

Twenty-third Annual Report

Federal Reserve Bank of New York

For the Year Ended December 31, 1937



Second Federal Reserve District

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**FEDERAL RESERVE BANK
OF NEW YORK**

April 30, 1938.

*To the Stockholders of the
Federal Reserve Bank of New York:*

I am pleased to transmit herewith the twenty-third annual report of the Federal Reserve Bank of New York reviewing the year 1937

GEORGE L. HARRISON,
President.

Twenty-third Annual Report

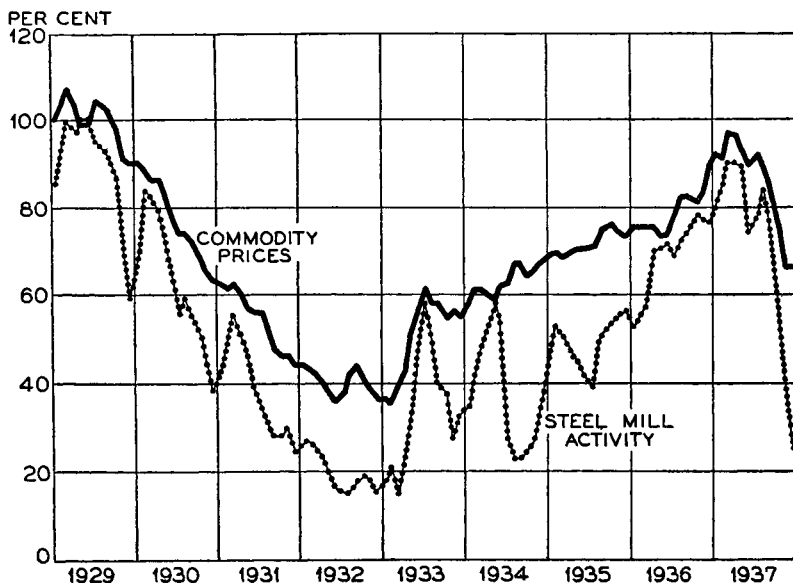
Federal Reserve Bank of New York

Between the first and last quarters of the year 1937 there was an abrupt change in the nature of the problems facing the banking system of the United States, a change almost wholly conditioned by the sharp reversal of business and price trends during the year. While the general policy of the Federal Reserve Banks, throughout the year, was one of maintaining an ample supply of funds at low rates of interest, emphasis had to be shifted from precautionary moves early in the year designed to reduce the danger of excessive credit expansion, to a later relaxation of restraints which might in any way throw doubt on the continuance of easy money for short or long term uses.

As the year opened, there were distinct tendencies toward inflationary developments in business and in prices. Industrial activity had been expanding rapidly in 1936, under the impetus of increased consumer purchasing power, which was enhanced by veterans' bonus payments and other large Government expenditures, and by business expenditures on plants and equipment made necessary by obsolescence and increased consumer demand. Early in 1937 activity in some plants was temporarily restricted by strikes, but with commodity prices and labor costs rising rapidly, there was a wide-spread tendency on the part of business concerns to place orders for materials and finished goods well ahead of immediate requirements, partly in anticipation of further advances in prices, and partly to avoid possible shortages of supplies which might develop in case deliveries were interfered with by labor troubles, and industrial production in general continued at a relatively high level. There was an attendant rapid expansion in commercial loans of banks, and also some increase in the volume of borrowing by security brokers, accompanying a further rise in stock prices to new high levels for the recovery period. The moderate revival in the flotation of securities to provide new business capital, which had developed in 1936, carried through into the early part of 1937, and refunding issues to reduce interest charges on corporation indebtedness continued in large volume.

A heavy inflow of foreign capital continued, and brought with it a rapid inflow of gold. In the early part of the year a considerable amount of the incoming foreign capital was in-

vested in American securities, and thus tended to accelerate the rise in security prices. The incoming gold was prevented from causing further expansion of bank reserves, and further pressure on the banks to increase their loans and investments, by the gold purchase or gold "sterilization" program that had been adopted by the Treasury in December, 1936. The inflow continued, however, at such a rate as to provoke some public discussion as to the feasibility of its continued absorption by this country at the price of \$35 an ounce; gold imports were at a rate in excess of the total world production of gold, and the United States already held nearly 50 per cent of the world stock of monetary gold. Rumors of an impending reduction in the United States buying price for gold were circulated in Europe during the spring, which created expectations of an appreciation of the dollar, and although the inflow of foreign capital for investment in American securities was greatly reduced after the downturn in security prices started in March, there was an increase in transfers to this country of short term foreign balances, so that the gold inflow continued unabated through September.



Drastic Declines in Basic Commodity Prices and Steel Mill Activity in 1937
in Relationship to Movements in Previous Years (Moody's Investors Service
index of 15 basic commodities in percentage of 1929 average,
and American Iron and Steel Institute data on steel
mill activity in per cent of capacity)

A very different situation prevailed at the close of the year. Although it was apparent that the volume of orders for finished goods, semimanufactured products, and raw materials fell off rapidly in the spring and summer from the high levels reached in the first three months of the year, and that the high level of industrial activity was being sustained by work on unfilled orders, it was rather generally expected that a revival of new business would occur in the autumn. It developed, however, that a considerable part of the goods produced between the autumn of 1936 and the autumn of 1937 accumulated in the inventories of consuming industries or distributors, so that the expected revival of new orders did not materialize, and, in the last quarter of the year, there was a drastic curtailment of industrial production. Commodity prices also turned downward, and there were precipitate declines in the prices of basic commodities, especially in October and November. Stock prices within a few months lost most of their gains between the spring of 1935 and March, 1937. It became impracticable for many business organizations to raise new capital through the securities markets, and even refunding operations were greatly reduced. Accompanying these developments, the growth of bank loans ceased and was followed by contraction. The rapid inflow of foreign funds gave way to an outflow, accompanied by some loss of gold.

Federal Reserve Policy and Money Market Conditions

These radical changes in the business situation during the year were reflected in the credit policies of the Federal Reserve System. The first important policy decision of the year was announced by the Board of Governors of the Federal Reserve System on January 30 in a statement quoted here in part.

The Board of Governors of the Federal Reserve System today increased reserve requirements for member banks by 33⅓ percent, as follows: On demand deposits, at banks in central reserve cities, from 19½ to 26 percent; at banks in reserve cities, from 15 to 20 percent; and at "country" banks, from 10½ to 14 percent; on time deposits, at all banks, from 4½ to 6 percent. For the purpose of affording member banks ample time for orderly adjustment to the changed requirements, one half of the increase will become effective as of the opening of business on March 1, 1937, and the remaining half will become effective as of the opening of business on May 1.

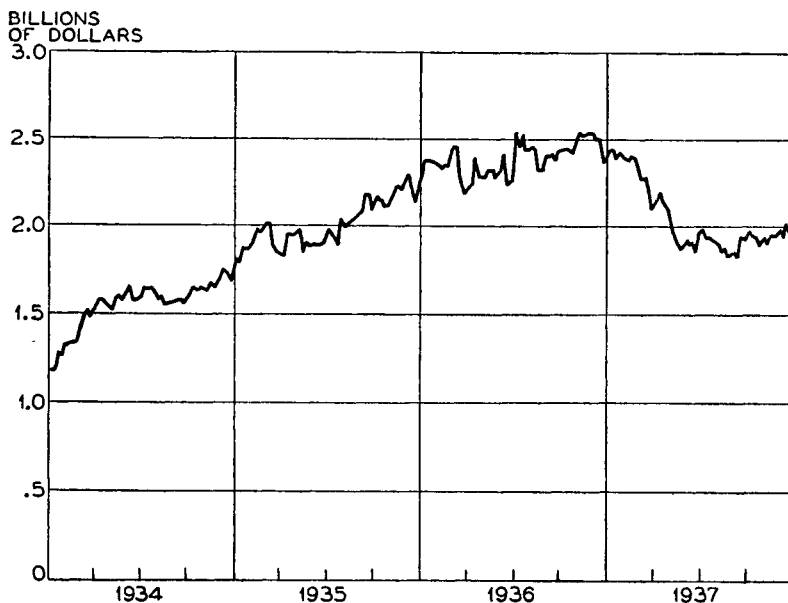
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This action completes the use of the Board's power under the law to raise reserve requirements to not more than twice the amount prescribed for member banks in section 19 of the Federal Reserve Act.

The section of the law which authorizes the Board to change reserve requirements for member banks states that when this power is used it shall be "in order to prevent injurious credit expansion or contraction." The significance of this language is that it places responsibility on the Board to use its power to change reserve requirements not only to counteract an injurious credit expansion or contraction after it has developed, but also to anticipate and prevent such an expansion or contraction.

By its present action the Board eliminates as a basis of possible credit expansion an estimated \$1,500,000,000 of excess reserves which are superfluous for the present or prospective needs of commerce, industry, and agriculture and which, in the Board's judgment, would result in an injurious credit expansion if permitted to become the basis of a multiple expansion of bank credit. The Board estimates that, after the full increase has gone into effect, member banks will have excess reserves of approximately \$500,000,000, an amount ample to finance further recovery and to maintain easy money conditions. At the same time the Federal Reserve System will be placed in a position where such reduction or expansion of member bank reserves as may be deemed in the public interest may be effected through open-market operations, a more flexible instrument, better adapted for keeping the reserve position of member banks currently in close adjustment to credit needs. * * *

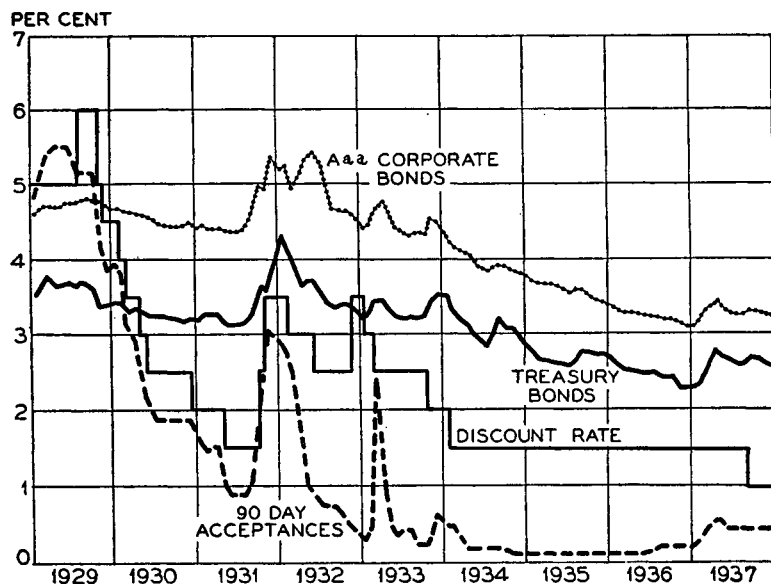
In the light of this announcement of policy and of prospective action, many banks readjusted their position in preparation for the change in reserve requirements, or in expectation of a change in the course of money rates and security prices; more particularly Government security prices. The effect of



Deposits Held by Principal New York City Banks for Other Domestic Banks

these readjustments tended to be concentrated in New York City as banks in other parts of the country withdrew idle funds from New York to increase their reserve balances in their respective Reserve Banks, and a substantial part of the reduction in bank investments, during the period, took place in this district.

Partly as a result of these readjustments and partly due to other causes, including some further increase in commercial demand for funds, money rates advanced somewhat from the unprecedentedly low levels they had reached at the close of 1936. Dealers in bankers acceptances raised their offering rates on unendorsed 90 day acceptances from 3/16 per cent at the end of December, 1936, to 5/16 per cent at the beginning of February, 1937, and to 9/16 per cent in the latter part of March. (The buying rate for acceptances at this bank, which was maintained at $\frac{1}{2}$ per cent for endorsed bills, was something of an assurance against a rise in market rates much beyond this point.) There was an accompanying rise in yields on Treasury bills from around $\frac{1}{8}$ per cent in December, 1936, to around $\frac{3}{8}$ per cent in February and 7/10 per cent in April. The prevailing rate on



Course of Money Rates, 1929 to 1937
(Dealers' offering rate for 90 day acceptances, Federal Reserve Bank of New York discount rate, and average yields on Treasury bonds maturing in more than 8 years and on Aaa corporation bonds)

prime commercial paper advanced by $\frac{1}{4}$ per cent to 1 per cent during this period, the rate on stock exchange call loans remained unchanged at 1 per cent; and the rates at which the banks made loans directly to their customers were virtually unchanged.

In addition to these small changes in short term money rates there were also some moderate changes in rates for longer term money, as is shown in the diagram on page 9. Prices of both Government and corporate bonds declined sufficiently to increase their yields about $\frac{1}{2}$ per cent. This adjustment, despite continued ample supplies of funds, was perhaps not surprising in view of the very long and almost uninterrupted rise in prices of these bonds over a period of years. It also reflected, in some degree, a change in the facilities and functioning of the New York money market. In times past what is called the money market has consisted of a number of large and active markets for the employment of short term funds, including the call loan market, the acceptance market, the commercial paper market, and the market for short term Government securities. In recent years three of these markets have shrunk in size and activity, while the fourth has greatly expanded. The change in the size of these various markets since 1929 is shown by the following approximate yearly averages.

Paper Outstanding
(In millions of dollars)

	1929	1937
Call loans	5,000	700
Commercial paper	325	300
Bank acceptances	1,300	375
Short term Government's (within 5 years)....	5,600	13,500

While, heretofore, such a readjustment in reserve position, between banks, as was called for in the spring of 1937, might have taken place largely through the call loan and acceptance markets, it tends now to move through other channels, and the principal channel (apart from the use by country banks of balances with city correspondent banks) is the Government security market. That market, moreover, was abnormally sensitive, both because of the large holdings of Government securities in the investment portfolios of the banks and because of the continued offerings of securities of the Federal Government.

This situation provided a background for the next step in Federal Reserve policy, which was taken by the Federal Open Market Committee on April 4 and announced as follows:

With a view (1) to exerting its influence toward orderly conditions in the money market and (2) to facilitating the orderly adjustment of member banks to the increased reserve requirements effective May 1, 1937, the Open Market Committee of the Federal Reserve System is prepared to make open-market purchases of United States Government securities for the account of the Federal Reserve banks in such amounts and at such times as may be desirable. This purpose is in conformity with the policy announced by the Board of Governors of the Federal Reserve System in its statement on January 30, 1937, which declared, with reference to the increase in reserve requirements, that by this action the System would be placed in a position where such reduction or expansion of member bank reserves as may be deemed in the public interest may be effected through open-market operations.

Under this policy Federal Reserve Bank holdings of Government securities in the System Account were increased by \$96,000,000 during April.

Partly because of these open market purchases, and partly because of other factors (a smaller demand for currency than had been anticipated; some reduction in interbank deposits and hence in reserve requirements; and a reduction in the Treasury balances with the Reserve Banks), the total volume of excess reserves after May 1 did not go as low as had been estimated in January. After May 1 all member banks in the country had excess reserves of about \$900,000,000 compared with an estimate of \$500,000,000. Of the total excess reserves about \$150,000,000 was in New York City, a much smaller proportion than is ordinarily held in this market.

Throughout the summer excess reserves in the New York City banks ranged from about \$50,000,000 to \$275,000,000. From time to time seasonal demands for currency, or other movements of funds, reduced the reserves of individual banks to the point where some found it necessary to obtain additional reserves by purchasing "Federal funds" from the banks that still had surplus reserves. An occasion of this sort early in August, when aggregate excess reserves of New York City banks were drawn down to about \$40,000,000, for a few days, was followed by some uneasiness in the market as to the probable effects of autumn credit requirements on the bank position and on money rates.

It was in these circumstances that the rediscount rate of the Federal Reserve Bank of New York was reduced from $1\frac{1}{2}$ per cent to 1 per cent, effective August 27, and preceding and following that date, corresponding reductions were made in the rediscount rates of most of the other Reserve Banks. These reductions had the effect of bringing the Reserve Bank rates into closer adjustment with open market rates and of facilitating access by member banks to Reserve Bank credit in case seasonal currency requirements or continued commercial demand for credit should make it necessary for them to borrow.

As the period of usual autumn expansion in business activity approached it became apparent that conditions had changed materially from those prevailing earlier in the year. While industrial activity continued at a substantial level, reports from several important industries indicated that operations were being sustained only by work on orders previously received, and that unless new orders were received in considerable volume, production could not long be maintained at the current levels. In the central money market these changes in the business outlook were reflected in severe declines in the prices of equity securities and of bonds below the highest grades.

At the conclusion of its meeting on September 11 and 12 the Federal Open Market Committee made the following announcement.

The Federal Open Market Committee met in Washington on September 11 and 12 and reviewed the business and credit situation. In view of the expected seasonal demands on the banks for currency and credit during the coming weeks the Committee authorized its Executive Committee to purchase in the open market from time to time sufficient amounts of short term U. S. Government obligations to provide funds to meet seasonal withdrawals of currency from the banks and other seasonal requirements. Reduction of the additional holdings in the open market portfolio is contemplated when the seasonal influences are reversed or other circumstances make their retention unnecessary.

The purpose of this action is to maintain at member banks an aggregate volume of excess reserves adequate for the continuation of the System's policy of monetary ease for the furtherance of economic recovery.

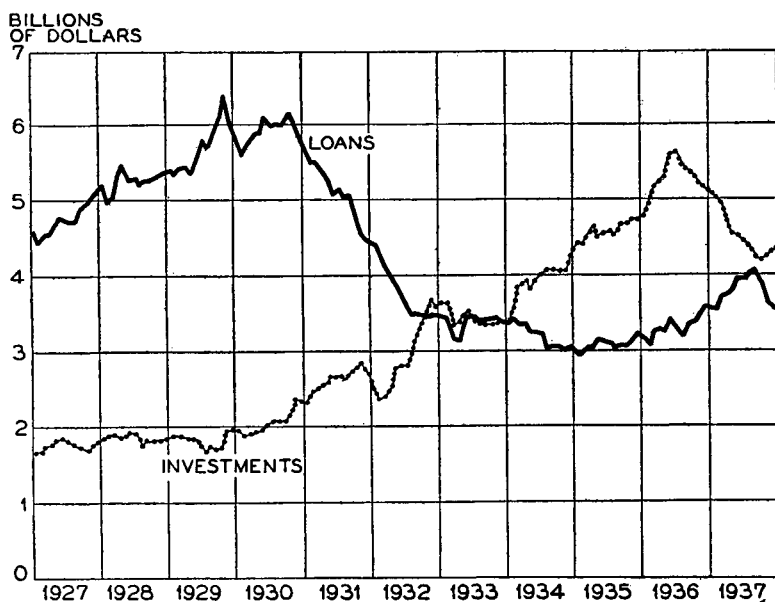
As a further means of making this policy effective, the Open Market Committee recommended that the Board of Governors of the Federal Reserve System request the Secretary of the Treasury to release approximately \$300,000,000 of gold from the Treasury's inactive account. The Board of Governors acted upon this recommendation and the Secretary of the Treasury agreed to release at once the desired amount of gold. This will place an equivalent amount of funds at the disposal of the banks and correspondingly increase their available reserves.

This action is in conformity with the usual policy of the System to facilitate the financing of orderly marketing of crops and of autumn trade. Together with the recent reductions of discount rates at the several Federal Reserve banks, it will enable the banks to meet readily any increased seasonal demands for credit and currency and contribute to the continuation of easy credit conditions.

The Secretary of the Treasury immediately followed the recommendation of the Committee by depositing \$300,000,000 from the inactive gold account in the Federal Reserve Bank of New York. This sum was quickly disbursed, largely through the redemption of Treasury bills that matured during the September tax period. As these Treasury bills were held largely in New York, a considerable part of the \$300,000,000 was added directly to the reserves of the New York City banks. In addition, during November, when the full extent of seasonal currency requirements was still in doubt, the Reserve Banks purchased \$38,000,000 of Government securities in the market, thereby adding to the excess reserves of member banks by a like amount. With these accessions the reserves of the banks were adequate to meet all requirements without strain. At the time of largest seasonal currency withdrawals just before Christmas, the New York City banks still held approximately \$300,000,000 of excess reserves and the total for all member banks rose to over \$1,000,000,000. Some evidence of the adequacy of these reserves appears in a moderate downward tendency in money rates from the middle of September to the end of the year. This was reflected in the prices of Government securities and other prime obligations. At the same time continued and severe declines in business activity and commodity prices had their counterpart in weakness of prices of equity securities and second grade bonds.

Demands for Bank Credit and New Business Capital

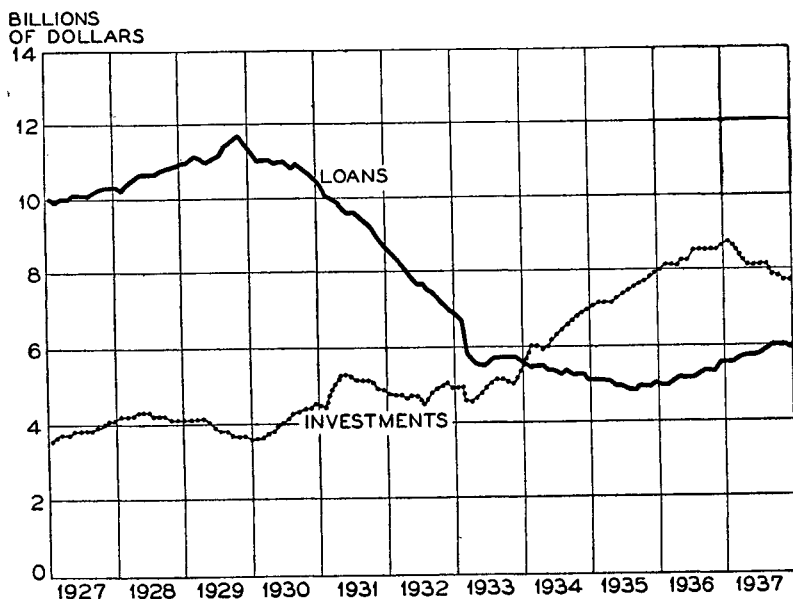
Early in the year 1937, developments in member bank credit in the New York district appeared to be those characteristic of a rather advanced stage of business recovery. Commercial loans, which in the early stages of recovery from a serious business depression frequently continue to decline because of the collection or charging off of old loans, had increased considerably in 1936 and after a brief seasonal recession in January, 1937, continued to rise until the middle of October. Security loans also increased moderately, accompanying the rise in stock prices which reached its peak in March. Meanwhile bank investments, which, after increasing rapidly for several years, had leveled off in the latter half of 1936, declined somewhat during the first nine months of 1937, so that the ratio of loans to investments showed the first material increase in a number of years. This tendency, however, was reversed in the latter part of the year, when, following drastic declines in security prices and in business activity, the demand for loans fell off rapidly and banks again sought to expand their investment portfolios by purchasing Government securities.



Total Loans and Investments of Weekly Reporting Member Banks in New York City
(Monthly averages of weekly figures)

It is likely that the increase in business borrowing between the end of January and the middle of October was partly for the purpose of replenishing cash resources that had been depleted by large dividend disbursements near the end of 1936, but more largely for the purpose of financing increased inventories of raw materials and finished goods following the heavy buying movement in the early months of the year. When the abrupt downturn in business activity occurred in the autumn and efforts were made by business organizations to reduce their inventories, commercial loans in the reporting member banks showed a more than seasonal reduction.

The reduction in security loans, while large in proportion to the amount of such loans outstanding, was much smaller in amount than in some earlier periods of drastic decline in security prices, presumably due to the effect of relatively high margin requirements, which, by limiting expansion of credit for the purpose of financing security speculation during the period of market strength, also limited the amount of credit to be liquidated during the period of rapidly declining security prices. Nevertheless, the liquidation of security loans was an important influence toward credit contraction in the latter part



Total Loans and Investments of Weekly Reporting Member Banks in 100 Other Cities
(Monthly averages of weekly figures)

of 1937, and by the end of the year the borrowings of members of the New York Stock Exchange had declined to the lowest level since the spring of 1933.

The reduction in investments of banks in New York City and other principal cities, shown in the preceding diagrams, undoubtedly gives an exaggerated impression of the liquidation of security holdings by the banking system as a whole, as "country" member banks and nonmember banks continued to add to their holdings of Government securities during the latter half of 1936 and the first half of 1937. Nevertheless, data for all banks indicate a cessation of the rapid increase in bank investments. This change may be attributed in part to selling by city banks for the reasons discussed in a preceding section of this report, but there were other important factors that tended to check the expansion in bank investments. Not only had there been an increasing outlet for bank funds through loans during the previous year, but in 1937 the amount of new funds required by the Treasury to meet Government expenditures, except for the purchase and "sterilization" of incoming gold, was greatly reduced; also there was a heavy demand for Government securities from other investors, which was indicated by the strength of the market at various times during the autumn of 1936 and the late spring and summer of 1937, when the large New York City banks were reducing their holdings of Government securities. Insurance companies continued to be important buyers, and when the yields on short term Government securities rose moderately in the spring, foreign investors came into the market for substantial amounts of short dated obligations.

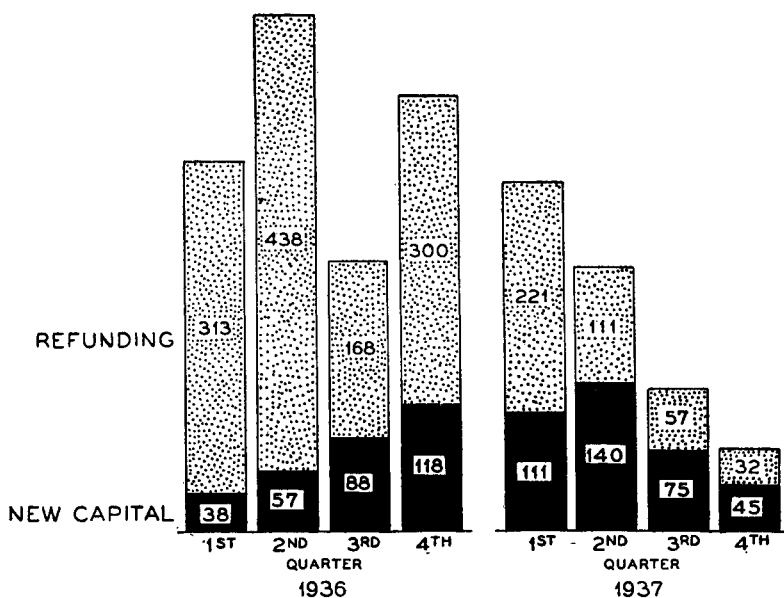
New Security Issues

During the first half of 1937 the new issue market continued the activity which had characterized the year 1936. In the second half of the year, accompanying the general decline in other security markets and the recession in business, the amount of new issues dwindled rapidly.

In predepression years, flotations of new corporate securities averaged around \$400,000,000 a month, of which something like 40 per cent represented issues to provide business with the funds it needed for working capital and to make improvements and additions to plant, beyond those provided for out of funds set aside for depreciation and obsolescence and out of undistributed earnings. The remainder of the issues may be consid-

ered broadly as refunding operations. During the years from 1931 through 1935 the volume of security issues fell far short of the amount in predepression years, but in 1936 it was beginning to approach the former volume, although the major part of the financing was for refunding purposes, rather than to raise new capital. However, a substantial beginning was made in raising new capital for enterprise, and an increasing proportion of the new financing was in the form of preferred and common stock issues. This had the advantage of providing capital representing a participation in ownership rather than in an increase of debt. In the first two quarters of 1937 the market continued moderately active, especially with respect to the amount of new capital made available, although refunding issues fell off after the first quarter, following the decline in prices of high grade bonds. In the second half year issues to provide new capital also declined rapidly in volume, so that the total capital issues for the whole year were only about half those of 1936. The figures as shown in the diagram are in terms of monthly averages.

The causes of the reduced volume of new issues appear to be found both in the difficulty of selling new securities under adverse market conditions such as those that prevailed during



Average Monthly Volume of Domestic Corporate Security Issues for New Capital and for Refunding (In millions of dollars)

most of the latter half of 1937, and the unwillingness of potential borrowers to begin new undertakings in the face of increasing uncertainties as to the business situation. Even prior to the most recent business decline, the demand for the lower rated securities appeared to have been much reduced as compared with predepression years. Banks and other institutional investors, after sustaining heavy losses on medium and lower grade issues during the worst years of the depression, have subsequently limited their investments largely to Government and other high grade securities. Individual investors seem to have had smaller amounts of funds available for investment, and, in view of high rates of taxation and the large increase in the supply of tax exempt securities, have had considerable incentive and greater opportunity to invest in tax exempt securities, rather than in corporate obligations. Although the lower grade bonds had a substantial recovery along with stocks from 1932 to early 1937, the margin between their prices and those of high grade bonds remained greater than in the 20's, and, accompanying the slump in business last autumn, the spread widened rapidly. The drastic declines in prices made further issues of junior securities impracticable at that time.

Municipal issues showed a somewhat less marked reduction from 1936 to 1937. The total of such issues, amounting to \$908,000,000, was 19 per cent smaller than in 1936, and this reduction was due altogether to a decline in the amount of refunding issues. With such issues excluded, municipal new capital issues were the same in 1936 and 1937 with an average rate of \$61,000,000 a month or about \$735,000,000 a year. This is about half the volume between 1926 and 1930, a reduction which may be explained at least partly by the increase in expenditures by the Federal Government during the past few years. In connection with municipal issues it should also be noted that large amounts of these securities are retired annually by sinking funds and by repayment at maturity from tax revenues. It seems clear that the amount of new issues in 1937 was less than the amount of debt retired, so that there was no net contribution to business activity from such issues during the year.

The Foreign Exchanges and Capital and Gold Movements

During the first three quarters of 1937, the dollar was generally strong in the foreign exchange market despite an adverse balance of payments on current account resulting from heavy American expenditures for merchandise, tourist, and other services. This strength was due to a movement of capital to the United States from abroad at an unprecedented rate. In the first three months of the year the inflow reflected continued purchases of foreign and domestic securities by foreigners in the New York market, as in the latter months of 1936, and thereafter was due to a large transfer of short term banking funds to New York, stimulated partly by rumors abroad of an upward revaluation of the dollar through a reduction in the American gold price. The inflow of capital was accompanied by a large inflow of gold throughout the first three quarters of the year.

In the final quarter of 1937, despite a rapidly growing favorable balance of trade, created by a decrease in imports, the dollar became weak in the foreign exchange market. Foreign balances in New York were drawn upon partly for use in payment for the excess of American merchandise exports, and partly for the repurchase of European currencies or for the purchase of gold.

Individual exchanges fluctuated considerably against the dollar because of specific conditions in various countries. Further depreciation of the French franc from \$0.0467 at the end of 1936 to \$0.0339 $\frac{3}{8}$ a year later, and the advance in the pound sterling from \$4.91 to \$4.99 $\frac{3}{4}$ were outstanding illustrations of the diverse movements. The decline in the exchange value of the franc was attributed to flight of capital from France and an unfavorable balance of payments on merchandise transactions. Temporary reversals of the capital movement occurred in the spring and autumn and were accompanied by partial recoveries in French exchange, but heavy outflows of funds and acute weakness of the franc occurred preceding and during the recurrent political and financial crises, especially in early March and June, and to a lesser extent in September and December. In each successive period of weakness the franc dropped lower than the time before. Following the June crisis, a new cabinet, acting under emergency powers, abrogated the lower limit for

franc devaluation that had been established on October 1, 1936. Over the year as a whole, the reported gold stock of the Bank of France declined from \$2,994,000,000 at the end of 1936 to \$2,567,000,000 at the close of 1937.

The pound sterling, after declining gradually from \$4.91 in the latter part of December, 1936, to \$4.88½ on April 9, advanced rapidly to \$4.95 on April 29, reflecting a "gold scare" which resulted from rumors abroad of an impending reduction in the price of gold in the United States. The dollar equivalent of the London gold price fell sufficiently below the British export point of about \$34.77 to induce arbitrageurs to bid for sterling in order to take dishoarded gold in London for resale in the United States, despite the fear abroad of a reduction in the gold price here. A renewed rise from \$4.93⅝ on June 30 to \$4.99¼ in early August was attributed primarily to the effects of Japanese purchases of sterling with the proceeds of gold shipments from Japan to the United States. After easing to around \$4.95 in October, the pound rose again in the latter part of that month and early November to a high of \$5.03, accompanying withdrawals of foreign balances from New York, associated with rumors of a further devaluation of the dollar, and remained around \$5.00 during the remainder of the year.

Closing Cable Rates at New York

Exchange on	January 2	High	Low	December 31
Belgium	\$.1685	\$.1708	\$.1683	\$.1696
Denmark .....	.2192	.2240	.2178	.2232
England	4.9094	5.0213	4.8788	4.9975
France .....	.0467	.0467	.0329	.0339
Germany .....	.4024	.4051	.4003	.4027
Italy .....	.0527	.0527	.0526	.0526
Netherlands .....	.5476	.5572	.5440	.5566
Norway .....	.2468	.2522	.2451	.2512
Sweden .....	.2532	.2587	.2515	.2576
Switzerland .....	.2298	.2328	.2275	.2312
Canada	1.0002	1.0025	.9973	.9989
Argentina .....	.3273	.3346	.3252	.3331
Brazil * .....	.0605	.0671	.0522	.0523
Uruguay .....	.8000	.8000	.7875	.8000
Japan .....	.2840	.2927	.2840	.2909
India .....	.3720	.3793	.3690	.3774
Shanghai .....	.2981	.3030	.2944	.2963
Hong Kong .....	.3075	.3144	.3038	.3131

* Noon buying rate for free milreis.

Among the other European currencies, the Swiss franc was quite steady in the vicinity of \$0.23, while the Netherlands guilder advanced moderately from \$0.5476 at the close of 1936 to \$0.5566 at the end of 1937. The Belgian monetary unit, though under pressure during a part of the year as the result both of internal political developments and of the further depreciation of French exchange, was held close to its lower gold point by official sales of gold. The pegged quotations for the Scandinavian currencies in terms of sterling were left unchanged during 1937. Dealings in the reichsmark and the lira remained subject to the rigorous official restrictions in force in Germany and Italy.

A number of South American currencies showed moderate weakness in the latter part of the year, owing to continued growth in merchandise imports simultaneous with declining world prices for their exported raw materials.

Pegged quotations for the Chinese and Japanese currencies were continued during 1937, evidently through extensive utilization of official reserves, since the trade balances of both countries were adverse.

The capital movement during the first quarter of the year when the dollar was strong reflected the continuation of tendencies which had been dominant in the fall of 1936. Further extensive foreign buying of American securities, combined with additional transfers of funds to the New York market for the redemption of foreign dollar long term obligations, particularly by the Argentine Government, was the principal component of an inflow of capital to the United States in security transactions of \$286,000,000. As distinct from the capital inflow through security transactions there was no substantial net movement of short term banking funds between this country and abroad during the first quarter.

The reversal of the upward movement of American stock prices in March was followed in April by some foreign selling of American securities, and although there was some resumption of purchases in later months, foreign buying of American securities did not again approach the pace which had prevailed in the eighteen-month period ended in March, 1937, during which foreign net purchases of American securities totaled approximately \$1,000,000,000. The inward movement of capital in the

second and third quarters, which amounted to \$980,000,000, was almost entirely in short term funds, and was the result of the spring "gold scare" and of commercial buying of dollars in anticipation of fall requirements. England, the Netherlands, Switzerland, and "Other Europe" were the outstanding contributors to this inflow of short term funds, and the same countries, together with Canada and France, were principally responsible for the reduction in foreign balances in this market in the last quarter of the year.

Movement of Capital between the United States and Foreign Countries
December 31, 1936 to December 29, 1937 (a)
(In millions of dollars; capital inflow [+] or outflow [—])

<i>By Source</i>	Short term banking funds	Security transactions (b)	Total
Switzerland	+178	+ 94	+272
United Kingdom	+ 55	+109	+164
Netherlands	+ 9	+ 73	+ 82
Germany	+ 46	— 5	+ 41
France	— 29	+ 11	— 18
Italy	— 26	+ 3	— 23
Other Europe	+ 35	+ 49	+ 84
Total Europe	+268	+334	+602
Latin America	+ 93 (c)	+117 (c)	+210
Far East	+ 24	+ 16	+ 40
Canada	— 69	+ 25	— 44
All other	— 11	+ 5	— 6
Total	+305 (c)	+497 (c)	+802
<i>By Quarters</i>			
Dec. 31, 1936 to Mar. 31, 1937.	+ 37 (c)	+286 (c)	+323
Apr. 1, 1937 to June 30, 1937.	+574 (c)	+ 56 (c)	+630
July 1, 1937 to Sept. 29, 1937.	+261 (c)	+ 89 (c)	+350
Sept. 30, 1937 to Dec. 29, 1937.	—567 (c)	+ 66 (c)	—501
Total	+305	+497	+802

(a) Source: United States Treasury Department.

(b) Including the movement in brokerage balances.

(c) The division of the capital movement between short term banking funds and security transactions has been adjusted by considering changes in sinking funds as equivalent to purchases or sales of securities. This does not affect the total inflow of capital for the period. Adjustments have been made for an increase in sinking funds amounting to \$133,800,000 in the first quarter, and for subsequent decreases of \$28,100,000, \$77,800,000, and \$76,800,000 in the second, third, and fourth quarters, respectively.

The net gain of gold to the United States from abroad, resulting from imports, exports, and changes in gold held under earmark, according to the reported data amounted to \$1,385,100,000, most of it being concentrated in the first three quarters of the year, and the bulk of the gold imports coming from England, Japan, Canada, and Belgium. The net gain in the first quarter was \$339,200,000, in the second quarter \$650,700,000, and in the third quarter \$394,200,000. In the final quarter of the year gold earmarkings for foreign account practically offset further receipts of gold from Japan and other sources. For the year as a whole the amount of gold held under earmark for foreign account showed an increase of \$200,400,000. Gold movements during 1937 by countries of origin or destination, are summarized in the accompanying table, which, however, does not cover earmarking transactions, as such transactions cannot be reported by countries.

Gold Movements by Countries
(In thousands of dollars)

Country	Exports to	Imports from	Net
Australia .....	....	34,713	34,713
Belgium	12	90,871	90,859
Canada	47	111,528	111,481
Colombia .....	....	18,397	18,397
England	5,183	896,713	891,530
France	40,001	26,291	— 13,710
India .....	....	50,762	50,762
Japan	6	246,470	246,464
Mexico	767	39,250	38,483
Netherlands .....	....	6,461	6,461
Philippines	1	25,428	25,427
Switzerland .....	....	54,452	54,452
All Other	3	30,187	30,184
Total.....	46,020	1,631,523	1,585,503

Foreign Relations

During 1937 the Federal Reserve Bank of New York, acting in behalf of all twelve Federal Reserve Banks and with the approval of the Board of Governors of the Federal Reserve System, opened two new accounts in the names of the National Bank of Costa Rica—Issue Department, and the State Bank of the U.S.S.R. The total number of foreign banks of issue (and the Bank for International Settlements) for which accounts are maintained, was thereby increased to forty-two. Balances maintained by foreign correspondents with this bank increased from \$98,620,000 to \$171,750,000 in 1937.

The short term loans extended to a foreign central bank, outstanding in the amount of \$300,000 at the end of 1936, were repaid early in 1937. A short term loan of \$200,000, secured by gold, was granted to a foreign central bank in March, 1937 and was paid at maturity in the following month. During September a short term loan of \$1,000,000 against gold in transit was extended to a foreign correspondent; this loan was repaid on October 1. The foregoing operations were effected by this bank in behalf of all twelve Federal Reserve Banks and with the approval of the Board of Governors of the Federal Reserve System.

The credit extended jointly by a group of central banks and the Bank for International Settlements to the National Bank of Hungary, to mature on July 18, 1937, as reported in the previous annual report of this bank, was renewed for a period of three years in the amount of \$15,325,000, the share of the Federal Reserve System being \$2,493,000. As a result of partial repayments of principal, the participation of the Federal Reserve Banks in this credit was reduced from \$2,506,000 at the close of 1936, to \$2,282,000 at the end of 1937.

The balances held abroad by this bank in its own behalf and in behalf of the other Federal Reserve Banks, were reduced during 1937 from an aggregate amount equivalent to \$220,000 to the equivalent of \$179,000; of the latter amount \$92,000 was repayable in United States dollars, and the remainder in foreign currencies. Total holdings of commercial bills denominated in foreign currencies were also reduced from \$3,089,000 to \$2,827,000, inclusive of the Hungarian credit referred to above. Of this remaining amount, \$2,744,000 was repayable in United States dollars.

Operations of the Bank During 1937

Coincident with the higher level of business activity in the first nine months of 1937, the volume of operations of this bank showed some increase over the previous year. For the third successive year, the number of checks handled and the total dollar value of checks exceeded those of the preceding year. The volume of currency received and counted and the wire transfers of funds were also in excess of 1936. Although the amount of member bank borrowing at no time reached large proportions, temporary borrowing from time to time by a number of banks resulted in a larger total dollar volume of bills discounted for member banks during the course of the year than in 1936.

Applications under Section 13b of the Federal Reserve Act for loans to supply working capital to business enterprises fell off considerably in 1937, and the number of loans made was smaller than in any other year since such loans were first authorized in June, 1934. A larger proportion of the loans than in previous years were made in conjunction with commercial banks in this district. Following the sharp recession in business in the latter part of the year, there was some increase in business inquiries concerning the possibility of obtaining working capital loans from this bank, but no great increase in the number of formal applications had occurred up to the end of the year.

Altogether 335 loans of working capital to business organizations, totaling about \$24,400,000, had been made by this bank up to the end of 1937. Of this number, 173 represented direct loans to the borrowers, and 162 were made in cooperation with commercial banks in the district. At the close of the year, 194 loans totaling \$8,000,000 had been repaid in full, and partial repayments aggregating \$6,300,000 had been received on an additional 129 loans, leaving a total of \$10,000,000 to be repaid on 141 loans.

Operations of this bank as fiscal agent for the Government, including sales of new Government securities in this district, redemptions of maturing securities and of coupons representing interest on the National debt, payment of Government

checks presented through member banks covering all sorts of Government expenditures including wage payments to W.P.A. workers, purchases and sales of gold, silver and foreign currencies for the Stabilization Fund, and custody of collateral for loans made by the Reconstruction Finance Corporation and other Government agencies, continued in large volume in 1937, although there was a considerable reduction in the total from 1936 when such operations included a very large number of items representing Adjusted Service bonds and checks issued to veterans in connection with the payment of the veterans' bonus.

	1937	1936
Number of Pieces Handled		
Bills discounted:		
Applications	2,751	1,566
Notes discounted	4,167	4,247
Industrial advances:		
Notes discounted	93	370
Commitments to make industrial advances.....	57	88
Bills purchased in open market †.....	1,252	1,388
Currency received and counted.....	683,487,000	642,563,000
Coin received and counted.....	1,022,766,000	1,047,007,000
Checks handled	195,892,000	188,225,000
Collection items handled:		
United States Government coupons paid*.....	4,990,000	4,921,000
All other	2,111,000	2,176,000
Issues, redemptions, and exchanges by fiscal agency department:		
United States Government direct obligations.....	1,064,000	5,475,000
All other	395,000	816,000
Wire transfers of funds.....	243,000	240,000
Amounts Handled		
Bills discounted	\$207,289,000	\$104,683,000
Industrial advances:		
Notes discounted	2,036,000	2,171,000
Commitments to make industrial advances.....	2,254,000	4,225,000
Bills purchased in open market for own account.....	8,809,000	9,072,000
Currency received and counted.....	3,268,841,000	3,024,013,000
Coin received and counted.....	105,552,000	107,714,000
Checks handled	77,897,043,000	69,504,991,000
Collection items handled:		
United States Government coupons paid*.....	493,835,000	447,095,000
All other	1,881,825,000	2,246,038,000
Issues, redemptions, and exchanges by fiscal agency department:		
United States Government direct obligations.....	13,536,635,000	16,457,943,000
All other	1,407,081,000	1,614,138,000
Wire transfers of funds.....	32,765,514,000	31,329,928,000

† Includes number purchased by this bank for System account.

* Includes coupons from obligations guaranteed by the United States.

This bank continued to participate in the work of the Federal Open Market Committee through the services of Mr. George L. Harrison as a member and Vice-Chairman of the committee, Mr. John H. Williams as Associate Economist, and Mr. W. Randolph Burgess as Manager of the System Open Market Account. Purchases and sales of securities for the account and allotments of the securities in the account among the twelve Federal Reserve Banks were conducted by this bank, in accordance with the general policies determined by the Federal Open Market Committee

Financial Statement

As the following statement of condition indicates, the earning assets of this bank showed some increase in 1937, owing in large measure to an increase in holdings of Government securities, which resulted partly from purchases during the year and partly from a redistribution among the twelve Reserve Banks of the securities in the System Open Market Account. Bills discounted for member banks increased slightly, but industrial loans declined somewhat.

Complete operating statistics of each Federal Reserve Bank will be published in the Annual Report of the Board of Governors of the Federal Reserve System.

(In thousands of dollars)

ASSETS	Dec. 31, 1937	Dec. 31, 1936
Gold certificates on hand and due from U. S. Treasury	\$3,586,484	\$3,438,991
Redemption Fund—Federal Reserve notes.....	1,124	1,435
Other cash	78,420	64,811
Total reserves	\$3,666,028	\$3,505,237
Bills discounted:		
Secured by U. S. Government obligations, direct or fully guaranteed.....	\$ 2,804	\$ 655
Other bills discounted.....	316	491
Total bills discounted.....	\$ 3,120	\$ 1,146
Bills bought in open market.....	\$ 212	\$ 1,100
Industrial advances	4,412	5,958
U. S. Government securities:		
Bonds	\$ 216,814	\$ 130,269
Treasury notes	333,211	356,035
Treasury bills	189,679	158,939
Total U. S. Government securities.....	\$ 739,704	\$ 645,243
Total bills and securities.....	\$ 747,448	\$ 653,447
Due from foreign banks.....	\$ 68	\$ 84
Federal Reserve notes of other banks.....	5,292	8,799
Uncollected items	195,811	241,482
Bank premises	9,973	10,134
All other assets.....	10,808	30,407
Total assets	\$4,635,428	\$4,449,590

(In thousands of dollars).

LIABILITIES	Dec. 31, 1937	Dec. 31, 1936
Federal Reserve notes in actual circulation.....	\$ 964,902	\$ 921,697
Deposits:		
Member bank—reserve account.....	\$3,071,762	\$2,942,652
U. S. Treasurer—General Account.....	39,295	108,703
Foreign bank	60,892	35,745
Other deposits	189,134	96,584
Total deposits	\$3,361,083	\$3,183,684
Deferred availability items.....	\$ 189,511	\$ 223,480
Capital paid in.....	51,058	50,591
Surplus (Section 7).....	51,943	51,474
Surplus (Section 13b).....	7,744	7,744
Reserve for contingencies.....	8,210	9,000
All other liabilities.....	977	1,920
Total liabilities	\$4,635,428	\$4,449,590
Ratio of total reserves to deposit and Federal		
Reserve note liabilities combined.....	84.7%	85.4%
Contingent liability on bills purchased for foreign		
correspondents	\$ 582	
Commitments to make industrial advances.....	4,754	\$ 8,424

1936 figures have been revised to conform with 1937 report.

Income and Disbursements

Items of income and disbursements for 1937, with comparable data for 1936, are shown in the following table. In 1937 total earnings were about one million dollars larger than in 1936, chiefly because of the increased holdings of United States Government securities, and expenses again were slightly smaller than in the previous year. Profits on Government securities sold, however, were much smaller than in 1936, and after deductions from current net earnings for reserves, retirement system, assessment for the Board of Governors building in Washington, etc., net earnings were not quite as large in 1937 as in 1936. Regular dividends of \$3,070,000 were paid to member banks, and \$469,000 was transferred to surplus.

Profit and Loss Account
For the Calendar Years 1937 and 1936
(In thousands of dollars)

	1937	1936
Earnings	\$ 11,549	\$ 10,537
Net expenses	7,351	7,441
Current net earnings.....	\$ 4,198	\$ 3,096
Additions to current net earnings:		
Profit on sales of Government securities.....	\$ 665	\$ 2,889
All other	53	2
Total additions	\$ 718	\$ 2,891
Deductions from current net earnings:		
Reserve for contingencies.....		\$ 144
Reserve for losses.....	\$ 199	269
Special reserves and charge-offs on bank premises		505
Prior service contributions to retirement system	639	638
Assessment for building for Board of Governors	514	729
All other	20	3
Total deductions	\$ 1,372	\$ 2,288
Net earnings	\$ 3,544	\$ 3,699
Paid United States Treasurer (Section 13b).....	\$ 5	\$ 14
Dividends paid	3,070	3,037
Transferred to surplus (Section 7).....	469	648

1936 figures have been revised to conform with 1937 report.

Membership Changes in 1937

The number of member banks in percentage of total banks in the Second Federal Reserve District was the same at the end of 1937 as it was at the end of the previous year. There were seventeen mergers among member banks and three insolvencies during the year, but three State banks, three Trust companies, and one newly organized National bank were admitted to membership.

In accordance with an amendment to the New York State Banking Law, effective June 30, 1937, thirty State banks with fiduciary powers were reclassified as Trust companies.

The tables below show the classification of banks in this district according to their charters, and an analysis of changes in membership during 1937.

Number of Member and Nonmember Banks in Second Federal Reserve District at End of Year

TYPE OF BANK	December 31, 1937			December 31, 1936		
	Members	Non-members	Per cent members	Members	Non-members	Per cent members
National banks	603	0	100	619	0	100
State banks*	44	111	28	55	131	30
Trust companies	129	147	47	115	137	45
Total	776	258	75	789	268	75

* Excludes Savings banks. By virtue of an amendment to the New York Banking Law, effective June 30, 1937, thirty State banks previously granted fiduciary powers were reclassified as Trust companies.

Changes in Federal Reserve Membership in Second District During 1937

Total membership beginning of year.....	789
Increases:	
National bank organized.....	1
Admission of State banks and Trust companies.....	6
National bank succeeded by newly chartered member State bank.....	1
Total increases	8
Decreases:	
Member banks combined with other members.....	17
National bank succeeded by newly chartered member State bank.....	1
Insolvencies	3
Total decreases	21
Net decrease	13
Total membership end of year.....	776

Changes in Directors and Officers

At a regular election in the fall of 1937, William C. Potter, Chairman, Board of Directors, Guaranty Trust Company of New York, New York, N. Y., was elected by the member banks in Group I as a Class A director for a term of three years beginning January 1, 1938, to succeed George W. Davison, New York, N. Y., whose term expired December 31, 1937. Thomas J. Watson, President, International Business Machines Corporation, New York, N. Y., was reelected by member banks in Group I as a Class B director for a term of three years, beginning January 1, 1938.

In December, 1937, the Board of Governors of the Federal Reserve System reappointed Owen D. Young, Chairman, Board of Directors, General Electric Company, New York, N. Y., as a Class C director for a term of three years, beginning January 1, 1938, and redesignated him Deputy Chairman of the Board of Directors of this bank for the year 1938; on January 19, 1938 the Board of Governors designated Mr. Young, Chairman and Federal Reserve Agent, for the remainder of the year, and appointed Beardsley Ruml, Treasurer, R. H. Macy & Co., Inc., New York, N. Y., Deputy Chairman also for the remainder of the year, to succeed Mr. Young.

On January 19, 1938, the Board of Governors of the Federal Reserve System appointed Edmund E. Day, President, Cornell University, Ithaca, N. Y., a Class C director for the unexpired portion of the term ending December 31, 1939.

In May, 1937, the Board of Governors of the Federal Reserve System appointed Gilbert Prole, Genesee Farm Supply Company, Batavia, N. Y., a director of the Buffalo Branch for the unexpired portion of the term ending December 31, 1939, and in December, 1937, reappointed Howard Kellogg, President, Spencer Kellogg and Sons, Inc., Buffalo, N. Y., for a term of three years beginning January 1, 1938.

The Directors of this bank reappointed William A. Dusenbury, President, The First National Bank of Olean, Olean, N. Y., a director of the Buffalo Branch for the term ending December 31, 1940.

Member of Federal Advisory Council

The Board of Directors of this bank reappointed Winthrop W. Aldrich, Chairman, The Chase National Bank of the City of New York, New York, N. Y., a member of the Federal Advisory Council for the Second Federal Reserve District, to serve for the year 1938.

Changes in Officers

On January 7, 1937, the Directors of this bank appointed L. Werner Knoke, formerly Assistant Vice President, a Vice President; William F. Sheehan, formerly Chief Examiner, was appointed Manager, Bank Examinations Department and Chief Examiner; and George W. Ferguson, formerly Assistant General Auditor, was appointed General Auditor to succeed Edward L. Dodge, retired.

Herbert S. Downs, a member of the staff of the bank since July, 1919, and Manager of the Bank Relations Department since July 1, 1926, died July 27, 1937.

On December 9, 1937, the Board of Directors of this bank appointed John W. McKeon, an Assistant Vice President, effective January 1, 1938, to be assigned to the foreign function of the bank.

On January 6, 1938, the Directors of this bank appointed Norman P. Davis, formerly Special Assistant, Division of Security Loans, as Manager of the Security Loans Department. Horace L. Sanford, formerly Chief of the Reports Division, Research Department, and Assistant Secretary, was appointed Manager of the Research Department and will continue as Assistant Secretary. Insley B. Smith, Special Representative, Bank Relations Department, was appointed Manager of the Bank Relations Department.

Directors and Officers

		DIRECTORS		<i>Term Expires Dec. 31</i>
<i>Class</i>	<i>Group</i>			
A	1	WILLIAM C. POTTER, Old Westbury, N. Y..... Chairman, Board of Directors, Guaranty Trust Company of New York, New York, N. Y.		1940
A	2	EDWARD K. MILLS, Morristown, N. J..... President, Morristown Trust Company		1938
A	3	WILLIAM F. PLOCH, Long Beach, N. Y..... President, The National City Bank of Long Beach		1939
B	1	THOMAS J. WATSON, Lebanon, N. J..... President, International Business Machines Corporation, New York, N. Y.		1940
B	2	WALTER C. TEAGLE, Port Chester, N. Y..... Chairman, Board of Directors, Standard Oil Company (New Jersey), New York, N. Y.		1938
B	3	ROBERT T. STEVENS, Plainfield, N. J..... President, J. P. Stevens & Co., Inc., New York, N. Y.		1939
C		OWEN D. YOUNG, Van Hornesville, N. Y., <i>Chairman</i> Chairman, Board of Directors, General Electric Company, New York, N. Y.		1940
C		BEARDSLEY RUMI, New York, N. Y., <i>Deputy Chairman</i> Treasurer, R. H. Macy & Co., Inc., New York, N. Y.		1938
C		EDMUND E. DAY, Ithaca, N. Y..... President, Cornell University.		1939

DIRECTORS—BUFFALO BRANCH

	<i>Term Expires Dec. 31</i>
Vacancy	1938
GILBERT PROLE, Batavia, N. Y..... Genesee Farm Supply Company.	1939
HOWARD KELLOGG, Buffalo, N. Y..... President, Spencer Kellogg & Sons, Inc.	1940
FRANK F. HENRY, Buffalo, N. Y..... Chairman, Washburn Crosby Company, Inc.	1938
FRED J. COE, Niagara Falls, N. Y..... President, Power City Trust Company.	1939
WILLIAM A. DUSENBURY, Olean, N. Y..... President, The First National Bank of Olean.	1940
ROBERT M. O'HARA, <i>Managing Director</i>	1938

MEMBER OF FEDERAL ADVISORY COUNCIL

WINTHROP W. ALDRICH

Chairman, The Chase National Bank of the City of New York, New York, N. Y.

OFFICERS

GEORGE L. HARRISON, *President*

ALLAN SPROUL, *First Vice President*

L. WERNER KNOKE, *Vice President*

W. RANDOLPH BURGESS, *Vice President*

WALTER S. LOGAN, *Vice President and
General Counsel*

CHARLES H. COE, *Vice President*

RAY M. GIDNEY, *Vice President*

LESLIE R. ROUNDS, *Vice President*

JOHN H. WILLIAMS, *Vice President*

WILLIAM H. DILLISTIN,
Assistant Vice President

WALTER B. MATTESON,
Assistant Vice President

J. WILSON JONES, *Assistant Vice President*

ARTHUR PHELAN, *Assistant Vice President*

HERBERT H. KIMBALL,
Assistant Vice President and Secretary

JAMES M. RICE, *Assistant Vice President*

JOHN W. MCKEON,
Assistant Vice President

HAROLD V. ROELSE,
Assistant Vice President

VALENTINE WILLIS,
Assistant Vice President

DUDLEY H. BARROWS,
Manager, Personnel Department

JACQUES A. MITCHELL,
Manager, Credit Department

WESLEY W. BURT,
Manager, Accounting Department

HORACE L. SANFORD, *Manager, Research
Department, and Assistant Secretary*

DONALD J. CAMERON,
Manager, Foreign Department

WILLIAM A. SCOTT,
Manager, Government Bond Department

FELIX T. DAVIS,
Assistant Counsel

WILLIAM F. SHEEHAN,
*Manager, Bank Examinations Depart-
ment, and Chief Examiner*

NORMAN P. DAVIS,
Manager, Security Loans Department

INSLEY B. SMITH,
Manager, Bank Relations Department

EDWARD O. DOUGLAS,
*Manager, Bill Department and
Manager, Collection Department*

TODD G. TIEBOUT,
Assistant Counsel

EDWIN C. FRENCH,
Manager, Cash Department

WILLIAM F. TREIBER,
Assistant Counsel

MYLES C. McCAHILL,
Manager, Service Department

RUFUS J. TRIMBLE,
Assistant Counsel

ROBERT F. McMURRAY,
Manager, Safekeeping Department

CHARLES N. VAN HOUTEN, JR.,
Manager, Security Custody Department

SILAS A. MILLER,
Manager, Securities Department

I. WARD WATERS,
Manager, Cash Custody Department

GEORGE W. FERGUSON, *General Auditor*

OFFICERS—BUFFALO BRANCH

ROBERT M. O'HARA,
Managing Director

HALSEY W. SNOW,
Cashier

REGINALD B. WILTSE,
Assistant Manager

CLIFFORD L. BLAKESLEE,
Assistant Cashier