

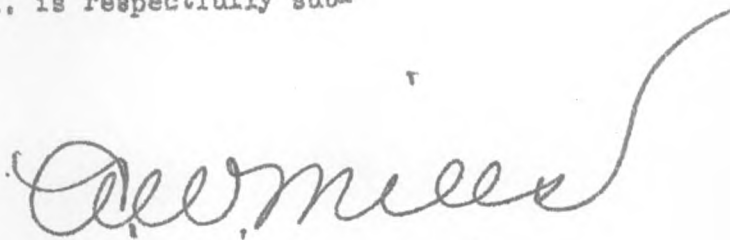
ANNUAL REPORT

FEDERAL RESERVE BANK OF MINNEAPOLIS

1941

Board of Directors,
Federal Reserve Bank of Minneapolis.

This report, revealing the results of
our operations during 1941, is respectfully sub-
mitted.

A handwritten signature in cursive script, reading "A. W. Mills". The signature is written in dark ink and features a long, sweeping flourish that extends upwards and to the right from the end of the name.

A. W. Mills,
Auditor.

January 1, 1942.

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COMMENTS

The year 1941 marks the beginning of another period of emergency in our country and these abnormal times are reflected in the additional expenditures this Bank was obliged to make in order to carry out new duties imposed and brought about by war time conditions. While the activities of the Bank during 1941 are presented in detail in a subjoined section of this report, a very brief resume is made a part of these opening remarks.

In addition to the regular and routine duties performed by the fiscal agency department, the sale of defense bonds was added in April 1941 requiring an enlarged staff and more space. It is expected that the financing of this war will greatly increase the volume of activity in this department.

A new department - the Installment Credit Department - was created in August for the purpose of administering the new Regulation W and this department has been employing from 14 to 19 persons since it was organized.

The problem of finding space in the building for these and other increased activities is becoming acute.

The policy of the management of the Bank is to develop and maintain an aggressive bank and public relations program, and this policy is reflected in the increased activities during 1941.

Member banks have not found it necessary to make use of our discount facilities to any great extent and, therefore, loans to member banks have been at a low ebb throughout the year. Outstanding industrial advances increased. The new advances were few in number and were made principally to finance war industries.

The check collection department handled more items in 1941 than during any previous year. The volume of Twin City clearings, checks on member and nonmember banks and direct sent items increased, while items drawn on Montana banks, the Treasurer of the United States and work relief checks decreased in number.

The volume of items handled in the noncash collection department remained practically unchanged from 1940.

The number and amount of currency and coin delivered to member banks increased while incoming shipments and dollar volume decreased.

No unusual activities were engaged in by the bank examination department during the year. The number of State banks remains unchanged from one year ago at 88, while the number of member banks declined from 464 to 453.

No material change occurred in the volume of work handled in the safe-keeping department although the dollar volume was somewhat larger than during 1940.

The activities of the custodian for the Reconstruction Finance Corporation during 1941 were mostly administering and liquidating loans previously made, coupled with a continuation of the duties performed for the Commodity Credit Corporation. The custody of notes and warehouse receipts for the Commodity Credit Corporation constituted the major part of the work in the department in 1941, as was true also in 1940.

Considerable administrative work was carried on in connection with foreign funds control during the year. Specifically, this work was the distribution of Treasury Department circulars to banks, interpreting Treasury Department instructions for interested parties and licensing certain transactions.

CHANGES IN OUR BALANCE SHEET FIGURES

The following comparative statement of condition shows the changes which have occurred in our balance sheet figures since December 31, 1940:

COMPARATIVE STATEMENT OF ASSETS

FEDERAL RESERVE BANK OF MINNEAPOLIS AND HELENA BRANCH

	December 31, 1941	Increase or Decrease since Dec. 31, 1940 (000's omitted)
<i>Required Gold Reserve</i> Cash Reserves:		
Interdistrict settlement fund	\$ 180,664,696.95	\$ + 35,069
Gold certificates with F.R. Note	214,000,000.00	+ 48,500
Redemption Fund - F.R. Notes	401,194.84	+ 69
Total gold certificate reserves	\$ 395,065,891.79	+ 83,638
Other cash	5,418,238.49	- 1,158
Total cash reserves	\$ 400,484,130.28	+ 82,480
Bills and Securities:		
Bills secured by U.S. Government obligations, direct or fully guaranteed	50,000.00	- 59
Bills otherwise secured and unsecured		- 86
Foreign loans on gold		- 21
Industrial advances	513,994.01	+ 295
U.S. Government securities	66,509,000.00	+ 4,262
Total bills and securities	\$ 67,072,994.01	+ 4,391
Due from Foreign banks	459.65	
F.R. Notes of other Federal reserve banks	651,000.00	- 863
Uncollected Items:		
Transit items	24,829,842.79	+ 6,909
Exchanges for clearing house	983,782.44	+ 44
Other cash items	757,054.22	+ 63
Total uncollected items	\$ 26,570,679.45	+ 7,016
Bank premises	2,450,579.39	+ 1
Less reserve	1,112,417.82	+ 30
Bank premises - Net	\$ 1,338,161.57	- 29
Miscellaneous Assets:		
Industrial advances past due three months	175,301.00	- 35
Less reserve	73,000.00	
Industrial advances past due 3 months - Net	102,301.00	- 35
Misc. assets acquired in settlement of claims account failed banks	1.00	
F.D.I.C. stock	3,509,467.65	
Less reserve	3,509,467.65	
Difference account	37.34	
Premium on securities	829,900.91	- 125
Interest accrued	264,747.87	+ 22
Reimbursable expenditures	89,661.35	+ 48
Deferred charges	18,924.28	+ 2
All other assets	3,534.77	+ 1
Total miscellaneous assets	\$ 1,309,108.52	- 87
TOTAL ASSETS	\$ 497,426,533.48	+ 92,908

COMPARATIVE STATEMENT OF LIABILITIES

FEDERAL RESERVE BANK OF MINNEAPOLIS AND HELENA BRANCH

	December 31, 1941	Increase or De- crease since Dec. 31, 1940 (000's omitted)
F.R. Notes in actual circulation	\$ 206,509,760.00	\$ + 47,801
Deposits:		
Members - Reserve account	178,535,152.29	+ 4,059
U.S. Treasurer - General account	52,460,366.02	+ 29,603
Foreign balances	16,796,440.13	- 252
Nonmembers - Clearing account	1,305,718.16	+ 133
Officers' checks	7,183,537.98	+ 3,792
Other deposits	2,324,628.34	+ 1,512
Total Deposits	\$ 258,605,842.92	+ 38,847
Deferred availability items	22,554,458.72	+ 6,211
Miscellaneous Liabilities:		
Accrued taxes unpaid	65,040.00	
Sundry items payable	18,405.07	+ 13
Unearned discount	168.19	
Discount on securities	166.97	
Suspense account	175.30	- 11
Total Miscellaneous Liabilities	\$ 83,955.53	+ 2
Capital stock paid in	3,003,150.00	+ 29
Surplus Fund - Section 7	3,152,420.27	
Surplus Fund - Section 13b	1,000,298.87	
Reserves for contingencies	2,516,647.17	+ 18
TOTAL LIABILITIES	\$ 497,426,533.48	+ 92,908
Gold certificate reserves against F.R. Notes in actual circulation after setting aside 35% legal reserve against deposits	150.1%	- 1.8%
Reserve ratio against combined net deposits and note liabilities	86.1%	+ 2.1%
Commitments to make industrial advances	\$ 28,053.00	\$ - 22
Float absorbed	\$ 4,016,221.00	\$ + 1,017

Total assets increased 92.9 million dollars during the year. This is an increase of about 23 per cent in the twelve month period. All but about 10 million dollars of this increase occurred in our "gold funds" balances (gold certificates pledged with the Federal Reserve Agent, interdistrict settlement fund and redemption fund) which totaled 395 million dollars on December 31, 1941 - an increase of 83.6 million dollars as compared to December 31, 1940. Increases or decreases in our "gold funds" balances (after allowing for unexpended transfers of funds in and out of the district) may be regarded as indications of the trend of trade between this District and other districts in the System. The sale of goods and services outside this District is eventually

paid for by increases in our balance in the interdistrict settlement fund. The sale of securities outside the District would be reflected in the same manner. Spending of government funds in this District obtained from outside the District is also a purchase of goods and services and our interest in the settlement fund is increased as these new funds come into this District. On the other hand, purchases of goods, services and securities from outside the District and payments of Federal taxes reduce our credit balance in the fund as final payments are made and serve to reduce our so called trade balance. There are other factors of importance which result in increases or decreases in our "gold funds", but those mentioned seem to be the most important. We might conclude then that increases in our gold certificate reserves reflect a balance of trade in favor of this District and decreases in these reserves reflect unfavorable trade balance, and as we gained 87.9 million dollars of gold reserves (out of which funds our participation in Government securities was increased 4.3 million dollars) it is evident that the trade balance was favorable to the District during 1941. This represents an increase over 1940 of about 28 per cent.

Cash Reserves. Total cash reserves on December 31, 1941 were 400.5 million dollars as compared to 318 millions on December 31, 1940 - an increase of 82.5 million dollars. These reserves reached the highest total at the close of 1941 experienced in the history of the bank. Gold certificate reserves increased 83.6 million dollars while vault cash was reduced 1.1 million dollars. Of the 395 million dollars of gold certificate reserves, 214 million dollars was pledged with the Federal Reserve Agent as collateral for Federal reserve note issues and these pledged gold certificates also reached an all time high total. One year ago 165.5 million dollars of certificates were pledged. Vault cash was reduced to 5.4 million dollars, as compared to 6.5 million dollars one year ago. Our supply of U.S. notes was reduced from \$700,000 to \$550,000 (a decrease of \$150,000); the supply of silver certificates from 4.9 million dollars to 4.2 million dollars (a decrease of \$700,000) and other currency and coin from \$900,000 to \$650,000 (a decrease of \$250,000).

Bills and Securities. Even though reserve requirements have been increased, defense bonds are being sold and the demand for currency on the part of the public has increased, member banks still have excess funds and do not

need to avail themselves of the discount facilities of the Bank. We held \$50,000 of member bank paper on December 31, 1941, a decrease of \$146,000 since December 31, 1940. The volume of bills held at the close of the year was lower than at any month and since March 1940, when member banks were borrowing \$25,000. Industrial advances totaled \$514,000 and were \$295,000 greater than on December 31, 1940. The new advances were made mostly for defense and war purposes. Our participation in investments in Government securities through the System account increased from 62.3 million dollars in December 1940 to 66.5 million dollars in December 1941, an increase of 4.2 million dollars. This account, however, fluctuated above and below those figures during the year. In January 1940 our participation was adjusted upward to 66.8 million dollars and was maintained at that point during February and March. In April the account was reduced to 65.9 million dollars and remained there through the quarter ending in June. During the quarter ending in September the account was further reduced to 61.6 million dollars. In October and November our participation was raised to 65 million dollars and in December to 66.5 million dollars.

Uncollected Items. Changes in the asset account "uncollected items" and the liability account "deferred availability items" originate principally in the check collection department. These accounts are so interrelated that they have become known as "twin items" in check collection accounting. Under ideal circumstances one account would offset the other, but due to the fact that our outgoing transit letters may be paid before or after the date to which those items were deferred and that noncash collections and transfers of funds also have a bearing on the net uncollected items outstanding on any day, these accounts do not offset each other. When total uncollected items exceeds total deferred availability items, the difference represents "float" which the Reserve bank carries for member banks. Very rarely do we experience the opposite condition of a float in our favor, as the check collection time schedule (as revised) was designed to favor member banks and in those rare instances where the float favors the Reserve bank, it is usually due to a transfer of funds or a noncash collection credit. Uncollected items totaled 26.6 million dollars on December 31, 1941 - an increase of 7 million dollars over December 31, 1940. This increase is due to an expansion in the number of items and dollar volume of items handled. For the same reason total deferred availability items increased 6.2

million dollars to 22.6 million dollars. The total uncollected items at the close of the year exceeded total deferred availability items by 4 million dollars, which represents the amount of float our bank was carrying for member banks. This is an increase of 1 million dollars in float absorbed, as compared to December 31, 1940 when the total was 3 million dollars.

Bank Premises. The book value of bank premises was increased \$731 in November 1941, representing the cost of installing "electric eye" protective equipment on the roof of the bank building. Reserve for depreciation was increased in a like amount in addition to normal depreciation charges of \$28,846. The detail of changes in bank premises account is as follows:

	<u>LAND</u>		
	<u>Head Office</u>	<u>Helena Branch</u>	<u>Total</u>
Book value January 1, 1941 (No change during year)	\$ 400,520.66	10,000.00	410,520.66

	<u>BANK BUILDING</u>		
Book value January 1, 1941	\$ 1,283,281.50	75,000.00	1,358,281.50
Less: Reserve for depreciation	436,315.56	5,250.00	441,565.56
Net book value December 31, 1941	\$ 846,965.94	69,750.00	916,715.94

	<u>MACHINERY AND EQUIPMENT</u>		
Book value January 1, 1941	\$ 664,238.35	16,807.88	681,046.23
Increase during 1941	731.00	-	731.00
	664,969.35	16,807.88	681,777.23
Less: Reserve for depreciation	664,969.35	5,882.91	670,852.26
Net Book Value Dec. 31, 1941	\$ -	10,924.97	10,924.97

	<u>BANK PREMISES COMBINED</u>		
	(Land, Buildings, Machinery and Equipment)		
Book value January 1, 1941	\$ 2,348,771.51	101,807.88	2,450,579.39
Less: Reserve for depreciation	1,101,284.91	11,132.91	1,112,417.82
Net Book Value December 31, 1941	\$ 1,247,486.60	90,674.97	1,338,161.57

Miscellaneous Assets. Premium on our participation in Government securities through the System account dropped from \$954,650 on December 31, 1940 to \$829,900 on December 31, 1941 - a reduction of \$124,750, even though the System's holdings of Governments remained unchanged during the year until December 8 when additional securities were purchased. The premium account was reduced by amortization and the sale, on several occasions, of short term securities carrying a premium and the purchase of longer term securities at or near par. Interest accrued on bills and securities held is \$22,176 greater than on December 31, 1940. Total earning assets have increased during the last two months and with the slight

stiffening in our earning rate the interest accrued account is somewhat larger. Reimbursable expenditures is really an accounts receivable and the total of \$89,700 in this account at the close of the year is the amount of current salaries and expenses the Bank has advanced in performing services for the Treasury Department and governmental agencies for which reimbursement has not been received. This total exceeds the December 31, 1940 total by \$48,216, due to the greatly expanded fiscal agency services this bank is performing. Past due industrial advances were reduced \$34,792 during the year, either through voluntary reductions, foreclosures or the sale of our interest to other creditors.

Federal Reserve Notes in Actual Circulation. Our note circulation has increased from 158.7 million dollars on December 31, 1940 to 206.5 million dollars on December 31, 1941. This is an increase of 47.8 million dollars or 30 per cent. Circulation expanded more than twice as fast as in 1940 when notes outstanding rose 20 million dollars. There was not a single month in 1941, except January, when circulation did not exceed the previous month. It is too early in the year to learn whether our circulation will be reduced substantially by a return of currency following the Christmas Holiday shopping period. If our experience is to be the same as during January of last year, circulation will not be greatly reduced. Some concern is being manifested regarding the phenomenal increase in money in circulation and the trend in the next three or four months is being watched with deep interest. Money in circulation in the United States totaled 11,161 million dollars on December 31, 1941 - an increase of 2,429 million dollars in the past year. If money in circulation should rise as much in 1942 as in 1941, member banks' excess reserves might be reduced to a point where many banks may be forced to borrow to maintain reserves at the required level and be without funds to meet the private demand for loans and assist in financing the Nation's war effort.

Member Bank Reserve Accounts. Member bank reserve balances in this District did not expand as rapidly in 1941 as in 1940. During 1940 these balances increased from 154.8 million dollars at the beginning of the year to 174.5 million dollars at the close of the year - an increase of 19.7 million dollars. Between January 1, 1941 and December 31, 1941 member bank balances rose from 174.5 million dollars to 178.5 million dollars - an increase of only 4 million dollars. Although no accurate information is available pertaining to money in circulation in this district alone, other than the abrupt rise of

our notes outstanding, the increase in money in circulation and the larger balances carried with the Treasurer of the United States are probably the principal reasons for the smaller increase in member bank reserve balances in 1941 as compared to 1940.

Daily average excess reserves of member banks in this district during the first half of December 1940 totaled 73.4 million dollars. Excess reserves dropped to 45.1 million dollars by December 1941 - a reduction of 28.3 million dollars in excess reserves. The most pronounced decrease occurred when the increased reserve requirements became effective on November 1, 1941. At that time excess reserves decreased 15.5 million dollars. The following comparative analysis of excess reserves gives the detail of the changes by groups of banks and the District as a whole.

Ninth District Member Bank Reserves (Daily averages)						
Reserve Cities			Country Banks		Ninth District	
December 1 to 15	Change since Dec. 1940		December 1 to 15	Change since Dec. 1940	December 1 to 15	Change Since Dec. 1940
(000's omitted)						
Reserve carried	\$ 103,988	- 11,449	\$ 84,572	+ 20,985	\$ 188,560	+ 9,536
Reserve required	85,972	+ 19,237	57,437	+ 18,644	143,409	+ 37,881
Excess reserves	18,016	- 30,686	27,135	+ 2,341	45,151	- 28,345

During the period under analysis, reserves carried by Reserve city banks decreased 11.4 million dollars and reserves carried by country banks increased 20.9 million dollars, or an increase in the District of 9.5 million dollars. Required reserves increased 19.2 million dollars in Reserve cities; 18.6 million dollars in country banks and 37.8 million dollars in the District. While Reserve city banks lost 30.6 million dollars in excess reserves, country banks gained 2.3 million dollars of excess funds with a net loss to the District of 28.3 millions of dollars. In addition to the increase in reserve requirements, the two most important factors contributing to the decline in excess reserves in this District are the same as those mentioned in connection with the discussion of member bank reserve balances, namely; the increase in money in circulation and funds withdrawn from member bank reserve accounts and placed to the credit of the Treasurer of the United States.

During 1940 balances to the credit of the U.S. Treasurer's general account ranged between a high of 33.2 million dollars in March, to a low of 16.1 million dollars in November. These balances were higher in 1941, with a low of 21.1 million dollars in September and a high of 52.4 million dollars

at the close of the year.

The increase of 3.8 million dollars in officers' checks outstanding was at Helena Branch. As has been stated before, Montana banks pledge our cashier's checks with public officials in lieu of securities as collateral for public deposits. The Branch had 7.1 million dollars of officers' checks outstanding on December 31, 1941, compared to \$25,280 at Head Office.

Miscellaneous or "Other Deposits" increased 1.5 million dollars. Of the 2.3 million dollars in this account on December 31, 2 million dollars were payments received for subscriptions to United States Defense Savings Bonds and not credited to the Treasurer of the United States pending issuance of the bonds.

Reserves for Contingencies. Other than an increase of \$17,984 in reserves for contingencies, no changes occurred in our capital account except an increase of \$28,650 in shares of stock issued to member banks. The increase in reserves for contingencies represents the net earnings (after dividends) of the bank for the year 1941, after remitting \$490.14 to the Treasurer of the United States as net profits from industrial advances during 1941. The following comparative statement shows the changes which occurred in our income and disbursements, as compared to 1940.

	<u>1941</u>	<u>Increase or Decrease as compared to 1940</u>
Current earnings	\$ 1,223,236.78	\$ - 42,266
Current expenses	<u>1,075,428.52</u>	<u>+ 90,494</u>
Net current earnings	\$ 147,808.26	\$ - 132,760
Additions to earnings from profit and loss transactions	<u>50,456.05</u>	<u>- 363,227</u>
Net earnings	<u>\$ 198,264.31</u>	<u>- 495,987</u>
<u>Disposition of Net Earnings</u>		
Dividends paid	\$ 179,789.68	\$ + 2,389
Paid U. S. Treasurer	<u>490.14</u>	<u>+ 490</u>
Transferred to reserves for con- tingencies	<u>17,984.49</u>	<u>- 499,251</u>
Withdrawn from Surplus (Sec. 13b)	<u>\$ 198,264.31</u>	<u>+ 385</u>
		<u>\$ - 495,987</u>

EARNINGS

See Schedule

	<u>1941</u>	<u>Compared to 1940</u>
Head Office	\$ 1,223,195.91	\$ - 42,210
Helena Branch	40.87	- 56
	<u>\$ 1,223,236.78</u>	<u>\$ - 42,266</u>

The source of earnings did not change materially in 1941. Income from our participation in investments in Government securities through the System account contributed 97 per cent of earnings. About 98 per cent came from that source in 1940 and 94 per cent in 1939. In 1941 these investments provided us with \$1,191,000 of earnings, which was \$46,000 less than in 1940 when this income totaled \$1,237,000. In 1939 income from Governments aggregated \$1,070,000. During 1941 we held a monthly average of 65 million dollars of Government securities yielding 1.8 per cent. In 1940 the monthly average was 71 million dollars, yielding 1.7 per cent. The next important source of income was from industrial advances. During 1941 we obtained \$20,800 of earnings from these advances which was \$5,500 more than in 1940. In 1941 these advances averaged \$404,600, yielding 5 per cent, while in 1940 we held \$253,000 yielding 6 per cent. Earnings from discounted bills of \$2,650 were slightly under 1940 earnings, which totaled \$2,760. Earnings from foreign loans on gold are included in these figures, and these earnings were \$44 in 1941 and \$344 in 1940. During 1941 the volume of bills discounted for member banks averaged \$173,000 and in 1940 \$152,000. Other earnings did not vary greatly from 1940 figures and were as follows: commitments to make industrial advances, \$416; deficient reserve penalties, \$677; sale of waste paper, bags, etc., \$135; monthly letters sold, \$11; clearing house fines, \$86, and savings in registration fees on mail shipments, \$1,058.

All of the earnings reported by Helena Branch for the year 1941 were from assessments for deficient reserve penalties. For 1940 the Branch reported \$38 earnings from discounted bills and \$60 from penalties for deficient reserves.

Average total earning assets has declined year by year since 1937, while the earning rate has strengthened slightly. Adjustments in our participation in Government securities is the cause for the lessening total of all earning assets. The slight firming in the yield on Governments is the reason for the very slight increase in the yield rate on all earning assets. The

EARNINGS - Cont'd

following comparison presents these changes in a rough manner:

	<u>Total Earning Assets</u>	<u>Includes Governments Totaling:</u>	<u>Yield on All Earning Assets</u>
1937	\$ 84,141,000	\$ 83,024,000	1.6%
1938	76,647,000	75,413,000	1.4
1939	76,364,000	75,281,000	1.5
1940	71,454,000	70,961,000	1.8
1941	65,518,000	64,905,000	1.9

EXPENSES

1941

Head Office	\$ 972,537.43
Helena Branch	102,891.09
	<u>\$ 1,075,428.52</u>

Gross expenses during 1941 were \$1,470,500 and exceeded gross expenses in 1940 by \$233,700 when expenses totaled \$1,236,800. Reimbursable expenses, however, totaled \$395,100 and were \$143,200 more than in 1940 when these expenses aggregated \$251,900. As a result the net expenses of the Bank in 1941 were \$1,075,400, as compared to \$984,900 in 1940 - an increase of \$90,500. The budget for 1941 contemplated expenditures of \$1,328,200, of which it was estimated \$298,400 would be expended for the Treasury Department, the Commodity Credit Corporation, the Reconstruction Finance Corporation and other governmental and semi-governmental agencies in our capacity as fiscal agent, leaving a net expense of \$1,029,800 to be absorbed by the Bank. According to these estimates the cost of performing fiscal agency functions would exceed 1940 costs by \$46,500 and the net expense absorbed by the Bank would exceed 1940 expenses by \$44,800. As it turned out reimbursable expenses incurred as fiscal agent exceeded budget estimates by \$96,700 and expenses absorbed by the Bank exceeded estimates by \$45,600. When the budget for the year 1941 was prepared, estimated expenses were based on what was then thought to be the requirements for the ensuing twelve months. The Bank operated within gross budget estimates for the first three-quarters of the year, although our activities began to accelerate rapidly in the third quarter. Although our activities have expanded quite generally, we can point to two items of expense which were not contemplated when the budget was prepared and the costs incurred in these instances account for the greater portion of excess expenditures over budget estimates, namely: the cost of operating the new installment credit department, requiring expenditures of \$20,100; and the purchase

EXPENSES - Cont'd

of additional furniture and equipment needed with our larger staff and enlarged duties, \$13,000. Additional postage costs of considerable amount were also absorbed in connection with the installment credit department.

SALARIES

509,000 official net expenses
Head Office \$ 467,405.20
Helena Branch 59,839.76
\$ 527,244.96

Net salary costs in 1941 exceeded 1940 costs by \$23,500. During 1940 this expense aggregated \$503,700. Salaries were \$16,000 greater at Head Office and \$7,500 more at the Branch. The combined net cost of salaries of officers at Head Office and Helena Branch was \$99,000, as compared to \$100,000 in 1940 - a decrease of \$1,000. The combined salaries of employees at Head Office and Helena Branch was \$428,000 in 1941 - an increase of \$25,000 over 1940 costs, when the total was \$403,000. Those costs were net after deducting reimbursable expenditures. The combined gross salaries of officers was \$110,700 in 1941, as compared to \$111,200 in 1940 - a decrease of \$500 and the combined gross salaries of employees was \$711,200 in 1941 - an increase of \$129,800 over 1940 costs when employees' salaries aggregated \$581,400. Certain officers' salaries have been increased during the year and all employees, other than officers, received a flat increase of \$10 per month beginning November 1, 1941. The staff of the bank has been considerably expanded also. During the past twelve months the combined staff at Head Office and Helena Branch has increased from 442 on January 1941 to 592 on January 1, 1942 - an increase of 150 employees. The following comparative figures show which departments absorbed the additional employees.

	<u>January 1, 1942</u>	<u>Increase or De- crease since Jan. 1, 1941</u>
Head Office -		
Officers	10	
General staff	194	+ 22
Transit and mail departments	105	+ 25
Installment credit department	14	+ 14
Industrial coordination department		- 15
Fiscal agency department	122	+ 91
R.F.C. Custody division	109	+ 10
Contract Division of O.P.M.	1	+ 1
	<u>555</u>	<u>+ 148</u>
Helena Branch -	<u>37</u>	<u>+ 2</u>
Head Office and Helena Branch combined	592	+ 150

EXPENSES - Cont'd

RETIREMENT SYSTEM CONTRIBUTIONS

Head Office	\$ 23,863.10
Helena Branch	2,985.05
	<u>\$ 26,848.15</u>

These contributions were \$2,100 more than in 1940. The amount absorbed by the Bank is in direct relation to increases and decreases in salary costs. For the first six months the rate was 5.15% of employees' salaries and during the last six months 5.66%. These payments are made directly to the Retirement System of the Federal Reserve Banks.

LEGAL FEES

Head Office	\$ 9,665.37
Helena Branch	-
	<u>\$ 9,665.37</u>

Legal fees were \$400 more than in 1940. These fees include \$9,000 paid to our counsel as a retainer fee. Of the \$700 remaining, \$400 was spent in connection with the suit instituted in Billings, Montana against the bank; \$100 was counsel's expenses attending a foreign funds control meeting in Washington, and the balance was for miscellaneous expenses.

DIRECTORS' FEES AND EXPENSES

Head Office	\$ 7,794.26
Helena Branch	2,272.69
	<u>\$ 10,066.95</u>

These fees were \$1,600 less than in 1940. The various items contributing to this expense were:

	<u>1941</u>	<u>Increase or Decrease com- pared to 1940</u>
Head Office -		
Directors' meetings	\$ 5,600	\$ - 900
Executive committee meetings	500	- 200
Discount committee meetings	500	- 200
Audit committee meetings	600	- 100
Chairmen's meeting at Washington	200	- 200
Directors' luncheons	100	- 100
Incidentals	300	- 300
Helena Branch -		
Fees and expenses	<u>2,300</u>	<u>+ 400</u>
	<u>\$ 10,100</u>	<u>\$ - 1,600</u>

FEDERAL ADVISORY COUNSEL

Fees and Expenses

Head Office	\$ 1,397.15
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This item includes fees and expenses of our representatives attending

EXPENSES - Cont'd

Federal Advisory Committee meetings at Washington. During the past three years the expense has amounted to about \$1,300 or \$1,400 per year.

TRAVELING EXPENSE

Head Office	\$ 21,354.63
Helena Branch	<u>1,642.52</u>
	\$ 22,997.15

The following table compares travel expense in 1941 with 1940. The plus and minus signs indicate increases or decreases in 1941, as compared to 1940.

	<u>1941</u>		<u>1940</u>
Head Office -			
Bank examinations	\$ 7,117.54	\$ +	300
Visiting banks in our district	3,740.78	-	1,400
Bank relations (Preston)	639.35	+	600
Industrial loan investigations	1,194.96	+	400
Industrial advisory committee expense	512.89	-	300
Failed banks' expense	346.81		0
Presidents' conferences	574.75	+	200
Open market committee meetings	95.00	+	100
Retirement system committee meetings	182.48		0
Planning transit operations for new member banks	32.30	-	200
Bank Examiners' conference at Washington	0	-	200
Showing bank movie	20.53	-	100
Graduate School of Banking	105.65	-	100
Obtaining statistical information	72.40	-	600
Visiting newspaper publishers	653.51	+	100
Wagner committee meeting	0	-	100
Conference on National Defense	282.22	-	100
Auditors' conference	248.27	+	200
Employees attending A.I.B. convention	650.05	+	200
Planning operations at Helena Branch	155.60		0
Group meetings, conventions and conferences	2,018.84		0
Talks before various groups	128.46		0
Michigan meeting of Board of Directors	217.29	+	200
Installment loan meetings	1,948.88	+	2,000
Defense bond liaison office, St. Paul	213.96	+	200
Picture book plans - Washington	108.45	+	100
Miscellaneous	<u>93.66</u>		<u>0</u>
	\$ 21,354.63	+	1,500

Helena Branch -

Attending member bank conference at Minneapolis	\$ 110.05		0
Officers attending bankers' conference at Seattle and Pullman, Washington	84.20		0
Montana Bankers' Association	88.04		0
Conference National Defense, Washington	0	-	200
Bank relations and membership contacts	277.04	-	300
Travel expense of Head Office auditors	446.24	-	200
Per diem expense of auditor's representative	120.00	-	200
Pacific Northwest Banking school	47.40		0
Talks before various groups	158.11	+	200
Conventions and conferences	32.43		0
Training employees at Head Office	124.05	+	100
Transfer Head Office employees to Branch	<u>154.96</u>	+	<u>200</u>
	\$ 1,642.52	-	400

TOTAL \$ 22,997.15 \$ + 1,100

Handwritten note:
 Total 1,500
 see on report
 show with
 attention at St. Paul
 1941 Ban from
 1940 at Boston

EXPENSES - Cont'd

POSTAGE AND EXPRESSAGE

Head Office	\$ 121,679.74
Helena Branch	17,662.37
	<u>\$ 139,342.11</u>

Postage and expressage costs were \$12,100 greater in 1941 than in 1940. The cost of ordinary mail is the largest single item in this expense group. The transit department uses more ordinary postage than any other function in the bank and ordinary postage costs have been considerably expanded as a result of the larger number of circulars, letters and mail leaving the bank during the past four months. The cost of postage in the installment credit department was the most important factor resulting in increased postage costs this year. Postage used on incoming and outgoing currency and coin shipments totaled \$60,000 - an increase of \$6,400 over 1940 costs. Currency shipments to country banks increased from 19,200 in 1940 to 20,700 in 1941; coin shipments increased from 8,500 to 10,100; while shipments of currency received from country banks dropped from 12,000 to 11,700. Express charges did not change materially except that the cost of expressing checks to member banks for collection increased \$1,600. A continuing effort is being made to use express services rather than mail services in forwarding cash letters to member banks for collection, as that is more economical. The detail of postage and express costs is as follows:

	<u>1941</u>	<u>1940</u>
Postage (Head Office) -		
Absorbed on incoming currency shipments	\$ 30,417.21	\$ + 1,500
Placed on outgoing currency shipments	20,441.16	+ 2,900
Placed on outgoing coin shipments	9,239.90	+ 2,000
Net amount used on ordinary mail	46,727.61	+ 4,000
Postage used on security shipments	<u>202.63</u>	- 700
	\$ 106,623.25	+ 9,700
Expressage (Head Office) -		
Absorbed on incoming currency shipments	\$ 143.14	0
Absorbed on incoming coin shipments	6,242.17	- 300
Government checks sent by express	605.82	0
Checks sent to member banks by express	4,444.39	+ 1,600
Paid to Brink's Inc. for express service	3,300.00	- 300
Expense incident to operating our mail car	<u>320.97</u>	0
	\$ 15,056.49	+ 1,000
Head Office postage and expressage costs	\$ 121,679.74	+ 10,700
Helena Branch postage and expressage costs	<u>17,662.37</u>	+ 1,400
	\$ 139,342.11	+ 12,100

TELEPHONE AND TELEGRAPH

Head Office	\$ 10,880.95
Helena Branch	4,331.05
	<u>\$ 15,212.00</u>

This expense in 1941 exceeded 1940 telephone and telegraph charges by \$3,500.

EXPENSES - Cont'd

During December about 8,300 telegrams were sent to dealers in installment credit, advising them of the necessity of applying for permits to do business after December 31, 1941, at a cost of about \$2,700. This accounts for the major portion of the increased cost.

PRINTING, STATIONERY AND SUPPLIES

Head Office	\$ 36,446.26
Helena Branch	<u>2,631.96</u>
	\$ 39,078.22

The cost of printing and supplies was \$13,300 more than in 1940. A multitude of items used in all the departments of the bank are included in this expense, such as paper stock, printing, letterheads, envelopes, circulars, small office equipment items, small tools, etc. The new installment credit department used \$3,900 of supplies in the last four months which contributed to the increased cost. Most of the other departments of the bank used more supplies this year and the purchasing agent did some forward buying of items which might be more difficult to get later on.

INSURANCE ON CURRENCY AND COIN SHIPMENTS

Head Office	\$ 7,638.47
Helena Branch	<u>1,103.12</u>
	\$ 8,741.59

This cost is \$1,300 more than in 1940. The greater volume of outgoing currency shipments explains this increase.

OTHER INSURANCE

Head Office	\$ 12,591.35
Helena Branch	<u>971.50</u>
	\$ 13,562.85

Insurance other than on currency and securities shipments was \$1,000 less than in 1940. The type of coverage carried, premium cost and changes in premium cost, as compared to 1940, is shown below:

	<u>1941</u>	<u>Increase or Decrease com- pared to 1940</u>
Head Office -		
Group life insurance	\$ 1,607.97	\$ + 200
Bankers' blanket bond	9,075.53	- 800
Workmen's compensation	1,044.18	0
Premises and elevator liability insurance	276.90	- 100
Fire insurance on building and contents	750.00	0
Steam boiler insurance	108.28	0
Burglary - securities	70.40	- 200
Collision insurance - Officers and employees	130.86	0
Public liability - bank owned cars	213.25	+ 100
Public liability - (auto) Non-ownership	123.17	- 300

*Prem & Sec
1940 - 1941
1941 - 1942
3rd - 1941
then - 1942
Compensation*

EXPENSES - Cont'd

	<u>1941</u>		<u>Increase or Decrease com- pared to 1940</u>	
Special police bonds	\$ 326.00	+	200	
Riot and civil commotion	450.00	+	200	
Fidelity bonds (F.R. Agent, Asst. F.R. Agent, and Alternate Asst. F. R. Agent)	40.00	+	100	
Notarial bond	21.00		0	
Camera property floater and insurance on bank movie film	56.79		0	
	\$ 14,294.33	\$ -	600	
Less: Unearned premium - fire insurance on building and contents	0	+	400	
Dividend on group life insurance	1,702.98	+	600	
Head Office	\$ 12,591.35	-	800	
Helena Branch	971.50	-	300	
	\$ 13,562.85	\$ -	1,100	

*2400 instead of 1000
increase rate
Red
work in
1940 for
1000 + 500
to 1500*

LIGHT, HEAT, WATER AND POWER

Head Office	\$ 18,275.69
Helena Branch	1,530.68
	\$ 19,806.37

The cost of light, heat and power has not changed much during the past three years. In 1939 this cost was \$19,600 and in 1940, \$19,600.

REPAIRS AND ALTERATIONS

Head Office	\$ 13,552.93
Helena Branch	1,816.19
	\$ 15,369.12

Repair and alterations to Head Office and Branch buildings during 1941 were:

Head Office -

Elevator service contract	\$ 2,800
Moving wash bowls	300
Redecorating executive offices and reception room	900
Manifold door in lunch room	500
Alterations on basement floor	1,200
Sidewalk repairs	500
Installing women's washroom on bank floor	1,500
Laying floor in sub-basement (coal room)	2,700
Miscellaneous	3,200

Helena Branch -

Bronze entrance doors	\$ 1,100
Miscellaneous	700
	\$ 1,800

During 1940, repairs and alterations cost \$13,600 which included \$6,300 for cleaning the outside of the bank building. The heavier expenditures in 1941 were due to providing space for a larger number of clerks and additional activity.

EXPENSES - Cont'd

FURNITURE AND EQUIPMENT

Head Office	\$ 25,536.51
Helena Branch	427.09
	<u>\$ 25,963.60</u>

The cost of furniture and equipment during 1941 was \$14,900 greater than in 1940 when \$11,100 was used for this purpose. Rapidly expanding activities required much additional equipment and our near future needs were considered also. The more expensive items purchased during the year were:

Head Office -	
Chairs	\$ 2,000
Desks	900
Typewriters	3,500
Files	1,400
Mimeograph	600
Lockers	900
Light fixtures for bank floor	1,900
Calculator	600
Addressograph	600
Adding machines	5,500
Graphotype	800
Bookkeeping machine	1,600
Carpets - officers' lunch room	1,000
Multigraph	500
Electric formwriters for typewriters (4)	1,500
Miscellaneous	<u>2,200</u>
Helena Branch -	
Addressograph	400
	<u>\$ 25,900</u>

ALL OTHER EXPENSES

Head Office	\$ 43,829.31
Helena Branch	2,119.17
	<u>45,948.48</u>

These expenses were about \$7,300 more than in 1940. For comparative purposes all items exceeding \$500 are listed below.

	<u>1941</u>	<u>Increase or Decrease com- pared to 1940</u>
Rental, repairs and maintenance of furniture and equipment	\$ 2,800	\$ - 200
Outside protection, vault inspection, etc. (Includes \$1,400 cost of installing "electric eye" on roof of building)	1,900	+ 1,300
Outside laundry and cleaning charges	100	- 800
Postage meter rental	700	0
Newspapers, periodicals, books, etc.	2,400	- 200
Supplies furnished member banks	700	- 1,100
Copies of bank examination reports	3,700	- 400
Commercial agency credit reports and services	900	- 100
Medical services, supplies and physical examinations	1,000	+ 400
Cafeteria - net expense	3,100	- 500
Entertainment of bankers and others not in bank's employ	2,300	+ 400
Employees education: A.I.B.	1,700	- 900
Federal Reserve Club	1,900	+ 100
Bankers' association dues	500	0

EXPENSES - Cont'd

	1941	Increase or Decrease com- pared to 1940
Member bank conference - Head Office	\$ 4,900	\$ - 200
Helena Branch	0	- 1,700
Foreign Department	2,300	- 400
Preparation and presentation of radio material	0	- 1,800
Study of official compensation	1,100	+ 1,100
Educational picture book story	8,900	+ 8,900
Conference - National Assn. of State Bank Super- visors	1,400	+ 1,400
Transit Manual of Instruction	500	+ 500
Study of career system for executive personnel	900	+ 900
Not classified	2,200	+ 600
	\$ 45,900	\$ + 7,300

It can be seen that the usual miscellaneous expenses compared favorably with 1940 expenses and that the unusual expenses, such as special studies and the cost of the education picture book, are the items which increased "all other" expense during 1941.

BOARD ASSESSMENT

Head Office	\$ 40,614.36
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The assessment in 1941 was \$2,200 more than in 1940 when this expense totaled \$38,400. In 1939 the assessment was \$36,800. These assessments are made to defray the cost of maintaining the Board's staff and Board building at Washington.

COST OF FEDERAL RESERVE CURRENCY

Original cost (including shipping charges)	\$	44,141.35
Cost of redemption		<u>5,264.90</u>
	\$	49,406.25

Although the cost of our currency in 1941 was \$15,500 more than in 1940, currency costs have been larger in years past. During the past five years these costs were as follows:

	<u>1937</u>	<u>1938</u>	<u>1939</u>	<u>1940</u>	<u>1941</u>
Printing costs	\$ 35,700	39,400	23,000	18,000	26,000
Postage	2,800	2,500	2,500	3,400	5,900
Surcharges	4,100	3,600	4,200	5,500	10,200
Insurance	1,000	900	900	1,200	1,500
Salaries of issue and redemption division	200	300	300	200	500
	\$ 43,800	46,700	30,900	28,300	44,100
Cost of redemption	<u>6,400</u>	<u>4,700</u>	<u>6,100</u>	<u>5,600</u>	<u>5,300</u>
	\$ 50,200	51,400	37,000	33,900	49,400

When we examine these figures we see that although printing costs were higher than in 1940, the increase in this cost does not explain the greater

EXPENSES - Cont'd

total cost during the year. While printing costs increased \$8,000, postage, surcharge and insurance costs also rose \$2,500, \$4,700 and \$300, respectively, and these increased costs were due to the heavy demand for currency this year requiring more shipments of new currency from Washington.

REIMBURSABLE EXPENDITURES

Earlier in the report it was stated that reimbursable expenses in 1941 were \$143,000 greater than in 1940. The comparative figures which follow classify the expenses which were reimbursed and show what governmental departments or agencies absorbed those expenses. This comparison indicates the rapidly expanding activities the Bank is performing for the government in various ways.

By Classification of Expense:	<u>1941</u>	<u>Increase or De- crease as com- pared to 1940</u>
Salaries: Officers	\$ 12,000	\$ + 1,000
Employees	283,000	+ 105,000
Retirement System contributions	13,000	+ 4,000
Traveling expense	3,000	+ 3,000
Postage and expressage	23,000	+ 10,000
Telephone and telegraph	8,000	+ 1,000
Printing, Stationery and supplies	18,000	+ 10,000
Rent	1,000	+ 1,000
Furniture and equipment	1,000	+ 1,000
Space maintenance	27,000	+ 6,000
Rental of furniture and equipment	6,000	+ 1,000
All other	1,000	0
	\$ 396,000	\$ + 143,000

Departments or agencies for which these expenses were incurred:

Treasury Department:		
U. S. Government issues	\$ 38,000	+ 12,000
U. S. Savings and Defense bonds	96,000	+ 60,000
Works relief checks	12,000	- 3,000
Foreign Exchange	13,000	+ 5,000
Reconstruction Finance Corporation	63,000	- 3,000
Commodity Credit Corporation	138,000	+ 52,000
Federal Farm Mortgage Corporation	4,000	- 1,000
Federal Land Banks	1,000	0
Federal Housing Authority	1,000	- 1,000
Federal Emergency Adm. of Public Works	1,000	0
Home Loan Banks and Home Owners Loan Corporation	3,000	- 1,000
Leased wire service charges	2,000	- 1,000
Defense contract service	24,000	+ 24,000
	\$ 396,000	\$ + 143,000

COMPARATIVE STATEMENT OF EARNINGS

FEDERAL RESERVE BANK OF MINNEAPOLIS AND HELENA BRANCH

Earnings from:	Minneapolis 1941	Helena Branch 1941	Combined 1941	Increase or De- crease since Dec. 31, 1940
Discounted bills	\$ 2,649.35	\$	\$ 2,649.35	\$ - 107
Industrial advances	20,790.46		20,790.46	+ 5,526
Commitments to make industrial advances	416.03		416.03	- 157
U.S. Government securities	1,191,361.92		1,191,361.92	- 45,977
Deficient reserve penalties	636.44	40.87	677.31	- 13
Interest received on advances to protect collateral				- 10
Interest on past due industrial advances	6,048.44		6,048.44	- 625
Sale of waste paper, money bags, etc.	135.05		135.05	+ 48
Service charges on collection items returned unpaid				- 14
Interest on Hungarian Credits				- 443
Clearing house fines	86.00		86.00	+ 48
Interest received on personal loans to employees66		.66	- 21
Monthly letters sold	11.00		11.00	+ 11
Savings in registration fees, etc. on registered mail ship- ments for member banks	1,058.21		1,058.21	- 476
All other	2.35		2.35	- 57
TOTAL EARNINGS	\$ 1,223,195.91	\$ 40.87	\$ 1,223,236.78	\$ - 42,267

COMPARATIVE STATEMENT

NET CURRENT EXPENSES OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS AND HELENA BRANCH

	Minneapolis 1941	Helena Branch 1941	Combined 1941	Increase or De- crease since Dec. 31, 1940
Salaries: Officers	\$ 81,489.59	17,494.72	98,984.31	- 1.264
Employees	385,915.61	42,345.04	428,260.65	+ 24.794
Retirement System contributions for current service . .	23,863.10	2,985.05	26,848.15	+ 2.099
Legal fees	9,665.37		9,665.37	+ 422
Directors' fees and expenses	7,794.26	2,272.69	10,066.95	- 1,614
Federal Advisory Council fees and expenses	1,397.15		1,397.15	+ 16
Traveling expenses	21,354.63	1,642.52	22,997.15	+ 1,128
Postage and expressage	121,679.74	17,662.37	139,342.11	+ 12,119
Telephone and telegraph	10,880.95	4,331.05	15,212.00	+ 3,458
Printing, stationery, and supplies	36,446.26	2,631.96	39,078.22	+ 13,279
Insurance on currency and security shipments	7,638.47	1,103.12	8,741.59	+ 1,328
Other insurance	12,591.35	971.50	13,562.85	- 1,048
Taxes on bank premises	65,040.00	1,882.60	66,922.60	- 832
Depreciation on bank building	26,396.60	3,180.84	29,577.44	+ 731
Light, heat, power, and water	18,275.69	1,530.68	19,806.37	+ 232
Repairs and alterations to bank building	13,552.93	1,816.19	15,369.12	+ 1,790
Furniture and equipment	25,536.51	427.09	25,963.60	+ 14,861
All other	43,829.31	2,119.17	45,948.48	+ 7,328
Total Operating Expenses	\$ 913,347.52	104,396.59	1,017,744.11	+ 78,827
Received from Government Agencies for:				
Rental of space	25,647.69	1,264.56	26,912.25	+ 5,746
Rental of furniture and equipment	5,183.01	240.94	5,423.95	+ 376
Net Operating Expenses	\$ 882,516.82	102,891.09	985,407.91	+ 72,705
Board Assessment	\$ 40,614.36		40,614.36	+ 2,217
Federal Reserve Currency:				
Original cost, including shipping charges	44,141.35		44,141.35	+ 15,926
Cost of redemption, including shipping charges	5,264.90		5,264.90	- 354
Total Current Expenses	\$ 972,537.43	102,891.09	1,075,428.52	+ 90,494

PROFIT AND LOSS ACCOUNT

Current earnings	\$ 1,223,236.78	
Current Expenses	<u>1,075,428.52</u>	
Current Net Earnings		147,808.26

PROFITS:

Profit on sale of U. S. securities	\$ 40,889.24
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~~Profits~~ from sale, liquidation or income from assets acquired through failed banks:

First National Bank	White Lake,	S. D.	5,561.48
First National Bank	Pollock	S. D.	3,243.72
First National Bank	Poplar	Mont.	401.84
First National Bank	Golva	N. D.	143.31
Merchants National Bank	Wimbledon	N. D.	446.97
First National Bank	Scobey	Mont.	500.80
First National Bank	Van Hook	N. D.	65.00
First National Bank	Ryder	N. D.	285.00
First National Bank	Sisseton	S. D.	5,782.09
Kenmare National Bank	Kenmare,	N. D.	100.00
First National Bank	Plentywood	Mont.	7.98

Dividend #9 of 2% received on our transit claim filed against Pondera Valley State Bank, Conrad, Mont.	20.00
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Profit on redeemed mutilated coin	29.62
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Sale of one-quarter interest in deep sewer to Farmers and Mechanics Savings Bank	425.71
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Sale of miscellaneous scrap iron and metal	76.25
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Sale of two wooden doors by Helena Branch	35.00
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Recovery on personal loan made to a former employee (previously charged off)	105.00
--	--------

Recoveries on industrial advances previously charged off:

Gianares & Thompson	Minneapolis	Minn.	10.15
Cook, Inc.	Minneapolis	Minn.	291.38

Profit on replacement of securities for member bank - wire instructions misinterpreted	22.41
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TOTAL ADDITIONS	\$ 58,442.95
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LOSSES:

Industrial advances charged off as not collectible:

St. Cloud Brewery Company	St. Cloud, Minn.	\$ 3,543.82
Ward Owsley Company	Aberdeen, S. D.	1,645.49
Goldammer, Granna, Weaver Co.,	Lakota, N. D.	366.34

Counterfeit currency and coin found in our cash	85.53
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Discount on foreign coin	3.07
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Interest paid to a member bank as an adjustment on a securities collection handled in error	4.44
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PROFIT AND LOSS ACCOUNT - Cont'd

Expenditures incurred in connection with National Defense Contract service in excess of reimbursement	\$ 1,184.74
Shortage in shipment of new currency to a member bank	13.00
Unadjusted Differences - Year 1941	1,011.30
Loss on securities sold for a member bank	129.17
TOTAL DEDUCTIONS	\$ 7,986.90
Net additions to current net earnings	\$ 50,456.05
Net earnings	\$ 198,264.31

Dividends paid	\$ 179,789.68
Paid U. S. Treasury	490.14
Transferred to Surplus (Section 7)	17,984.49
Surplus (Section 7) January 1, 1941	3,152,420.27
Addition as above	17,984.49
Transferred to reserves for contingencies	17,984.49
Surplus (Section 7) December 31, 1940	3,152,420.27

SURPLUS (SECTION 7)

Surplus (Section 7) December 31, 1940	\$ 3,152,420.27
Change during year	None
Surplus (Section 7) December 31, 1941	3,152,420.27

SURPLUS (SECTION 13b)

Surplus (Section 13b) December 31, 1940	\$ 1,000,298.87
Change during year	None
Surplus (Section 13b) December 31, 1941	1,000,298.87

RESERVES

(Other than for F.D.I.C. Stock and Depreciation on Bank Premises)

Reserves for contingencies December 31, 1940	\$ 2,498,662.68
Other reserves (December 31, 1940):	
Losses on past due industrial advances	73,000.00
Total reserves December 31, 1940	2,571,662.68
Debits during year:	None
Credits during year:	
Added to Reserves for Contingencies	17,984.49
Reserves December 31, 1941:	
Reserves for Contingencies	\$ 2,516,647.17
Reserves for losses on past due industrial advances	73,000.00
TOTAL RESERVES DECEMBER 31, 1941	\$ 2,589,647.17

DEPARTMENTAL COMMENTS

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REPORT OF BANK AND PUBLIC RELATIONS ACTIVITIES
AT THE FEDERAL RESERVE BANK OF MINNEAPOLIS
DURING 1941

Bank officers and representatives attended 217 meetings, delivered 141 addresses to an estimated audience of 16,672 people, and made 732 visits at member banks and 971 visits at nonmember banks in the district. The number of public addresses was greatly increased this year owing to the campaign to explain installment credit control, the defense bond sales promotion program, and the explanation of foreign funds control.

The attendance at showings of the Federal Reserve Bank movie during 1941 was 16,689. The bank continued its cooperation with the Wisconsin Bankers' Association with regard to showings of the Federal Reserve movie.

A copy of the booklet "The Federal Reserve System, Its Purposes and Functions" was sent to all employees of the Head Office and Branch at their home addresses with a letter signed by the President.

A comparative statement of operating ratios for 1938, 1939 and 1940 was sent to each member bank in the district. In addition, operating ratios were computed for the State banks of North Dakota at the request of the North Dakota Banking Commissioner.

On March 8, we held our Fourth Member Bank Conference with a registration of bank officers and directors numbering 1,005. The bankers registered in our bank lobby between 9:00 and 11:30 A.M. A luncheon was served at noon. The speaking program began with an economics panel comprising three agricultural economists: Dr. Louis H. Bean, Counselor of the United States Department of Agriculture; Dr. Joseph S. Davis, Professor of Economic Research at Stanford University; and Dr. O. B. Jesness, Professor and Chief of the Division of Agricultural Economics of the Department of Agriculture of the University of Minnesota. The panel was followed by a talk "I Knew Hitler" by Bernard H. Ridder, Publisher of the St. Paul Dispatch and Pioneer Press in St. Paul. A banquet was held in the evening and the group was later entertained at a hockey game.

In April the Chippewa Valley Bond Club, a group of Wisconsin Bankers who meet monthly for the purpose of reviewing their bank holdings of securities, met at our bank. They had lunch with our directors and after lunch they listened to an address by Dr. Simeon E. Leland, Chairman of the Department of Economics at the University of Chicago and Class C director of the Federal Reserve Bank of Chicago.

The directors' meeting was held at Mackinac Island in June. En route our directors had lunch at Rice Lake, Wisconsin with a group of Wisconsin bankers in that vicinity and dinner at Land of Lakes, Wisconsin with another group of Wisconsin and Michigan bankers. The bankers and directors were guests of this bank.

On September 25, this bank held a party for the delegates attending the convention of the National Association of Supervisors of State Banks in St. Paul. The program consisted of golf at the Interlachen Club, a tour of the Twin Cities in the afternoon, and a reception, dinner and entertainment at the Interlachen Club in the evening. There were 184 guests present.

In October, the book "Banking Studies" published by the Board of Governors was mailed to all colleges and universities in this district.

Twelve issues of the Monthly Review were printed and distributed to a mailing list which in December consisted of 5,664 names.

During the past year, editors of papers in upper Michigan, Northern Wisconsin, Minnesota and South Dakota with a circulation of 2,000 or over were visited by representatives of this bank. The greater proportion of these men had been receiving our releases for some time and when visited were appreciative and cordial. Three of these men later made trips of some hundreds of miles to pay a friendly visit here at the bank. Approximately fifty editors were contacted initially during these trips. These men were responsive and interested and as a result of the calls about thirty-five new papers were added to our mailing lists. Acting on the suggestion of several editors, releases of local business news are prepared specially for the newspapers each month. Through use of a clipping service, we have measured the ratio of use on our releases and found that during the past six months it has ranged from 35 to 47 per cent. During the coming year, those papers which appear to be finding no opportunity to use our stories will be removed from our lists.

A catalog of the 107 ABA Graduate School theses in our library was sent to all banks in the district with a letter from the President. During the year 1,073 requests for these theses were received. The activities of all sections of the bank library have been multiplied several fold during the past year. During 1941, 1,966 books and theses were circulated to bankers and others outside of this bank as compared with 299 in 1940 and 335 in 1939. A similar increase has occurred in the circulation of books and theses among

employees inside the bank. The inside circulation was 1,733 in 1941 as compared with 506 in 1940 and 142 in 1939. In addition to the increase in book circulation, there has also been a large increase in the circulation of clippings, pamphlets and marked copies of magazines.

FISCAL AGENCY FUNCTIONS

Volume of Operations

New issues, redemptions and exchanges of various United States Government securities, including United States Savings bonds and Adjusted Service bonds aggregated 415,016 pieces and amounted to \$456,286,413.50 as compared with 152,061 pieces amounting to \$239,450,054.75 in 1940. In addition, on exchange transactions, such as denominational exchanges, exchanges of coupon for registered securities, etc., 12,284 pieces were delivered, amounting to \$82,096,700, as compared with 16,562 pieces amounting to \$69,128,550 in 1940.

Purchases of Government securities numbering 485 and sales numbering 2,390, valued at \$14,327,250, were handled. In addition, we handled for banks and trust companies 861 transactions in Government securities amounting to \$173,773,950, also 716 transactions of miscellaneous general market securities amounting to \$5,497,510, the purchases or sales of which were arranged by banks direct with brokers. Altogether, of these various transactions, there were 4,468, totaling \$193,598,710, as compared with 5,030 totaling \$165,024,810.46 in 1940. Deliveries of 13,206 pieces totaling \$91,051,251.50 were made on purchases and resale transactions for other than our own account, as compared with 12,195 pieces totaling \$86,525,065 in 1940.

The total number of individual securities received and delivered by the Fiscal Agency Department (including securities of Governmental Agencies) during 1941 was 789,436 totaling \$698,640,340, as compared to 196,430 totaling \$408,724,519.75 in 1940.

Other Services

During 1941 we received 38,830 individual orders for United States Savings bonds, as compared to 19,484 during 1940. We issued 74,330 pieces of United States Savings bonds amounting to \$50,576,525, as compared to 40,257 pieces amounting to \$16,890,225 during 1940.

We received for redemption 21,802 Adjusted Service bonds amounting to \$1,090,100, as compared to 29,742 pieces amounting to \$1,487,100 during 1940,

also 58,228 United States Savings bonds amounting to \$13,824,725 as compared to 49,774 pieces amounting to \$11,000,350 during 1940.

On May 1, 1941, the Treasury Department announced the sale of Defense Savings Bonds of Series E, F, and G. Under Department circular No. 657, as amended, banks and other agencies may qualify as issuing agents for the sale of Series E bonds.

At the close of business December 31, 1941, we had qualified 1,359 issuing agents, of which 1,272 were banks, 99% of all the banks in the district. Since May 1, 1941, qualified issuing agents have sold and issued 201,934 pieces of Series E bonds, maturity value \$25,588,825. Of this 100,805 pieces, maturity value \$10,446,300, were issued during the month of December.

On August 1, 1941, the Treasury Department offered for sale United States Treasury Notes of Tax Series A-1943 and Tax Series B-1943. At the close of business December 31, 1941, 2,374 orders of both series for 14,091 pieces aggregating \$35,325,975 were filled.

During the year we issued 25,020 United States Treasury checks in payment of Adjusted Service bonds, United States Savings bonds, and other Public Debt redemptions, as compared with 26,098 checks during 1940.

1941 ANNUAL REPORT OF THE INSTALLMENT CREDIT DEPARTMENT

The Installment Credit Department was created during August to administer Regulation W relating to Consumer Installment Credit issued by the Board of Governors. This department has varied in size from a peak of nineteen employees in September to a level of fourteen on December 31. Extra help has been used extensively, however, for mailing, sorting, and typing purposes.

The first task was to disseminate the Regulation and educate lenders, dealers, and the public on its purposes and requirements. A mailing list of approximately 18,000 names was compiled, including sales finance companies, small loan companies, credit unions, auto dealers, hardware stores, department stores, appliance stores, etc. In addition, a special mailing list of approximately 2,200 names including banks, chambers of commerce, credit bureaus and trade associations was compiled. Addressograph plates were made for both lists.

Copies of Regulation W, the two amendments, two sets of printed rulings,

a letter announcing the series of discussion meetings on Regulation W, as well as registration blanks and the statements of the borrower and necessity were mailed to both mailing lists. In addition the special mailing list received mimeographed copies of the Board of Governors' interpretations twice weekly while the rulings were being issued rapidly and later at weekly and bi-weekly intervals. Also during this period five press releases were issued to the 1400 newspapers in the Ninth District, several press conferences were held and many special releases prepared for trade journals.

During September, October, November and December members of the Installment Credit staff traveled 18,000 miles to discuss the regulation at 66 meetings which were attended by 9,500 lenders and venders.

Business firms were slow in filing their registration statements and on December 22 only 4,000 had registered in spite of the issuance of two letters, a press release and a red lettered tab on one of the printed compilations of the Board's interpretations. Therefore, on December 23, 8,600 prospective registrants were sent a telegram reminding them that they must register by January 1 if they extended installment credit. By January 1 more than 12,000 firms had registered and it appeared that the remaining 1,500 or 2,000 would be in within a few days.

Registration certificates were sent to all of these registrants and follow ups on about 1,300 that had not correctly completed the registration statement were made. Also, a large part of the registration statements were classified and all mathematical computations completed preliminary to a statistical tabulation of all of the registrants' sales and receivables which is to be completed by February 15, 1942.

DISCOUNT DEPARTMENT

During the year 1941, 16 banks took advantage of the rediscount and loan privileges, borrowing an aggregate amount of \$2,645,819.42 for a total of 191 items. One loan in the amount of \$350 was made to an individual. In 1940 25 banks were accommodated for an aggregate amount of \$2,310,355.78, for a total 255 items. One Twin City bank was accommodated to the extent of \$300,000 for two days in 1941. At no time during the year 1941 were banks entirely out of our debt. The discount rate has remained at 1½% during the entire year.

The volume of activity in industrial loans increased in 1941, during which year 174 advances were made in the aggregate amount of \$3,130,476.43, with participating institutions taking \$1,721,000 of this amount at time of disbursement, leaving a net amount of \$1,409,476.43 disbursed by the Federal Reserve Bank. Of this net amount \$143,706.01, being 80% of balance of principal of three loans to the Northern Pump Company, was sold to participating banks after disbursement. With the exception of two loans amounting to \$9,000, all of the 174 advances made were loans to six different borrowers on accounts receivable, government contracts and warehouse receipts. The total of \$3,130,476.43 includes \$1,026,000 to one borrower and \$1,520,000 to another. Repayments on advances during the year reduced the balance \$1,148,851.60, leaving a net balance of \$689,295.01 on December 31. Repayment of seven loans in the amount of \$913,000 (our share) appears to have been through refinancing. The balances of principal of four loans amounting to \$5,365.34 were charged off to Profit and Loss during the year 1941. Of this amount \$291.38 was recovered during the year on one loan and repayments are to continue at the rate of \$15 per month. Commitments made in accordance with the provisions of Section 13b amounted to \$88,826.69 in 1941, and the contingent liability resulting from such commitments at the end of the year was \$28,053.35.

In addition to advances made and commitments given during 1941, two loans totaling \$220,000 were recommended favorably by the Industrial Advisory Committee and approved by the Discount Committee. One loan for \$25,000 was recommended favorably by the Industrial Advisory Committee with Discount Committee action deferred.

Interest charged by the Federal Reserve Bank of Minneapolis on industrial loans remains on the sliding scale of 3 per cent to 6 per cent in effect as of October 30, 1940. At the close of December 31, 1941, our unpaid balance of 6 per cent industrial loans amounted to \$429,379.49 and 4 per cent \$259,915.52.

CHECK COLLECTION DEPARTMENT

The Check Collection Department handled 31,840,902 cash items totaling \$6,418,266,298.92 during the year 1941, which was 987,989 items more than the number handled during 1940 and an all-time high total. The figures given below are the number and amount of items handled, the average number of employees and the total expense of the Check Collection Department, which includes Government

and Work Relief checks for the years 1936 through 1941:

<u>Year</u>	<u>Number of Items</u>	<u>Amount</u>	<u>Average Number of Employees</u>	<u>Total Expense</u>
1941	31,840,902	\$ 6,418,266,298.92	75.22	\$ 102,288.98
1940	30,852,913	5,091,698,407.34	66.64	93,197.65
1939	30,351,227	4,361,580,798.96	64.85	92,990.90
1938	30,013,593	4,673,484,397.49	63.98	94,969.80
1937	28,778,033	4,902,409,983.53	62.12	97,835.16
1936	28,859,625	4,754,957,277.09	60.91	92,961.49

The following table indicates the number of items handled by the sub-divisions of the Check Collection Department for the years 1940 and 1941:

<u>Items Handled on</u>	<u>1940</u>	<u>1941</u>
Twin City Banks (Clearings)	4,667,093	5,254,075
Member and Nonmember banks	17,320,642	18,782,057
Other Federal Reserve Districts	3,320,587	3,019,876
Direct to member banks other F. R. Districts	70,371	74,108
To Helena Branch, Helena, Montana	151,676	133,958
Treasurer of the United States	2,926,294	2,725,923
U.S. Government work relief checks	2,396,250	1,850,905

The cost of handling 100 items in three units of this department for the years 1940 and 1941 follows:

<u>Year</u>	<u>City Checks (Clearings)</u>	<u>Country Checks (Outgoing)</u>	<u>Return Items</u>
1941	16.1 cents	23.02 cents	\$ 1.34
1940	16.3 cents	18.10 cents	1.16

The average number of items handled per person per day in these three units during the years 1940 and 1941 follows:

1941	2,746	1,613	389
1940	2,780	1,814	404

The number of banks reported closed, number voluntarily liquidated, number reopened, and the number added to or removed from our par list during the years 1940 and 1941 is given below:

<u>Year</u>	<u>Ninth Federal Reserve District</u>				
	<u>Banks Reported closed</u>	<u>Banks volun- tarily liqui- dated</u>	<u>Banks reported reopened</u>	<u>Banks added to our par list</u>	<u>Banks re- moved from par list</u>
1941	0	4	0	0	13
1940	3	20	0	1	14

In July 1941 we discontinued the single-run plan whereby the first proof on 70% of the incoming checks was eliminated. Due to the numerous errors in listing on incoming cash letters we adopted the practice of proving all incoming checks. This change in procedure increased our cost and the number of employees to a slight degree. However, this increase in cost and the number

of employees have been offset to some extent by the increased volume of checks handled and also as we endeavor to carry on our staff in the Check Collection Department an extra three or four clerks for training purposes to keep ahead of the turn-over in help in this department.

NONCASH COLLECTION DEPARTMENT

The number of city collections handled increased slightly over 1940 while the volume of country collections, coupon and country security collections and direct sent collections was just under 1940 figures. The number of city grain drafts collected increased quite substantially. The following figures compare the activity in this department during 1941 with 1940.

	<u>Number of Items</u>	<u>Amount</u>
<u>City Collections</u>		
1941	35,170	\$ 106,230,000
1940	32,832	79,928,000
<u>Country Collections</u>		
1941	56,911	26,646,000
1940	57,604	31,892,000
<u>City Grain Drafts</u>		
1941	807,366	236,361,000
1940	689,479	154,159,000
<u>Coupon and Country Security Collections</u>		
1941	30,607	39,316,000
1940	33,284	33,445,000
<u>Direct sent Collections</u>		
1941	6,608	20,270,000
1940	6,961	15,847,000

CURRENCY AND COIN DEPARTMENT

Outgoing Currency shipments and deliveries:

	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
	1941		1940	
Local Banks	1,864	\$ 98,278,000	1,755	\$ 85,258,000
Country members	20,707	85,737,000	19,179	70,208,000
Nonmembers - others	147	2,401,000	170	2,216,000
	22,718	\$ 186,416,000	21,104	\$ 157,682,000

Outgoing Coin shipments to local and country banks and others:

10,100	\$ 4,621,000	8,486	\$ 3,554,000
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Incoming currency shipments and deposits:

Local Banks	2,958	\$ 65,517,000	3,090	\$ 66,912,000
Country members	11,723	76,452,000	12,001	73,310,000
Nonmembers - others	3,055	8,606,000	2,628	3,091,000
	17,736	\$ 150,575,000	17,719	\$ 143,313,000

Incoming coin shipments and deposits:

1,976	\$ 3,201,000	2,117	\$ 3,294,000
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BANK EXAMINATION DEPARTMENT

There were on December 31, 1941, eighty-eight State member banks. Each State member bank in this district received at least one examination by examiners for the Federal Reserve Bank of Minneapolis during the calendar year 1941.

As of the end of the year, fourteen State member banks were exercising trust powers, including three having only escrow and custodianship accounts. Thirteen regular examinations of trust departments of State member banks and two examinations in connection with membership were made. Eighty-three national banks held permits to exercise full or limited trust powers, and during the past year forty-four of them were exercising certain of these powers. The trust examiner reviewed twenty-six reports of examination made by the Comptroller of the Currency.

Activity with respect to fiduciary powers included the receipt and approval of two applications of national banks during 1941. Membership of one national bank which had been granted fiduciary powers was cancelled.

The examinations by this Department in the various States were as follows:

	<u>State Banks</u>	<u>National Banks</u>	<u>Holding Company Affiliates</u>
Michigan	14		
Minnesota	25		1
Montana	25		
North Dakota		1	
South Dakota	22	1	
Wisconsin	6		
	<u>92</u>	<u>2</u>	<u>1</u>

Examination of Holding Company Affiliates

An examination of the Northwest Bancorporation, a holding company affiliate, was commenced as of the close of business December 8, 1941; the examination was not completed as of December 31.

An examination of the First Bank Stock Corporation, which commenced as of the close of business November 22, 1940, was completed during 1941.

State Bank Applications for Membership

Eight applications for membership in the Federal Reserve System were received from State banks during the year. Applications of the following banks were approved by the Board at Washington and membership in the System completed: The Gwinn State Savings Bank, Gwinn, Michigan, and The Onida Bank, Onida, South Dakota.

The application for membership of the American State Bank of Moorhead, Moorhead, Minnesota, received in 1938, and that of the Flint Creek Valley Bank, Philipsburg, Montana, received in 1940, are being held in abeyance. The applications of the Olmsted County Bank & Trust Company, Rochester, Minnesota, The First Bank of Oakes, Oakes, North Dakota, and The Security State Bank, Minocqua, Wisconsin, the latter submitted in 1940, were withdrawn. Applications submitted by the State Bank of Northfield, Northfield, Minnesota, the Austin State Bank, Austin, Minnesota, and the State Bank of Virginia, Virginia, Minnesota have been forwarded to the Board of Governors at Washington and action thereon is pending. Analysis of the application of the Bank of Menomonie, Menomonie, Wisconsin is incomplete.

Applications for permission to exercise Fiduciary Powers Received, etc.

Applications of the following banks for trust powers were approved by the Board at Washington:

<u>Name of Bank</u>	<u>Location</u>	<u>Powers</u>	<u>Date Approved</u>
The First National Bank of Austin	Austin, Minnesota	1 to 8	11-21-41
The Superior National Bank of Hancock in behalf of The Superior National Bank and Trust Company of Hancock	Hancock, Michigan	Full	11-14-41 effective 12-6-41

Applications for National Charters

Two applications for national bank charters were referred to this office for recommendation during the year, and the charters were granted by the Comptroller of the Currency.

BANK CHANGES IN 1941
(per Stock Book Records)

Total number of member banks in the district January 1, 1941		460
National banks organized		2
State banks admitted		2
		<u>464</u>
National banks succeeded by nonmember State institutions	5	
National banks absorbed by other national banks	1	
National banks absorbed by member State institutions	1	
National banks absorbed by nonmember State institutions	1	
National banks liquidated	1	
State member banks withdrawn	1	
State member banks converted to national banks	<u>1</u>	<u>11</u>
Total number of member banks holding stock in the Federal Reserve Bank of Minneapolis at the end of the year		453

State Bank Membership According to States

<u>State</u>	<u>No. of State Bank Members 1-1-41</u>	<u>No of State Banks Withdraw- ing from Member- ship in 1941</u>	<u>No. of State Banks Admitted in 1941</u>	<u>No. of State Bank Members 12-31-41</u>
Michigan	14	1	1	14
Minnesota	21	0	0	21
Montana	25	0	0	25
North Dakota	0	0	0	0
South Dakota	23	1	1	23
Wisconsin	<u>5</u>	<u>0</u>	<u>0</u>	<u>5</u>
	88	2	2	88

SAFEKEEPING DEPARTMENT

Securities held in our custody for safekeeping and for collateral purposes, exclusive of unissued stock held for the Treasury Department and other governmental agencies, increased \$26,054,145.37 over 1940. The total government and miscellaneous securities held free in safekeeping for member banks increased \$20,363,698.43, while the total of pledged securities increased \$4,259,099.51.

During 1941, the total U. S. Savings Bonds of all the series held for individuals, firms, corporations, and nonmember banks increased \$1,631,925 compared with an increase of \$3,582,925 the previous year, and 4,207 safekeeping receipts covering U. S. Savings Bonds were issued as compared with 3,112 issued in 1940. U. S. Savings Bonds deposited for safekeeping have shown a steady increase since the service was inaugurated in 1935; a total of 795 receipts were issued for the years 1935 and 1936; 817 receipts in 1937; 1123 receipts in 1938; 1927 receipts in 1939. At the close of business December 31, 332 non-member banks and 2322 individuals and firms availed themselves of the safekeeping service in connection with U. S. Savings Bonds. The latter figure includes 782 individuals and firms who have deposited U. S. Savings Bonds, Defense Series, with us.

In 1941, we received 43,998 pieces compared to 42,562 pieces in 1940, and delivered 39,748 pieces compared to 44,314 the previous year. The number of coupons clipped last year was 201,982, as compared with 216,419 the previous year.

RECONSTRUCTION FINANCE CORPORATION - CUSTODIAN

The activities of the Custodian for the Reconstruction Finance Corporation for 1941 were mostly the administration and liquidation of loans previously made.

During the year the following notes were purchased in behalf of the
Commodity Credit Corporation:

	<u>1940 Crop</u>		<u>1941 Crop</u>	
	<u>No. of</u> <u>Notes</u>	<u>Amount</u>	<u>No. of</u> <u>Notes</u>	<u>Amount</u>
Farm stored wheat	8,963	\$ 5,248,245.83	1,419	\$ 606,397.39
Warehouse stored wheat	101,276	62,608,414.77	5,728	1,304,467.11
Farm stored barley	1,828	379,960.98	249	56,436.02
Warehouse stored barley	-	-	4	1,406.05
Farm stored flax	-	-	44	14,063.39
Warehouse stored flax	-	-	32	10,559.93
Farm stored rye	4,674	952,276.68	86	18,789.33

Warehouse receipts covering the 1940 crops securing notes purchased both in 1940 and 1941 and which notes were not repaid at maturity were pooled and subsequently large portions released, all in accordance with Regional Director's instructions. During 1941 we transferred from loan status to wheat pool the following:

	<u>1939 Crop</u> <u>Bushels</u>	<u>1940 Crop</u> <u>Bushels</u>
Wheat	1,132,519:38	75,064,598:40
Rye	103,495:53	276,575:43
Barley	-	15,767:00

PUBLIC WORKS ADMINISTRATION

During the year all of the bonds owned by P. W. A. were either liquidated or sold to the Reconstruction Finance Corporation.

UNITED STATES HOUSING AUTHORITY

The Federal Reserve Bank as fiscal agent of United States Housing Authority handled eight transactions during 1941 aggregating \$2,257,000. These transactions were principally refinancing of the \$1,965,000 handled during 1940. Included in the \$2,257,000 are bonds totaling \$1,755,000 which were exchanged for advance loans made largely during 1940. Advances totaling \$369,000 and interest totaling \$27,094.51 were paid during 1941.