

ANNUAL REPORT
of
FEDERAL RESERVE BANK OF MINNEAPOLIS
to the
BOARD OF DIRECTORS

1946

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Changes in officers and directors of the bank included the re-election in November of Mr. Clarence E. Hill, Chairman of the Board, Northwestern National Bank, Minneapolis, as Class A director, and Mr. Homer P. Clark, Chairman of the Board, West Publishing Company, St. Paul, as Class B director, for three-year terms beginning January 1, 1947, by the Group 1 member banks of the district.

On December 31, Mr. Roger B. Shepard, ~~President, Finch, Van Slyck and McConville~~ of St. Paul, was redesignated Chairman of the Board and Federal Reserve Agent for 1947. At the same time, Mr. W. D. Cochran, proprietor of W. D. Cochran Freight Lines, Iron Mountain, Michigan, was reappointed as Class C director for a three-year term beginning January 1, 1947, and designated Deputy Chairman of the Board for the year 1947. Mr. Henry E. Atwood, President, First National Bank of Minneapolis, was appointed a member of the Federal Advisory Council for the year ending December 31, 1947. Mr. Albert W. Mills, formerly Cashier, was advanced to Vice President and Cashier at the head office.

At Helena Branch, Mr. Theodore Jacobs, President, First National Bank, Missoula, Montana, and Mr. E. D. MacHaffie, President, State Publishing Company, Helena, Montana, were appointed as new directors for two-year terms and Mr. R. B. Richardson, President, Western Life Insurance Company, Helena, was reappointed director for 1947 and 1948. Mr. Robert E. Towle, formerly managing director of the Branch, and Mr. Clinton J. Larson, formerly assistant manager, were appointed Vice President and Assistant Cashier, respectively, of the Federal Reserve Bank of Minneapolis, assigned to the Helena Branch.

Mr. T. H. Hodgson, assistant counsel of the bank prior to his entry into naval service during the war, returned to the bank as assistant vice president in July, but resigned in December to enter business.

ASSETS AND LIABILITIES

The balance sheets of the Federal Reserve banks are significant primarily as a reflection of monetary and credit developments and policies. The ups and downs of their various items have only a minimum amount of significance apart from these broader considerations.

During 1946 three separate monetary developments influenced in a rather large way Federal Reserve policies and, therefore, the operations of the Federal Reserve Bank of Minneapolis.

First, until April, 1946, there was a very evident tendency for longer-term U. S. Government securities to be in particularly heavy demand. This relative shift in demand to the long issues had begun in 1945, but was much accelerated toward the end of that year. The concentration of demand for longer issues meant that the money market felt that the added risk of purchasing longer-term issues was not commensurate with the considerably higher yield.

A double effect resulted. The prices of the longer-maturity securities were bid up and the resulting rate of return on the longer issues was being squeezed down. In April the longer-term issues sold at such a substantial premium as to yield only 2.01 percent. The absence of demand for the short-maturity securities, primarily certificates of indebtedness, made it necessary at times for the Federal Reserve System to purchase them in the open market in order to support the established pattern of rates. This was in keeping with the fundamental policy established at the outset of the war of supporting the pattern of rates from 7/8 percent on certificates of indebtedness to 2 1/2 percent for the longest-maturity securities.

In 1946 this posed a dilemma for the Federal Reserve System. If it purchased the short-maturity issues, for which there tended to be a flagging demand, member bank reserves were increased correspondingly. This provided the banking system with even more funds with which to make effective demand for the longer-maturity issues. On the other hand, if these short-term issues were not purchased, the short-term security prices would fall and the rate rise, which was not in accord with System policy. Sufficient open-market purchases were, of course, made to support the short rate. The resulting more or less involuntary purchases of the shorter-maturity issues, in order

to support their market, became known as the process of "debt monetization" or "involuntary" open-market operations.

Beginning in March two separate developments tended to ameliorate this perplexing problem of the shift of demand away from the short and into the long-maturity securities. First, the market for Government securities itself underwent a fairly substantial decline beginning in April, a part of which was presumably an echo effect of the uncertainty in the stock market.

Second, beginning in March the Treasury initiated its program of redeeming for cash at periodic intervals substantial quantities of (largely) short-term securities. By the year-end the U. S. Treasury redeemed for cash \$23 billion of securities, of which \$20 billion were certificates and notes. This had the effect of reducing the relative importance of short-maturity securities in the portfolios of the commercial banks, and, together with the decline in the market for longer-term issues, lessened the demand for the longer maturities.

The debt redemption program posed in itself, however, some added problems of Federal Reserve policy. These securities were held by the non-banking public, the banks, or the Federal Reserve banks. To the extent that the securities were held by commercial banks, the debt redemption program posed no particular problems since war-loan deposits used to redeem the debt were not subject to reserves. It might be worthwhile to trace through the process by which the securities were paid off in cash. War-loan deposits at the commercial banks were in effect transferred to the Treasury's account at the Federal Reserve banks. This temporarily reduced member bank reserve balances at the Federal Reserve banks and increased the Treasury's balance at the Federal Reserve banks by the same amount.

When the Treasury then called for cash redemption the securities held by the commercial banks, it paid the member banks off with its temporarily enlarged balances at the Federal Reserve banks. Member bank reserve balances were, therefore, built back up to the previous level. The only net result of the redemption was that on the member banks' liability ledger war-loan balances were down by the same amount as the decline in their holdings of Government securities on the asset side as a result of the debt redemption program. Since war-loan balances require no reserves, and reserve balances

were left unchanged, the reserve position of member banks was not altered by the cash redemption. While the process did involve some readjustment among banks, no problem over-all of the adequacy of the member bank reserves was posed.

To the extent that the securities redeemed for cash were held by the nonbanking public, however, the reserve position of the member banks was affected. The net result in this case was a transfer from war-loan deposit balances at the member banks, which did not require reserves, to the deposits of the banks' regular customers, which do require reserves. The process is, of course, familiar to all bankers. When the war-loan accounts were called upon, member bank reserves at the Federal Reserve banks went down by that amount and Treasury balances increased.

The Treasury then drew drafts on its enlarged balances at the Federal Reserve banks payable to the nonbank holders of the securities which the Treasury was redeeming. These drafts were deposited at the commercial banks, increasing the deposit balances of the banks' regular customers, and the member banks in turn cleared the drafts through the Federal Reserve banks, building member bank reserve balances up to the previous total. (Treasury balances went back down by the same amount.) But here was the catch. Member bank reserves had been built back up only to the previous total, but deposits of the member banks' regular customers, against which they were required to keep reserves, had increased. Required reserves, therefore, had increased. This tended to tighten the reserve position of the member banks and, therefore, required periodically some open-market purchases of securities by the Federal Reserve banks to furnish added member bank reserves and ease the reserve position.

The effect was even more clear-cut if the securities were held by the Federal Reserve banks. In this case the net effect was a permanent decline in member bank reserves by the amount of the securities held by the Federal Reserve banks and redeemed for cash. At the same time require reserves remained unchanged. For this reason it was necessary for the Federal Reserve System to purchase securities in the open market in order to build reserves back up to the previous level.

Precise information on the ownership of securities redeemed for

cash is not available, but the evidence indicates that roughly 50 percent was held by the commercial banks, 20 percent by the Federal Reserve banks, and 30 percent by nonbank investors. It was the redemption of securities held by the latter two owners which necessitated open-market purchases of securities by the Federal Reserve System in order to alleviate what might otherwise have been a stringency of member bank reserves.

The third development during 1946 has been the very substantial increase in loans at commercial banks. Loans at all weekly reporting banks in 101 cities in the country increased by only 7 percent during the year. This modest figure hides some very substantial developments. Loans on securities, obviously high at the beginning of the year just after the Victory Loan campaign, had declined 55 percent by the year-end. Commercial, industrial, and agricultural loans had increased 42 percent, real estate loans by 42 percent, and other loans (largely consumer lending) by 35 percent. A very substantial proportion of this increase furthermore occurred during the latter half of 1946, making this a half-year period of one of the sharpest loan expansions in our history.

The bank credit expansion varied from district to district. Commercial, industrial and agricultural loans in the St. Louis and Boston Districts increased by only 25 percent. In the San Francisco District the expansion was a very substantial 82 percent. The Minneapolis figure of 52 percent is substantially larger than the 42 percent average for the nation as a whole.

These various developments posed certain questions for the Federal Reserve System as the year came to a close. In order to discourage a run-away boom from developing, action might at some time in the future be required on the part of the Federal Reserve System, the primary monetary and credit authority, to restrain further credit expansion. This would presumably call for rising discount rates and a tight open-market policy in order to create pressure on the reserve position of member banks. This raises unanswered questions. Would such policies have as their primary result a restriction of commercial bank loans or an alternative tendency on the part of member banks to sell Government securities in order to obtain reserves and maintain credit expansion to private borrowers? In this case should the

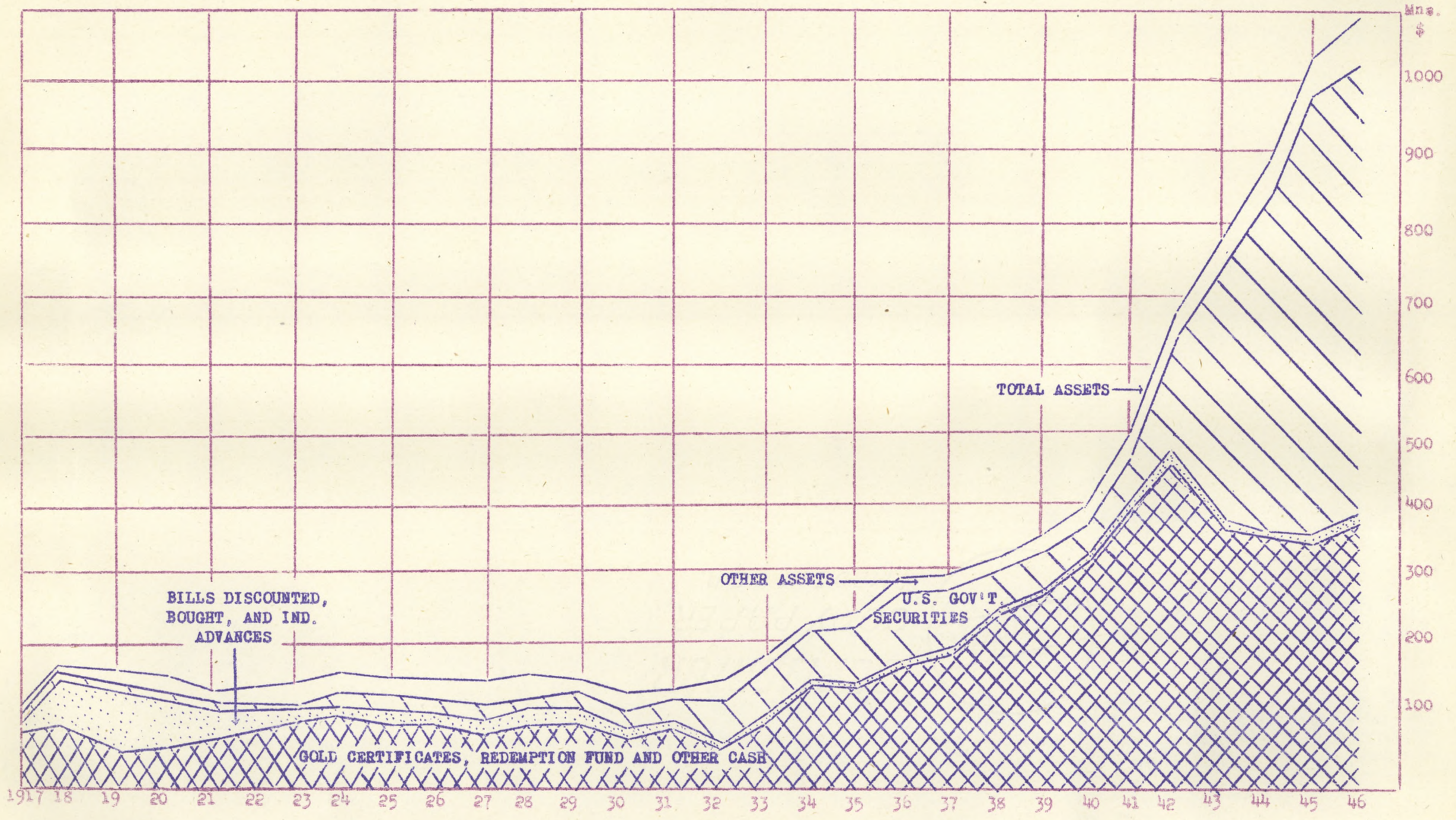
Federal Reserve System decline to support the Government bond market and pursue a restraining credit policy? Or should it support the bond market at the risk of doing little toward restraining an undue expansion of bank credit?

These preliminary comments on the broad over-all developments of the last year set the stage for a more meaningful interpretation of what the books of the Minneapolis Federal Reserve Bank reflect month by month during 1946.

COMPARATIVE STATEMENT OF ASSETS
(In thousands of dollars)

	<u>Dec. 31,</u> <u>1946</u>	<u>Dec. 31,</u> <u>1945</u>	<u>Increase or</u> <u>Decrease since</u> <u>Dec. 31, 1945</u>
<u>Assets</u>			
<u>Cash Reserves:</u>			
Interdistrict Settlement Fund	\$ 168,057	\$ 161,935	\$+ 6,122
Gold Certificates with F. R. Agent	189,000	170,000	+ 19,000
Redemption Fund - F. R. Notes	21,360	20,145	+ 1,215
Total Gold Reserves	\$ 378,417	\$ 352,080	\$+ 26,337
Vault Cash	5,735	7,687	- 1,952
<u>Bills Discounted</u>			
Foreign Loans on Gold	3,412	1,081	+ 2,331
<u>U. S. Government Securities:</u>			
Repurchase Agreement - Bills	26,264	33,923	- 7,659
System Account Bills	347,989	278,431	+ 69,558
Certificates of Indebtedness	228,144	232,112	- 3,968
Notes	10,814	58,818	- 48,004
Bonds	22,929	26,275	- 3,346
Total U. S. Government Securities	\$ 636,140	\$ 629,559	\$+ 6,581
Due from foreign banks	3	3	-
F. R. Notes of other F. R. Banks	4,337	6,713	- 2,376
<u>Uncollected Items:</u>			
Transit items	56,887	50,295	+ 6,592
Exchanges for clearinghouse	3,129	2,113	+ 1,016
Other cost items	2,203	1,691	+ 512
Total Uncollected Items	\$ 62,219	\$ 54,099	\$+ 8,120
Bank Premises	2,497	2,491	+ 6
Less reserve	1,257	1,228	+ 29
Bank Premises - Net	\$ 1,240	\$ 1,263	\$- 23
<u>Miscellaneous Assets:</u>			
Fiscal Agency expense, reimbursable	\$ 233	\$ 376	\$- 143
Interest accrued	831	968	- 137
Premium on securities	302	378	- 76
Deferred charges	18	15	+ 3
All other assets	91	61	+ 30
Total Miscellaneous Assets	\$ 1,475	\$ 1,798	\$- 323
 Total Assets	 \$1,092,978	 \$1,054,283	 \$+ 38,695

ASSETS

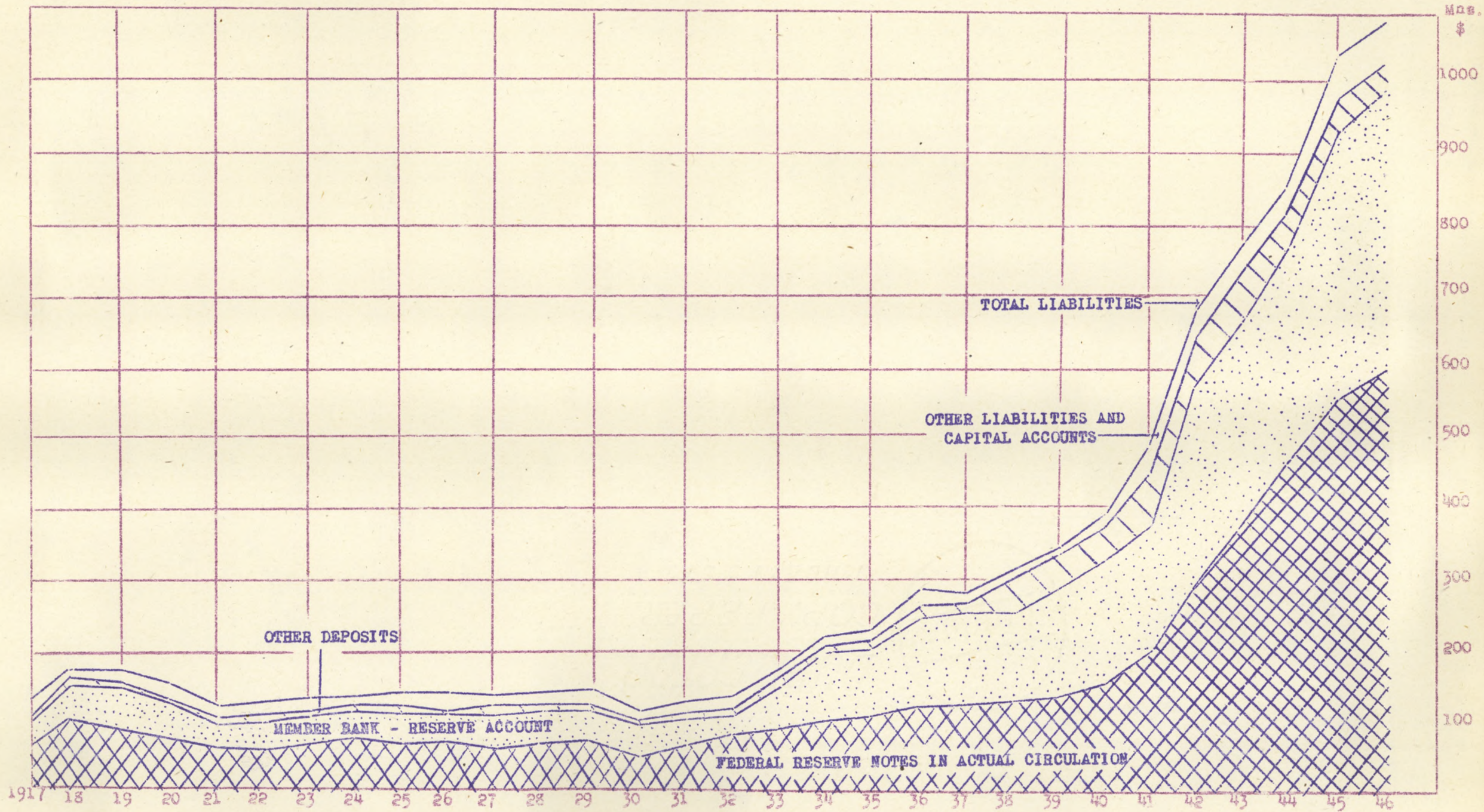


COMPARATIVE STATEMENT OF LIABILITIES
(in thousands of dollars)

	<u>Dec. 31,</u> <u>1946</u>	<u>Dec. 31,</u> <u>1945</u>	<u>Increase or</u> <u>Decrease since</u> <u>Dec. 31, 1945</u>
<u>Liabilities</u>			
Federal Reserve Notes in circulation	\$ 592,688	\$ 551,859	\$+ 40,829
Deposits:			
Member bank - reserve accounts	398,589	385,403	+ 13,186
U. S. Treasurer-- General account	20,505	38,287	- 17,782
Foreign deposits	11,914	18,869	- 6,955
Nonmember bank - clearing accounts	1,805	1,767	+ 38
Officers' checks	189	437	- 248
Other deposits	533	221	+ 312
Total Deposits	<u>\$ 433,535</u>	<u>\$ 444,984</u>	<u>\$- 11,449</u>
Deferred availability items:			
U. S. Treasurer - General account	1,658	1,508	+ 150
All other	47,031	40,165	+ 6,866
Total Deferred Availability Items	<u>\$ 48,689</u>	<u>\$ 41,673</u>	<u>\$+ 7,016</u>
Miscellaneous Liabilities:			
Discount on securities	170	141	+ 29
Sundry items payable	115	191	- 76
Total Miscellaneous Liabilities	<u>\$ 285</u>	<u>\$ 332</u>	<u>\$- 47</u>
Total Liabilities	<u>\$1,075,197</u>	<u>\$1,038,849</u>	<u>\$+ 36,348</u>
<u>Capital Accounts</u>			
Capital stock paid in	\$ 4,070	\$ 3,861	\$+ 209
Surplus Fund - Section #7	10,997	8,870	+ 2,127
Surplus Fund - Section #13b	1,073	1,073	-
Reserve for Contingencies	1,641	1,631	+ 10
Total Capital Accounts	<u>\$ 17,781</u>	<u>\$ 15,435</u>	<u>\$+ 2,346</u>
Total Liabilities & Capital Accounts	<u>\$1,092,978</u>	<u>\$1,054,283</u>	<u>\$+ 38,695</u>

The first development of significance was obviously the changes during the year in our holdings of U. S. Government securities, which, in turn, reflect open-market operations and policies. The total holdings did not experience a very dramatic change, increasing from \$630 million at the beginning of the year to \$636 million at the end. It must be remembered, however, as pointed out above, that open-market purchases were required periodically during the year to restore or increase member bank reserves as securities held by either the Federal Reserve banks or the nonbank public were redeemed for cash. Therefore, the net change in our holdings of Government securities

LIABILITIES



underestimates the significance of Federal Reserve open-market operations.

The debt-redemption program is most clearly emphasized in our holdings of U. S. Treasury notes. At the beginning of the year they amounted to \$59 million. At the end of the year they had declined to \$11 million. On the other hand, our holdings of certificates of indebtedness, while fluctuating substantially during the year, were about the same at the end (\$228 million) as at the beginning (\$232 million). Holdings of U. S. Treasury bills actually increased by \$62 million. These merely reflect the fact that as notes and certificates of indebtedness, held by the Federal Reserve banks, were redeemed for cash, subsequent open-market purchases in order to replenish member bank reserves were concentrated almost entirely upon certificates and bills. In fact, our total purchases of bills from member banks on repurchase option amounted to \$709 million in 1946, of which \$555 million were resold as the banks' reserve positions eased.

Our holdings of U. S. Treasury bills on repurchase option fluctuated substantially month by month. They were usually high during the months when the Government was redeeming substantial amounts of securities for cash and when, therefore, the banks were temporarily pinched for reserves. Treasury bills are a sort of balancing reserve which the commercial banks sell to us if they are short of reserves and purchase back if they have temporarily excess funds. As is obvious from the table, borrowings from the Federal Reserve banks tend to follow the same pattern. They are large when our holdings of bills on repurchase option are large, and decline when the latter decline.

Bills Discounted and U.S. Treasury Bills
Held on Repurchase Option
Federal Reserve Bank of Minneapolis - 1946
(In thousands of dollars)

<u>Month-End</u>	<u>Bills Discounted</u>	<u>U.S. Treasury Bills</u>
January	\$ 20,100	\$ 54,545
February	5,600	20,940
March	6,100	42,550
April	7,100	27,663
May	1,575	27,165
June	--	43,960
July	--	28,526
August	13,800	46,134
September	4,000	20,930
October	5,000	22,405
November	150	31,075
December	--	26,264

These movements reflect again temporarily tight reserve positions, necessitating borrowing by banks which either had no bills or preferred to borrow temporarily from the Federal Reserve banks rather than sell bills on repurchase option.

One of the interesting developments of the last year has been the slight further increase of member bank deposits in the Ninth District compared with a decline (about \$10 billion if war-loan accounts are included in the totals) for the nation as a whole. Total deposits at all Ninth District banks at the year-end were about \$4,830 million, up about 1 percent over year-end 1945. Deposits other than war-loan balances actually increased about \$800 million in this District during 1946. This means a steady flow of funds from the rest of the nation into the Ninth District has been occurring during the last year, presumably resulting from the continued extremely high levels of farm incomes. This is particularly reflected by our further increase in gold reserves from \$352 million at the beginning of the year to \$378 million at the end, a relative expansion approximately triple the average for all twelve Federal Reserve banks combined. In other words, our share of the System's gold reserves was steadily increasing during the year.

Business activity in the Ninth Federal Reserve District, according to the available evidence, has been higher relative to a year ago than was true for the nation as a whole. This in turn reflects itself in the volume of our Federal Reserve notes in circulation and required to transact the District's business. From the seasonal high of \$552 million at the end of December 1945, the circulation declined for the subsequent three months, but by May had actually exceeded the volume in circulation of the previous

Per Capita Money in Circulation

	<u>U.S.</u>	<u>Ninth District*</u>	<u>Percent Ninth District of U.S.</u>
December 1940	\$ 66	\$ 34	51.5%
December 1945	203	132	65.0
December 1946	205*	142	69.3

*Estimated

December. By the end of this year the total note liability of this bank amounted to \$593 million, an increase of slightly over 8 percent as compared with an increase of approximately 2 percent for all twelve Federal Reserve

banks combined. These differences between the experience at this bank and that for the twelve banks combined are merely a reflection of the differentially larger volume of business activity in the Ninth District during 1946 as compared with the nation as a whole.

The substantial flow of funds into this area has tended automatically to increase member bank reserve balances. Furthermore, as member bank deposits increased, required reserves were enlarged. Reserve balances rose during the year from \$385 million at the beginning to \$399 million at the end.

Because of the substantial increase in our holdings of gold reserves, relatively much larger than the expansion in our note and deposit liabilities, our reserve ratio of 35.3 percent at the end of 1945 had increased to 36.8 percent at the end of 1946, although it reached a low of 33.5 percent in the middle of the year.

CAPITAL ACCOUNTS

Capital Stock paid in totaled \$4,071 thousand on December 31, 1946, an increase during the year of \$209 thousand.

Surplus Accounts. Surplus (Section 7) was increased \$2,127 thousand, which brought the total to \$10,997 thousand on December 31, 1946. Surplus (Section 13b) remained unchanged at \$1,073 thousand.

Contingencies. No change was made during the year in the reserve of \$1 million set aside for losses in excess of the blanket bond coverage on employees, or the reserve of \$500 thousand earmarked for losses not covered by the Loss Sharing Agreement. The reserve for registered mail losses was raised to \$141 thousand during the year 1946. This reserve started with a total of \$125,433 on January 1, 1945, which was determined on the basis of currency and coin shipments handled during the three-year period ended November 30, 1944, at 10¢ per thousand dollars.

Below is a table showing the changes made in this account during the year 1946:

Reserve for registered mail losses beginning year 1946	\$131,134.30
--	--------------

Debits:

Our share of reward paid by Federal Reserve Bank of Atlanta in connection with recovery of \$86,000 currency shipment made by Birmingham Branch to the Leeth National Bank, Culeman, Alabama.

\$ 236.24

Torn and mutilated \$5.00 note received from Northwestern National Bank, Litchfield, Minnesota, redeemed by Treasury Department at \$2.50.

2.50

Our proportional share of the \$1,000 retainer fee for advisory services from Marsh & McLennon, Inc., for 1946.

27.47

Total Debits

\$ 266.21

Credits:

Two mutilated \$5 notes received from Northwestern National Bank, Litchfield, Minnesota, redeemed by Treasury Department at \$2.50 ea.

\$ 5.00

Maximum recovery provided by registration fee on parcel post shipment of \$5,000 in \$1's and \$5's to Northwestern National Bank, Litchfield, Minnesota.

200.00

Maximum recovery provided by registration fee on first class mail shipment of \$3,000 in \$10 bills to First National Bank, Anoka, Minnesota.

5.00

Additional recovery of \$10 from Post Office Department on shipment of \$60 in pennies to Security National Bank & Trust Co., Madison, South Dakota, which was lost in the mail. Previous recovery of \$50 was made August 24, 1945. \$ 10.00

Reserve for Fiscal Year, December 1, 1945, to November 30, 1946, based on total shipments for year of \$508,557,227 at 2¢ per \$1,000. 10,171.14
Total Credits \$10,391.14

Total Additions during year 10,124.93

Reserve for Registered Mail Losses, December 31, 1946 \$141,259.23

The following gives a detail of shipments made during the fiscal year December 1, 1945, to November 30, 1946:

	1946 (000 Omitted)	1945 (000 Omitted)
New Federal Reserve currency from Washington	\$111,000	\$ 96,800
Fit Federal Reserve Notes to Bank of Issue	47,589	34,971
Currency and coin between Minneapolis and Helena	5,907	4,995
Other currency and coin outgoing - Mpls. and Helena	165,798	161,648
Other currency and coin incoming - Mpls. and Helena	172,730	120,175
All Other: (delivered or picked up by truck)		
Other currency and coin outgoing - Helena	2,589	1,510
Other currency and coin incoming - Helena	<u>2,944</u>	<u>1,520</u>
	\$508,557	\$421,619

There is shown below a table giving the disposition of 1946 Net Earnings and the changes made in the Surplus Accounts.

Net Earnings - 1946	\$2,365,830.14
Dividends paid	<u>238,372.30</u>
Transferred to Surplus (Sec. 7)	\$2,127,457.84

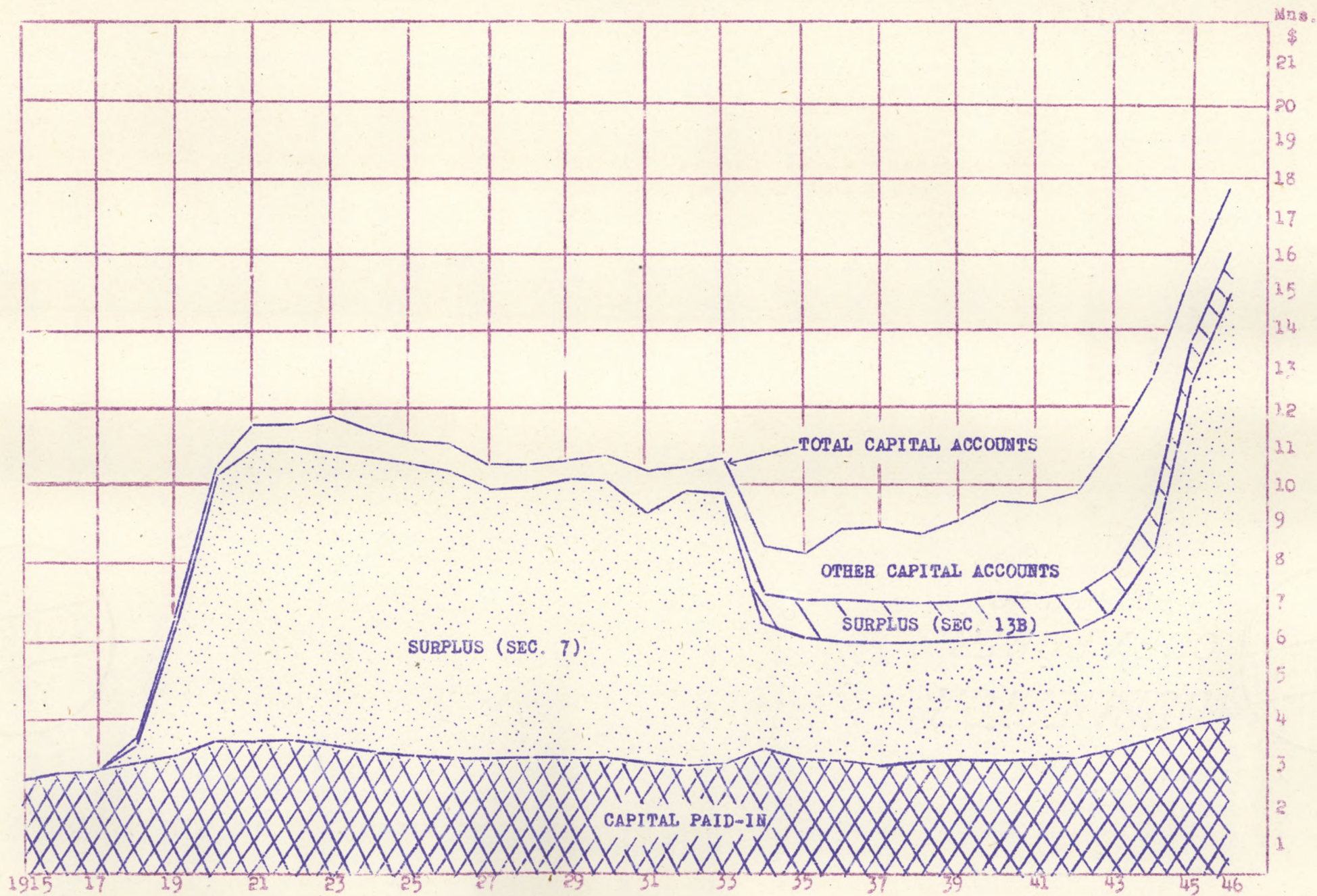
Surplus (Sec. 7) December 31, 1945	\$8,869,500.02
Transferred from Earnings 1946	<u>2,127,457.84</u>
Surplus (Sec. 7) December 31, 1946	\$10,996,957.86

Surplus (Sec. 13b) December 31, 1945	\$1,072,621.34
Transferred from Earnings 1946	<u>none</u>
Surplus (Sec. 13b) December 31, 1946	\$1,072,621.34

Reserve for Contingencies, Dec. 31, 1946:

Reserve for losses in excess of blanket bond coverage	\$1,000,000.00
Reserve for losses not covered by Loss Sharing Agreement	500,000.00
Reserve for Registered Mail Losses	<u>141,259.23</u>
	\$1,641,259.23

CAPITAL ACCOUNTS



BANK PREMISES

The entire cost of the second floor addition to the Helena Branch Bank building was \$71,314.40. Of that amount, \$46,373.90 represents building costs and \$24,940.50 cost of Fixed Machinery and Equipment.

In December 1946, our Board of Directors took action, which was later approved by the Board of Governors of the Federal Reserve System, to charge off \$20,373.90 of the Building cost and \$6,940.50 of the cost of Fixed Machinery and Equipment. The remaining \$26,000 of Building cost was added to the previous figure of \$75,000 for the Helena Bank building, making the present total \$101,000. The remaining \$18,000 of Fixed Machinery and Equipment cost was added to the previous figure of \$19,201.99 for the Helena Branch, making the present total \$37,201.99. These are the only changes occurring in the Bank Premises Accounts for Head Office and Branch during 1946 except the normal depreciation charges of 2% on bank buildings and 10% on book value on Fixed Machinery and Equipment. Depreciation on the increased carrying value of Helena Branch building and Helena Fixed Machinery and Equipment will not begin until January 1947.

The details of our Bank Premises Account are shown below:

	<u>Head Office</u>	<u>Helena Branch</u>	<u>Total</u>
<u>LAND</u>			
Net book value December 31, 1946	\$ 400,520.66	\$ 10,000.00	\$ 410,520.66
<u>BANK BUILDING</u>			
Gross Book Value:			
Beginning of 1946	\$1,283,281.50	\$ 75,000.00	\$1,358,281.50
Additions during year (Helena Br. Addition)	-	46,373.90	46,373.90
	1,283,281.50	121,373.90	1,404,655.40
Charge-off 2nd flr. addition to Helena Br. Bldg.	-	20,373.90	20,373.90
End of Year	1,283,281.50	101,000.00	1,384,281.50
Less Allowance for Depreciation:			
Beginning of 1946	538,977.96	11,250.00	550,227.96
Normal depreciation	25,665.60	1,500.00	27,165.60
End of Year	564,643.56	12,750.00	577,393.56
Net book value December 31, 1946	\$ 718,637.94	\$ 88,250.00	\$ 806,887.94
<u>FIXED MACHINERY AND EQUIPMENT</u>			
Gross Book Value:			
Beginning of 1946	\$ 664,969.35	\$ 19,201.99	\$ 684,171.34
Additions during year (Helena Br. Addition)	-	24,940.50	24,940.50
	664,969.35	44,142.49	709,111.84
Charge-off 2nd flr. addition Helena Br. Bldg.	-	6,940.50	6,940.50
End of Year	664,969.35	37,201.99	702,171.34
Less Allowance for Depreciation:			
Beginning of 1946	664,969.35	12,845.67	677,815.02
Normal depreciation	-	1,920.24	1,920.24
End of Year	664,969.35	14,765.91	679,735.26
Net book value December 31, 1946	\$ -	\$ 22,436.08	\$ 22,436.08
<u>TOTAL BANK PREMISES</u>			
Net book value December 31, 1946	\$1,119,158.60	\$120,686.08	\$1,239,844.68

NET EARNINGS AND PROFITS

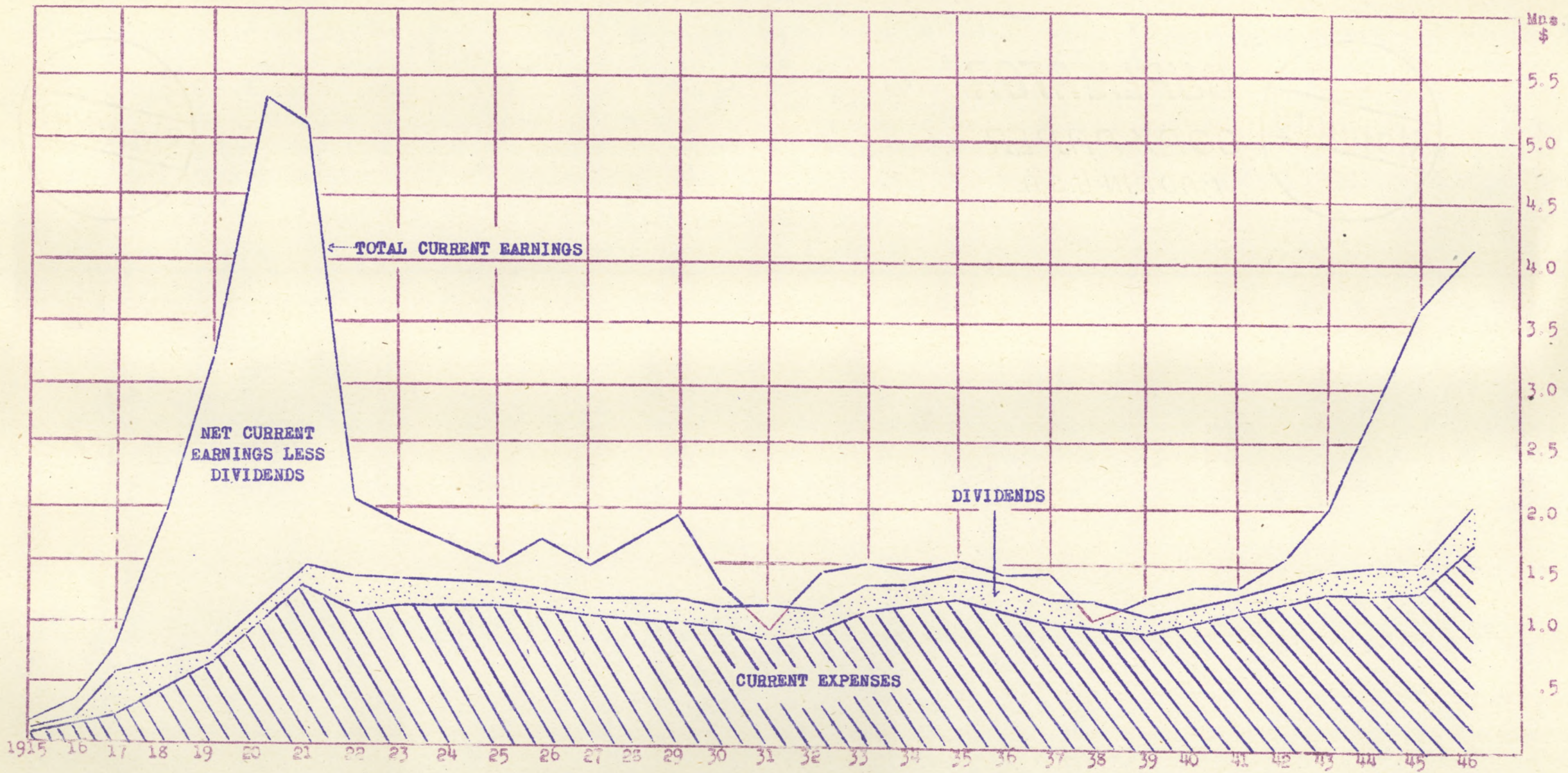
Net earnings and profits totaled \$2,366 thousand during 1946, a decrease of 48 thousand compared with the year 1945. Compared with 1945 total current earnings increased \$522 thousand, represented by an increase of \$553 thousand in interest from securities in System Open Market Account, \$22 thousand on foreign loans on gold, \$12 thousand interest on advances made on a Bills Payable basis, \$1 thousand on deficient reserve penalties, and a reduction of \$66 thousand in bills held under repurchase agreement.

Our net expenses increased \$409 thousand and dividends paid increased \$17 thousand due to an increase in capital stock of \$209 thousand.

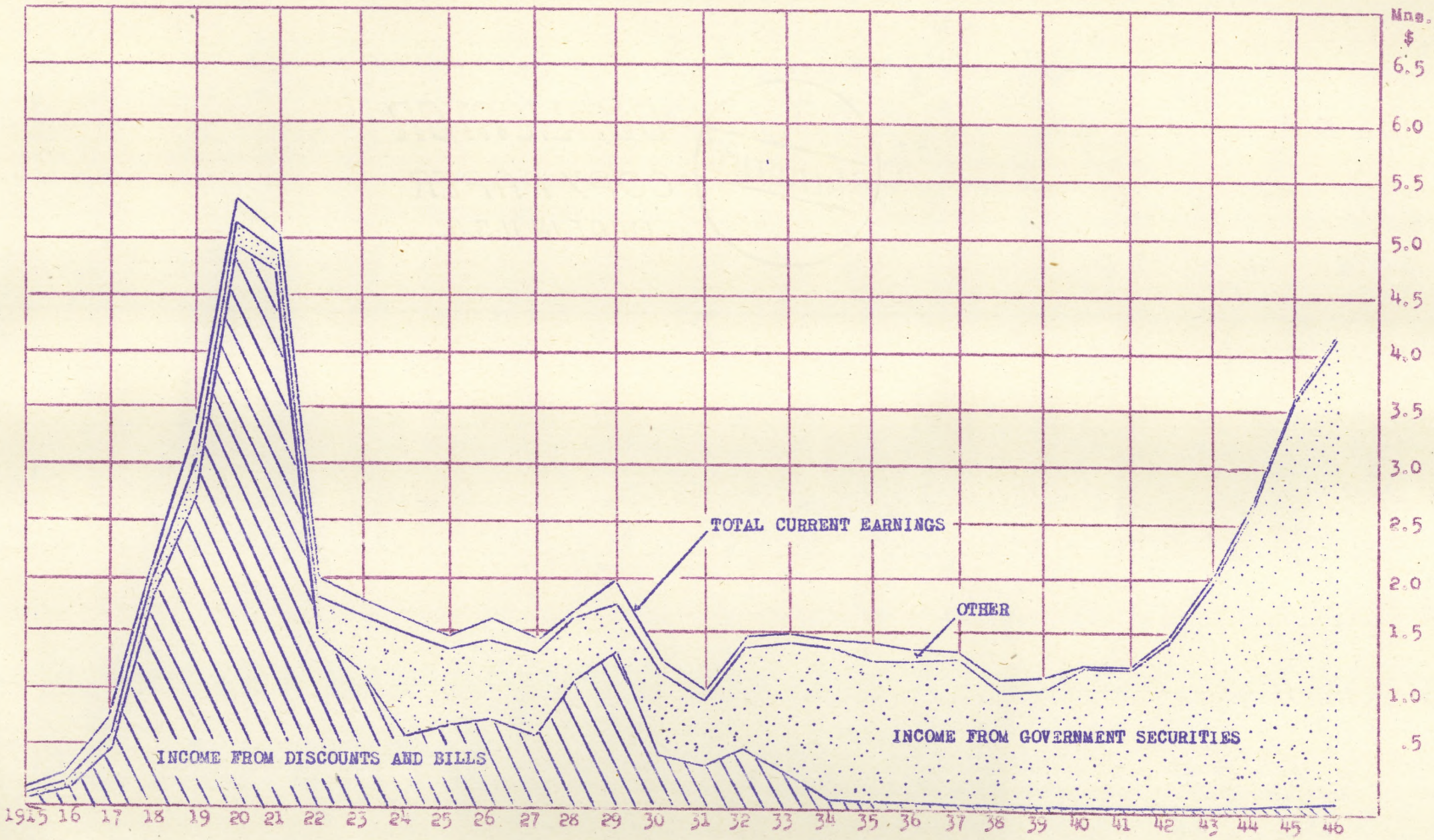
The Profit & Loss Account was \$161 thousand less due partly to a decrease in net profit on U. S. Securities sold of \$44 thousand, and to increased deductions from Current Net Earnings of: charge-off on bank premises, second floor addition at Helena Branch, \$27 thousand; Retirement System salary computation adjustment, \$73 thousand; and reserve for registered mail losses, \$10 thousand.

	1946	Inc. or Dec. from 1945
Current Earnings	\$4,179,359	\$ +522,272
Current Expenses	<u>1,754,537</u>	<u>+409,214</u>
Net Current Earnings	\$2,424,822	\$ +113,058
 Additions to Net Current Earnings:		
Profit on U. S. Sec. sold, net	\$ 51,048	\$ - 44,471
All Other	<u>1,341</u>	<u>- 5,457</u>
Total Additions	\$ 52,389	\$ - 49,928
 Deductions from Net Current Earnings:		
Charge-offs on bank premises	\$ 27,314	\$ + 27,314
Reserve for registered mail losses	10,171	+ 10,171
Retirement System Salary computation adjustment	72,807	\$ + 72,807
All Other	<u>1,039</u>	<u>+ 676</u>
Total Deductions	<u>\$111,381</u>	\$ +110,968
 Net Deductions from Net Current Earnings		
Earnings	\$ 58,992	\$ +160,396
Net Earnings & Profits	\$2,365,830	\$ - 47,338

NET CURRENT EARNINGS



CURRENT EARNINGS



The table below gives a breakdown of the Profit and Loss transactions during 1946.

	<u>Head Office</u>	<u>Helena Branch</u>	<u>Total</u>
<u>Additions to Net Current Earnings</u>			
Profit on U. S. Govt. Securities sold, net Recoveries from liquidation of miscellaneous assets acquired in settlement of claims account closed banks	\$51,048		\$ 51,048
Sale of scrap	67		67
Recovery of items previously charged to Profit & Loss	34		34
Credits for checks returned - endorsing banks unknown	683		683
Profit on mutilated currency and coin	7		7
Total Additions	<u>533</u>	<u>17</u>	<u>550</u>
	\$52,372	\$ 17	\$ 52,389
<u>Deductions from Net Current Earnings</u>			
Charge-off on bank premises	\$ -	\$27,314	\$27,314
Reserve for registered mail losses	10,171		10,171
Retirement System salary computation adjustment	72,807		72,807
Charge-off identifying remainder of all failed bank assets	1		1
Discount on Foreign Currency and Coin	10		10
Loss on counterfeits	58	10	68
Loss on personal loan to employee	576		576
5 Peso Philippine National Bank circulating note - no value	3		3
Loss on sale of foreign exchange	34		34
Difference account	<u>263</u>	<u>134</u>	<u>397</u>
Total Deductions	\$83,923	\$27,458	\$111,381
Net Deductions from Net Current Earnings	<u>\$31,551</u>	<u>\$27,441</u>	<u>\$ 58,992</u>

EARNINGS

Earnings from current operations totaled \$4,179 thousand during 1946, an increase of \$522 thousand over one year earlier. The largest source of our earnings in 1946 was from U. S. Government securities - System Account \$3,950 thousand, an increase of \$553 thousand over last year.

A table of earnings is shown below:

	<u>1946</u>	<u>1945</u>
Discounts and Advances	\$ 64,605	\$+ 11,696
Foreign Loans on Gold	23,784	+ 21,527
U. S. Govt. Sec. - System Account	3,949,772	+552,371
Treasury Bills held under Repurchase Option	134,412	- 65,843
Deficient Reserve Penalties	5,178	+ 1,448
Sale of wastepaper, money bags, etc.	256	- 44
Service Charges - Safekeeping	5	- 3
Clearinghouse Fines	146	+ 46
Svgs. in Reg. Fees, etc., on Registered Mail Shipments for Member Banks	1,108	+ 588
Interest on Personal Loans to Employees	39	+ 39
Commission earned on Brokers Acceptances for Foreign Correspondents	54	+ 54
All Other	-	- 107
Total	<u>\$4,179,359</u>	<u>\$+522,272</u>

Our average daily loans on a Bills Payable basis for the year 1946 were \$7,331 thousand with earnings of \$64,605 compared with last year's totals of \$10,616 thousand with earnings of \$52,909. Although our average loans this year were \$3 million less, our earnings were \$12 thousand more due to the increase in earning rate from one-half of one per cent to one per cent. Our average daily participation in Open Market securities and Bills held under repurchase option totaled \$634 million, an increase of \$97 million compared with the year 1945, with an average yield of .648 per cent this year against .675 per cent for the year 1945.

On the last day of the year 1946, compared with the same day a year ago, Bills held under repurchase agreement decreased \$5 million. In the system account bonds decreased \$3 million, Notes \$48 million, and Certificates of Indebtedness \$3 million, while Bills increased \$69 million. Although our aggregate participation was only \$10 million more than at the end of 1945, throughout the year it was considerably larger until we had to release \$30 million on December 18, 1946, to build up our reserve ratio against deposits which had decreased to 25.2.

Average daily participation in foreign loans on gold during 1946 was \$2,341 thousand compared with a daily average in 1945 from September 1 (when we first participated) to December 31 of \$577 thousand. The earnings received on these loans during 1946 totaled \$24 thousand compared with the year 1945 of \$2 thousand. The average yield for 1946 was 1.01 per cent.

For the year 1946, the average yield from advances, foreign loans on gold, and U. S. securities was .654 per cent compared with .671 per cent for the year 1945.

The table on the following page shows our participation in the System Open Market Account and Bills held under repurchase agreement for the last business day of 1946 and 1945:

	<u>12-31-46</u>	<u>12-31-45</u>
Bonds	\$ 22,929,000	\$ 26,274,000
Notes	10,814,000	58,816,000
Bills	347,989,000	278,431,000
Certificates of Indebtedness	228,144,000	231,124,000
Repurchase Option - Bills	<u>26,264,000</u>	<u>31,423,000</u>
	<u>\$636,140,000</u>	<u>\$626,068,000</u>

Earnings from deficient reserve penalties for the period December 1, 1945, through December 15, 1946, totaled \$5,178.01, an increase of \$1,447.88 over last year's total of \$3,730.13. Included in this year's total is \$145.86 assessed during the period December 1-15, 1946. The report therefore compares 25 computation periods of 1946 against 24 periods for 1945, because penalties are now assessed immediately, whereas last year assessments were made in the month following the deficiency. This arrangement of assessing penalties calls attention earlier to the deficient bank and affords an opportunity of increasing its reserve balance in the subsequent period, thereby avoiding a second penalty.

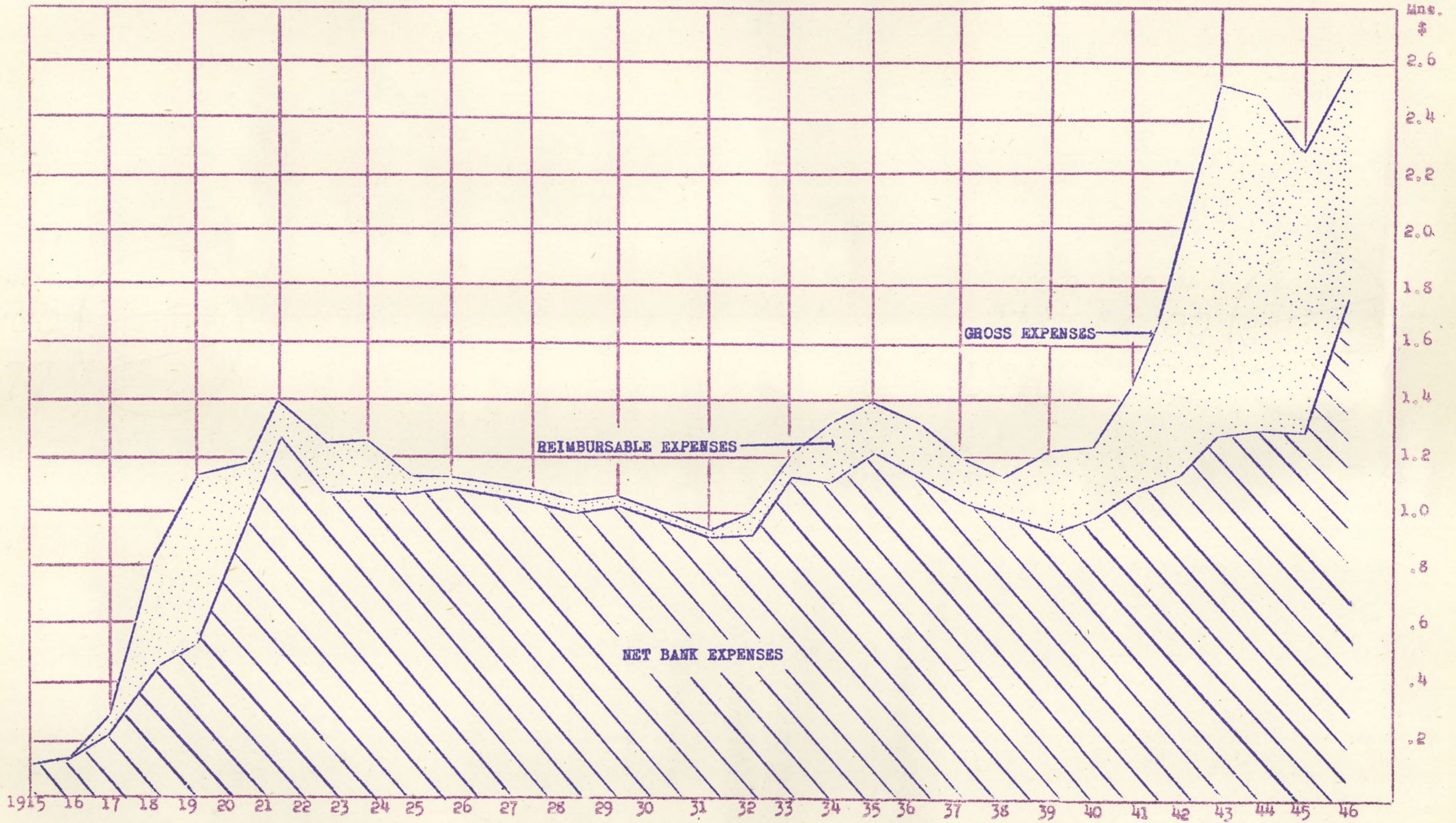
The increase in waived penalties during 1946 is due in part to the more liberal rules for the waiving of penalties set down by the Board of Governors.

During 1946, 114 banks were penalized 208 times against 122 banks with 193 penalties in 1945. Waived penalties in 1946 were 74, affecting 64 banks, compared with 59 penalties against 50 banks in 1945.

Comparative Report of
Deficient Reserve Penalties

	<u>Penalties Assessed</u>				<u>Penalties Waived</u>				<u>Number of Banks Affected</u>			
	<u>No.</u>	<u>1946</u>	<u>No.</u>	<u>1945</u>	<u>No.</u>	<u>1946</u>	<u>No.</u>	<u>1945</u>	<u>1946</u>	<u>1945</u>	<u>1946</u>	<u>1945</u>
Michigan	34	\$ 721.71	15	\$ 147.43	8	\$ 15.12	5	\$ 3.20	11	12	6	4
Minnesota	70	1,494.87	79	853.86	35	156.31	27	26.09	42	55	31	22
No. Dakota	18	455.88	12	115.41	9	33.01	2	1.50	10	8	8	2
So. Dakota	26	696.80	37	1,609.81	12	24.52	12	12.05	15	19	9	10
Wisconsin	22	530.20	23	275.53	6	4.36	6	3.88	12	14	6	5
Head Office Totals	170	\$3,899.46	166	3,002.04	70	\$233.32	52	\$46.72	90	108	60	43
Montana	38	1,278.55	27	728.09	4	5.39	7	70.23	24	24	4	7
Combined Totals	208	\$5,178.01	193	\$3,730.13	74	\$238.71	59	\$116.95	114	132	64	50

CURRENT EXPENSES



NONREIMBURSABLE EXPENSE

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$1,580,495	\$ + 361,569
Helena Branch	<u>- 174,042</u>	<u>+ 47,645</u>
	\$1,754,537	\$ + 409,214

Head Office expense after deduction of reimbursable expense increased \$362 thousand over the year 1945. Principal increases over last year were in salaries, Retirement System contributions, traveling expense, postage and expressage, office supplies, taxes on bank premises, miscellaneous expense, and cost of Federal Reserve currency. Principal decreases occurred in repairs and alterations and rental received.

Helena Branch costs increased \$48 thousand over last year. The larger increases were in salaries, postage and expressage, office supplies, taxes on bank premises, furniture and equipment, repairs and alterations, and miscellaneous expense.

SALARIES

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$889,541	\$ + 218,276
Helena Branch	<u>91,190</u>	<u>+ 26,827</u>
	\$980,731	\$ + 245,103

Head Office salaries for 1946 totaled \$889,541 (which includes \$29 thousand overtime), an increase of \$218,276 over last year. Salaries increased \$231 thousand while overtime payments decreased \$13 thousand. Accounting for most of this salary increase are the two blanket increases the employees received during the year, one on March 15 and one on November 1. Number of employees has shown a gradual decrease throughout the year as well as a greater shift having been made from the reimbursable operations to regular bank work. Since the bank went on a five-day basis, more employees are required to operate some of the regular bank departments.

Helena Branch salaries for the same period increased \$26,827, which is due to the two blanket increases.

RETIREMENT SYSTEM CONTRIBUTION

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$79,192	\$ + 2,615
Helena Branch	<u>7,070</u>	<u>+ 1,192</u>
	\$86,262	\$ + 3,807

Head Office Retirement System contributions totaled \$79,192, an increase of \$3 thousand over 1945 (although there was a special prior service contribution included in 1945 totaling \$18,000) due to increased salaries and a change in the rate of contribution from 9.01% to 9.62% effective July 1, 1946.

Helena Branch costs increased \$1,192 for the same period.

A special contribution of \$72,807 was made in July 1946 to the Retirement System of the Federal Reserve Banks to cover actuary's estimate of accrued liability incurred as a result of changes made in the Retirement System benefits, and subsequently approved by the Board of Governors of the Federal Reserve System and by the Board of Directors of this bank. The contribution of \$72,807 was charged to Profit & Loss and is reflected in the annual Profit & Loss Statement under the caption "Retirement System Salary Contribution Adjustment."

DIRECTORS' FEES

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$ 9,655	\$ + 1,132
Helena Branch	<u>3,463</u>	<u>+ 371</u>
	\$13,118	\$ + 1,503

Directors' fees and expenses totaled \$13 thousand, an increase of \$1,500 over 1945. This increase was mostly due to expenses of a meeting held in Yellowstone Park during June.

TRAVEL EXPENSE

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$31,568	\$ + 9,796
Helena Branch	<u>3,302</u>	<u>+ 1,142</u>
	\$34,870	\$ +10,938

Travel expense at the Head Office totaled \$31,568 for 1946, an increase of \$9,796 over last year. The larger increases in travel expense are Bank Examination \$3 thousand, Bank Relations \$3 thousand, and Consumer Credit \$3 thousand.

Helena Branch cost was \$1,142 more for the same period.

POSTAGE & EXPRESSAGE

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$162,442	\$ + 24,338
Helena Branch	<u>29,648</u>	<u>+ 4,831</u>
	\$192,090	\$ + 29,169

Postage and expressage for the Head Office totaled \$162,442 for 1946, an increase of \$24 thousand compared with 1945. The largest increases occurred in postage on: incoming currency \$13 thousand, outgoing currency \$2,500, outgoing coin \$2,600, and ordinary mail \$3,600; and expressage on incoming coin \$1,600.

TELEPHONE & TELEGRAPH

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$ 4,540	\$ + 60
Helena Branch	<u>5,671</u>	<u>+ 334</u>
	\$10,211	\$ + 394

Head Office telephone and telegraph expense during 1946 totaled \$4,540, an increase of \$60 compared with last year.

Helena Branch cost increased \$334 for this period.

OFFICE SUPPLIES

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$44,849	\$ + 8,250
Helena Branch	<u>6,965</u>	<u>+ 1,735</u>
	\$51,814	\$ + 9,985

Office supplies for the Head Office during 1946 totaled \$44,849, an increase of \$8,250 compared with 1945.

Helena Branch cost increased \$1,735 for this period.

INSURANCE ON CURRENCY, COIN AND SECURITIES

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$ 70	\$ - 532
Helena Branch	<u>11</u>	<u>- 90</u>
	\$ 81	\$ - 622

Insurance on currency, coin and securities for the Head Office totaled \$70 for 1946, a decrease of \$532 as compared with 1945. The registered mail Loss Sharing Agreement was set up on January 1, 1945; however, the December 1944 insurance bill was paid in January 1945 and this accounted for most of the decrease of \$532 between the 1946 and 1945 Head Office figures.

OTHER INSURANCE

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$8,512	\$ + 1,240
Helena Branch	<u>466</u>	<u>- 944</u>
	\$8,978	\$ + 296

Other insurance expense for the Head Office during 1946 totaled \$8,512, an increase of \$1,240 over one year ago. Premiums which show the largest changes are:

Building and Contents insurance shows a net credit of \$1,024 for the year 1946 due to a refund of \$1,774 received from the Firemen's Mutual Insurance Company for unabsorbed premium on building and contents for the three-year period ending January 1, 1946, thereby reducing the total expense by that amount.

Group Life insurance gross expense totaled \$15,499 for the year 1946, an increase of \$3,843 over last year. Of this gross amount, \$7,317 was paid by employees. A dividend of \$6,129 was received from the Equitable Life Assurance Society for the policy year ending April 1, 1946, and for the second time the employees were given the benefit of this dividend by the bank absorbing the employees' share of the premium for the three months of July, August and September, totaling \$2,452 compared with the amount absorbed in 1945 of \$1,847.

Military Service insurance totaled \$3,040 for the year 1946, an increase of \$1,494 over the year 1945 due primarily to our change in the latter part of 1945 in the method of payment for Military Service insurance to employees in the armed services from a yearly basis to the time of discharge.

Helena Branch insurance costs decreased \$944 for the same period. Premiums which show the largest changes are:

Building and Contents insurance shows a credit of \$322 for the year 1946 due to a refund of \$896 received from the Firemen's Mutual Insurance Company for unabsorbed premium on building and contents for the three-year period ending January 1, 1946, thereby reducing the total net expense by that amount.

Group Life insurance gross expense totaled \$1,400 for the year 1946. Of this amount \$682 was paid by the employees. A dividend of \$555 was received from the Equitable Life Assurance Society for the policy year ending April 1, 1946, and for the second time the employees were given the benefit

of this dividend by the bank absorbing the employees' share of the premium for the three months of July, August and September, totaling \$216.

TAXES ON BANK PREMISES

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$77,195	\$ + 5,689
Helena Branch	<u>3,796</u>	<u>+ 1,859</u>
	\$80,991	\$ + 7,548

Taxes on Head Office bank premises totaled \$77,195 for the year 1946, an increase of \$5,689 over the previous year due to two factors: the increase in assessed value of the land from \$400,000 to \$421,000, and to the increase in the tax rate from 118 mills to 123 mills.

Helena Branch cost was \$1,859 more for the same period due to the addition of the second floor.

LIGHT, HEAT, POWER AND WATER

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$20,094	\$ - 112
Helena Branch	<u>2,482</u>	<u>+ 110</u>
	\$22,576	\$ - 2

The cost of light, heat, power, water and sewage disposal for the Head Office totaled \$20,094 during 1946, a decrease of \$112, while Helena Branch cost increased \$110 for the same period.

REPAIRS & ALTERATIONS

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$20,193	\$ - 18,058
Helena Branch	<u>4,026</u>	<u>+ 3,473</u>
	\$24,219	\$ - 14,585

Cost of repairs and alterations at the Head Office totaled \$20,193 during 1946, a decrease of \$18,058 compared with the previous year. Last year's figures included \$22,000 for professional services of Larson & McLaren, architects, for planning additions and alterations of the bank building, while during 1946, main items were the construction of a new vault for the Coin Department costing \$7 thousand, for wrecking concrete walls off #3 garage, installing new concrete walls and one automatic ventilator, and making a

cement floor.

Helena Branch costs increased \$3,473 for this period. This increase is for repairs and alterations to the original building at the time the second floor was added.

FURNITURE & EQUIPMENT

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$13,652	\$ - 668
Helena Branch	<u>3,105</u>	<u>+2,172</u>
	\$16,757	\$ +1,504

Furniture and equipment purchased at the Head Office totaled \$13,652 during 1946, a decrease of \$668 compared with the year 1945.

The larger purchases during 1946 were: ten Monroe adding machines \$4,062, Ford truck delivery sedan \$1,029, three Friden calculators \$1,755, and a Mercury automobile \$1,656, while the large item in 1945 was twenty Burroughs adding machines costing \$11 thousand.

Helena Branch costs increased \$2,172 for this period which was chiefly due to the purchase of a Burroughs bookkeeping machine at \$1,741.

MISCELLANEOUS NET EXPENSE

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$69,100	\$ + 29,308
Helena Branch	<u>14,210</u>	<u>+ 5,610</u>
	\$83,310	\$ + 34,918

Miscellaneous net expense at the Head Office totaled \$69,100 during 1946, an increase of \$29,308 over a year ago. The items which showed the largest increases are: Entertainment of bankers and others not in bank's employ \$1,392, Federal Reserve Club \$1,000 (Quiz program), expense in connection with Foreign accounts \$3,600, Cafeteria net expense \$3,641, Federal Reserve Bank Conference \$11,500, Federal Reserve Forum \$4,900, and Conference of Bank Examiners \$642.

Helena Branch costs increased \$5,610 for the same period due mostly to: Special Anniversary Publication \$3,670, Special Anniversary Entertainment \$1,166, and Exhibit \$371.

BOARD ASSESSMENT

The Board of Governors of the Federal Reserve System levies semi-annually upon the Federal Reserve banks, in proportion to capital stock and surplus, an assessment sufficient to pay estimated expenses and salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

Our assessment for expenses totaled \$55,330 for the year 1946, an increase of \$1,921 over the previous year. Although capital and surplus increased \$4 million, the average rate for the year decreased approximately one mill compared with 1945.

COST OF FEDERAL RESERVE CURRENCY

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Original cost (including shipping charges)	\$ 92,357	\$ + 66,330
Redemptions (including shipping charges)	<u>13,205</u>	<u>+ 2,252</u>
	\$106,062	\$ + 68,582

The cost of new currency totaled \$93 thousand during 1946, an increase of \$66 thousand over the year 1945 which was mostly due to an increase in printing of our notes. With more money in circulation since the beginning of the war, more bills were redeemed because of wear and tear, resulting in increased redemption cost. The cost of destroying the incomplete 1923 series of Federal Reserve Notes of our bank held at the Bureau of Engraving was \$680.

RENTAL RECEIVED

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Head Office	\$36,696	\$ - 10,347
Helena Branch	<u>6,813</u>	<u>+ 1,689</u>
	\$43,509	\$ - 8,658

Rental received from government agencies for space and furniture and equipment, which is deducted from our total expenses, amounted to \$43,509 during 1946 for the Head Office and Branch, a decrease of \$8,658 compared with 1945. Space rental at the Head Office was \$9,500 less than a year earlier due entirely to the reduced activity in the Fiscal Agency Department and R. F. C. Department during the year.

REIMBURSABLE EXPENDITURES

	<u>1946</u>	<u>Inc. or Dec. from 1945</u>
Treasury Issues	\$103,858	\$ - 73,660
U. S. Savings Bonds	609,379	- 9,482
Armed Forces Leave Bonds	388	+ 388
Withholding Taxes	8,294	+ 609
Foreign Funds Control	292	- 8,291
Currency Reports	443	- 396
Reconstruction Finance Corp.	56,560	- 3,225
Federal Farm Mortgage Corp.	402	- 903
Federal Land Banks	1,022	- 22
Federal Intermediate Credit Banks	4	- 1
Federal Public Housing Authority	12	- 10
Commodity Credit Corporation	42,419	- 10,024
Maritime Commission	180	- 1,047
War Department	2,777	- 13,263
Navy Department	440	- 3,577
Office of Price Administration	9,308	- 19,565
Federal Works Agency	97	- 26
Home Owners Loan Corporation	158	- 1,089
Leased Wire Service	2,166	+ 658
Photostat Service	1,929	+ 1,559
	<u>\$840,128</u>	<u>\$ -141,367</u>

Reimbursable expenditures at the Head Office and Helena Branch totaled \$840 thousand for 1946, a decrease of \$141 compared with the previous year. The agencies showing the greatest decreases are: Treasury Issues \$74 thousand, U. S. Savings Bonds \$9 thousand, Foreign Funds Control \$8 thousand, Reconstruction Finance Corporation \$3 thousand, Commodity Credit Corporation \$10 thousand, War Department \$13 thousand, Navy Department \$4 thousand, Office of Price Administration \$20 thousand, and Home Owners Loan Corporation \$1 thousand, while Photostat Service increased \$2 thousand. These decreases are all due to reduced work in almost all reimbursable units.

DEPARTMENTAL COMMENTS

Bank and Public Relations	33
Cafeteria	36
Check Collections	37
Consumer Credit	38
Currency and Coin	39
Discounts	40
Duplicating	41
Examinations	42
Fiscal Agency	45
Noncash Collections	50
Personnel	50
Purchasing	56
Reconstruction Finance Corporation	57
Research	59
Safekeeping	61

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COMMENTS

BANK AND PUBLIC RELATIONS

Continuing a policy inaugurated in 1933, officers and senior employees of the bank carried out a comprehensive program of visiting banks during 1946, calling on every bank in the district, exclusive of Montana and Twin City banks. Since there are approximately 1,130 such banks and 2,069 calls were made, the great majority of these banks received two or more Federal Reserve calls. The approximately 190 banks which received only one call were located almost entirely in Wisconsin and North Dakota. In addition to the above figure, 74 calls were made at stations, offices and branches of banks, making a total of 2,143 visits, as compared with a total of 1,175 in 1945 and 461 in 1944.

Bank visits were made by 19 different men. The district, exclusive of Montana and the Twin Cities, was divided into ten sections, and two men were assigned to visit every bank in each section except in the Upper Peninsula of Michigan where one man visited each bank twice.

In addition to the regularly assigned calls, numerous visits to banks in all parts of the district were made by the officer in charge of Bank Relations and his assistant who was added to the Bank Relations Department in April.

One or more of our representatives were present at the State Bankers' Conventions of all six States which comprise the Ninth District. Men from our bank also attended the Independent Bankers' Convention, ABA Savings and Mortgage Conference, National ABA Convention, all group meetings, many clearinghouse meetings, county bank meetings and anniversary and open house celebrations of individual banks.

Of the 808 nonmember banks in the district at the end of the year, 128 were on the Federal Reserve par list and 680 charged exchange. Three of the exchange charging banks have announced they will go on the par list as of January 2, 1947, one of the three having applied for Federal Reserve membership. Four of the 128 par banks also had membership applications pending. Sixty-six of the remaining par banks are considered eligible for membership, while 58 are ineligible at the present time because of inadequate common capital, because of the operation of branches, stations or offices, or for

other reasons.

Of the nonpar banks, 393 have sufficient common capital to qualify for Federal Reserve membership and 164 had sufficient capital funds so that they could become eligible for membership should they discontinue charging exchange. The remaining 123 banks do not have sufficient common capital or capital funds to qualify for membership even if they should discontinue charging exchange. About one-third of these latter banks might be eligible, so far as capital requirements are concerned, if it were not for their operation of stations, branches or offices.

During 1946, bank officers and representatives delivered 69 talks to an estimated audience of 8,206 persons, the bank movie produced in the latter part of 1935 was shown to approximately 9,178 people, and 75 requests for 390 copies of the picture book "Your Money and the Federal Reserve System" were received. This bank continued its cooperation with the Wisconsin Bankers' Association with regard to showing of the Federal Reserve movie in that part of Wisconsin located in the Seventh Federal Reserve district.

A one-day conference for Ninth District examiners from the staffs of the Comptroller of the Currency, F.D.I.C., State Banking Department, Minneapolis Clearinghouse and this bank was held in January 1946. South Dakota and Montana Banking Departments were not represented, but the 69 outside guests present heard talks by Messrs. Beatty, Bishop, Amundson, Quinn, Hudson and other members of the various examination staffs. An open forum on examination problems was held by Messrs. Powell, Ueland, McCracken and Parsons of this bank. Mr. Herb Paul, former Minneapolis newspaper man, talked during luncheon on his experiences as a war correspondent in the Pacific. The conference was concluded with a complimentary dinner at the Minneapolis Athletic Club.

In December, another one-day conference for Ninth District examiners was held. There were 89 outside guests, but again Montana was not represented. Talks were given as follows:

<u>Speaker</u>	<u>Subject</u>
Paul McCracken	"Prosperity or Depression?"
Frank Parsons	"1947 - A Turning Point for Agriculture"
George Grim	"What About Russia"
Austin A. Dowell	"The Livestock Outlook"
William G. F. Price	"Commercial Bank Loans and Inventories"
Jim Gentry	"Defalcations"

An open discussion of examination problems was held and the conference closed with a complimentary dinner at the Minneapolis Athletic Club.

On the twenty-fifth anniversary of the opening of the Helena Branch, Montana bankers were entertained on the occasion of the February opening of the second story addition to the Branch building. The new quarters contained an exhibit of the leading industrial products of Montana. Three representatives of the Head Office attended.

For the first time since 1943, a Federal Reserve Conference of Ninth District Bankers was held April 6 with an attendance of 972 bankers and 102 officers and employees of this bank. Tours through the bank were conducted by guides who explained the operations of the various departments. After a noon luncheon at the Radisson Hotel, President Peyton opened and handled the business meeting. In the main address, Dr. John H. Williams, Professor of Economics, Harvard University, discussed the economic situation, leading from the war and its effects, down to the peacetime situation and its promises. Other speakers were Messrs. McCracken, Parsons and Dr. Buchta. A panel discussion was led by Mr. Powell, First Vice President, in which the other panel speakers were Messrs. Ueland, Preston, McConnell, Mills and E. B. Larson. After dinner, buses transported the guests to the evening's entertainment at the Minneapolis Arena featuring the 1946 Ice Follies.

A two-day Federal Reserve Forum for "supporting executives" of member banks in this district was held in November. The 377 registrants ranged from several senior officers of member banks down to bookkeeper. The program was educational with no entertainment provided. Various phases of agriculture, business, industry, finance and current events were discussed by 19 prominent speakers. This was the first forum of its kind and was held by the Federal Reserve Bank at the suggestion of member bankers for men and women who may be the future executive officers of their institutions.

The Montana Bankers' Convention held at Yellowstone Park was attended by the boards of directors of the head office and Helena branch. From the convention, the directors went to Helena, Montana, and then to Butte for a joint meeting with the Butte bankers.

An operating ratio statement covering 1945 operations of member banks in this district was mailed out to all member banks. Special studies

of operating ratios were computed for the State Banking Departments of North Dakota and South Dakota, and in Wisconsin for Ninth District State banks in that State.

Eleven bank tours were made by students of out-of-town high schools and colleges.

At a luncheon meeting in January, the directors and officers heard Dr. Harold Deutsch of the University of Minnesota discuss his observations as a member of the American Military Government of Germany.

On November 1, twenty-seven bankers and businessmen were guests at a luncheon held at the bank in honor of Mr. James K. Vardaman, Jr., new member of the Board of Governors of the Federal Reserve System.

Of the 15 miscellaneous luncheons held at the bank, 8 were with bank officers, prominent businessmen, University professors or students as guests, and 7 were Parent-Daughter luncheons.

Directors, officers and senior personnel took four industrial tours during the year, visiting Archer-Daniels-Midland Linseed Company, Minneapolis Honeywell Regulator Company, Minnesota Mining and Manufacturing Company, and the Minnesota Valley Breeders Association at New Prague, Minnesota.

CAFETERIA

Miss Eisenbarth, who has operated our cafeteria for several years past, has terminated her connection and is succeeded by Mrs. Helen L. Pearson, who will operate under the same arrangement.

The following schedule shows that the cost of the cafeteria to the bank has increased during the past year. This is due to increased food costs as well as increased cost of operation. As our bank has gone on a five-day work week basis with only forty-five minutes for lunch, the lunchroom probably has added value to the bank from that angle.

	<u>1946</u>	<u>1945</u>
Average cost per sale		
To employee	\$.2349	\$.2115
Actual	.2977	.2443
Average number of sales per day	507	514
Average number of employees in bank	695	724
Average percentage of cost absorbed	20.92	12.84

CHECK COLLECTION DEPARTMENT

Since 1941 the volume of checks handled in the Check Collection Department has shown sizeable increases. During 1946 the volume was 44,078 thousand checks functioned compared with 40,486 thousand in 1945, an increase of 3,592 thousand checks or approximately 9%. The dollar value of checks was \$14,451 million in 1946, which is \$2,281 million or 19% more than the 1945 value of \$12,170 million.

Prior to the year 1945 the daily volume of all types of checks handled had never reached 200,000. During 1945, however, this number was exceeded 3 times with the high being on November 13 when a total of 217,000 checks was handled. During 1946 the total of 200,000 was passed 7 times with the all time high of 223,000 being reached on March 18.

On October 14 an all time daily high of 159,000 country checks was reached, which used to be a high total for checks of all kinds handled.

Checks drawn on Minneapolis and St. Paul banks decreased 78 thousand in number handled but increased 1,295 million in dollar amount.

Country checks, (which represents all checks drawn on banks located outside of the Twin Cities) numbering 29,625 thousand and totaling \$5,044 million, increased 17% in number and 29% in dollar value.

Checks drawn on the Treasurer of the United States decreased 656,000 with paper checks dropping 241,000 and punch card checks 415,000. The decrease in paper checks handled represents a drop of 14% while in punch card checks the decrease was 7%.

Return items handled numbered 426,000, an increase of 116,000 or 37% from the previous year. During 1945 and 1946, 50% of the checks which we returned were returned without presentation for such reasons as "not on par list" and "nonbank items."

Drafts drawn on us, received from various sources, were 75 thousand items in 1946, a decrease of 11 thousand from the 1945 figure, although the dollar value was \$208 million greater.

The 1946 and 1945 comparative figures are shown on the table on the following page.

Volume Data

	<u>Number of Checks Handled</u> (in thousands)			<u>Amount</u> (in millions)		
	<u>1946</u>	<u>1945</u>	<u>Increase or Decrease</u>	<u>1946</u>	<u>1945</u>	<u>Increase or Decrease</u>
Twin City Checks	7,080	7,158	- 78	\$ 7,041	\$ 5,746	\$ +1,295
Country Checks	29,625	25,404	+ 4,221	5,044	3,912	+1,132
Checks on us	75	86	- 11	837	629	+ 208
Return Items	426	310	+ 116	114	79	+ 35
Gov't checks (paper)	1,435	1,676	- 241	1,053	1,451	- 398
Gov't checks (punch card)	<u>5,437</u>	<u>5,852</u>	<u>- 415</u>	<u>362</u>	<u>353</u>	<u>+ 9</u>
	44,078	40,486	+ 3,592	\$14,451	\$12,170	\$ +2,281

The mail consolidation division, where all correspondence, advices, cash letters, etc. are sorted and enclosed in one envelope to the bank addressed, has now been in operation for about 16 months. The plan has worked out very satisfactorily and has cut to a minimum the amount of previously missorted and missent mail. Reports from bankers indicate they prefer to receive mail in this manner.

CONSUMER CREDIT

On May 15, 1946, the Consumer Credit Department was reactivated and a program instituted which called for investigation of a minimum of 10% each year of registered concerns in the district served by this bank.

At the close of the year there were 13,022 registrants, 1,067 of whom, located in 98 communities, had been visited by our Regulation W representatives. Four hundred thirty-eight of these appeared to have no credit transactions subject to the Regulation, while at 629 concerns our representatives reviewed 38,374 transactions. These examinations disclosed that 294 registrants were not complying with the Regulation in one or more respects, but while 2,020 violations were noted, no registrant was classified as a willful violator.

The Regulation was substantially revised on December 1, 1946, reducing the list of consumer durable goods to which the Regulation applied from 36 categories to 12. No article costing less than \$50 is considered a listed

article in the revised Regulation. Restrictions as to charge accounts and single payment loans were eliminated and a uniform maturity of 15 months was established for all new instalment credits.

At the close of the year there were four investigators actively engaged in Regulation W activities.

CURRENCY DEPARTMENT

The volume of work in the Currency and Coin Department continued to expand during 1946. There were 57,486 thousand notes received and counted in 1946 as against 43,922 thousand in 1945, an increase of 13,564 thousand pieces; notes rehandled jumped to 6,367 thousand in 1946 compared with 4,887 thousand in 1945, an increase of 1,480 thousand pieces; and coin rehandled in 1946 was 6,762 thousand pieces, up 462 thousand when compared with the 6,300 thousand rehandled in 1945.

In 1945, a shadograph scale was purchased to weigh instead of hand-verify fit-for-use currency put up by new clerks. In March 1946, two additional shadograph scales were purchased and put into use with the result that the number of notes verified by hand in 1946 was only 5,213 thousand pieces against 9,470 thousand pieces in 1945, a decrease of 45%.

The number of outgoing shipments of currency and coin decreased slightly in 1946 but the dollar amount paid out was \$28 million more than in 1945. Incoming shipments numbered 24,262 for \$296 million in 1946, compared with 21,172 shipments for \$232 million in 1945, an increase of 3,090 shipments for \$64 million.

The dollar amount of currency paid out in denominations of \$50, \$100, \$500 and \$1,000 increased \$8 million over 1945, and the amount in the smaller denominations increased \$10 million.

During the year 1946, the following changes in operations were made: The shipping teller's unit has been divided into two separate units: the currency shipping cage and the cancellation cage, the new units having separate control over their cash. The coin tellers have been transferred to new quarters where a new vault was built for their exclusive use. The new quarters are very satisfactory as it eliminates a considerable amount of rehandling

of coin that was necessary under the old arrangement.

Number of Pieces Handled

	<u>1946</u>	<u>1945</u>
Notes Received and Counted	57,485,763	43,922,466
Notes Rehandled	6,366,970	4,886,511
Hand Verification of Notes	5,213,313	9,469,707
Coin Rehandled	<u>6,762,045</u>	<u>6,299,668</u>
	75,828,091	64,578,352

Incoming Shipments

	<u>1946</u>		<u>1945</u>	
	<u>Number</u> (000 omitted)	<u>Amount</u>	<u>Number</u> (000 omitted)	<u>Amount</u> (000 omitted)
Currency	21,890	\$291,556	19,266	\$228,290
Coin	<u>2,372</u>	<u>4,290</u>	<u>1,906</u>	<u>3,230</u>
	24,262	\$295,846	21,172	\$231,520

Outgoing Shipments

	<u>1946</u>		<u>1945</u>	
	<u>Number</u> (000 omitted)	<u>Amount</u>	<u>Number</u> (000 omitted)	<u>Amount</u> (000 omitted)
Currency Paid Out	25,889	\$292,673	29,339	\$274,211
Currency shipped to Helena Br. and for other F.R.Bks.	556	32,625	510	23,775
Coin	<u>13,906</u>	<u>7,489</u>	<u>11,773</u>	<u>6,429</u>
	40,351	\$332,787	41,622	\$304,415

Currency Paid Out to

Ninth District Commercial Banks and Governmental Agencies

	<u>1946</u> (000 omitted)	<u>1945</u> (000 omitted)
\$1's and \$2's	\$ 28,030	\$ 25,015
\$5's	46,501	44,524
\$10's	91,021	86,728
\$20's	82,374	81,437
\$50's	8,155	7,307
\$100's	32,268	25,709
\$500's	1,480	1,498
\$1000's	<u>2,844</u>	<u>1,993</u>
	\$292,673	\$274,211

DISCOUNT DEPARTMENT

During the year 1946, the discount rate remained at one percent.

On April 26, 1946, the preferential rate of one-half of one percent to member banks was eliminated.

At the head office, fifteen banks took advantage of loan privileges during 1946, borrowing an aggregate amount of \$1,009,465 thousand, all of which was represented by member bank bills payable with U. S. Government obligations as collateral security. The large total was the result of borrowing for one day in large amounts rather than discounting notes with longer maturities. Eleven million four hundred sixty-five thousand dollars of the total advanced represented borrowings of members other than Twin City banks. In 1945, seventeen banks were accommodated to the extent of \$1,441,966 thousand. As of December 31, 1946, there was no member bank indebted to us, which was also true on the same date one year earlier.

At the Helena Branch, \$8,525 thousand was discounted during 1946 compared with \$8,425 thousand in 1945.

U. S. Treasury Bills bought under repurchase agreements totaled \$709,128 thousand during 1946, compared with \$723,734 thousand during 1945. On December 31, 1946, the amount of Treasury Bills held was \$26,264 thousand against \$33,923 thousand held on December 31, 1945.

No industrial advances were made in 1946, and no industrial loan applications were under consideration as of December 31, 1946.

Regulation V activities during the year centered mainly on the cancellation of outstanding guarantees. As of December 31, 1946, the amount of loans outstanding was \$276 thousand, with the portion guaranteed by the War Department \$226 thousand, Maritime Commission \$3 thousand, and the Navy Department none.

On January 5, 1946, all Foreign Funds Control matters were transferred to the Federal Reserve Bank of Chicago on instructions from the Treasury Department.

DUPLICATING DEPARTMENT

During 1946, the Duplicating Department of eight employees (thirteen during the war) ran more than three million copies of 3,726 forms, including 20,921 photostat pictures of various documents. Five thousand two

hundred thirty-four of these pictures were for the bank (including Fiscal Agency), while the remaining 15,687 were for outside banks, Intelligence Unit of the Collector of Internal Revenue, R.F.C. Agency, Commodity Credit Corporation, and the War Assets Corporation.

In addition, the department addressographs daily about two thousand envelopes and four thousand forms for cash letters, return items, deferred credits, etc. There are about 35,000 addressograph plates in this division, of which 13,000 are used for our mailing list in connection with Consumer Credit activities.

Sixteen machines of various types are used in connection with this work, such as mimeograph, multigraph, various duplicators, typesetter photostat, cutting, folding, etc. Another machine, the vari-typer, can produce fourteen different styles of type. A graphotype machine is used for making new addressograph plates.

EXAMINATION DEPARTMENT

There were on December 31, 1946, one hundred twenty-three State member banks in our district, each of which was examined once during the year by our examiners.

As of the end of the year, eleven State member banks were exercising trust powers, and the trust department of each of those member banks was examined during the year. Four other State member banks having trust powers have restricted their activities to the handling of escrow, custodianship and safekeeping accounts; in each of these cases their activities were checked by our examiners.

Sixty-six national banks held permits to exercise full or limited trust powers. Application in behalf of one State member bank for limited trust powers, approved by the Board at Washington in 1945, became effective in 1946, and two national banks which previously had trust powers were authorized to continue such powers after a change in title or a consolidation with another national bank. During the year, one national bank surrendered its trust powers.

None of the three holding company affiliates which are residents of this district was examined during the year.

Through authorization of the Board of Governors of the Federal Reserve System, we participated with the Federal Reserve Bank of San Francisco in an examination made as of the close of business on September 30, 1946, of the Allied Building Credits, Inc., St. Paul, Minnesota, an affiliate of Transamerica Corporation.

The application of one bank which was received in 1945 was approved during 1946 and membership completed. Ten applications for membership in the Federal Reserve System were received from State banks during 1946. The applications of five of these banks were approved and the banks admitted to membership. Five applications for membership were pending as of the close of the year. These five applications have been sent to the Board in Washington and three have been approved but membership was not completed as of the year-end.

The number of reports of examination received from the various State Banking Departments in the Ninth Federal Reserve District during 1946 of State member banks examined independently by them was as follows:

Minnesota	25
Montana	11
Wisconsin	3

When State member banks are shown by reports of examination to be in an unsafe or unsatisfactory condition, special letters are written either to the bank or to the State supervising authorities, calling attention to the unsatisfactory and criticised matters, with a request or direction that corrective action be taken. Conferences are held with those at interest in cases where such action appears desirable and constructive.

During the year three calls for a report of condition of each member bank were issued. All member banks submitted semiannual reports of earnings & dividends. The condition and related reports, together with reports of earnings and dividends, were received, checked and recorded.

No new applications for fiduciary powers were received during the year. However, the Board at Washington authorized the following banks to exercise previously granted fiduciary powers:

<u>Name of Bank</u>	<u>Location</u>	<u>Authorized</u>
Northern Minnesota Natl. Bank of Duluth (After consolidation of Northern Natl. Bank & Minnesota Natl. Bank of Duluth.)	Duluth, Minn.	6-20-46
The First National Bank of Chippewa Falls (After change of title.)	Chippewa Falls, Wisc.	7-1-46

Application of the following bank for surrender of fiduciary powers was approved during the year:

<u>Name of Bank</u>	<u>Location</u>	<u>Approved</u>
The First National Bank of Kalispell	Kalispell, Mont.	4-18-46

During the year, three hundred fifty-one applications for adjustment of holdings of Federal Reserve Bank stock were received from member banks. Stock was issued to six new members. Seven applications for total surrender of stock by national banks were received, such national banks having been placed in voluntary liquidation. The Examination Department handles applications for adjustment, for new stock, and for cancellation of stock.

Number of Banks in the Ninth Federal Reserve District
as of December 31, 1946

<u>State</u>	<u>Member Banks</u>		<u>Nonmember Banks</u>		<u>Total</u>
	<u>National</u>	<u>State</u>	<u>On Par List</u>	<u>Off Par List</u>	
Michigan	26	15	8	0	49
Minnesota	181	27	54	416	678
Montana	39	39*	32	1	111
North Dakota	41	0	4	106	151
South Dakota	35	28	4	102	169
Wisconsin	26	14	26	55	121
Totals	348	123	128	680	1,279
Totals Year Ago	356	117	121	686	1,280

*Includes one bank not operating but still holding Federal Reserve Bank stock.

State Banks Which Became Members During 1946

Minnesota

State Bank of Anoka
Anoka, Minnesota

State Bank of Barnum
Barnum, Minnesota

Montana

Farmers and Stockmens Bank of Valier
Valier, Montana

South Dakota

Columbia State Bank
Columbia, South Dakota

First State Bank of Pierpont
Pierpont, South Dakota

First State Bank of Warner
Warner, South Dakota

Member Banks Severing Connections with This Federal Reserve Bank During 1946

National Banks Consolidated with other National Banks

<u>Date</u>	<u>Name of Bank</u>	<u>Location</u>	<u>No. of Shares Surrendered</u>
6-19 (Close of business.)	The Minnesota National Bank of Duluth (Consolidated with The Northern National Bank of Duluth, Duluth, Minnesota, under charter of that bank and under title "Northern Minnesota National Bank of Duluth.")	Duluth, Minn.	Stock acquired by consolidated bank.

National Banks Succeeded by other National Banks

1-16	The First National Bank of Eveleth (Succeeded by The First National Bank at Eveleth, Eveleth, Minn.)	Eveleth, Minn.	120
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National Banks Succeeded by Nonmember State Banks

11-21	The National Bank of Lakota (Succeeded by State Bank of Lakota, Lakota, North Dakota.)	Lakota, No. Dak.	38
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National Banks Absorbed by Other National Banks

5-31	The Merchants National Bank of Glendive (Absorbed by The First National Bank of Glendive, Montana.)	Glendive, Mont.	64
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National Banks Absorbed by Nonmember State Banks

3-23	The Sherburn National Bank (Absorbed by Farmers State Bank of Sherburn, Minnesota.)	Sherburn, Minn.	34
5-17	The Truman National Bank (Absorbed by Peoples State Bank of Truman, Incorporated, Truman, Minnesota.)	Truman, Minn.	35
10-19	The First National Bank of Grantsburg (Absorbed by First Bank of Grantsburg, Wisconsin.)	Grantsburg, Wisc.	39

National Banks Liquidated, not Absorbed or Succeeded by any Other Banking Association

4-1	The First National Bank of Stephen, Minnesota	Stephen, Minn.	30
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FISCAL AGENCY DEPARTMENT
(Head Office only)

During the year 1946 the Treasury Department offered no securities other than Treasury bills, savings bonds and savings (tax series) notes for

cash subscription. There were 11 exchange offerings of certificates of indebtedness during the year. The total number of subscriptions for all such issues was 8,871, of which 7,290 were from banks. The total exchange subscriptions received during 1946 amounted to \$767 million with an aggregate allotment of \$574 million. The total cash and exchange subscriptions received and allotted during 1945 amounted to \$1,404 million, of which \$810 million was received during the Seventh and Eighth War Loan Drives. Owing to the heavy cash subscriptions received in the Eighth War Loan Drive, the Treasury found itself with a large cash balance at the beginning of 1946. This position permitted the Treasury to carry out an extensive debt retirement program during the year. The total public debt as of December 31, 1945, both direct and guaranteed issues, was \$279 billion as compared with \$260 billion on December 31, 1946.

Beginning with the 7/8% certificates of indebtedness, Series H, dated September 1, 1946 and maturing September 1, 1947, the Treasury Department issued a new form of certificate with no interest coupons attached. The full interest on such certificates will be paid with the principal at maturity.

During the year we received 1,840 tenders for Treasury bills aggregating \$391 million, of which \$295 million was accepted. The total tenders received represented 1,845 subscribers as compared with 2,631 tenders in 1945 covering 2,658 subscribers.

During the year this bank issued United States Savings Bonds of Series E, F and G in the amount of \$117 million (issue price) involving 385,892 pieces as compared with \$161 million (issue price) involving 818,606 pieces in 1945.

The number of qualified issuing agents of Series E Savings Bonds in our district has been reduced by 320 as compared with the same period one year ago, there being 1,453 issuing agents as of December 31, 1946. The reduction is due to theatres, radio stations, retail stores, newspapers and inactive accounts, other than banks, requesting cancellation of their qualifications.

We shipped 1,185,318 pieces of Series E Savings Bonds to issuing agents in 1946 as compared with 4,015,351 pieces in 1945.

The issuing agents in the head office portion of the district issued 1,303,723 Series E Savings Bonds amounting to \$133 million (issue price) as

compared with 3,832,000 pieces amounting to \$250 million (issue price) issued in 1945.

As of December 31, 1946 there were 1,225 incorporated banks with 99 branches and 20 miscellaneous paying agents qualified to redeem certain classes of United States Savings Bonds, Series A through E, as compared with 1,111 banks with 102 branches and 18 miscellaneous paying agents on December 31, 1945.

Reimbursement to paying agents for paying savings bonds during the first three quarters of 1946 amounted to \$428 thousand for 3,411,919 pieces. During the year 1946 the daily average of all United States Savings Bonds redeemed at the head office was 14,662 pieces as compared with a daily average of 13,234 pieces in 1945. The figures include redemptions by paying agents and direct redemptions by this bank.

During March 1946 four Treasury Department representatives installed in our office a new mechanical procedure for handling redeemed savings bonds. Under the new plan the Treasurer accepts the redemption charge as verified by the Federal Reserve banks, subject to final audit by the Register of the Treasury, eliminating completely the former audit by the Treasurer's office. The methods of verification of redemption charges by Federal Reserve banks are based on the dual control principle under which the figures for the month and year of issue and denomination classifications involved in the advices of shipment are developed from two independent sources, i.e., from punch cards prepared from the bonds prior to sorting and from physical sorts and counts of the bonds themselves.

This procedure materially increased the tabulating activities of this bank. We are satisfied that the present system is very practical, and highly satisfactory.

During 1946 the number of savings bonds received for safekeeping averaged 4,926 pieces per month as compared with an average of 8,622 pieces per month for 1945. The monthly average number of these bonds released from safekeeping during 1946 was 4,207 pieces compared with a monthly average of 2,973 pieces in 1945. As of December 31, 1946 this bank held for safekeeping 279,016 savings bonds as compared with 270,390 bonds as of December 31, 1945.

During the past year we handled 85,462 pieces of savings bonds for

reissue for one purpose or another, the amount involved being \$11 million (maturity value) as compared with 74,620 pieces in 1945 amounting to \$9 million. Reissue cases arise where it is necessary to add, omit, or substitute a beneficiary, add a coowner, change a beneficiary to a coowner, or when original bonds have been incorrectly inscribed, and many other types of cases where it becomes necessary to issue a new bond in order to effect the proper change.

There are 1,141 banks in the district now qualified as War Loan Depositories of which 961 have active accounts, which number includes 84 active accounts handled by the Helena Branch. The amounts deposited in these accounts, exclusive of those accounts handled by the Helena Branch, aggregated \$222 million for the year. The total deposits in the War Loan Deposit Account as of December 31, 1946 were \$74,385,553.11 as compared with \$578,427,015.58 on December 31, 1945. This decrease is explained by the use for debt reduction of the payments which were made through the account as a result of the Eighth War Loan Drive in November and December 1945.

We redeemed 581,789 Government coupons amounting to \$47 million as compared with 523,912 coupons totaling \$37 million during 1945. We also redeemed 12,657 Governmental Agency coupons amounting to \$275 thousand during 1946 as compared with 18,264 coupons totaling \$316 thousand during 1945.

Under the Armed Forces Leave Act of 1946, living members and living former members of the Armed Forces of the United States are entitled to receive, under the conditions set forth in the Act, bonds of the United States (Armed Forces Leave Bonds) in settlement and compensation of accumulated leave. The bonds will mature in five years from the issue date, which date is the first day of the quarter (January 1, April 1, July 1, October 1) following the date of discharge. The bonds may be cashed only at maturity, except that they may be assigned to the Administrator of Veterans' Affairs in payment of National Service Life or Government Life Insurance premiums, cost of conversion of such insurance, and policy loans, or they may be cashed by survivors in the event of death of the registered owner. At the present time the bonds may be redeemed only at the Federal Reserve banks or Treasury Department.

During November and December of 1946 most of the operations previously handled at the Savings Bond Annex, including the Safekeeping Savings Bond Unit, were transferred to the main office. We have given up the entire space in the Hodgson Building and our remaining activities, which include handling of redeemed savings bonds paid by paying agents and the punch card, are quartered in the former Farmers & Mechanics Savings Bank Building.

COMPARATIVE VOLUME REPORT
GOVERNMENT ISSUES AND OTHER THAN GOVERNMENT ISSUES

	<u>1946</u>		<u>1945</u>	
	<u>Pieces</u>	<u>Amount</u>	<u>Pieces</u>	<u>Amount</u>
Gov't Issues Delivered on Orig. Issues				
Tax Series	3,762	\$ 48,504,900	15,466	\$ 85,505,500
Direct Gov't Obligations	45,704	906,390,500	117,086	1,717,869,000
U.S.Svgs. Bonds Delivered on Original Issue -				
By Us*	385,892	116,997,559	818,606	161,302,801
By Issuing Agents*	1,303,723	132,865,413	3,832,000	249,870,570
Redemptions				
U.S.Savings Bonds**	4,408,654	198,061,461	4,001,445	150,087,738
Adjusted Service Bonds	10,029	501,450	180,403	9,020,150
Treasury Notes Tax Series	12,781	71,303,325	20,423	121,251,900
Coupon & Registered Securities Redeemed or Exchanged for New Issues	82,679	1,346,654,383	64,327	1,087,375,982
Exchanges Received (Coupon & Registered) and received against issues by other Federal Reserve Banks (CPD)	23,987	553,719,550	20,842	389,590,150
Sub-total to agree with Form E	<u>6,277,211</u>	<u>\$3,374,998,541</u>	<u>9,070,598</u>	<u>\$3,971,873,791</u>
Exchanges delivered (Coupon & Registered) and issued against receipts by other Federal Reserve Banks	33,837	\$ 599,486,600	20,000	\$ 380,145,750
Savings Bonds issued a/c Reissues	85,462	11,000,770	74,620	8,782,455
Savings Bonds received a/c Reissues	87,344	12,411,945	74,511	8,782,455
War Savings Stamps and Thrift Stamps received for redemption	10,836	105,281	37,915	472,104
Delivered to agents on Consignment Series E	1,185,318	182,533,680	4,015,351	355,244,880
Securities handled by Bond Delivery Division in connection with the sale of securities for other than our own account	21,473	520,095,550	17,179	395,764,700
Sub-Total	<u>7,701,481</u>	<u>\$4,700,632,367</u>	<u>13,310,174</u>	<u>\$5,121,066,135</u>
Securities handled by us for U.S. Governmental Corp. & Credit Agencies	8,336	13,625,250	12,637	23,525,325
Total Volume handled by Fiscal Agency	<u>7,709,817</u>	<u>\$4,714,257,617</u>	<u>13,322,811</u>	<u>\$5,144,591,460</u>
Treas. Checks issued in payment of Savings Bonds, Adjusted Service Bonds and Other Public Debt Redemptions	48,974		84,297	

* Issue Price

** Redemption Value

NONCASH COLLECTION DEPARTMENT

During 1946 this department handled 807 thousand grain drafts, a decrease of 30 thousand items compared with the 1945 figures of 837 thousand. The value of the grain items was, however, \$688 million, declining about \$3 million from the 1945 total of \$691 million.

There was an increase of 1,106 in city collections and an increase of 14,521 items in the country collections compared with 1945.

Security collections showed an increase of 474 items handled, although the dollar value decreased over \$19 million. The decrease in dollar value of 1946 transactions compared with 1945 was due principally to the sale of U. S. Treasury Bonds for delivery in New York during February and March of 1945.

Our member banks forwarded 4,249 direct-sent collections to other Federal Reserve banks as compared with 2,883 during 1945. The dollar value of these collections totaled \$20 million for 1946 as against \$25 million for 1945.

Comparison of Number of Items Received
for Collection

	<u>City Collections</u>		<u>Country Collections</u>		<u>Security Collections</u>	
	<u>1946</u>	<u>1945</u>	<u>1946</u>	<u>1945</u>	<u>1946</u>	<u>1945</u>
<u>Number of Items</u>						
Grain Drafts	807,704	837,472				
City Items	<u>28,726</u>	<u>27,620</u>				
	836,430	865,092	56,711	42,190	25,978	25,504
<u>Dollar Value</u> (000 omitted)						
Grain Drafts	\$687,856	\$690,585				
City Items	<u>286,528</u>	<u>242,485</u>				
	\$974,384	\$933,070	\$55,181	\$37,381	\$15,381	\$34,533

PERSONNEL DEPARTMENT

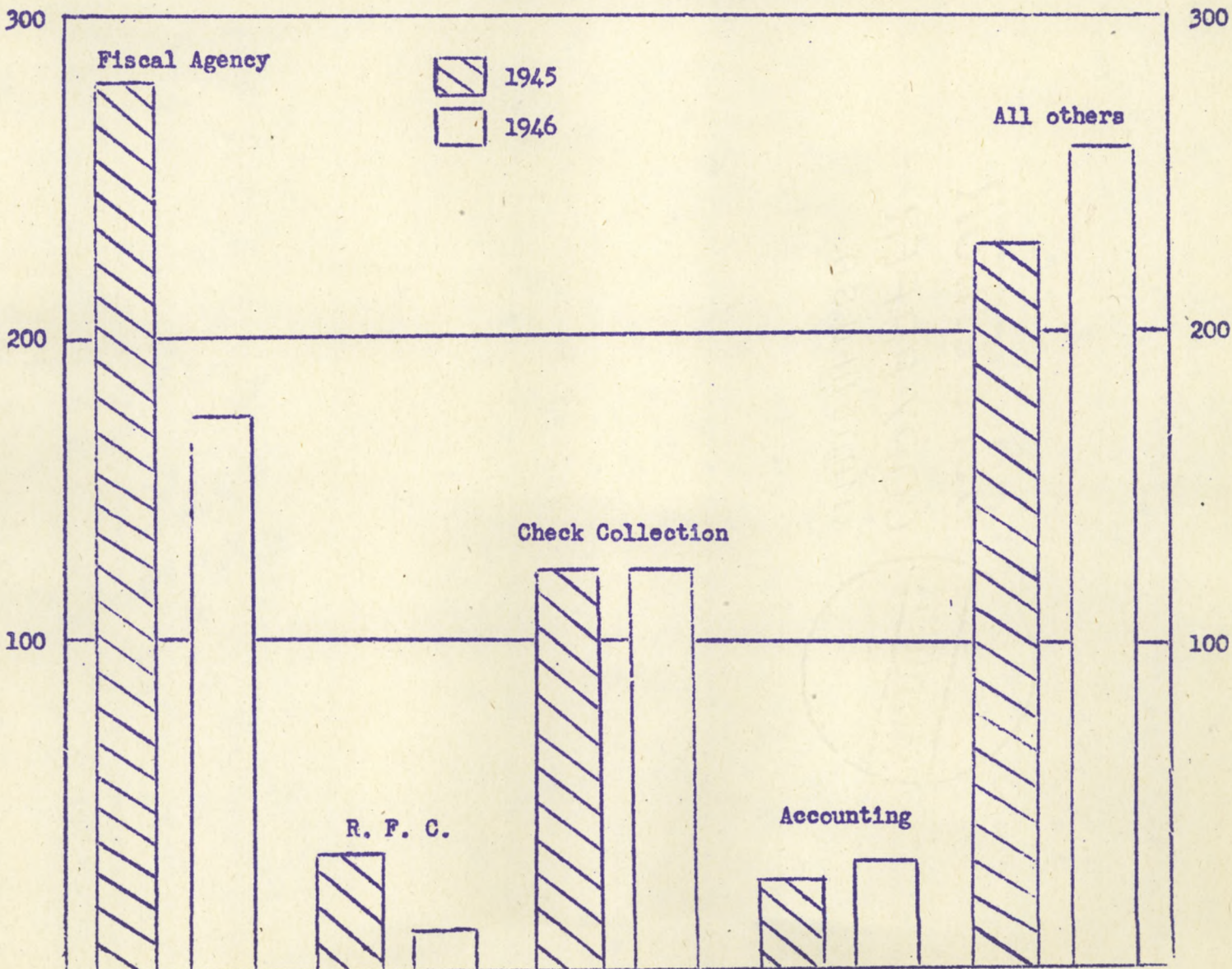
A return to more normal and regular Fiscal Agency operations has made it possible to reduce our staff by ninety-two persons during 1946. The change from a total of 728 on December 31, 1945 to 636 on December 31, 1946 was accomplished despite a shift to five-day week operation which took effect December first.

Net turnover (the number of replacements per hundred workers on the

average working staff) during the past year averaged 22.5%, the lowest rate since 1940. This favorable rate is a further result of the decline in war occasioned peak work loads and the comparatively small number of replacements during the year. Only 153 persons were employed in 1946 as against 307 hired in 1945. Separations for the year totaled 245 as compared with 322 in 1945 and 407 in 1944.

Work volume has shifted noticeably from government agency functions during the past year and these shifts have seen a marked reduction in some departmental staffs and increases in others. In many instances employees have been transferred from one department to another to meet varying departmental help needs under the peacetime shift of work loads and more recently the impact of the five-day work week. The chart below which shows the number of employees charged to several typical departments during December 1945 as compared with December this year illustrates this change.

Number of Employees
December 1945 and December 1946



With less urgency placed on employment problems it was possible early in the year to return to a pre-war plan of testing all junior applicants for employment. Intelligence, clerical aptitude, typing and stenographic skill are among factors tested.

A further return to pre-war practice saw a revival of training classes for new employees, particularly those at the beginning level. These classes, planned and conducted by the Personnel Department are aimed toward equipping new employees with four important orientation aids as follows:

1. A view of the layout of the entire bank.
 - a. Reading of Peggy book.
 - b. Guided tour of bank.
2. A quick review of the function and purpose of a Reserve bank.
 - a. Sound movie.
 - b. Miscellaneous literature read in class.
3. Thumb nail review of Check Collection operations.
 - a. Study of Transit text.
 - b. Adding machine training.
4. Office practice in various departments as needed.
 - a. Typing on special projects.
 - b. Miscellaneous clerical work.

After from ten days to two weeks in these training classes, trainees are transferred to various departments in the bank where needed.

Our contact with the local high schools has made it possible to continue our successful practice of employing, for part-time work prior to graduation, high school seniors who are enrolled in their school's cooperative work program. These student beginners who transfer from part-time to full-time work upon graduation are all routed through our training classes.

Commencing with a nucleus of four of our own returned servicees who are attending the University of Minnesota, we employed seventeen veterans on a half-time late shift basis during the year. Fifteen of these men make up a late-shift check collection crew, sorting and listing work in preparation for the following day's run. Two of the men assist with outgoing late mail. All of these men are attending school under the G. I. Bill and their earnings here serve to augment their subsistence allowance while the work they accomplish for us is of real value in speeding the daily check collection operation.

Early in the year the Personnel Committee, acting on a request re-

ceived from the Federal Reserve Board, set in motion a job evaluation program which had been prepared by the Personnel Department and submitted for review during the previous year when the plan was tabled to await more general action among the banks. This plan covered:

1. Selection of a committee of senior employees, headed by the Personnel Supervisor, to evaluate jobs (subject to the review and final approval of the Personnel Committee.)
2. Preparation of written descriptions of each job.
3. Development of a point-scoring system with which to evaluate jobs on a relative basis.
4. Evaluation of all jobs at the Head Office and Branch on the point-scoring system.
5. Comparison of the point scores for all jobs with the salaries being paid to fully qualified employees holding those positions.
6. Grouping the jobs into larger classifications according to job rating and fixing maximum salaries for each job grade.

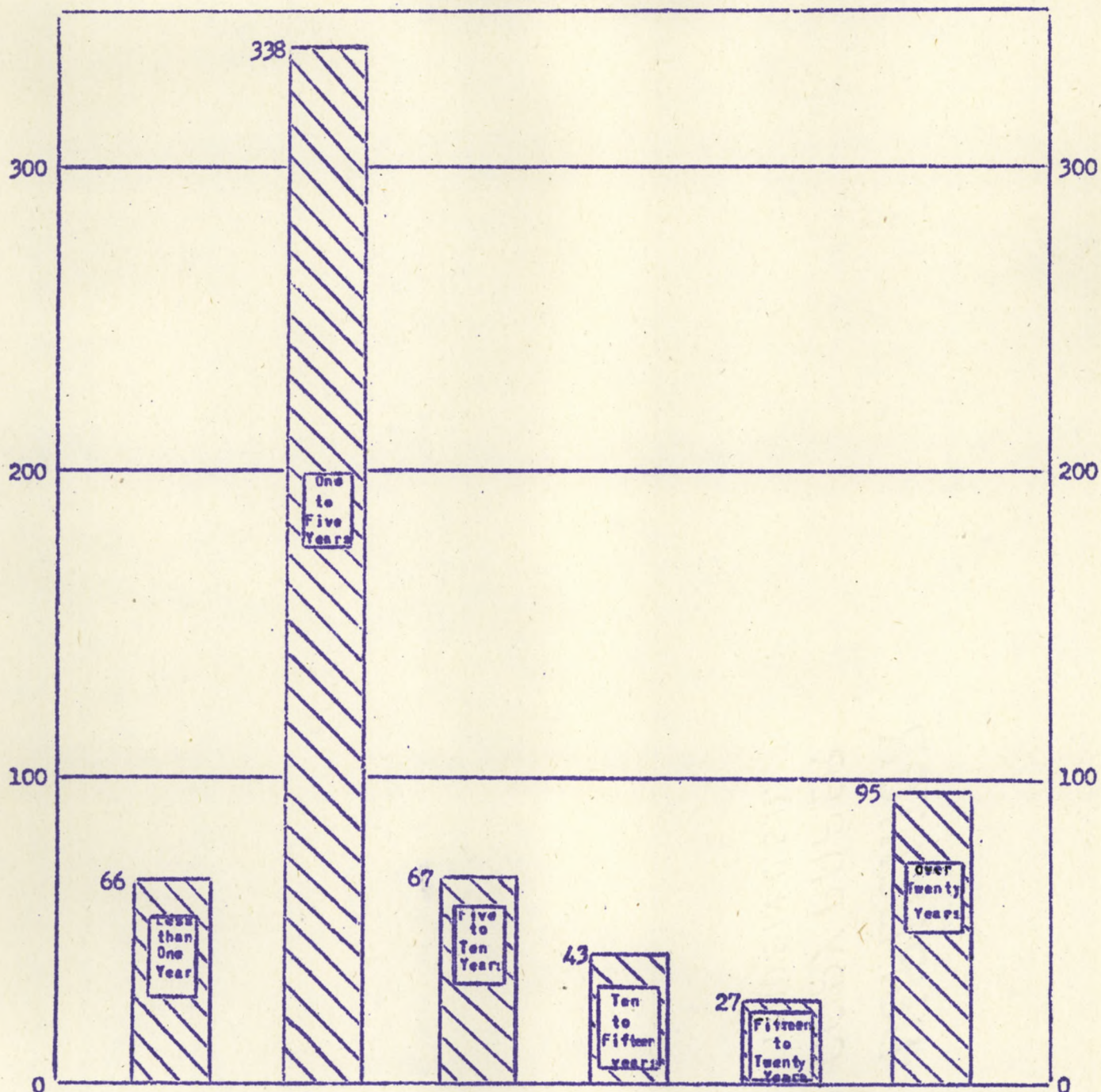
This job was completed in October and submitted to the Board in Washington. During December, the Personnel Department has been collecting salary information from a selected list of competitive firms as first step in a wage survey which, when complete, will serve to check and substantiate the maximum salaries considered for our completed job evaluation plan.

Two general salary increases were granted during the year. March 16, all employees below the rank of Officer were increased \$180 per year while on November 1 the same group was increased 10%. Both increases were granted in an effort to offset, in some degree, the rapidly rising cost of living and at the same time keep this bank in a reasonably favorable position in the local salary market.

In February 1946, a new vacation policy which grants three weeks of paid vacation to employees who have been in the employ of the bank for twenty years (including military leave as part of such service) was announced as a measure of recognition for length of service.

In this connection the chart on the following page indicates the number of present employees in each of several length of service groups.

Length of Service of Staff
(As of December 31, 1946)



During December two medical benefits were made available to members of the staff wishing to take advantage of either or both. First, acting in cooperation with the Hennepin County Tuberculosis Association, we offered free chest x-rays to members of the staff and members of their immediate family over fifteen years of age. Ninety-three percent of the staff took advantage of this offer. Second, we offered free influenza inoculation to all staff members. The inoculation was handled by a licensed physician who administered the vaccine in the bank's first aid room. Approximately fifty-nine percent of the staff availed themselves of this protection.

Effective December 1, 1946 we commenced operation under a five day work week. This plan, which sees the departments of the bank open for business

on the familiar six day basis, is so set as to put the bank's staff on a five-day work week under one of three plans:

1. Skeleton force on Saturdays in some departments with those working Saturdays excused Mondays.
2. Rotation plan whereby members of a department would alternately take Monday off, then Tuesday, Wednesday, etc.
3. Complete shut-down on Saturdays in some departments.

In preparation for this major operating change detailed studies of problems likely to arise under a five day work week were undertaken with each department cooperating. Help needs indicated for five day operations were carefully reviewed and employees were transferred or hired in anticipation of the start of the plan. After one month's operation it appears that the plan is workable and popular.

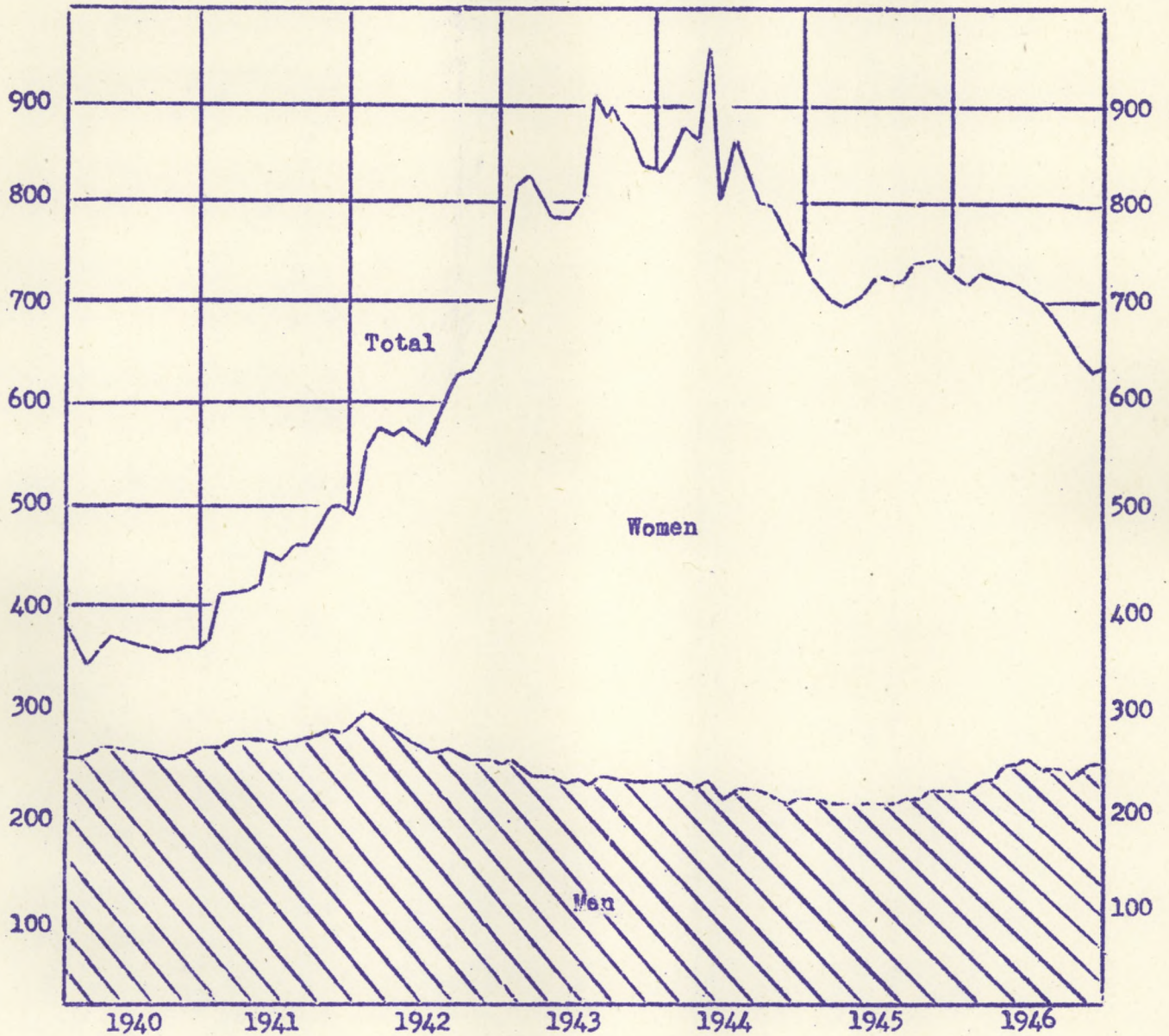
Of the one hundred and twenty-five persons who made up the total bank and branch personnel who saw military service, four (all head office employees) remain in service. A total of fifty-nine of the one hundred and one discharge have been reemployed, fifty-one at Minneapolis and eight at Helena. Of this fifty-nine, forty-five are still in our employ, thirty-eight at Minneapolis and seven at Helena. Most of those leaving after reemployment were those with comparatively short service with the bank before entering military service.

Returning servicemen have altered the composition of the bank's staff. As is evidenced in the chart on the following page there were 212 men and 516 women on our payroll on January 1, 1945 and 239 men and 397 women on December 31, 1946. Eighty-five of the 397 women on our present staff are married as compared to a war time high of 132 married women on our payroll in July of 1943.

Again, as in 1945, it was possible to pass on to employees covered under our group life contract, the proceeds of a dividend received from the Equitable Life Assurance Society. This was accomplished by using the money to pay the employees' group life and accidental death premiums for the months of July, August and September.

The department has continued its policy of attempting to keep in-

Composition of Staff by Months



formed on ideas and problems in personnel administration with representatives attending meetings of the local bank personnel men, the Office Management Association and Reserve bank job evaluation and personnel conferences held at Dallas, St. Louis and Boston.

PURCHASING

The Purchasing Department is operated by a full-time purchasing agent, a full-time stock clerk and a part-time general clerk. In 1946 purchase orders were placed for 2,219 items. During the year, the departments of the bank requisitioned from the stockroom a total of 8,900 items, listed on 4,258 requisitions.

Prices rose continuously throughout the year, with sharp increases

occurring immediately after O.P.A. ceilings were removed. While it is our policy to purchase on a firm competitive bid basis whenever possible, many purchases in 1946 had to be made on the basis of ceiling or market prices at time of delivery, because suppliers could not give fixed quotations at time orders were placed, due to unsettled market conditions. Orders were then placed with suppliers deemed most likely to make delivery in time for our needs.

In spite of the fact most scarce items were difficult to buy in the quantities needed by the bank, we entered the free market period following the end of O.P.A. ceilings with a rather good inventory on hand, which we believe will carry us through the present period of price adjustment to a large extent.

RECONSTRUCTION FINANCE CORPORATION
DEPARTMENT

Activities during 1946 have not changed much except that volume on old programs has eased off considerably. Certain programs are now quite dormant although the Blanket Loan Participation program has offset some of this easing. While we do not get loan papers except where participation in loans is actually purchased, we are required to set up and maintain records of each commitment, all amounts advanced thereunder, as well as repayments, and to see that terms of the loans as reported are in accordance with the regulations. We bill the banks periodically for fees accrued on loans. At the close of the year 284 banks had entered into such agreements. Of these, 156 had not reported any loans made. The other 128 had reported 436 commitments aggregating \$13,683 thousand, of which 358 commitments aggregating \$10,693 thousand were still open (R. F. C.'s portion of these was \$6,373 thousand). The unpaid balances of 351 loans actually disbursed by the banks totaled \$7,403 thousand of which the R. F. C.'s portion under the agreements was \$6,373 thousand. The Corporation has been called on to purchase its participation in loans under only three commitments. Aggregate unpaid balance of these loans was \$35 thousand, of which the Corporation's participation was \$26 thousand.

Subsidy payments are virtually finished except for cleanup deals or adjustments and some little activity on building materials of certain sorts, such as clay products and hardwood flooring. There are also subsidy programs on merchant pig iron, cast iron soil pipe, and merchant gypsum liner, but we

have had nothing under these three latter classifications.

Subsidy payments during 1946 on flour numbered 395, aggregated \$42 million, making a total number of 1,662 to date aggregating \$148 million. On meats, payments numbered 5,718, aggregated \$11 million for a total of 21,506 to date aggregating \$47 million. We disbursed these subsidies only to concerns whose head offices were in our district so that concerns like Swift and Armour are not included.

While provision has been made for purchase by the R. F. C. Mortgage Company of veterans' loans, we have none as yet.

Commodity Credit Corporation activities have been quite light when compared with other years. There has been a considerable number of disbursements for grain purchased from producers under the 30¢ per bushel premium plan. It is estimated that over \$5 million of disbursements will be sent to us for handling as soon as possible after the close of 1946 in accordance with the producers' options.

In addition to checks issued as above at the instance of the local C.C.C. office, we also performed during 1946 the following:

	<u>Number</u>	<u>Amount</u> (000 omitted)
Emergency wheat drafts paid	81,991	\$ 57,869
*Dairy Production drafts paid (Accumulative figures)	863,741 3,846,720	59,147 152,162)
*Sheep & Lamb Production drafts paid (Accumulative figures)	29,626 56,883	3,961 5,303)
*Beef Production drafts paid (Accumulative figures)	38,775 58,903	1,975 3,249)
Program checks issued	13,698	250,749
Items received for collection and credit	45,379	121,014

*Program has been terminated

Activities for other agencies of the government, such as the Federal Public Housing Administration and the Federal Works Agency, were very light.

During the year the department personnel has been reduced from thirty-six to twelve. The R.F.C. auditors finished their audit here as of April 30, 1946, having been with us since September 28, 1945, or seven months. This was their first audit in almost five years.

RESEARCH DEPARTMENT

Considerable progress has been made during the last year in systematizing and professionalizing our library service. The library performs roughly two types of work. First, it serves as a circulating library for the service primarily of bankers who wish to obtain books and other published information. Second, it serves as a reference library for the Research Department.

During the Federal Reserve Forum in November, the library sponsored a very substantial display of its services at the Nicollet Hotel, resulting in a considerable increase in requests for library services.

During the last year our total book circulation amounted to 2,056, a very sizeable increase over 1945. During the year the library acquired 250 new books, as well as a very substantial amount of pamphlet and periodical information.

At the present time the total inventory of books in our library stands at 4,000, and our subscription list records the regular receipt of 75 periodicals.

The major publications of the department are the Monthly Review, the Farm News, Weekly News Review, and the Library Letter. All of these have enjoyed a very substantial expansion in their circulation during the year, and in every case additional names are put on the list solely at the initiative of those who write in asking for this privilege. Currently our Monthly Review is sent out to 5,537 bankers, businessmen, libraries and students, 31 located abroad. The foreign circulation expanded considerably during the year as mail service abroad has been progressively restored to normal.

Articles representing the results of special studies and published in the Monthly Review include, among others, the following:

January	- "Employment Steady as Labor Force Expands"	O. F. Litterer
February	- "Agriculture at the Crossroads"	F. L. Parsons
March	- "Agriculture's Financial Position Strong"	F. L. Parsons
	- "Bank Earnings in 1945 Show Moderate Gain"	Banking Section
May	- "Consumer Spending Rate High in the Northwest"	George Wilkens
June	- "Production Exceeds Prewar Level"	O. F. Litterer
August	- "Minneapolis Homes Found Doubled in Value"	O. F. Litterer
October	- "State University Develops New Hog Breed"	F. L. Parsons
November	- "1947 Turning Point for Agriculture?"	F. L. Parsons
December	- "Manufacturing Answer to Full Employment"	O. F. Litterer

The Farm News has continued to be a very popular publication and at the present time has a circulation of 1,664, an increase of 12 percent during

the year.

One major special study was issued during the year on "The Future of Northwest Bank Deposits" by Paul W. McCracken, Director of Research.

The senior members of the department continued to participate in the various bank conferences held during the year. In addition to these, the various members of the department fulfilled a total of 73 speaking engagements during the year, with a total attendance of 10,800.

We have endeavored to comply with most requests for speakers whenever they have originated from the bankers, or when we felt that constructive "Extension work" could be accomplished by a discussion of economic developments, policies, and problems.

During the year the department participated in or completed a substantial number of special studies. The major project on the outlook for deposit trends in the Ninth District was completed and the study published in the spring.

The special studies on the ownership of bank deposits have continued, and we have processed two this year.

During the latter part of 1946 a special analysis of commercial loans was undertaken because of the very rapid increase in bank credit during the latter half of 1946. Also, the System-wide Banking and Credit Policy Committee (a subcommittee of the Presidents' Conference Research Committee) undertook a special study of the war-time changes in commercial banking, which entailed a very substantial tabulation based on banking data for our own area. This will presumably be published and made available to the public as soon as it is completed.

The System has continued to emphasize regional research. At the same time it has been recognized that System-wide committees could be useful in keeping the research personnel at the Reserve banks and the Board in touch with the work that the others were doing. The department was represented on the over-all Subcommittee of the Presidents' Conference Committee on Research (a group consisting of the heads of research of all Reserve Banks and the director of the Division of Research at the Board), the Agricultural Committee, the Banking and Credit Policy Committee, and the Subcommittee on Legislation.

Circulation of Research Department Publications

	<u>1946</u>	<u>1945</u>
Monthly Review - total	5,537	5,263
Monthly Review - foreign	31	17
Monthly Review Press Release	237	235
Farm News	1,664	1,487
Library Letter	1,450	1,415
Bank Debits Release	704	-
Retail Trade Summary	660	-

Library Activity in 1946

New Acquisitions	250
Books Circulated	2,056
Periodicals Received	75
Books on Shelves	4,000

SAFEKEEPING DEPARTMENT

Securities held for safekeeping and collateral purposes were \$1,549 million on December 31, 1946 for a net decrease of \$246 million compared with the \$1,795 million held a year ago. The following table shows the accounts in which principal changes took place:

	<u>12-31-46</u>	<u>12-31-45</u>	<u>Increase or</u> <u>Decrease</u>
	(000 omitted)		
<u>Accounts</u>			
Government and miscellaneous securities held in safekeeping for members	\$ 923,063	\$ 865,182	\$ + 57,881
Securities pledged to secure public deposits	226,608	210,139	+ 16,469
Government securities held in safekeeping for nonmembers	55,928	61,077	- 5,149
Securities held for U. S. Treasurer and others	3,215	3,479	- 264
Securities held for Reconstruction Finance Corporation	12,631	12,834	- 203
Collateral to War Loan Deposits	253,093	605,253	- 352,160
U. S. Depositary Bonds - Time Deposits	122	120	+ 2
U. S. Depositary Bonds - Safekeeping	-	3,589	- 3,589
Federal Works Administration	140	75	+ 65
Collateral to Rediscounts & Bills Payable	46,132*	201	+ 45,931
Securities held for U.S.Housing Authority	1,741	1,747	- 6
Collateral to Consignment Account - U.S. Savings Bonds, Series E	146	182	- 36
Treasury Bills held under Repurchase Option	26,264	31,423	- 5,159
	\$1,549,083	\$1,795,301	\$ - 246,218

*This \$46 million represents collateral to Rediscounts and Bills Payable although no bank was indebted to us on Dec. 31, 1946

The reduction in dollar volume held is further reflected in the table below showing decreases in Receipts Issued and Pieces Received, and increases in Withdrawals Handled and Pieces Delivered.

	<u>1946</u>	<u>1945</u>	<u>Increase or Decrease</u>
Receipts Issued	12,004	14,268	- 2,264
Pieces Received	66,139	83,382	- 17,243
Withdrawals Handled	12,181	10,957	+ 1,224
Pieces Delivered	85,353	68,072	+ 17,281
Transfers from one account to another	6,143	6,293	- 150
Coupons clipped	312,785	281,717	+ 31,068