykin	Assistant Counsel
Thomas R. Sullivan	Assistant Vice President
E. H. Berg	Assistant Cashier
Roy E. Bohne	Assistant Cashier
Herman W. Kilman	Assistant Cashier and Assistant Secretary of the Board
E. A. Thaxton, Jr.	Assistant Cashier
James O. Russell	Chief Examiner

### El Paso Branch

Howard Carrithers	Vice President in Charge
Fredric W. Reed	Cashier
T. C. Arnold	Assistant Cashier

### Houston Branch

J. L. Cook	Vice President in Charge
B. J. Troy	Cashier
W. C. Hartung	Assistant Cashier
Rasco R. Story	Assistant Cashier

### San Antonio Branch

Carl H. Moore	Vice President in Charge
A. E. Mundt	Cashier
Alvin E. Russell	Assistant Cashier
Frederick J. Schmid	Assistant Cashier

### SOURCES

1. Annual Report, Federal Reserve Bank of Dallas, 1950 – 1960.
2. “Minute Book,” Federal Reserve Bank of Dallas, 1950 – 1960.
3. Reports of President to Board of Directors, 1950 – 1960.

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<sup>97</sup> On Leave of Absence.

<sup>98</sup> On Leave of Absence.

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4. Unnumbered Circulars, Federal Reserve Bank of Dallas, 1950 – 1960.
5. Wage Stabilization Files, Personnel Department, Archives Vault.
6. Announcements to Officers and Employees at Head Office and Branches, 1950 – 1960.
7. Federal Reserve Bulletin, January 1942.
8. The Texas Bankers Record, May 1958.
9. Special Budget Files in Accounting Department
10. Loan Department Credit Files, 1956.
11. Special Files on Automation in Machine Processing and Transit Departments.
12. “Evaluation Statement of Personnel Department,” Budget for 1960.
13. “Evaluation Statement of Research Department,” Budget for 1960.
14. “Evaluation Statement of Bank and Public Relations Department,” Budget for 1960.

## **APPENDIX A**

### **STAFF CHANGES THROUGH THE YEARS**

In this Appendix, all changes in officers are shown for each year separately. In the narrative section, references to changes in the official staff are confined largely to changes in top management. However, changes which took place in the formative period of the bank's history and those which have taken place in the last few years are mentioned in the narrative as well as in this Appendix.

#### 1914 - Original Directors

##### Class A (representing member banks)

Oscar Wells, Vice President, First National Bank, Houston, Texas  
E. K. Smith, Vice President, Commercial National Bank, Shreveport, Louisiana  
B. A. McKinney, Cashier, Durant National Bank, Durant, Oklahoma

##### Class B (representing commerce or agriculture)

Frank Kell, Capitalist, Wichita Falls, Texas  
Marion Sansom, Cattleman, Fort Worth, Texas  
J. J. Culbertson, Cottonseed Crusher, Paris, Texas

The Federal Reserve Board at Washington appointed the following Class C directors:

E. O. Tenison, Banker, Dallas, Texas  
W. F. McCaleb, Banker and Author, San Antonio, Texas  
Felix Martinez, Merchant and Cattleman, El Paso, Texas

Mr. Tenison was designated as Chairman of the Board of Directors and Federal Reserve Agent; and Mr. McCaleb was designated Deputy Chairman and Deputy Federal Reserve Agent.

The first meeting of the Board of Directors of the Federal Reserve Bank of Dallas was held on October 15, 1914, in the Director's Room of the City National Bank. One of the directors, Oscar Wells, was elected by the other directors as Governor of the Bank.

The third meeting of the Board of Directors was held on October 30, 1914. R. L. Van Zandt, National Bank Examiner, stationed in Ft. Worth, was elected Vice Governor; J. W. Hoopes, Vice President and Cashier of the City National Bank of Galveston, was elected Cashier of the Reserve Bank and Secretary of the Board of Directors.

## Appendix A – Staff Changes Through the Years

### 1915

In the early part of 1915, major changes occurred in the official staff of the Dallas bank. On February 24, Oscar Wells resigned as Governor to accept the Presidency of the First National Bank of Birmingham, Alabama. Mr. Wells served as President of that institution for many years and was Chairman of the Board at the time of his death on May 30, 1953. Upon Mr. Wells' resignation, Federal Reserve Agent Tenison was offered the position of Governor. He considered the matter for a few days and declined. R. L. Van Zandt, who had been serving as Vice Governor, was then elected Governor of the Bank; J. W. Hoopes was promoted from Cashier to Vice Governor; Lynn P. Talley, Cashier of the Lumbermans National Bank of Houston, was elected Cashier of the Reserve Bank to succeed Mr. Hoopes. Inasmuch as Mr. Wells' resignation created a vacancy on the Board of Directors, it was necessary to elect a Director to succeed him; whereupon, the member banks elected to that office John T. Scott, President of the First National Bank of Houston.

### 1916

On January 6, 1916, E. O. Tenison resigned as Federal Reserve Agent and as Director of the Federal Reserve Bank of Dallas.

Judge Wm. F. Ramsey, an Austin attorney, who at one time had been engaged in the banking business at Cleburne, Texas, was appointed by the Federal Reserve Board as Class C Director to succeed Mr. Tenison for the unexpired term ending December 31, 1917. He was also appointed Federal Reserve Agent for the year 1916. The appointment was effective January 15, 1916.

In the early part of 1916, there occurred the first official promotion from the ranks of employees of the Federal Reserve Bank of Dallas, when Sam R. Lawder, Manager of the Credit Department, was elected Assistant Cashier.

### 1917

Several staff changes took place in 1917. At the suggestion of the Federal Reserve Bank, the bylaws were amended on March 6, 1917, and the title of "Vice Governor" was changed to "Deputy Governor." On June 19, 1917, R. R. Gilbert, Manager of the Credit Department, was elected Assistant Cashier. In July, Charles C. Hall, formerly Secretary to the Chairman, was appointed Assistant Federal Reserve Agent. In September, R. B.

## Appendix A – Staff Changes Through the Years

Coleman, Paying Teller, was appointed Acting Assistant Cashier and placed in charge of the Cash Department. On October 10, W. J. Donald, Auditor of the Bank, resigned and W. C. Weiss was elected to succeed him.

### 1918

When the El Paso Branch was opened on June 17, 1918, Sam. R. Lawder, formerly Assistant Cashier at the Head Office, was made Manager of the Branch; J. M. Proctor, of El Paso, was elected Cashier; and Paul Miller of the Auditing Department at the Head Office, was appointed Assistant Federal Reserve Agent and Auditor for the Branch.

On April 5, Paul G. Taylor, of the South Texas Commercial National Bank, Houston, Texas, was elected Assistant Cashier of the Federal Reserve Bank of Dallas, and was placed in charge of the District Clearing House Department. On the same date, R. B. Coleman, who had served for several months as Acting Assistant Cashier, was elected Assistant Cashier. On June 3, Fred Harris, Manager of the Loan Department, was elected Assistant Cashier. In September, W. J. Evans, of the Federal Reserve Agent's Department, was appointed Secretary of the Capital Issues Committee.

### 1919

When the Houston Branch was opened on August 4, 1919, Sam R. Lawder, former Manager of the El Paso Branch, was designated Manager of the Houston Branch, and E. F. Gossett, of Houston, was named Cashier. Paul S. Miller was transferred from the El Paso Branch to serve as Assistant Federal Reserve Agent and Auditor at Houston.

When Sam Lawder was transferred to Houston, R. R. Gilbert, Assistant Cashier at the Head Office, was transferred to the El Paso Branch, and designated Manager of that Branch to succeed Mr. Lawder. J. H. Niendorff, former Auditor of the Fiscal Agency Department at the Head Office, was appointed Assistant Federal Reserve Agent and Auditor at El Paso to succeed Paul S. Miller. In January, M. Crump had been elected Cashier of the El Paso Branch, succeeding J. M. Proctor, who resigned.

## Appendix A – Staff Changes Through the Years

Early in the year, J. W. Hoopes resigned as Deputy Governor to accept the position of Vice President of the South Texas Commercial National Bank of Houston. At that time, the office of Deputy Governor was consolidated with that of Cashier, and former Cashier Lynn P. Talley was elected to the dual office. Charles C. Hall, Assistant Federal Reserve Agent, was elected Secretary of the Board of Directors to succeed Mr. J. W. Hoopes who had been serving in that capacity. Dwight P. Reordan, Assistant Manager of the War Loan Department, was elected Assistant Cashier to succeed R. R. Gilbert, who had been transferred to El Paso.

### 1920

In February 1920, the position of Deputy Governor and Cashier was divided. Lynn P. Talley continued as Deputy Governor, and Sam R. Lawder, theretofore Manager of the Houston Branch, was elected Cashier at the Head Office. When Sam R. Lawder was transferred to the Head Office, E. F. Gossett, formerly Cashier at the Houston Branch, was elected Manager of that Branch, and Paul S. Miller, formerly Assistant Federal Reserve Agent and Auditor of the Branch, was made Cashier. Mr. Miller was succeeded by J. H. Niendorff, formerly Assistant Federal Reserve Agent and Auditor at the El Paso Branch. Mr. Niendorff was succeeded by R. L. King, formerly Auditor of the War Loan Department at the Head Office. In February, Paul G. Taylor resigned as Assistant Cashier at the Head Office to accept an official position with a commercial bank in Dallas. During the year, the name of War Loan Department was changed to "Fiscal Agency Department." In March, Floyd Ikard, Manager of the Fiscal Agency Department, was elected Assistant Cashier and placed in charge of Fiscal Agency matters. In April, R. R. Gilbert, Manager of the El Paso Branch, was elected Senior Assistant Cashier and transferred to the Head Office where he was placed in charge of the Member Bank Relations function. W. C. Weiss, General Auditor at the Head Office, was elected Manager of the El Paso Branch to succeed Mr. Gilbert. In May, Carl B. Teagarden, formerly Assistant General Auditor, was elected General Auditor to succeed Mr. Weiss.

In September, W. O. Ford was elected Assistant Cashier and placed in charge of the Cash and Trust Departments. Assistant Cashier R. B. Coleman was made Supervising Officer of the Transit Department. In November, James L. Lumpkin, Manager

## Appendix A – Staff Changes Through the Years

of the Credit Department, was elected Assistant Cashier, with Supervision of the Credit Department. In November, the Member Bank Relations Department was placed directly under the supervision of the Federal Reserve Agent, whereupon R. R. Gilbert resigned as Senior Assistant Cashier and was appointed Assistant Federal Reserve Agent with supervision of the Member Bank Relations Department. The announcement stated that “the change merely involves the transfer of the Department from the operating end of the bank to the office of the Federal Reserve Agent.” In December, Paul S. Miller resigned as Cashier of the Houston Branch, and Floyd Ikard, Assistant Cashier at the Head Office, was elected to succeed him. Early in the spring, the office of Assistant Cashier was created at the Branches; Allen Sayles was elected at El Paso and Laurence Dignan at Houston.

### 1921

In July 1921, Lynn P. Talley resigned as Deputy Governor and Sam R. Lawder resigned as Cashier, to accept official positions with the Security National Bank of Dallas, which was later reorganized as the Southwest National Bank. Mr. Talley’s position was not immediately filled. R. R. Gilbert, Assistant Federal Reserve Agent, resigned that position and was elected Cashier to succeed Mr. Lawder. Assistant Cashier Dwight P. Reordan was appointed Assistant Federal Reserve Agent to succeed Mr. Gilbert. E. F. Gossett, Manager of the Houston Branch, resigned to accept an official position with a large commercial bank in Houston, and Floyd Ikard, Cashier of the Houston Branch, was elected Manager to succeed Mr. Gossett. Laurence E. Dignan, formerly Assistant Cashier of the Houston Branch, was elected Cashier to succeed Mr. Floyd Ikard. In connection with the vacancy in the position of Deputy Governor, H G. Emerson, Assistant to the Governor of the Federal Reserve Board at Washington, was loaned to the Dallas bank, and reported on July 2. In August, Mr. Emerson was elected Acting Deputy Governor. In November, General Auditor Carl B. Teagarden resigned, and D. S. Lawhon, formerly General Auditor, was designated as Acting General Auditor.



## Appendix A – Staff Changes Through the Years

### 1922

At a meeting of the Board of Directors on January 7, 1922, the Board failed to re-elect R. L. Van Zandt as Governor of the Bank, and B. A. McKinney was elected to succeed him. Mr. McKinney had served as a director of the bank from the time the bank was established and continued to serve as a director (although Governor) until the expiration of his term on December 31, 1922. R. G. Emerson, formerly Acting Deputy Governor, was elected Deputy Governor. Val J. Grund, formerly on the staff of the Federal Reserve Examiners, was elected General Auditor of the bank to succeed Carl B. Teagarden, who had resigned in November 1921.

A shadow was cast over the bank by the death of Judge William F. Ramsey, Chairman of the Board and Federal Reserve Agent, on October 27. He was 67 years of age at the time of his death and had been Chairman and Federal Reserve Agent since January 1916.

On November 3, the Federal Reserve Board appointed Director W. B. Newsome Chairman and Federal Reserve Agent to succeed Judge Ramsey and to serve until December 31, 1922. In December 1921, Mr. Newsome had been appointed Class C Director for a three-year term beginning January 1, 1922, and had been designated Deputy Chairman for 1922. On December 27, Mr. Newsome was reappointed Chairman and Federal Reserve Agent, to serve in that position indefinitely. On December 11, the Federal Reserve Board appointed Clarence E. Linz, of Dallas, as Class C Director, to serve until December 31, 1923, to fill the unexpired term of Judge Ramsey. In the latter part of 1922, W. H. Patrick, President of the First National Bank, Clarendon, Texas, was elected Class A Director for a three-year term, to succeed B. A. McKinney, whose term expired on December 31, 1922, and who did not wish to continue as a director of the bank on account of his official connection with the institution.

On February 24, 1923, the Federal Reserve Board announced the appointment of Lynn P. Talley (then Vice President of the Southwest National Bank of Dallas, and formerly Deputy Governor of the Reserve Bank) as Class C Director for a three-year term, to fill the vacancy which had existed by reason of the expiration of the term of H. O. Wooten on December 31, 1922. At the same time, the Board designated Mr. Talley Chairman of the Board of Directors and Federal Reserve Agent for the remainder of 1923.

## Appendix A – Staff Changes Through the Years

He qualified on March 15. That position had been occupied on an indefinite basis by Director Newsome since Judge Ramsey's death, and when Mr. Talley took office as Chairman, Mr. Newsome was redesignated Deputy Chairman for the remainder of the year 1923.

### 1923

In June, R. B. Coleman, Senior Assistant Cashier at the Head Office, was appointed Manager of the Houston Branch, succeeding Floyd Ikard, who resigned. W. D. Gentry, formerly Manager of the Loan and Discount Department, was elected Assistant Cashier to fill the vacancy created by the transfer of Mr. Coleman. Mr. Gentry was given Supervision of the Cash and Service Departments. On September 1, Dwight P. Reordan, Assistant Federal Reserve Agent in charge of the Member Bank Relations Department, was transferred to El Paso to serve as Acting Assistant Manager of the Branch. This enabled Manager Weiss to devote more attention to troublesome situations in New Mexico and Arizona. W. J. Evans, Manager of the Department of Examination and Statistics, was appointed acting Assistant Federal Reserve Agent to supervise the work of the Member Bank Relations Department, in addition to carrying on his regular duties.

### 1924

In January, W. M. McGregor, President of the First National Bank of Wichita Falls, Texas, was elected a member of the Federal Advisory Council for 1924. In March, W. C. Weiss, Managing Director of the El Paso Branch, was succeeded by Dwight P. Reordan, who had been serving as acting Assistant Manager of the Branch since September 1923. Mr. Reordan was succeeded, as Assistant Federal Reserve Agent at the Head Office, by W. J. Evans, formerly manager of the Examination Department. R. G. Emerson, Deputy Governor, resigned on March 15, and R. R. Gilbert, formerly Cashier, was elected Deputy Governor to succeed Mr. Emerson. An additional Deputy Governorship was created and Val J. Grund, formerly General Auditor, was elected to that position. R. B. Coleman, formerly Manager of the Houston Branch, was elected Cashier at the Head Office to succeed Mr. Gilbert. R. L. Foulks, formerly Assistant Auditor, was elected General Auditor to succeed Mr. Grund. Fred Harris, formerly Senior Assistant Cashier at the Head Office, was elected Manager of the Houston Branch to succeed Mr. Coleman.

## Appendix A – Staff Changes Through the Years

J. L. Hermann, formerly Manager of the Transit Department, was elected Assistant Cashier to fill the vacancy caused by the transfer of Mr. Harris to Houston.

On May 1, the Auditing Departments at the Branches were discontinued, and their functions were transferred to the Head Office. On July 1, James L. Lumpkin, Assistant Cashier, resigned on account of bad health, and E. B. Austin, formerly Manager of the Service Department, was elected to succeed him.

### 1925

In 1925, the most significant staff change occurred on May 16, when B. A. McKinney resigned as Governor to become a Vice President of the American Exchange National Bank of Dallas. Lynn P. Talley, Chairman of the Board and Federal Reserve Agent, was immediately elected Governor to succeed Mr. McKinney, with the understanding that Mr. Talley's change in position would become effective when his successor as Federal Reserve Agent and member of the Board of Directors was designated by the Federal Reserve Board. On June 12, the Federal Reserve Board announced the appointment of C. C. Walsh, a banker at San Angelo, Texas, as Class C Director to fill Mr. Talley's unexpired term, and the Board designated Mr. Walsh as Chairman of the Board and Federal Reserve Agent for the remainder of 1925. He took office on July 1.

On May 1, Val J. Grund tendered his resignation as Deputy Governor, to accept an official position with a commercial bank in Los Angeles, California. R. B. Coleman, formerly Cashier, was elected Deputy Governor to succeed Mr. Grund. This assignment as well as the following resultant changes, was effective June 1. Fred Harris, formerly Managing Director of the Houston Branch, was elected Cashier to succeed Mr. Coleman; Dwight P. Reordan, formerly Managing Director at the El Paso Branch, succeeded Mr. Harris at Houston; M. Crump, formerly Cashier of the El Paso Branch, was designated Managing Director to succeed Mr. Reordan; Allen Sayles, formerly Assistant Cashier at the El Paso Branch, was elected Cashier to succeed Mr. Crump.

On October 15, Reese T. Freeman resigned at Assistant Cashier, and his duties were redistributed to other officers of the bank.

## Appendix A – Staff Changes Through the Years

### 1926

No changes.

### 1927

When the San Antonio Branch was established in July 1927, M. Crump, formerly Managing Director of the El Paso Branch, was elected Managing Director of the new Branch, and C. B. Mendel, of San Antonio, was elected Cashier.

When M. Crump was transferred to the San Antonio Branch, W. O. Ford, Senior Assistant Cashier at the Head Office, succeeded him. R. O. Webb, Manager of the Service Department, was elected Assistant Cashier to fill the vacancy caused by Mr. Ford's transfer.

On September 8, R. L. Foulks tendered his resignation as General Auditor and he was succeeded by W. P. Clarke, formerly Assistant Auditor.

### 1928

At a meeting of the Board of Directors on January 14, a new position of Assistant Deputy Governor was created. W. D. Gentry, Senior Assistant Cashier, was elected to fill the new position.

### 1929

No changes.

### 1930

No changes.

### 1931

On October 1, 1931, Lynn P. Talley resigned as Governor of the bank to accept the position of Chairman of the Board of the Bank of America National Trust and Savings Association of California, and B. A. McKinney, Vice President of the First National Bank in Dallas, was elected to succeed Mr. Talley. Thus Mr. B. A. McKinney, for the second time, became Governor of the Federal Reserve Bank of Dallas.

At the San Antonio Branch, T. E. Parks resigned as Assistant Cashier, effective May 1 and H. K. Davis, Manager of the Transit Department, was elected as his successor.

## Appendix A – Staff Changes Through the Years

### 1932

No changes.

### 1933

No changes.

### 1934

On December 1, Fred Harris, Cashier, who had been ill for several months, resigned. This resignation was effective December 31, 1934, whereupon Mr. Harris entered upon disability retirement under the provisions of the retirement system. He continued to reside in Dallas for several years and passed away on June 23, 1944. Mr. Harris was one of the original employees at the Federal Reserve Bank of Dallas. Following Mr. Harris' resignation, Deputy Governor R. B. Coleman was elected to the position of Cashier, in addition to that of Deputy Governor. No other changes in the official personnel of the bank were made during the year.

### 1935

No changes.

### 1936

Those provisions of the Banking Act of 1935, which changed the titles of certain officers of the Reserve Banks and fixed five-year terms for the President and First Vice President, became effective March 1, 1936. At a meeting of the Board of Directors of the Dallas bank on March 9, 1936, Chairman Walsh announced the approval by the Board of Governors of the appointment of B. A. McKinney as President, and R. R. Gilbert as First Vice President, for terms of five years beginning March 1, 1936.

In connection with the changes in duties and responsibilities of the Chairman and Federal Reserve Agent, whereby he would serve on an honorary basis, beginning May 1, 1936, there was a reorganization of the Federal Reserve Agent's Department. As part of the reorganization and following the survey of operations of the entire bank. W. J. Evans, who had been serving as Assistant Federal Reserve Agent, was elected Assistant Vice President of the bank on August 7. At the same time, he was appointed Secretary of the Board of Directors, succeeding Charles C. Hall, whose position as Assistant

## Appendix A – Staff Changes Through the Years

Federal Reserve Agent was given non-official status. On October 5, Mr. Evans was elected Vice President, to continue as Secretary of the Board.

### 1937

No changes.

### 1938

The term of Col. C. C. Walsh as Class C Director expired on December 31, 1937, and Director J. H. Merritt, whose term as Class C. Director would expire on December 31, 1938, was appointed Chairman of the Board and Federal Reserve Agent for the year 1938.

### 1939

In December 1938, the Board of Governors announced the reappointment of J. H. Merritt as Class C Director for a three-year term beginning January 1, 1939, and designated him as Chairman and Federal Reserve Agent for the year 1939.

In the early part of 1939, the bank sustained a double loss in the deaths of President B. A. McKinney and General Auditor W. P. Clarke. Mr. Clarke passed away on March 31 after an extended illness, and Mr. McKinney's death occurred on April 2, after a brief illness.

On April 13, Mr. Gilbert was elected President of the bank to fill the vacancy caused by Mr. McKinney's death and to serve during the unexpired portion of the term of office ending February 28, 1941; that action was approved by the Board of Governors.

At a meeting of the Board of Directors on May 11, W. H. Holloway was elected General Auditor of the bank succeeding Mr. Clarke. On June 8, E. B. Stroud was elected First Vice President of the bank for the period from June 16, 1939, to February 28, 1941, succeeding Mr. Gilbert, and that action was approved by the Board of Governors of the Federal Reserve System. He was also elected General Counsel of the bank for the period June 16 to December 31, 1939.

R. B. Coleman had been serving as Vice President and Cashier of the Bank. At the meeting at which Mr. Stroud was elected First Vice President, Mr. Coleman was

## Appendix A – Staff Changes Through the Years

continued as Vice President, and W. O. Ford, formerly Assistant Vice President, was elected Cashier of the Bank. Mac S. Smyth was elected Assistant Cashier.

### 1940

No changes.

### 1941

No changes.

### 1942

Early in 1942, the Board of Governors announced the designation of Jay Taylor, of Amarillo, Texas, as Chairman of the Board of Directors of the Dallas bank and as Federal Reserve Agent for the year 1942. In those capacities, Mr. Taylor succeeded J. H. Merritt, whose term as Class C Director has expired at the end of 1941.

The position of Assistant Cashier at the Houston and San Antonio Branches had been abolished in 1932. At a meeting of the bank's Board of Directors on March 19, 1942, these positions were re—established; J. Lee Cook was elected Assistant Cashier at the Houston Branch, and H. K. Davis was elected Assistant Cashier at the San Antonio Branch.

On August 31, 1942, there occurred the death of Miers Crump, Managing Director of the San Antonio Branch. E. B. Austin, Assistant Cashier at the Head Office, was elected Managing Director of the San Antonio Branch to succeed Mr. Crump, and there were the following resultant changes: W. E. Eagle, Cashier of the San Antonio Branch, was elected Assistant Cashier at the Head Office; Claude M. Rowland, Manager of the Loan and Securities Department at the Head Office, was elected Cashier at the San Antonio Branch to succeed Mr. Eagle; Grover C. Page, an employee of the El Paso Branch, was elected Cashier of that Branch to succeed Allen Sayles, who was transferred to the Head Office as Manager of the Loan and Securities Department.

### 1943

At a meeting of the Directors of the Dallas bank on March 23, 1943, President Gilbert referred to the substantial expansion that had occurred in the scope and volume of the bank's functions since the country's entrance into the War and recommended that

## Appendix A – Staff Changes Through the Years

the bank's staff include an additional Vice President. After full discussion, W. O. Ford, formerly Cashier, was elected a Vice President, and the following staff changes were made: W. D. Gentry, formerly Manager of the Houston Branch, was elected Vice President and Cashier at the Head Office; H. R. DeMoss, formerly Cashier at the Houston Branch was elected Assistant Cashier at the Head Office; E. B. Austin, formerly Manager of the San Antonio Branch, was elected Manager of the Houston Branch; Allen Sayles, formerly Manager of the Loan and Securities Department at the Head Office was elected Cashier of the Houston Branch; and L. G. Pondrom, formerly Assistant Cashier at the Head Office, was elected Manager of the San Antonio Branch.

At a meeting of the Board of Directors on June 21, 1943, Dr. Jas. C. Dolley, of the University of Texas, was elected Economic Adviser on a part-time basis. Under the arrangement, Dr. Dolley would spend three days every other week at the bank and would accompany President Gilbert on trips to attend meetings on the System Open Market Committee or other committee meetings. Later (June 8, 1944), Dr. Dooley was elected Director of Research and Statistics, on a full-time basis, for a period of one year.

On September 9, 1943, the title of the executive officers at the Houston and San Antonio Branches was changed from "Manager" to "Vice President in Charge." This was brought about by the means of an amendment to the bylaws of those Branches as adopted by the Board of Directors at the Head Office on September 9. The changes in title were announced to all member banks in the district by a Circular letter dated September 20, 1943. Coincidentally, E. B. Austin was elected Vice President of the bank and continued to serve as managing officer of the Houston Branch and L. G. Pondrom was elected Vice President and continued to serve as managing officer of the San Antonio Branch.

### 1944

At a meeting of the Board of Directors held on December 9, 1943, President Gilbert recommended that a Personnel Department be constituted at the Head Office and that new employments and other personnel work be centralized in one department under the supervision of a personnel director. (Therefore, employment interviews had been conducted by the Junior Officers in Charge of the various departments, and personnel



## Appendix A – Staff Changes Through the Years

records were kept in a division of the Service Department.) Mr. Gilbert's recommendations were approved, and as a result, the following staff changes were made:

- (1) Allen Sayles, Cashier of the Houston Branch, was transferred to the Head Office as Personnel Director and elected an Assistant Cashier of the bank. (Effective January 1, 1944.)
- (2) C. M. Rowland, Cashier of the San Antonio Branch, was elected Cashier of the Houston Branch. (Effective February 1, 1944.)
- (3) J. L. Cook, Assistant Cashier at the Houston Branch, was elected Cashier of the San Antonio Branch. (Effective February 1, 1944.)
- (4) Howard Carrithers, Manager of the Foreign Funds Control Department at the Head Office, was elected Assistant Cashier of the Houston Branch. (Effective January 1, 1944.)

Numerous staff changes took place during 1944. At a meeting of the Board of Directors held on June 8, Morgan H. Rice, Manager of the Department of Research and Statistics, was elected Assistant Vice President.

In September, E. B. Stroud tendered his resignation effective October 1, 1944, as First Vice President and General Counsel of the bank in order to re-enter the general practice of law. Mr. Stroud's resignation was accepted and W. D. Gentry, Vice President and Cashier, was elected to succeed Mr. Stroud as First Vice President. Mr. Stroud was engaged on a fee basis, to perform such general legal services for the bank, from month to month, as might be necessary.

E. B. Austin, who had been Vice President of the Houston Branch, was elected Vice President and Cashier at the Head Office to succeed Mr. Gentry. L. G. Pondrom was transferred from the San Antonio Branch to the Houston Branch as Vice President, and W. E. Holloway, General Auditor, was elected a Vice President and designated to have charge of the San Antonio Branch. F. T. Novey was elected General Auditor.

At a meeting of the Board on October 13, Harold R. DeMoss was elected an Assistant Vice President of the bank to have direct supervision of the Examination Department under the general supervision of Vice President Evans. Mr. DeMoss had been Assistant Cashier at the Head Office. C. M. Rowland, formerly Cashier of the Houston Branch, was elected an Assistant Cashier and transferred to the Head Office. E.

## Appendix A – Staff Changes Through the Years

A. Chancellor was elected Cashier of the Houston Branch. In November, Mr. Chancellor resigned his position as Cashier of the Houston Branch, effective December 15, 1944, in order to accept a position as an officer of a commercial bank in Dallas. J. Lee Cook, Cashier of the San Antonio Branch, was elected Cashier of the Houston Branch to succeed Mr. Chancellor. H. K. Davis, Assistant Cashier of the San Antonio Branch, was elected Cashier of that Branch, and Alfred Mundt, an employee at the San Antonio Branch, was elected Assistant Cashier.

### 1945

In a letter dated March 31, 1945, Dr. James C. Dolley resigned as Director of Research, effective May 15, 1945, to accept the position of Vice President of the University of Texas. On July 1, he was succeeded by Dr. W. H. Irons, of the University of Texas, who obtained a leave of absence from the University for one year to accept this appointment.

On June 1, 1945, E. H. Berg, an employee of the Loan and Securities Department at the Head Office was elected Cashier of the El Paso Branch to succeed Grover Page, who was transferred to the Head Office. On September 20, 1945, Hubert D. Johnson of Dallas, Texas, was elected attorney for the bank to be effective as soon as he could report for duty after release from military service.

At a meeting of the Board on October 11, President Gilbert reported that J. L. Hermann, Manager of the El Paso Branch, would retire, effective November 1, 1945. W. E. Eagle, Assistant Cashier at the Head Office was elected a Vice President of the Bank and designated as the managing officer of the El Paso Branch. By this action, the Board assigned the same title to the officer in charge of the El Paso Branch as had been made effective at the other Branches in September 1943. At the same time, J. L. Cook, Cashier of the Houston Branch, was elected an Assistant Cashier at the Head Office. Howard Carrithers, Assistant Cashier at the Houston Branch, was elected Cashier of that Branch, and B. J. Troy was elected Assistant Cashier of the Houston Branch to succeed Mr. Carrithers.

## Appendix A – Staff Changes Through the Years

On November 8, A. C. Michaelis was elected an Assistant Cashier of the bank, effective November 16, 1945; for some time, Mr. Michaelis had been in charge of the bank's Personnel functions, without official title, following the resignation of Assistant Cashier Allen Sayles on September 1, 1945.

### 1946

At a meeting of the Board of Directors on January 10, R. R. Gilbert was re-elected President and W. D. Gentry was re-elected First Vice President, each to serve for a period of five years commencing Mar 1, 1946. This action was approved by the Board of Governors. At the January meeting, President Gilbert informed the directors that Vice President Ford was planning to retire on March 1, 1946, under the disability provisions of the retirement system. Assistant Vice President H. R. DeMoss was elected a Vice President of the bank to succeed W. J. Evans, who had retired, and at the same meeting, Assistant Vice President Morgan H. Rice was elected to serve also as Secretary of the Board.

On April 19, 1946, W. H. Irons, who had served as Director of Research since July 1, 1945, was elected a Vice President of the bank. On April 19, John H. Barron was elected an Assistant Cashier of the El Paso Branch.

### 1947

At a meeting of the Board of Directors on February 13, Mac C. Smyth, Assistant Cashier at the Head Office, was elected a Vice President of the bank and designated to have charge of the El Paso Branch. W. E. Eagle, formerly Vice President in Charge of the El Paso Branch, was transferred to the San Antonio Branch and designed Vice President in Charge. W. H. Holloway formerly Vice President in Charge of the San Antonio Branch was transferred to the Houston Branch as the executive officer of that Branch. L. C. Pondrom, formerly Vice President in Charge of the Houston Branch, was elected Vice President and Cashier and transferred to the Head Office. Howard Carrithers, formerly Cashier of the Houston Branch was elected an Assistant Cashier at the Head Office. W. D. Waller, Manager of the Service Department at the Head Office, was elected Cashier of the Houston Branch to succeed Mr. Carrithers.

## Appendix A – Staff Changes Through the Years

### 1948

On January 8, T. C. Arnold was elected Assistant Cashier of the El Paso Branch. On February 13, the Board of Directors approved the transfer of Vice President Mac C. Smyth from the El Paso Branch to the Head Office for the purpose of devoting his entire time to the supervision of Personnel, this assignment to become effective on or about Mar 8, 1948. As a result of this transfer, the following staff changes were made: C. M. Rowland, Assistant Cashier at the Head Office, was elected a Vice President, effective March 1, 1948, and was designated to have charge of the El Paso Branch. W. D. Waller, Cashier at the Houston Branch, was transferred to the Head Office as Assistant Cashier. H. K. Davis, Cashier of the San Antonio Branch, was made Cashier of the Houston Branch. Alfred E. Mundt, Assistant Cashier at the San Antonio Branch, was appointed Cashier of that Branch. F. C. Magee was elected Assistant Cashier of the San Antonio Branch. These five assignments were to become effective February 16, 1948.

On July 8, 1948, Harry A. Shuford was elected Counsel of the bank to succeed Hubert D. Johnson, who had resigned in order to become connected with a firm of attorneys in Dallas.

### 1949

R. O. Webb, Assistant Cashier, passed away in June, and on July 14, T. W. Plant was elected an Assistant Cashier to fill the vacancy created by the death of Mr. R. O. Webb. In September, A. C. Michaelis, Assistant Cashier in charge of Personnel functions resigned.

### 1950

On January 5, 1950, Herman W. Kilman was elected Assistant Cashier of the bank. On April 13, 1950, E. H. Berg, Cashier of the El Paso Branch, was elected Assistant General Auditor, effective May 1, 1950. On May 4, 1950, Fred T. Novey, General Auditor of the bank, who had been connected with the institution for 32 years, passed away. On May 11, E. H. Berg, Assistant General Auditor, was designated Acting General Auditor. On September 14, Leon Daniels, of Philadelphia, Pennsylvania, was elected General Auditor of the bank, effective November 1, 1950. On the latter date. Mr. Berg resumed the position of Assistant General Auditor.

## Appendix A – Staff Changes Through the Years

### 1951

On January 25, 1951, R. R. Gilbert was re-elected President and W. D. Gentry was re-elected First Vice President, each for a five-year term beginning March 1, 1951.

On March 8, George R. Rudy was elected Assistant Counsel of the bank, effective April 1, 1951. On August 31, 1951, Vice President Harold R. DeMoss resigned in order to accept the position of a Vice President at the Mercantile National Bank of Dallas. On September 13, the following changes in the official staff of the bank were made: L. G. Pondrom was continued as a Vice President of the bank and relieved of his duties as Cashier; Assistant Cashier J. L. Cook was elected Vice President and Cashier; E. H. Berg was elected Assistant Cashier. The position of Assistant General Auditor, previously held by Mr. Berg, was abolished.

### 1952

On January 10, 1952, N. B. Harwell, Manager of the Examination Department, was elected an officer of the bank with the title of Chief Examiner. In a letter dated April 1, 1952, Leon Daniels, General Auditor of the bank, submitted his resignation effective at the close of business on April 30. G. R. Murff, Assistant Secretary of the Board of Governors of the Federal Reserve System, Washington, D. C., was elected General Auditor to succeed Mr. Daniels. Mr. Murff reported for duty on June 1.

In January, Assistant Vice President and Secretary Morgan H. Rice, who had accepted a special appointment with the State Bank of Pakistan, was granted a leave of absence for a period of one year. Subsequently, Mr. Rice's contract with the State Bank of Pakistan was extended for a period of four months, and the leave of absence was likewise extended.

On May 8, Harry A. Shuford, Counsel of the bank, was elected Vice President and General Counsel. It was understood that in his capacity as Vice President, Mr. Shuford would be assigned certain administrative responsibilities.

## Appendix A – Staff Changes Through the Years

### 1953

On August 31, 1953, R. R. Gilbert, who had been President of this bank since April 13, 1939, and R. B. Coleman, who had been Vice President since March 1, 1936, retired under the provisions of the Federal Reserve System retirement plan. Mr. Gilbert had been connected with the bank since its opening on November 16, 1914, and Mr. Coleman had been in the bank's service since July 2, 1915.

### 1954

The office of President of the Federal Reserve Bank of Dallas had been vacant since the retirement of R. R. Gilbert on August 31, 1953. On February 11, 1954, at an executive session of the Board of Directors, Dr. W. H. Irons, who had been Vice President of the Dallas bank since April 19, 1946, was elected President, succeeding Mr. Gilbert, for the unexpired portion of a five-year term ending February 29, 1956.

On March 11, 1954, Morgan H. Rice was elected Vice President and Secretary of the Board, and T. W. Plant was elected Vice President. Mr. Rice had been Assistant Vice President and Secretary of the Board and Mr. Plant had been Assistant Cashier. At the same meeting, Howard Carrithers, formerly Assistant Cashier, was elected Assistant Vice President; Phillip E. Coldwell was elected Director of Research; James A. Parker was elected Director of Personnel; and George F. Rudy, formerly Assistant Counsel, was elected Assistant Counsel and Assistant Secretary of the Board.

### 1955

On September 9, 1954, the following staff changes were made, to be effective January 1, 1955; Thomas A. Hardin was elected Assistant Cashier at the Head Office; William M. Pritchett was elected Executive Assistant at the Head Office; Carl H. Moore was elected Assistant Cashier at the San Antonio Branch. At the same meeting, it was voted, effective January 1, 1955, to transfer W. H. Holloway, Vice President in Charge of the Houston Branch to the Head Office, and to designate him as Vice President and Cashier, and to transfer J. Lee Cook, Vice President and Cashier, to the Houston Branch and to designate him as Vice President in Charge of the Branch.

On November 12, Thomas R. Sullivan was elected Assistant Cashier at the Houston Branch, effective January 1, 1955.

## Appendix A – Staff Changes Through the Years

Of February 28, 1955, N. B. Harwell resigned as Chief Examiner. There was a vacancy in this position until September 8, when Moss E. Hulsey, Jr. was elected Chief Examiner to succeed Mr. Harwell.

On September 8, 1955, the Board of Directors elected Howard Carrithers, formerly Assistant Vice President and a Vice President of the bank, and placed him on special assignment at the El Paso Branch from November 1 through December 31, 1955. At the same time, Mr. Carrithers was designated Vice President in Charge of the El Paso Branch, effective January 1, 1956, to succeed C. M. Rowland who would retire on December 31, 1955.

### 1956

At a meeting of the Board of Directors held on January 12, 1956, Carl H. Moore, formerly Assistant Cashier at the San Antonio Branch, was elected as Assistant Cashier at the Head Office, to be transferred to the Head Office on January 1, 1956. At the same time, W. M. Pritchett was elected Assistant Cashier at the Head Office; T. A. Hardin was elected Assistant Vice President; and Fredric W. Reed was elected Assistant Cashier of the San Antonio Branch.

On January 12, the Board of Directors of the Dallas bank, subject to the approval of the Board of Governors of the Federal Reserve System, elected Watrous H. Irons, President, and W. D. Gentry, First Vice President, of the bank, each for a five-year term beginning March 1, 1956.<sup>99</sup> These appointments were approved by the Board of Governors.

On July 12, Charls E. Walker, formerly of the bank's Research Department, who had been on leave for approximately a year while employed on a special assignment at the Republic National Bank of Dallas, was elected Economic Adviser of the Reserve Bank, effective September 1, 1956. Also, on July 12, James L. Cauthen was elected Assistant Cashier of the bank.

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<sup>99</sup> Mr. Gentry's reappointment subject to his retirement at age 65.

## Appendix A – Staff Changes Through the Years

### 1957

At a meeting of the Board of Directors held on June 13, 1957, the following individuals were elected to the official positions indicated, effective September 1, 1957: Fredric W. Reed, formerly Assistant Cashier at the San Antonio Branch, was elected Cashier of the El Paso Branch; Alvin E. Russell, formerly Cashier of the El Paso Branch, was elected Assistant Cashier of the San Antonio Branch; F. J. Schmid, of the San Antonio Branch, was elected Assistant Cashier of that Branch; B. J. Troy, formerly Assistant Cashier at the Houston Branch, was elected Cashier of that Branch; W. C. Hartung of the Houston Branch was elected Assistant Cashier of that Branch.

At a meeting of the Board of Directors held on October 10, 1957, T. A. Hardin, formerly Assistant Vice President, was elected Vice President of the bank, and Charls E. Walker, formerly Economic Advisor, was elected Vice President and Economic Adviser. At the same meeting, Carl H. Moore, formerly Assistant Cashier, was elected Assistant Vice President. All of the changes were to become effective January 1, 1958.

### 1958

At a meeting of the Board of Directors held on September 11, T. W. Plant, formerly Vice President, was elected Vice President and Cashier of the bank, effective October 1, 1958, succeeding W. H. Holloway, who would retire on September 30, 1958. It was also voted that Vice President E. B. Austin, who was scheduled to retire on October 31, 1958, upon retirement, would be employed as Consultant to the President, a non-official position. Unfortunately, however, Mr. Austin died in El Paso on September 14, 1958, as a result of a heart attack.

### 1959

At a meeting of the Board of Directors held on January 8, 1959, Vice President and General Counsel Harry A. Shuford was elected, subject to the approval of the Board of Governors, First Vice President of the bank, effective March 1, 1959, for the unexpired portion of a five-year term ending February 28, 1961. Mr. Shuford was to replace First Vice President W. D. Gentry, who was scheduled to retire on March 1.

At a meeting of the Board of Directors held on February 12, 1959, Carl H. Moore and James L. Cauthen were elected Vice Presidents of the bank; George F. Rudy was



## Appendix A – Staff Changes Through the Years

elected General Counsel and Assistant Secretary of the Board; Robert H. Boykin was elected Assistant Counsel; Thomas R. Sullivan and R. E. Bohne were elected Assistant Cashiers at the Head Office; and Rasco R. Story was elected Assistant Cashier at the Houston Branch. The new assignments of Messrs. Cauthen, Rudy, Bohne, and Boykin were effective March 1, 1959, and the others were effective April 1, 1959. Vice President Moore was designated to have charge of the San Antonio Branch.

At a meeting of the Board of Directors on March 12, 1959, President Irons stated that, from time to time, Secretary of the Treasury Anderson had discussed with him the possibility of securing an outstanding economist who might be attached to the Secretary's office as an Economic Adviser. He stated further that Secretary Anderson had expressed a desire to obtain the service of Vice President and Economic Adviser Charls E. Walker on a leave of absence basis. After due consideration, upon motion duly made and carried, it was voted to approve a leave of absence for Mr. Walker for a period of one year with the understanding that Mr. Walker would retain all of his rights and privileges under the Retirement System and such other privileges as would accrue to him if he were to continue employment without leave during the period involved.

On June 11, the following changes in the official staff were made, effective July 1, 1959: Thomas R. Sullivan was promoted to Assistant Vice President with the supervisory responsibility of bank examination, succeeding Chief Examiner Moss E. Hulsey, Jr., who had resigned to accept a position with a commercial bank; James O. Russell was promoted to Chief Examiner under the direct supervision of Mr. Sullivan; Assistant Cashier W. M. Pritchett was elected Assistant Vice President; E. A. Thaxton, Jr. was elected Assistant Cashier.

At a meeting of the directors held on October 9, 1959, it was voted that, effective January 1, 1960, the title of Director of Personnel James A. Parker to be changed to Vice President.

### 1960

At a meeting of the Board of Directors on March 10, a leave of absence for Vice President and Economic Adviser Charls E. Walker was extended for one year from April

## Appendix A – Staff Changes Through the Years

17, 1960, on the same terms and conditions as the original one-year leave which had been approved in March 1959.

At the same meeting, President Irons stated that for some time, the members of the Board of Governors had been talking with him regarding the need for additional legal talent to relieve the acute situation existing at the Board, and that they had urged him to lend the services of General Counsel George F. Rudy to the Board for a period of one year. Upon motion duly made and carried, it was voted to authorize the loan of Mr. Rudy's services to the Board of Governors for one year from April 1, 1960.

In view of the pending retirement of Vice President and Secretary Rice on November 1, 1960, and the loan of General Counsel and Assistant Secretary Rudy to the Board of Governors, the Board of Directors of the Dallas bank, on April 14, designated Vice President Murff as Acting Assistant Secretary,

On October 31 Vice President and Secretary Morgan H. Rice retired under the provisions of the Retirement System of the Federal Reserve Banks. It was announced that Mr. Rice had accepted an assignment as Advisor to the Central Bank of Nigeria. Following Mr. Rice's retirement, the directors of the Dallas bank, at a meeting on November 10, adopted a resolution expressing their warm friendship for Mr. Rice, their appreciation of his contribution to the bank's progress during his 40 years of service, and wishing him much success in his new assignment.

At a meeting of the directors on October 13, P. E. Coldwell, Director of Research, was appointed Vice President of the bank, effective November 1, 1960. Mr. Coldwell would succeed to the supervision of the Research function of the bank upon the retirement of Vice President and Secretary Rice. Vice President and Acting Assistant Secretary G. R. Murff was appointed Acting Secretary of the Board of Directors and Assistant Cashier Herman W. Kilman was appointed Assistant Secretary of the Board, effective November 1, 1960. At the same meeting, Assistant Vice President Pritchett was appointed a Vice President of the bank effective January 1, 1961.

## APPENDIX B

### “FEDERAL RESERVE NEWS”

For some time during World War II, the Federal Reserve Club issued a mimeographed newsletter for distribution to employees of the Head Office and Branches who were in the armed forces of the United States. The paper was published every month or two, and as time went on, its columns not only gave the news of the happenings at the bank, but also have extracts from letters received from Federal Reserve soldiers and sailors stationed throughout the world. H. M. Morton was the first Editor, Marie Peyton and Anabel Russell were Associate Editors, and Leo Howell was “Printer’s Devil.” Later, Associate Editors were appointed at the Branches. The first issue “came off the press” in June 1943, and the last number (No. 25) was issued in November 1945. For the later years, Hoyt McCormick and Edna Earl Nobles were Co-Editors, Louise Bartlet was Associate Editor at the El Paso Branch, Velma Farris was associate at Houston, and Helen Hamilton was associate at San Antonio. Leo Howell was still “Printer’s Devil.”

Glancing through the pages of this little newspaper brings back the memories of the war years and reminds us of the important part played by these men and women of the Federal Reserve family in the great conflict. The following extracts, picked at random, may be of interest to many of the present members of the staff:

Leon Barton, formerly of the Print Shop, but now of the Army Air Corps at Strother Field, Winfield, Kansas, spent a few days leave here visiting his wife Dolly and his many friends about the bank. He also took time out to go down and lay loving hands on that old Miehle press – the one that turns our circulars faster than a P-38 can shed bullets.

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Lieutenant E. A. Thaxton, Jr., spent his leave in Dallas. He will return to Fort Sill on Sunday.

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Mac Smyth has an interesting letter from Pope Guy, who is stationed at a Naval Base in Rhode Island. Pope has a new job – fitting out fighter and bomber planes with little accessories that go “boom-boom” if you kick ‘em around too much. Why not drop the boy a line? Especially you transit artists “who knew him when.”

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Appendix B – Federal Reserve News

The Editor, himself in person, just ain't done right by Lt. H. A. Yancey, 27<sup>th</sup> AARTB, Camp Wallace, Texas. Harvey was one of the very first to write in and thank us for the News. But in the rush of business, as in all big printing establishments, Harvey's letter got misplaced and was later found behind the office safe when it had fallen. We're sorry and hereby sentence ourselves to a week's K. P. duty – drying dishes at home. Harvey says: "News from the Bank, which is next to home to me, is always cherished. The whereabouts of those in the service and the present position and activities of those still a part of the bank and its Branches are of utmost concern to me."

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Cpl. George E. Dennis, Service Co., 335<sup>th</sup> Infantry, Camp Howze, Texas, grows enthusiastic about the News. "I think it is a grand thing," he says, "and you should be proud of all concerned in helping to get such swell news out to us guys. Tell Mr. Smyth and Mr. Yeilush hello for me, and all the boys and girls in the Transit Department. They are a great bunch and I miss them more than they will ever know." (We will be George has a bank on the side.)

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Dear Hoyt: I received the latest edition of The News several days ago. As you can see by my address, I finally got out of Mississippi and am a little nearer home, although, I am still unable to manage a trip. It seems the longer I stay in this outfit the fewer times I manage to get away. We will be through here around the middle of November and then I don't know what we will do. There are rumors that we will get another leave, so I may be seeing you sometime between now and the first of the year." --Buddy. (Lt. Wm. C. Reddick, Co. A 395<sup>th</sup> Inf. APO 449, % Postmaster, Shreveport, La.)

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Sgt. Richard L. Maddox, 1421 Detroit St., Denver 6, Colorado writes: "I'm stationed at Lowrey Field, which is an Army Air Force school. For the past year, I've been teaching in the Armament school. It sure is a far cry from doing clerical work in a bank to teaching the fine art of taking a machine gun apart and putting it back together again. Pass the news for me to Mr. Tate and Mr. Wrede that everything is fine here in Denver, except it's rather cold."

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We appreciate very much the following letter just received from Colonel Jay Taylor, who is Chairman of the Board and Federal Reserve Agent of the Dallas bank:

Washington, January 12, 1944

Mr. H. M. Morton, Editor,  
Federal Reserve News,  
Federal Reserve Bank of Dallas,  
Dallas, Texas.

Dear Mr. Morton:

Your "Federal Reserve News" is always a welcome publication, and I take great interest in keeping up with where all of our soldiers and sailors are located. Their letters bring home vividly to all of us the many sacrifices being made in this war.

Please express my appreciation to the Federal Reserve Club for the subscription to the Reader's Digest. I will certainly enjoy reading it, particularly since it is a gift of our club.

I have lunch at least once or twice a month with the Federal Reserve Board here in Washington and keep sort of up to date with what is going on in Texas by visiting with Mr. Gilbert, Mr. Stroud, and Mr. Nathan Adams on their visits to Washington. Since entering the Army, I have had an opportunity to visit several of the Federal Reserve Banks throughout the United States, and it was quite a pleasure to me to know that our own Dallas bank and its Branches measure up quite favorably to any that I have visited.

Thank you again for the thoughtful Christmas gift.

Sincerely yours,

JAY L. TAYLOR  
Colonel, Q.M.C.

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Sk 2/c Holmes T. Erwin says he just hung some washing on the [clothes]line and it froze. No – that didn't happen in Miami. He has a new address now: LST Induction Group, Unit L (97) USNATB, Camp Bradford, Norfolk 11, Va. He writes: "Howdy folks! Hope everyone is fine. I just received No. 9 of Vol. I, F. R. News, and devoured it to the last punctuation mark. It seems things are taking place there in the line of changes. A new Club set-up with John Digings leading the list and a new department for the bank. Congratulations to Joe Metze on his new appointment. It was surely too bad about Toddy Matlock. He was truly very popular. I found out just what a wonderful climate Miami has when I arrived here at Norfolk. Had to break out the Navy woolens to survive. And I do mean the long-handled kind. Orchids to the

## Appendix B – Federal Reserve News

employees of the bank who have joined the ranks of blood donors. Keep on sending the NEWS – it’s great.”

In April 1944, H. M. Morton retired at age 65 from his position at the bank, and relinquished the job as Editor of the “Federal Reserve News”. However, he continued to help out with that publication. President Gilbert took note of the occasion in the following letter:

Dear Mr. Morton:

Your retirement, after 24 years of efficient and faithful service with the bank, brings to mind your many admirable qualities. Chief among those is your interest in others. An example of this is your fine work as Editor of the “Federal Reserve News”, which carries the news from home to the men and women of the bank in military service. The good influence you have had upon our entire organization can never be adequately described or evaluated.

As you leave our organization I want you to know that you have our very best wishes for many years of health, happiness, and contentment. You can now pursue your hobby of amateur photography, in which you are so expert, unhampered by the cares of business. All of us will miss you, especially the men and women in the Service. I hope you will come to see us from time to time, and that you will continue to write articles for the “Federal Reserve News”.

In that issue, Mr. Morton made the following personal statement:

### STRICTLY PERSONAL

So far as this particular Editor is concerned, this issue is what the shoemaker threw at his wife --- the last. And if you will pardon me a few personal words, we’ll just chuck the editorial “we” right out the window and give the old capital “I” one last fling.

Having battled my way through the age of adolescence and presumably reached that of discretion, I will take advantage of the Retirement System and sever my connection with this bank at the close of business, Saturday, April 29.

In so doing, I leave behind 24 years, three months, and 21 days of service in the telegraph office, and exactly the same number of years, months, and days of very pleasant memories that will not be easy to brush off. In a way, January 8, 1920, looms dimly in the far, distant past. But switch the

## Appendix B – Federal Reserve News

viewpoint around a bit, take another look and it seems only a few yesterdays distant from the present.

I happen to be one of the Dead End Kids who came up from Martin Street. Nice place, Martin Street. You could step out of the back door of the bank and find good diamonds for sale only a few steps away. Very convenient.

There will be many of those Dead End Kids remaining in the bank after I am gone. On every floor and in the basement, you'll find them. And I have often wondered why men and women stick around the F. R. B. the way they do! Me? I don't go for that kind of stuff! All my life I have made it an iron-clad rule not to remain over 24 years, three months, and 21 days on any one job.

But so far, I have been unable to figure out just how to handle this retirement thing. Should I slip up on its blind side and slug it? Or, perhaps, tackle it toe-to-toe right out in the open. You see, I have no precedent – no rule by which I may be guided. To get up from the desk where I have been sitting 24 years, plus, and walk out and away from the familiar faces of good friends who have almost been a part of my life may not be the easiest task I've ever had, but – she has to be did. So here goes!

To all the boys and girls in the armed forces, it's been lots of fun getting out this little newsletter and I have enjoyed every minute of the time so spent. Good Editors are waiting to keep it coming. I have some V-mail sheets in my desk out in Oak Cliff and expect to have some time at my disposal to drop you a few words of the latest gossip if you would care to write me a card or letter. Let me hear from you.

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Just as we were turning this issue over to the printer, another V-mail from Lt. John Blake arrives. He says: "Just a line to let you know my new address – Sardinia. The way I feel now, I don't ever want to come home, but, of course a few years here will change all that. Convey my sympathy to all my friends there, and let the News in on my present location." John is flying one of the B-Marauder things and will no doubt find plenty of "work" in that territory.

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From the June 1944, issue:

To Our Employees in the Armed Services:

With the approach of Independence Day, our thoughts turn naturally to our men and women in the Service. Not that we think of you only on such occasions, because you are always in our minds and in our hearts, but July

Appendix B – Federal Reserve News

4<sup>th</sup> has a deeper meaning this year. All of us here at home, collectively and individually, feel greatly indebted to you for the sacrifices you have made in leaving your homes, your loved ones, and your jobs, to go out to help preserve for us the way of life to which we are all so devoted.

We are proud of the fact that the service record of our employees has been such, as in many cases, to merit recognition in the form of promotions, the award of medals, and other decorations. Your record in the front ranks in Italy, France, and the South Pacific, and all over the world where combat is taking place is one of devotion to duty and unfailing courage.

Here at home we are trying to help, in our small way, by giving our best effort to our work, buying all the War Bonds we can, contributing blood to the Blood Donor Center, and participating in other Red Cross activities.

We greatly miss our employees who are in the service and look forward with much joy to the time when you can come back and take up your places in the ranks of home – a happy day that we hope will not be too long delayed.

Sincerely yours,

W. D. Gentry  
Vice President and Cashier

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Mr. Fred Harris, Cashier of the Bank from 1925 until his retirement in 1935, and with the Bank from the time it opened, passed away Friday, June 23. Mr. Harris' visit to the bank a few days earlier confirm the statement that the bank and its employees were his first interest to the time of his death. All of us who knew Mr. Harris truly lost an admirable friend in his passing.

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Captain Earl Austin, Jr., arrived home July 17, after 14 months' overseas service, looking very well and happy to be home. Captain Austin carried his ribbons, stars, and oak leaf cluster (he is being very modest, we had to use some persuasion to get him to wear them); however, the most important, the President's citation, is on its way, but hasn't caught up with him yet. We have greatly enjoyed Captain Austin's visit and hearing some of the interesting experiences he has had. Good wishes from all of us to with him in his new assignment.

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We reported last month that Kyle Savage had taken part in the invasion, and we were glad to get a letter from him telling us that he was all right. He said things around where he is have been popping pretty steady for the past



Appendix B – Federal Reserve News

few weeks, and they have been slinging quite a bit of lead at the Heinies and states they (our boys) have been doing a fairly good job of it. He says it was pretty rugged duty for several days, but he thinks he will gain back the weight he lost. For about the first eighty hours, he did not get to sleep a bit, and was very tired, and the K-rations didn't help the morale either. All in all, though, he says he thinks they faired pretty good – “that is compared to what we were expecting to run up against.” We are mighty happy all is well, Kyle, and hope you can keep us posted about yourself.

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And from Rasco Story: “Yesterday, we dropped anchor in port for the first time in several days and were lucky enough to receive quite a lot of Christmas mail – including packages. The package from the Reserve arrived as usual and contained articles that are very useful in these parts – and are unobtainable in any form. I wish to express my appreciation and thanks for the thoughtfulness in thinking of us – it is a great help to our morale – which has been boosted temporarily by the tide the war has been taking here in this vicinity during the last few weeks. However, mail and gifts from home help in an entirely different way, as it is the time of year and then perhaps it is due to the fact that we have been at sea for 14 months without relief – but regardless of what the reason might be, we are keeping our fingers cross and expecting (vague word in the Navy) to spend Christmas in the States this year – so if Uncle Sam is kind to us, I hope to see all of you before that time.” (We’ve been watching every day, but we still have a few more days to go before Christmas, and we too, haven’t given up hope that you will be in, Rasco.) “I have been receiving the “Federal Reserve News” and also the Curriculum Issue of the Houston Banker and have enjoyed them very much – they are our main source of information about our employers and fellow employees – also our buddies in the service. So please continue to regard me as a ‘number one’ fan and keep me on your mailing list.”

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Capt. Chas. A. (Jakie) and Mrs. (Frances) Gore spent Christmas in Dallas. Jakie is now in the Transportation Corps, stationed in New Orleans, while Frances is guess where – in the F. A. Department of the New Orleans Branch.

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January 17, 1945

Federal Reserve Club  
Dallas, Texas

## Appendix B – Federal Reserve News

Dear Friends:

Here is my subscription price for the NEWS. The contribution by H. M. Morton is getting better each time. The news he gives is equal to several newspapers, and is welcome as the flowers in May.

Glad to hear once more about Pope Guy. I had begun to think his address was a closely guarded military secret. Congratulations, Pope – Chief Guy, I mean. I hope you are headed my way. I'll be checking each carrier.

I have been in Hawaiian waters for the past several weeks and have been enjoying this paradise of the Pacific. It can't last always, though, and I suspect our next move will be in the direction where the 'big leagues' play, and with fireworks that have a 'kick.' Best regards to all of you.

Sincerely,

Homes T. Erwin,  
Sk1/c USNR

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Another interesting letter from Rasco Story:

Received your very nice letter dated 27<sup>th</sup> of April and, as usual, was very glad to hear from you and about affairs concerning the bank. I have been gone over three years now but continue to feel very close to the bank and personnel connected with it. Naturally, operating in the area in which we are – diversions are common and very interesting ones at times, which goes toward helping attain our ultimate motive. All of us will only work harder out here now to try to gain the victory where we can celebrate not VE Day but V Day. We were very happy when we heard the news about the surrender of Germany, and know that they share our feelings that we haven't anything to really celebrate until we get those dirty traitors beat down to their knees.

Velma, I sure had a wonderful surprise last week: We were coming into port (island) about 0600 in the morning, and I happened to walk up on the signal bridge and looked out among the ships present and saw my brother's ship. (He is also a chief yeoman.) I sent him a message by blinker and we have had several visits together. It was the first time I have seen him in over two years – sure nice to happen to a fellow when he is thousands of miles from home. We had been operating in the same locality but didn't know it. I was recently very close to L. O. Moore but didn't anchor. It isn't very difficult for you to figure out the vicinity in which we are operating. Maybe very soon we will get ashore in the right place for me to look some of the fellows up.

Appendix B – Federal Reserve News

I surely do appreciate the committee of the F. R. Club calling Jean and asking her to attend the picnic at Mason Park this month. I know she will attend and have enough fun for the both of us – of course, it goes without saying that I would like to be there – perhaps next year. Recently had a very interesting letter from Lewis Crosson (formerly with the Federal Land Bank) and he is enjoying his assignment in Casablanca. If Mose gets in, tell him hello for me, and also give my regards to all.

Thanks again for the letters and also for the news which are coming thru' at regular intervals – they boost the morale plenty.

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September, October, November, 1945

To Our Employees in the Services:

We again wish to extend greetings of the season to our men and women in the armed forces, and to express our appreciation for their contribution to the fine military victory which has been won.

Your thoughts now naturally turn toward home and civilian life. We are eagerly looking forward to your arrival and an opportunity to discuss with you your plans for the future. In this connection, we have had numerous letters regarding their old jobs from employees who left the bank to enter military service. We are happy to report that all our servicemen and women who have applied for employment have been re-employed, and that in placing them back in our organization, we have taken into account, wherever possible, the knowledge and skills they have acquired while in the service. To those of you who have not as yet separated from the services, we wish to assure you of a hearty welcome when you return to the bank.

While this message is directed primarily to our men and women in the armed forces, we are not unmindful of our responsibility to those who have been so faithful to the job at home during the war period. This responsibility will not be treated lightly. Our genuine desire is to be fair to all – to those who went to the armed service and to those who supported them on the home front.

With every good wish and the hope that you will soon be home, I am

Sincerely yours,

R. R. Gilbert  
President

## **APPENDIX C**

### **DINING FACILITIES FOR EMPLOYEES**

#### Dining Facilities for Employees

Soon after the bank moved into its new building at Wood and Akard Streets in the spring of 1921, dining room service was made available to the bank's staff. The dining room was located on the fifth floor, and a regular luncheon was served at a cost of 35 cents with a la carte service in addition. An announcement of the opening of the dining room facilities was made on April 5, 1921, as follows:

A new Division of the Office Service Department, to be known as the Cuisine Division, has been created with Mr. O. Lathrop, Chief of the Division.

This Division will operate the kitchen and Dining Rooms on the Fifth floor and will be ready for service effective 11:00 a.m., Friday, April 8, 1921. The Dining Room will be open daily from 11:00 a.m. to 2:00 p.m.

All employees will be assigned a regular lunch time by the manager of their departments and must abide by this time as far as possible, in order to prevent congestion in the Dining Room, as it will be a physical impossibility to serve a large number of employees at the same time.

A regular set luncheon will be served each day for 35 cents, and a portion of the Dining Room will be set off for a la carte service. The a la carte service will consist of the principal items on the daily luncheon and other items will be shown on the daily menu.

Payment for luncheons or a la carte service may be made either in cash or by coupons detached from books which may be purchased by employees. These coupon books will contain coupons amounting to \$5.00, and may be purchased by employees either for cash or by deduction from salaries. The books will be issued by the Chief of the Cuisine Division or the Cashier of the Cuisine Division. Unfortunately, these coupon books have not been received from the printer and for the first few days, it will be necessary for all employees to pay for their luncheons in cash.

Tellers located on the First and Fourth floors will order their luncheons through the Porters assigned to their respective floors and the Porters will deliver luncheons to them and collect the amounts of the waiters' checks from each teller.

Dining Room service is available only to officers and employees of the Federal Reserve Bank of Dallas or invited guests of an officer.

## Appendix C – Dining Facilities for Employees

Employees are positively forbidden to offer tips to waitresses and the acceptance of tips by waitresses will result in their dismissal.

Employees are also requested to refrain from smoking in the Dining Room.

Under the arrangement, the bank absorbed a substantial portion of the expense of the operation of the Cuisine Department, and the cost to the employees was relatively small. For a period of a number of years, practically all of the employees patronized the bank's dining room. However, as time went on, patronage from day to day became irregular, although the majority of the employees continued to avail themselves of the dining room facilities. Complaints about the menus and service became rather frequent. Finally, on June 30, 1933, the following announcement was made in a bulletin issued by the Cashier of the bank:

Dallas, Texas, June 30, 1933

### A N N O U N C E M E N T

After giving the matter its full consideration, the Executive Committee has decided that the Cuisine will be discontinued effective at the close of business July 9, 1933.

Fred Harris  
Cashier

After a brief period of inconvenience and added expense which followed as a result of employee's finding it necessary to take their lunches in commercial eating places, the management of the bank was requested to reopen the dining room. After full consideration, the request was granted under an arrangement whereby a flat salary deduction of \$6.00 a month was made from the pay checks of all employees, except those who worked at night. The details of this arrangement were given in an announcement dated July 24, 1933, as follows:

Since the closing of the Cuisine under date of July 8, 1933, numerous employees have expressed a desire that it be reopened, which has influenced the management in reconsidering its former action.

While the bank is willing to cooperate to the extent of donating the necessary space, heat, power, and water and to absorb the expense of overhead supervision, it does not feel warranted in absorbing a large annual deficit and has decided that, as the Cuisine is maintained solely for the

## Appendix C – Dining Facilities for Employees

benefit of the bank's personnel, it should be largely self-supporting. It is evident that in order to accomplish this, it will require the support of everyone in our organization who is located in Dallas, with the exception of those who work at night. On a basis of previous experience, it has been estimated that it will require a monthly deduction from the salary of everyone in the organization (save those who work at night) of about \$6 in order to cover the actual cost of food and Cuisine help.

The Cuisine will be reopened on August 15, 1933, or as soon thereafter as practicable, and deductions will be made from salaries on a semi-monthly basis to insure its successful operation. In making deductions, no allowances will be made for vacations or absences on account of sick leave or for other purposes, this being regarded as an equitable arrangement for all concerned.

In the event the estimate of \$6 per month should be more than sufficient to cover the actual cost of operation above the contribution made by the bank, it will be accumulated in a separate fund with a view of reducing the monthly deductions, if possible. On the other hand, if this amount is not sufficient, on account of the rising cost of food, it might be necessary to slightly increase the deductions.

Employees of the Reconstruction Finance Corporation will be privileged to use the dining room by purchasing monthly tickets at a cost of \$6 payable in advance, said tickets to be good for any one calendar month. As a means of identification, cards will be issued to each of the bank's employees. Officers and employees will be entitled to invite guests on a basis of 30 cents per meal, to be paid for by monthly deductions of tickets bearing their O.K. and delivered to the Dietitian for transmission to the Manager of the Service Department. The cost of meals (30 cents) for visiting bankers and others who are guests of the bank will be charged to Expense Account against the ticket O.K.'d by an officer of the bank, which will likewise be delivered to the Dietitian for transmission to the Service Department.

It has been decided in the interest of economy that the a la carte service heretofore offered, will be discontinued, and instead, that a regular meal will be served. It has been likewise decided that no breakfast will be served.

The management feels that this plan for reopening the Cuisine is the proper and reasonable one and in the interest of the personnel of the bank. The hearty acquiescence of all is anticipated.

Further information was furnished in the following announcement, dated August 14, 1933:

Supplementing Bulletin No. 57, dated July 24, 1933, you are advised that our Dining Room will reopen at 11:00 a.m. Wednesday, August 16.

## Appendix C – Dining Facilities for Employees

Commencing August 15, semi-monthly deductions of \$3 will be made from the salaries of all employees except the night guards, night porters, and field men connected with the Insolvent Banks Department. Each employee will receive a card entitling him to the privilege of the Dining Room for the period for which the deduction is made, which will be honored by our Cuisine for the period specified herein. These cards will not be honored after the expiration data shown, new cards being issued each month in distinctive colors. Likewise, cards will be issued to the employees of the R. F. C. Loan Agency for each semi-monthly period in the amount of \$3.

Thirty-minute luncheon periods have been assigned employees, and it is very necessary that each employee observe his designated luncheon period in order that overlapping may be avoided.

Our Dining Room help are all new employees, and it naturally follows that those in our organization are strangers to them. For this reason, it will be necessary that employees present their Cuisine cards immediately upon taking their places at the tables in order that our waitresses may know they are entitled to the service. It will also be necessary that each employee sign the waitress check and indicate thereon choice of meat, dessert, and drink.

Employees will be permitted to entertain guests in the Dining Room occasionally, but this privilege should not be abused as our facilities are limited. The employee entertaining a guest must sign an additional waitress check for his guest and pay the amount thereof, thirty cents, to the waitress in charge of the table. R. F. C. Loan Agency employees will follow a similar procedure in connection with any guests they may have.

In those cases, where an employee is unavoidably detained in his department finishing an assignment that cannot wait and, as a result, misses his lunch period, arrangements have been made to serve such employees at an emergency table at the request of his department manager.

It is important that employees observe these instructions without exception in order to avoid unnecessary delays and overlapping of the various luncheon periods.

Please be governed accordingly.

A “progress report” on the operation of the dining room, after approximately eight months under the new plan, was made in a Bulletin dated April 13, 1934, as follows:

Inasmuch as our dining room has been operating for about eight months under the new plan, it is felt proper to make a statement at this time with reference to it.

## Appendix C – Dining Facilities for Employees

The cost of operations has exceeded the amount paid by officers and employees about \$300 per month, aside from the value of the space occupied and the cost of heat, light, power, water, and overhead and other items charged to general expense. The bank has cheerfully absorbed all these costs and the facts are mentioned here only for the purpose of showing the patrons of the dining room that they are receiving their meals at less than cost. It may be mentioned, too, that food prices have been rather steadily advancing since the amount of deduction for meals was established last August. We do not contemplate raising the price of the meals, however, unless the amount to be absorbed by the bank becomes unwarrantedly burdensome.

It is the judgment of the officers of the bank, and we feel a vast majority of the employees, that the dining room has been operated in an entirely satisfactory manner. It appears, however, that a small number of employees have fairly consistently made complaints in the dining room of the food and service. The management of the bank recognizes the right of officers and employees to make justifiable complaints and to offer constructive suggestions, but it is requested that all criticisms and suggestions be made to the supervising officer or the manager of the Service Department, where they will be given the most careful and confidential consideration.

It is obviously impossible in an organization of this size to prepare a menu each day under the present plan that will suit the individual taste of everyone. Menus are carefully prepared with the idea of pleasing the largest number possible and are varied as much as practicable from day to day. It is likewise impossible where a choice of several dishes is provided to avoid running out of some particular item of food occasionally. This is a frequent occurrence in nearly all eating places, since the amount of food required for any particular day can only be estimated by past experience and it must be realized that the volume of each item of food ordered varies from day to day. It is therefore impracticable to prepare and have on hand at all times a surplus of each item of food, without increasing the amount of monthly deductions or the deficit absorbed by the bank.

In the interest of economy and more satisfactory service, it is requested that the following rules be observed:

1. Waitresses are instructed not to accept orders for meals unless completely listed on a signed ticket and will not be permitted to subsequently serve dishes not included in the original order.
2. No exchange of dishes will be permitted after they have been served unless for some good reason, in which case waitresses are instructed to refer to the matter to the Dietitian for proper attention.



## Appendix C – Dining Facilities for Employees

3. A schedule of lunch periods was established at the beginning of the present plan of operations, but there has been increasing tendency to disregard these periods. It is expected that a more careful observance of the schedule will be made in the future, and department managers are requested to cooperate in seeing that this is done.
4. In the interest of quick and satisfactory service, it is desirable that overcrowding of tables be avoided. While employees are expected to take all the time necessary to eat their meals, it is requested that they do not remain in the dining room behind the lunch period assigned to them in order to prevent overcrowding at the subsequent period.
5. Where employees leave the building during the lunch period, it is requested that they eat their lunches before leaving.

The hearty cooperation of all officers and employees is expected in connection with the rules set out above.

The dining room was operated for the next eight years (approximately) at the same charge to employees, \$6.00 per month, but on January 31, 1942, the management of the bank announced that effective April 1, 1942, there would be an increased deduction for each semimonthly payroll period of \$3.50 rather than \$3.00 theretofore. This was in view of the rising food costs which began to take place after the United States became involved in World War II in December 1941. However, further increases were not permitted, since Government authorities soon instituted price controls, as part of which “ceiling prices” were established for almost every type of goods including meals. The announcement of the increase referred to above was made on January 31, 1942, as follows:

During the past year, the Cuisine Division served a total of 148,000 meals to our officers and employees, including their guests. As a result of rising costs of food, the bank absorbed more than \$12,000 in 1941 in connection with cuisine operations, which compares with an expense of approximately \$3,000 absorbed by the bank annually during recent years. The average cost per meal last year was thirty-three cents, and the expense absorbed by the bank was approximately 25 percent of the total cost of the Division’s operations.

We have been giving some consideration during recent months to the increasing cuisine expense, and had hoped that it would not be necessary to make any change in the present price or in the variety of the meals served. We find, however, that it will be necessary to make some slight change in the variety of the food, but in that connection there will be no change whatever either in the quality or the quantity of the food served.

## Appendix C – Dining Facilities for Employees

Effective February 2, 1942, we will make a slight revision in the number of optional dishes offered on our menus.

We also find that it will be necessary, effective April 1, 1942 (the beginning of the next quarterly period of operations) to increase by fifty cents each pay day, the semimonthly deduction for meals. This will represent an increase from \$3.00 to \$3.50 for each semimonthly period, which will increase the price of meals from twenty-four cents to twenty-eight cents. Under the new plan, the bank will, as in the past, continue to absorb a liberal portion of the cuisine expense. In view of rising food costs generally, we feel that the new price will represent a very low charge for meals of the quality and variety we will serve.

Officers and employees may continue to have luncheon guests at their expense, but, effective February 2, 1942, the price of the regular meals served such guests will be forty cents.

Almost six years elapsed before any additional changes were made in prices or general arrangements with respect to dining room facilities. However, on February 1, 1948, the dining room was changed to a cafeteria plan. Under that plan, a regular plate lunch was served at a price of 45 cents and, in addition, a variety of individual dishes were provided, the prices of which was indicated on each separate item. This change was announced on January 22, 1948, as follows:

Since April 1921, this bank has operated the Cuisine Division for the benefit of its officers and employees, and has served well-balanced meals, the total receipts from which have been substantially less than the cost of operating the division. From time to time, it has been necessary or desirable to make changes in the operation of the dining room or in the price charged for food. The last change in the price charged officers and employees for the noonday lunch was on April 1, 1942. Since that date the cost of food has very greatly increased, as have all other costs of operating the division. As a result of these increased costs, the portion of the expense of operation absorbed by the bank has for some time exceeded the percentage of absorption authorized by the Board of Governors, and now it is necessary to make some adjustment in the price charged for meals.

The management of the bank has been giving serious consideration to this problem for some months, and it has been decided, effective February 1, 1948, to convert the employees' dining room to a full cafeteria. In order to provide a more satisfactory and a more efficient service, additional equipment, including a steam table, will be installed by February 1, or shortly thereafter.

## Appendix C – Dining Facilities for Employees

To provide a balanced meal at as reasonable a price as possible under existing conditions, a regular plate lunch, similar to the one now being served, will be offered each day for 45 cents. In addition, a variety of individual dishes will be provided, the price of which will be indicated on each separate item, and on the menu board. Employees will have the option of selecting either the regular luncheon or individual items.

Payment for meals served will be made by authorized deduction from salaries. A meal check to be signed at meal time, similar to the one now in use, will be provided. The signed meal checks of each employee will be retained in the Service Department and the Personnel Department will be advised of the amount to be deducted at each pay roll period. The first deduction, for the pay roll period ending February 14, will cover meals purchased from February 1 through February 5. Thereafter, charges covering meals purchase from the 6<sup>th</sup> through the 20<sup>th</sup> of each month will be deducted from checks delivered at the end of the month and charges for meals purchased from the 21<sup>st</sup> of the month through the 5<sup>th</sup> of the following month will be deducted from checks delivered at the middle of the month. Every employee in the bank will be furnished a numbered permit card and each employee using the cafeteria will be expected to sign his name and insert the correct number of his card on the meal check before presenting it to the Cuisine Cashier. Cash payment will not be accepted from officers or employees. Under the cafeteria plan of operation, charges will be made only when meals are served, and any employee may use the facilities of the cafeteria without prior notice.

It is hoped that each employee will understand the need for the increase in prices, that the change will result in much more satisfactory service, and that employees generally will continue to make full use of the facilities of the cafeteria. The bank will continue to absorb a large percentage of the cost of operating the Cuisine Division and will also continue to serve wholesome food at a much lower price than could be obtained elsewhere, quality and quantity considered.

For a period of approximately 12 years following the inauguration of the cafeteria plan of providing dining facilities, no further change was made in the Cuisine operations. In May 1960, due to the bank's remodeling and building program, the entire fifth floor of the building was closed, and full-scale cafeteria service was discontinued, effective May 16, pending completion of the building program. During the interim, however, limited food service was available on the fifth floor of the new building. Extracts from President Irons' announcement of this arrangement are given below:

Inasmuch as there will not be any cooking, extensive refrigeration, or dish-washing facilities until completion of the building program, service of

## Appendix C – Dining Facilities for Employees

necessity will be limited to the typical snack bar offerings, and at noon to beverages, prepackaged sandwiches, and other prepackaged foods. During this period, employees are requested not to invite guests to the cafeteria for luncheon service.

It will be necessary to use paper utensils for service, and all employees using the cafeteria will be expected to deposit such waste materials in the receptacles and racks provided for that purpose.

I shall appreciate, very much, your cooperation during the period of limited service.

On October 5, 1960, following completion of the building program, full-scale cafeteria operations were resumed in accordance with First Vice President Shuford's announcement of October 3, as follows:

To all Members of the Staff:

I am pleased to announce that our building program has progressed to a point where full scale cafeteria operations will be resume on October 5. Beginning on that date, hot noon lunches will be available to all employees of the bank between 10:45 a.m. and 1:15 p.m.

During the period of limited service, employees using the cafeteria were requested to deposit waste and other material in receptacles and racks provided for that purpose. With the resumption of normal cafeteria service, this will not be necessary as the clearing of tables will be performed by cafeteria employees.

As in the past, employees will be permitted to invite guests occasionally to the cafeteria for luncheon service; however, it will be necessary to obtain a guest cafeteria check in advance from the department managers or other designated persons. In addition, a 25 cent service charge will be levied for each guest.

Harry A. Shuford  
First Vice President

## **APPENDIX D**

### **EMPLOYEE COMMUNICATIONS IN THE EARLY YEARS**

#### Employee Communications in the Early Years

In the early years of the bank's organization, most of the communications from the management of the bank to the employees were in the nature of memoranda or bulletins signed by the Cashier. Rules and operating instructions were developed gradually as particular incidents occurred. Perhaps the most voluminous memoranda of this nature were written while Lynn P. Talley was Cashier; however, some of the other Cashiers did not lack for words. A cross section of various memoranda and bulletins issued from time to time, picked at random, may serve to give a picture of some of the personnel problems and methods of dealing with them.

Beginning January 1, 1916, the bank started using "green" tickets and "red" tickets in connection with errors made by employees. The green ticket required a typewritten explanation giving full particulars in connection with an error, and if the error resulted in any expense to the bank, the employee at fault was required to pay the expense personally. A red ticket was sent to the employee when five errors had been charged against him with a 30 day period, and this ticket stated that if "this one be found inexcusable, you will take notice that your services will not be required after 30 days from today." Cashier Talley's announcement outlining the plan is quoted as follows:

Effective after January 1, the use of the attached forms in connection with errors will be inaugurated.

These forms should be self-explanatory, but for your information, the receipt of a green slip by an employee will mean that if the error is chargeable against such employee, the expense caused by the error will be collected from such employee.

A red ticket, if it is found that it covers the sixth error occurring in the 30 days prior to its receipt by an employee, will mean that, if chargeable against such employee, such inefficiency is not acceptable to the bank.

The frequency of errors has lately become so embarrassing to the officers of the bank, that it is felt that some method should be taken toward their elimination, and while it is regrettable that the lack of interest makes such a step necessary, it is hoped that for those who have the interest of the bank, as well as their own, at all times in mind, this plan will result in substantial

## Appendix D – Employee Communications in the Early Years

benefits. [Editor's note: The records show that after a few months, the "ticket" plan in connection with errors was abandoned.]

Cashier Talley's Bulletin No, 8, dated September 28, 1917, and was brief and to the point:

No entries will be permitted to be made in an account on our books which has been styled by the employees as a "Difference Account" without the approval of the Auditor.

There ought not to be a "Difference Account."

While he was Cashier, Mr. Talley's desk was located on the first floor at one side of the narrow lobby in the bank building at Commerce and Martin Streets. Here is a memorandum dated March 9, 1918, which he addressed to the two guards, who apparently had some clerical duties also:

I have established on my desk two mahogany trays, one labeled "distribution" and the other "dictation." It is my desire to beseech the cooperation of you gentlemen in keeping the tray marked "distribution" empty. I have already mentioned this to you verbally, but in accordance with my policy, am putting it in the form of a memoranda.

I shall endeavor to mark the tub station number on everything I desire to be transferred in this manner. Items marked "file" may be handed to Mr. Fuller for his attention; and Mr. Fuller will look after the tray marked "dictation."

I am endeavoring to work out a plan for the organization of my personal office, and hope to be able to arrange audience hours between 9:00 A.M. and 10:00 A.M. and between 11:30 A.M. and 12:30 P.M. for the forenoon, in order that I may give the hours from 10:00 A.M. to 11:30 A.M. to the dictation of my personal mail.

Some rare judgment and tack will have to be employed on the part of Messrs. Rawlins and Burgess to sort out peddlers, book agents, and applicants for positions. To the first two mentioned classes, I cannot give any of my time, and the last mentioned class will simply have to call before 10:00 A.M., or between 11:30 A.M. and 12:30 P.M., or after the last mentioned hour. Discretion will have to be used, due to my office being an open one, with reference to local people who may call, or out-of-town member bank officers – of course, they have first claim on my time, and I shall have to see them immediately. You will simply have to use diplomacy and judgment, because if it is very difficult to avoid creating the impression in the minds of people in this section of the country that this is high-brow

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stuff, which of course you know is about the furtherest [*sic*] thing imaginable from my intention.

With the many interruptions and the many demands made on my time, I am simply wearing myself out and daily losing efficiency. Your cooperation and help will be personally and greatly appreciated.

It appears that along about this time, some of the department managers were derelict in making proper records with respect to opening and closing the auxiliary vault.

Here is Mr. Talley's memoranda dated March 11, 1918, on that subject:

Reference is made to the bulletin covering the control of the second floor vault, and particularly the matter of keeping a record of its opening and closing and the person responsible therefore.

The management of this bank had a distinct purpose in view in issuing those instructions, in which each department head was made personally responsible for the safety of the records of his department, and no suggestion was made in those instructions, or has been made since, that such responsibility could be delegated to a clerk in any department or to any other than an assistant manager of any department.

I am informed that the second floor vault record does not show for several days past who opened the vault at the beginning of the day's business, or who closed the vault at the close of the day's business.

In these trying and uncertain times, it would be distinctly undesirable to arrange for a new head of any department. Instructions are not given and written to consume time in their preparation, but in all cases have a definite purpose in view, based upon some fundamental necessity.

It is a matter of chagrin and regret to me that it has become apparent that any department head of this bank would become so negligent, apparently, about an important matter, and unless these instructions can be followed, arrangements will be immediately made to establish a private combination on the second floor vault, as well as definite hours for its opening and closing, and persons holding such combination will be entirely responsible for the opening and closing of that vault, and those department heads who do not see that all records are safely placed therein, will have to become personally responsible for them under the fidelity bond of the bank.

I shall require a written acknowledgement of this communication.

The old building at Commerce and Martin Streets had adjustable awnings at the windows, but some of the employees, instead of adjusting the awnings to prevent glare

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from sunlight, would pull down the inside shades and turn on the lights. Cashier Talley issued a reprimand in regard to this practice by means of Bulletin No. 66, dated April 30, 1918, as follows:

Considerable expense has been incurred in equipping this building with the most improved type of adjustable awning, but it is apparent that none of the benefits anticipated are being realized because the awnings are not being used. Any degree of protection from sun-glare may be obtained by the proper adjustment of these awnings at the cost of no effort beyond pulling a cord. It will be a simple matter to determine the desired amount of light suitable for the working quarters by a few experiments with the awnings and when this has been ascertained, they may be allowed to remain in the same position each day without further attention.

It is now the practice to simply lower the heavy window shades when it is desired to prevent annoyance from sunlight and at the same time the ceiling lights are almost invariably lighted and allowed to burn indefinitely. The unnecessary waste of current and the increased light bills are self-evident.

Please issue instructions to each member of your department to make full use of this equipment, as outline, and see that those instructions are followed without deviation.

The waste of electricity was again called to the attention of the staff on October 28, 1921, after the bank had moved into the building at Wood and Akard Streets, by the following bulletin issued by R. R. Gilbert, who was then Cashier:

It has again come to the attention of the management of this bank that there is an unnecessary waste of electricity due to the failure of employees to turn out electric lights when not needed and to cut off electric appliances when not being used. Each employee should see that electric lights are cut off when not needed, and those operating adding machines or other electric appliances should see that plugs through which electric current is supplied are disconnected at the close of the day, regardless of whether the machines are equipped with automatic cut-offs.

Each Department Manager will be expected to see that there is no unnecessary consumption of electric current at any time during the day or night.

An inspection of each department will be made periodically in the future and a record made of all lights found burning unnecessarily during the day or which are left burning at night, as well as all electric appliances which are not disconnected as outlined herein. A report giving such information will be



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furnished each supervising officer who will take such steps as are necessary to eliminate any unnecessary use of electricity.

Several years later, on February 4, 1933, Fred Harris, who was then Cashier, discussed the subject of “Waste in Electric Lights” in the following bulletin:

Several months ago, with a view of improving working conditions and also economizing in electric light bills, it was decided to remove the screens from each floor of our building. The effect was pronounced and it was then felt that we would make a very considerable saving in our electric light bill. The results, however, have been somewhat disappointing, and, notwithstanding the fact that the necessity for night work has been minimized, our light bills are still considerably more than they should be were everyone in organization practicing the same economy in lights that they do in their own private homes. This is largely due to carelessness and thoughtlessness in the use of lights on days when they are not required, which I am sure can be confirmed by everyone in our organization.

It is, therefore, the purpose of this bulletin to bring the matter to the attention of everyone with the request that they cooperate in reducing this item of expense to the minimum. It will be the practice in the future to make periodic inspections of our building, and department managers are therefore requested to give this matter their personal attention in the departments over which they have supervision in order that this unnecessary waste may not continue.

Please be governed accordingly.

The process of building up the departmental method of operation was gradually evolved, and from time to time there was a tendency for employees in one department to handle transactions directly with employees in another department, without references to the managers of the department concerned. Cashier Talley very sternly and at great length called attention to this practice in Bulletin No. 108, dated July 30, 1918, as follows:

Reference is made to a violation of an established policy of this institution to which expression has been frequently given, and that is the improper practice of clerks going from one department to another and carrying on transactions and negotiations with clerks in other departments concerning current or past transactions, without the knowledge of heads of either department.

In the first place, this is wrong in principle. Too much argument ensues between the clerks interested and neither has the necessary authority to bring the transactions to a conclusion, and frequently neither respects the judgment or ideas of the other. It is absolutely essential that department

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heads be acquainted with all the details of their departments, and especially, to be informed of any irregularities. First, so that the irregularity may be immediately adjusted, and second so that the mishandling or weakness in system or lack of information on the part of clerks can be immediately corrected and prevented in the future.

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Irregularities are to be reported to the department head and left with him for adjustment by taking it up directly with the head of the other department interested. Under such practice, the department head is, during the course of the day, thoroughly familiarized with every irregularity which has arisen in his department, and will, of course, take steps to prevent recurrences, which, in a sense, will reduce the number of cases necessary to refer to other department heads.

Department heads are thoroughly familiar with the standard schedules, systems and principles upon which all departments are conducted, while clerks, unless they happen to be of long experience in this organization, are not. It therefore makes no difference how well informed a clerk in any department is as to what clerk in another department handles a transaction, he must not, under any circumstances, refer any matter to anyone other than the head of his own department.

A very close check will be kept on this procedure for some time until it becomes absolutely an established practice.

When Sam R. Lawder became Cashier of the bank, he continued the practice of issuing frequent bulletins regarding various operating matters. He issued two bulletins in June 1920 (while the bank was located at Commerce and Martin Streets) forbidding any employee other than the regular operator to operate the elevator, either during hours or after hours. These were strong worded. A sentence in one circular read as follows: "One rule will apply to all in this connection, and that rule is 'hands off.'" The other bulletin, which covered an entire page, single spaced stated in part "Employees, other than those designated for that purpose, are forbidden to operate the elevator at any time, under penalty of dismissal."

The new bank building at Wood and Akard Streets was the first building west of the Mississippi River to have air conditioning, but it seems some of the employees could not get away from the practice of raising windows. On May 21, 1921, Cashier Lawder issued the following bulletin on that subject:

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The Federal Reserve Bank of Dallas has installed in this building at an expense of thousands of dollars, an entirely complete, and one of the most modern ventilating and refrigerating systems in the South.

The air which is forced into all parts of the building is both purified and cooled by being drawn through a screen of cold water, which process entirely eliminates the necessity of raising windows or opening doors.

While this system is in operation, the temperature inside the building is considerably lower than that outside and opening doors and windows only serves to defeat the purpose of the refrigerating plant. In order that all may derive the maximum benefit from the operation of the system, your attention is being called to the best way to assist in attaining the desired results.

The cooperation of each and every employee in this Bank in seeing that all openings remain closed during the entire day, is earnestly requested. Any employee failing to cooperate will be accountable to the management of the Bank.

For many years, salaries to the members of the staff were paid in cash. It was not until 1922, that the bank began paying salaries by check. Cashier Gilbert's announcement covering the changed procedure was made in a bulletin dated January 11, 1922, as follows:

Effective immediately, salaries at the Head Office and both Branches will be paid by check, which will be issued by the Service Department and delivered to the respective Department Managers for distribution to all employees under their supervision.

Employees should bear in mind that these checks are negotiable and due care should be exercised to prevent their loss. In case of loss, however, immediate notice must be given the Service Department in order that payment may be stopped. Employees who carry checking accounts will greatly relieve congestion at our Paying Teller's window and in the lobby by depositing or cashing their salary checks at commercial banks.

Also, in 1922, the requirement that all employees "punch a time clock" was abolished, as set forth in Cashier Gilbert's bulletin of July 28:

Effective August 1, 1922, the use of all card recorders will be discontinued.

Arrangements are being made to record the time each employee who is late reporting for duty, together with the reason therefore. Department Managers will advise employees under their supervision to whom to report in case of lateness, and will be responsible for the correctness of such

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reports. Employees who have not actually reported at their desks ready for duty on scheduled time, will be reported as late. For example, employees must arrive at the bank sufficiently early to place hats, wraps, etc., in their locker, eat their breakfast if that meal is eaten in the Cuisine Division, and be at their desk ready for duty no later than the time they are scheduled to report.

Each employee is requested and expected to cooperate and assist in making the above plan a success.

On March 24, 1921, Cashier Lawder issued the following bulletin regarding the giving out of information about the condition of the bank:

It is the privilege of practically every employee in the Federal Reserve Bank to have at times confidential information regarding the condition of the banks in this district. This information must not be divulged, as great harm might result to a bank from a thoughtless, incorrect, or unauthorized statement.

A good rule is for employees not to discuss any of the bank's business with anyone not connected with the bank, and to be very careful in discussing its affairs with persons in the bank, except authorized employees.

Under no circumstances may any information regarding a bank's condition be given out, or any intimation given of any doubt of the solvency of any bank, member, or nonmember.

The subject of "Treatment of Confidential Matters" was again discussed in bulletins issued on February 5, 1923, July 9, 1925, February 13, 1930, and May 12, 1939. The latter bulletin is quoted below:

The officers have been surprised to learn from time to time that persons not connected with this bank have knowledge of certain transactions handled by the bank. Such knowledge could have been gained only from someone in the bank's employment. There have been several bulletins issued in connection with the treatment of confidential matters, but it is thought advisable to again call attention to a resolution passed by the Board of Directors of this bank on April 12, 1921, which is as follows:

"In view of the ultra-confidential character of the work of the personnel of the Federal Reserve Bank, and in view of the sometimes exaggerated importance attached even to informal or personal comments or statements made by Federal Reserve Bank employees concerning general banking matters, no employee of the Federal Reserve Bank shall in any way disclose to any one, other than an employee or officer

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of the bank entitled thereto, any information obtained in the course of his or her work, or discuss any banking matters that may in any way concern or relate to the Federal Reserve Board, the Federal Reserve Banks, or any member bank, with any one not connected with the Federal Reserve Bank, and in no event outside of the office of the Federal Reserve Bank. Any one guilty of a breach of this rule will be subject to immediate dismissal.”

The attention of each employee is again directed to the absolutely confidential nature of all their relations with this bank, their acceptance of which is a condition of their employment and of the continuance of such employment. These relations of mutual confidence and also of loyalty to the bank, must be realized and respected at all times. Therefore, any unauthorized discussion of the bank’s relations with its own employees or others, its affairs, its method of conducting business, or even of any casual occurrences or happenings within the bank must be carefully avoided.

The discussion of the private affairs of others, or gossiping, is a disturbing element in any business organization, and will not be countenanced by the management of this bank.

It is expected that these instructions will be strictly observed in the future.

The matters of “thrift” and proper management of personal financial affairs were covered in numerous bulletins. The following bulletin issued by Cashier Harris on June 12, 1930, is a case in point:

From time to time, bulletins have been issued with a view of inculcating in employees proper regard for thrift and proper management of their financial affairs. While the suggestions made have been primarily in their own interests, they have likewise arisen from a feeling of responsibility on the part of the bank’s management. Where employees’ affairs become burdensome, it would, of course, be simple to dispose of such matters by replacement, but the officers of the bank have a genuine interest in the welfare of its personnel and a desire to be helpful in reaching a solution without taking drastic action. This is particularly true where employees become involved through circumstances over which they have no control.

At times creditors of employees write or telephone various officers and it is embarrassing and annoying to all concerned. A recent case is that of a so-called “loan agency” which was attempting to collect usurious interest on behalf of the employee, it was necessary for the bank to intercede in order to affect an adjustment.

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The purpose of this bulletin is to once more caution employees against such relationships which are fraught with danger, and the suggestion is made that those who are forced to such an extremity discuss their affairs freely with the bank's officers. In this manner, it may be possible for employees to adjust their finances before they become too badly involved and they may rest assured that such discussions will be treated in utmost confidence.

Governor McKinney sent out the following memorandum on the same subject on November 22, 1934:

It is the opinion of the Executive Committee of the bank that the practice of employees making loans to other employees, which has prevailed for some time in the organization, is not ordinarily in the best interest of the employees or the bank itself. It is not our intention, at this time, to prohibit such loans, as it is recognized that there may be occasions when loans of that character would be warranted, but it is requested and expected that hereafter no such loan will be made without the approval of the supervising officer of the borrowing employee. In no case will a loan be approved where the total charge for the money exceed the lawful interest rate. The provisions of this paragraph do not apply to small temporary loans where no interest is charged.

It is the further thought of the Committee that, for obvious reasons, employees should refrain from asking other employees to endorse for them.

It has been brought to the attention of the Executive Committee that many of our employees procure loans from personal loan agencies of the type that charge exorbitant interest rates. The Committee does not look with favor upon this practice, feeling that emergency requirements should be provided for without resorting to that character of borrowing. It is, therefore, also requested and expected that each employee of the bank contemplating such a loan will submit the matter to his supervising officer and secure his approval before the loan is made.

The Management of the bank is deeply interested in the welfare of every employee in the institution and the attitude of the Executive Committee, as outlined above, grows out of that circumstance. The Committee feels that it cannot too strongly urge all of the officers and employees of the bank to not only live within their incomes, but to make also every possible effort to save up something for the future and for those unexpected things that happen in the lives of all of us.

The forgoing examples of early day communications represent random selections from the hundreds of bulletins and announcements filed in bound volumes in the Bank's Records Division. Many of these convey thoughtful admonitions that are applicable to the

## Appendix D – Employee Communications in the Early Years

present day. Others are amusing, for example, the one issued in 1920 that cautioned the drivers of the Bank's truck used for mail and express not to drive more than 12 miles an hour and not to "turn corners while running at high speed." Another announcement made while the bank was located in the old building at Commerce and Martin Streets called attention to the crowded conditions and requested less smoking during working hours, stating that "many women are employed in nearly every department of the bank" and "some consideration is due to the women employees and possibly some men employees to whom smoking may be offensive." One bulletin, on the subject of guard protection, announced that any guard found sleeping or reading while on duty would be dismissed from service immediately. Reading these old bulletins is a very interesting experience.

**APPENDIX E**  
**ELIGIBILITY AND ACCEPTABILITY OF PAPER**  
**OFFERED FOR REDISCOUNT**

Eligibility and Acceptability of Paper Offered for Rediscount

From time to time through the years, the bank issued circulars relating to the requirements applicable to paper submitted for rediscount. These subjects included the furnishing of financial statements, use of a form of mortgage providing a prior lien, negotiability of note forms, etc.

Eligibility: Financial Statements

One of the earliest circulars regarding eligibility was Circular No. 3, dated December 11, 1914, as follows:

TO THE MEMBER BANK ADDRESSED:

I am pleased to inform you that this bank is in readiness to receive from its member banks for rediscounts notes and bills representing the highest class, most liquid, short time paper which you may have available arising from actual commercial transactions, proceeds of which have been used for agricultural, commercial, or industrial purposes. On the contrary, we cannot accept paper representing investments in lands, plants, machinery, etc., nor paper given for carrying securities such as stocks and bonds, nor paper, given for carrying securities such as stocks and bonds, nor paper, which, in any sense, can be construed as having been given for speculative purposes.

Beginning with this date and until further notice, the rate of discount of this bank will be five and one-half percent (5½) for 30 day maturities and six percent (6) for longer maturities.

The attention of member banks is called to Circular #13, issued by the Federal Reserve Board and sent to all banks together with copies of regulations accompanying same. This circular fully described paper eligible for rediscount in Federal Reserve Banks, and the accompanying regulations explain the requirements of the Federal Reserve Board relative to endorsements, etc.

Considerable delay in receiving credit for items sent us for discount has been occasioned by the member banks neglecting to plan on said paper an endorsement waiving demand, notice and protest, as is required. All paper offered for rediscount must be free from any endorsement, which might



## Appendix E – Eligibility and Acceptability of Paper Offered for Rediscount

impair or restrict the negotiability of the instrument. Notes secured by chattel mortgage should have a certified copy of the mortgage or a certificate from the Recorder that same has been filed for record attached thereto. Notes secured by warehouse receipts for cotton or other commodities must have said receipts attached.

For the present and until further notice, paper which you offer for rediscount must be accompanied by a written statement from an officer of your bank to the effect that to the best of his knowledge and belief, all notes and bills submitted are eligible under the requirements of Circular 13. Moreover, to facilitate matters where makers of notes not rated by the Mercantile Agencies and no collateral is attached, information concerning the financial condition and standing of said makers must accompany the application.

A resolution authorizing your bank to rediscount paper with this bank must be passed by your Board of Directors, and form of same will be furnished you upon application.

In view of the fact that under present regulations, the amount of paper having a maturity of longer than 90 days, which this bank is permitted to accept, is very restricted, being only twenty-five percent (25) of our paid in capital stock, it is hoped that so far as possible your offerings will be confined to paper maturing within 90 days from the date of application.

The Governor is at this time in Washington in conference with the Governors of the other Federal Reserve Banks, working on a plan whereby the handling of transit items can be taken up by this bank for its members, and upon his return we hope to get out a bulletin relative to the results accomplished at the conference.

It is the desire of our directors and officers to serve you in every way possible in order that all benefits intended by the Federal Reserve Act may be fully realized.

Very respectfully,

R. L. VAN ZANDT,

Acting Governor.

This was followed a few months later by Circular No. 13, dated March 6, 1915:

Under the regulations accompanying Circular #3, Series 1915, issued by the Federal Reserve Board, the date after which financial statements of makers of paper discounted by the Federal Reserve Banks will be required is fixed at July 15, 1915. You are urged to begin at once to procure these statements and build up your credit files as rapidly as possible, so that in

## Appendix E – Eligibility and Acceptability of Paper Offered for Rediscount

the event of need, you can furnish the necessary information in regard to any bills offered us and enable us to act upon your application without delay.

We have prepared no form for such statements, but they should be such that the information desired on the enclosed blank abstract could be readily obtainable. In this district the furnishing of financial statements by borrowers is in its infancy and it is the duty of the member banks to educate their customers in this respect.

For the use of member banks in forwarding us rediscounts, we have prepared a new form on which same are to be listed and two of these are enclosed herewith. This form supercedes all others and must be used by all member banks after this date. We have a supply of these on hand and will furnish them to you as needed, upon your application for same, relieving you of the expense of having them printed.

We also have a supply of blank abstracts like the enclosed and will furnish them to our members as needed, it being necessary after July 15, 1915, to attach one of these, properly filled out, to each note offered us for rediscount, when the makers of same are required by Federal Reserve Board Circular No. 3, Series 1915, to have statements on file with your bank.

Conditions under which these statements may be waived are explained in the last paragraph of the circular above referred to.

All applications for rediscounts are promptly acted upon by our Executive Committee, usually upon the day of receipt; the only formalities attending being that the application blank be properly filled out, the notes properly endorsed, and the application be accompanied by sufficient information with respect to the paper offered to permit of intelligent consideration.

Incidentally, I beg to state that the directors and officers of this institution are doing their best to accomplish the purposes for which it was organized under the law, and we should not feel our duties well preformed did we not eliminate all unnecessary "red tape." With this object in view, you are earnestly urged to confer with us, either by mail or in person, about rediscounts or upon any subject regarding which it may be possible for us to enlighten you. We will also appreciate your writing and giving us your ideas on all matters pertaining to the development and improvement of the Federal Reserve System.

R. L. Van Zandt

Acting Governor

## Appendix E – Eligibility and Acceptability of Paper Offered for Rediscount

Early in 1916, the bank prepared financial statement forms for farmers and stockmen, and offered to supply these forms to member banks at the actual cost of printing. The circular on that subject, dated February 28, 1916, is quoted below:

### FINANCIAL STATEMENT FORMS FOR FARMERS AND STOCKMEN

February 28, 1916

TO THE MEMBER BANK ADDRESSED:

In the rediscounting operations of this bank since its organization, a large proportion of the notes handled has been for member banks whose paper consists to a large extent of notes given by farmers and stockmen, and this has developed a demand by those banks for financial statement forms which set out more clearly the assets and liabilities of customers of that character.

To supply this need, we have prepared and enclose specimens of a form for farmers and one for stockmen, which we believe will be found to be comprehensive as well as simple. By having the blanks made in large quantities, we are able to furnish them to our members at the very low actual cost of 35 cents per hundred, and order will be promptly filled upon receipt.

In view of the fact that these forms will contain very valuable credit information which it is impossible to show on the "Abstract and Summary" blank previously recommended for submitting copies of statements, we suggest that when offering the paper of stockmen and farmers of whom you have a statement, it be accompanied by a copy of the one which is retained in your files, showing the information on both the face and the reverse of the form.

There is evidence from all quarters that the practice of requiring borrowers of any consequence to furnish and renew from time to time statements of their financial condition is being developed very rapidly, and during the past 12 months, this bank alone has distributed among its members nearly 100,000 blank financial statement forms. This practice should, in the future, result in a great reduction of the risk attending the extension of credit by member banks to their customers, as well as a material advantage to those customers themselves who are entitled to accommodation, for the reason that a clear statement of worth insures them of consideration by their bank, whereas lack of this information restricts their borrowing ability, and makes the officers of the bank uncertain of the attitude to be assumed toward them. It is, therefore, a matter of self-interest for member banks to educate their customers along this line.

The evidences of cooperation that we have received in our efforts to further such a reform are very gratifying to the management of this bank, and the

## Appendix E – Eligibility and Acceptability of Paper Offered for Rediscount

maintenance of our Credit Information Department should, and we have daily evidences that it will, result in a tangible benefit not only to our Executive Committee in considering offerings, but to the banks themselves in that they make a clearer exposition of their methods and a better presentation of the paper submitted.

It is hoped that this spirit of cooperation will continue and that we can all join hands in an effort toward the betterment of past methods of caring for the legitimate needs of the commercial and agricultural interests of this district.

Respectfully,

R. L. VAN ZANDT,  
Governor

Still another circular on this subject was Circular No. 20, dated March 26, 1921:

### IMPORTANCE OF FURNISHING NEW FINANCIAL STATEMENTS OF BORROWERS.

TO THE MEMBER BANK ADDRESSED:

Changes in credit conditions and an almost universal shrinkage of values make it most important that our member banks realize the urgent necessity, at this particular time, of obtaining from their borrowing customers new financial statements which will be based upon a recent inventory, and a current valuation of assets.

We are calling this matter to your attention for the reason that our Executive Committee cannot continue to rely upon the showing of financial statements which are out of date in passing upon paper offered for rediscount. Many of the statements which have been furnished in the past, and which are coming to hand every day, are somewhat incomplete, and the valuations shown appear to be incorrect in the light of altered economic conditions.

In considering credit commitments, it is imperative that the grantor of credit have before him as many facts as possible in connection with the condition of the borrower's affairs, and it, therefore, seems to us most essential that member banks require from those who solicit accommodation, a complete credit statement in the form suggested by the Federal Reserve Bank of Dallas, instead of being satisfied with a plain statement of assets and liabilities unsupported by other vital information as to the conduct of the borrower's business, without which it is very difficult, if not impossible, to form an accurate opinion of the credit risk involved in the transaction.

The practice of requiring borrowers to furnish financial statements at regular periods is gaining steadily and there seems to exist no good reason for not

## Appendix E – Eligibility and Acceptability of Paper Offered for Rediscount

requesting renewal statements at least annually, in order that comparisons and analyses may be made by the member bank receiving the statement, and its files revised.

Some of our member banks seem to be under the impression that we are requiring statements certified to by public accountants. While we are always glad to have statements of this character, they are not required, except in special cases. The borrower should make a full signed statement to the member bank and the member bank should furnish us with a complete copy on which some officer certifies that it is a copy of a signed statement in the possession of the bank.

However, this letter is not written primarily in the interest of a revision of our own credit files. It is intended to bring to your attention the wisdom of requiring and obtaining accurate and dependable credit data upon which to base your loan policy.

Your co-operation in the matter will be very much appreciated.

Very truly yours,

R. L. VAN ZANDT  
Governor

On February 25, 1924, the bank issued another circular on the subject of "Financial Statements." The circular stated that copies of makers' financial statements should be submitted in connection with all unsecured notes of \$1,000 or over offered for rediscount. The comment was made that, "it is manifestly to the interest of the member bank that an unsecured obligation of \$1,000 or more . . . should be supported by the maker's statement, showing his assets and liabilities in detail. Such statement constitutes at once a protection to the officer making the loan, information to the directors supervising the bank's assets, and a guide to the bank examiner when conducting an examination."

This same circular also expressed the view that paper offered the Federal Reserve Bank should stand on its own merits, regardless of the endorsement of the member bank. The following is a quotation from that circular:

In passing upon paper submitted to us for rediscount, we are not unmindful of the value and protection which ordinarily the endorsement of a member bank affords to its customers' notes. However, our interpretation of the Federal Reserve Act and our conception of the function and responsibility of a bank holding the reserves of other banks compel the conclusion that the loanable funds of a Federal Reserve Bank should be invested only in

## Appendix E – Eligibility and Acceptability of Paper Offered for Rediscount

the character of paper which carries with it such evidence of solvency and liquidity as will reasonably ensure its payment, regardless of the endorsement of the member bank from which acquired.

Through the years, many other circulars were issued on the subject of financial statements, including several such circulars in 1926. A Circular dated June 24 stated that financial statement forms would be furnished member banks upon request without charge. The subject of financial statements was further discussed in the bank's Circular dated January 10, 1934, as follows:

In order that we may determine whether a note offered for rediscount or as collateral is eligible and acceptable, it is necessary that the member bank furnish us a certified copy of a current financial statement of the borrower in connection with commercial notes of \$500 or more, and unsecured agricultural or livestock notes of \$1,000 or more. We, of course, reserve the right to request a current financial statement in connection with any note submitted to us.

Whenever a borrower whose note is submitted to us has affiliated or subsidiary companies, we should be furnished a consolidated statement, and also separate statements of the companies included in the group. In the event it is impracticable to furnish such consolidated and separate statements, a statement of the borrowing company must be submitted.

It is essential for financial statements accompanying offerings to be clear and complete. We have prepared forms which provide for a list of assets and liabilities and also certain important supplemental information, concerning real estate, stocks, bonds, etc., and in the case of commercial borrowers, a profit and loss statement. These supplemental schedules should be filled out completely.

When it is inconvenient for a member bank to furnish financial statements on the identical forms that we have prepared, we request that forms providing for substantially the same information be used.

As state in our Circular of June 24, 1930, we are glad to furnish our member banks financial statement forms, upon request, free of charge.

Yours very truly,

B. A. McKinney  
Governor.

## Appendix E – Eligibility and Acceptability of Paper Offered for Rediscount

In the spring of 1930, the bank issued a circular on the subject of eligibility and credit acceptability, and furnished member banks an “eligibility card” to assist them in the preparation of rediscount offerings. Information on the card summarized eligibility requirements, giving examples of eligible paper, and listing various types of ineligible notes. Also, credit acceptability was briefly discussed. The circular is quoted below:

To the Member Bank Addressed:

As a convenient reference for our member banks, we have prepared the enclosed “eligibility card,” which is designed to fit the ordinary note case. Without going into minute detail, an attempt has been made to embrace the essentials of eligibility in concise form.

Stripped of any suggestion or technicality, the term “eligibility” is synonymous with agriculture, industrial, and commercial liquidity. In other words, it was clearly the intent of the framers of the Federal Reserve Act that paper acceptable for rediscount by Federal Reserve Banks should arise from current transactions in the production, sale, and marketing of merchandise and agriculture products, including livestock. In theory, the transactions which gave birth to the credit instruments should also afford the means of extinguishing them at their maturity. With the thought of requirements of eligibility always in mind at the time loans are made, the natural result will be the creation of a higher type of self-liquidating paper.

The law specifically excludes paper representing permanent or fixed investments, such as land, buildings, machinery, etc., as well as paper issued for the purpose of carrying investments, such as stocks, bonds, etc., the only exception being obligations of the United States Government.

From the foregoing, it is readily apparent that the matter of credit acceptability is separate and distinct from eligibility and, while it is of course necessary that eligible paper be acceptable from a credit standpoint, paper wholly solvent frequently does not meet the requirements of eligibility and is therefore unacceptable.

We hope that this little card will be of advantage to our member banks in the preparation of rediscount offerings and that it will help to reduce to the minimum the amount of paper it is necessary to return as ineligible or unacceptable.

Yours Very truly,

Lynn P. Talley

Governor

### Note Forms

The importance of negotiability was given special consideration by the Federal Reserve Bank of Dallas during the early Twenties, when the bank had acquired a large amount of paper from banks which subsequently became insolvent and it was necessary to effect collection of many notes from the makers through court proceedings. In some cases, the makers of the notes used non-negotiability as a defense when the Reserve Bank sued for payment, and as a result, the Credit Department staff, in carrying out the procedure for the examination of paper offered for rediscount, followed the practice of examining the wording of the note form to ascertain whether any clauses might raise a question as to negotiability. If so, the form was referred to Counsel for an opinion.

The importance of negotiability of note forms was called to the attention of member banks by means of circulars issued early in 1924, and again in the early part of 1925. The first circular was very brief and referred to the opinion of the bank's counsel that the "negotiability of a promissory note in our hands is destroyed if it contains any wording which renders it other than an unconditional promise to pay a sum certain in money on demand or at a fixed or determinable future time." The second circular went into detail, gave some examples of clauses that rendered negotiability doubtful, and invited member banks to submit their note forms for the opinion of the Reserve Bank's Legal Department to determine acceptability to the Reserve Bank. It was stated that the form of note that a member bank used in its own transactions was wholly within the discretion of its officers and directors, and that the only purpose of the circular was to acquaint member banks with the requirements in connection with paper offered to the Reserve Bank for discount or as collateral. The banks were invited to submit forms to the Reserve Bank for an opinion as to acceptability in connection with offerings. Many banks availed themselves of this service, and the files show evidence of voluminous correspondence with member banks on this subject over a period of several years.

### Chattel Mortgage Forms

Circular No. 36, dated May 31, 1916, discussed the matter of chattel mortgage forms as follows:



## Appendix E – Eligibility and Acceptability of Paper Offered for Rediscount

The number of notes secured by chattel mortgages offered this bank for rediscount has reached such proportions, and it being so difficult for our Executive Committee to determine the value or correct description of the security when only a memorandum receipt from the recorder is furnished, it has become necessary for us to require a uniform practice on the part of our member banks in furnishing detailed evidence of such security.

Therefore, in order that you may promptly receive credit for the proceeds of notes secured in this manner sent us for discount on or after July 1, 1916, it will be necessary for you to accompany each such note with an EXACT COPY OF THE CHATTEL MORTGAGE, on which must be written, printed, or stamped, and signed by the proper recording officer, a statement to the effect that the original thereof has been properly filed for record.

We suggest that in drawing your mortgages you make carbon copies of same on your regular form, and send both original and duplicate to the recording officer, with the request that he certify on the copy to the filing of the original, and return the copy to you. You would then have the duplicate in your files for the convenient reference or inspection by your directors, or for transmittal with the note in the event you should desire to rediscount same with this bank.

Complying with numerous requests, we have prepared a chattel mortgage form, which has been approved by our Counsel and which is recommended for use by our member banks. A copy of this form is enclosed herewith for your information. We have made no arrangements for supplying these blanks, as they are not copyrighted and can be made up for you by any printing establishment, but if a sufficient number of our members desired to obtain a supply through us, we can probably get them in large quantities at a greatly reduced price. This price will, of necessity, depend on the number ordered, and if you wish a supply, please advise us promptly in order that we may arrange for the printing of same.

Later, the following circular was issued:

August 17, 1920

CHANGE IN OUR CHATTEL MORTGAGE FORM

TO THE BANK ADDRESSED:

## Appendix E – Eligibility and Acceptability of Paper Offered for Rediscount

Your attention is invited to the enclosed chattel mortgage form, which is a revision of the form prepared by us about four years ago, and now in use throughout the district.

Owing to a recent opinion of our Counsel, the old form is not satisfactory to us. We have accordingly made certain necessary changes in its wording, these being incorporated in the subject matter of the specimen enclosed. Chattel mortgage notes offered to us in the future should be supported by mortgages drawn either on this revised form, or on blanks which conform thereto in every essential particular. In order that banks which have purchased these forms from us may be inconvenienced as little as possible in the matter, we will be very glad to exchange a like quantity for the new forms for any of the old mortgages which may be in their possession when this letter is received. These exchanges will be made free of charge, and with postage paid by us both ways, provided the old forms are not sent to us by first class mail.

Please let us urge you to send in without delay all of the old mortgage blanks which you may now hold. If this is done, much confusion and unnecessary delay will be avoided in the handling of offerings containing chattel mortgage paper.

Those banks which may not have purchased the forms from us in the past, and those who may desire to increase their present supply, may obtain the mortgages, in any quantity desired, at the very nominal price of 66 cents per hundred, plus postage, by addressing the Supplies Division, Office Service Department, Federal Reserve Bank of Dallas. This same department is to be addressed in requesting the exchange of old forms for new. Please let this matter have the prompt personal attention of some officer of your bank, in order that no confusion, and consequent hindrance of the prompt service which it is our desire to give you at all times, may be caused by using the old forms through mistake.

Respectfully,

s/ R. L. Van Zandt

Governor

The change referred to in this circular related to a “prior lien” cause, which provided a prior lien in favor of the specific indebtedness described.

On June 26, 1930 the bank issued a Circular stating that chattel mortgage forms would thereafter be furnished member banks without charge. The circular follows:

## Appendix E – Eligibility and Acceptability of Paper Offered for Rediscount

To the Member Bank Addressed:

The enclosed chattel mortgage form was prepared several years ago for the use of member banks and has been used extensively since that time. Heretofore, in furnishing these forms, we have made a charge covering their cost, but here-after they will be furnished to member banks, in reasonable quantities, without charge.

In ordering please indicate the number of forms required.

Very truly yours,

s/ Lynn P. Talley

Governor

As shown above, the Reserve Bank for many years has followed the practice of furnishing financial statement forms and chattel mortgage forms to member banks without charge. These services have been widely used by member banks, as many forms are sent out each year.

**APPENDIX F**  
**INDUSTRIAL LOANS – PROBLEM CASES**

Industrial Loans – Problem Cases

From time to time, during the five-year period from 1936 to 1940, the bank faced numerous problems in servicing the industrial loans that had been made in 1934 and 1935. In some cases, payments were not made as agreed upon, and the loans became “past due;” in other instances, the loans went into default and became “work out” cases. The following examples, selected at random and representing loans in varying amounts, as referred to in reports of the President of the bank to the Board of Directors, illustrate the problems:

██████████, Texas:

Original amount of loan \$1,500. Past-due principal \$645; past-due interest \$21.68. Payments of \$35 a month are being made on the amount past due. In the near future an accounting will be made covering operations for the quarter ended June 30, and it is hoped that we will then be able to make a substantial collection on the past-due indebtedness.<sup>100</sup>

██████████, Texas:

Original amount of loan \$250,000; \$30,000 had been paid prior to June 15, 1936. An installment on the principal in the amount of \$20,000 matured on June 15, plus interest of \$6,050. The interest payment was met, and the corporation requested an extension of the installment due on the principal. After conference with the management, we agreed to permit the corporation to liquidate the \$20,000 installment in the following manner:

Cash paid	\$5,000
Payment to be made August 1, 1936	5,000
Payment to be made September 1, 1936	5,000
Payment to be made October 1, 1936	<u>5,000</u>
	\$20,000 <sup>101</sup>

██████████, Texas:

On March 3, we were able to effect liquidation of the balance due on industrial advance to the ██████████ in the original amount of \$3,600.

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<sup>100</sup> President McKinney’s Report to Board of Directors, July 13, 1936.

<sup>101</sup> Ibid.

## Appendix F – Industrial Loans – Problem Cases

At the request of J. J. S., who had executed a landlord's waiver subordinating his statutory rights to our debt, we transferred to him the company's note upon payment in full of balance due on principal amounting to \$259, plus accrued interest of \$4.80. We have for the past year or so experienced considerable difficulty in making collections of the monthly installments due on our debt and, notwithstanding the usual mail notices of maturities and numerous telephone conversations with the company's office manager, all of the indebtedness was delinquent on the date it was transferred to Mr. S.<sup>102</sup>

██████████, Texas:

This concern's indebtedness to us is \$16,500. Of that amount, \$3,000 has been past due since October 24, 1936. Operations during the past year resulted in a substantial loss. Assistant Vice President Ford and Mr. C. M. Rowland, Manager of the Loans and Securities Department, visited the mill recently and found that the business had been grossly mismanaged. The company is heavily indebted to its local bank of account and that institution is unwilling to extend further credit. The concern has only a nominal amount of raw and finished products on hand and is without operating funds. The situation as far as the mill is concerned is very unsatisfactory, but Mr. J. G. T., the president and principal stockholder of the company, who is endorser on our note, owns a large farm in ██████████, and has 1,500 acres planted in wheat this year. Crop prospects are favorable at this time, and if a good wheat crop is made, we should be able to make a substantial collection from the endorser.<sup>103</sup>

██████████, Texas:

The company's indebtedness to us at this time is \$9,000, of which \$1,500 has been past due since October 15, 1936. The president of the concern called on us in the latter part of February and stated that on account of a complete crop failure in that territory during the past season, the company has not been able to collect its receivables, and for that reason was unable to meet its payments on the industrial loan. After giving careful consideration to the situation, our committee agreed to allow the company to provide for the past-due indebtedness by paying \$100 a month for five months, and \$1,000 on September 1.<sup>104</sup>

██████████, Texas:

The original amount of the loan was \$62,500, and the indebtedness on March 31, was \$39,500. On April 1, a payment of \$6,000 on the principal

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<sup>102</sup> Ibid., March 10, 1937.

<sup>103</sup> Ibid., April 12, 1937.

<sup>104</sup> Ibid.

## Appendix F – Industrial Loans – Problem Cases

became due, as well as accrued interest in the amount of \$1,216. Upon request of the officers of the company, we agreed to permit the concern to care for this maturity by the payment of \$2,216 on April 1, and \$1,000 a month for five months.<sup>105</sup>

████████████████████, Texas:

We have received a remittance of \$3,542.16 covering the past-due indebtedness of the ████████████████████, Texas, representing a payment of \$3,000 on the principal and \$542.16 past-due interest. These funds were provided by Mr. J. G. T., the President and principal stockholder of the company, who is endorser on our note. Mr. T. raised a good white crop on his farm in ██████████ this year, and was able to provide the funds for the payment from that source. The company's total indebtedness to us is now \$13,500, and the next payment of \$4,000 is due in October of this year.<sup>106</sup>

████████████████████, Texas:

We have received payment in the amount of \$1,027.50 covering the principal balance due on the loan made to ██████████. This indebtedness has been in past-due form for some time. The funds for the retirement of the loan were provided by the borrower's landlord who, we understand, has agreed to finance the operations of the business provided the concern will continue to occupy his premises. In view of the difficulty we have had in connection with this loan, we waived the past-due interest of \$94.45, in order to make collection of the principal balance due.<sup>107</sup>

████████████████████, Texas:

Since my last report, another principal installment of \$1,250 matured on the indebtedness of the ████████████████████. The total amount of indebtedness at this time is \$20,449.57, of which the sum of \$10,449.57 is past due. Sufficient collections were recently made on the collateral securing the advance to care for past-due interest of \$348 and approximately \$525 of the delinquent principal. Several other collections are now in process of being made and we hope to receive additional payments on the principal in the near future.<sup>108</sup>

████████████████████, Texas:

On November 5, the President of the ████████████████████ called on us with reference to the installment of \$2,500 that matured on the indebtedness

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<sup>105</sup> Ibid.

<sup>106</sup> Ibid., July 14, 1937.

<sup>107</sup> Ibid.

<sup>108</sup> Ibid., December 10, 1937.

Appendix F – Industrial Loans – Problem Cases

of that concern on October 15. He stated that on account of the short crops in that section, the company did not have sufficient funds to meet the installment, and after a full discussion of the company's situation we agreed to allow the concern to provide for the installment by the payment of \$100 in cash, \$100 on November 20, \$300 during December, \$200 a month during the first five months of 1938, and \$1,000 on September 1. The indebtedness at this time is \$7,200.<sup>109</sup>

██████████, Texas:

We have heretofore made reports to the Board in connection with the delinquent indebtedness of the ██████████, Texas. It will be recalled that we made that company an industrial loan in the latter part of 1934, in the amount of \$20,000 and that several months ago, it was necessary for us to foreclose our lien on the property pledged as collateral. The unpaid portion of the loan at that time was \$13,000, and the proceeds of the foreclosure sale amounted to \$10,924.75, leaving a balance due on the principal in the amount of \$2,075.25, in connection with which we obtained a judgment against the corporation and the endorser. In the early part of June, we entered into an agreement with the endorser to accept the sum of \$2,300 in full payment of the amount due us, as follows:

Principal	\$2,075.25
Interest to June 8, 1939	1,172.24
Attorney's fees	1,386.09
Expenses	<u>139.00</u>
	\$4,772.58

The endorser recently sold some of his land in west Texas, whereupon he made payment to us in the amount of \$2,300 in full settlement of the indebtedness.<sup>110</sup>

The standard loan agreement executed in connection with industrial loans contained a provision which prohibited the borrower from paying any dividends without the prior written consent of the Federal Reserve Bank of Dallas. Requests were received from time to time for the bank's consent to such payments, but in most cases the requests were denied. The following extracts from minutes of directors' meetings show the action taken in a few cases, and illustrate the procedure followed in passing upon such requests:

Upon motion duly made and carried, the request of the ██████████, Texas, to pay a cash dividend of \$24,000 was denied.

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<sup>109</sup> Ibid.

<sup>110</sup> President Gilbert's Report to Board of Directors, July 13, 1939.

## Appendix F – Industrial Loans – Problem Cases

Upon motion duly made and carried, the request of [REDACTED], Texas, for permission to pay a cash dividend of \$40,000 was denied, but permission was given to the company to pay its employees a Christmas bonus equal to one week's salary, estimated to amount to \$1,700.

Upon motion duly made and carried, the request of the [REDACTED], Texas, for permission to pay an eight percent cash dividend of \$2,000 was granted.

Upon motion duly made and carried, it was voted to be the judgment of the Board that the granting of the request of the [REDACTED], Texas, for permission to pay a cash dividend of \$35,000 would be prejudicial to the interests of this bank, and that it should, therefore, so far as is within the power of this bank, be denied. The matter was referred to the president of the bank, with full authority to take such steps as he may deem to be advisable in making this action of the Board fully effective. (A member bank participated in this loan.)

Consideration was given to the request made by the [REDACTED], Texas, for permission to distribute the entire amount of its current earnings for the year 1937 to its stockholders in the form of dividends. The request was submitted to this bank with an adverse recommendation by the [REDACTED] Texas, which had loaned the company \$8,000 under a 50 percent commitment from the Federal Reserve Bank of Dallas. After a discussion of all the circumstances of the case, including the company's low cash position, upon motion duly made and carried, the request was denied.<sup>111</sup>

Consideration was given to a request received from the [REDACTED], Texas, for a statement of this bank's position with respect to the payment of a cash dividend to the company's shareholders covering its net earnings for the fiscal year ending May 31, 1938, estimated at \$40,000 to \$60,000. It was developed that the company owes a balance of \$190,000 on an industrial loan in the original amount of \$300,000, made by the [REDACTED] under an 80 percent commitment from the Federal Reserve Bank of Dallas. It was also brought out that the [REDACTED] had objected to the proposed distribution of earnings. It appearing from all the facts and circumstances that such action on the part of the company would be inconsistent with its cash position and prejudicial to the interests of this bank, upon motion duly made and carried, it was voted not to assent to the payment of a cash dividend at this time.<sup>112</sup>

On May 20, the last remaining industrial loan on our books was paid in full. This was the loan in the original amount of \$90,000 made on June 29, 1935,

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<sup>111</sup> Minutes of Board of Directors' Meeting, December 10, 1937.

<sup>112</sup> Ibid., May 12, 1938, p.3.



## Appendix F – Industrial Loans – Problem Cases

to ██████████, Texas, under a 50 percent participation by the ██████████. On February 28, 1936, the company was adjudged a bankrupt under section 77b of the Federal Bankruptcy Act and on December 20, 1938, a plan of reorganization was approved by the court providing for the liquidation of the liabilities of the company in a specified manner. The loan was renewed on several occasions and payments were made from time to time, mostly out of the proceeds of the sale of certain real estate held as collateral. The outstanding balance of the loan at the time of retirement was \$5,250.

It might be of interest to the Board to review our industrial loan operations under the provisions of section 13b of the Federal Reserve Act. The law was enacted on June 19, 1934. From the beginning of the program through May 31, 1944, loans and commitments amounting to \$4,432,728 were made to 101 commercial and industrial enterprises in this district. Direct advances and commitments by this bank amounted to \$3,895,479 and the remaining \$645,227 represented participations by financing institutions. Although reserves for losses were set up from time to time in connection with specific loans, no losses actually developed, and the reserves previously set aside for losses were subsequently withdrawn. Total earnings on industrial loans for the period from July 1, 1934 to May 31, 1944 amounted to \$412,796.04 and total expenses aggregated \$217,858.14, leaving net earnings of \$194,937.90. These net earnings were applied as follows:

Amount paid Treasurer of the United States	\$100,404.03
Amount credited to Surplus 13b	55,336.64
Amount credited to profit and loss	<u>39,197.23</u>
Total	\$194,937.90

At the present time our 13b surplus amounts to \$1,307,124.72, of which \$1,251,788.08 was received from the Secretary of the Treasury and \$55,336.64 was credited to that account out of industrial loan earnings.<sup>113</sup>

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<sup>113</sup> President Gilbert's Report to Board of Directors, June 8, 1944.

**APPENDIX G**  
**V-LOAN CASE HISTORY**

V-Loan Case History

There is shown below a copy of a letter from the Federal Reserve Bank of Dallas, addressed to the Board of Governors of the Federal Reserve System, for delivery to the War Department, transmitting an application for a guarantee of the Department in connection with a war production loan to be made by a large commercial bank in the district. The name of the financing institution, the name of the borrowing corporation, and the names of individuals connected with the borrower are disguised. The letter describes the various steps taken by the Reserve Bank in conducting a credit investigation in connection with a V-loan application and shows the type of information usually furnished the War Department.

July 17, 1943

Board of Governors of the  
Federal Reserve System  
Washington, D. C.

Attention: Administrator, War Loans Committee

Gentlemen:

The [REDACTED], [REDACTED], Texas, requests a guarantee of the War Department, under the provisions of Executive Order No. 9112, and Regulation V of the Board of Governors of the Federal Reserve System, covering 80 percent of loans in an aggregate amount not to exceed \$5,000,000, outstanding at any one time, to be made to the [REDACTED].

The loan is desired for the purpose of enabling the borrower to fill purchase orders from airplane manufacturers covering the manufacture of gun turrets, bomb bay doors, fins, and stabilizers. The airplane manufacturers have prime contracts from the War Department and from the Navy Department. At the present time, purchase orders under War Department prime contracts aggregate approximate \$13,000,000, and purchase orders under Navy Department prime contracts aggregate approximately \$4,000,000. The proceeds of the loan are to be used as working capital in the execution of the purchase orders. In this connection reference is made to the detailed forecast of receipts and disbursements which is enclosed.

## Appendix G – V-Loan Case History

Assignments of the proceeds of the purchase orders are tendered as collateral.

As indicated by the files of the Board of Governors and the War Department, we executed on July 16, 1942, Guarantee Agreement No. S.O.S.-F.C.-480 covering 90 percent of loans in an aggregate amount not to exceed \$400,000, outstanding at any one time, to be made by the [REDACTED], [REDACTED], Texas, to the [REDACTED]. The maximum amount of advances made under the guarantee was \$350,000, and the loan was retired in full on December 28, 1942.

There is attached a summary sheet (supported by detailed lists) showing the status, as of June 25, 1943, of certain purchase orders the proceeds of which are tendered as collateral to the proposed loan. This schedule lists purchase orders, with undelivered values, as follows:

Consolidated Vultee Aircraft Corporation, San Diego, California, and Fort Worth, Texas – gun turrets (War Department) – \$5,479,250.

Consolidated Vultee Aircraft Corporation, San Diego, California, and Fort Worth, Texas – gun turrets (Navy Department) – \$75,250.

Grumman Aircraft Engineering Corporation, Bethpage, Long Island, New York – bomb bay doors, stabilizers, and fins (Navy Department) – \$2,858,876.72.

Eastern Aircraft, Trenton, New Jersey – bomb bay doors (Navy Department) – \$222,300.

Glenn L Martin Company, Baltimore, Maryland – anchor windows (Navy Department) – \$86,947.52.

Total -- \$8, 722,624.27

After this schedule was prepared, Grumman Aircraft Engineering Corp. cancelled purchase order No. A-23974 in the amount of \$720,750 and reduced purchase order No. A-7232 to the extent of \$26,752.50. On the other hand, Easter Aircraft increased its purchase orders for bomb bay doors to the extent of approximately \$1,150,000. Moreover, after the schedule was prepared, Consolidated Vultee executed a purchase order for additional turrets at a figure of approximately \$8,050,000. Hence, the present aggregate amount of purchase orders tendered as collateral is approximately \$17,175,000. In this connection, reference is made to the enclosed copy of a letter dated July 7, 1943, from [REDACTED]

## Appendix G – V-Loan Case History

██████████ to the financing institution relating to the Grumman and Easter Aircraft transactions and to interchange of correspondence between the ██████████ and Consolidated Vultee Aircraft Corporation, San Diego, California, under dates of June 29 and June 30, 1943, relating to the proposed additional order in the amount of \$8,050,000, which has since been confirmed.

We are informed by the financing institution that the borrower, during the past year, has built up a splendid record of performance in the production of war materials for aircraft manufacturers, and that, in its opinion, this company is managed and directed by able and experienced men of high type. The active management of the company is under the direction of ██████████, President and General Manager. Mr. ██████████ has had many years of experience in airplane manufacturing and related enterprises. He organized the ██████████ at ██████████ and served as president and general manager of that concern from 1926 to 1929. In later years, he was vice president of the ██████████ and director of sales of the Aircraft Division of ██████████. In 1939, he organized the ██████████ at ██████████, Texas, with a view of engaging in the manufacture of trainer airplanes for the War Department, but the concern later moved to ██████████, Texas, and confined its operations to the manufacture of airplane parts and materials. The chairman of the board and majority stockholder is ██████████, formerly of Washington, D. C. The Vice President and Treasurer is ██████████, formerly of New York City. We are informed that the company has a staff of experience and capable production men.

The balance sheet of the borrower dated May 31, 1943, shows a net worth of approximately \$344,000, with total indebtedness of \$2,213,728.88. Current assets of approximately \$2,217,000 are represented by cash \$501,000, accounts receivable, \$987,000, materials and supplies, \$249,000, and work in process, \$480,000. The company's investment in property and plant is valued at \$277,000. Current liabilities of approximately \$1,914,000 are made up largely of "provision for liability on renegotiation" in the amount of \$1,026,225.43. Explanation of this item is contained in the last paragraph of the company's letter dated July 2, 1943, addressed to the financing institution. Long-term indebtedness on the statement date amounted to \$300,000. This was represented by notes payable to ██████████ (wife of ██████████), secured by a mortgage on land and buildings, but since the statement date, the loan has been rearranged whereby the sum of \$150,000 was paid to Mrs. ██████████ and the remaining \$150,000 was renewed for a period of three years at 3½ percent interest. This loan contains a conversion privilege whereby the holder may elect to convert the indebtedness into common stock at \$4.00 per share. The company's authorized capital is 100,000 shares of no-par stock of which 45,769 shares, carried in the amount of \$228,645, have been issued and

## Appendix G – V-Loan Case History

are outstanding. Contributed and earned surplus amount to approximately \$114,000.

The audit report for the year ended December 31, 1942, indicates that sales for the year amounted to approximately \$3,000,000, which resulted in net income, before Federal taxes, of \$642,000. After making provision for Federal income and excess profits taxes, estimated at \$473,000, the net profit for the year's operations was approximately \$169,000. However, as mentioned above, the borrower completed a renegotiation agreement with the War Department, Army Air Forces, under which the company agreed to refund the sum of \$400,000 in connection with operations for the year 1942, and has worked out an arrangement for a refund on approximately the same basis in connection with operations for the year 1943. Sales for the first five months of 1943 amounted to \$2,555,000, and, after making allowance of \$653,000 for estimated liability on renegotiation and allowance for estimated Federal income and excess profits taxes of \$216,000, the net income for the five-month period was approximately \$54,000.

The company now occupies three factory units, each of which is 60 x 320 feet, and a new, two-story administration building built with company funds. Two of the factory units were built with company funds, and the third unit is the property of the Defense Plant Corporation. That corporation at the present time, has an investment of \$409,530 in the borrower's plant and equipment. In view of the expansion of the volume of business, the company recently made application to the Defense Plant Corporation to expand its facilities by the addition of two units of similar type and size to those now in use and by the construction of a warehouse and certain additions to existing isolated units, and we are informed that the application has been approved. This, we are told, will enable the company to handle existing orders more expeditiously and place it in position to accept additional orders in prospect. The cost of these proposed additional facilities is estimated to be approximately \$634,000. It was upon the assumption that the application for additional facilities would be approved that the company requested a loan in a maximum amount of \$5,000,000.

As indicated by the correspondence between the borrower and Consolidated Vultee Corporation, the company is confronted with increased financial requirements, even upon the basis of its present production capacity, without taking into consideration the increased production capacity to be afforded by the proposed additional facilities, due largely to the fact that under the new purchase orders from Consolidated, the borrower will be required to furnish the materials, whereas in the past a substantial part of the materials has been furnished by the prime contractor. In this connection, we have made inquiry as to the company's past experience in obtaining materials direct, and we are informed that in many

## Appendix G – V-Loan Case History

instances its own orders have been delivered by the suppliers more quickly than materials have been received from prime contractors.

The outstanding feature that impresses us in reviewing this application is the marked expansion in the scope of the company's operations that has been brought about during the past year. When the application for the previous guarantee was filed in June 1942, the backlog of orders amounted to only \$2,800,000; there now aggregate approximately \$17,000,000. Under the forecast of receipts, it is contemplated that the volume of business during the next 12 months will amount to approximately \$22,000,000, as compared with total sales of approximately \$2,500,000 for the first five months of this year.

A few days ago, one of our officers and one of our credit men accompanied me on a visit to the plant of the [REDACTED]. Although we are not qualified to make a technical appraisal of the company's operations from a production standpoint, our casual inspection of the plant impressed us favorably. It seems to us that the company is well organized and is operating in a very efficient manner. The concern has approximately 1,900 employees who are operating on two shifts. They seem to be well trained and appear to be discharging their duties in an acceptable manner. About half of the employees are women. The management has set up a unique production control system and a complete cost accounting system which are designed so as to enable the management at all times to know the status of the production schedule and to determine the cost of every function in its operations. From our observation, it is our opinion that the complimentary remarks regarding the concern's production ability, as set forth in the enclosed letters from prime contractors, representing the Liaison Officer's supporting data, are justified.

In exploring the possibilities of a loan of such a substantial amount, especially when compared with the company's own small net worth, it is necessary, of course, to give consideration to various protective provisions that should be applied. Inasmuch as the company is engaged in subcontracting work, it does to have the direct protection of cancellation and termination clauses that accrues to a prime contractor under the standard Government contract. However, it is our understanding that, generally speaking, it is the policy of the War Department to carry through to the subcontractor such advantages as might accrue to the prime contractor under such termination and cancellation clauses as might exist in any given case. We do not, of course, know the provision of the prime contracts under which the manufacturers mentioned above are operating, but inasmuch as we assume these are on file in the War Department, proper check can be made there in order to ascertain the right of the [REDACTED] as subcontractor. Nevertheless, a basic contract that has been entered into between the borrower and Grumman Aircraft seems to set for

## Appendix G – V-Loan Case History

the rights of the parties, and we are informed that a similar contract is being negotiated between the borrower and Consolidated Vultee.

Another protective feature to be explored is the advisability of imposing a requirement that at least 51 percent of the common stock of the company be pledged as collateral to the loan. This has been suggested to the financing institution, and the principal stockholder has expressed a willingness to make such pledge.

The proposed loan agreement contains a provision that the borrower may not, without the prior written consent of the financing institution, make payment of any part of the principal of the indebtedness owing to Mrs. ██████████ during the life of the loan. It is our understanding that this agreement between the borrower and the financing institution will be implemented by a standby agreement to be executed by Mrs. ██████████. Moreover, it is contemplated that in the event she exercises her option to convert the indebtedness into capital stock, and if by such conversion, the present majority stockholder becomes a minority stockholder, a sufficient number of shares of the newly issued stock will be pledged as collateral to maintain a pledge of at least 51 percent of the outstanding capital stock.

It will be observed that Section 11k of the proposed loan agreement sets for a provision with reference to salaries and other compensation of the officers of the company. This subsection, in part, provides that the salary of President ██████████ may not exceed \$15,000 per annum, but provision is made for the payment to him, in addition to his salary, of a bonus of 3½ percent of the company's net profit before taxes. Under the projected figures, the bonus will reach a substantial amount by July 1944. Such arrangement, it seems to us, is not unreasonable.

Under the proposal, the borrower is to be granted a revolving fund of credit in an amount not to exceed \$5,000,000 outstanding at any one time. The schedule of estimated credit needs indicates that the maximum credit need will be approximately \$4,000,000 and will be reached soon after the first of next year. This estimate, however, is based upon receipt of payments within 30 days from the dates of billings, and a maximum loan of \$5,000,000 is applied for, in order to make provision for possible delays in the receipt of payments and any unforeseen difficulties that may be experienced in obtaining materials.

The final maturity of the proposed loan is July 15, 1944. The rate of interest to be charged the borrower is 4½ percent.

We recommend approval of the application, and in the event we are authorized to execute a guarantee agreement in the authorized standard

## Appendix G – V-Loan Case History

form of April 6, 1943, we suggest that the terms and conditions of the loans to be incorporated in Section 1(C) thereof include the following:

The loan shall be secured by a valid assignment of the proceeds of any and all contracts and/or purchase orders which may be given to the borrower during the life of the loan, and by the pledge, throughout the life of the loan, of at least 51 percent of the outstanding common stock.

The proceeds of the loan shall be used only in the performance of the assigned contracts and/or purchase orders.

The financing institution may surrender to the borrower payments that may be received from time to time upon the assigned contracts and/or purchase orders; provided, however, that such payments shall be released to the borrower only for the performance of the contracts and/or purchase orders, or for the liquidation of the loan; and provided further that the outstanding indebtedness under this agreement shall at no time exceed 80 percent (80%) of the sum of the incomplete and unpaid portion of the assigned contracts and/or purchase orders.

The borrower shall not, during the life of the loan, without the prior written consent of the financing institution and the guarantor, make payment of any part of the principal of that certain indebtedness owing to Mrs. [REDACTED] in the amount of \$150,000, and Mrs. [REDACTED] shall execute a standby agreement by the terms of which she will agree not to demand or accept payment of any part of said indebtedness, without the prior written consent of the financing institution and the guarantor.

In the event Mrs. [REDACTED] exercises her option to convert said indebtedness referred to above into capital stock, and if by such conversion the present majority stockholders becomes a minority stockholder, Mrs. [REDACTED] shall pledge and maintain, as collateral to the loan, a sufficient number of shares of the newly issued stock to constitute an aggregate pledge of at least 51 percent of the outstanding capital stock.

The established fee for a guarantee of this percentage is 20 percent of the loan rate of 4½ percent, or .9 percent per annum.



## Appendix G – V-Loan Case History

We enclose, in duplicate, copies of the following:

1. Application of financing institution for a guarantee.
2. Letters from financing institution dated July 8 and July 9, 1943, addressed to Federal Reserve Bank of Dallas.
3. Proposed loan agreement.
4. Letters from borrower to financing institution dated July 2 and July 7, 1943.
5. Letter from borrower to Consolidated Vultee Aircraft Corporation dated June 29, 1943 and reply dated June 30, 1943.
6. Summary sheet and detailed lists showing status of purchase orders as of June 25, 1943.
7. Balance sheet dated May 31, 1943, and operating statement for five months ended May 31, 1943.
8. Renegotiation agreement between borrower and Army Air Forced, Price Adjustment Section.
9. Forecast of receipts and disbursements.
10. Report of Liaison Officer.
11. Certificate of Necessity and related papers.

Very truly yours,

E. B. Stroud  
First Vice President

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No attempt has been made to provide a complete index, as only the most significant references are listed. Staff changes reflected in Appendix A are indexed fully, with no cross reference from the narrative.

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