

1927

Thirteenth Annual Report
of the
**FEDERAL RESERVE BANK
OF PHILADELPHIA**



**MADE TO THE FEDERAL RESERVE BOARD
FOR THE THIRD FEDERAL RESERVE DISTRICT
BY THE CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT**

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LETTER OF TRANSMITTAL

February 10, 1928.

Federal Reserve Board,
Washington, D. C.

Sirs:—

I have the honor to transmit herewith the thirteenth annual report on the operations of the Federal Reserve Bank of Philadelphia, covering the year 1927.

Very truly yours,

R. L. AUSTIN,

*Chairman of the Board and
Federal Reserve Agent*

CONTENTS

	Page
Profit and loss statement	5
Business and financial conditions	6
Statement of condition	11
Loans and discounts of the bank	13
Reserve position of the bank	15
Federal reserve note issues	18
Fiscal agency activities	18
Departmental operations	19
Discount rate	20
 Internal organization:	
Directors	20
Federal Advisory Council	22
Officers and employees	22
 Banks of the district:	
Membership	22
Fiduciary powers	24
Acceptance powers	25
 Bank examination	 25

ANNUAL REPORT
of the
FEDERAL RESERVE BANK OF PHILADELPHIA
for 1927

The profit and loss account of the bank for 1927 follows, with comparison of the two preceding years:

	1927	1926	1925
Gross earnings	\$3,363,626	\$3,626,648	\$3,135,550
Current expenses	2,106,682	2,056,274	2,036,268
Current net earnings	\$1,256,944	\$1,570,374	\$1,099,282
Additions to current net earnings....	\$2,646	\$1,130	\$566
Deductions from current net earnings	83,121	37,771	21,728
Net deductions from current net earnings	\$80,475	\$36,641	\$21,162
Net earnings available for dividends, surplus and franchise tax	\$1,176,469	\$1,533,733	\$1,078,120
Distribution of net earnings:			
Dividends	\$781,540	\$730,598	\$673,212
Paid to Government as a franchise tax	0	0	0
Transferred to surplus account	394,929	803,135	404,908

Smaller average holdings of bills and securities than in 1926 and a reduction in the average rate of return from 3.8 per cent in 1926 to 3.6 per cent in 1927, resulted in a decrease in the earnings derived from bills and securities from \$3,579,393 to \$3,263,737, and gross earnings decreased from \$3,626,648 to \$3,363,626.

The volume of work continued large and in a number of departments was heavier than in 1926. Current expenses increased from \$2,056,274 to \$2,106,682. If expenses incident to printing and redeeming Federal reserve notes are omitted from these figures, other expenses would show a reduction from \$1,923,462 to \$1,920,364.

Deductions from current net earnings were made up for the most part of \$81,245 charged off on furniture and equipment. Following year-end adjustments, \$1,176,469 remained for distribution

Thirteenth Annual Report, Federal Reserve Bank of Philadelphia

at the close of 1927, of which \$781,540 was paid out in dividends and \$394,929 was transferred to surplus. Net earnings in 1927 amounted to about 9 per cent of the average paid-in capital.

Since the organization of the bank in 1914, net earnings have totaled \$33,958,254. Of this amount \$6,737,096 was distributed as dividends, \$21,662,257 was added to surplus, and \$5,558,901 was paid to the Government as a franchise tax.

In the table which follows, current expenses are divided according to departments:

	1927	1926	1925
Maintaining the accounts of the bank	\$95,873	\$98,760	\$95,491
Loans and discounts	53,097	52,677	53,436
Currency and coin	618,412	560,972	621,345
Transit and collections	436,406	433,749	423,133
Fiscal agency functions	44,006	39,415	51,144
Custody of securities, including purchase and sale	67,970	68,720	68,044
Transfer and telegraphic service	20,257	20,740	19,694
Official salaries and supervisory expenses	155,391	149,694	142,814
Federal reserve agent's department (Custody of collateral against Federal reserve notes, note issues, bank examination, library, statistical and business reporting work)	86,009	82,235	105,109
Maintaining the general audit	59,124	56,459	61,615
Bank relations	12,513	12,041	13,364
Insurance (other than on currency, coin and security shipments)	33,292	31,814	32,169
Operation of banking house	188,471	215,960	126,554
This bank's portion of Federal Reserve Board expenses	74,621	68,636	66,139
Miscellaneous	161,240	164,402	156,217
Current expenses	\$2,106,682	\$2,056,274	\$2,036,268

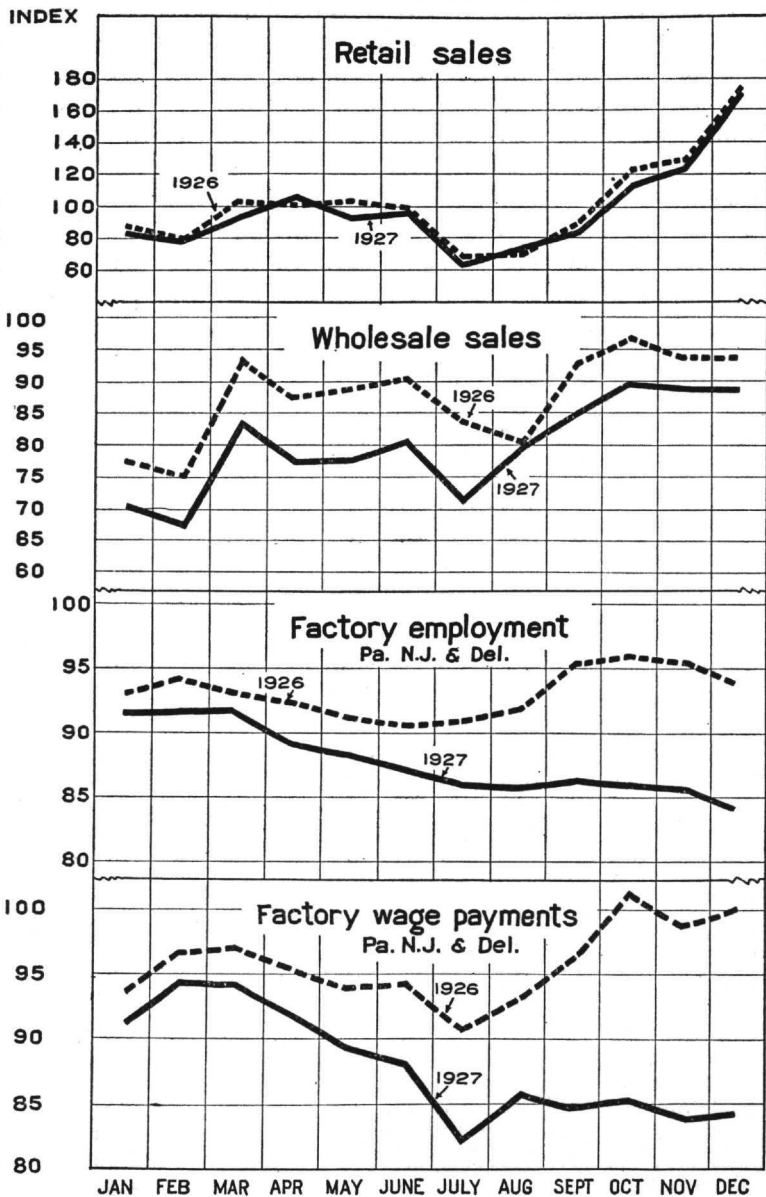
Business and financial conditions

The year just past witnessed a continued and substantial decline in the business volume of the Philadelphia Federal reserve district from the high levels attained in 1926. Factory employment and payrolls, in Pennsylvania, New Jersey, and Delaware, which furnish a good measure of industrial activity, fell off noticeably during 1927 and by the end of the year were about 11 and 16 per cent, respectively, below the levels of a year previous. The iron

BUSINESS INDICATORS

PHILADELPHIA FEDERAL RESERVE DISTRICT

INDEX NUMBERS 1923 100



Thirteenth Annual Report, Federal Reserve Bank of Philadelphia

and steel and metal fabricating industries were chiefly responsible for this large decline, which was more pronounced than in the country as a whole. The leather and some of the textile industries of the district, however, displayed considerable strength.

Coal mining operations in the district also decreased considerably. Output of anthracite and payrolls of the collieries were smaller than in 1926 in almost every month of the past year, owing chiefly to the prevalence of mild weather. Industrial recession and labor difficulties in the mining regions were mainly responsible for the reduced production of soft coal.

In contrast to the situation in manufacturing and mining, building activity in the district held up well during the year. Building contract awards in 1927 were 16 per cent greater than in 1926. This compares with a decline of 0.5 per cent for the United States as a whole.

Real estate transactions were in larger volume, the value of mortgages recorded in Philadelphia in 1927 increasing nearly 7 per cent over the previous year.

Business indicators
Philadelphia Federal Reserve District

	1927 compared with 1926
Factory employment, average (Pa., N. J., & Del.) . . .	— 5.7%
Factory wage payments, average (Pa., N. J., & Del.)	— 8.3%
Productive activity:	
Shoe production	+ 8.3%
Wool consumption	+ 4.0%
Cotton spindle hours (Pa. & N. J.)	—10.0%
Pig iron production	—12.1%
Iron casting production	—16.3%
Steel casting production	—29.7%
Hosiery production	+ 1.6%
Cement production	+ 4.8%
Anthracite production	— 4.4%
Bituminous coal production (Pa.)	—14.7%
Electric power production	+ 6.4%
Building contracts awarded	+16.4%
Mortgages recorded, value (Phila.)	+ 6.7%
Commercial failures, liabilities	+24.6%
Freight car loadings (Allegheny district)	— 3.9%
Retail sales	— 3.9%
Wholesale sales	— 3.3%
Life insurance sales (Pa., N. J. & Del.)	+ 3.0%

Thirteenth Annual Report, Federal Reserve Bank of Philadelphia

Distribution of goods in this district was in smaller volume than in 1926. While freight car loadings in the Allegheny district showed small increases in the early months of the year, material decreases occurred in the later months, and the total for 1927 was 4 per cent below 1926. Smaller shipments of coal account for much of this decline, although loadings of merchandise and other commodities also showed decreases.

The dollar volume of wholesale trade was less than in 1926 throughout the year; the total decline amounted to more than 3 per cent, about the same as for the country as a whole. District retail sales in 1927 were nearly 4 per cent smaller as compared with a gain of 0.6 per cent reported for the United States.

Funds have been in ample supply throughout 1927. The total loans and investments of reporting member banks in Philadelphia reached a higher point than in 1926, although loans and discounts declined. Deposits increased and holdings of Government and other securities were added to materially.

Commercial loans did not follow closely the seasonal trends so apparent in the preceding year. From a low at the beginning of the year, expansion took place with little of the recession usual in May and June, and the peak for the year was reached in August, although it usually comes in the fall. A decline in commercial loans in the year is not surprising in view of quieter business and lower prices than in 1926.

Following the attainment of a high figure in the first week of the year, loans on securities, as reported by Philadelphia banks, turned sharply downward, reaching the lowest point late in July. Material changes followed and in the last week of the year these loans were larger than at any time since July, but, even so, failed to equal the figure reached in the last report of December, 1926. The weekly average was lower than in 1926.

Outside of Philadelphia, monthly figures are available for 88 member banks in twenty of the larger cities. Their reports likewise show an increase in total loans and investments. Both loans on securities and investments were responsible for this advance, and there was little change in other loans (largely of a commercial character).

Thirteenth Annual Report, Federal Reserve Bank of Philadelphia

Figures for reporting member banks in twenty one of the cities of the district are summarized in the table:

Changes from December 15, 1926, to December 14, 1927
(Thousands of dollars)

	Number of banks	Loans and discounts	Investments	Net demand deposits	Time deposits
Allentown	6	+ 1,401	— 340	— 486	+ 515
Atlantic City	8	— 3,462	+ 1,420	— 3,153	+ 2,322
Bethlehem	3	+ 1,275	+ 2	+ 146	+ 926
Chester	5	+ 763	+ 256	+ 502	+ 602
Easton	4	+ 7	— 145	+ 345	+ 397
Harrisburg	3	+ 925	0	+ 380	+ 779
Hazleton	5	— 227	+ 854	— 336	+ 1,016
Johnstown	4	+ 45	+ 3,086	+ 929	+ 2,329
Lancaster	3	+ 680	+ 415	+ 213	+ 1,025
Lebanon	3	+ 296	+ 486	— 257	+ 952
Norristown	3	+ 348	+ 1,707	+ 205	+ 712
Philadelphia	33	—33,949	+51,772	+10,954	+20,164
Reading	6	+ 446	— 1,072	— 725	+ 881
Scranton	4	— 402	+ 2,062	+ 707	+ 1,924
Trenton	4	+ 1,014	— 1,132	— 3,639	+ 1,067
Wilkes-Barre	5	+ 962	+ 2,371	+ 602	+ 2,511
Williamsport	3	+ 190	+ 601	+ 916	+ 1,266
Wilmington	6	+ 5,259	+ 173	+ 1,737	+ 547
York	11	+ 126	+ 1,518	+ 6	+ 2,360
Other cities	2	+ 1,704	+ 3,188	— 31	+ 4,316
Totals, 21 cities ...	121	—22,599	+67,222	+ 9,015	+46,611
Banks outside of Philadelphia ...	88	+11,350	+15,450	— 1,939	+26,447

Reflecting easier monetary conditions, large member banks in Philadelphia reported a decline in rates on prime customers' commercial paper from $4\frac{1}{2}$ - $4\frac{3}{4}$ per cent in the week ended December 15, 1926, to $4\frac{1}{4}$ - $4\frac{1}{2}$ per cent in the corresponding week of 1927. Sales of commercial paper in 1927; as reported by dealers, were 24 per cent larger than in 1926.

Notwithstanding the lower level of business and trade in 1927, check payments in most of the cities of the Philadelphia Federal reserve district exceeded the 1926 figures. The total of 17 cities increased from \$29,159,000,000 in 1926 to \$30,150,000,000 in 1927, or 3.4 per cent. Percentage changes for individual cities follow:

Thirteenth Annual Report, Federal Reserve Bank of Philadelphia

Allentown	+ 2.0%	Philadelphia	+ 4.1%
Altoona	+ 5.1%	Reading	- 0.7%
Camden	- 0.4%	Scranton	+ 0.9%
Chester	-14.8%	Trenton	+ 3.9%
Harrisburg	-10.3%	Wilkes-Barre	+ 3.8%
Hazleton	+ 2.8%	Williamsport	+ 8.6%
Johnstown	- 1.8%	Wilmington	+15.4%
Lancaster	+ 0.03%	York	+ 1.3%
Lebanon	+ 1.3%		

Statement of condition

The statement of the Federal Reserve Bank of Philadelphia at the close of 1927 reveals that discounts for member banks have changed little in the year, but that the total of its credit in use has expanded through increases in holdings of purchased paper and United States securities.

The cash reserves of the bank declined and, together with increases in the note and deposit liabilities, caused a falling off in the reserve ratio from 66.9 to 52.9 per cent.

Of interest during the year were the foreign transactions. In the week of May 11 gold was purchased abroad by the Federal reserve system, this bank's participation being \$5,717,000, which shortly was increased to nearly 6 millions. This was gradually reduced by conversion into foreign banks' credits, which credits in turn declined as they were disposed of through sales of exchange against them.

This bank's share in the contingent liability assumed by the Federal reserve banks on bills purchased for foreign correspondents increased from \$5,363,000 to \$21,963,000 during the year.

The statement of the bank as of December 31 of 1927 and 1926 follows:

Thirteenth Annual Report, Federal Reserve Bank of Philadelphia

(000's omitted)	December 31, 1927	December 31, 1926	Changes during 1927
RESOURCES			
Gold reserves	\$143,894	\$180,057	—\$36,163
Reserves other than gold	6,066	5,266	+ 800
Total reserves	\$149,960	\$185,323	—\$35,363
Non-reserve cash	1,490	1,611	— 121
Bills discounted:			
Secured by Government obligations.	\$50,042	\$46,556	+ \$3,486
Other bills discounted	17,329	21,285	— 3,956
Total bills discounted	\$67,371	\$67,841	— \$470
Bills bought in open market	44,523	26,839	+ 17,684
U. S. Government securities	45,663	20,230	+ 25,433
Federal inter. credit bank bonds	0	2,000	— 2,000
Total bills and securities	\$157,557	\$116,910	+\$40,647
Uncollected items	63,738	64,554	— 816
All other resources	2,009	2,006	+ 3
Total resources	\$374,754	\$370,404	+ \$4,350
LIABILITIES			
Federal reserve notes in actual cir- culation	\$137,551	\$134,067	+ \$3,484
Deposits:			
Member bank—reserve account	143,833	139,247	+ 4,586
Government	1,242	1,019	+ 223
Other deposits	701	2,764	— 2,063
Total deposits	\$145,776	\$143,030	+ \$2,746
Deferred availability items	56,309	59,202	— 2,893
Capital paid in	13,237	12,605	+ 632
Surplus	21,662	21,267	+ 395
All other liabilities	219	233	— 14
Total liabilities	\$374,754	\$370,404	+ \$4,350
Ratio of total reserves to deposit and Federal reserve note liabilities com- bined	52.9%	66.9%	— 14.0%
Contingent liability on bills purchased for foreign correspondents	\$21,963	\$5,363	+\$16,600

Loans and discounts of the bank

Over the greater part of 1927 holdings of bills and securities by the Federal Reserve Bank of Philadelphia were in smaller volume than in 1926, but late in the year, by the purchase of bills and United States securities and larger discounts for member banks, the total of bills and securities was carried to the highest point since 1921. Average daily holdings follow:

	1927	1926	1925
Bills discounted	\$42,691,000	\$50,931,000	\$43,466,000
Purchased bills	17,432,000	18,581,000	18,508,000
United States securities	29,248,000	21,336,000	21,383,000
Other securities	1,033,000	2,903,000	3,149,000
Totals	\$90,404,000	\$93,751,000	\$86,506,000

Easier credit conditions in the district during 1927 were reflected in a lower average level of borrowings from this bank than in the previous year. Following the close of 1926, borrowings declined in January and February. The trend was upward in the second quarter, to be succeeded by a decrease in the third quarter. During October and November no special tendency was manifest, but in the last three weeks of December a strong increase occurred, although the highest point reached, 71.8 millions on December 30, was exceeded in December, 1926. In the year a slight decline, from 67.8 to 67.4 millions, took place.

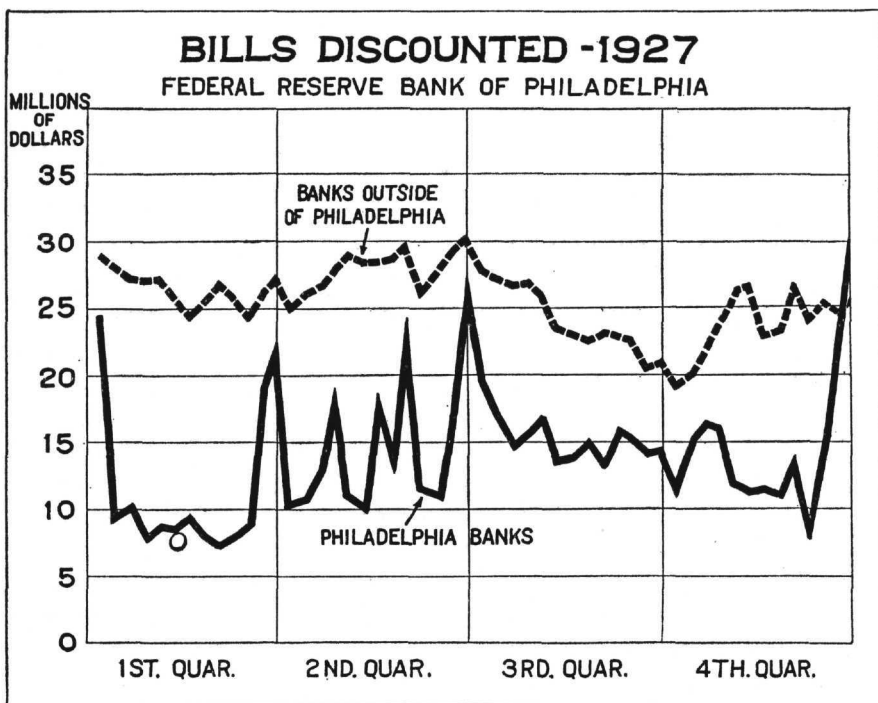
Changes in holdings of purchased bills and United States securities were material. The portfolio of purchased paper declined from 26.8 millions at the beginning of the year to 3.1 millions on August 31, the lowest point since October, 1924, but the increase thereafter was large, a total of nearly 45 millions being on hand at the end of the year. United States securities held continued with little change during the first five months, approximating twenty millions, but additions in succeeding months carried the total to about 46 millions on December 31.

A considerable percentage of the notes and bills rediscounted by this bank for its member banks was the paper of manufacturers and dealers in textiles and textile materials. Food products and building materials also made up a substantial proportion, but manufacturers and dealers in metals and metal products, in view

of the importance of their industry in this district, were only moderately represented. Percentages for various industries follow:

Textiles and textile materials	21.6%	Paper and printing	3.2%
Foods and food products	15.3%	Contractors and builders	3.0%
Building materials	9.7%	Furniture	2.7%
Hides, leather and shoes	6.9%	Agriculture	1.7%
Metals and metal products	5.4%	Rubber	1.6%
Automobiles	4.1%	Chemicals and drugs	1.3%
Department stores	3.9%	Miscellaneous	16.0%
Cigars and tobacco	3.6%		

These percentages are interesting, but do not indicate that the paper in the portfolios of member banks is divided industrially in the same proportions.



Banks in Philadelphia continued to account for the more extreme fluctuations in borrowing, accommodation extended to mem-

Thirteenth Annual Report, Federal Reserve Bank of Philadelphia

ber banks outside of this city being more uniform in amount, as the chart shows. Borrowings by cities follow:

	December 31, 1927	December 31, 1926	Change
Allentown	\$77,000	\$330,000	— \$253,000
Atlantic City	1,943,000	3,341,000	—1,398,000
Bethlehem	585,000	612,000	— 27,000
Chester	1,583,000	625,000	+ 958,000
Easton	945,000	1,354,000	— 409,000
Harrisburg	0	0	0
Hazleton	534,000	721,000	— 187,000
Johnstown	60,000	40,000	+ 20,000
Lancaster	0	0	0
Lebanon	150,000	200,000	— 50,000
Norristown	150,000	270,000	— 120,000
Philadelphia	43,893,000	36,509,000	+7,384,000
Reading	240,000	1,572,000	—1,332,000
Scranton	1,318,000	540,000	+ 778,000
Trenton	1,193,000	671,000	+ 522,000
Wilkes-Barre	250,000	756,000	— 506,000
WilliamSPORT	395,000	1,240,000	— 845,000
Wilmington	85,000	190,000	— 105,000
York	160,000	655,000	— 495,000
Other communities	13,810,000	18,215,000	—4,405,000
Totals under discount	\$67,371,000	\$67,841,000	— \$470,000

Reserve position of the bank

The reserve ratio of this bank was above 70 per cent over most of 1927 and on numerous occasions exceeded 80 per cent. Nevertheless the close of the year found the bank with a ratio of 52.9 per cent, which compared with 66.9 per cent at the end of 1926. A rapid decline in cash reserves and in the reserve ratio during the last quarter of the year was due in part to this bank's participation in an increase of the Federal reserve system's holdings of bills and United States securities purchased by the open market investment committee.

In this quarter there was a loss in the transit clearings with other districts, whereas in each of the first three quarters of the year a large gain had been realized.

The falling off in the reserve ratio also reflected the increased need for currency in the latter part of November and in December prior to the holidays. Federal reserve note circulation, following a contraction in the earlier months, increased thereafter, reaching

Thirteenth Annual Report, Federal Reserve Bank of Philadelphia

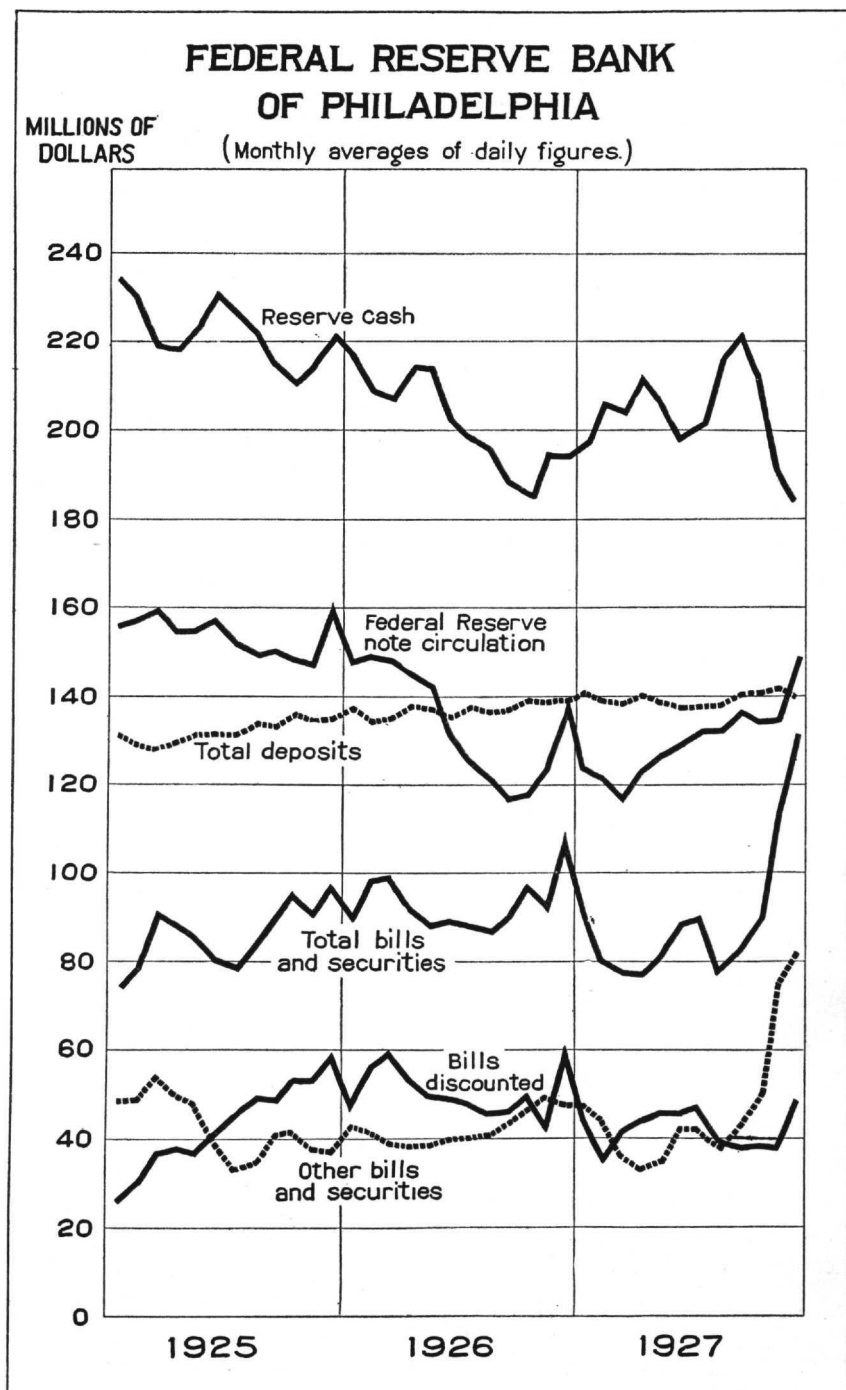
its highest point at 157 millions on December 23. At the end of the year the Federal reserve note circulation was somewhat larger than it was on December 31, 1926. This is not necessarily an indication of a greater need for currency, as circulation of other types of currency was smaller than in 1926. Of the new notes paid out in 1927, 131 millions were Federal reserve notes and 122 millions other kinds of currency, while in 1926 these sums were 123 and 143 millions, respectively.

The average level of deposits somewhat exceeded that in 1926, as the chart shows. These deposits are largely made up of the reserves of member banks, which averaged about 3 millions more in December, 1927 than in December, 1926. The deposits of member banks, against which these reserves are maintained, on December 7 were 111 millions larger than they were on December 29, 1926, but 98 millions of this increase was in time deposits, against which only a 3 per cent reserve need be maintained, thus accounting for the slight difference in reserves.

Changes in the reserve ratio and in the factors from which it is computed are given in the accompanying table by periods which approximate quarter years.

(Dollar figures in millions)	1927					1926 totals
	Jan. 1-Mar. 30	Mar. 31-June 29	June 30-Sept. 28	Sept. 29-Dec. 31	Totals	
Gains or losses in gold holdings of bank:						
Note clearings	-\$1.1	+ \$1	- \$8	- \$4.3	- \$6.1	- \$4.8
Transit clearings . . .	+41.4	+58.3	+ 62.2	- 32.5	+129.4	+ 90.1
Transfers for Government	-39.0	-51.5	- 34.5	- 23.2	-148.2	-120.5
Payments to and receipts from Government*	- 4.6	-13.0	- 1.6	- 6.8	- 26.0	- 6.0
Member banks	+ 6.1	+ 5.6	+ 4.1	- 1.0	+ 14.8	+ 4.4
Total change in gold holdings	+\$2.8	- \$5	+\$29.4	-\$67.8	-\$36.1	-\$36.8
Changes in other cash reserves	- .3	+ .7	+ 2.0	- 1.7	+ .7	+ .4
Total cash reserves . . .	+ 2.5	+ .2	+ 31.4	- 69.5	- 35.4	- 36.4
Federal reserve note circulation	-17.5	+13.3	+ 4.6	+ 3.1	+ 3.5	- 21.9
Total deposits	-14.2	+ 7.2	+ 3.7	+ 6.0	+ 2.7	+ 1.3
Reserve ratio	+ 9.6%	- 5.8%	+ 9.3%	- 27.1%	- 14.0%	- 7.6%

* Includes currency and coin transactions, reimbursements of Government for amounts expended in direct redemption of Federal reserve notes, payments to and receipts from Government officers, transfers for national banks to 5% fund maintained for redemption of national bank notes, etc.



Federal reserve note issues

Issues of Federal reserve notes to the bank in 1927 amounted to \$130,900,000, redemptions \$124,974,725, and \$3,000,000 of fit Federal reserve notes were returned to the Federal reserve agent. This resulted in an increase in the amount outstanding from \$175,841,510 at the end of 1926 to \$178,766,785 on December 31, 1927. The collateral pledged to secure these notes at the close of 1927 totaled \$180,825,567, of which \$74,766,785 was gold, and \$106,058,782 eligible paper.

Fiscal agency activities

In addition to caring for the functions formerly handled by the sub-treasuries, the Federal reserve banks perform many other duties for the Government. During 1927 this bank handled 2,003,000 Government checks and warrants amounting to \$291,961,000 and paid 3,467,000 coupons totaling \$37,826,000.

Of special interest during the year were the steps taken to retire the Second Liberty loan bonds. Originally \$280,184,100 of these bonds were allotted in this district. They were called for payment on November 15, 1927, but during the year various exchange offers and purchases also were made. The total retired by this bank through cash redemption, purchase for Government account, or exchange for other issues was \$173,210,850, made up as follows:

Exchanged for:	
Treasury notes, A, 1930-32	\$69,338,450
Treasury notes, B, 1930-32	16,736,150
Treasury bonds, 1943-47	24,196,650
Certificates of indebtedness—TJ—1928	8,400
Purchased from surplus money	1,696,500
Purchased for sinking fund:	
At 100 $\frac{3}{32}$	3,372,000
At 100 $\frac{7}{32}$	1,486,550
At 100 $\frac{11}{32}$	1,338,800
At 100	244,100
Cash redemption—November 15	54,793,250
Total	<u>\$173,210,850</u>

Redemptions of maturing certificates of indebtedness and Treasury notes during the year totaled \$56,056,700 out of original allotments to the district of \$158,294,300. In every instance redemptions fell short of the amount of the issue originally allotted to the district. This was particularly true of certificates of indebtedness, the redemptions of which were only 15 per cent of the

allotments, as compared with 53 per cent for two issues of the longer term Treasury notes.

New issues of Government securities included two issues of Treasury notes, one of Treasury bonds, and four of certificates of indebtedness. Subscriptions totaled \$634,316,000 and allotments (including exchanges) \$288,998,650.

Departmental operations

Several of the largest service departments of the bank, including among these the currency, transit and collection departments, showed a further increase in activity in 1927, but the discount department reported a smaller volume than in 1926. Chiefly as a result of the retirement of the Second Liberty loan bonds, the quantity of Government securities handled expanded materially. Percentage changes in the operations of the principal departments follow:

1927 compared with 1926	Number of items handled	Dollar amounts handled
Bills discounted	- 7.2%	- 17.1%
Bills bought in open market	-21.8%	+ 5.0%
Currency received and counted	+ 9.9%	+ 5.7%
Coin received and counted	+ 4.1%	+ 5.7%
Checks handled (excluding return items)	+ 2.7%	- 1.2%
Collections handled:		
United States Government coupons paid	- 6.5%	- 15.6%
All other	+ 4.4%	+ 10.4%
United States securities issued, redeemed, cancelled and exchanged by fiscal agency department	+54.6%	+132.6%
Transfers of funds:		
To 5% redemption fund of national banks	- 1.8%	+ 3.2%
Other transfers	+ 8.8%	+ 12.0%

The total volume of currency counted increased from 188,980,000 pieces in 1926 to 207,700,000 pieces in 1927. A considerable gain in output per employee was realized through the introduction of 35 specially devised machines for counting paper money. Using these machines an efficient operator can count and sort as many as 23,000 pieces a day.

In 1926 the average number of individual checks and bundles of checks (which had been treated as single items) handled daily was 227,000 and this year the average rose to 233,000. On Novem-

ber 12, following a holiday, 403,614 items, including a total of 456,204 checks, were put through the work.

Other service departments not listed in the table given above include the custody department, which in 1927 held, on the average, \$223,372,000 of securities in custody for member banks, and the securities department, which handled 18,484 purchase and sale transactions involving \$78,686,000 for the account of others than this bank.

Discount rate

The discount rate of the bank continued at 4 per cent from November 20, 1925 to September 8, 1927, when it was reduced to 3½ per cent. At that time declining market rates for commercial paper and bankers' acceptances gave evidence of ease in money and reports on business conditions in the district indicated that production and sales were not keeping pace with the corresponding period of 1926.

The effect of decreases in the rates of the various reserve banks and the accompanying declines in money rates was to make domestic rates less attractive than those abroad, tending to divert funds abroad and to strengthen exchange rates on those centers at a time when the foreign demand for the agricultural products of this country was active.

Internal organization

Directors

With the close of 1927, the terms of Francis Douglas, Charles K. Haddon, and Charles C. Harrison, as directors of this bank, expired.

The First National Bank, of Wilkes-Barre, Pa., of which Mr. Douglas is cashier, owing to the increase in its capital and surplus, was transferred from group 2 to group 1, making it impossible for Mr. Douglas longer to represent, as a director of this bank, banks of group 2. His services as a director terminated with the close of the year. This group of banks elected George W. Reily, president of the Harrisburg National Bank, of Harrisburg, Pa., as a class A director, taking the place which so ably had been filled, for nine years, by Mr. Douglas.

Mr. Haddon expressed the desire to withdraw from the directorate at the end of his term. To succeed him, Arthur C. Dorrance, acting general manager of the Campbell Soup Co., of Camden, N. J., was elected by the group 3 banks as a class B director.

Thirteenth Annual Report, Federal Reserve Bank of Philadelphia

The term of Charles C. Harrison, a class C director since 1918 and over much of this time deputy chairman of the board, expired December 31, 1927. Due to failing health he was unable, longer, to serve the bank. The Federal Reserve Board appointed Alba B. Johnson, who has been a class B director of this bank since its organization, as a class C director, succeeding Mr. Harrison.

C. Frederick C. Stout, senior member of the firm of John R. Evans & Co., Philadelphia, was elected by the banks of group 1 as a class B director to fill the unexpired term of Mr. Johnson.

The retirement from the board of these three directors was the cause of deepest regret to the board. They had served through the difficult post-war period with its intricate problems incident to the general business conditions of that time. Their tactful clear-thinking, good judgment and fidelity to public service were of invaluable assistance in conducting the affairs of the bank.

Board of Directors

Class	Name	Residence	Term expires
A.	Group 1 Joseph Wayne, Jr., president, Philadelphia-Girard National Bank, Philadelphia, Pa.	Philadelphia, Pa.	Dec. 31, 1929
	Group 2 Francis Douglas, cashier, First National Bank, Wilkes-Barre, Pa.	Wilkes-Barre, Pa.	Dec. 31, 1927
	Group 3 John C. Cosgrove, director, First National Bank, Hastings, Pa.	Johnstown, Pa.	Dec. 31, 1928
B.	Group 1 Alba B. Johnson, chairman of board, Southwark Foundry and Machine Co., Philadelphia, Pa.	Rosemont, Pa.	Dec. 31, 1928
	Group 2 Arthur W. Sewall, president, General Asphalt Co., Philadelphia, Pa.	Philadelphia, Pa.	Dec. 31, 1929
	Group 3 Charles K. Haddon, merchant, Camden, N. J.	Haddonfield, N. J.	Dec. 31, 1927
C.	Richard L. Austin, chairman of the board	Philadelphia, Pa.	Dec. 31, 1929
	Charles C. Harrison, deputy-chairman of the board	Philadelphia, Pa.	Dec. 31, 1927
	Harry L. Cannon	Bridgeville, Del.	Dec. 31, 1928

Thirteenth Annual Report, Federal Reserve Bank of Philadelphia

Federal Advisory Council

Levi L. Rue, by election of the board of directors at their first meeting in 1927, was selected to represent the Third Federal Reserve District on the Federal Advisory Council during 1927.

Officers and employees

By appointment of the Federal Reserve Board, Richard L. Austin served as chairman of the board of directors and Federal reserve agent, and Arthur E. Post and Ernest C. Hill as assistant Federal reserve agents during 1927.

The board of directors, at its meeting of January 5, reappointed the following officers to serve during 1927: governor, George W. Norris; deputy governor, William H. Hutt; cashier and secretary, C. A. McIlhenny; assistant cashiers, W. J. Davis, James M. Toy, R. M. Miller, Jr., F. W. LaBold, S. R. Earl. William G. McCreehy again was designated comptroller of the bank at this meeting.

The number of officers continued unchanged at 12 during 1927, but the number of employees was reduced from 746 to 717.

Banks of the district

Consolidations of banking institutions in various parts of the country were numerous during 1927. A variety of reasons account for this, but among them may be found the hope that greater economy of operations would result, that advantageously located branches might be obtained, or that an increased capacity for service would be realized through the ability to extend larger lines of credit to customers.

During the year there were three consolidations of national banks and two of state bank members in this district without the liquidation of any of the combining institutions. In addition, two national banks and one state member bank liquidated to form a new state member bank, and five national banks and one state member liquidated to join with non-members.

All withdrawals from membership during the year were the result of consolidation. The organization of new national banks and the admission of state institutions to membership exceeded the withdrawals. The total number of member banks increased from 771 to 779 in the year, as the following table shows:

Thirteenth Annual Report, Federal Reserve Bank of Philadelphia

	National banks	State member banks	Totals
Membership, December 31, 1926	686	85	771
Changes during 1927:			
<i>Gains:</i>			
New national banks	13	—	13
Non-member bank converted to national bank	1	—	1
New state bank members	—	9*	9*
	14	9*	23*
<i>Losses:</i>			
Consolidation of national banks	3	—	3
Consolidation of state bank members	—	2	2
Liquidation and consolidation into a state bank member	2	1	3
Liquidation and consolidation with non-members	5	1	6
National bank converted into a state bank member	1	—	1
	11	4	15
Membership, December 31, 1927	689	90	779

* Not including two state member banks liquidated and rechartered under new names, but including one national bank liquidated and converted into state member bank.

From June 30, 1926 to June 30, 1927 the resources of member banks in the Philadelphia Federal reserve district increased from \$2,960,000,000 to \$3,082,000,000, or 4.1 per cent, and in the four years from September, 1923, to October, 1927, an increase of 29.9 per cent took place, as compared with 28 per cent for the Federal reserve system. Loans and discounts in this district increased 35.9 per cent in the four years and in the country, 24.6 per cent, whereas investments increased 25 per cent in the district and 30.4 per cent in the country. The percentage of capital, surplus and undivided profits to total deposits in this district was 22.3 per cent on October 10, 1927, as compared with 14.9 per cent for all members of the Federal reserve system.

Figures compiled by the Federal Reserve Board show that in the middle of 1927 the loans and investments of all banks in the Philadelphia Federal reserve district amounted to \$4,120,000,000, of which member banks had 61.6 per cent, and deposits, exclusive of bank deposits, totaled \$3,645,000,000 of which 60 per cent were in member banks.

Thirteenth Annual Report, Federal Reserve Bank of Philadelphia

The distribution of member bank deposits in cities of various sizes is given in the following table:

(000's omitted)	December 7, 1927	December 29, 1926	Changes
Places of less than 5,000 population:			
Net demand deposits	\$147,580	\$143,702	+\$3,878
Time deposits	287,840	263,865	+23,975
Places of 5,000 to 15,000 population:			
Net demand deposits	76,332	76,131	+ 201
Time deposits	145,944	136,382	+ 9,562
Places of 15,000 to 100,000 population:			
Net demand deposits	159,950	161,379	— 1,429
Time deposits	272,274	241,565	+30,709
Places of 100,000 population or more:			
Net demand deposits	840,680	829,987	+10,693
Time deposits	328,701	295,116	+33,585
All member banks:			
Net demand deposits	1,224,542	1,211,199	+13,343
Time deposits	1,034,759	936,928	+97,831

Gross earnings of all member banks in the district amounted to \$155,340,000 in the year ended June 30, 1927, and net profits to \$45,717,000. Net profits were equivalent to \$1.84 on each \$100 of loans and investments, and compare with \$1.94 in the preceding year. This rate of earnings was higher than in any other Federal reserve district, a result, not of a high rate of gross earnings, but of low expenses and losses. Losses per \$100 of loans amounted to only 26 cents, and per \$100 of investments to 36 cents.

Fiduciary powers

During 1927, 31 additional national banks were granted fiduciary powers in this district, but the liquidation of four banks and the consolidation of five others already having these powers resulted in a net gain of only 22, from 238 to 260. In addition to these original grants of fiduciary powers, six banks which were privileged to exercise certain of them were granted further powers in the course of the year. On December 31, 1927, the distribution of national banks with fiduciary powers was as follows:

	Full powers	Partial powers	Totals
Pennsylvania	177	27	204
New Jersey	40	6	46
Delaware	7	3	10
Totals	224	36	260

Acceptance powers

During the year one additional bank was granted the right to accept up to one hundred per cent of paid-up and unimpaired capital and surplus, the number becoming six. For the first time in years an increase was recorded in the amount of bankers' acceptances executed by member banks in this district. On June 30, 1927, the amount of acceptances of member banks outstanding was \$12,339,000, as compared with \$7,449,000 a year before, a gain of 66 per cent.

Figures tabulated by the American Acceptance Council show that on November 30, 1927, a total of \$1,029,490,000 of acceptances of banks in this country was outstanding, an increase of 42 per cent in the course of a year.

Bank examination

The department of bank examination co-operated with the state banking departments and the office of the comptroller of the currency in the examination of 87 member institutions, 85 state bank and trust company members and 2 national banks. In addition, 6 complete examinations were made of state banking institutions which had applied for membership. Representatives of the department also participated by special request in three other examinations or audits. Investigations were conducted in connection with 24 applications for the organization of new national banks and 2 applications for the conversion of state banks into national banks; 37 applications by national banks for permission to exercise fiduciary powers were received and acted upon; and 61 applications for interlocking directorates under the Clayton Act were examined and recommendations made in connection therewith.

Among the general services rendered member banks by representatives of the department were,—assistance in the installation or revision of trust department and banking department forms of accounting, conferences with officers and directors relating to matters of criticism and constructive suggestions contained in the reports of examinations, and advising with banks regarding increases in capital stock, bank mergers, and other matters.

Federal Reserve Bank of Philadelphia

Directors and Officers Appointed and Elected for the Year 1928

DIRECTORS

Class A

John C. Cosgrove, Johnstown, Pa.
George W. Reily, Harrisburg, Pa.
Joseph Wayne, Jr., Philadelphia, Pa.

Class B

Arthur C. Dorrance, Camden, N. J.
Arthur W. Sewall, Philadelphia, Pa.
C. Frederick C. Stout, Philadelphia, Pa.

Class C

Richard L. Austin, Philadelphia, Pa.
Harry L. Cannon, Bridgeville, Del.
Alba B. Johnson, Rosemont, Pa.

Member of Federal Advisory Council

Levi L. Rue, Philadelphia, Pa.

OFFICERS

Richard L. Austin,
Chairman and Federal Reserve Agent

Alba B. Johnson,
Deputy Chairman

Arthur E. Post, Assistant Federal
Reserve Agent

Ernest C. Hill, Assistant Federal
Reserve Agent

George W. Norris,
Governor

William H. Hutt,
Deputy Governor

C. A. McIlhenny,
Cashier and Secretary

W. J. Davis, Assistant Cashier
J. M. Toy, Assistant Cashier
R. M. Miller, Jr., Assistant Cashier
F. W. La Bold, Assistant Cashier
S. R. Earl, Assistant Cashier

William G. McCreedy, Comptroller