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Fourteenth Annual Report

Federal Reserve Bank of New York

For the Year Ended December 31, 1928

Federal Reserve Agent
Second Federal Reserve District

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Contents

FEDERAL RESERVE BANK
OF NEW YORK

New York, February 13, 1929

SIRS:

I have the honor to submit herewith the fourteenth annual report of the Federal Reserve Bank of New York, covering the year 1928.

Respectfully yours,

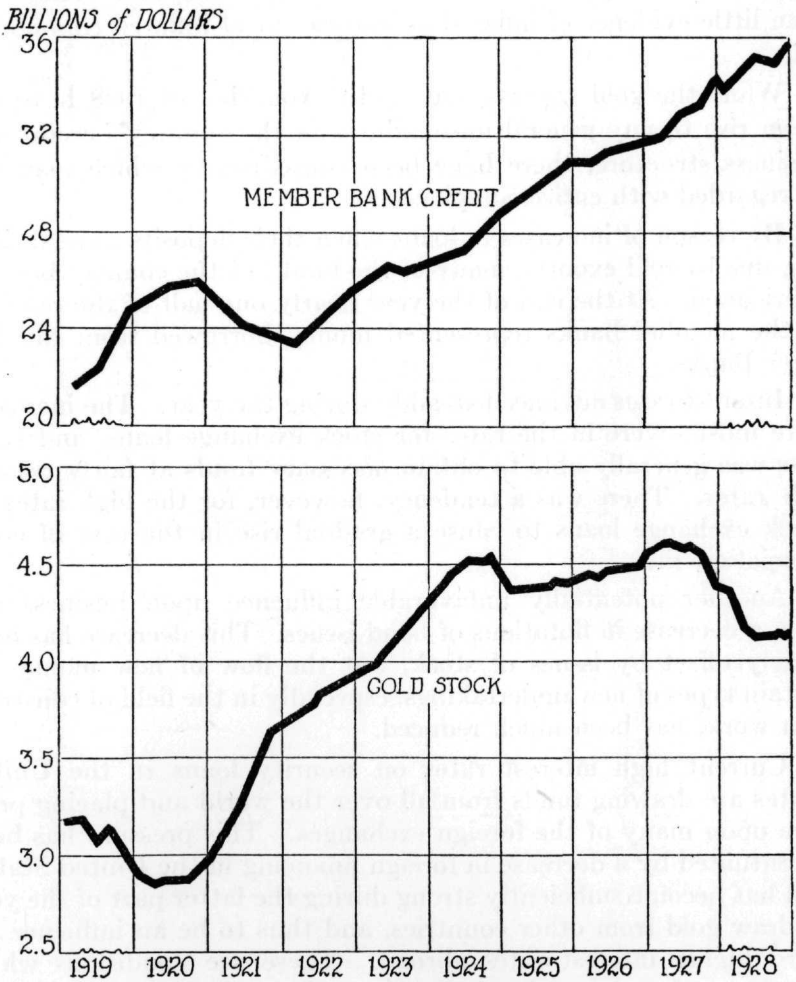
GATES W. MCGARRAH,
Chairman and Federal Reserve Agent.

FEDERAL RESERVE BOARD,
Washington, D. C.

Fourteenth Annual Report
Federal Reserve Bank of New York

Credit Conditions in 1928

There were two major influences upon credit conditions and upon the operations and condition of the Federal Reserve Banks during 1928. The first was a considerable shrinkage of the credit base through a continuation of the heavy outflow of gold which began in 1927; the second was a tendency toward rapid increase in the volume of credit. This combination of events had not been



Although there was a heavy outflow of gold from the country, loans and investments of Member Banks showed rapid expansion during 1928

encountered in a number of years. The gold exports made a considerable drain on the country's stock of gold, and while gold reserves remained in a strong position, the outflow indicated that the period when rapid expansion of bank credit could be based on new acquisitions of gold without an increase in the use of Federal Reserve credit had passed, and that conservatism in the use of additional credit was in order.

Business showed a rapid recovery early in the year from the recession which had occurred at the end of 1927, and in general continued healthy and conservative through the year. There has been little evidence of inflated inventories or of inflated commodity prices.

While the gold exports and credit expansion of 1928 have not given rise to any general unsoundness in the country's credit and business structure, there have been consequences which may not be regarded with entire complacency.

By reason of increases in loans when their deposits were shrinking, due to gold exports, many of the banks of the country became overloaned. At the end of the year nearly one-half of the reserves of the member banks represented money borrowed from the Reserve Banks.

Interest rates advanced steadily during the year. The increases were most severe in the rates for stock exchange loans, and business was generally able to obtain necessary funds at fairly reasonable rates. There was a tendency, however, for the high rates on stock exchange loans to cause a gradual rise in the cost of commercial credit.

Another potentially unfavorable influence upon business has been a decrease in flotations of bond issues. This decrease has been largely offset by issues of stock, but the flow of new money for certain types of new undertakings, especially in the field of construction work, has been much reduced.

Current high interest rates on security loans in the United States are drawing funds from all over the world and placing pressure upon many of the foreign exchanges. This pressure has been accentuated by a decrease in foreign financing in the United States, and has become sufficiently strong during the latter part of the year to draw gold from other countries, and thus to be an influence toward higher interest rates abroad. These are conditions which if long continued may be expected to affect adversely the trade of the world, and reduce the world's power to purchase the products of this country.

The stock market into which has flowed most of the year's increase in credit is now borrowing far larger amounts of money than ever before. The volume of trading has been unprecedented, and prices of securities have advanced very rapidly. Those borrowing the money are not receiving as large a current yield from their securities as they are paying in interest on their borrowed money.

The economic changes which have resulted in these conditions may well be traced briefly.

GOLD MOVEMENTS

The heavy gold export movement of the second half of 1927 was continued in the first half of 1928, largely in connection with the French program of monetary stabilization which required additions to that country's gold reserve. During the autumn gold imports of moderate volume took place as a consequence of weakness in sterling and some of the other exchanges, but near the end of the year a temporary strengthening of the foreign exchanges stayed the movement, except for seasonal shipments to and from Canada. A renewed earmarking of gold at the New York Reserve Bank for foreign account in November and December caused some reduction in the gold stock. The principal gold movements for 1928 are summarized below.

Net Imports From		Net Exports To	
Canada	$79,700,000	France	$307,800,000
Great Britain	5,000,000	Argentina	64,900,000
Greece	3,400,000	Germany	23,600,000
		Italy	26,100,000
		Brazil	25,000,000
		Uruguay	9,000,000
		Poland	6,000,000
		Venezuela	5,500,000
		Netherlands	4,000,000
		Belgium	2,000,000
		India	1,500,000

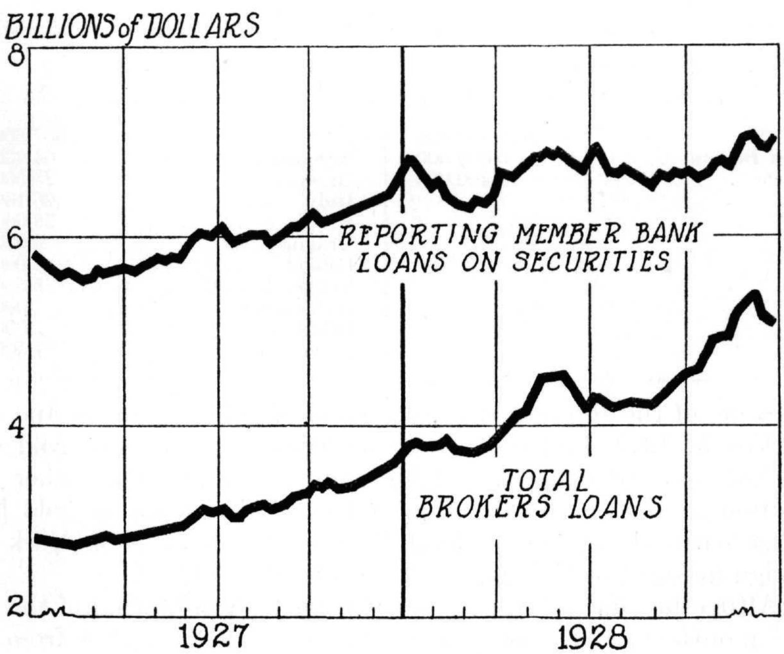
Some of the shipments in 1928 were of gold purchased and earmarked in 1927, but there were additional amounts of gold earmarked, part of which was held awaiting shipment or other disposition at the end of the year. The total amount of gold held under earmark at the Federal Reserve Bank of New York for foreign account at the close of 1928 was $79,765,000.

Altogether the net loss of gold during 1928, with that of the last four months of 1927, constituted the largest gold outflow from the United States that has ever occurred, and reduced the gold stock of this country by about 10 per cent.

EXPANSION OF CREDIT

In the spring of 1928 there was a rapid expansion of bank loans, which within a period of ten weeks was nearly equal to the average annual increase in bank credit during recent years. Subsequently, however, the position of commercial banks became increasingly unfavorable to the further expansion of their loans, and the demand for credit was met largely by loans from other sources, which had the effect of causing more intensive use of existing bank credit, rather than by further expansion of bank loans.

Part of the increased demand for bank credit in 1928 was the result of the recovery in industrial activity and trade, but this accounted for only a minor part of the rapid expansion in the spring of the year. The largest and most insistent demand was from the security markets. Traditionally the call loan market has been viewed as a place for the temporary employment of surplus bank funds. In 1928, however, notwithstanding the large loss of gold, which under conditions existing before the Federal Reserve System would have forced a large liquidation of bank credit, the security markets called for additional credit in amounts larger than ever before. This large demand, when most of the larger banks not only had no surplus funds, but were, in fact, becoming increasingly dependent



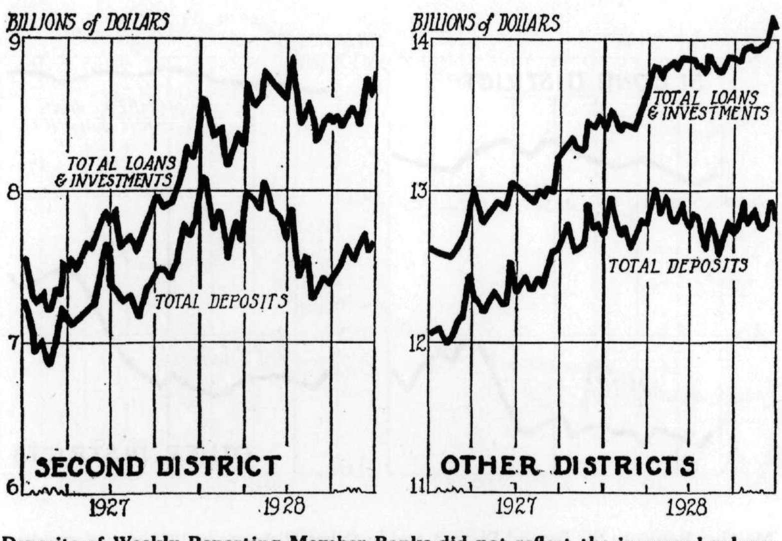
Weekly Reporting Member Bank loans on stocks and bonds showed a comparatively small increase in 1928, whereas total brokers loans increased considerably

upon the Reserve Banks for the maintenance of their required reserves, was a principal cause of the recurrent periods of high call money rates during the year.

The preceding diagram shows that reporting member bank loans on stocks and bonds showed a comparatively small net increase in 1928, whereas brokers loans increased by about 1,500 million dollars. The large increase in brokers loans without a corresponding increase in member bank credit was effected through the relending of existing bank deposits by individuals, corporations, nonmember banks, and foreign lenders. The results of this relending of deposits to security brokers, who put them into very active use, were reflected in a much larger volume of bank debits against deposits than in any previous year, and in a rate of turnover of bank deposits that has not been approached in many years if ever before. For the last quarter of the year the velocity of deposits in New York City was 39 per cent greater than in the last quarter of 1927 and for principal clearing house centers outside New York the increase was 11 per cent.

DECLINE IN DEPOSITS RELATIVE TO LOANS

There were reasons, other than the relending of deposits, why the total volume of bank deposits did not reflect the greatly increased use of credit during the year. Deposits did not even reflect the increase in bank loans and investments. The figures are shown in the diagram below. Between the beginning of 1928 and



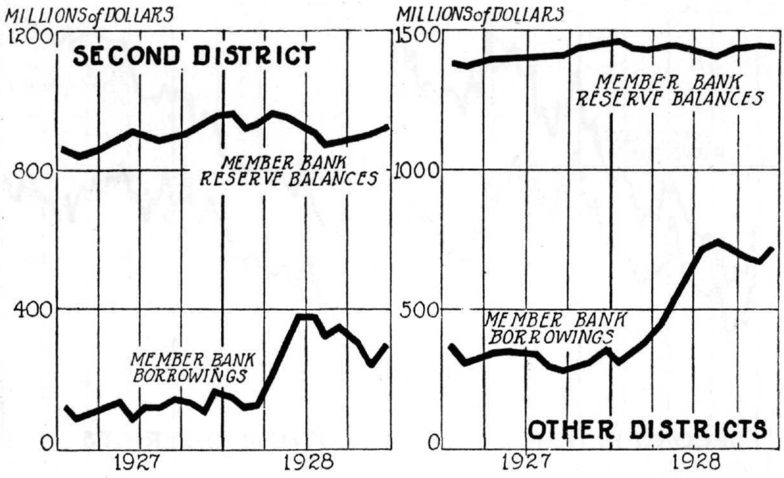
Deposits of Weekly Reporting Member Banks did not reflect the increased volume of loans and investments

August, deposits of reporting banks in the Second District declined over 800 million dollars while loans and investments were reduced only 280 million, and in other districts deposits were reduced approximately 300 million, while loans and investments increased over 300 million.

The increasing spread between deposits and loans and investments was due to several factors. One of the principal causes was gold exports, which always result in a loss of deposits relative to loans and investments. From this cause there was a loss of nearly 300 million dollars of deposits during the first seven months of the year. Other factors were the reduction of 400 million dollars in the security holdings of the Reserve Banks, and increases in the paid-in capital, surplus, and undivided profits of member banks totaling 500 million dollars between December 31, 1927, and October 3, 1928.

INCREASED DEPENDENCE ON THE RESERVE BANKS

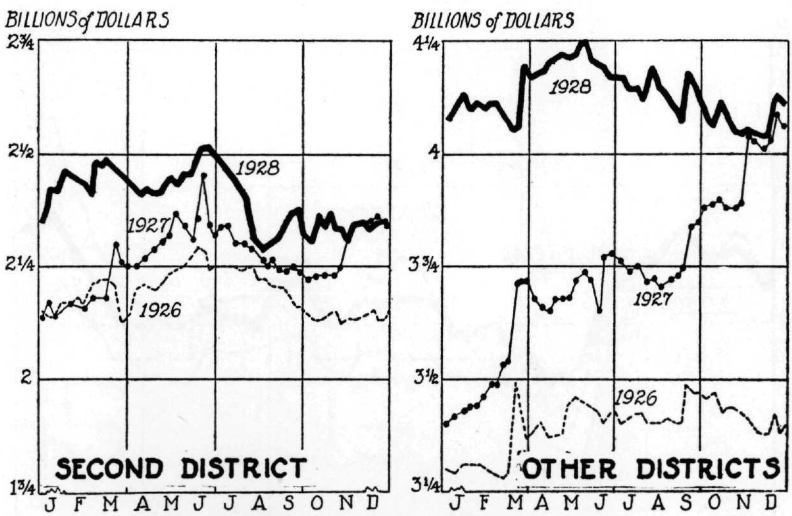
The losses of deposits due to gold exports and Reserve Bank sales of securities reduced the loanable funds of the banks, but they were not accompanied by corresponding decreases in loans and investments, and had to be replaced largely by borrowings from the Reserve Banks, so that there was an increase of about 500 million dollars in Reserve Bank discounts in the course of the year.



Member Banks in the Second District and in Other Districts in 1928 were dependent to an increased extent upon money borrowed from the Federal Reserve Banks

Almost all of the loss of deposits due to gold exports, and a considerable part of the loss due to Reserve Bank security sales, were sustained by New York City banks, but the resulting advance in money rates drew funds from other sections of the country; so that the banks in other districts shared in the loss of deposits. Consequently, as the preceding diagram shows, the increase in borrowings from the Reserve Banks was distributed throughout the country. In January 1928 member banks in the Second District were borrowing an average amount equal to 16 per cent of their reserves; in July their borrowings were equal to 42 per cent of their reserves and at the year-end, 40 per cent. Member banks outside of the New York District increased their borrowings from 21 per cent of their reserves in January to 50 per cent in July, and 48 per cent at the year-end.

This substantial increase in member bank indebtedness was followed by a liquidation of the investment holdings of these banks during the latter half of the year. Banks in this district reduced their holdings rapidly from June to August, and banks in other districts reported a more gradual but continuous reduction from May to December.

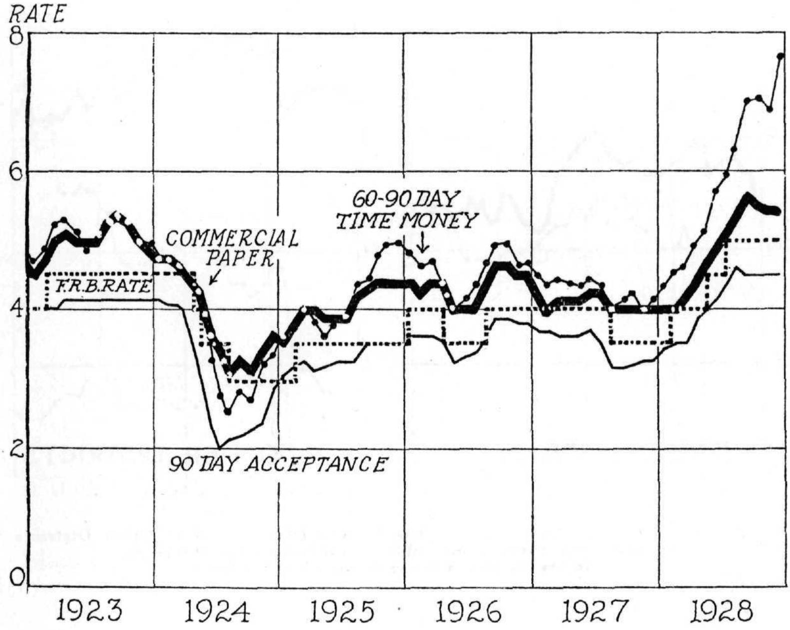


Weekly Reporting Member Banks in the Second District and in Other Districts reduced their investment holdings the last half of the year, following the increase in their indebtedness

MONEY RATES

The increase during the year in member bank indebtedness to the Reserve Banks was accompanied by a rapid rise in money rates at New York. For several years there has been a close relationship between the amount of Reserve Bank discounts for member banks in leading cities and the level of money rates. The rise in open-market commercial paper rates was much less than for stock exchange time loans. Moreover, rates charged on commercial loans to customers by New York City banks increased less than rates on commercial paper sold in the open market, and rates on customers' loans outside of the large cities are reported to have shown only a slight increase.

The largest advances in money rates were in rates charged on the kind of loans which were in strongest demand during 1928, and which are ineligible for rediscount at the Reserve Banks—loans secured by stocks and bonds. As the accompanying diagram shows, stock exchange time money during the last four months of 1928 averaged over 7 per cent, as compared with slightly over 4 per cent during the corresponding period in 1927, whereas commercial paper and bankers acceptance rates showed a rise only about half as large. Call loan rates at times showed a much larger rise then even time money rates, and in the latter part of 1928 averaged higher than at any time since early in 1920.

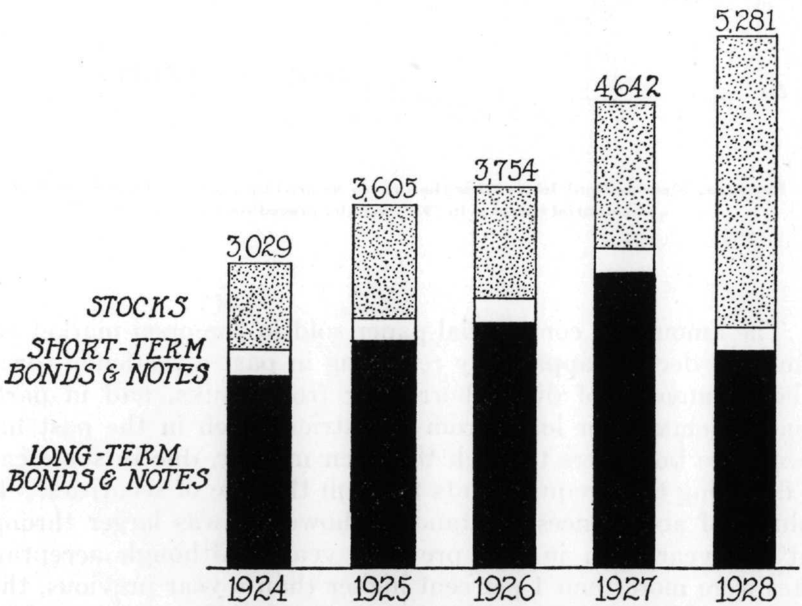


The largest advances in money rates in the New York market were in rates charged on the kind of loans which were in strongest demand in 1928 —loans secured by stocks and bonds

EFFECTS OF HIGHER MONEY RATES

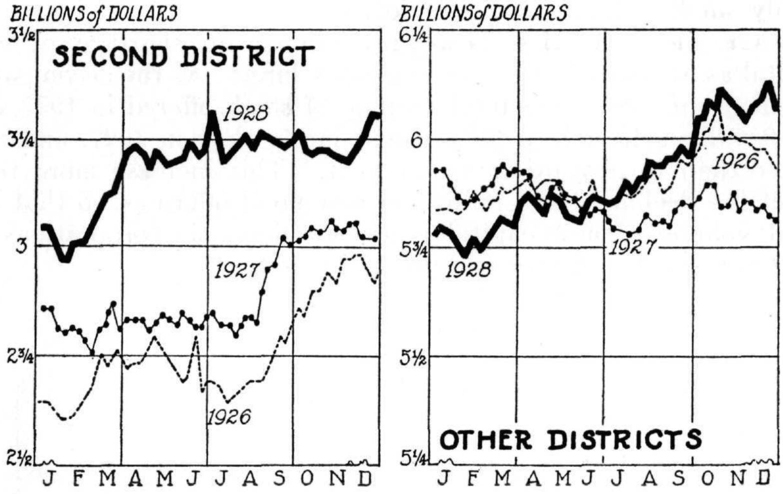
The advance in money rates during the spring of 1928 and bank sales of investments were accompanied by a steady decline in bond prices from March until August, and some congestion of unsold securities in the market for new issues, which had been unusually active despite gold exports and other indications of firmer money conditions. New issues of bonds in the New York market declined abruptly during the summer. Some recovery occurred in the autumn, but the volume of new bond issues remained considerably smaller than a year previous.

Domestic industries, however, suffered no shortage of new capital as issues of stock were unusually large. As the accompanying diagram shows, the total volume of stock offered in 1928 was 2,900 million dollars, or 99 per cent larger than in 1927, and was larger than in any other recent year. This increase more than offset the decline of 800 million in new bond offerings, so that the total volume of new capital issues for domestic corporations in 1928 was much larger in volume than in 1927.



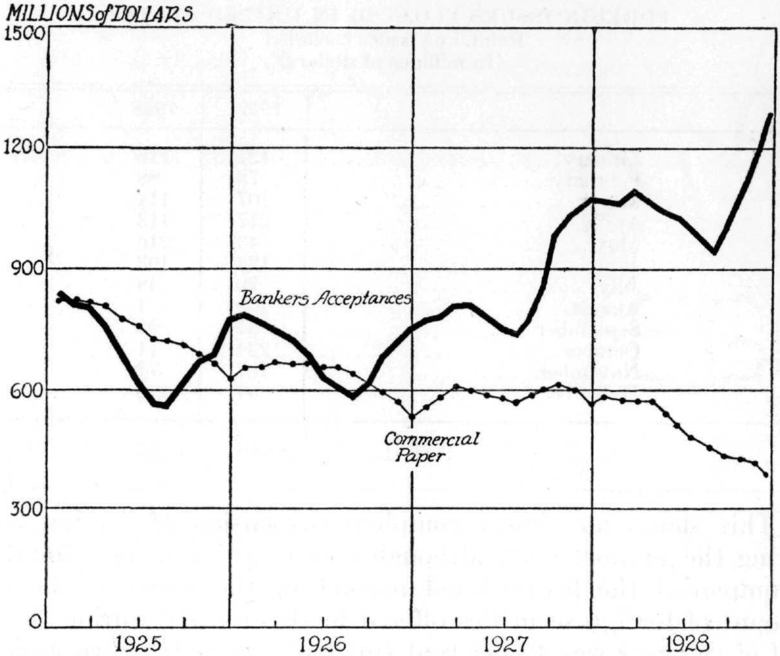
The decrease in the volume of new bond issues in 1928, was more than offset by the unusually large increase in new stock issues with the result that there was a larger total volume of new capital issues for domestic corporations than in any previous year
(In millions of dollars)

Short-term funds appear to have been available during the year for every necessary business use. Reporting member bank loans other than those secured by stocks and bonds showed a substantial increase over 1927, whereas in that year there had been little increase over 1926, in the Second District, and a decline in other districts.



Reporting Member Bank loans other than those secured by stocks and bonds showed a substantial increase in 1928 over the preceding two years

The amount of commercial paper sold in the open market continued to decline, apparently reflecting in part a tendency toward a larger amount of direct borrowing from banks, and in part a smaller demand for loans from industries which in the past have been large borrowers through the open market, due in some cases to financing their requirements through the sale of securities. The volume of acceptances outstanding, however, was larger throughout the year than in any previous year. Although acceptance rates were more than 1 per cent higher than a year previous, there was no evidence that the foreign trade of this country could be financed more cheaply in other markets. There was indeed a considerable further increase in the amount of bills sold in the New York market to finance trade between foreign countries.



The volume of acceptances outstanding was much larger during 1928 whereas the amount of commercial paper continued the decline of previous years

FOREIGN EXCHANGE AND FOREIGN FINANCING

The strength in foreign exchange which developed during the low money rate period of 1927 was fairly well maintained during the first five months of 1928, partly due to seasonal causes and partly to the large influence of the unusual movement of funds in anticipation of French monetary stabilization. From June to September, however, seasonal tendencies combined with the attraction of high money rates in New York to depress the foreign exchanges rapidly. In the cases of British and Argentine exchanges, the decline proceeded far enough to cause a movement of gold to New York during the autumn. Moreover, many of the European countries found it necessary in supporting their exchanges to use a considerable amount of the dollars accumulated here in preceding months.

A related effect of high money rates was an abrupt decline in the flotation of foreign securities in this market. The following table shows this bank's record of the par amount of foreign securities offered here in 1928 in comparison with the amount offered in 1927.

FOREIGN ISSUES FLOATED IN UNITED STATES
Refunding issues excluded
(In millions of dollars)

	1927	1928
January	127	115
February	78	98
March	107	114
April	217	113
May	43	216
June	124	193
July	70	48
August	109	1
September	85	95
October	234	71
November	107	71
December	81	110
TOTAL	1,382	1,245

This shows an almost complete suspension of foreign issues during the summer, and, although a resumption of new flotations accompanied the firmer bond market of the autumn, the total amount of foreign securities offered in this market during the last half of the year was 42 per cent smaller than in the corresponding period of the previous year, though the total amount of issues for the year was only 10 per cent less than in 1927.

Federal Reserve Policy

In the year 1927 a domestic business recession and the threat of world credit stringency had proved important considerations in the determination of general credit policy by the Federal Reserve Bank of New York. As 1928 advanced it became clear that business was recovering rapidly from its brief recession and further, that European credit conditions were in a much more solid position, partly by reason of the prospective, and before long actual, stabilization of French finances and partly by reason of the bulwark of exchange balances which European countries had acquired here and elsewhere. Thus early in 1928 these two problems ceased to be of pressing importance.

It became clear early in the year that the growth in the volume of credit was far outstripping ordinary commercial and industrial credit requirements. Many years of experience have shown that increases in credit beyond business needs lead ordinarily to unfortunate results, to speculative excesses, to price increases, to booms which end in depressions. It has, therefore, become the prudent practice of banks of issue to subject extraordinary increases in the use of credit to the test of higher interest rates.

The major credit policy of the Federal Reserve Bank of New York found expression during the year in three increases in discount rates bringing the rate from 3½ to 5 per cent by changes on February 3, May 18, and July 13, and in sales of Government securities in which the New York Bank participated with the other Reserve Banks in a common operation. These operations accentuated the tendency towards higher money caused primarily by gold exports, and the strong demand for additional bank credit.

The Reserve Banks faced the problem during the year of exerting their influence towards restricting the rapid expansion of credit, without at the same time unduly penalizing business enterprise. This problem became more pressing in the autumn when the beginning of the usual autumn demand for funds found interest rates firm and tending higher. To prevent too great credit stringency at that time, the Reserve Banks avoided advances in their buying rates for bankers acceptances, such as are frequently made during the autumn season, and purchased acceptances in a volume which was more than sufficient to provide the additional Federal Reserve funds needed to meet seasonal requirements without further credit strain.

Figures and diagrams earlier in this report have already shown how rates for funds to be used for call and time loans to brokers and dealers in securities advanced to considerably higher levels during the second half of the year than rates on commercial loans. That rates should have been so differentiated may be ascribed first, to the huge demand for funds for speculative use, and second, to the unwillingness of many lenders and particularly banks to make increasing amounts of this type of loan, banks preferring to favor their regular commercial customers, and preferring also to loan upon paper eligible for rediscount.

Loans by Others than Banks

One limitation to banking and Federal Reserve control over the volume of credit was the increasing practice of corporations and individuals in lending funds in the stock exchange money market, which was mentioned briefly on page 9 of this report.

During 1928 loans of this sort have increased about 1½ billion dollars and at the end of the year totaled somewhere in the neighborhood of 3 billion dollars, if loans of this character reported both by New York City banks and by Stock Exchange members are included. While these loans in form are independent of bank loans, in reality they involve a use of bank funds. The borrower of these funds receives a bank deposit, and the operation in effect is the conversion of an inactive deposit into an active one, with the consequence that the rate of turnover or velocity of bank deposits is much increased, as was indicated earlier in this report. Thus the increase in these loans, without increasing the amount of funds in the banks, has resulted in a large increase in the volume of transactions paid for with checks drawn against bank deposits.

This more active use of deposits does not, however, call for any additions to bank reserves which are computed only on the total volume of deposits without regard to the activity of use, except, of course, that there is a distinction between time deposits and demand deposits. It does not appear that the principal transference during the past year has been from time to demand deposits, but rather from a less active to a more active use of demand deposits. This practice was made a matter of careful study by the New York Clearing House during the year, and as a result regulations were adopted by the Clearing House and made effective on September 1, 1928, which provided that members of the Clearing House Association should increase the charge on loans placed for customers to a minimum of ½ per cent per annum, and should not place loans for amounts less than $100,000.

These regulations, however, did not result in diminishing the amount of funds lent on the Stock Exchange by others than banks; in fact, loans for others as reported by the New York City banks increased about 450 million dollars between the first of September, and the end of the year.

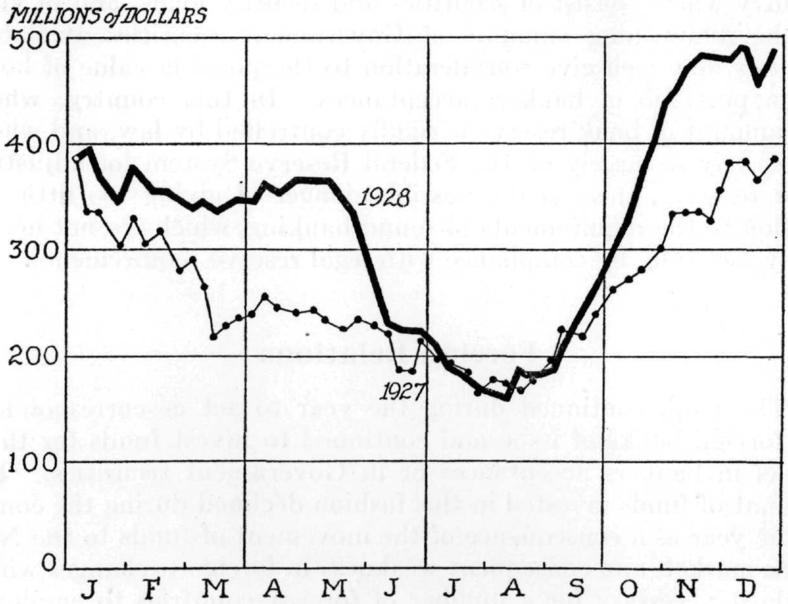
The rapid increase in loans of this sort undoubtedly was facilitated by the differential during the year between the rates for stock exchange loans and the return from other employment of funds, by reason of which a corporation or individual received a considerably larger return on funds employed in this fashion than on funds left on deposit or invested in Government securities or bankers acceptances.

From the point of view of their effect upon the credit structure these loans by others require careful scrutiny because they are a potential charge against bank reserves although they are largely outside of the control of the banking organization. The manner in which these loans may, in fact, become a charge against bank reserves was illustrated by occurrences over the year-end. As the year drew to a close a considerable number of corporations and others began to withdraw funds from the market probably for "window dressing" purposes. Such withdrawals for foreign accounts were evidenced by a considerable strengthening in a number of European exchanges which was followed after the first of the year by a weakening as the funds were returned to this market. There was also a considerable transfer of funds from New York to other districts in the United States. Altogether, withdrawals of this sort from the call loan market for accounts other than banks totaled close to $300,000,000, and for out-of-town banks were over $200,000,000, so that New York banks were called upon to put into the market nearly $600,000,000 of their own funds to replace the funds drawn out. This increased both the loans and deposits of the New York City banks and consequently their reserve requirements, compelling them to borrow heavily from the Federal Reserve Bank.

The possibility of such withdrawals and their replacement by bank loans makes it prudent to consider these loans as a potential charge against the country's basic bank reserves.

Condition of the Acceptance Market

In the past year as indicated in a previous section of this report, the volume of acceptances issued in the United States has reached new high levels, the total outstanding on December 31 being $1,284,000,000. This increase to new high figures here, with a like increase in other world money markets, indicates in part the continued recovery of world trade from the post-war recession and in part the effect of reduced long-term foreign financing in New York. The increase in the United States was due in considerable measure to the financing of transactions between European countries.



Amount of bankers acceptances held by Federal Reserve Banks reached an unusually high level in 1928

The experience of the year has given emphasis to the dependence of the acceptance market upon the Federal Reserve Banks, as the very large volume of acceptance financing was possible only through the support of the Reserve Banks whose holdings during the autumn reached the highest point for many years, between $450,000,000 and $500,000,000. In fact, the market for these acceptances was furnished very largely by purchases for the account of foreign banks and purchases for the account of Federal Reserve Banks.

This is evidently not a satisfactory condition of affairs from either the point of view of the development of the bill market in this country or the point of view of the effectiveness of Federal Reserve policy. In recent months, those most closely concerned with the acceptance market have studied methods of bringing about an enlargement of the domestic market for acceptances and it is to be hoped that means will be found for accomplishing this end. Until it is possible to bring about larger purchases of acceptances by domestic banks, the future of the acceptance market in this country will remain in some measure doubtful.

In other countries the acceptance market rests primarily on large purchases of acceptances by principal banking institutions which regard these bills as their principal secondary reserve. In view of the increasing proportion of the assets of the banks in this country which consist of securities and security loans, and in view of the diminishing amounts of Government securities available, bankers may well give consideration to the possible value of holding a portfolio of bankers acceptances. In this country, where the amount of bank reserve is rigidly controlled by law, and where banks rely so largely on the Federal Reserve System for adjusting their reserves, there is the possible danger of giving too little attention to the requirements of sound banking, which are not necessarily met fully by compliance with legal reserve requirements.

Foreign Relations

The bank continued during the year to act as correspondent for foreign banks of issue and continued to invest funds for these banks in bankers acceptances or in Government securities. The amount of funds invested in this fashion declined during the course of the year as a consequence of the movement of funds to the New York market, and consequent weakness in foreign exchanges which made it necessary for a number of foreign countries to employ a part of their balances at this institution to support their exchanges.

No new credits were granted to banks of issue for stabilization purposes in 1928, but the credit for the Bank Polski arranged in 1927, in association with other banks of issue, was renewed for a period of one year. Under the terms of these arrangements the Federal Reserve Bank of New York in association with other Federal Reserve Banks agreed to purchase from the Bank Polski up-to a total of $5,250,000 of prime commercial bills. The credit arrangements which had been entered into in December 1927 with the Banca d'Italia, also in participation with principal banks of issue, expired in December 1928 without renewal.

In June 1928, the French Government announced the establishment of its currency on a gold basis and the legal revaluation of the franc in terms of gold. The Bank of France did not find it necessary to obtain foreign credits in support of the stabilization program because it possessed such large balances in the other money markets of the world. With the stabilization of the franc upon a gold basis most of the principal countries have now stabilized their currencies.

Membership Changes in 1928

There continued to be a gradual growth in the membership of the Federal Reserve System in this district, due principally to the organization of new banks. Mergers and consolidations accounted for the majority of the decreases. The accompanying tables show the number of banks in the Second District classified according to their charters, whether State or National, and give an analysis of the causes of changes in membership during the year.

NUMBER OF MEMBER AND NONMEMBER BANKS IN SECOND FEDERAL RESERVE DISTRICT AT END OF YEAR

Type of Bank	December 31, 1928			December 31, 1927		
	Members*	Non-Members	Per Cent Members	Members*	Non-Members	Per Cent Members
National Banks......	775	0	100	771	0	100
State Banks**........	49	220	18	55	225	20
Trust Companies.....	114	190	37	111	186	37
Total.........	938	410	70	937	411	70

* In actual operation at end of year.
** Exclusive of savings banks.

CHANGES IN FEDERAL RESERVE MEMBERSHIP IN SECOND DISTRICT DURING 1928

Total membership beginning of year	937
Increases:	
National banks organized	19
Conversion of nonmember banks to National	2
Admission of State banks	4
Total increases	25
Decreases:	
Member banks combined with other members	22
Absorbed by nonmembers	2
Withdrawals	0
Insolvencies	0
Total decreases	24
Net increase	1
Total membership end of year	938

Reports of Operation

Since reports of operation of each Reserve Bank are published in the Annual Report of the Federal Reserve Board, detailed figures of the operations of this bank are omitted from this report, with the exception of the following statement of condition and statement of income and disbursements during the year, and a further table showing the volume of operations.

STATEMENT OF CONDITION

Resources	Dec. 31, 1928	Dec. 31, 1927
Cash Reserves held by this bank against its deposits and note circulation:		
Gold held by the Federal Reserve Agent as part of the collateral deposited by the bank when it obtains Federal Reserve notes. This gold is lodged partly in the vaults of the bank and partly with the Treasurer of the United States	$198,684,435.65	$320,067,446.59
Gold redemption fund in the hands of the Treasurer of the United States to be used to redeem such Federal Reserve notes as are presented to the Treasury for redemption	20,143,971.71	17,171,916.69
Gold and gold certificates in vault	355,489,488.96	372,076,393.63
Gold in the gold settlement fund lodged with the Treasurer of the United States for the purpose of settling current transactions between Federal Reserve districts	142,380,038.48	159,285,227.90
Legal tender notes, silver, and silver certificates in the vaults of the bank (available as reserve only against deposits)	22,040,487.00	24,598,953.00
Total cash reserves	$738,738,421.80	$893,199,937.81
Non-reserve cash consisting largely of National bank notes, and minor coin	$23,448,743.37	$20,923,803.11
Loans and Investments:		
Loans to member banks:		
On the security of obligations of the United States	$349,156,350.00	$230,800,050.00
By the discount of commercial or agricultural paper or acceptances	114,823,824.23	50,537,894.62
Acceptances bought in the open market	152,413,222.32	97,652,134.74
United States Government bonds, notes, and certificates of indebtedness	49,377,400.00	181,479,900.00
Total loans and investments	$665,770,796.55	$560,469,979.36
Miscellaneous Resources:		
Bank premises	$16,087,269.97	$15,881,823.71
Checks and other items in process of collection	195,086,461.94	193,847,416.29
All other miscellaneous resources	990,931.34	6,104,632.87
Total miscellaneous resources	$212,164,663.25	$215,833,872.87
Total resources	$1,640,122,624.97	$1,690,427,593.15

Liabilities	Dec. 31, 1928	Dec. 31, 1927
Currency in Circulation:		
Federal Reserve notes in actual circulation, payable on demand. These notes are secured in full by gold and discounted and purchased paper	$354,182,618.25	$390,343,496.50
Total currency in circulation	$354,182,618.25	$390,343,496.50
Deposits:		
Reserve deposits maintained by member banks as legal reserves against the deposits of their customers	$970,894,567.47	$1,009,922,990.27
United States Government deposits carried at the Reserve Bank for current requirements of the Treasury	8,497,390.46	1,565,311.84
Other deposits including foreign deposits, deposits of nonmember banks, etc	9,384,907.24	12,761,471.57
Total deposits	$988,776,865.17	$1,024,249,773.68
Miscellaneous Liabilities:		
Deferred items, composed mostly of uncollected checks on banks in all parts of the country. Such items are credited as deposits after the average time needed to collect them elapses, ranging from 1 to 8 days	$172,070,145.45	$170,612,489.82
All other miscellaneous liabilities	3,687,141.30	1,905,036.39
Total miscellaneous liabilities	$175,757,286.75	$172,517,526.21
Capital and Surplus:		
Capital paid in, equal to 3 per cent of the capital and surplus of member banks	$50,123,950.00	$40,309,600.00
Surplus—That portion of accumulated net earnings which the bank is legally required to retain	71,281,904.80	63,007,196.76
Total capital and surplus	$121,405,854.80	$103,316,796.76
Total liabilities	$1,640,122,624.97	$1,690,427,593.15

INCOME AND DISBURSEMENTS

Total earnings during the year 1928 were nearly $8,000,000 larger than in 1927 as a consequence of increased loans to member banks at somewhat higher discount rates, and increased holdings of acceptances also yielding at a somewhat higher rate than in 1927. The income from Government securities was smaller than in 1927, reflecting a decrease in holdings of such securities.

The cost of current bank operation was slightly increased over 1927 due largely to a steady growth in the volume of operations as indicated in a succeeding table. The cost of Federal Reserve currency was reduced due to readjustments in the program of printing notes incidental to the pending introduction during 1929 of currency of smaller size. The deduction from earnings for depreciation, self-insurance, etc. reflects in part a loss arising from sales of Government securities, made as a matter of policy, referred to in earlier pages of this report. Regular dividends were paid and in addition more than $8,000,000 was added to the bank's surplus, bringing the surplus to a little over $71,000,000. This surplus is still nearly $30,000,000 less than the subscribed capital of the bank.

	1928	1927
Earnings:		
From loans to member banks and paper discounted for them	$12,210,526.66	$4,614,110.43
From acceptances owned	3,482,648.63	2,558,080.10
From United States Government obligations owned	2,421,172.24	2,960,562.64
Other earnings	368,694.55	515,005.63
Total earnings	$18,483,042.08	$10,647,758.80
Additions to Earnings:		
For sundry additions to earnings, including income from Annex Building	$97,168.96	$126,074.48
Deductions from Earnings:		
For current bank operation. (These figures include most of the expenses incurred as fiscal agent of the United States)	$6,192,386.68	$5,955,030.69
For Federal Reserve Currency, mainly the cost of printing new notes to replace worn notes in circulation, and to maintain supplies unissued and on hand, and the cost of redemption	251,878.14	517,139.84
For depreciation, self-insurance, other reserves, losses, etc	1,117,513.57	581,061.33
Total deductions from earnings	$7,561,778.39	$7,053,231.86
Net income available for dividends, additions to surplus, and payment to the United States Government	$11,018,432.65	$3,720,601.42
Distribution of Net Income:		
In dividends paid to member banks, at the rate of 6 per cent on paid-in capital	$2,743,724.61	$2,327,354.74
In additions to surplus—The bank is required by law to accumulate out of net earnings, after payment of dividends, a surplus amounting to 100 per cent of the subscribed capital; and after such surplus has been accumulated to pay into surplus each year 10 per cent of the net income remaining after paying dividends	8,274,708.04	1,393,246.68
Any net income remaining after paying dividends and making additions to surplus (as above) is paid to the United States Government as a franchise tax. No balance remained for such payments in 1928 or 1927.		
Total net income distributed	$11,018,432.65	$3,720,601.42

VOLUME OF OPERATIONS

The following table shows the volume of the principal operations of the bank in 1928 as compared with 1927, and indicates a continued increase in most departments.

	1928	1927
Number of Pieces Handled		
Bills discounted:		
Applications	18,076	14,525
Notes discounted	38,056	31,024
Bills purchased in open market for own account	95,845	99,238
Currency received and counted	666,298,000	640,967,000
Coin received and counted	1,341,373,000	1,189,801,000
Checks handled	177,349,000	168,724,000
Collection items handled:		
United States Government coupons paid	7,602,000	9,931,000
All Other	2,615,000	2,259,000
United States securities—issues, redemptions, and exchanges by fiscal agency department	1,504,000	2,196,000
Transfers of funds	402,000	355,000
Amounts Handled		
Bills discounted	$24,791,838,000	$13,854,347,000
Bills purchased in open market for own account	2,019,361,000	1,975,505,000
Currency received and counted	4,347,922,000	4,159,821,000
Coin received and counted	668,085,000	588,422,000
Checks handled	115,190,618,000	100,206,587,000
Collection items handled:		
United States Government coupons paid	250,025,000	250,622,000
All Other	2,803,037,000	2,385,753,000
United States securities—issues, redemptions, and exchanges by fiscal agency department	3,985,049,000	5,219,626,000
Transfers of funds	55,469,947,000	50,898,108,000

CHANGES IN DIRECTORS

At a regular election held in the fall of 1928, Charles E. Mitchell, President of the National City Bank of New York, was elected by member banks in Group 1 as a Class A director of this bank to succeed Jackson E. Reynolds, President of the First National Bank of the City of New York, whose term expired December 31, 1928, and William H. Woodin, President of the American Car & Foundry Company of New York, was reelected by member banks in Group 1 as a Class B director of this bank. Each was chosen for a term of three years beginning January 1, 1929.

The Federal Reserve Board reappointed Gates W. McGarrah as a Class C director of the bank for a term of three years from January 1, 1929, and redesignated him as Chairman of the Board of Directors and Federal Reserve Agent for the year 1929.

The Federal Reserve Board also redesignated Owen D. Young as Deputy Chairman of the Board of Directors for the year 1929.

The Federal Reserve Board reappointed Edward A. Duerr, Chairman of the Community National Bank of Buffalo, as a director of the Buffalo Branch for a term of three years from January 1, 1929.

The directors of the bank appointed John T. Symes, President of the Niagara County National Bank and Trust Company of Lockport, New York, as a director of the Buffalo Branch for a term of three years from January 1, 1929, to succeed Frank W. Crandall, President of the National Bank of Westfield, Westfield, New York, whose term expired on December 31, 1928.

The directors also appointed George F. Rand, President of the Marine Trust Company of Buffalo, as a director of the Buffalo Branch to fill the unexpired term, ending December 31, 1930, of Elliott C. McDougal, formerly Chairman of the Marine Trust Company of Buffalo, who had resigned as a director of the Branch.

The directors also reappointed Walter W. Schneckenburger as Managing Director of the Buffalo Branch for the year 1929.

MEMBER OF FEDERAL ADVISORY COUNCIL

The directors at their meeting on January 3, 1929, selected William C. Potter, President of the Guaranty Trust Company of New York, as the member of the Federal Advisory Council from the Second Federal Reserve District for the year 1929 to succeed James S. Alexander, Chairman of the National Bank of Commerce in New York, whose term expired on December 31, 1928.

CHANGES IN OFFICERS AND STAFF

Benjamin Strong, Governor of the Federal Reserve Bank of New York since its creation in 1914, died on Tuesday, October 16, 1928. As a tribute to Governor Strong the directors adopted the following minute at their meeting on October 18, 1928:

> "Benjamin Strong was the first Governor of the Federal Reserve Bank of New York. He served from the time it opened for business on November sixteenth, nineteen hundred and fourteen, until the day of his death on October sixteenth, nineteen hundred and twenty-eight.
>
> "In normal times, it would have been a great accomplishment to have organized a central bank of issue in the City of New York, to have selected competent persons to do its work, to have provided adequate equipment and a beautiful building for its use, to have taught it to function as a cooperative unit in an untried Federal banking system, and to have established its good-will and service for the member banks in its own district.
>
> "But the times were not normal. After its organization, the new institution was immediately faced with national and international disturbances resulting from the great war. After our own declaration of war,

there were vast problems of financing, not only of our commerce and industry, but of our Government itself. After peace came the problems of deflation and readjustment, and after them the rehabilitation of the currencies of the world. In these activities, the Federal Reserve Bank of New York took an active and important part under the aggressive and inspiring leadership of Governor Strong.

"The good understanding of the central banks of the world and their good-will toward each other have resulted in effective cooperation and have yielded practical results. It is not too much to say that Benjamin Strong was the father of that movement and its guiding spirit. Not until the history of finance during the war and after, and the story of the reconstruction of the currencies of the world shall have been written can it be known what a significant part he played in this most important work.

"To have done so much would seem to have required inexhaustible strength. Yet during more than half of this time Governor Strong was fighting tuberculosis of the lungs. But his spirit was undaunted, his will undiminished, and his vision unimpaired. At home, he was thinking not more of finance than of the men and women who were in his bank. Their comfort and happiness and advancement were as much a matter of his solicitude as the greatest movements of industry and trade. Abroad, he was thinking of the problems of currency restoration, and of the kind of cooperation and help which his country and his bank should give, in its own interest and in the interest of the world, to sound programs of economic rehabilitation.

"A man of energy and courage, a man of resolute character and tenacity of purpose, a man of sympathy and understanding, a man of wide acquaintance and tender friendships, a man of cheerfulness, he went to his death unafraid, loved by his friends and respected by men everywhere.

"This minute is made by the Directors of the Federal Reserve Bank of New York, acting as a Board and by them individually, to record their appreciation of the achievements of Benjamin Strong and their sorrow at his death."

At a special meeting of the directors held on October 16, the following resolution was adopted:

"Resolved, that Gates W. McGarrah, the Chairman of the Board of Directors, be requested to undertake temporarily the duties of Governor of the bank and to that end he is designated Acting Governor."

On November 22, 1928, the directors appointed George L. Harrison as Governor of the bank to succeed Benjamin Strong. Mr. Harrison has been associated with the Federal Reserve System since its organization in 1914. He served first as Assistant General Counsel and later as General Counsel of the Federal Reserve Board. Since 1920 he has held the office of Deputy Governor of the Federal Reserve Bank of New York and in that capacity had charge at first of the cash and collection functions of the bank, and more recently of relations with foreign banks.

Other changes during the year were as follows:

L. Randolph Mason resigned as General Counsel of the bank effective June 30, 1928, to resume the private practice of law. Walter S. Logan was appointed General Counsel of the bank effective July 1, 1928, to succeed Mr. Mason.

Charles H. Coe, formerly Manager of the Loan and Discount Department, was appointed an Assistant Deputy Governor effective July 1, 1928. Jacques A. Mitchell, formerly Chief of the Credit Division, was appointed Manager of the Loan and Discount Department to succeed Mr. Coe.

On May 24, 1928, Harold V. Roelse was appointed Assistant Secretary of the bank in addition to his duties as Manager of the Reports Department.

DIRECTORS AND OFFICERS

January 1, 1929

DIRECTORS

Class	*Group*		*Term Expires Dec. 31*
A	1	CHARLES E. MITCHELL, New York City President, National City Bank of New York	1931
A	2	ROBERT H. TREMAN, Ithaca, N. Y President, The Tompkins County National Bank	1929
A	3	DELMER RUNKLE, Hoosick Falls, N. Y. Chairman, Peoples National Bank of Hoosick Falls, N. Y.	1930
B	1	WILLIAM H. WOODIN, New York City President, American Car & Foundry Company	1931
B	2	THEODORE F. WHITMARSH, New York President, Francis H. Leggett & Company	1929
B	3	SAMUEL W. REYBURN, New York City President, Lord & Taylor	1930
C		GATES W. MCGARRAH, New York City, *Chairman*	1931
C		OWEN D. YOUNG, New York City, *Deputy Chairman* Chairman, General Electric Company	1929
C		CLARENCE M. WOOLLEY, Greenwich, Conn. Chairman, American Radiator Company	1930

MEMBER OF FEDERAL ADVISORY COUNCIL

WILLIAM C. POTTER
President, Guaranty Trust Company of New York

FEDERAL RESERVE AGENT'S FUNCTION

GATES W. MCGARRAH, *Federal Reserve Agent*

W. RANDOLPH BURGESS, *Assistant Federal Reserve Agent*

HERBERT S. DOWNS, *Assistant Federal Reserve Agent and Manager, Bank Relations Department*

WILLIAM H. DILLISTIN, *Assistant Federal Reserve Agent*

CARL SNYDER, *General Statistician*

HAROLD V. ROELSE, *Manager, Reports Department and Assistant Secretary*

EDWARD L. DODGE, *General Auditor*

GENERAL OFFICERS

GEORGE L. HARRISON, *Governor*

J. HERBERT CASE, *Deputy Governor*

LOUIS F. SAILER, *Deputy Governor*

EDWIN R. KENZEL, *Deputy Governor*

LESLIE R. ROUNDS, *Deputy Governor*

ARTHUR W. GILBART, *Deputy Governor*

RAY M. GIDNEY
Assistant Deputy Governor

J. WILSON JONES
Assistant Deputy Governor

JAY E. CRANE
Assistant Deputy Governor and Secretary

WALTER B. MATTESON
Assistant Deputy Governor

CHARLES H. COE
Assistant Deputy Governor

WALTER S. LOGAN, *General Counsel*

JUNIOR OFFICERS

DUDLEY H. BARROWS
Manager, Administration Department

ROBERT F. MCMURRAY
Manager, Collection Department

ROBERT M. O'HARA
Manager, Bill Department

WILLIAM A. SCOTT
Manager, Foreign Department

EDWIN C. FRENCH
Manager, Cash Department

JACQUES A. MITCHELL
Manager, Loan and Discount Dept.

JAMES M. RICE
Manager, Accounting Department

STEPHEN S. VANSANT
Manager, Government Bond and Safe-keeping Department

I. WARD WATERS
Manager, Check Department

BUFFALO BRANCH

DIRECTORS

	Term Expires Dec. 31
FRED B. COOLEY President, New York Car Wheel Company, Buffalo	1929
EDWARD A. DUERR President, Community National Bank, Buffalo	1931
ARTHUR HOUGH, *Chairman* President, Wiard Plow Company, Batavia, N. Y.	1930
HARRY T. RAMSDELL Chairman, Manufacturers and Traders-Peoples Trust Company, Buffalo	1929
GEORGE F. RAND President, Marine Trust Company, Buffalo	1930
JOHN T. SYMES President, Niagara County National Bank & Trust Company of Lockport, N. Y.	1931
WALTER W. SCHNECKENBURGER, *Managing Director*	1929

OFFICERS

WALTER W. SCHNECKENBURGER
Manager Director

HALSEY W. SNOW, JR.
Cashier

R. B. WILTSE
Assistant Manager

CLIFFORD L. BLAKESLEE
Assistant Cashier