

ANNUAL REPORT
OF
FEDERAL RESERVE BANK OF MINNEAPOLIS
TO THE
BOARD OF DIRECTORS

1948

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H I G H - L I G H T S O F 1 9 4 8

Capital accounts reach new all time high.

Earnings from our participation in the System Open
Market Account more than doubled.

Interest on Federal Reserve notes paid to U. S.
Treasury jumps to \$5 million.

Discount rates increased.

Member bank reserve requirements increased.

Expenses continue to rise.

Tax rate and assessed valuation upped on bank premises.

Consumer Instalment Credit controls revived.

New volume records established.

Check Collection time schedules revised.

Protest and wire instructions re nonpayment of cash
items changed.

"Short Course in Central Banking" introduced.

Securities held for safekeeping decrease.

HEAD OFFICE DIRECTORS & MEMBER OF FEDERAL ADVISORY COUNCIL

Term Expires
December 31

Directors

Roger B. Shepard, Chairman, and Federal Reserve Agent
W. D. Cochran, Deputy Chairman

Class A

Clarence E. Hill, Chairman of the Board, Northwestern National Bank of Minneapolis, Minneapolis, Minn.	1949
J. R. McKnight, Chairman of the Board, The Pierre National Bank, Pierre, South Dakota	1950
Charles W. Burges, Vice President & Cashier, Security National Bank of Edgeley, Edgeley, North Dakota	1951

Class B

Homer P. Clark, Chairman of the Board, West Publishing Co., St. Paul, Minnesota	1949
Walter H. McLeod, President, Missoula Mercantile Co., Missoula, Montana	1950
Ray C. Lange, President, Chippewa Canning Co., Chippewa Falls, Wisconsin	1951

Class C

W. D. Cochran, G.M.C. Truck Distributor, Iron Mountain, Michigan	1949
Roger B. Shepard, 322 Endicott Building, St. Paul, Minnesota	1950
Paul E. Miller, Director, Agricultural Extension Division, University of Minnesota, Minneapolis, Minnesota	1951

Member of Federal Advisory Council

Henry E. Atwood, President, First National Bank of Minneapolis, Minneapolis, Minnesota	1949
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OFFICERS

- J. N. Peyton, President
- O. S. Powell, First Vice President
- H. G. McConnell, Vice President
Bank Examinations
Security Exchange Act
- A. W. Mills, Vice President and Cashier
General supervision over all internal
operations
Building
Protection
Purchasing
- Otis R. Preston, Vice President
Public Services
- R. E. Towle, Vice President
Assigned to Helena Branch
- Sigurd Ueland, Vice President and Counsel
Legal
- Harry I. Ziemer, Vice President
Loans & Discounts
- H. C. Core, Personnel Officer
Personnel
- C. W. Groth, Assistant Vice President
Assigned to Helena Branch
- E. B. Larson, Assistant Vice President
Fiscal Agency
Securities; Purchase and Sale
- A. R. Larson, Assistant Cashier
Check Collection
Equipment Repairs
Files & Old Records
Ordinary Mail

OFFICERS

(Contd.)

Wm. E. Peterson, Assistant Cashier
Accounting
Custodianships -
RFC, CCC, and others
Duplicating
Telegraph, Transfers & Coding
Withheld Taxes

W. H. Turner, Assistant Cashier
Currency & Coin
Noncash Collection
Registered Mail
Securities: Safekeeping
Telephones
Vault

M. E. Lyse, Operating Research Officer
Efficiency Studies
Planning
Procurement: Furniture & Equipment
Special Studies

M. H. Strothman, Jr., Assistant Counsel
Board's Letters
Contracts
Insurance
Operating Letters & Circulars
Regulations
Consumer Instalment Credit

- -

J. Marvin Peterson, Director of Research

*F. L. Parsons, Associate Director of Research

Library
Publications
Research
Statistics

O. W. Ohnstad, Auditor

- - -

*As of January 14, 1949

HELENA BRANCH DIRECTORS

Term Expires
December 31

Malcolm E. Holtz
Chairman

B. M. Harris, President, The Yellowstone Bank, Columbus, Montana, and President, The Yellowstone Bank, Laurel, Montana	1949
Malcolm E. Holtz, Agriculturist, Great Falls, Montana	1949
Theodore Jacobs, President, First National Bank, Missoula, Montana	1950
E. D. MacHaffie, President, State Publishing Co., Helena, Montana	1950
Dr. James A. McCain, President of Montana University, Missoula, Montana	1950

CHANGES DIRECTORS AND OFFICERS

Changes in directors and officers of the bank included the election of Mr. Charles W. Burges, Vice President and Cashier of the Security National Bank of Edgeley, North Dakota, as a Class A director, and the re-election of Mr. Ray C. Lange, President of the Chippewa Canning Company, Chippewa Falls, Wisconsin, as a Class B director. Both were elected for three-year terms beginning January 1, 1949. In December the Board of Governors of the Federal Reserve System announced the reappointment of Mr. Paul E. Miller, St. Paul, Minnesota, to his second term as Class C director beginning January 1, 1949.

At the same time, the Board announced the redesignation of Mr. Roger B. Shepard, St. Paul, Minnesota, as Chairman of our Board of Directors and Federal Reserve Agent, and Mr. W. D. Cochran, Iron Mountain, Michigan, as Deputy Chairman of the Board. Both appointments were for the year 1949.

The Board also appointed a new director for the Branch at Helena. He is Dr. James A. McCain, President of Montana State University at Missoula, Montana.

Simultaneously with the announcement by the Board, the Board of Directors of our bank announced the reappointment of two Helena directors, Mr. E. D. MacHaffie, President, State Publishing Company, Helena, Montana, and Mr. Theodore Jacobs, President, First National Bank, Missoula, Montana, for two-year terms.

During August, Mr. Clinton J. Larson, Assistant Cashier assigned to the Helena Branch, resigned his position to become Vice President of the Conrad National Bank, Kalispell, Montana. Mr. Clarence W. Groth,

formerly of the Examination Department, was named Assistant Vice President by our Board of Directors and assigned to the Helena Branch.

Dr. Paul W. McCracken, Director of Research, resigned September 1, 1948, to accept a position as Associate Professor of the School of Business Administration, University of Michigan. Dr. J. Marvin Peterson, formerly Professor and Head of the Department of Economics, Miami University, Oxford, Ohio, was named to succeed Dr. McCracken.

On January 14, 1949, our Board of Directors named Mr. Franklin L. Parsons of the Research Department, Associate Director of Research.

Mr. Henry E. Atwood, President of the First National Bank of Minneapolis, was reappointed by our directors to the Federal Advisory Council for the year 1949.

MAJOR MONETARY DEVELOPMENTS IN 1948

THEIR EFFECT ON THE ASSETS AND LIABILITIES OF THE NINTH FEDERAL RESERVE BANK

The path to the Federal Reserve banks for credit money was well-worn during 1948. In open market operations the Reserve banks absorbed the market overflow of two great waves of bond liquidation, as the holders of long-term Government securities converted these assets into cash and used the proceeds to meet an unprecedented demand for loanable funds.

A decade or two ago an observer would have looked on this situation with wonder and surprise. Here were the facts:

The general economic milieu was one of high production and full employment. The Federal Reserve Index of Industrial Production (1935-39=100) for 1948 averaged 192, up 2 1/2 per cent over 1947. Employment (factory, 1939=100) averaged 160, up 2 per cent over 1947, and unemployment held at a bare minimum, averaging 2 million for the year. (This is a million below the margin generally considered normal "frictional unemployment".)

Compared with the expansion of 1947, percentage gains in production during 1948 slackened. Nonetheless, our economic machine in 1948 ran at top speed, using almost the full amount of productive capacity and manpower at its command.

As the indicators of the "physical" volume of our economic achievements were surpassing all previous peacetime records, the "dollar" value of goods and services was steaming ahead at an even faster clip. For the year as a whole, the wholesale price index (1926=100) averaged 165.0 - 8 1/2 per cent over 1947, and the consumers price index (1935-39=100) averaged 171.3 - 7 1/2 per cent over 1947. Prices received by farmers for the year averaged

about 3 1/2 per cent above last year. However, since the beginning of 1948, this index has shown a downward tendency. From 307 in January (1909-14=100), it dropped sharply in February, zigzagged during the rest of the year, equalling 268 at the end of December.

While high prices are characteristically a feature of "good times", the price increases of our postwar period are nothing to boast about. Increases in the physical volume of goods and services make a direct contribution to raising our general standard of living. But price increases in a period of capacity production benefit some groups only at the expense of others. Moreover, by cutting into past savings and pushing businesses and consumers into debt, price inflation undermines the strength of the economy, making it more vulnerable to the cumulative process of a downturn.

The Department of Commerce has compressed the price-production picture into one gargantuan figure known as the "gross national product", GNP - which gives the dollar value of total goods and services produced - registered \$252.7 billion for 1948. This compares with \$231.6 billion for 1947 - an increase of over 9 per cent. Moreover, the estimate for the fourth quarter of 1948 is at the annual rate of \$260.8 billion compared with \$243.8 billion for the fourth quarter of 1947. However, as the individual production and price indexes reveal, the increase in 1948 was largely a price phenomena.

Clearly, price inflation was the number one problem of 1948. The upward movement of prices was set back momentarily in February by a sharp drop in the commodities market. Businessmen and consumers paused in their expenditure schedules to see if the go-ahead sign was turning red. However, subsequent wage and price increases made it apparent that by mid-year the inflationary spiral had taken another upward twist.

Again in November, following the national elections, inflationary forces seemed to be subsiding. Soft spots appeared in the economy and in many lines buyers' markets predominated. While these conditions continued to hold sway during the remainder of 1948, the overall economy at year's end was still operating at near full production, full employment and under considerable momentum.

What was happening in the money market during this year of inflationary stresses and strains? The total demand for funds was of huge proportions. Businesses spent record amounts on new plants, equipment, and inventories. State and local governments sharply increased their expenditures. The continued boom in private construction was reflected in persistent demand for mortgage credit, and consumer instalment buying surpassed all previous peaks.

Despite the weight of this aggregate demand for funds, however, the money market was dominated by "easy" money conditions. Although the interest return to lenders on short-term money edged upward, long-term money rates showed little signs of stiffening. The pivot of the interest rate structure in our economy is the long-term rate on Government securities. During 1948 this yield rate was steadily maintained at or about 2 1/2 per cent. In terms of bond prices this means the price of the Treasury bond list was held at par or slightly above throughout the year.

This situation presents something of an anomaly. Theoretically in a period of price inflation, the price of credit - that is, the interest rate - moves upward along with other prices. Thus a visitor from a decade or so ago observing the money market in 1948 would indeed find the current low rate of interest surprising.

The answer is, of course, that the interest rate on government bonds

(and conversely the price of bonds) did not reflect the interaction of free market forces. Rather it was, during 1948, a "pegged" rate established by the Federal Reserve System (and the Treasury).

During the war years the maintenance of the long-term interest rate at approximately the level existing at the beginning of the war was one of the major tenets of the Federal Reserve easy money policy. It played a central role in the huge job of financing war expenditures. Largely because of the war (and to a much lesser degree the large-scale deficit financing of the Thirties) the public debt has become a dominant factor in the country's financial structure. For this reason, the maintenance of an orderly and stable market for Government securities continues to be a primary aim of Federal Reserve policy. In 1948 this meant that the Reserve banks - in support of the pegged price level - purchased at par or slightly above any bonds offered in the open market which could not find other buyers at these prices. By this operation, downward pressure on bond prices (upward on the interest rate) was mitigated. In like manner, the Reserve banks may enter the market as sellers rather than buyers to temper a runaway upward pressure on bond prices.

Thus expenditures today are financing through a "managed" money market. The interest rate, i.e., the "price" of borrowed funds - which in a free market (theoretically) brings supply and demand into equilibrium - in our economy moves within narrowly defined limits. Today the key to shifting balance of buying and selling pressures in the money market is found in the amounts bought and sold by the money "managers".

Bond Market Developments

When the curtain rose on the bond market on January 1, 1948 the drama was already in progress. It dated back to mid-November, 1947 and the

beginning of a wave of bond liquidation that was to last for four and one-half months.

Prices of Treasury bonds had been permitted to decline during October 1947 and the early part of November. By the middle of November, however, as selling increased in anticipation of further declines, the Reserve System and the Treasury entered the market and by their purchases maintained a fixed structure of prices. For example, the Victory Loan 2 1/2s of December 1967-72 were held at 101 and the 2 1/4s of 1959-62 at 100 1/2.

On December 24, 1947, support prices established in the November operations were suddenly lowered to new pegged prices of par or slightly above. No bond was permitted to decline below par. The new support level for Victory 2 1/2s was 100 1/4; for 2 1/4s of 1959-62, par i.e. 100. The drop in support prices of Treasury bonds on December 24 was actually significant more because of its unexpected timing than because of any violent change in support levels. It introduced a note of uncertainty which persistently hovered over the bond market throughout 1948. Assurances of bond price supports during this year were only for the "foreseeable future" - a term interpreted by a now uncertain market with some misgivings.

The flurry of bond selling which began in mid-November 1947 lasted through March 1948, as investors switched into shorter-term securities or into more lucrative mortgages and loans. During this period support purchases by the Federal Reserve Banks expanded the System's bond portfolio by \$4.9 billion, while support purchases out of Treasury trust funds equalled about \$1.2 billion. The participation of the Minneapolis Federal Reserve Bank in purchases of the System increased our bond holdings \$149 million during this period.

A second wave of bond liquidation during 1948 began at the close of

June and continued until a few days after the national elections in November. Treasury funds were inactive, but Federal Reserve buying totaled \$5.0 billion. In this period the bond portfolio of the Minneapolis Federal Reserve Bank was increased \$154 million. The second wave of bond liquidation was led by insurance companies, savings and loan associations and other nonbank institutions whose sales of restricted bond issues accounted for the major portion of Federal Reserve purchases. These investors reduced their bond portfolios partly to provide funds for switching into higher-yielding investments and partly because of the spreading belief that the pegs were weakening and might not hold.

An abrupt change in market sentiment following the national election in November ushered in a new phase in the Government bond market which lasted throughout the rest of the year. Sales of bonds to the Reserve banks tapered off and in December the System did a turnabout from "buyer" to "seller", actually reducing its bond portfolio through sales in the open market. Apparently the Democratic victory banished the specter of a drop in the bond pegs from the market place. Moreover, insurance companies and other nonbank investors presumably adopted a "wait and see" attitude toward the future course of economic developments.

The total year's result of Federal Reserve activity in the Government bond market was an increase in bond holdings of the 12 Reserve banks combined from \$2.8 billion on December 31, 1947 to \$11.0 billion on December 29, 1948. The participation of the Minneapolis Federal Reserve Bank (from December 31, 1947 to December 31, 1948) increased our bond portfolio from \$94 million to \$336 million.

By these operations the price of bonds was made to stick firmly on par or slightly above. In short, the bond support program was successful.

But while the policy aim of maintaining an orderly and stable bond market was achieved, the requisite open market bond purchases were directly antagonistic to the traditional aim of Federal Reserve policy of restraining credit expansion in an inflation.

The bond support program, in effect, made Federal Reserve credit readily available to the banking system and to nonbank holders of Government bonds. With the price of bonds established at par, there was no incentive to hold these issues to maturity. Sales of bonds by commercial banks to the Reserve banks created an equal volume of bank reserves; sales by nonbank investors created an equal volume of bank deposits and bank reserves. In the former instance, the Reserve bank credits the account of the selling commercial bank, thus creating reserves. In the latter, a check drawn on the Reserve bank is paid to the nonbank seller. Bank deposits are increased when this check finds its way into a commercial bank, while bank reserves are created when the check is cleared through the Reserve bank and the account of the commercial bank credited. (Actually there is one more step in this process because all Reserve bank purchases or sales of securities are transacted centrally by the System Open Market Committee. Individual Reserve banks then participate in these transactions on a percentage basis.)

The money market drama of 1948 might appropriately be titled "The Monetary Paradox". On the one hand, the Federal Reserve System found it necessary to purchase long-term Government bonds in support of the low interest rate of 2 1/2 per cent, thereby creating bank reserves. On the other hand, the general inflationary state of the economy and the incipient threat of overexpansion of bank credit dictated a policy of tightening bank reserve positions. Thus side-by-side the Reserve System pursued an "easy" money and a "tight" money policy during 1948.

A Program of Modest Restraint

Federal Reserve actions proved that "maintenance of an orderly bond market" was the first love of policy aims during 1948. Nonetheless the Reserve Board, mindful of its traditional obligation to exercise control over the expansion of bank credit, pursued a moderately restrictive program in 1948. This program, however, was under the constant vigilance of two great watch dogs - one, the protection of the Government bond market and the other, the danger of setting off a cumulative downward swing of the business cycle.

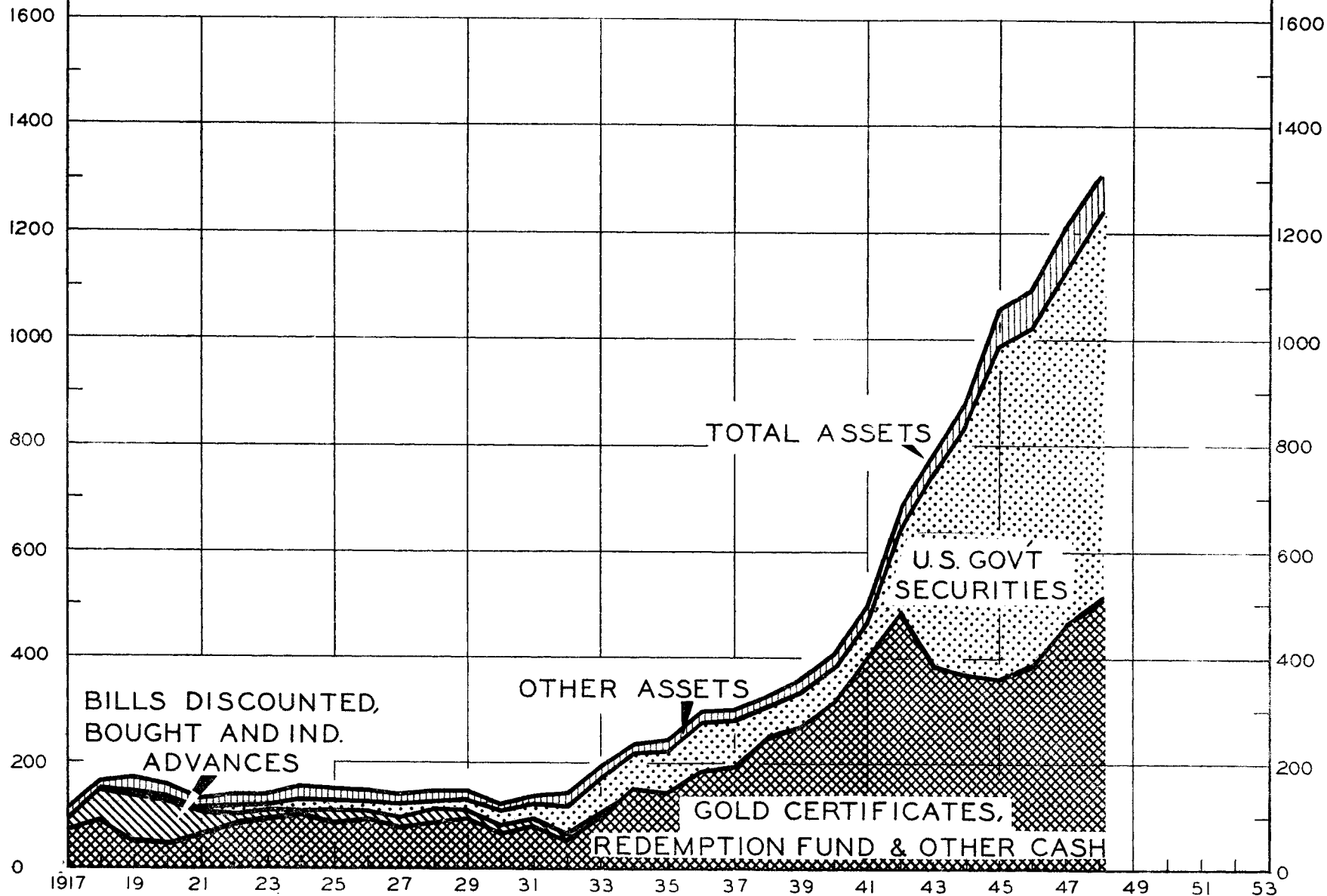
One of the major doses of anti-inflationary medicine administered this year was the use of the Treasury cash surplus to retire Federal Reserve-held debt. The Treasury surplus - which represents money withdrawn from the economy - loomed especially large in the first quarter of 1948. From January through March receipts flowing to the Treasury, mainly via tax payments, exceeded expenditures by over \$6.1 billion. The use of most of this surplus to retire debt held by the Reserve banks resulted in permanently extinguishing deposits (reserves) of the commercial banking system as well as of the public.

Holdings of shorter-term Government securities (bills, certificates of indebtedness, and notes) in the Minneapolis Federal Reserve Bank in the first three months of this year declined from \$571 million to \$466 million, reflecting primarily Treasury cash redemptions. Reserve balances of Ninth district member banks declined from \$450 1/2 million at the beginning of January to \$413 1/2 million on March 30 - down more than 8 per cent. Deposits in Ninth district member banks in the same period were reduced a like percentage from \$3,552 million to \$3,266 million. On the national scene, reserve balances and member bank deposits showed similar percentage reductions in the first quarter of the year.

MILLION DOLLARS

MILLION DOLLARS

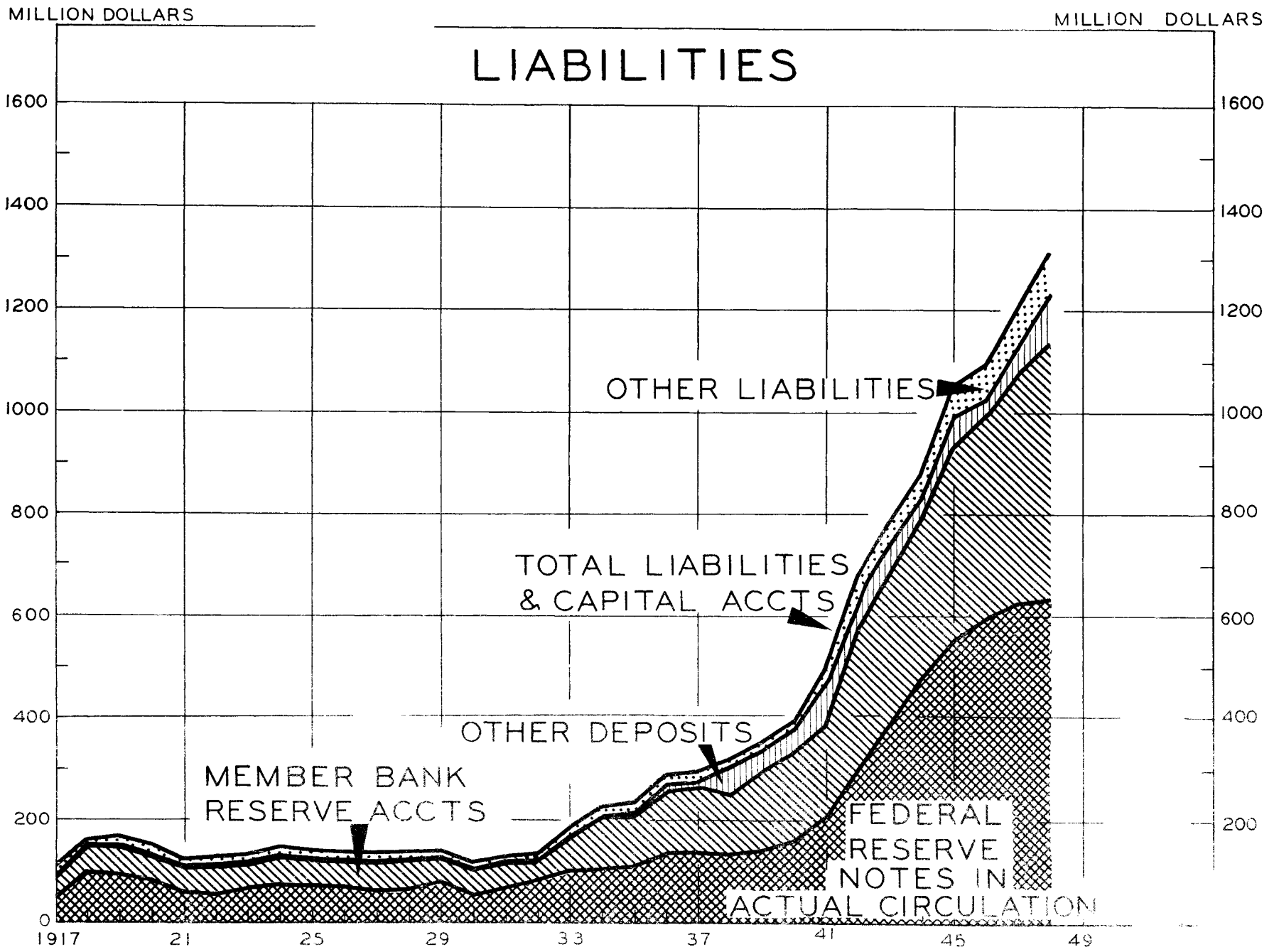
ASSETS



COMPARATIVE STATEMENT OF ASSETS

MINNEAPOLIS AND HELENA BRANCH COMBINED
(Thousands of Dollars)

	12/31/48	12/31/47	Inc. or Dec. Since 12/31/47
Assets:			
Cash Reserves:			
Interdistrict Settlement Fund	\$ 260,419	\$ 231,975	\$ + 28,444
Gold Certificates with F.R.Agent	210,000	200,000	+ 10,000
Redemption Fund - F.R.Notes	23,136	22,880	+ 256
Total Gold Reserves	\$ 493,555	\$ 454,855	\$ + 38,700
Vault Cash	12,128	6,793	5,335
Bills Discounted	175	-	175
Foreign Loans on Gold	4,753	1,265	+ 3,488
U. S. Government Securities:			
System Account Bills	167,963	298,577	- 130,614
Certificates of Indebtedness	186,029	223,788	- 37,759
Notes	24,198	48,618	- 24,420
Bonds	336,001	93,936	+ 242,065
Total U. S. Government Securities	\$ 714,191	\$ 664,919	\$ + 49,272
Due from foreign banks	1	2	-
F. R. Notes of other F. R. Banks	9,274	8,158	+ 1,116
Uncollected Items:			
Transit Items	69,310	61,290	+ 8,020
Exchanges for clearinghouse	2,744	3,532	-
Other Cash Items	1,430	2,820	-
Total Uncollected Items	\$ 73,484	\$ 67,642	\$ + 5,842
Bank Premises	2,493	2,493	-
Less Reserve	1,316	1,285	+
Bank Premises - Net	\$ 1,177	\$ 1,208	\$ - 31
Miscellaneous Assets:			
Fiscal Agency expense, reimbursable	\$ 120	143	\$ - 23
Interest Accrued	2,076	1,751	+
Premium on Securities	2,229	1,726	+
Deferred Charges	28	25	+
All Other Assets	12	11	+
Total Miscellaneous Assets	\$ 4,465	\$ 3,656	\$ + 809
Total Assets	\$1,313,203	\$1,208,498	\$ + 104,705



COMPARATIVE STATEMENT OF LIABILITIES

MINNEAPOLIS AND HELENA BRANCH COMBINED (Thousands of Dollars)

	12/31/48	12/31/47	Inc. or Dec. Since 12/31/47
<u>Liabilities:</u>			
Federal Reserve Notes in Circulation	\$ 631,349	\$ 626,969	\$ + 4,380
<u>Deposits:</u>			
Member Bank - Reserve Accounts	506,653	450,542	+ 56,111
U. S. Treasurer - General Account	74,130	43,975	+ 30,155
Foreign Deposits	15,893	8,225	+ 7,668
Nonmember Bank - Clearing Accounts	789	852	- 63
Officers' Checks	179	452	- 273
Other Deposits	<u>1,874</u>	<u>1,342</u>	<u>+ 532</u>
Total Deposits	\$ 599,518	\$ 505,388	\$ + 94,130
<u>Deferred Availability Items:</u>			
U. S. Treasurer - General Account	2,575	3,680	- 1,105
All Other	<u>59,175</u>	<u>53,343</u>	<u>+ 5,832</u>
Total Deferred Availability Items	\$ 61,750	\$ 57,023	\$ + 4,727
<u>Miscellaneous Liabilities:</u>			
Discount on Securities	271	319	- 48
Sundry Items Payable	<u>110</u>	<u>548</u>	<u>- 438</u>
Total Miscellaneous Liabilities	\$ 381	\$ 867	\$ - 486
 Total Liabilities	 <u>\$1,292,998</u>	 <u>\$1,190,247</u>	 <u>\$ + 102,751</u>
<u>Capital Accounts:</u>			
Capital Stock Paid In	\$ 4,472	\$ 4,294	\$ + 178
Surplus Fund - Section #7	11,797	11,232	+ 565
Surplus Fund - Section #13b	1,073	1,073	-
Reserve for Contingencies	<u>2,863</u>	<u>1,652</u>	<u>+ 1,211</u>
Total Capital Accounts	\$ 20,205	\$ 18,251	\$ + 1,954
 Total Liabilities and Capital Accounts	 <u>\$1,313,203</u>	 <u>\$1,208,498</u>	 <u>\$ + 104,705</u>

The Treasury surplus was the principal monetary bulwark restraining inflation from January through March. For the remainder of 1948, however, reductions in taxes and increased Government expenditures for defense and foreign aid ate away the Government surplus. From April through December the cash position of the Treasury turned into a deficit to the tune of \$2.2 billion. Thus funds to continue the debt retirement program of the Treasury were for the most part unavailable.

A second line of attack on inflation in 1948 was the gradual stiffening of short-term money rates. Such action originated in Treasury refinancing operations and spread to the private sector of the economy.

During the year, the average discount rate on weekly offerings of Treasury bills rose steadily from 0.951 per cent for the last offering in December 1947 to 1.157 for the offering dated December 30, 1948. Concurrently, yields on 9-12 month certificates increased from 1.04, the monthly average in December 1947, to 1.17 in December 1948. Yields on other short-term paper in the market promptly adjusted to these changes in rates on Treasury issues.

The sharpest jumps in short-term yields in this year occurred in January and in August, set off by increases in the Treasury rate on certificates offered in refundings. In the January 1948 offering the certificate rate was increased from 1 per cent to 1 1/8 per cent; in the September and October offerings (announced in August) the one-year rate rose to 1 1/4 per cent. At the same time the Federal Reserve banks hiked their rediscount rates in line with the Treasury increases. The Federal lending rate to member banks (for discounts and advances secured by Government obligations and eligible paper) was increased in January from 1 per cent to 1 1/4 per cent and again in August to 1 1/2 per cent.

The higher rates on short-term Government securities were designed in part to give such issues greater appeal as an investment medium. The portfolios of banks and other institutional investors indicate that this program met with some degree of success. In the 20 reporting banks in the Ninth district (the larger city banks) from December 31, 1947 to December 29, 1948 holdings of Treasury bills almost tripled, increasing from \$10 million to \$29 1/2 million; certificate portfolios more than tripled over the year rising from \$40 million to \$129 million. Note holdings, however, declined \$31 million to a volume of \$35 million. The combined shorter-term portfolio of the 20 reporting Ninth district banks registered plus \$77 million for 1948.

The Treasury survey of ownership of Government securities gives a broader picture of changes in security portfolios, although October 31 figures are the most recent data available. Changes in the combined holdings of bills, certificates, and notes in Ninth district member commercial banks, nonmember commercial banks, and savings banks and insurance companies from December 31, 1947 to October 31, 1948 are shown in the following table:

Combined Portfolios of Bills, Certificates of Indebtedness
and Notes Held by Ninth District Banks and Other
Institutional Investors, December 31, 1947 and October 31, 1948

(Millions of Dollars)

	<u>12/31/47</u>	<u>10/31/48</u>	<u>Change</u>
Member Commercial Banks	\$ 328.1	\$ 444.1	\$ + 116.0
Nonmember Commercial Banks	124.2	135.8	+ 11.6
Savings Banks and Insurance Companies	9.5	19.9	+ 10.4

Source: Survey of Ownership in the Minneapolis Federal Reserve District of Securities Issued or Guaranteed by the United States, U. S. Treasury Department.

The higher rates on shorter-term Government securities also provided the basis for increasing the price of short-term money generally. The average commercial loan rate charged customers by banks in a sample of 19 cities (according to Federal Reserve data) rose from 2.22 per cent in December of last year to 2.70 per cent by September 1948.

It is, of course, true that only a very modest amount of borrowing is choked off by a rise of one per cent (or less) in the cost of credit. But the fact is that rising interest charges are accompanied by a general stiffening in the terms on which credit is available. Loan applications are scrutinized more carefully. Marginal borrowers, who earlier might have been granted loans, are denied credit. Others with somewhat better credit ratings are still accommodated, but the amounts are pared down. In general, banks show a greater reluctance to lend.

A further instance of stiffening credit terms was the reimposition of Federal Reserve Regulation W on consumer instalment credit. Effective September 20, minimum down payments of one-third on automobiles and one-fifth on most other kinds of durable consumers goods, and maximum time-payment periods of from 15 to 18 months were established for most consumer instalment purchases.

In addition to the above measures, during 1948 reserve requirements of member banks were increased. The use of this traditional credit-restraining weapon was at first confined to central reserve city banks - New York and Chicago. Effective February 27 and again June 11, reserve requirements on net demand deposits in these banks were upped 2 percentage points. These two increases raised the requirements from 20 per cent to 24 per cent. While 24 per cent was still two points under the legal maximum for central reserve city banks, reserve requirements on net demand deposits in reserve

city and country banks had been at their legal maximums of 20 per cent and 14 per cent respectively since mid-1942. The reserve requirement of 6 per cent on time deposits in all three classes of banks - the legal ceiling for this category of deposits - also dated back over 6 years.

On August 7, 1948, the passage of the Anti-inflation Act conveyed temporary authority to the Board of Governors to increase reserve requirements 4 points and 1 1/2 points, respectively, against net demand and time deposits in addition to existing statutory limits. On September 8, the Reserve Board ordered increases in member bank reserve requirements of 2 points on net demand and 1 1/2 points on time deposits, effective September 16 for country banks and September 24 for central reserve and reserve city banks.

For the nation as a whole the increase meant a sterilization of about \$2 billion into reserve balances. In the Ninth district reserve balances jumped approximately \$50 million due to the rise in reserve percentages. As stated in the Federal Reserve Bulletin of October 1948, the action increasing reserve requirements "was taken in part to absorb the large volume of reserves flowing to banks as a result of sales of restricted Government bonds by insurance companies and other nonbank investors and their purchase by the Federal Reserve System in support of the market". In addition, the increase was intended in part to offset additional reserves created by gold inflow.

Gold flows into the United States in payment for our net exports abroad. While the export surplus in 1948 was down sharply compared with 1947, it nevertheless gave rise to a gold inflow which materially increased bank reserves. From December 31, 1947 to December 29, 1948 the total gold certificate holdings of the Reserve System increased almost \$1 1/2 billion, re-

sulting in an equal volume of newly-created bank reserves (and deposits).

In addition to gold reserves drawn from foreign countries, the Ninth Federal Reserve bank in 1948 experienced a gold inflow from other sections of the U. S. This year's record farm marketings and sales of related products resulted in a favorable "balance of payments" for the Ninth district. During 1948 the gold certificate reserve of the Minneapolis Federal Reserve bank increased from \$455 million to \$494 million - a rise of 8 1/2 per cent. The fact that our percentage increase surpassed the national increase, which equalled only 6 3/4 per cent, reflects our favorable trade position.

It is significant that nationally at the year's end, despite the freezing of \$2 billion into non-earning assets by the increase in reserve requirements, the total volume of earning assets in all member banks was not reduced from that held at mid-year, prior to the increase. Earning assets were, in fact, increased. This was true in the Ninth district as well as in the United States as a whole. The following table shows a comparison of earning assets and reserve balances of all Ninth district member banks on June 30, 1948 and December 29, 1948.

Earning Assets and Reserve Balances of All Ninth District Member Banks, June 30, 1948 and December 29, 1948			
(Millions of Dollars)			
Earning Assets:	6/30/48	12/29/48	Change
Loans and Discounts	\$ 813	\$ 876	\$ + 63
U. S. Government Securities	1,671	1,651	- 20
All Other Investments	196	203	+ 7
Total Loans & Investments	\$ 2,680	\$ 2,730	\$ + 50
Reserve Balances:			
Required Reserves*	\$ 388	\$ 464	\$ + 76
Excess Reserves*	34	32	- 2
Total Reserve Balances*	\$ 422	\$ 496	\$ + 74

*Daily average figures for the last half of the month

Rounding out the anti-inflation program of 1948 was the "psychological warfare" waged by Federal and State banking authorities and the American Bankers Association and the voluntary restraint exercised by bankers themselves. The dangers to the economy as well as to banks and their customers of excessive bank credit expansion were repeatedly pointed out by the Federal Reserve Board and banks, by the President's Council of Economic Advisers and by national and state supervisory authorities. Early in January a nation-wide educational program to foster voluntary action for bank credit restraint was undertaken by the A.B.A.

Was the Overall Program Effective?

The effectiveness of the overall program of credit restraint is difficult to appraise. Such indicators as may be available reflect general business conditions and sentiment as well as monetary and fiscal policy. Nevertheless considerable illumination is shed by three barometers in particular: first, the Government security portfolio of the Federal Reserve System; second, the volume of loans outstanding; and third, the volume of bank deposits.

As explained above, the bond support program provided an open door to Federal Reserve credit. To the extent, however, that Treasury and Federal Reserve policy succeeded in reducing the Reserve bank's holdings of shorter-term securities, the expansionary effect of bond acquisitions was offset. The record for 1948 is shown below:

U. S. Government Security Holdings
Federal Reserve System
(Millions of Dollars)

	<u>12/31/47</u>	<u>12/29/48</u>	<u>Change</u>
Bills	\$11,433	\$ 5,466	\$ - 5,967
Certificates of Indebtedness	6,796	6,073	+ 723
Notes	1,477	806	- 670
Bonds	<u>2,853</u>	<u>11,001</u>	+ 8,148
Total Government Securities	\$22,559	\$23,346	\$ + 788

Federal Reserve Bank of Minneapolis
(Millions of Dollars)

	<u>12/31/47</u>	<u>12/31/48</u>	<u>Change</u>
Bills	\$299	\$168	\$ - 131
Certificates of Indebtedness	224	186	- 38
Notes	48	24	- 24
Bonds	<u>94</u>	<u>336</u>	<u>+ 242</u>
Total Government Securities	\$665	\$714	\$ + 49

Largely through the sale of shorter-term issues, but also through Treasury retirements, the Federal Reserve System's holdings of shorter maturities during 1948 were reduced \$7.4 billion - down \$6.0 billion in bills, \$723 million in certificates and \$670 million in notes. The figures for the Minneapolis Federal Reserve Bank were minus \$131 million in bills, minus \$38 million in certificates and minus \$24 million in notes. The combined reduction equalled \$193 million.

The reduction in shorter-maturity holdings in the 12 Federal Reserve banks combined provided an offset of over 90 per cent of the bond purchases (about 80 per cent in the Minneapolis Reserve bank). Thus, despite additions to the System's bond portfolio of over \$8 billion, the change in the total Government security portfolio which represents the net amount of Federal Reserve credit actually extended, was an increase of only \$788 million - a modest figure compared with total bond purchases. In the Minneapolis Federal Reserve bank additions to the bond portfolio equalled \$242 million, whereas the net change in the total Government security portfolio was \$49 million.

Loans in all U. S. member banks increased steadily during 1948, although at a greatly slackened pace compared with the galloping expansion of the previous postwar years. 1946 witnessed an increase in loans on the national scene from \$22.8 billion to \$26.7 billion - up 17%; 1947 saw loans mount further to \$32.6 billion - an increase of 22%. This year loans

reached an all-time peak of an estimated \$35.9 billion, but the 1948 rate of expansion had dropped off to 10%.

In the Ninth district, member bank loan expansion during the postwar years ran ahead of that of the nation as a whole. In 1946 total loans of Ninth district member banks rose from \$451 million to \$593 million, an advance of 31%. In 1947, Ninth district loans reached \$754 million - up 27 per cent over the preceding year. At the close of 1948, member bank loans in this district registered an increase of 16 per cent, equalling \$876 million.

Thus during 1948 both nationally and in the Ninth district, despite the continued strong demand for bank credit, loan expansion simmered down. Presumably, monetary-fiscal policy was responsible, in part at least, for curbing the growth of bank debt.

An additional sign of the diminishing significance of monetary factors in the inflation equation in 1948 is seen in the deposit picture. Total deposits in all U. S. member banks declined 3 per cent during the first eleven months of the year. From \$122.5 billion on December 31, 1947, total deposits dropped to \$119.1 billion by November 24, 1948 (the latest data available). In the same period, total deposits in Ninth district member banks also declined but by a considerably smaller degree. Down less than 1 per cent, total deposits fell from \$3,552 million at the end of 1947 to \$3,518 million on November 24, 1948. Our slower rate of decline reflects the fact that in 1948 funds continued to flow into this area on balance from the rest of the country. The major factor channelling funds into the Ninth district has been the bumper crop production and high level of farm prices in recent years.

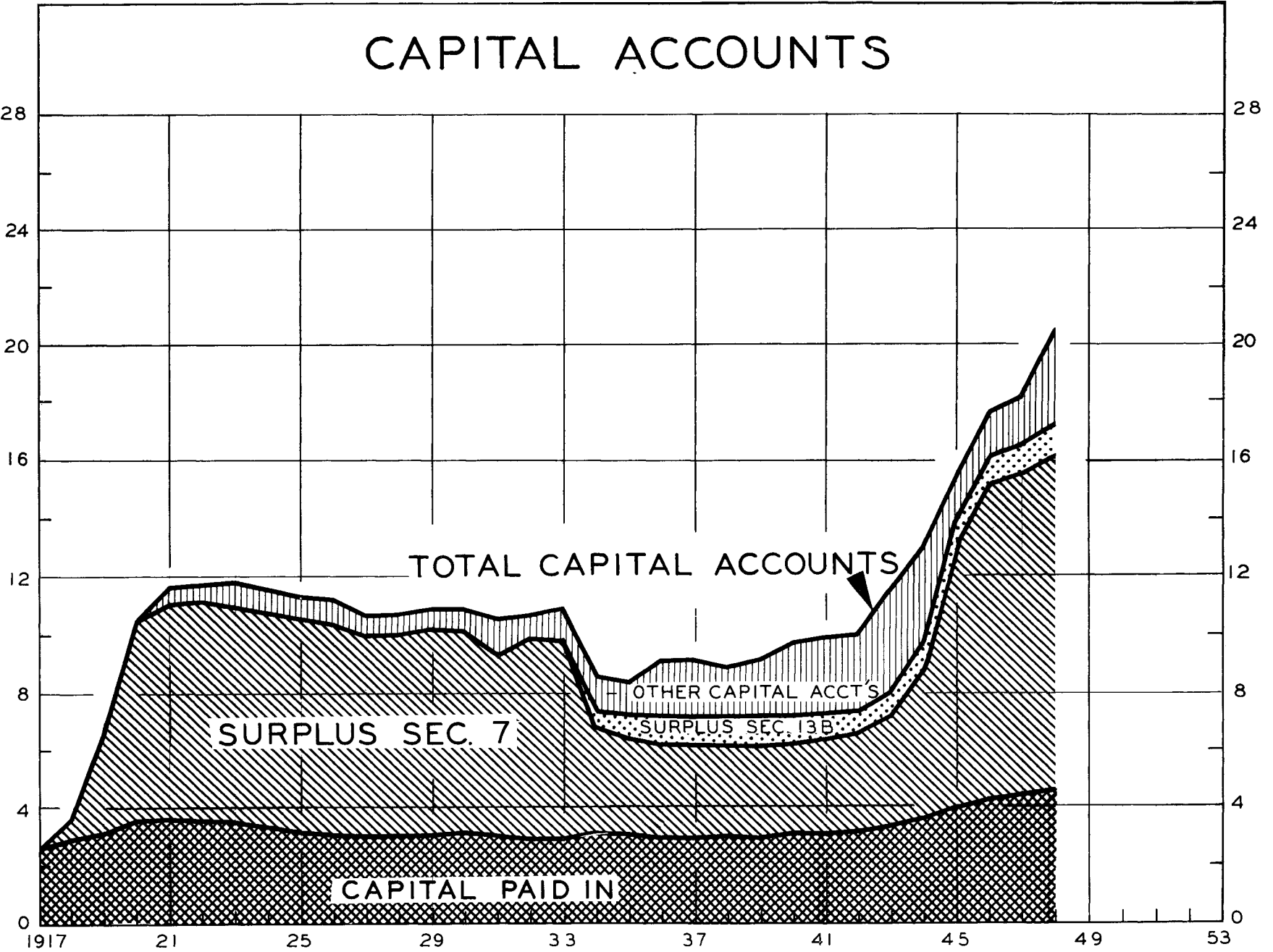
While total deposits declined in 1948, this subtraction from the

money supply was offset to some extent by an increase in the rate of spending. Both nationally and in the Ninth district the rate of turnover of total deposits, except interbank accounts, during 1948 surpassed that of the previous year. In U. S. leading cities (excluding New York City) a dollar of deposit money in 1947 did the work of \$12.00, in 1948 (first ten months) of \$12.70. In the Ninth district the annual velocity of total deposits was 13.8 in 1947 and 14.4 in 1948.

The year 1948 closed on a note of uncertainty. The crystal ball was clouded by factors of seemingly equal weight pulling on the one hand toward further inflation and on the other hand toward leveling out or some decline. The denouement of the drama of this year is yet to be written, but for the money market and the Ninth district two conclusions appear evident. First, the huge government debt - the legacy of war financing - will continue to be a focal point of fiscal and monetary policy in the year to come. Second, should the agricultural health chart reveal a downward turn in 1949 the Ninth district may experience a net drainage of funds to the rest of the country. If such is the case, Ninth district banks may stand to lose some of the deposits which have been flowing into this area in the postwar period.

MILLION DOLLARS

MILLION DOLLARS



CAPITAL ACCOUNTS

CAPITAL STOCK paid in totaled \$4,472 thousand on December 31, 1948, an increase of \$178 thousand during the year.

SURPLUS ACCOUNTS. Surplus (Section 7) was increased \$565 thousand on December 31, 1948, which brings the total to \$11,797 thousand. Surplus (Section 13b) remained unchanged at \$1,073 thousand.

CONTINGENCIES. No change was made in the reserve of \$1 million set aside for losses in excess of the blanket bond coverage or the reserve of \$500 thousand earmarked for losses not covered by the Loss Sharing Agreement. However, on December 31, 1948, a \$1,199 thousand special reserve for contingencies was set up. This amount represents our share of the System's \$40 million special reserve.

The reserve for registered mail losses totaled \$164 thousand as of December 31, 1948. This is an increase of \$12 thousand during the year.

The table below reflects the changes made in this account during 1948:

Reserve for registered mail losses beginning of year 1948	\$ 152,523.25
--	---------------

Debits:

Our proportional share of the \$1,000 retainer fee for advisory services from Marsh & McLennon, Inc., for 1948	\$ <u>27.25</u>
--	-----------------

Total Debits	\$ 27.25
--------------	----------

Credits:

Reserve for Fiscal Year, December 1, 1947, to November 30, 1948, based on total shipments for year of \$587,672,058 (see next page) at 2¢ per \$1,000	11,753.44
---	-----------

Total Credits	\$ 11,753.44
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Total Additions during year	<u>11,726.19</u>
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Reserve for Registered Mail Losses, December 31, 1948	\$ 164,249.44
--	---------------

The following table gives a detail of currency and coin shipments made during the fiscal year December 1, 1947 to November 30, 1948, which were the basis for the addition to the registered mail loss reserve:

	1948 (000 Omitted)	1947 (000 Omitted)
New F.R. currency from Washington	\$ 99,640	\$ 125,900
Fit F.R. notes to bank of issue	44,368	38,934
Currency & coin between Minneapolis & Helena	3,600	4,898
Other currency & coin outgoing -- Minneapolis & Helena	202,975	187,673
Other currency & coin incoming -- Minneapolis & Helena	229,172	199,647
All Other: (Delivered or picked up by truck)		
Other currency & coin outgoing - Helena	3,282	3,067
Other currency & coin incoming - Helena	<u>4,635</u>	<u>4,343</u>
	\$ 587,672	\$ 564,462

The following table shows the disposition of 1948 net earnings and the changes made in the surplus accounts:

Net Earnings - 1948		\$ 7,108,440.55
Dividends Paid	\$ 262,776.22	
Paid U.S. Treasury (Interest on F.R. Notes)	5,081,916.32	
Transferred to Reserve for Contingencies	<u>1,199,000.00</u>	<u>6,543,692.54</u>
Transferred to Surplus (Section 7)		\$ 564,748.01

Surplus (Section 7) December 31, 1947		\$11,232,567.38
Transferred from Earnings 1948		<u>564,748.01</u>
Surplus (Section 7) December 31, 1948		\$11,797,315.39

Surplus (Section 13b) December 31, 1947		\$ 1,072,621.34
Transferred from Earnings 1948		<u>Ø</u>
Surplus (Section 13b) December 31, 1948		\$ 1,072,621.34

Reserve for Contingencies, December 31, 1948:

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		164,249.44*
Special Reserve for Contingencies		<u>1,199,000.00</u>
		\$ 2,863,249.44

*See analysis on the preceding page.

D I V I D E N D S

As of December 31, 1948, capital stock held by member banks totaled \$4,471,800, on which dividends totaling \$262,776 were paid. This year's dividend payment is the largest for any one year in the history of the bank and when combined with previous years payments brings the aggregate total to \$6,428,365.

<u>Distribution of 1948 and 1947 Dividends</u>					
<u>State</u>	<u>1948</u>		<u>1947</u>		<u>Inc. or Dec.</u>
	<u>No. of Banks</u>	<u>Dividend Paid</u>	<u>No. of Banks</u>	<u>Dividend Paid</u>	
Michigan	41	\$ 14,994.83	41	\$ 14,228.13	\$ + 766.70
Minnesota	206	169,651.85	208	166,183.73	+ 3,468.12
Montana	84	28,382.47	82	27,004.96	+ 1,377.51
North Dakota	42	14,871.28	41	13,241.95	+ 1,629.33
South Dakota	62	20,519.02	63	18,980.82	+ 1,538.20
Wisconsin	<u>41</u>	<u>14,356.77</u>	<u>40</u>	<u>13,611.71</u>	<u>+ 745.06</u>
	476	\$262,776.22	475	\$253,251.30	\$ + 9,524.92

TABLE OF DIVIDENDS PAID SINCE ORGANIZATION

1914		1932	\$175,494.80
1915		1933	171,568.89
1916	\$ 57,719.87 a/	1934	181,117.51
1917	363,894.19 b/	1935	185,448.45
1918	168,102.97	1936	179,052.04
1919	180,186.21	1937	174,057.31
1920	195,870.65	1938	174,231.27
1921	211,657.03	1939	174,905.39
1922	213,774.01	1940	177,400.58
1923	212,732.68	1941	179,789.68
1924	202,827.98	1942	183,336.33
1925	193,559.46	1943	190,924.19
1926	187,609.25	1944	206,158.74
1927	180,726.51	1945	221,686.96
1928	181,202.86	1946	238,372.30
1929	184,029.92	1947	253,251.30
1930	184,445.39	1948	<u>262,776.22</u>
1931	180,454.53 c/		\$6,428,365.47

a/ For period November 1, 1914 through June 30, 1915.

b/ For period July 1, 1915 through December 31, 1917.

c/ \$134,649.67 withdrawn from Surplus to pay dividend.

BANK PREMISES

A number of improvements were made to the bank buildings at Minneapolis and Helena which were charged to Repairs and Alterations. No additions were made to the book value of either building and depreciation charges of 2% were made on both buildings. No additions to the reserve for depreciation on fixed machinery and equipment were made for the Head Office since a full reserve had already been established. Normal depreciation of 10% was taken on the fixed machinery and equipment at Helena.

Major repairs or alterations made at the Head Office were as follows:

1. Repairs to the main vault doors on the bank and currency levels. For a number of years spasmodic difficulty was encountered in opening and closing the doors to the vault. According to the engineers of the Diebold Safe and Lock Company this trouble was caused by the "growing" of a material called Ferrox. To eliminate this trouble and to prevent further damage, all Ferrox material was removed and replaced with Infusite.
2. Sandblasting, pointing and waterproofing the exterior of the building.
3. Additional space developed for the Personnel Department. To accommodate increased personnel operations, to afford more privacy for the Personnel officer, and for counselling, a portion of the men's locker room was absorbed. This necessitated the removal of a portion of the wall formerly separating the Personnel Department and the locker room and erecting a new divisional tile wall. At present, this additional space is being used by the Payroll Section. In addition, a private office was erected for the Personnel officer and another for private conference.

The walls used for these enclosures are constructed of metal and glass and are movable so that they can be installed in any other location. In addition to the above, a door leading from the ground floor corridor to the Welfare office was opened. This change enables employees visiting the Welfare Department to enter from the hall rather than through the Personnel Department.

4. Work has been started in converting approximately 4,000 square feet of storage space in the subbasement into office space. This space will be used by the Savings Bond Redemption Division of the Fiscal Agency Department.

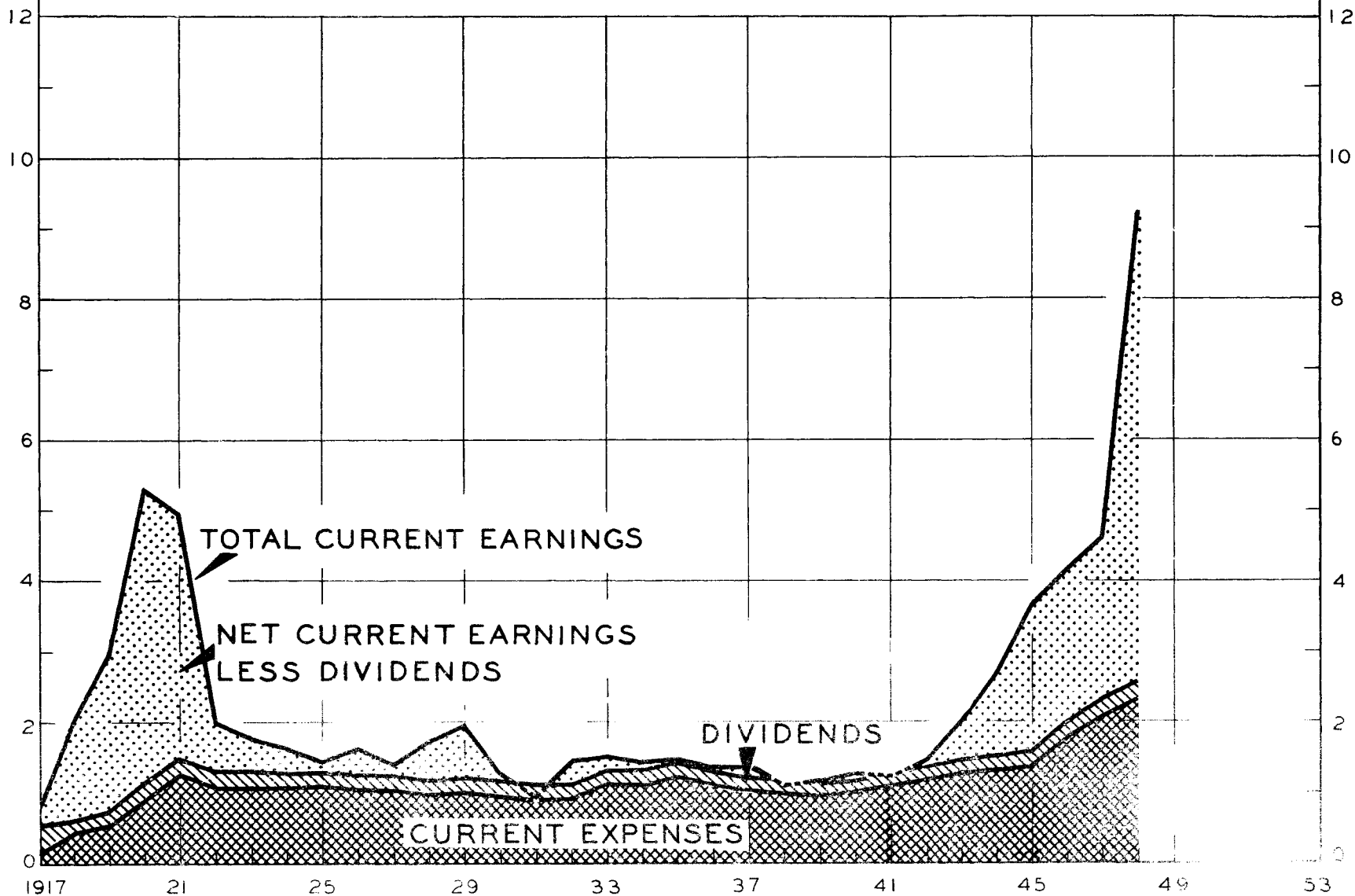
BANK PREMISES

	<u>Total</u>	<u>Head Office</u>	<u>Helena Branch</u>
<u>BANK BUILDING:</u>			
Gross Book Value:			
Beginning of 1948	\$1,384,281.50	\$1,283,281.50	\$101,000.00
Additions during year	-	-	-
Deductions during year	-	-	-
End of Year	\$1,384,281.50	\$1,283,281.50	\$101,000.00
Allowance for Depreciation:			
Beginning of 1948	\$ 605,079.12	\$ 590,309.16	\$ 14,769.96
Credits			
a. Normal depreciation	27,685.56	25,665.60	2,019.96
b. Other	-	-	-
Debits	-	-	-
End of Year	\$ 632,764.68	\$ 615,974.76	\$ 16,789.92
Net book value December 31, 1948	\$ 751,516.82	\$ 667,306.74	\$ 84,210.08
<u>FIXED MACHINERY & EQUIPMENT:</u>			
Gross Book Value:			
Beginning of 1948	\$ 698,171.34	\$ 660,969.35	\$ 37,201.99
Additions during year	-	-	-
Deductions during year	-	-	-
End of Year	\$ 698,171.34	\$ 660,969.35	\$ 37,201.99
Allowance for Depreciation:			
Beginning of 1948	\$ 679,455.50	\$ 660,969.35	\$ 18,486.15
Credits			
a. Normal depreciation	3,720.24	-	3,720.24
b. Other	-	-	-
Debits	-	-	-
End of Year	\$ 683,175.74	\$ 660,969.35	\$ 22,206.39
Net book value December 31, 1948	\$ 14,995.60	\$	\$ 14,995.60
<u>LAND:</u>			
Net book value December 31, 1948	\$ 410,520.66	\$ 400,520.66	\$ 10,000.00
<u>TOTAL BANK PREMISES:</u>			
Net book value December 31, 1948	\$1,177,033.08	\$1,067,827.40	\$109,205.68

MILLION DOLLARS

MILLION DOLLARS

NET CURRENT EARNINGS



NET EARNINGS & PROFITS

Net earnings and profits for the year 1948 totaled \$5,909 thousand. This net earning figure establishes a new all time high and exceeds the 1947 total by \$3,295 thousand.

Compared with 1947, total current earnings increased \$4,633 thousand, represented by an increase in interest from securities held in the Open Market account \$4,726 thousand, and interest on foreign loans on gold \$47 thousand. Earnings from discounts and advances decreased \$55 thousand, interest on bills held under repurchase agreement \$84 thousand, and all other \$1 thousand.

Net expenses increased \$243 thousand, dividends paid \$10 thousand, and interest on Federal Reserve notes \$2,958 thousand.

Due to the establishment of a special reserve for contingencies (\$1,199 thousand), the Profit and Loss Account, as shown in the table on the following page, reflects an increase in the net deductions from current earnings of \$1,095 thousand when compared with 1947. Additions to current net earnings consisted mainly of profit on U. S. Government securities sold, \$179 thousand.

A statement of net earnings and profits is shown on the following page.

Net Earnings & Profits

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Current Earnings	\$ 9,246,428	\$ + 4,633,320
Current Expenses	<u>2,306,100</u>	<u>+ 243,002</u>
Current Net Earnings	\$ 6,940,328	\$ + 4,390,318
Additions to Current Net Earnings:		
Profit on U. S. Govt. Securities sold, net	\$179,381	+ 104,648
All Other	<u>828</u>	<u>+ 46</u>
Total Additions	\$180,209	\$ + 104,694
Deductions from Current Net Earnings:		
Charge-offs on Bank Premises	-	
Reserve for Registered Mail Losses	\$ 11,753	\$ + 464
Reserve for Contingencies	1,199,000	+ 1,199,000
All Other	<u>343</u>	<u>- 250</u>
Total Deductions	\$1,211,096	\$ + 1,199,214
Net Deductions from Current Net Earnings	\$ 1,030,887	\$ + 1,094,520
Net Earnings and Profits	\$ 5,909,441	\$ + 3,295,798

For disposition of profits see page 32

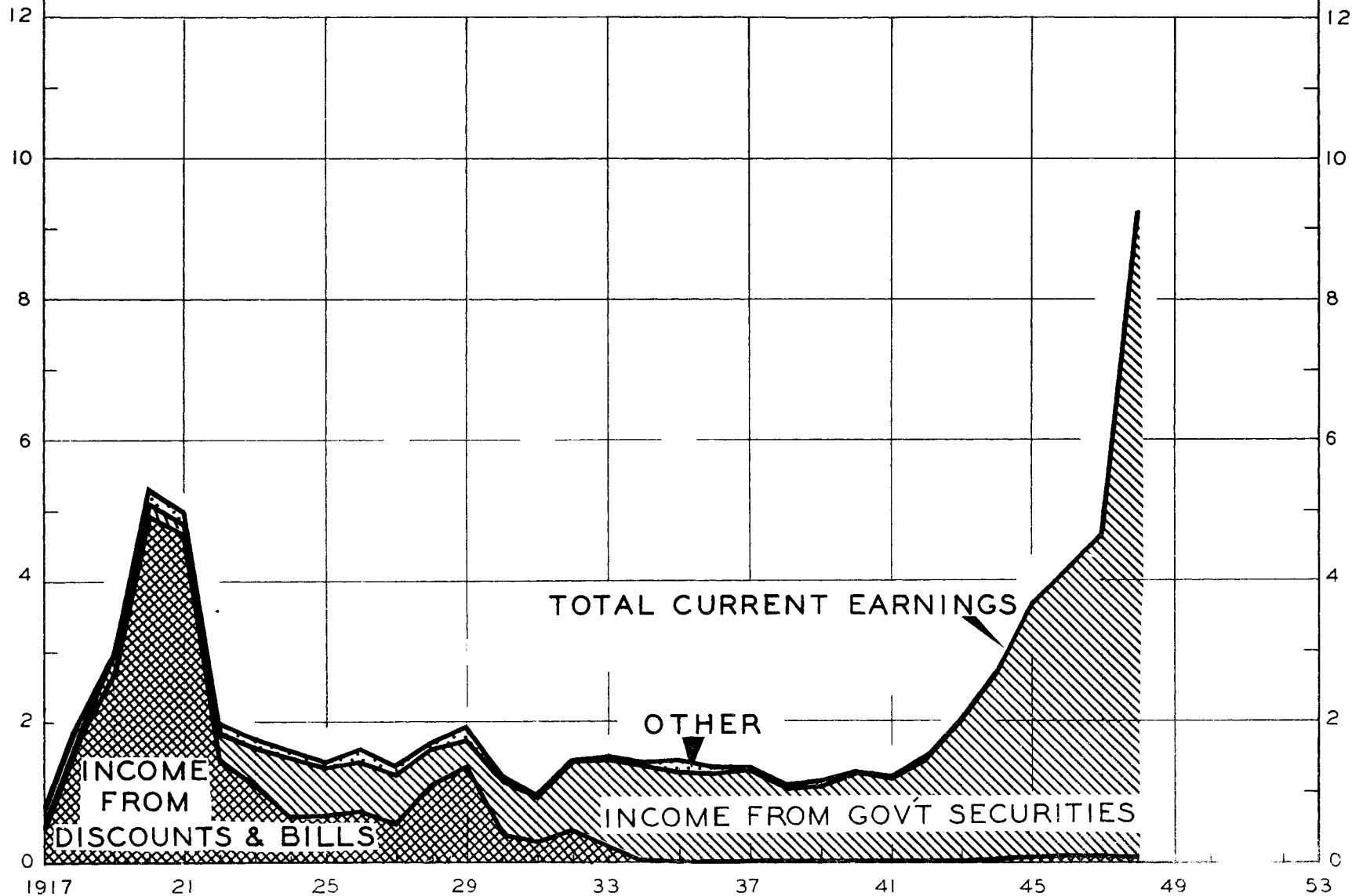
The table below gives a breakdown of the Profit and Loss transactions during 1948:

	<u>Total</u>	<u>Head Office</u>	<u>Helena Branch</u>
Additions to current net earnings:			
Profit on United States Government Securities sold, net	\$ 179,381.25	\$ 179,381.25	\$ -
Profit on mutilated currency and coin	224.96	223.37	1.59
Recovery of items previously charged to Profit & Loss	593.26	593.26	
One 20 Peso Philippine note redeemed by Philippine National Bank, New York	9.47	9.47	-
	<hr/>	<hr/>	<hr/>
Total Additions	\$ 180,208.94	\$ 180,207.35	\$ 1.59
	<hr/>	<hr/>	<hr/>
Deductions from current net earnings:			
Reserve for registered mail losses	\$ 11,753.44	\$ 11,753.44	\$ -
Reserve for contingencies	1,199,000.00	1,199,000.00	-
Discount on foreign currency and coin	16.64	16.64	-
Loss on counterfeits	71.65	71.65	-
Difference account	254.63	227.21	27.42
Loss on redemption of City of Winnipeg, Canada, coupon	.30	-	.30
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Total Deductions	\$1,211,096.66	\$1,211,068.94	\$27.72
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Net Deductions from Current Net Earnings	\$1,030,887.72	\$1,030,861.59	\$26.13
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MILLION DOLLARS

MILLION DOLLARS

CURRENT EARNINGS



E A R N I N G S

As reflected in the following table, the increase in earnings for 1948 over 1947 came from two sources -- foreign loans on gold and U. S. Government securities - System account.

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Discounts and Advances	\$ 26,071	\$ - 54,839
Foreign Loans on Gold	62,788	+ 47,254
U. S. Govt. Securities - System Account	9,148,680	+ 4,726,276
U. S. Govt. Securities - Repurchase Option	-	- 84,266
Deficient Reserve Penalties	8,240	- 542
Sale of Wastepaper, Money Bags, etc.	387	233
Service Charges - Safekeeping	5	-
Commission Earned on Bankers Acceptances		
Purchased for Foreign Correspondents	90	79
Clearinghouse Fines	157	25
Savings in Registration Fees, etc., on		
Registered Mail Shipments for Member Banks	-	- 206
Interest on Personal Loans to Employees	<u>11</u>	<u>- 19</u>
	<u>\$9,246,429</u>	<u>\$ + 4,633,321</u>

The average daily holdings of bills discounted for the year 1948 were \$2,004 thousand and resulted in earnings of \$26,071 as compared with last year's average of \$8,213 thousand and earnings of \$80,910. The average return for the year was 1.301 per cent. Rates in effect during the year were 1% to January 11, 1 1/4% from January 12 to August 12, and 1 1/2% for the remainder of the year. Our daily average participation in foreign loans on gold during 1948 was \$4,739 thousand as compared with \$1,493 thousand for 1947, and earnings increased to \$62,788 during 1948 from \$15,534 in 1947. The yield for 1948 was 1.325 per cent. Our average daily participation in Open Market securities was \$658 million, whereas one year ago the average was \$642 million (included bills held under repurchase option). The average yield was 1.390 per cent for 1948

against .703 per cent for 1947. Earnings from these securities were \$9,148 thousand compared with \$4,507 thousand one year ago. For the year 1948, the average yield from loans to Ninth District banks, foreign loans on gold, and U. S. Government securities was 1.389 per cent. During 1947 the average yield was .708 per cent.

A review of the bank's U. S. Government securities account as of December 31, 1948, reflects a substantial change in holdings when compared with one year ago. It will be noted from the following table that total participation increased \$49 million and our principal holding was U. S. bonds, whereas one year ago bonds ranked third. The following table compares the bank's holdings as of December 31, 1948 with December 31, 1947, and shows the dollar increase or decrease.

	<u>12/31/48</u>	<u>12/31/47</u> (000 Omitted)	<u>Inc. or Dec.</u> <u>from 1947</u>
Bonds	\$ 336,001	\$ 93,936	\$ + 242,065
Notes	24,198	48,618	- 24,420
Bills	167,963	298,577	- 130,614
Certificates of Indebtedness	<u>186,029</u>	<u>223,788</u>	<u>- 37,759</u>
	\$ 714,191	\$ 664,919	\$ + 49,272

Earnings at Minneapolis and Helena from deficient reserve penalties during 1948 totaled \$8,239.72, a decrease of \$541.77 from last year's earnings of \$8,781.49. Earnings for Head Office increased \$1,425.18 over 1947 due to an increase in discount rate of 1/4 of 1% on January 12, 1948, and another 1/4 of 1% on August 13, 1948, and to a great extent from the increase in reserve requirements.

As a further step toward restraining inflationary expansion, on September 8, 1948, the Board of Governors, under authority of the anti-inflation bill, increased the amount of reserves required to be maintained with the Federal Reserve banks by member banks as follows:

<u>Bank Classification</u>	<u>Reserve Requirement Changes</u>				<u>Effective Date</u>
	<u>Net Demand Deposits</u>		<u>Time Deposits</u>		
	<u>From</u>	<u>To</u>	<u>From</u>	<u>To</u>	
Country Banks	14%	16%	6%	7 1/2%	9-16-48
Reserve City Banks	20%	22%	6%	7 1/2%	9-24-48
Central Reserve City Banks	24%	26%	6%	7 1/2%	9-24-48

While an advance notice of the change was sent to all banks, 78 were deficient in reserves for the first period following the effective date of the raise in requirements.

Beginning January 1, 1948, reserve protection has been given to member banks on incoming and outgoing currency and coin shipments based on a time schedule for the number of days such shipments are in transit. This protection has been used at Head Office in 361 instances during 1948 -- the total amount of protection (approximately \$16,393,410) represented a saving to member banks of about \$1,485.19.

During 1948, 136 banks were penalized a total of 286 times, compared with 134 banks and 276 penalties in 1947.

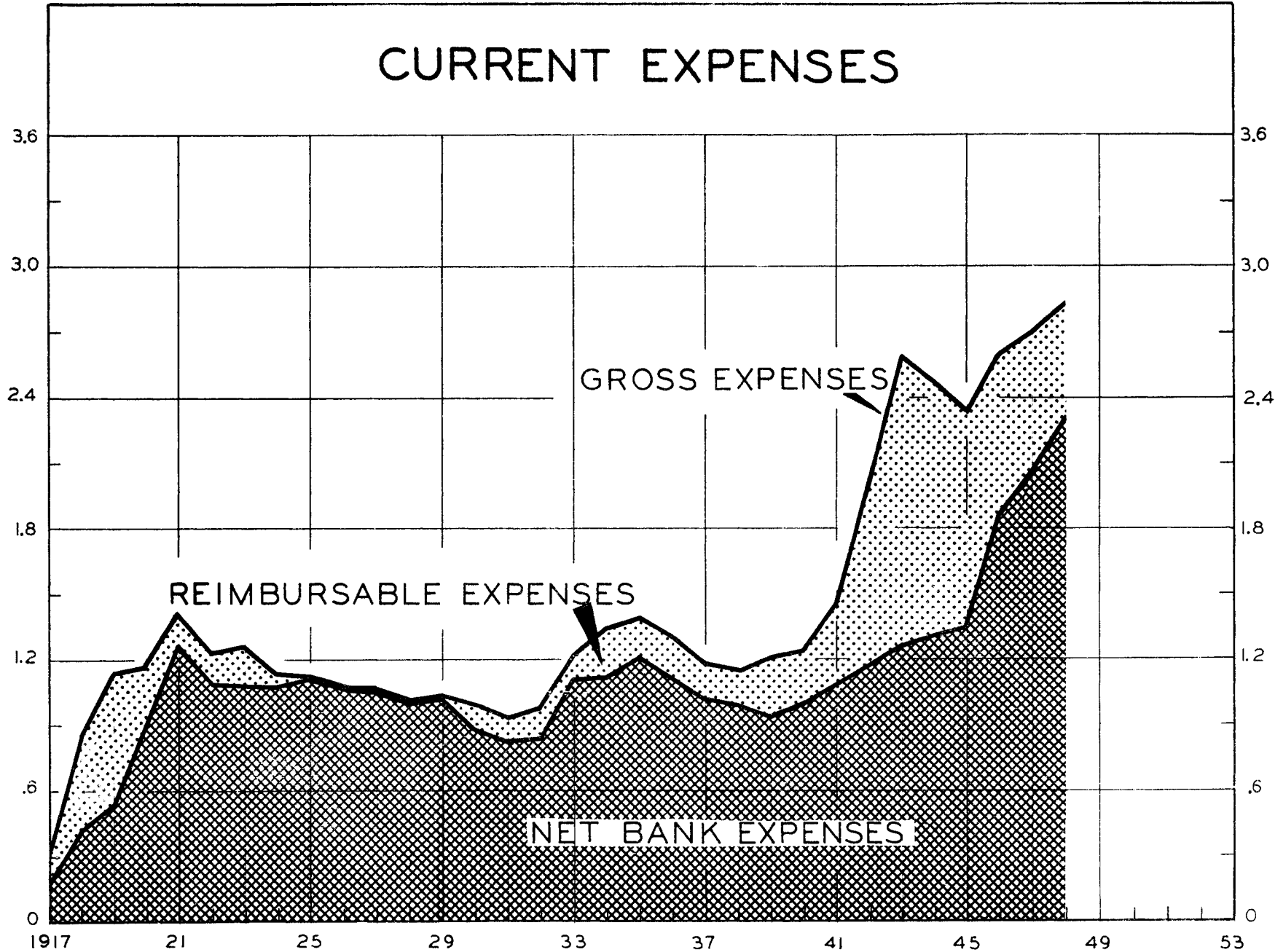
Comparative Report of
Deficient Reserve Penalties

	<u>Penalties Assessed</u>				<u>Penalties Waived</u>				<u>Number of Banks Affected</u>			
									<u>Assessed</u>		<u>Waived</u>	
	<u>No.</u>	<u>1948</u>	<u>No.</u>	<u>1947</u>	<u>No.</u>	<u>1948</u>	<u>No.</u>	<u>1947</u>	<u>1948</u>	<u>1947</u>	<u>1948</u>	<u>1947</u>
Michigan	44	\$ 860.19	34	\$ 522.94	5	\$ 4.74	11	\$ 18.83	13	17	5	9
Minnesota	80	1,801.43	86	1,016.83	53	115.87	44	126.71	46	47	40	30
No. Dakota	24	1,135.97	17	587.69	5	3.37	3	11.25	11	10	4	3
So. Dakota	33	938.28	41	1,107.22	11	25.89	11	20.43	21	23	12	9
Wisconsin	20	340.22	24	416.23	6	8.16	18	24.91	12	12	5	14
Head Office												
Totals	201	\$5,076.09	202	\$3,650.91	80	\$158.03	87	\$202.13	103	109	66	65
Montana	85	3,163.63	74	5,130.58	19	43.41	17	33.28	33	25	18	13
Combined												
Totals	286	\$8,239.72	276	\$8,781.49	99	\$201.44	104	\$235.41	136	134	84	78

MILLION DOLLARS

MILLION DOLLARS

CURRENT EXPENSES



NONREIMBURSABLE EXPENSE

	<u>1948</u>	Inc. or Dec. <u>from 1947</u>
Head Office	\$2,078,842	\$ + 219,301
Helena Branch	<u>227,258</u>	<u>+ 23,702</u>
	\$2,306,100	\$ + 243,003

Head Office expense, after deduction of reimbursable expense, increased \$219 thousand compared with the year 1947. Principal increases over last year were in salaries; retirement system contributions; directors' fees and expenses; travel expense; postage and expressage; printing, stationery and supplies; insurance other than on currency and security shipments; taxes on bank premises; repairs and alterations to bank building; miscellaneous expense; assessment for estimated expenses of the Board of Governors of the Federal Reserve System; and cost of Federal Reserve currency. Rental of space received from Government agencies decreased.

Helena Branch expense increased \$24 thousand over last year. The larger increases were in salaries; postage and expressage; insurance other than on currency and security shipments. Rental of space received from governmental agencies decreased.

SALARIES

	<u>1948</u>	Inc. or Dec. <u>from 1947</u>
Head Office	\$1,141,016	\$ + 74,303
Helena Branch	<u>118,773</u>	<u>+ 5,838</u>
	\$1,259,789	\$ + 80,141

Head Office salaries for 1948 totaled \$1,141 thousand, an increase of \$74 thousand over last year. This increase in salaries is due to merit adjustments plus a larger number of employees in the Check Collection, Public

Services, and Consumer Instalment Credit departments.

Helena Branch salaries for the same period increased \$6 thousand.

RETIREMENT SYSTEM CONTRIBUTIONS

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$101,689	\$ + 6,102
Helena Branch	<u>10,623</u>	<u>+ 1,093</u>
	\$112,312	\$ + 7,195

Head Office retirement system contributions totaled \$101,689, an increase of \$6 thousand compared with 1947, due to increased salaries. The rate of contribution is 9.62%.

Helena Branch expense increased \$1,093 for the same period.

DIRECTORS' FEES & EXPENSES

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$14,065	\$ + 2,978
Helena Branch	<u>5,285</u>	<u>+ 755</u>
	\$19,350	\$ + 3,733

Directors' fees and expenses totaled \$19 thousand, an increase of \$3,733 over the year 1947. This increase is due to the holding of a joint meeting on June 25, 1948, at the Many Glacier Hotel, Glacier Park, Montana; to a revised schedule of fees, allowances, etc.; and to increased travel rates.

FEDERAL ADVISORY COUNCIL FEES & EXPENSES

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$ 1,888	\$ + 45

Federal Advisory Council fees and expenses totaled \$1,888, an increase of \$45 over last year.

TRAVEL

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$41,375	\$ + 5,455
Helena Branch	<u>5,169</u>	<u>+ 1,340</u>
	\$46,544	\$ + 6,795

Travel expense at the Head Office totaled \$41 thousand, an increase of \$5,455 over the year 1947. This increase is due to increased travel rates, and additional travel because of bank examinations, consumer instalment credit investigations, and attendance at more miscellaneous meetings.

Helena Branch expense was \$1,340 more for the same period.

POSTAGE & EXPRESSAGE

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$219,252	\$ + 28,135
Helena Branch	<u>37,809</u>	<u>+ 4,901</u>
	\$257,061	\$ + 33,036

Postage and expressage for the Head Office totaled \$219,252, an increase of \$28 thousand compared with 1947. The largest increases occurred in postage on: incoming currency \$5,600, outgoing currency \$1,000, and ordinary mail postage \$20,610 (which includes the reimbursement to member banks of \$5,139 compared with \$1,500 last year for postage and expressage

on cash items routed direct to other Federal Reserve banks and branches);
 expressage on checks to member banks \$1,800 and incoming coin \$3,900.
 Postage on outgoing securities shows a decrease of \$1,000.

TELEPHONE & TELEGRAPH

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$ 8,301	\$ + 816
Helena Branch	<u>7,906</u>	<u>+ 620</u>
	\$16,207	\$ + 1,436

Telephone and telegraph expense at the Head Office totaled \$8,301, an increase of \$816 compared with the year 1947. This increase is due to the increased charges for telephone equipment rental.

Helena Branch expense increased \$620 for this period.

PRINTING, STATIONERY & SUPPLIES

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$ 68,806	\$ + 10,017
Helena Branch	<u>7,077</u>	<u>- 24</u>
	\$ 75,883	\$ + 9,993

Printing, stationery and supplies at the Head Office totaled \$68,806, an increase of \$10,017 compared with the year 1947. This increase is due largely to the purchase of Recordak supplies in the amount of \$11,409.

OTHER INSURANCE

Does not include insurance on
 currency, coin and securities

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$ 23,338	\$ + 8,965
Helena Branch	<u>2,970</u>	<u>+ 1,308</u>
	\$ 26,308	\$ + 10,273

Other insurance expense for the Head Office totaled \$23,338, an increase of \$9 thousand compared with a year ago. The bulk of the increase is in connection with our Group Life insurance policy. Our 1947 dividend was \$8,810 but because of several deaths in 1947 we received no dividend in 1948.

Helena Branch expense increased \$1,308 for this period.

TAXES ON BANK PREMISES

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$ 86,400	\$ + 5,440
Helena Branch	<u>4,425</u>	<u>+ 442</u>
	\$ 90,825	\$ + 5,882

Taxes on Head Office bank premises totaled \$86,400, an increase of \$5,440 over the year 1947 due to an increase in assessed valuation to \$640,000 from \$627,600 and an increase in tax rate to 135 mills for 1948 compared with 129 mills in 1947.

Helena Branch expense was \$442 more for the same period due to an increase in tax rates.

DEPRECIATION ON BANK BUILDING
& FIXED MACHINERY & EQUIPMENT

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$ 25,666	\$ -
Helena Branch	<u>5,740</u>	<u>-</u>
	\$ 31,406	-

Depreciation on buildings, including vaults, is at the rate of 2 per cent per annum, and on fixed machinery and equipment at 10 per cent per annum of the gross book value.

LIGHT, HEAT, POWER & WATER

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$ 24,151	\$ + 1,461
Helena Branch	<u>2,119</u>	<u>- 167</u>
	\$ 26,270	\$ + 1,294

Light, heat, power and water expense at the Head Office totaled \$24,151, an increase of \$1,461 compared with the year 1947. The cost of light and power shows an increase of \$1,800 compared with the 1947 expense due to application of the full escalator clause in our Northern States Power Company contract.

Helena Branch expense decreased \$167 for this period.

REPAIRS & ALTERATIONS

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$ 44,950	\$ + 23,377
Helena Branch	<u>708</u>	<u>+ 138</u>
	\$ 45,658	\$ + 23,515

Cost of repairs and alterations at the Head Office totaled \$44,950, an increase of \$23,377 compared with the previous year. The larger items of expense during 1948 are:

1. Sandblasting, pointing, and waterproofing the outside of the building, \$16 thousand.
2. Removal of torch resistive material in the vault doors on the Bank floor and Currency Department level, known as Ferroxy, and replacing it with Infusite, \$9 thousand.

3. Alterations in subbasement in preparation for transfer of Bond Department International Business Machines equipment and related operations from third floor, \$8 thousand.

Helena Branch costs increased \$138 during the period.

FURNITURE & EQUIPMENT

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$ 8,668	\$ - 4,996
Helena Branch	<u>4,684</u>	<u>+ 3,042</u>
	\$13,352	\$ - 1,954

Furniture and equipment purchased at the Head Office totaled \$8,668, a decrease of \$5 thousand compared with 1947. The larger purchases during 1948 were files \$2,259, tables \$1,599, and an addressograph machine \$1,063.

The Helena Branch total of \$4,684 includes \$4,245 for purchase of two National Cash Register accounting machines.

MISCELLANEOUS NET EXPENSE

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$123,651	\$ + 42,462
Helena Branch	<u>12,310</u>	<u>+ 1,297</u>
	\$135,961	\$ + 43,759

Miscellaneous net expense at the Head Office totaled \$123,651, an increase of \$42 thousand compared with the year 1947. The larger items showing changes during 1948 are:

1. Rental, repairs and maintenance of furniture and equipment increased \$29,767 over 1947. Rental of International Business Machine equipment for use in the Check Collection and Safekeeping

departments cost \$15,052 more in 1948 than in 1947. Recordak machine rental costs for recordaking checks increased \$14,614 compared with 1947 expense.

2. Outside protection and vault inspection expense was \$1,340, an increase of \$913, mainly because of the installation of burglar alarm control boxes at a cost of \$895.
3. Foreign -- Our pro rata share of the operating expenses of the Foreign Department by the Federal Reserve Bank of New York totaled \$11,698, an increase of \$2,625 over the previous year.
4. Examiners' Conference expense totaled \$2,674, an increase of \$2,112 when compared with the 1947 expense of \$562. There was no Examiners' Conference in 1947. The 1947 figure of \$562 represents that portion of the cost of the December 1946 Examiners' Conference which was not paid until January 1947. The 1948 figures include not only the complete cost of the January 1948 Examiners' Conference (\$1,201) but also \$1,473 of the expense for the November 1948 Examiners' Conference.
5. Ninth District Conference expense totaled \$12,219, a decrease of \$146 from the year 1947.
6. Federal Reserve Forum expense totaled \$5,899, a decrease of \$1,108 from the cost of the forum held in 1947.
7. On March 1, 1948, a "Short Course in Central Banking for Ninth District Member Banks" was started. The cost of this course during 1948 was \$2,960.

BOARD ASSESSMENT

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$ 80,229	\$ + 15,044

The assessment for expenses of the Board of Governors of the Federal Reserve System totaled \$80,229, an increase of \$15 thousand over the previous year.

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.

The basis for our assessments for the years 1948 and 1947 is shown below:

	<u>1948</u>	<u>1947</u>
<u>First Half</u>		
Capital Stock	\$ 4,293,650	\$ 4,070,550
Surplus (Section 7)	11,232,567	10,996,958
Surplus (Section 13b)	<u>1,072,621</u>	<u>1,072,621</u>
	\$16,598,838	\$16,140,129
Assessment Rate	.00209	.00204
Total Assessment for First Half	34,691	32,926
<u>Second Half</u>		
Capital Stock	\$ 4,375,300	\$ 4,223,300
Surplus (Section 7)	11,232,567	10,996,958
Surplus (Section 13b)	<u>1,072,621</u>	<u>1,072,621</u>
	\$16,680,488	\$16,292,879
Assessment Rate	.00273	.00198
Total Assessment for Second Half	45,538	32,259
Total Assessment for Year	\$ 80,229	\$ 65,185

COST OF FEDERAL RESERVE CURRENCY

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Original cost (including shipping charges)	\$ 88,201	\$ - 2,270
Redemptions (including shipping charges)	<u>18,666</u>	<u>+ 55</u>
	<u>\$106,867</u>	<u>\$ - 2,215</u>

The cost of new currency totaled \$88,201, a decrease of \$2,300 compared with the year 1947. Printing cost increased \$6,000 compared with 1947, while postage and surcharges decreased \$8,300.

Redemption costs, including shipping charges, increased \$55 compared with the previous year.

RENTAL RECEIVED

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Head Office	\$ 39,883	\$ - 1,870
Helena Branch	<u>941</u>	<u>- 2,625</u>
	<u>\$ 40,824</u>	<u>\$ - 4,495</u>

Rental received from government agencies for space and furniture and equipment, which is deducted from total expenses, totaled \$40,824 during 1948 for the Head Office and Helena Branch, a decrease of \$4,500 compared with the previous year. Rental for space at the Head Office totaled \$36,148, a decrease of \$1,274 over a year ago largely due to consolidation of two Savings bond redemption units of the Fiscal Agency Department.

Helena Branch rental of space decreased \$2,152 because of Fiscal Agency activities being transferred to the Head Office on June 1, 1947. This transfer also caused a decrease of \$500 in rental received for the use of furniture and equipment at the Helena Branch.

R E I M B U R S A B L E E X P E N D I T U R E S

	<u>1948</u>	<u>Inc. or Dec. from 1947</u>
Public Debt	\$ 487,448	\$ - 75,163
Withholding Taxes	6,699	- 3,268
Currency Reports	108	- 66
Reconstruction Finance Corp.	18,332	- 27,060
Federal Farm Mortgage Corp.	29	- 50
Federal Land Banks	47	- 62
Federal Intermediate Credit Banks	47	+ 23
Federal Public Housing Authority	55	+ 31
Commodity Credit Corporation	5,921	- 2,279
War Department	212	- 159
Office of Price Administration	-	- 4,905
Federal Works Agency	54	+ 35
Federal Home Loan Banks	46	+ 46
Home Owners Loan Corporation	55	+ 2
Leased Wire Service	2,750	- 131
Photostat Service	361	- 949
Coin Wrapping Service	6,068	+ 1,843
	<u>\$ 528,232</u>	<u>\$ - 112,112</u>

Reimbursable expenditures at the Head Office and Helena Branch totaled \$528 thousand, a decrease of \$112 thousand compared with the year 1947. The agencies showing the greatest decreases are Public Debt \$75 thousand, Reconstruction Finance Corporation \$27 thousand, Commodity Credit Corporation \$2 thousand, and Office of Price Administration \$5 thousand.

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CHECK COLLECTION

Like all years since 1942, the volume of checks handled by the Check Collection Department during 1948 shows a substantial increase over the previous year. The grand total of 49,742 thousand for all checks handled in 1948 represents an increase of 7% over the 1947 total of 46,542 thousand, and a 54% increase over 1941. Of this increase, the Twin City clearing check division shows the greatest increase. During 1948 this division handled a total of 8,478 thousand checks, which is an increase of 17.5% over 1947 and a 63.7% increase over 1941.

The Country Check volume also continues to increase; however, to a lesser degree. The total of 34,407 thousand checks processed in 1948 exceeds the 1947 total by 6% and the 1941 total by 56.3%.

The 8% increase in return items is somewhat misleading unless all factors are considered. When we think of items returned, the usual deduction is that such action was necessary because of insufficient funds, improper endorsement, etc.; however, records of the Return Item division indicate that slightly over 50% of the 487 thousand items returned during 1948 were for the reason they were "nonpar" items.

As has been the case since 1944, the volume of United States paper checks continues to decrease. This year the volume dropped to 742 thousand from 926 thousand in 1947. One fact is significant, however; the volume since midyear 1947 has been fairly constant which may indicate our volume for 1949 will be substantially the same as it was this past year.

U. S. Government card checks increased but very little. During 1948 the total for this type of check was 5,548 thousand items as compared

with 5,510 thousand for 1947.

Commencing January 1, 1949, a new function will be performed by the Check Collection Department. Heretofore, all Government card checks drawn by disbursing offices in Minneapolis and Helena were payable through the Federal Reserve Bank of Chicago. In the future, these checks will be payable through this bank. The estimated volume of such checks is 7,360 thousand yearly. In handling and paying these checks for the Treasury Department, it will be the responsibility of this department to examine signatures and endorsements, maintain a stop payment record, and to provide the accountability for such items.

During the early part of this year, installation of the second battery of 10 I.B.M. machines was completed. These machines provide for the listing, proving and endorsing of incoming checks in one operation. Heretofore, this required three separate operations.

On April 20 we informed member banks in our district that all Reserve banks would eliminate from their operating letters covering collection of cash items the requirement that member banks either describe deferred credit items on their cash letters or maintain records which would enable them to furnish the Reserve banks a description of all items upon request. This change was made possible at this bank through the installation of 26 new Recordak machines. Twenty-four of these machines make it possible for us to list, microfilm and endorse in one operation all outgoing checks to member banks. Two other machines provide a microfilm record of checks sent to other Federal Reserve banks, Treasury paper checks, mutilated punch card checks, and drafts drawn on us. The microfilm record makes it possible for us to obtain photostatic copies of all checks forwarded in the event a cash letter or certain items are lost in

transit.

The Bank Management Commission of the American Bankers Association recommended to the Reserve banks and all other members of the Association that a change in the uniform instructions as to the protest and wire advice of nonpayment of cash items be made effective March 1, 1948. Accordingly, the Reserve banks amended the uniform instructions in their operating letters to provide that cash items of \$500 or less are not to be protested (previous limit \$100), and that wire advice of nonpayment of all items of \$1,000 or over shall be made except under certain circumstances.

The Reserve banks also amended their noncash collection operating letters effective March 1, 1948, relative to the provision for "Protest Practice in the Absence of Instructions" to provide that items of \$500 or less should not be protested (previous limit \$100).

The Check Collection time schedules of this bank were revised effective March 1, 1948, to extend to member banks the benefits of improvements in our facilities for collecting checks, especially on Federal Reserve bank and branch cities. The Head Office added to its list of one-day cities Helena, Kansas City, Oklahoma City and Omaha, previously classified as two-day points, and Denver, formerly a three-day point. Chicago was previously the only city in the one-day classification and its status was not changed. Items on all other Federal Reserve bank and branch cities are now available on a two-day basis except Boston, Jacksonville, Los Angeles, New Orleans, San Francisco and Seattle, which cities were continued in the three-day maximum deferred classification of the System. Items on the following Federal Reserve bank and branch cities previously available on a three-day basis are now available in two days:

Atlanta	Dallas	Philadelphia
Baltimore	El Paso	Portland
Birmingham	Houston	Richmond
Charlotte	New York	Salt Lake City
		San Antonio

The previous Helena Branch check collection time schedule did not have any Federal Reserve bank and branch cities in a one-day classification, and the revised schedule includes Denver, Minneapolis, Portland, St. Paul and Salt Lake City as one-day points. These cities formerly were listed as two-day cities. The revised Helena Branch schedule includes items on all other Federal Reserve bank and branch cities on a two-day basis except Boston, Jacksonville and New Orleans, which are on a three-day basis. The availability schedules for all Federal Reserve bank and branch cities at the Helena Branch have been advanced one day, except Seattle which continues on a two-day basis, and Boston, Jacksonville and New Orleans which continue on a three-day basis.

The close-out hour for acceptance of out-of-town items at Head Office was advanced from 1:00 p.m. Monday through Friday to 12:30 p.m., and the Saturday closing hour continued at 11:30 a.m. The closing hour for the acceptance of out-of-town items at the Helena Branch was advanced from 2:00 p.m. Monday through Friday to 12:00 noon, and the Saturday closing hour was left unchanged at 12:00 noon. The closing hour at the Head Office was advanced, as relatively few items are received after 12:30 p.m. Monday through Friday, to permit the department to expedite the collection of checks by mailing on the earlier trains and planes and to provide time for the added service of filming all country checks handled. As the result of changes in train schedules, it was necessary to advance the close-out hour at the Helena Branch to permit that office to function items received on Montana points on the Great Northern Railroad north of

Helena and on the main line east and west of Havre in time for dispatch on the northbound branch line train through Helena.

On April 20 our member banks were notified that the Board of Governors of the Federal Reserve System contemplates amending Regulation J to permit the conditional payment of checks upon day of receipt and the return of unpaid items the following business day, a practice recommended by the American Bankers Association. A number of states have enacted statutes permitting this practice and many banks have adopted "delayed posting" of checks as an economy measure. It is contemplated that the Reserve banks will amend their collection of cash items operating letters at a future date after an opportunity has been given to all banks to review and amend, if necessary, agreement with depositors, conditions imposed in deposit slips, etc., for adequate protection for delayed return of unpaid items.

CONSUMER INSTALMENT CREDIT

Regulation W, which had been discontinued November 1, 1947, again became effective September 20, 1948. The revival of the regulation followed congressional action at last summer's special session which empowered the Board of Governors to reinstitute until June 30, 1949 the controls, previously founded on executive order, to the extent that they pertain to consumer instalment credit.

The regulation which became effective September 20, 1948, was in substantially the same form as that which expired November 1, 1947. Restrictions with respect to charge accounts and single payment loans had been eliminated late in 1946. Two amendments of a rather technical nature have been adopted -- one relating to sales on approval and the other to

the inclusion of sales taxes as part of the cash price of a listed article.

The administrative and enforcement procedure established by the Board of Governors in connection with the new Regulation W was similar to that previously followed. Duties as to enforcement in the field were assigned to the Federal Reserve banks with respect to instalment vendors, sales finance companies, and such instalment lenders as are not subject to supervision by an appropriate federal or state agency. In preparation for this task, our bank commenced the organization of a Regulation W Department in August, recruiting employees for the most part from other departments of the bank. The department at Minneapolis reached full strength in early October, with a staff of 14 field investigators and 11 employees in the office engaged in supervisory, stenographic, and clerical work. At Helena there are two investigators. Two of the field investigators at Minneapolis and one at Helena are new employees.

Data received prior to the end of the year indicated that more than 10,000 business enterprises in the Ninth Federal Reserve District are engaged in businesses subject to the regulation.

Between September 20 and December 31, 2,974 calls were made by our investigators. These included 1,306 investigations of transactions subject to the Regulation; 1,437 calls on dealers or lenders where no such transactions were reviewed (including calls made in the early stages for educational purposes and calls on establishments which appeared not to have engaged in instalment selling or lending since September 20); 214 calls on banks for the purpose of informing the bankers as to the regulation's terms and gaining information from them as to instalment transactions in their communities; and 17 calls on credit bureaus and chambers of commerce. These calls were made at 199 communities in the Ninth District.

Of the firms investigated, only 14 appeared to have violated Regulation W in any significant respect and none of those appeared to have acted wilfully in failing to comply.

CURRENCY & COIN

With few exceptions, shipments of currency and coin to and from banks in this district increased in both number and amount during 1948.

Outgoing currency shipments numbering 23,899 totaled \$336,629 thousand, an increase of \$16 million but a decrease of 220 in number. Outgoing coin shipments numbered 15,015 and totaled \$8,614 thousand for 1948 as compared with 11,877 and \$6,475 thousand. Proof that the wrapped coin service offered to banks for the first time in 1947 is becoming more popular is reflected in the number of coins wrapped. During 1948 a total of 40,970 thousand coins were wrapped as compared with 35,767 thousand for 1947.

1948 incoming shipments also show increases over 1947. During the year, 23,759 currency shipments totaling \$371,934 thousand were received from banks whereas for the previous year shipments received numbered 22,757 and totaled \$324,217 thousand. Incoming coin shipments numbering 3,749 and \$7,539 thousand reflect small increases over the 1947 totals of 3,169 and \$7,065 thousand.

As will be noted from the following table, the number of bills hand verified during 1948 shows a tremendous increase over 1947. This increase is due to a change in operation whereby all fit-for-use \$5, \$10 and \$20 bills are hand verified. Heretofore, these bills were machine counted only.

Currency Paid Out

	<u>1948</u>	<u>1947</u>
1's and 2's	\$ 30,322,763	\$ 28,995,091
5's	55,694,000	49,439,000
10's	116,440,000	103,069,000
20's	92,618,000	90,474,000
50's	7,570,000	9,342,000
100's	29,899,000	34,987,000
500's	1,677,000	1,612,000
1000's	<u>2,409,000</u>	<u>2,581,000</u>
	\$336,629,763	\$320,499,091

Outgoing Shipments
for account of member banks

	<u>1948</u>		<u>1947</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Currency paid out	23,899	\$336,629,763	24,119	\$320,499,091
Currency shipped to Helena Branch and for other F. R. banks	611	49,528,000	564	36,587,000
Coin	<u>15,015</u>	<u>8,614,839</u>	<u>11,877</u>	<u>6,474,988</u>
	39,525	\$394,772,602	36,560	\$363,561,079

Incoming Shipments
for account of member banks

	<u>1948</u>		<u>1947</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Currency	23,759	\$371,934,531	22,757	\$324,217,322
Coin	<u>3,749</u>	<u>7,539,489</u>	<u>3,169</u>	<u>7,065,350</u>
	27,508	\$379,474,020	25,926	\$331,282,672

Number & Amount of Pieces Handled
Currency

	<u>1948</u>		<u>1947</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Bills received & counted	55,857,515	\$391,530,500	57,536,478	\$354,384,710
Bills rehandled	5,205,071	71,002,668	5,435,559	66,103,950
Hand verification of bills	<u>19,908,519</u>	<u>256,889,115</u>	<u>4,646,427</u>	<u>84,073,650</u>
	80,971,105	\$719,422,283	67,618,464	\$504,562,310

Number & Amount of Pieces Handled
Coin

	<u>1948</u>		<u>1947</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Coins received & counted	76,624,869	\$6,395,771	85,225,185	\$6,462,046
Coins rehandled	4,108,786	649,945	4,369,740	918,045
Coins wrapped	<u>40,970,500</u>	<u>2,864,000</u>	<u>35,767,200</u>	<u>1,572,410</u>
	121,704,155	\$9,909,716	125,362,125	\$8,952,501

Amount of Coin Received from
U. S. Mints

1948

\$2,200,000

Return of Federal Reserve Notes
to Bank of Issue

Fit for use Federal Reserve Notes returned to other Federal Reserve Banks	\$37,111,900
Our fit for use Federal Reserve Notes received from other Federal Reserve Banks	\$43,645,155

DISCOUNT DEPARTMENT

During 1948 two changes were made in the discount rates applicable to the type of loans or advances available at the Federal Reserve banks. On January 12 the discount rate on advances collateralized by the pledge of eligible paper or direct obligations of the United States under Section 13 of the Federal Reserve Act was increased from 1% to 1 1/4%. The rate on advances collateralized by other collateral satisfactory to a Federal Reserve Bank under Section 10b was likewise increased from 1 1/2% to 1 3/4%. On August 13, 1948, both rates were again increased 1/4 of 1% which brought the current rates to ~~1 3/4%~~^{1 1/2%} and 2% respectively. Also during August, the rate of interest for advances to individuals, partnerships and corporations (including nonmember banks) collateralized by direct obli-

gations of the United States under the last paragraph of Section 13 of the Federal Reserve Act, was increased from 2 1/2% to 2 3/4%.

At the Head Office, 25 banks took advantage of loan privileges during 1948, borrowing an aggregate of \$279 million, all of which was collateralized by U. S. Government obligations. Of the \$279 million, all but \$12 million were loans to Twin City banks. In 1947, 15 banks borrowed a total of \$969 million. During the year the Helena Branch made loans totaling \$7.5 million to Montana banks. This is an increase over 1947 of \$2.8 million.

As of December 31, 1948, one Regulation V loan was outstanding in the amount of \$85 thousand, of which \$63 thousand is guaranteed by the Department of the Army.

Our participation in foreign loans on gold during 1948 totaled \$20.8 million, and on December 31, 1948, we held \$4.7 million.

DUPLICATING

During the year 1948 the Duplicating Department reproduced 3,258 thousand copies of 5,172 different forms, photostated 4,474 documents, and addressographed daily approximately 2,000 envelopes and 3,800 forms.

The following table reflects a considerable decrease in the number of photostats compared with 1947,

	<u>1948</u>	<u>1947</u>	<u>Inc. or Dec.</u>
War Assets Administration	801	7,232	- 6,431
Fiscal Agency Department	1,111	1,717	- 606
Bank Work	1,864	1,251	+ 613
Commodity Credit Corporation	231	679	- 448
Department of Internal Revenue	116	449	- 333
Commercial Banks	145	326	- 181
R,F,C. Loan Agency	185	284	- 99
Personal	21	79	- 58
	<u>4,474</u>	<u>12,017</u>	<u>- 7,543</u>

EXAMINATION DEPARTMENT

As of December 31, 1948, there were 346 national and 130 state member banks in this district. One year ago, there were 347 national and 128 state members. Distribution of these banks by states is as follows:

	<u>State Banks</u>	<u>National Banks</u>	<u>Total</u>
Michigan	15	26	41
Minnesota	28	178	206
Montana	45	39	84
North Dakota	1	41	42
South Dakota	27	35	62
Wisconsin	<u>14</u>	<u>27</u>	<u>41</u>
	130	346	476

Total membership in this bank was increased by a net of one bank during the year. The tables below show the banks which terminated their membership and those that became members.

Member Banks Severing Connection With This
Federal Reserve Bank During 1948

<u>Date</u>	<u>Name of Bank</u>	<u>Location</u>
1-29-48	The Farmers National Bank of (Succeeded by The Security State Bank of Aitkin, Minnesota - a nonmember par bank)	Aitkin, Minnesota
2-2-48	The Peoples National Bank of (Absorbed by The Bank of Long Prairie, Minnesota - a nonmember nonpar bank)	Long Prairie, Minnesota
10-14-48	Belvidere State Bank (Opened a branch bank which dis- qualified it for membership, but became a nonmember par bank)	Belvidere, South Dakota

Banks Which Became Members During 1948

<u>Date</u>	<u>Name of Bank</u>	<u>Location</u>
1-2-48	The Bank of Rhame	Rhame, North Dakota
3-29-48	Lake County Bank	St. Ignatius, Montana
4-22-48	The Security State Bank	Polson, Montana
11-15-48	Superior National Bank (Formerly Superior State Bank, a nonmember par bank)	Superior, Wisconsin

At present there are no applications for membership on file nor are there any banks in the process of voluntary liquidation.

During the year the Examination Department examined all 130 State member banks. As of December 31, twenty-two State member banks held trust powers; however, only eleven were examined since the remainder are not exercising their powers.

There are three holding company affiliates within this district - the Northwest Bancorporation, Bank Shares, Inc., and the First Bank Stock Corporation. Examination of the Northwest Bancorporation was started in November and was not completed as of December 31.

During the year, two hundred and eighty-five applications for adjustment of holdings of Federal Reserve Bank stock were received.

Three applications for national charters were referred to us by the Comptroller's office for recommendation. One of these applications was disapproved, a charter was issued to one bank, and action on the third is still pending.

During the year three calls were issued to member banks for reports of condition. All member banks were also required to submit semi-annual reports of earnings and dividends. The condition and related reports, together with reports of earnings and dividends, were received, checked, and recorded.

FISCAL AGENCY DEPARTMENT

(Head Office only)

The year 1948 found the Treasury Department announcing only one offering for cash.

On June 10, 1948, it announced a special offering of Series F and G Savings Bonds to banks and institutional investors. Investors in the following categories were permitted to purchase Series F and G Savings Bonds combined up to a total amount of one million dollars (issue price) for the calendar year 1948 (the limitation normally is \$100 thousand issue price), provided that such bonds were purchased during the period July 1 through July 15, 1948. These purchases and any other purchases of Series F and G Savings Bonds made during the calendar year 1948 could not exceed one million dollars.

1. Insurance Companies
2. Savings Banks
3. Savings & Loan Associations, Building & Loan Associations and Cooperative Banks
4. Pension and Retirement Funds, including those of Federal, State and Local Governments
5. Fraternal Benefit Associations
6. Endowment Funds
7. Credit Unions

Commercial and industrial banks holding savings deposits or issuing time certificates of deposit were eligible to subscribe to these series of Savings Bonds but not in excess of \$100 thousand (issue price) during the period July 1 through July 15, 1948.

Subscriptions to both series amounted to \$72.6 million (maturity value) or \$62.7 million actually invested. The breakdown of figures follows:

	<u>Maturity Value</u>	<u>Issue Price</u>
Series F	\$38,150,300	\$28,231,222
Series G	<u>34,477,300</u>	<u>34,477,300</u>
	\$72,627,600	\$62,708,522
Applications	875	
Subscribers	897	

Practically all other financing operations of the Treasury Department involved exchanges.

There were nine exchange offerings throughout the year consisting of eight issues of Treasury Certificates of Indebtedness and one issue of Treasury Notes. The total number of subscriptions received by this bank for all such issues was 8,848 of which 7,689 were from banks. Exchange subscriptions received and allotted during 1948 amounted to \$789 million. Exchange subscriptions received during 1947 amounted to \$760.8 million, with a total allotment of \$698 million.

The Treasury Department during the year has again made a substantial reduction in the public debt. The total public debt as of December 31, 1948, was \$252.5 billion as compared with \$257 billion on December 31, 1947.

As of September 1, 1948, the Treasury Department offered a new series of United States Savings Notes, known as Series D. The sale of the Savings Notes of Series C terminated as of August 31, 1948. The principal difference between the old and new notes is that the rate of return has been increased from 1.07% if held to maturity to 1.40%. The new Series D Notes may now be redeemed for cash during and after the fourth month of issue while the Series C Notes could not be redeemed until the sixth month after the month of issue.

During the year we received 1,538 tenders for Treasury Bills aggregating \$255.7 million of which \$238 million were accepted. The total tenders received represented 1,625 subscribers as compared with 1,218 tenders in 1947 covering 1,223 subscribers, totaling \$260.6 million, of which \$209.8 million were accepted.

The average equivalent rate of discount on Treasury Bills rose

from 0.951% for Treasury Bills dated December 26, 1947, to 1.157% for Treasury Bills dated December 30, 1948.

During the year this bank issued United States Savings Bonds of Series E, F and G in the amount of \$159.8 million (issue price), involving 274,526 pieces, as compared with \$123 million (issue price) involving 299,564 pieces in 1947.

The number of qualified issuing agents of Series E Savings Bonds in our district, exclusive of branches acting under the qualification of the parent organization, was 1,423 as of December 31, 1948, as compared with 1,429 issuing agents as of December 31, 1947.

There were 1,166 thousand pieces of Series E Savings Bonds shipped to issuing agents in 1948 as compared with 1,074 thousand in 1947.

Issuing agents in the district issued 1,105 thousand Series E Savings Bonds amounting to \$180 million (issue price) as compared with 1,064 thousand pieces amounting to \$177 million (issue price) issued in 1947.

Beginning January 1, 1948, the proceeds of redemption of Series C-1938 Savings Bonds maturing throughout the year could be applied to the purchase of Savings Bonds, Series E-1948, without having such holdings apply against the legal limitation on holdings.

The Secretary of the Treasury on March 18, 1948, announced that the limitation on holdings of United States Savings Bonds, Series E, would be increased from \$5,000 (maturity value) to \$10,000 (maturity value) effective for the calendar year 1948.

As of December 31, 1948, there were 1,248 incorporated banks with 107 branches and 28 miscellaneous paying agents qualified to redeem certain classes of United States Savings Bonds, Series A through E and/or Armed Forces Leave Bonds as compared with 1,244 banks with 106 branches and 27

miscellaneous paying agents on December 31, 1947.

Reimbursement to paying agents in our district for paying Savings Bonds and Armed Forces Leave Bonds during the first three quarters of 1948 amounted to \$272,425.35 for 2,058 thousand pieces, as compared with \$320,316.35 for 2,450 thousand pieces of Savings Bonds during the first three quarters of 1947, which did not include Armed Forces Leave Bonds as paying agents were not authorized to pay these until September 2, 1947.

During the year 1948 the daily average of all United States Savings Bonds redeemed was 10,655 pieces as compared with a daily average of 12,171 pieces in 1947. The figures include redemptions by paying agents and direct redemptions by this bank.

During 1948 the number of Savings Bonds received for safekeeping averaged 2,272 pieces per month as compared with 3,127 pieces per month for 1947. The monthly average number of these bonds released from safekeeping during 1948 was 2,967 pieces as compared with a monthly average of 3,080 in 1947. As of December 31, 1948, this bank held in safekeeping 271,234 Savings Bonds as compared with 279,580 pieces as of December 31, 1947.

During the past year we handled 111,119 pieces of Savings Bonds for reissue for one purpose or another, the amount being \$18.1 million (maturity value) as compared with 92,806 pieces in 1947 amounting to \$11.8 million. Reissue cases arise where it is necessary to add, omit or substitute a beneficiary, add a co-owner, change a beneficiary to a co-owner, 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 1,145 banks in the district now qualified as War Loan Depositories of which 876 have active accounts. The amounts deposited in

these accounts aggregated \$379.5 million for the year. The total deposits in the War Loan Deposit Account as of December 31, 1948, were \$48.7 million as compared with \$41.5 million on December 31, 1947.

We redeemed 439 thousand Government coupons amounting to \$32.6 million as compared with 546 thousand coupons totaling \$42 million during 1947. We also redeemed 13,442 Governmental Agency Coupons amounting to \$426 thousand during 1948 as compared with 14,272 coupons totaling \$445 thousand during 1947.

Early in the year one of our employees in the Fiscal Agency Department suggested a Savings Bond Clinic for the benefit of Twin City bank officers and employees handling Savings Bond transactions. The suggestion was offered because many people coming into our bank with reissue or redemption transactions had to be sent back to their own banks because of an error of omission, commission, or lack of adequate evidence to support the transaction. Most of these customers were very disconcerted and wondered why they are not given the proper and complete information by their own banks.

With the thought in mind that we could offer something that would create a better public relationship between banks and their customers, the clinic idea was suggested, and on February 18 a letter was sent to all executive officers of the Twin City banks and banks in the suburban area extending an invitation to send representatives from their banks to attend a session on Savings Bond problems.

The sessions, limited to ten individuals, were held on Wednesday and Thursday mornings, followed by a luncheon and a tour of the bank. Each person was given a folder containing questions and answers to redemption and reissue problems, as well as a complete set of Public Debt forms with a proper explanation for its uses appended to each such form.

Seventy-eight people attended the clinics, and because of its success, the clinic idea was incorporated into the Short Course in Central Banking.

Effective March 1, 1948, the Treasury Department authorized the telegraphic transfer of Treasury Bonds in addition to Treasury Bills, Treasury Certificates of Indebtedness and Treasury Notes. It has been estimated that the holders of Treasury Bonds in this district have saved approximately \$37,500 up to the end of the year by this additional service. The savings are based on wire transfer transactions of Treasury Bonds and Notes originating here in Minneapolis and elsewhere.

To cover the expense of handling telegraphic transfers, fees are charged for the transfer of securities which will not mature within one year of the date of transfer, or in the case of callable Treasury Bonds which will not mature within one year of the date of transfer and on which the call privilege has not been exercised. A fee of \$5.00 is charged for each transaction involving securities in a face amount of \$50,000 or less, and a fee of \$10.00 is charged for each transaction involving securities in a face amount in excess of \$50,000. No fee is charged for transfers of securities which will mature within one year of the date of transfer, or which have been called for redemption within the year.

NONCASH COLLECTION

Recent figures released by the United States Department of Agriculture for four states in this district (Montana, Minnesota, North Dakota and South Dakota) reveal that during 1948 total crop production reached an all time high. When compared with 1947, this year's total of 1,338,404 thousand bushels (includes wheat, corn, oats, barley, rye, flax-seed and soybeans) represents a 21% increase over 1947 and an 87% increase over the 1935-39 average. This increase in production is one of the reasons why the volume of grain drafts handled by the Noncash Collection Department during 1948 reached an all time high. The total of 912,474 grain drafts handled exceeds the 1947 previous high by 5,249 drafts. In spite of this increased volume, the dollar value decreased approximately \$25 million. A review of prices, however, disclosed that the prices received by farmers for crops on December 15, 1948, were on an average 19% less than in mid-December 1947. This could be instrumental in the decreased dollar value.

All other types of items handled by the Noncash Collection Department show decreases in volume with the exception of security collections where there was an increase of 191 items but a \$2 million decrease in dollar value.

Statistically, the Country Collection section shows the largest decrease in dollar amount and number of transactions. Where 53,969 items with a value of \$52 million were handled in 1947, only 44,212 items valued at \$36 million were processed in 1948. This decrease is largely due to a change in the procedure of handling railroad drafts payable at offices located in St. Paul. Formerly, these items were handled as "nonbank

items" through the Country Collection section. On June 1, 1948, this procedure was changed so that these items are now handled through the Clearing section of the Check Collection Department.

The City Collection section shows both a volume and dollar value decrease for 1948 when compared with 1947. During 1948 a total of 22,115 transactions totaling \$114 million were handled as compared with 28,886 and \$247 million.

Member banks of this district forwarded 3,204 collections direct to other Federal Reserve banks during 1948 as compared with 2,646 during 1947. These collections had a dollar value of \$20 million and \$12 million respectively.

PERSONNEL

During 1948 the employment picture at the bank remained more constant than in any year since before the war; the number of employees on the staff January 1, 1948, was 602 and on December 31, 1948, 600.

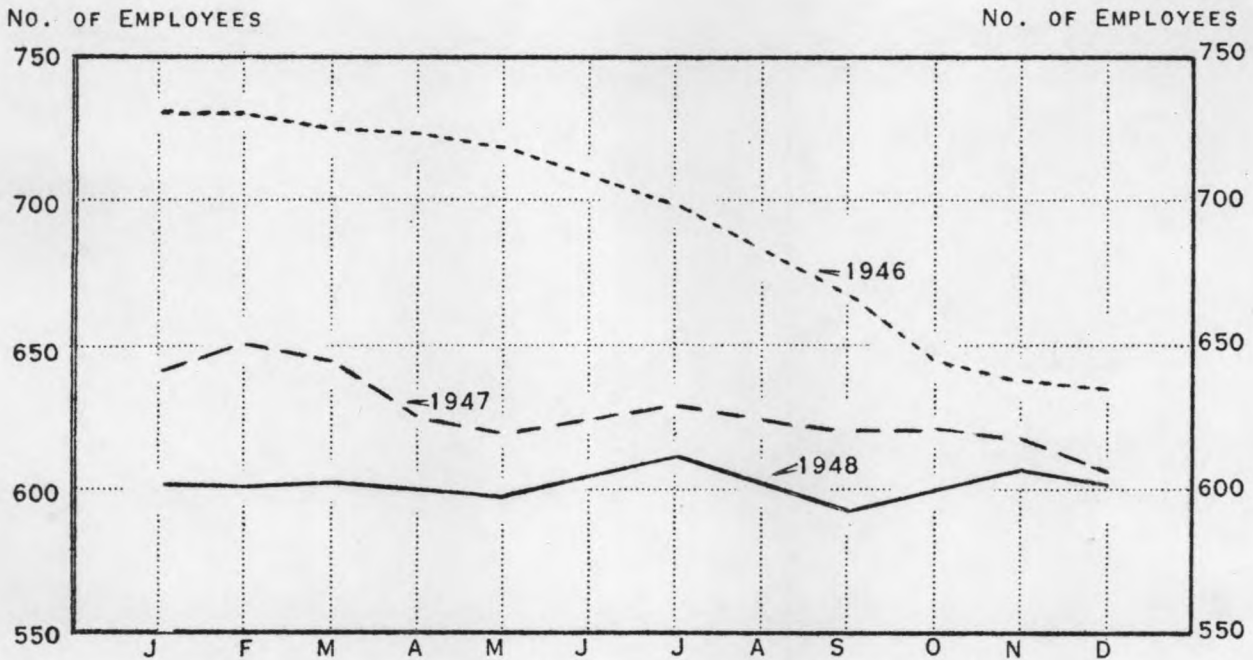
Factors which helped create this situation were that although Fiscal Agency activities decreased to the extent that thirty-one less employees were required, regular bank activities increased enough to require twenty-nine additional employees in 1948, for a net decrease of two employees.

Our employment activity was reduced somewhat because first, our contacts with local high schools made it possible for us to employ with relative ease a normal number of June graduates referred to us by the high school counsellors; second, a slight easing of the labor market with applicants referred by the local United States Employment Service; and third, a consistently low net turnover figure. Throughout the year

a total of 156 persons were employed as compared with 174 during 1947. Separations were reduced 23%, totaling 159 in 1948 and 206 in 1947.

The chart below shows the average number on the staff at the Head Office for the years 1946 through 1948.

AVERAGE STAFF



Throughout the year representatives from the Personnel Department attended numerous meetings regarding current personnel problems. Attendance included meetings of the local chapter of the National Office Managers' Association, seminar meetings at the University of Minnesota, and monthly meetings of the personnel men of the Twin City banks. Several personnel surveys were made during the year - one among selected competi-

tive companies pertained to key senior positions. The results of these surveys have given the department a reasonably accurate picture of the current salary market and a better measurement of such factors as working hours, vacations, sick leaves, group insurance, pension plan and hospitalization.

To assure capable successors for present officers and department managers and to provide a pool of talent from which to draw men for special assignments, a personnel development program is now in operation.

Effective September 15 the work week at the bank was changed to begin at 12:01 a.m. on Sunday and end at midnight on the following Saturday. Previously, the work week began at 12:01 on Monday and ended at midnight on Sunday. This change was made to facilitate the scheduling of work in keeping with the requirements of the Supreme Court ruling pertaining to the computation of overtime.

There has long been a need for additional office space and private offices for certain phases of personnel work. This need has been met by installing a private office for the Personnel officer, a separate room for interviewing and testing applicants for employment, and through the rearrangement of walls in the men's locker room additional space was provided. These changes give the bank a very modern personnel department.

During April of this year the bank announced a change in its Hospitalization-Surgical program. Previously, employees received hospital benefits from a plan offered by the Minnesota Hospital Service Association and surgical benefits through a plan of the Connecticut General Life Insurance Company. Under the new program both hospital and surgical benefits are with the insurance company. In addition to other benefits the new plan provides a daily hospital allowance for either employee or dependents

of \$7.00 a day. Under the previous plan the allowance was only \$5.00. The table below shows the number, total cost, amount and percentage of reimbursement of surgical claims for the past twelve months, and hospital claims for the eight months since May 1, 1948.

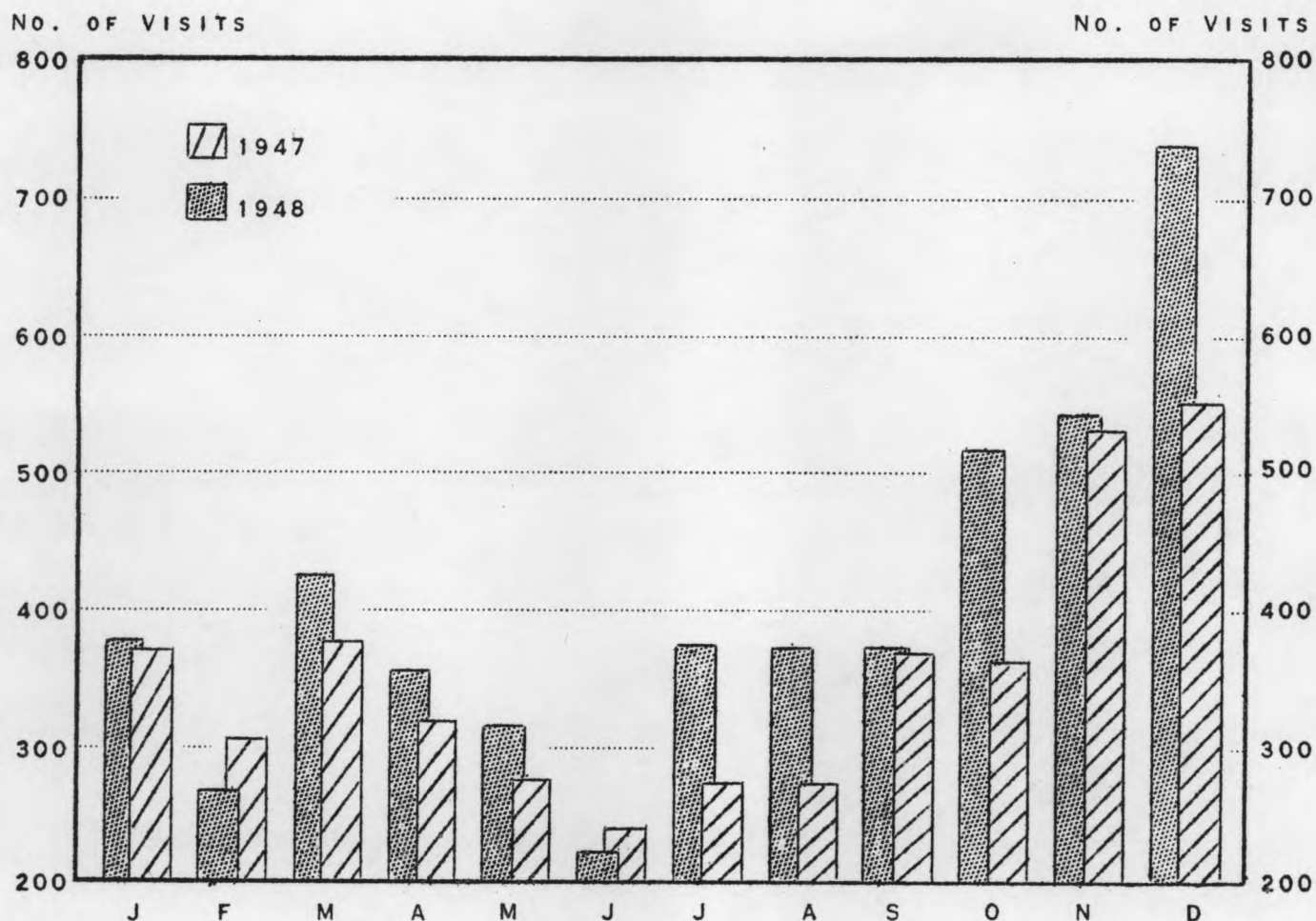
	<u>Number</u>	<u>Total Cost</u>	<u>Amount of Reimbursement</u>	<u>Percent of Reimbursement</u>
Surgical	121	\$ 8,592.00	\$ 4,847.00	56%
Hospital	35	4,936.68	3,674.80	74%

During the month of July a dividend was received from the Equitable Life Assurance Society as a result of their favorable experience with employees covered by our Accidental Death and Dismemberment policy. This dividend was distributed to the employees by paying their premiums for the three months of August, September and October.

The attendance record of employees continues to be very good. Records indicate that the average percentage of absence for both 1948 and 1947 was 2.9%.

In conjunction with the remodeling of the Personnel Department a door leading from the ground floor corridor to the Welfare office was opened. This enables employees visiting this office to enter from the hall rather than through the Personnel Department. As reflected in the following chart, this apparently has resulted in a more extensive use of the department.

NUMBER OF VISITS TO WELFARE DEPARTMENT



As part of the employee relation program, six Mother-and-Daughter luncheons were held for recent additions to the staff. In all, 108 mothers and daughters attended.

In 1948, 70 suggestions were submitted by employees, of which 15 were approved. Awards totaled \$65.00.

PROTECTION

To provide additional security measures in case of emergency, two major changes were made in the physical makeup of the bank protection facilities. First, a secondary control for opening and closing the main front door was installed in the ground floor pillbox. Heretofore, this door could only be closed from an exposed position in the main entry way. Secondly, barricades were installed in #1 and #2 garages. These barricades give the guards additional protection in the event of an attempt to force entry.

During the year the superintendent of the Protection Department attended the Law Enforcement Officers' Training School sponsored by the Federal Bureau of Investigation and the Minneapolis Police Department. All guards were instructed in arrests, search of persons, defensive tactics and jujitsu (judo) in addition to the handling and firing of all arms available in the bank.

In 1947 the procedure of investigating all applicants for employment at the Identification Bureau of the Minneapolis Police Department started. This precautionary measure paid off during 1948 since it revealed that two applicants for clerical positions here in the bank had police records.

PUBLIC SERVICES DEPARTMENT

The outstanding development in our Public Services Department program during 1948 was the designing of a "Short Course in Central Banking" which is offered to member bankers. The purposes of the course are as follows:

1. To acquaint member bankers with our services to member banks.
2. To teach the proper use of Federal Reserve bank services.
3. To acquaint member bankers with our officers and staff.
4. To explain the broader economic background of central banking.

Early in January a Steering Committee, composed of key men in various departments, was appointed to work out the details of the course. After considerable study it was decided that each course should run for five days, with attendance limited to twelve member bankers for each period.

A subcommittee prepared an illustrated prospectus announcing the course and presenting its highlights. The illustrations were done by Oz Black of the Minneapolis Tribune.

Arrangements were made at the Normandy Hotel for lodging for the five-day periods.

A selected group of member banks was invited to send representatives, and response was so favorable that the prospectus and invitation

were sent to all member banks. During the year, 12 groups have been in the bank for a period of five days each. Altogether 144 persons, whose official positions in their respective banks ranged from tellers to presidents, have attended.

In addition to Ninth District member bankers who attended the course, special permission to attend was given to George Amy, Secretary, Country Bank Operations Commission, American Bankers Association, and Kenneth J. McDonald, President, Iowa Trust and Savings Bank, Estherville, Iowa, member of the Country Bank Operations Commission of the American Bankers Association.

In addition to enthusiastic comments from those in the district who have attended, the course has occasioned considerable comment outside the district. Requests for copies of the prospectus were received from the Board of Governors of the Federal Reserve System, the American Bankers Association, and from other Reserve banks. Ralph Young, Associate Director of the Division of Research and Statistics, Board of Governors, was given a review of the operations of the course at a fall meeting of the Steering Committee.

Not only has the course fulfilled its original purpose so far as the Federal Reserve Bank is concerned, but it has also promoted a better understanding of the problems of those attending. It is planned to continue the course as long as the member banks continue to be interested in sending representatives.

On April 24, the eighth Federal Reserve Conference for Ninth District Bankers was held, the program consisting of registration and welcoming at the bank, luncheon at the Nicollet Hotel, an afternoon of addresses, followed by a reception and dinner at the hotel, and the Ice

Follies.

The speaking program included opening remarks by President Peyton; addresses by the Honorable Walter H. Judd, representative from the 5th Congressional District of Minnesota; Roy Wenzlick, Editor and Publisher of "The Real Estate Analyst"; and Thomas B. McCabe, newly appointed Chairman of the Board of Governors of the Federal Reserve System. There followed a quiz session in which John Ford, WTCN news commentator, put questions submitted by member bankers to five men on our staff. The formal program was concluded with an address by Allan B. Kline, President of the American Farm Bureau Federation.

Attendance figures reveal that 910 of the 1,235 member and non-member banks in the Ninth Federal Reserve District were represented at the conference. Actual attendance at the conference, including member bankers, speakers, banking association officials, bank supervisors, special guests and our bank officers and employees, was 1,088 compared with 1,080 at the 1947 conference.

As in the past the conference proper was strictly stag; however, an unprecedented number of visiting bankers brought their wives and other members of their families to Minneapolis to see the Ice Follies.

Conference visitors occupied approximately 650 rooms in various Minneapolis and St. Paul hotels and clubs.

As a prelude to the conference, a dinner was given at the Minneapolis Club on April 23 for representatives from the Comptroller's Office, State Banking Departments, F.D.I.C., State Bankers Associations and the R.F.C. The dinner was also attended by 12 of our officers and members of the Board of Directors of the bank and the Helena Branch.

The third annual Forum held at the Nicollet Hotel, October 11 and 12, was attended by 366 future top executives. Featured speakers were M. S. Szymczak, member of the Board of Governors, and Walter H. Judd, representative from the 5th Congressional District of Minnesota. However, the most enthusiastic acceptance was given to three talks by Ninth District bankers -- Ernest L. Pearce, President, Union National Bank, Marquette, Michigan; Oscar J. Nelson, President, First National Bank, Windom, Minnesota; and Edward S. Olson, President, First National Bank, Starbuck, Minnesota. In fact, the reaction to these talks was so complimentary that they were published in a pamphlet entitled "Timely Advice to the Merchants of Money" and distributed to all member banks in the district.

Because of a conflict in available dates, both the fourth and fifth annual conferences of Ninth District examiners were held during 1948. The fourth was held January 3 and the fifth November 27. To both meetings, in addition to the supervisors and examiners from the states in the district, the National Bank examiners, the F.D.I.C., the Minneapolis Clearinghouse, and the Federal Reserve examining force were invited. The program for both the one-day conferences consisted of a series of talks concerned with the economic aspects related to examination problems. Both were held at the bank. A luncheon was served in our lunchroom and after the program a complimentary dinner and social get-together were held at the Nicollet Hotel.

During the year luncheons were arranged for prominent visitors to the city, mothers of new employees of the bank, groups of bankers from the Twin Cities, groups of businessmen, supervisory examiners, bond clinic registrants, and Short Course groups. Averaging better than two luncheons a week, the grand total for the year was 115.

During the year, 92 organized tours for 1,830 people were arranged for by the department. To assist the public services men in conducting these tours, 17 men from various departments of the bank were made available by the officer in charge of each department to serve as guides. A brief outline of points of interest in the bank was furnished the guides. Groups shown through included cub scouts, high school graduating classes, women's study groups from towns outside the city, foreign students attending the university, economics classes from colleges, businessmen, and bankers. Apparently interest in the Federal Reserve Bank is not confined to any one segment of the population or to any particular geographical area within the district.

During the year, 72 groups totaling 6,687 people requested that members of our staff address them on subjects of current economic interest. In addition, addresses were delivered at all meetings sponsored by the bank.

In spite of the fact that our movie, "Back of Banks and Business", made in 1935, is now outdated, it is still very much in demand. During 1948 it was shown to over 19 thousand people, bringing the cumulative total to 510 thousand. At the present time there are 10 prints currently circulating: one from the Audio-Visual Department of the University of West Virginia, one from the Federal Reserve Bank of Cleveland, one from our Branch at Helena, two from the Wisconsin Bankers Association, and five from our bank.

Continuing a policy inaugurated in 1933, an attempt was made to visit all banks in the district in the spring and fall. Montana banks are contacted mostly from the Branch at Helena. All of the men made their scheduled trips in the Head Office area and the final result shows only 15 banks, scattered through various sections, not visited twice.

In addition to visits at banks, our representatives were present at all bankers' conventions within the district, A.B.A. meetings, Robert Morris Associates meetings, Auditors' Conferences, Economic Conferences, Group Meetings, and other gatherings of bankers.

Reciprocal tours of the American Crystal Sugar Company at Chaska and the Pillsbury Flour Mills were arranged during the year.

PURCHASING

Virtually all supplies needed to operate the bank are now easily obtained. As a result, it is reasonable to believe that prices have reached their peak and that somewhat lower prices can be expected upon the return of a buyers market. Competitive bidding is again possible, which, of course, is a factor in obtaining the best price, quality and service. Since a downward trend in prices of most items is probable and since necessary supplies can be readily obtained, the stockroom inventory is being carefully reduced to the lowest possible point consistent with economy and requirements.

FISCAL AGENCY OPERATIONS OTHER THAN U. S. TREASURY

RECONSTRUCTION FINANCE CORPORATION

During 1948 final decentralization of accounts to the extent planned by RFC was completed.

Custodian activities with respect to decentralized accounts are disbursements, collection of items, cash and noncash, and custodianship of valuable papers. During the year the system of custody was revised, whereby the loan agency submits documents for safekeeping and directs their disposition. Our responsibility for these is limited to safekeeping.

Authority was received to destroy certain old records of RFC and its subsidiaries. The destruction of CCC records, accumulated while RFC acted as its fiscal agent, awaits action by Congress.

The volume of checks issued and collected was about the same as for last year.

COMMODITY CREDIT CORPORATION

At present our activities are limited to disbursements and collection of its items, cash and noncash. While our contract provides for safe-keeping of documents, we have not been called on for this service.

The number of checks collected during 1948 was 44,785 as compared with 6,515 for 1947. The dollar volume for 1948 was \$16,743 thousand as against \$5,618 thousand during 1947. These increases were due to the sale of potatoes for livestock feed, service fee agreements and an increase in number of loans.

Disbursements, while less in number, have shown a marked increase in dollar volume, mainly because of purchases under the Price Support Program. During 1948 we issued 6,646 checks totaling \$250,750 thousand; in 1947, 15,118 checks totaling \$91,790 thousand. The large number of checks issued during 1947 was due to purchases under the Emergency Wheat Program, under which farmers delivered wheat in 1946 against future sale at a premium and for the most part sold it in 1947. Nearly 50% of the dollar disbursements for 1948 were for flax. Normal buyers stepped out of the market in the fall of 1948 and the government started buying to maintain the \$6.00 guaranteed price. In the area served by the local CCC office, approximately 22 million bushels were purchased.

At present, the following disbursement programs are in effect:

- Grain Loan and Purchase Programs
- Potato Loan and Purchase Programs
- Wool Program
- Tobacco Program

For some time, for certain of its programs, the CCC has used sight drafts issued by County Agricultural committees payable through the Federal Reserve banks. Recently it authorized certain Production Credit associations as its

agents to disburse loans on wheat and potatoes and to draw sight drafts on it payable through the Reserve banks for reimbursement.

The majority of loans and purchases under the Potato program were handled by sight drafts drawn by County Agricultural committees. During 1948 we paid 8,459 of such drafts, amounting to \$5,430 thousand.

As of December 31, 1948, approximately 100,000 CCC wheat loans had been made, approximately 59% of all of its Commodity loans. These loans will mature on April 30, 1949, prior to which time the producers may redeem at their option.

Toward the end of December, a very considerable increase was made in the number of corn loans which, it is anticipated, will add considerably to our work volume. These loans mature September 1949.

OTHER GOVERNMENTAL AGENCIES

While we continue to handle matters for the Public Housing Administration and the Federal Works Agency, activity for these agencies has been very light.

RESEARCH

In 1948 the Research Department continued to perform its two-fold functions -- research activities and public service activities. As in previous years, it attempted to satisfy fully the demands for speakers which came from various sources, such as service clubs, bank group meetings, etc. During the year members of the department participated in 68 speaking engagements before a combined audience of approximately 6,125 persons.

The most important special study which the department completed in 1948 was a result of field investigations in which 122 proprietors of small business firms in the district were interviewed. These interviews sought to find the sources of capital for small business firms. The results of this field study were published in the form of a pamphlet, "How Does Small Business Obtain Its Capital?". This pamphlet attracted nation-wide attention, and digests were published in such magazines as "Business Week", "Commercial West", "Forbes Magazine", and "Burroughs Clearinghouse". Numerous requests for this pamphlet were received from many sources, including colleges and universities.

A major proportion of the research activities in 1948, as in past years, was devoted to investigations which resulted in the publication of special articles for the "Monthly Review of Business Conditions". A list of these special articles in the 1948 Reviews follows:

January	"1947's Boom Provides 1948's Major Heritage"	McCracken
March	"Farmers Look to Banks for Production Credit"	Parsons
	"Failures of Manufacturing Firms on Increase"	Litterer
April	"Banks Expand Farm Loans"	Parsons
May	"Postwar Deposit Growth Leads Nation"	McCracken
July	"District Prosperity Due to Trio of Factors"	Litterer
August	"Construction Leads Business Activity"	Litterer
October	"Continued Farm Prosperity"	Parsons
November	"Buying Power Changes Moderate in Postwar"	Litterer
December	"Supports May Promote Record Wheat Acreage"	Parsons

During 1948 a significant rise occurred in the demand for our regular publications. The circulation of the "Monthly Review" increased from approximately 6,500 in December 1947 to 7,500 in December 1948.

The circulation of "Farm News" increased from 4,550 to 6,000. The demand for the "Library Letter" also increased, the increase in this case being from 1,487 in 1947 to 1,592 for each issue.

The library has continued to develop its circulating and reference program among banks in this district. In January of 1948 a "Catalogue of Library Books" was issued, bringing with its distribution an influx of requests. During the year, 270 additional bankers received books, resulting in a total of 460 bankers who obtained this service.

Members of the department again participated actively on committees of the Federal Reserve System. Prior to his resignation on September 1, Paul W. McCracken served on the following committees:

1. System Research Advisory Committee
2. Subcommittee of the Presidents' Conference
Committee on Research
3. Executive committee of the Subcommittee of the
Presidents' Conference Committee on Research
4. Banking and Credit Policy Committee
5. Subcommittee of the Presidents' Conference Committee
on Legislation

Franklin Parsons participated in the Agricultural Committee; Oscar F. Litterer was retained on the Committee on Business Finance; while John A. MacDonald continued to serve on the Committee on Current Reporting Series. Each of these committees is a subcommittee of the System Research Advisory Committee.

SAFEKEEPING

Total securities held for safekeeping and collateral purposes as of December 31, 1948, were \$1,296 million, a decrease of \$110 million when compared with the \$1,406 million held a year ago.

The largest decline occurred in Government and miscellaneous securities held for member and nonmember banks. On December 31, 1947, the total for these types of securities was \$937,849 thousand, whereas on December 31 of this year, total holdings were only \$805,472 thousand.

This is a drop in dollar amount of \$132,377 thousand. Collateral to war loan deposits shows a drop from \$156,646 thousand to \$149,516 thousand, and collateral for discounts and advances \$5,093 thousand. Securities pledged to secure public deposits is the only class of safekeeping that shows a major increase. On December 31 of this year, securities in this classification totaled \$314,161 thousand as compared with \$280,925 thousand one year ago. As reflected in the table below, other phases of safekeeping show minor increases.

	<u>12/31/48</u>	<u>12/31/47</u>	<u>Inc. or Dec.</u>
		(000 Omitted)	
<u>Accounts:</u>			
Government and miscellaneous securities held in safekeeping for members and nonmembers	\$ 805,472	\$ 937,849	\$ - 132,377
Securities pledged to secure public deposits	314,161	280,925	33,236
Securities held for U. S. Treasurer and others	4,283	3,316	967
Securities held for R.F.C.	9,520	8,999	521
Collateral to War Loan Deposits	149,516*	156,646	7,130
U.S. Depository Bonds -			
Time Deposits	134	131	3
Federal Works Administration	78	133	55
Collateral for Discounts and Advances	11,178**	16,271	5,093
Securities held for U. S. Housing Authority	1,730	1,735	5
Collateral to Consignment Account - U.S. Sav. Bds. Ser. E	62	78	- 16
	<u>\$1,296,134</u>	<u>\$1,406,083</u>	<u>\$ - 109,949</u>

* \$16 million held in New York.

** \$10 million held in New York.

The Safekeeping Department received 50,305 pieces of securities, issued 6,995 receipts, and delivered 71,592 pieces in 9,973 transactions, resulting in a net decrease of 6,367 pieces of securities held during the year. This department also made 6,588 transfers of securities from one account to another, and clipped 268,983 coupons from securities held during

1948. The table below shows comparative volume figures for 1948 and 1947.

	<u>1948</u>	<u>1947</u>	<u>Inc. or Dec.</u>
Pieces received	50,305	57,866	- 7,561
Receipts issued	6,995	9,152	- 2,157
Pieces delivered	71,592	77,959	- 6,367
Withdrawals handled	9,973	10,387	- 414
Transfers from one account to another	6,588	5,790	+ 798
Coupons clipped	<u>268,983</u>	<u>287,239</u>	<u>- 18,256</u>
	414,436	448,393	- 33,957

WIRE TRANSFERS

During 1948 a total of \$9.7 billion in wire transfers was handled by the Wire Transfer Division. This total represents a new all time high in dollar amount and exceeds the previous record of \$6.7 billion established in 1947 by \$3 billion. Of this \$9.7 billion, approximately \$2.5 billion, or 25%, were transfers to other Federal Reserve districts; \$5 billion, or 54%, were received from other districts; and the balance of \$2 billion, or 21%, were transfers within our district.

While the total of 39 thousand individual transfers handled in 1948 exceeds the 1947 total by 1 thousand transactions, it is approximately 4 thousand less than the all time high of 43 thousand established in 1929.

Perhaps a better comparison of the increased activity is reflected in the average dollar amount per transfer. With a total of \$9.7 billion for 39 thousand transactions, the average dollar amount for each transfer during 1948 was \$250 thousand, while the 1947 totals of \$6.7 billion and 37 thousand transactions reflects an average of \$181 thousand.

Going back to the previous volume high of 43 thousand transfers and \$2.8 billion, the average was approximately \$65 thousand.

WITHHELD TAXES

Only one major change by the Treasury Department in the operating procedure of the Withheld Tax Division was made during the year. This change, effective March 22, 1948, permits banks that are qualified to accept withheld taxes and which also have a War Loan Deposit account, to transfer withheld tax funds to this account in lieu of making a direct remittance to this bank or its Helena Branch.

As of December 31, 1948, 817 banks were qualified to accept for deposit withheld tax funds. Of those qualified, 83 are inactive at the present time. During the year these agents accepted and forwarded to us 112 thousand duplicate depositary receipts totaling \$162 million. These totals represent an increase of 14 thousand duplicate depositary receipts and \$17 million over the 1947 totals.

Of \$4,982 thousand held in 2% Depositary bonds, \$4,837 thousand were purchased with the depositaries' own funds as compared with only \$145 thousand in Treasury funds. When compared with the 1947 holdings, these totals show increases of \$258 thousand and \$3 thousand respectively.