

Seventeenth Annual Report

# Federal Reserve Bank of New York

For the Year Ended December 31, 1931



Federal Reserve Agent  
Second Federal Reserve District

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**FEDERAL RESERVE BANK  
OF NEW YORK**

*New York, April 26, 1932*

SIRS:

I have the honor to submit herewith the seventeenth annual report of the Federal Reserve Bank of New York, covering the year 1931.

Respectfully yours,

**J. HERBERT CASE,**  
*Chairman and Federal Reserve Agent.*

**FEDERAL RESERVE BOARD,**  
*Washington, D. C.*

# Seventeenth Annual Report Federal Reserve Bank of New York

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## The Course of Depression in the United States

In the early months of 1931 there was, in the United States, encouraging evidence of recovery from the low levels of business activity which, in the autumn of 1930, had emphasized the severity of the present business depression. A greater than seasonal expansion in commerce and industry was recorded, security prices rose, bank failures diminished in number, and currency which had been withdrawn in unusual amounts during December 1930, began to return to the banks. There was, however, a continuance of the world-wide decline in commodity prices, which then had been in progress for nearly two and a half years, and a widening of the circle of financial difficulties at home and abroad which soon terminated the brief period of recovery. Domestic confidence, in the face of increasingly disturbing developments in other parts of the world, never attained a vigorous growth, and diminished greatly when a banking crisis in Austria during May 1931 gave substance to widely held fears concerning conditions in central Europe. In the following months, business was unable to hold its earlier gains, profits were progressively reduced or disappeared, unemployment increased, there were renewed declines in security prices, and finally there was a revival of banking difficulties and of currency hoarding which quickly became the dominant elements in the domestic situation.

The progress of the effects of depression through agriculture, industry, and transport, to banking was the most striking feature of the year's economic history. Financial conditions everywhere reflected the long continued and drastic decline in money values of all types of assets—commodities, real estate, securities—which had characterized the period since the autumn of 1929. The consequent severe reductions in business profits retarded payment of many bank loans already extended and made doubtful the prompt retirement of new loans which might be made. Foreign credits at short term often became, in effect, long term obligations. Declining security prices brought equivalent depreciation in the market value of bank investments. And a recognition of these facts almost inevitably awakened apprehension concerning the soundness of the banking position.

Such a diminution of confidence impairs the working of the whole credit system. In the modern business world the great bulk of transactions between governments, corporations, and individuals is

based on documents representing promises to pay given amounts of money on demand or after stated intervals. When security holders begin to doubt the ability of borrowers to pay the principal and interest due on their bonds, it becomes increasingly difficult, if not impossible, for such borrowers to obtain further credits and the money value of their outstanding obligations is partially destroyed. When depositors question the ability of banks to repay their deposits in cash on demand, they may demand cash in such volume as seriously to weaken the banking position, even to the extent of forcing the closing of many banks whose assets may be perfectly sound. And if the banks, in turn, lose confidence in the stability of their depositors, they give primary attention to liquidity rather than to the credit needs of the business community. Under these circumstances the normal functioning of the credit mechanism becomes impossible, and the prevailing lack of confidence may assume aggravated forms. These tendencies were well illustrated by the events of the latter half of the year 1931.

Both the public and the banks adopted or had forced upon them a course of action which, whatever its merits when pursued by a small number of individuals or banks, is likely to benefit no one when pursued by many individuals and many banks. The fears of the public found expression in currency hoarding. Beginning in August 1931, there was a rapid increase in the reported figures of the amount of currency in circulation, a large part of which bore little or no relation to the course of business and prices during this period. Toward the close of the year the volume of currency outstanding was larger than at any time since the autumn of 1920, and while it is not possible to state exactly how much of the increase in this total represented hoarding by the public and how much represented a growth in public requirements due to the closing of many banks, it is clear that a large amount of currency was temporarily being withheld from useful circulation.

Such a development works a threefold harm. It deprives the owners of the currency of any return upon their funds. It diminishes the ability of the banks to meet the credit needs of the communities which they serve and, in some instances, it forces the closing of banks which otherwise would remain open. It locks up unnecessarily a certain part of the gold reserves of the Federal Reserve System wherein resides the country's ultimate credit supply.

The added strain placed upon the individual banks of the country by deposit withdrawals growing out of currency hoarding is reflected in the year's record of bank failures. The total number of banks

closed in the United States during 1931 was 2,298 (although 276 closed banks reopened), a failure record surpassing even the figures of the previous year. The following table shows the figures of bank closings in this country during the past 11 years.

BANK FAILURES IN RELATION TO BANKS IN OPERATION  
(Suspensions less banks reopened during each year)

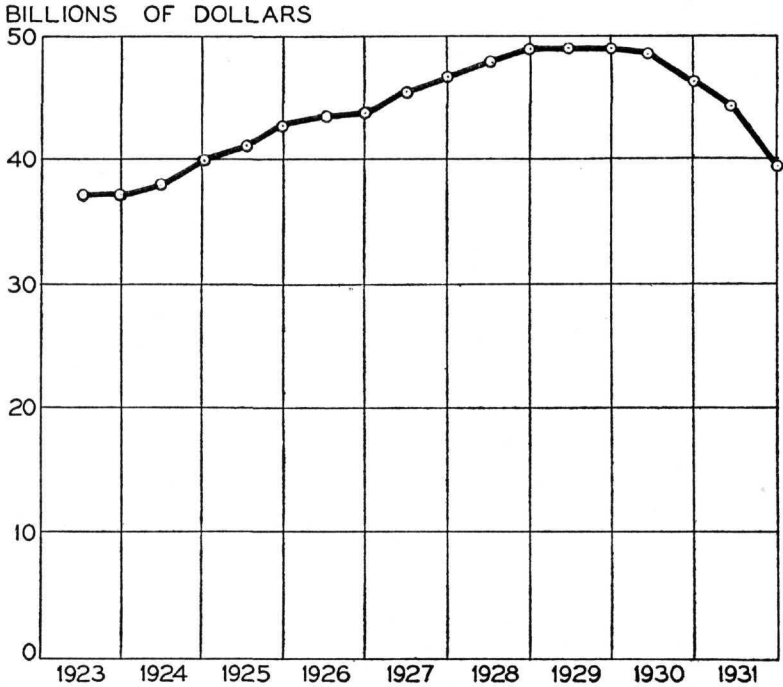
Year	Number of Banks				Per cent Relationship of Failed Banks to Banks in Operation			
	Member Banks		Nonmember Banks		Number		Total Deposits	
	In Op-eration*	Fail-ing†	In Op-eration*	Fail-ing†	Member	Non-member	Member	Non-member
1921	9,745	60	21,067	381	0.62	1.81	0.17	0.91
1922	9,892	33	20,497	256	0.33	1.25	0.05	0.40
1923	9,856	110	20,322	501	1.11	2.47	0.17	0.76
1924	9,650	139	19,698	543	1.44	2.76	0.23	0.68
1925	9,538	132	19,303	418	1.38	2.17	0.19	0.49
1926	9,375	146	18,771	661	1.56	3.52	0.18	0.75
1927	9,099	113	17,962	454	1.24	2.53	0.16	0.47
1928	8,929	68	17,284	384	0.76	2.22	0.10	0.39
1929	8,707	76	16,623	508	0.87	3.06	0.15	0.70
1930	8,315	180	15,764	1,018	2.16	6.46	0.99	1.96
1931	7,782	486	14,289	1,536	6.25	10.75	1.87	4.14
Average	9,172	140	18,325	605	1.53	3.30	0.42	1.09

\*At middle of year. †For calendar year.

The general banking reaction to the prevailing situation was the conscious or unconscious adoption of credit standards which tended to restrict the amount of credit in use. There were indications at the beginning of the year that, before new loans or investments were made, credit risks were being considered more critically than had been the case for some years past. This was perhaps natural and inevitable in view of the general state of business enterprise. As the year progressed, however, this tendency became more pronounced, and, while rates for preferred credit risks declined during the summer to the lowest levels in many years, to an increasing number of borrowers credit became difficult to obtain at any price.

From the peak of credit expansion in 1929 to the end of 1931 there was a reduction of approximately \$8,750,000,000 in the loans and investments of all banks of this country (no allowance is made for the elimination of figures of closed banks) and, in addition, an almost complete elimination of stock exchange loans made for other than bank account which, at one time in 1929, amounted to about

\$5,400,000,000. The decline in the amount of bank credit in use during 1930 and the early part of 1931 had been at the rate of approximately 4 per cent per annum. During the last three months of 1931, however, this liquidation proceeded at a rate which approached 25 per cent per annum.



Loans and Investments of All Banks in the United States, exclusive of Mutual Savings Banks, as of the end of June and December of each year

Just prior to and during the period when this accelerated reduction in the volume of bank credit was taking place, an unusually large number of member banks found it necessary to borrow at the Reserve Banks, and the aggregate amount of their borrowings rose to the highest levels since the autumn of 1929. This Federal Reserve credit was called into use primarily because of currency hoarding and the export of gold. Increased borrowing at the Federal Reserve Banks was not the result of a growing commercial demand for funds; on the contrary, the existence of the debt brought with it attempts at its retirement by means of calling loans and selling securities in a market in which there was no compensating investment demand.

During most of the year the large New York City banks were in a comparatively easy position, and during the first nine months of

the year funds received through gold imports not only enabled them largely to keep free of debt at the Reserve Bank but, during much of the period, gave them moderate amounts of excess reserves. Their loans showed a reduction during this period which, in the case of security loans, was substantial, but their investments in United States Government securities and in acceptances were considerably increased, so that the total of loans and investments showed only a gradual decline. The sudden outflow of \$725,000,000 in gold, which followed the suspension of gold payments by Great Britain in late September, quickly eliminated the existing excess reserves of the New York banks, and they were forced to sell a large volume of acceptances to the Federal Reserve Bank of New York and materially to increase their discounts. They then began to reduce their security holdings and by this means, and as a result of an inflow of funds from other parts of the country and some import of gold, they were able to repay their indebtedness at the Reserve Bank. Reduction in their loans and investments, however, with corresponding declines in their deposits, proceeded at a rapid rate until the end of the year.

The year 1931 closed with the volume of bank credit and bank deposits in the United States shrinking at a more rapid rate than in any other recent year, with the large banks in an unusually liquid condition and disinclined to extend credits which might diminish that liquidity, and with smaller banks in most parts of the country unable to extend their usual lines of credit because of deposit losses and the cumulative effect of severe business depression upon their own operations and those of their customers.

### **The World Crisis of Confidence**

For a better understanding of the course of the depression in the United States during 1931, it is desirable to summarize certain of the year's developments abroad. On the whole the record is one of progressive decline in confidence and of an attendant increase in the obstacles to the normal functioning of the international credit system.

Economic relationships between nations are primarily reflected in movements of goods, exchange of services, the flow of international investments at long and short term, and movements of gold. Under more nearly normal conditions than have prevailed since the war the bulk of the permanent burden of preserving the necessary economic adjustment between countries has fallen upon transactions involving goods, services, and long term capital, leaving as temporary balanc-

ing factors the movement of relatively small amounts of short term funds and of gold. During the past decade, however, there has been increasing pressure upon these balancing items, not only to perform their normal function of making prompt but temporary compensation for excesses or deficits created by varying movements of goods, services, and long term capital, but also to substitute for these items more or less continuously in correcting recurring maladjustments in the international balance of payments. This has resulted in the building up of large foreign short term balances in various markets which, combined with a growing tendency toward wide fluctuations in international security holdings, have been a constant threat to exchange stability.

The impermanence of this situation was intensified by the distortion of the international debt position which was one of the more serious results of the decline in commodity prices. There was a rapid increase in the volume of international indebtedness during the war and post war years, and the amount of such debts reached a larger total than ever before. So long as business continued good, prices steady, and new loans easy to obtain, service on the accumulating debt was effected, and the large revolving supply of short term funds in the international money market was maintained. With the decline in world trade accompanied as it was by rapidly falling commodity prices, however, these money debts became proportionately more burdensome and, coincidentally, as the security of loans already made became less certain, the supply of new foreign long term loans practically ceased. Temporarily, a semblance of balance was preserved by international sales of securities and by further movements of short term funds and of gold, but it gradually became clear that, for a time at least, there might have to be a cessation of service payments upon a substantial amount of long term foreign debts and a freezing of a considerable volume of foreign short term loans.

The crisis which developed reached the acute stage in May 1931, when it became generally known that the largest bank in Austria, and one of the most important banking institutions in central Europe, was in serious difficulty. In supporting this situation, and in meeting the foreign demand for repayment of funds which grew out of it, the National Bank of Austria weakened its own position and soon found it necessary to ask, through the Bank for International Settlements, for the assistance of banks of issue in other countries. The importance of this request transcended the economic crisis in Austria; it represented rather overt evidence of an international crisis. Not only was there the threat of loss on investments in



Austria; there was also the almost inevitable effect which a collapse in Austria would be bound to have upon weak positions in other European countries, and through them upon the whole system of world trade and finance. On May 30, 1931, a credit of approximately \$14,070,000 was granted by the Bank for International Settlements and the banks of issue of eleven countries in favor of the National Bank of Austria.

Notwithstanding the efforts made to meet the situation in Austria, the credit crisis soon spread to Hungary and Germany, bringing the larger part of central Europe into the affected area and endangering the financial existence of one of the leading commercial and industrial countries of the world. The chief vulnerability of the German position was found in the large volume of foreign short term funds which that country, over a period of years, had come to use as working capital. Some of these credits had been quietly withdrawn in the months preceding the summer of 1931 and capital had been fleeing the country, in some measure, since the autumn of 1930. In early June 1931, this movement was accelerated so that in the three weeks ended June 23, 1931, the Reichsbank lost over \$250,000,000 of its gold and foreign exchange reserves or about 42 per cent of the total.

The announcement, on June 20, 1931, of the Hoover moratorium year on certain international government debts resulted in a temporary cessation of the outward flow of funds from Germany. The position of the Reichsbank had been so weakened by the previous large losses of gold and foreign exchange, however, that it was deemed necessary for it temporarily to seek the aid of foreign banks in order that it might meet the ordinary demands of the mid-year settlement period. On June 26, 1931, approximately \$100,000,000 was made available to the Reichsbank for a period of twenty days, the funds being supplied in equal shares and on substantially the same terms by the Bank for International Settlements, the Bank of England, the Bank of France, and the Federal Reserve Bank of New York acting for all of the Federal Reserve Banks. Neither the debt moratorium nor these credits served to maintain confidence in the German position. The movement of funds out of the country was soon resumed, with the result that not only did the Reichsbank credits have to be renewed, but negotiations had to be entered into for the voluntary freezing of practically all foreign short term credits in Germany.

The immobilizing of a large volume of foreign short term funds in Germany imparted new uncertainties to the movement of such



funds from market to market, both because international lenders were obliged, in some measure, to recall their funds in order to fortify their positions at home, and because confidence in the prompt availability of funds held abroad was severely disturbed. In particular, fears were raised concerning balances held in London, partly in view of the large amount of these balances, but also because it was known that a substantial volume of British funds would be affected by the credit collapse in central Europe. In these circumstances, and despite the absence of domestic banking difficulties, there was a run on the London money market. In the latter half of July 1931, the Bank of England lost \$160,000,000 in gold, which lowered its gold reserves from \$810,000,000 to \$650,000,000, and caused it to seek and, on August 1, to obtain a three months credit of \$125,000,000 from the Bank of France and similar aid from the Federal Reserve Bank of New York, acting for all of the Federal Reserve Banks. The progressive use of these credits failing, however, to restore strength to sterling exchange, the British Government on August 28 obtained credits abroad aggregating \$400,000,000, one-half from a syndicate of American bankers and one-half in the Paris market.

Maintenance of the gold standard by Great Britain was an important factor in the economic life of both France and the United States and, in fact, of the world as a whole. So many of the world's banking and currency systems have been based partly on reserves held in sterling, so many countries are, in a measure, dependent for their welfare upon the sale of their goods in the British market, so large a part of the world's trade has been financed by the use of the sterling bill, and so many international staples find their most important center of trade and quotation in Great Britain, that the suspension of gold payments by that country was bound to have the widest repercussions. Large as they were, these special credits failed to save the situation. With confidence gravely impaired and funds seeking safety above all else, the drain of funds from Great Britain continued in such volume that on September 20, 1931, the British Government found it necessary to announce that it had relieved the Bank of England of its obligation to sell gold at the statutory price, as from September 21, 1931.

The final manifestation of the international crisis of confidence was the so-called "run on the dollar" which followed upon the suspension of gold payments by Great Britain. The central banks of several countries found it advisable to strengthen their own domestic position by withdrawing, in gold, a considerable part of their funds which had previously been placed on deposit or invested in the United States. Dollar exchange declined below the gold export point

vis-a-vis the exchanges of Belgium, France, Holland, and Switzerland, and gold moved to these countries on commercial account. There even arose a demand for United States gold coin, in relatively small amounts, reflecting the hoarding proclivities of nationals of those countries where gold coin is not obtainable and where the paper currencies have been revalued in recent years at levels which involved a loss of a large part of their previous gold value.

The result of all of these movements was the most rapid outflow of gold ever experienced by this country and probably by any country. In slightly more than a month approximately \$725,000,000 of gold was purchased here and earmarked for foreign account or exported. So large were the banking resources of the United States, however, that these heavy withdrawals of foreign funds were met readily, and this country emerged with its indebtedness to foreign holders of dollars at short term greatly reduced and with its gold reserves still far in excess of current requirements. After this demonstration of the strength of the gold position of the United States, the withdrawal of foreign funds practically ceased; in fact, in November 1931, the gold inflow of earlier months was resumed so that the net reduction for the year in the monetary gold stock of the country was only \$133,000,000.

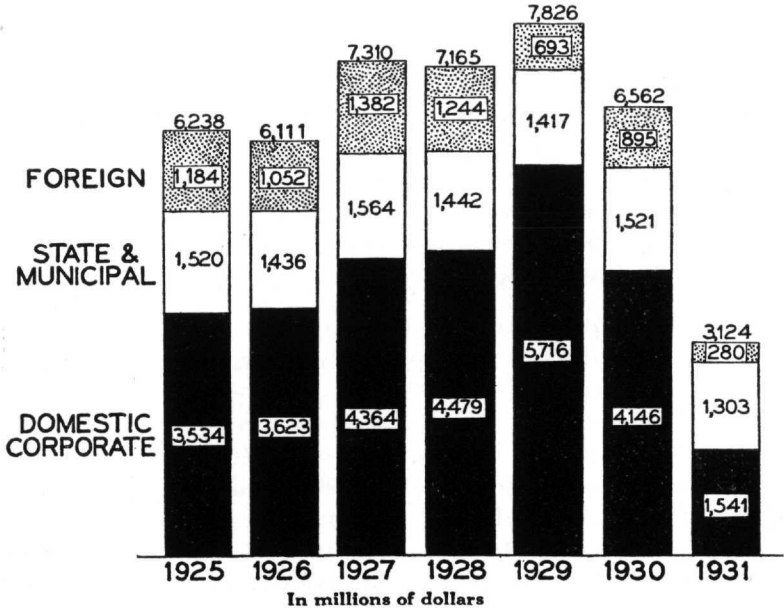
The course of the credit crisis in other countries need not be rehearsed in detail. Briefly, only a few countries were able to remain on the full and unrestricted gold standard. Taking different forms in various countries, the situation was characterized by suspension of gold convertibility of the currency, embargoes on gold exports, restrictions upon free trading in foreign exchange, non-withdrawal agreements in respect of foreign credits, national support and control of commercial banking enterprises, and in general by measures pointing to a feeling of uncertainty concerning the immediate future.

Nor do the consequences of this situation require detailed exposition here. Credit has been partially destroyed and funds have sought only the most liquid investment or have lain idle for want of responsible borrowers, or because lenders were unwilling to lend. Purchasing power in the international markets has been severely curtailed, the industrial countries have ceased buying their usual quantities of raw materials and foodstuffs, and the raw material producing countries have been unable to satisfy any but their most necessary requirements for manufactured products. There has been a widespread breakdown of the international exchange of goods and services.

## New Financing Through the Security Markets

Notwithstanding the difficulty which had attended the flotation of new securities in the latter part of 1930, chiefly because of declining prices of stocks and the lower grade bonds, conditions precedent to the domestic financing of new projects and to refunding operations were moderately favorable during the early months of 1931. Short term money rates were unusually low and there appeared to be substantial amounts of funds available for long term investment. Consequently, the volume of domestic bond issues, while considerably smaller than in the corresponding period of preceding years, attained substantial proportions between January and April. States and municipalities, public utilities, and a few railroads were able to obtain fairly large amounts of new capital during this period. As many workmen were without employment, and prices of materials were lower than in some years, a number of large construction projects were initiated or carried forward with funds thus obtained.

During the remainder of the year, however, conditions adverse to the flotation of new securities multiplied. The renewed decline in industrial activity and in trade, and the continued downward movement of commodity prices, were accompanied by a further severe



New Security Flotations during 1931 Compared with the Volume in Six Previous Years

(Commercial and Financial Chronicle figures for domestic issues, and Federal Reserve Bank of New York figures for foreign flotations; Investment Trust and United States Government securities are excluded)

shrinkage in business profits, and the dividends of industrial and mercantile corporations were progressively reduced. The volume of railroad traffic diminished and railroad earnings fell so low that the ability of many railroad securities to meet existing requirements for the legal investment of savings bank, life insurance, and trust funds became doubtful. Many banks, actuated by the necessity or the desire for increased liquidity, reduced their investment portfolios, and securities offered for sale on account of closed banks pressed upon the market. As a result of these developments, the prices of stocks and of lower grade bonds declined to successive new low levels, and the flotation of any but the highest grade securities was virtually suspended. The borrowers who most needed new capital were unable to obtain it, at least in the security markets.

In the late months of 1931 the stoppage of the flow of new capital was made practically complete when the credit of many municipalities came into question, due chiefly to budgetary difficulties, and when a rise in short term money rates and the threat of a large Treasury deficit caused the prices of even the highest grade bonds to decline abruptly and substantially. Consequently, those undertakings requiring new long term financing came almost to a standstill in the latter part of the year.

During the whole of the year 1931 new foreign bond issues were practically without a market in this country.

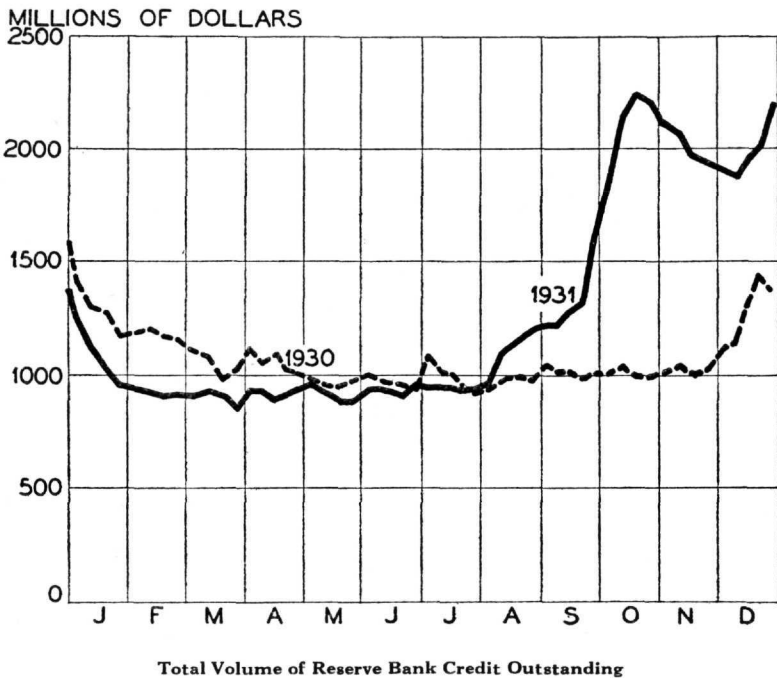
### Credit Policy

Throughout the past two years the open market and discount rate policy of the Federal Reserve Bank of New York has been directed to the end that, so far as lay within its power, there should be no lack of available credit at reasonable cost to encourage business recovery. The continued shrinkage in business volume and in employment and the continued decline in commodity prices during 1931 indicated the need for maintenance of such a policy.

Pursuant to this policy, the discount rate of the Federal Reserve Bank of New York, which had been 6 per cent at the close of October 1929, and which was reduced to 2 per cent by the end of 1930, was further reduced to 1½ per cent, effective May 8, 1931. This was the lowest discount rate ever fixed by a Federal Reserve Bank. Buying rates for bills at the Federal Reserve Bank of New York were kept close to open market rates, so that banks and bill dealers could readily obtain funds through the sale of bills to the Reserve Bank. In cooperation with other Federal Reserve Banks, the Federal

Reserve Bank of New York participated in the purchase of \$80,000,-000 of United States Government securities during June and July, and an additional \$50,000,000 in August 1931. Gold movements also operated toward ease in the money market, as there was an almost uninterrupted inflow of the metal until the latter part of September 1931. Consequently, the commercial banks, in general, were under no particular pressure of indebtedness at the Reserve Bank for almost nine months of the year and, in July, total borrowings of member banks in this district declined to the lowest level since 1917.

During October the situation changed abruptly. The suspension of the gold standard in Great Britain was followed, not only by a huge foreign demand for gold held in this country as noted above, but also by an accelerated movement of currency into hoarding and some withdrawal of funds from New York by banks in other parts of the country. All three of these factors converged on the member banks of New York and, through them, upon the Federal Reserve Bank of New York which met the demands made upon it without restriction of any kind. In view of the changed situation, however, the discount rate of the Federal Reserve Bank of New York was increased to 2½ per cent effective October 9 and 3½ per cent effective October 16, 1931. These advances were accompanied by roughly corresponding



advances in the Reserve Bank's buying rates for bills, but this latter action was not taken until after member banks had sold to the Reserve Bank a large volume of bills which they had acquired when the lower rates were in effect; on two occasions, on September 24 and again on October 9, the Federal Reserve Bank of New York bought for its own account and for other Reserve Banks more than \$100,000,000 of bills in a single day.

The combined effect of the extraordinary foreign demand for gold during this brief period and the equally unusual domestic demand for currency was reflected in a large increase in the demand for Reserve Bank credit, the total of which reached the highest level since 1921. The volume of this increased demand and the forms in which Federal Reserve credit was supplied are shown in the following table.

	Change Between Week Ended Sept. 19 and Week Ended Oct. 31, 1931
<i>Factors Increasing Demand for Reserve Bank Credit</i>	
Decrease in monetary gold stock.....	(millions of dollars) 725
Increase in money in circulation.....	404
Total.....	1,129
<i>Factors Decreasing Demand for Reserve Bank Credit</i>	
Decrease in member bank reserve balances.....	169
All other.....	13
Total.....	182
Net Increase in Demand for Reserve Bank Credit.....	947
<i>Changes in Reserve Bank Credit Outstanding</i>	
Increase in bills bought.....	514
Increase in bills discounted.....	444
Decrease in other forms of Reserve Bank credit.....	11
Net Increase in Reserve Bank Credit Outstanding	947

The outward flow of gold, which took approximately \$725,000,000 from the monetary gold stock of the United States between September 19 and October 31, 1931, subsided as quickly as it had arisen and was followed by a renewed inflow of gold into this country and by renewed strength in dollar exchange. The effect of this latter gold movement upon the money market was partly offset by a decrease, through maturities, of Reserve Bank holdings of bills, but there was, nevertheless, a moderate decline in open market rates for money during November 1931.



By the middle of December, prior to the peak of the Christmas holiday and year-end demand for currency and credit, member banks in New York City were again practically out of debt to the Reserve Bank, but member banks outside New York City were still indebted in larger amounts than at any time since 1929. To avoid the development of a credit stringency during this period, so far as was possible under these circumstances, \$42,000,000 of United States Government securities were purchased by the Federal Reserve Banks in the New York market, and the buying rate for acceptances offered under repurchase agreement to the Federal Reserve Bank of New York was reduced to the level of the market offering rate for unendorsed bills, so that funds were readily obtainable by the banks through temporary sales of bills to the Reserve Bank. Discounts by Federal Reserve Banks for all member banks increased by approximately \$150,000,000 during December, a not unusual development.

The credit policy of the Federal Reserve Bank of New York during the year 1931 kept funds freely available to its member banks at rates which were never above  $3\frac{1}{2}$  per cent and which, during most of the year, were under that figure. That, despite this liberal program, a severe contraction of bank credit should have taken place, bears witness to the inferior ability of a low rate schedule to bring credit into use when confidence is lacking.

## The Reconstruction Program

In the closing months of 1931 several measures of an extraordinary nature were formulated to prevent further impairment of the country's credit facilities. All of these measures recognized that no substantial and widespread improvement of business could be anticipated unless such action were taken and there was once more a free flow of capital and credit into productive enterprise. The principal elements in the national program which gradually evolved from a realization of this situation were the following:

The organization of the National Credit Corporation for the purpose of mobilizing banking assistance in behalf of banks which had temporarily exhausted their liquid assets.

The creation of the Reconstruction Finance Corporation to supplement and extend the work of the National Credit Corporation, and to bring public credit to the support of private financial enterprises and of the railroads.

An enlargement of the rediscount facilities of the Federal Reserve Banks, to permit of their extending a maximum amount of assistance to their member banks.

An increase in the capital of Federal Land Banks in order to improve the long term credit facilities available to agriculture.

The creation of a system of home loan discount banks to make mortgage funds more freely available, to encourage home ownership, and thus to stimulate the building industry.

The improvement of existing methods of liquidating the assets of closed banks, to the end that depositors might receive a more prompt distribution of whatever funds are available to satisfy their claims.

Financial assistance for the railroads and sympathetic treatment of requests for increased freight rates, in recognition of the fact that railroad securities are quite largely held by banks, insurance companies, and trust funds.

Economy in Government expenditure and increased taxation so that the Federal budget might again be brought into balance.

Most of these projects required Congressional action and, therefore, had to await consideration and legislation by Congress which did not convene until the first week of December. Meanwhile, however, the establishment of the National Credit Corporation by the banks of the country, late in October, helped to restore public confidence in the banking situation and thus to check currency hoarding and bank failures. The number of bank suspensions, after rising to the record total of 522 in October, declined to 175 in November, and the amount of currency outstanding showed less than the usual seasonal increase during the latter month. The figures for December were less satisfactory than those for November, but still represented an improvement as compared with the October record.

As soon as it convened in December, Congress proceeded to hasten the establishment of the Reconstruction Finance Corporation. The Government planned to endow this organization with broad powers and to finance it with capital supplied by the Treasury. By contrast with the National Credit Corporation, which derived all of its funds from its constituent banks, the Reconstruction Finance Corporation, using Government funds, would be able to extend aid to financial institutions without, of necessity, diminishing the liquid assets of the banking system. In effect the public, through its Government, was preparing to extend to the financial institutions of the country the confidence and support which the people individually had partially withdrawn from them.

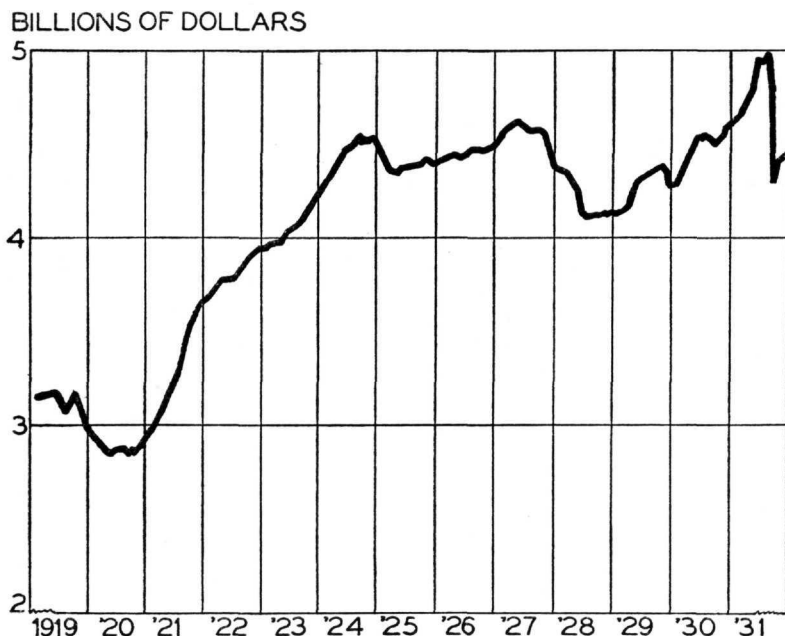


## Gold Movements

The most striking of the year's gold movements, as they affected the United States, have been commented upon in the previous text, and only a brief summary of the statistical record will be presented here. There are four periods to be considered, the year as a whole, the eight and a half months preceding the British suspension of the gold standard on September 21, the period of slightly more than a month from September 21 to October 30, during which the heavy outward movement of gold from the United States took place, and the final two months of the year.

The United States monetary gold stock increased from \$4,593,000,000 at the end of the year 1930 to the highest figure of record, \$5,015,000,000, on September 16, 1931. During these eight and one-half months, imports of gold from Argentina, Canada, China, Colombia, France, Germany, Japan, and Mexico were particularly large and were supplemented by heavy releases from gold earmarked at this bank for foreign account. In the main, this gold movement represented the continuing attempt of debtor countries to redress their unfavorable balances of payments by shipments of gold.

Following the suspension of gold payments by Great Britain on September 21, 1931, there was an efflux of gold from this country



The Monetary Gold Stock of the United States

which, in the six weeks ended October 30, brought the monetary gold stock down to \$4,268,000,000, a figure which approximated that of December 1929. The loss of gold during this period may be said to have taken two forms. First, a number of foreign central banks used their dollar balances to buy gold in this market, in order to strengthen their reserve positions, and left a larger part of their purchases under earmark at this bank; thus there was a net increase in gold held at the Federal Reserve Bank of New York under earmark for foreign account from \$78,737,000 on September 16 to \$490,738,000 on October 30, 1931. Second, in addition to the gold repatriated by foreign central banks, there was a loss through export on commercial account which reflected chiefly withdrawals of funds from New York by other European holders of dollar balances, as a result of which certain of the leading European exchanges rose to levels at which gold exports were profitable on an arbitrage basis. Gross figures for this period show that the bulk of the gold lost to the United States went to Belgium (\$141,000,000), France (\$422,000,000), the Netherlands (\$87,000,000), and Switzerland (\$92,000,000).

By the end of October the outflow of gold had subsided, movements during November were small in amount, and a resumption of foreign withdrawals of gold during December attained only moderate proportions. Imports of gold, chiefly from the Far East, Canada, and Latin America, which continued throughout the year, caused a net inward movement during November and December, and the monetary gold stock of the country increased from \$4,268,000,000 to \$4,460,000,000 during these two months.

For the year as a whole, there was a net reduction in the monetary gold stock of the United States amounting to \$133,000,000. Both actually and relatively, this country's proportion of the total monetary gold holdings of the world was reduced during the year, and all of the gold which was sent to this country, plus a part of the stocks previously held, in effect, was re-exported, chiefly to Belgium, France, the Netherlands, and Switzerland.

There is submitted on page 22 a table showing, by countries, principal exports and imports of gold from and into the United States during 1931. Subtracting the net gain of \$145,300,000, shown in the table, from the increase of \$320,800,000 in gold held here under earmark for foreign account during 1931, and omitting figures of domestically produced gold retained in the United States, there results a net loss of \$175,500,000 on foreign account as an outcome of the year's gold movements.

## GOLD MOVEMENT TO AND FROM THE UNITED STATES DURING 1931

(Changes in the gold stock through earmarking transactions not included)

Imports from	Exports to
Japan.....	France.....
Argentina.....	Holland.....
Canada.....	Switzerland.....
Germany.....	Belgium.....
China and Hongkong.....	Italy.....
Mexico.....	Mexico.....
France.....	Turkey.....
Colombia.....	Portugal.....
India.....	All Other.....
Peru.....	
England.....	
Uruguay.....	
Cuba.....	
Sweden.....	
Australia.....	
All Other.....	
<b>TOTAL.....</b>	<b>TOTAL.....</b>

### Foreign Relations

During 1931 the Federal Reserve Bank of New York, on behalf of itself and the other Federal Reserve Banks, maintained relations with thirty foreign banks of issue and with the Bank for International Settlements. Included in this number are the new accounts which were opened during the year, with the approval of the Federal Reserve Board, for the banks of issue in Chile, Danzig, Lithuania, Peru, Portugal, and Uruguay. As in the past, the opening of these accounts resulted from steps initially taken by the foreign banks involved.

The Federal Reserve Bank of New York, acting in behalf of all of the Federal Reserve Banks, also extended special credit facilities to a number of foreign banks of issue during the year 1931. Without exception this assistance took the form of an agreement to purchase prime commercial bills endorsed or guaranteed by the respective foreign banks of issue, and all such agreements provided for ultimate repayment in gold, if necessary.

The first of these agreements was concluded, with the Bank for International Settlements acting for itself and as intermediary for eleven other banks of issue, in favor of the National Bank of Austria, on May 30, 1931. It amounted to approximately \$14,070,000, matured on August 30, 1931, and the commitment of the twelve Federal

Reserve Banks aggregated approximately \$1,083,000, the balance being taken by ten European banks of issue and the Bank for International Settlements. This agreement was renewed on August 30 to a maturity date of October 16, and during the period of this renewal about 10 per cent of the outstanding amount was repaid by the borrower, the commitment of the Federal Reserve Banks thus being reduced to approximately \$975,000. The agreement was again renewed on October 16 to a maturity date of January 16, 1932.

Under the terms of an agreement dated June 18, 1931, with the Bank for International Settlements again acting as intermediary, credit facilities for the approximate equivalent of \$10,000,000, to mature on September 18, 1931, were arranged in favor of the National Bank of Hungary by the Federal Reserve Banks, nine European banks of issue, and the Bank for International Settlements, the commitment of the Reserve Banks approximating \$2,000,000. A second credit to the National Bank of Hungary was granted by the Bank for International Settlements and the banks of issue of five countries on July 8, 1931, the amount thereof being \$11,000,000, and the commitment of the Federal Reserve Banks, \$3,000,000. It was arranged that funds obtained under this agreement would be repayable in seventy-two days so that funds advanced under both agreements would mature simultaneously on September 18, 1931. On the latter date 20 per cent of these funds were repaid and the remainder renewed, in the total amount of \$16,800,000, to mature December 18, 1931, at which time there was a further renewal of approximately the same amount for one month to January 18, 1932. The outstanding commitment of all of the Federal Reserve Banks under these agreements at the close of the year was \$4,000,000.

Effective June 26, for a period of twenty days to July 16, 1931, the Bank for International Settlements, the Bank of England, the Bank of France, and the Federal Reserve Bank of New York placed approximately \$100,000,000 at the disposal of the German Reichsbank. This agreement, including the participation of the Federal Reserve Banks which was effected through the purchase of approximately \$25,000,000 of reichsmark acceptances, was renewed from July 16 to August 6 and again to November 4, 1931, when it was extended to mature on February 4, 1932.

The Federal Reserve Bank of New York and other Federal Reserve Banks joined in an agreement to purchase up to the equivalent of \$125,000,000 of prime sterling bills from the Bank of England for a period of three months from August 1, 1931. When this agreement matured on October 31, drawings thereunder were fully repaid by

the Bank of England and the agreement was renewed in the reduced amount of \$75,000,000 to mature on January 31, 1932. When this agreement was originally consummated, the Bank of England received from the Bank of France a credit in like amount and for a like period, which credit also was renewed in the reduced amount of \$75,000,000 to January 31, 1932.

The Federal Reserve Bank of New York, acting in behalf of all of the Federal Reserve Banks, has for several years past maintained nominal balances with the Bank of England in London and with the Bank of France in Paris. Last year there was added to these two foreign accounts a temporary sight deposit with the Bank for International Settlements at Basle.

On November 20, 1931, the President of the Bank for International Settlements requested the Governor of the Federal Reserve Bank of New York to nominate an American member of the Special Advisory Committee which was convened at Basle on December 7, 1931, under the terms of the New Plan, known generally as the Young Plan, to make an investigation of Germany's position in regard to her obligations under that plan. The Governor of the Federal Reserve Bank of New York nominated as the American member of this committee Mr. Walter W. Stewart, Chairman of the Board of Directors of Messrs. Case, Pomeroy and Company, Inc., New York.

Upon invitation from the Banco Central de Bolivia, the Federal Reserve Bank of New York sent representatives to a conference of the five central banks of the West Coast countries of South America which was held at the Banco Central de Reserva del Peru, in Lima, Peru, from December 2 to 12, 1931. The Federal Reserve representatives were Professor Edwin W. Kemmerer of Princeton University, Mr. Allan Sproul, Assistant Deputy Governor of the Federal Reserve Bank of New York, and Mr. Eric F. Lamb of the Foreign Department of this bank.

## Membership Changes in 1931

In 1931, membership of the Federal Reserve System in this district decreased more than in any previous year because of a large number of mergers, consolidations, and suspensions. State bank and Trust company admissions to membership exceeded withdrawals from membership, but the loss due to mergers, consolidations, and suspensions more than offset this gain. While the reduction in the actual number of member banks exceeded the reduction in non-member banks, the proportionate reduction in member banks was considerably less. During the year over 9 per cent of the nonmember banks suspended operations, as compared with less than 5 per cent of the member banks.

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

TYPE OF BANK	DECEMBER 31, 1931			DECEMBER 31, 1930		
	Members*	Non-Members	Per Cent Members	Members*	Non-Members	Per Cent Members
National Banks . . . . .	699	0	100	759	0	100
State Banks** . . . . .	37	166	18	39	194	17
Trust Companies . . . . .	105	174	38	116	201	37
<b>Total</b> . . . . .	<b>841</b>	<b>340</b>	<b>71</b>	<b>914</b>	<b>395</b>	<b>70</b>

\*In actual operation at end of year.

\*\*Exclusive of savings banks.

### CHANGES IN FEDERAL RESERVE MEMBERSHIP IN SECOND DISTRICT DURING 1931

Total membership beginning of year . . . . .	914
Increases:†	
National banks organized . . . . .	2
Admission of State banks and Trust companies . . . . .	8
<b>Total increases</b> . . . . .	<b>10</b>
Decreases:	
Member banks combined with other members . . . . .	32
Members absorbed by nonmembers . . . . .	4
Withdrawals . . . . .	3
Insolvencies . . . . .	44
<b>Total decreases</b> . . . . .	<b>83</b>
<b>Net decrease</b> . . . . .	<b>73</b>
<b>Total membership end of year</b> . . . . .	<b>841</b>

†In addition to figures shown in this table, 11 nonmember banks were absorbed by members during the year.

## Operating Statistics

As complete statistics of the operations of each Reserve Bank are published in the annual report of the Federal Reserve Board, detailed figures of the operation of this bank are omitted from this report with the exception of the following statement of condition, the statement of income and disbursements, and a table showing the volume of operations in the principal departments, including the Buffalo Branch.

### STATEMENT OF CONDITION

RESOURCES	Dec. 31, 1931	Dec. 31, 1930
<b>CASH RESERVES</b> 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 .....	\$450,336,457.22	\$420,729,395.98
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 .....	11,542,824.20	14,032,365.61
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 .....	81,379,878.67	135,357,795.77
Gold and gold certificates in vault .....	300,478,183.81	437,002,717.26
Legal tender notes, silver, and silver certificates in the vaults of the bank (available as reserve only against deposits) .....	37,739,315.00	39,878,345.00
Total cash reserves .....	\$881,476,658.90	\$1,047,000,619.62
Non-reserve cash consisting largely of National bank notes, and minor coin .....	\$19,234,621.23	\$22,285,136.09
<b>LOANS AND INVESTMENTS:</b>		
Loans to member banks:		
On the security of obligations of the United States .....	\$112,476,320.00	\$24,441,400.00
On the security of, or by the discount of, commercial or agricultural paper or acceptances .....	37,474,318.93	37,456,625.51
Acceptances bought in the open market .....	163,392,844.14	158,273,425.84
United States Government bonds, notes, bills, and certificates of indebtedness .....	309,355,850.00	283,331,150.00
Other securities .....	14,315,212.50	2,850,000.00
Total loans and investments .....	\$637,014,545.57	\$506,352,601.35
<b>MISCELLANEOUS RESOURCES:</b>		
Bank premises .....	\$14,816,793.01	\$15,240,285.33
Checks and other items in process of collection .....	164,866,941.19	183,282,756.71*
All other miscellaneous resources .....	20,499,027.40	16,019,358.85*
Total miscellaneous resources .....	\$200,182,761.60	\$214,542,400.89
Total resources .....	\$1,737,908,587.30	\$1,790,180,757.95

\*Revised.



LIABILITIES	Dec. 31, 1931	Dec. 31, 1930
<b>CURRENCY IN CIRCULATION:</b>		
Federal Reserve notes in actual circulation, payable on demand. These notes are secured in full by gold, and discounted and purchased paper.....	\$574,185,857.40	\$384,976,316.50
Federal Reserve notes in circulation.....	\$574,185,857.40	\$384,976,316.50
<b>DEPOSITS:</b>		
Reserve deposits maintained by member banks as legal reserves against the deposits of their customers.....	\$795,014,893.86	\$1,062,275,925.90
United States Government deposits carried at the Reserve Bank for current requirements of the Treasury.....	25,740,077.78	4,113,369.64
Other deposits including foreign deposits, deposits of nonmember banks, etc.....	41,313,401.35	11,457,835.85
Total deposits.....	\$862,068,372.99	\$1,077,847,131.39
<b>MISCELLANEOUS LIABILITIES:</b>		
Deferred items, composed mostly of uncollected checks on banks in all parts of the country. Such items are credited as deposits after the periods specified in this bank's time schedules, which periods range from 1 to 7 days after receipt by this bank and are based on the average time required for collection.....	\$158,125,864.59	\$178,876,833.55
All other miscellaneous liabilities.....	6,812,787.98	2,327,407.16
Total miscellaneous liabilities.....	\$164,938,652.57	\$181,204,240.71
<b>CAPITAL AND SURPLUS:</b>		
Capital paid in, equal to 3 per cent of the capital and surplus of member banks.....	\$61,638,550.00	\$65,577,650.00
Surplus—That portion of accumulated net earnings which the bank is legally required to retain.....	75,077,154.34	80,575,419.35
Total capital and surplus.....	\$136,715,704.34	\$146,153,069.35
Total liabilities.....	\$1,737,908,587.30	\$1,790,180,757.95

#### INCOME AND DISBURSEMENTS

The table on page 28 shows income and disbursements for the year 1931 compared with 1930. Total earnings in 1931 were about \$2,800,000 less than in 1930, reflecting a decrease in income from all principal types of earning assets. The amount of loans to member banks and also of holdings of acceptances and of United States Government securities was smaller than in 1930 during the first seven months of the year, but increased substantially in the subsequent months, and for the year as a whole averaged slightly higher in 1931 than in 1930. The expenses of current bank operation were reduced slightly in 1931, while the cost of new currency and deductions for depreciation, self-insurance, etc., were materially less than in 1930.



As the net income for the year of \$1,532,080 was not sufficient to pay the 6 per cent dividend of \$3,891,598 on the capital stock, it was necessary to draw on surplus for \$2,359,518 to meet dividend requirements. A depreciation reserve on United States Government securities of \$3,138,746 was set up, making the total charges to surplus account \$5,498,265, leaving a balance of \$75,077,154.

	1931	1930
<b>EARNINGS:</b>		
From loans to member banks and paper discounted for them.....	\$1,661,804.55	\$1,910,378.30
From bankers acceptances.....	1,638,210.41	1,917,936.89
From United States Government obligations.....	3,613,854.20	5,895,424.92
Other earnings.....	641,344.16	669,448.33
<b>Total earnings.....</b>	<b>\$7,555,213.32</b>	<b>\$10,393,188.44</b>
<b>ADDITIONS TO EARNINGS:</b>		
For sundry additions to earnings, including income from Annex Building.....	\$1,107,406.45	\$1,647,494.18
<b>DEDUCTIONS FROM EARNINGS:</b>		
For current bank operation. (These figures include most of the expenses incurred as fiscal agent of the United States).....	\$6,298,732.43	\$6,383,786.46
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.....	348,371.41	442,777.54
For depreciation, self-insurance, other reserves, losses, etc.....	483,435.21	625,734.79
<b>Total deductions from earnings.....</b>	<b>\$7,130,539.05</b>	<b>\$7,452,298.79</b>
<b>Net income available for dividends, additions to surplus, and franchise tax to the United States Government.....</b>	<b>\$1,532,080.72</b>	<b>\$4,588,383.83</b>
Dividends paid to member banks, at the rate of 6 per cent per annum on paid-in capital.....	\$3,891,598.91	\$4,013,778.77
Excess of dividends over net income.....	2,359,518.19	.....
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.....	.....	574,605.06
Franchise tax—Any balance of net income remaining after paying dividends and making additions to surplus (as above) is required to be paid to the United States Government as a franchise tax. No balance remained for such payments in 1931 or 1930.....	.....	.....
<b>CHARGES TO SURPLUS ACCOUNT:</b>		
Excess of dividends over net income.....	\$2,359,518.19	.....
Depreciation reserve on United States Government securities.....	3,138,746.82	.....
<b>Total charged to surplus account.....</b>	<b>\$5,498,265.01</b>	.....

## VOLUME OF OPERATIONS

The following table shows the volume of transactions in the principal operating departments of the bank in 1931 compared with 1930. The decrease in the banking activities in this district in 1931 is reflected in the decrease in the volume of work in several departments of this bank. In the Loan and Discount Department, however, the number of notes handled was larger than in 1930, due to the greater number of banks which borrowed, and the Government Bond and Safekeeping Department also showed a considerable increase in volume of work, reflecting the increased security flotations of the United States Treasury.

	1931	1930
Number of Pieces Handled		
Bills discounted:		
Applications.....	18,200	14,002
Notes discounted.....	57,251	44,841
Bills purchased in open market for own account.....	125,908	96,173
Currency received and counted.....	674,810,000	730,751,000
Coin received and counted.....	1,123,503,000	1,520,441,000
Checks handled.....	184,402,000	187,951,000
Collection items handled:		
United States Government coupons paid....	4,488,000	5,310,000
All other.....	2,545,000	2,531,000
United States securities—issues, redemptions, and exchanges by fiscal agency department..	1,187,000	516,000
Transfers of funds.....	375,000	412,000
Amounts Handled		
Bills discounted.....	\$4,200,712,000	\$5,713,832,000
Bills purchased in open market for own account.....	1,317,969,000	2,024,458,000
Currency received and counted.....	4,322,295,000	4,949,160,000
Coin received and counted.....	345,060,000	261,586,000
Checks handled.....	101,014,303,000	142,165,873,000
Collection items handled:		
United States Government coupons paid....	233,190,000	233,820,000
All other.....	2,759,966,000	2,862,311,000
United States securities—issues, redemptions, and exchanges by fiscal agency department..	11,434,584,000	4,165,601,000
Transfers of funds.....	62,189,715,000	73,520,472,000

## Changes in Directors and Officers

At a regular election in the fall of 1931, Albert H. Wiggin, Chairman, Governing Board, The Chase National Bank of the City of New York, was elected by the member banks in Group I as a Class A director for a term of three years, beginning January 1, 1932, to succeed Charles E. Mitchell of New York City, whose term expired December 31, 1931.

William H. Woodin, President, American Car and Foundry Company, New York, was reelected by the member banks in Group I as a Class B director to serve for a term of three years, beginning January 1, 1932.

The Federal Reserve Board reappointed J. Herbert Case as a Class C director for a term of three years from January 1, 1932 and redesignated him as Chairman of the Board of Directors and as Federal Reserve Agent for the year 1932. The Federal Reserve Board also reappointed Owen D. Young as Deputy Chairman of the Board of Directors for the year 1932.

The Federal Reserve Board reappointed George G. Kleindinst, President, Liberty Bank of Buffalo, Buffalo, New York, as a director of the Buffalo Branch for a term of three years from January 1, 1932.

The Board of Directors of this bank appointed Raymond N. Ball, President, Lincoln-Alliance Bank and Trust Company, Rochester, New York, as a director of the Buffalo Branch for a term of three years from January 1, 1932, to succeed John T. Symes, of Lockport, New York, whose term as a director expired on December 31, 1931.

The Board of Directors of this bank also reappointed Robert M. O'Hara as Managing Director of the Buffalo Branch for the year 1932.

### MEMBER OF FEDERAL ADVISORY COUNCIL

At its meeting on January 14, 1932, the Board of Directors of this bank redesignated Robert H. Treman, President of The Tompkins County National Bank, Ithaca, New York, as the member of the Federal Advisory Council from the Second Federal Reserve District to serve during the year 1932.

### CHANGES IN OFFICERS

On November 30, 1931, Herbert H. Kimball was appointed Assistant Counsel of the bank.

On January 15, 1932, L. Werner Knoke was appointed Assistant Deputy Governor.

## DIRECTORS AND OFFICERS

January 1, 1932

		DIRECTORS	<i>Term Expires Dec. 31</i>
<i>Class</i>	<i>Group</i>		
A	1	ALBERT H. WIGGIN, New York City . . . . . Chairman, Governing Board, The Chase National Bank of the City of New York	1934
A	2	THOMAS W. STEPHENS, Montclair, N. J. . . . . President, Bank of Montclair	1932
A	3	DAVID C. WARNER, Endicott, N. Y. . . . . President, Endicott Trust Company	1933
B	1	WILLIAM H. WOODIN, New York City . . . . . President, American Car & Foundry Company	1934
B	2	THEODORE F. WHITMARSH, New York City . . . . . Chairman, Francis H. Leggett & Company	1932
B	3	SAMUEL W. REYBURN, New York City . . . . . President, Associated Dry Goods Corporation of New York	1933
C		J. HERBERT CASE, New York City, <i>Chairman</i> . . . . .	1934
C		OWEN D. YOUNG, New York City, <i>Deputy Chairman</i> . . . . . Chairman, General Electric Company	1932
C		CLARENCE M. WOOLLEY, Greenwich, Conn. . . . . Chairman, American Radiator and Standard Sanitary Corporation	1933

## MEMBER OF FEDERAL ADVISORY COUNCIL

ROBERT H. TREMAN

President, The Tompkins County National Bank, Ithaca, N. Y.

## OFFICERS OF FEDERAL RESERVE AGENT'S FUNCTION

J. HERBERT CASE, *Federal Reserve Agent*WILLIAM H. DILLISTIN, *Assistant Federal  
Reserve Agent*HAROLD V. ROELSE, *Manager, Reports  
Department and Assistant Secretary*HERBERT S. DOWNS, *Assistant Federal Re-  
serve Agent and Manager, Bank Rela-  
tions Department*CARL SNYDER, *General Statistician*EDWARD L. DODGE, *General Auditor*GEORGE W. FERGUSON, *Assistant General Auditor*

