

Fourteenth 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

January 31, 1929.

Federal Reserve Board,
Washington, D. C.

Dear Sirs:—

I have the honor to transmit herewith the fourteenth annual report on the operations of the Federal Reserve Bank of Philadelphia, covering the year 1928.

Very truly yours,

R. L. AUSTIN

*Chairman of the Board and
Federal Reserve Agent*

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Annual Report of the Federal Reserve Bank of Philadelphia for 1928

The profit and loss account of the bank for 1928 follows, with comparison of the two preceding years:

	1928	1927	1926
Gross earnings:			
From bills discounted	\$3,498,453	\$1,648,548	\$2,036,833
From bills bought	932,744	603,587	661,657
From United States securities	914,403	970,386	764,324
From other sources	48,946	141,105	163,834
Total earnings	\$5,394,546	\$3,363,626	\$3,626,648
Expenses:			
Maintaining the accounts of the bank ..	96,129	95,873	98,760
Loans and discounts	52,368	53,097	52,677
Currency and coin	480,667	618,412	560,972
Transit and collections	436,352	436,406	433,749
Fiscal agency functions	48,365	44,006	39,415
Custody of securities, including pur- chases and sales	73,950	67,970	68,720
Transfer and telegraphic service	20,428	20,257	20,740
Official salaries and supervisory expenses	161,973	155,391	149,694
Federal reserve agent's department: (Custody of collateral against federal reserve notes, note issues, bank examination, library, statistical and business reporting work)	88,527	86,009	82,235
Maintaining the general audit	57,405	59,124	56,459
Bank relations	19,214	12,513	12,041
Insurance (other than on currency, coin and security shipments)	33,866	33,292	31,814
Operation of banking house	182,110	188,471	215,960
This bank's portion of Federal Reserve Board expenses	66,695	74,621	68,636
Miscellaneous	168,193	161,240	164,402
Current expenses	\$1,986,242	\$2,106,682	\$2,056,274
Current net earnings	\$3,408,304	\$1,256,944	\$1,570,374
Additions to current net earnings	\$1,481	\$2,646	\$1,130
Deductions from current net earnings	127,144	83,121	37,771
Net deductions	\$125,663	\$80,475	\$36,641
Net earnings available for dividends, sur- plus and franchise tax	\$3,282,641	\$1,176,469	\$1,533,733
Distribution of net earnings:			
Dividends	\$843,755	\$781,540	\$730,598
Paid to government as a franchise tax ..	0	0	0
Transferred to surplus account	2,438,886	394,929	803,135

A heavier volume of discounts for member banks and higher average rates of discount were chiefly responsible for an increase in earnings, which were the largest since 1921.

The decline in current expenses was due principally to a reduction in federal reserve note printing costs. New notes of smaller size are in course of preparation and the stock of old notes is being permitted to decline. Omitting the cost of federal reserve currency, other current expenses of the bank were smaller than in any year since 1922, with the exception of 1925.

Charge-offs, deducted from current net earnings, included \$38,873 of furniture and equipment and a net loss of \$87,541 on the sale of United States securities. Following adjustments, \$3,282,641 remained for distribution, almost three times as much as was available in 1927. Dividends accounted for \$843,755 of this amount, the balance being transferred to surplus, which is not yet equal to the 100 per cent of subscribed capital permitted by the Federal Reserve Act.

Statement of condition

The year-end statement shows a considerable decline in the total bill and security holdings of the bank during 1928, despite an increase of 17 millions in bills discounted. Purchased bills declined 28 millions and United States securities, 24 millions.

The member banks report a material decline in net demand deposits and an increase in time deposits. Their borrowings increased and reserve requirements declined. Notwithstanding this, the reserves of this bank increased 35 millions. Its total deposits on December 31, 1928 were 10 millions smaller than a year earlier, more than balancing an increase in federal reserve note circulation. The smaller total of liabilities, together with the gain in cash reserves, resulted in an advance in the reserve ratio from 52.9 to 66.7 per cent.

An increase of \$1,299,000 in the capital stock of the bank during 1928 was the largest in any year since 1918. This increase in capital resulted chiefly from changes in the capital and surplus of member banks in the year ended June 30, 1928, as the majority of applications for capital stock of this bank are acted upon after the close of each half year. The banks have availed themselves of the opportunity to increase their own capital stock at a time when stock issues were being well received by the public. Another factor has been the merger of member and non-member banks under the charters of the member banks, with an attendant increase in the capital of member institutions.

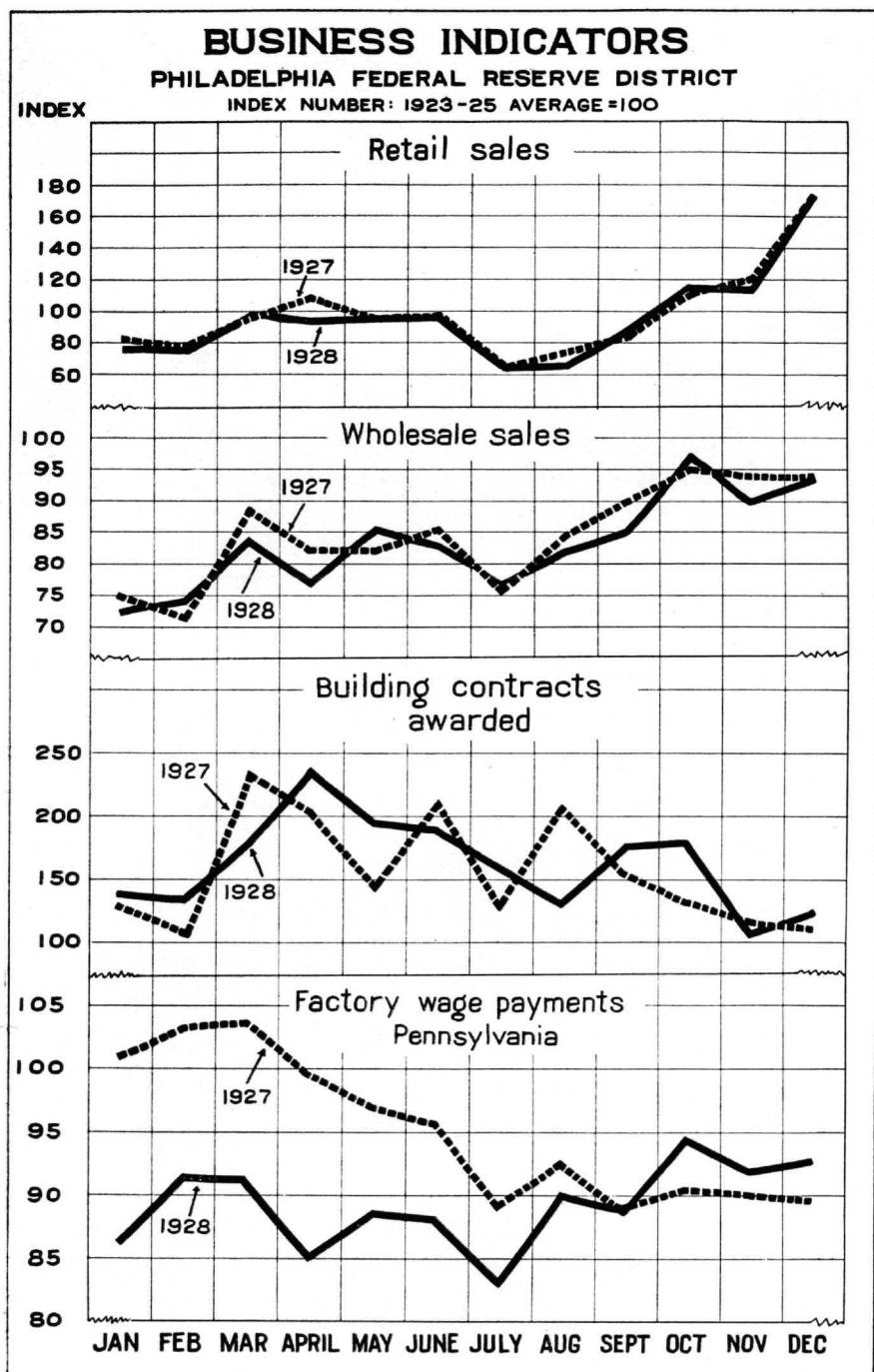
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(000's omitted)	December 31, 1928	December 31, 1927	Changes during 1928
Resources			
Gold reserves	\$179,131	\$143,894	+\$35,237
Reserves other than gold	6,453	6,066	+ 387
Total reserves	\$185,584	\$149,960	+\$35,624
Non-reserve cash	1,486	1,490	- 4
Bills discounted:			
Secured by government obligations . . .	59,548	50,042	+ 9,506
Other bills discounted	24,766	17,329	+ 7,437
Total bills discounted	\$84,314	\$67,371	+\$16,943
Bills bought	16,234	44,523	- 28,289
United States securities	21,447	45,663	- 24,216
Total bills and securities	\$121,995	\$157,557	-\$35,562
Uncollected items	60,242	63,738	- 3,496
All other resources	2,019	2,009	+ 10
Total resources	\$371,326	\$374,754	- \$3,428
Liabilities			
Federal reserve notes in actual circulation.	\$142,948	\$137,551	+ \$5,397
Deposits:			
Member bank—reserve account	133,515	143,833	- 10,318
Government	985	1,242	- 257
Other deposits	688	701	- 13
Total deposits	\$135,188	\$145,776	-\$10,588
Deferred availability items	54,342	56,309	- 1,967
Capital paid in	14,536	13,237	+ 1,299
Surplus	24,101	21,662	+ 2,439
All other liabilities	211	219	- 8
Total liabilities	\$371,326	\$374,754	- \$3,428
Ratio of total reserves to deposits and federal reserve note liabilities combined	66.7%	52.9%	+ 13.8%
Contingent liability on bills purchased for foreign correspondents	\$30,688	\$21,963	+ \$8,725

Business and financial conditions in the Philadelphia district

Business in the Philadelphia Federal Reserve District generally showed some improvement in the latter part of 1928. Conditions during the year showed considerable divergence, however, and expansion in the activity of manufacturing industries of the district was not shared by retail and wholesale trade. Our reports indicate that stocks of goods in the hands of manufacturers, wholesalers, and retailers in this district have declined to some extent in the course of the year.

Industrial operations in the first half of the year continued the downward trend begun in the latter part of 1927 and in the spring activity failed to measure up to the level of production usual at that season. Manufacturing turned sharply upward in the summer, how-



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ever, and in the closing months of the year compared favorably with that of a year earlier. Nevertheless, the total volume of production was noticeably below the high point attained in 1926.

This failure to equal previous high records was due principally to some curtailment of production in most lines of textiles, which are of great importance in this district. Payroll figures show that textile activity in this section was in smaller volume than in 1927 throughout most of the year; this also was true of transportation equipment, stone, clay and glass products, and lumber products. An outstanding exception to this situation was afforded by metal products. In the last half of the year there was exceptional activity in most lines of metal production.

The coal situation improved in the latter part of the year and labor conditions were quiet. Despite this improvement, the market for both hard and soft coal was unsatisfactory to the operators. Prices averaged lower than in 1927, and production was smaller.

The building situation was one of the brightest spots of the year. In this district, as in the country, contract awards were in larger volume than in any previous year. Construction of residential buildings was especially active. In contrast with this activity in building, however, the real estate market was comparatively quiet. The number of deeds recorded in Philadelphia county was only slightly larger than in 1927,

*Business indicators
Philadelphia Federal Reserve District*

	1928 compared with 1927
Factory employment, average (Pa.)	- 5.6%
Factory wage payments, average (Pa.)	- 6.0 "
Productive activity:	
Shoe production	- 2.4 "
Wool consumption	- 7.6 "
Cotton spindle hours (Pa. & N. J.)	-13.1 "
Pig iron production	- 0.9 "
Iron casting production	+ 3.4 "
Steel casting production	- 1.0 "
Hosiery production	+ 5.7 "
Cement production	- 6.8 "
Anthracite production	- 4.2 "
Bituminous coal production (Pa.)	- 5.2 "
Electric power production	+12.7 "
Building contracts awarded	+ 3.4 "
Mortgages recorded, value (Phila.)	- 6.3 "
Properties offered at sheriff's sale (Phila.)	+39.0 "
Commercial failures, liabilities	-20.2 "
Freight car loadings (Allegheny district)	- 0.03 "
Retail sales	- 2.4 "
Wholesale sales	- 2.0 "
Life insurance sales (Pa., N. J. & Del.)	+ 8.2 "

there was a decline in the value of mortgages recorded, and sheriff's sales in Philadelphia reached the highest total on record.

The yield of crops was about equal to that of 1927, and was nearly six per cent larger than the average of the last ten years. This compares with a gain of about four per cent for the country. Among the principal crops grown in this section are grains, fruits, truck, and tobacco. Dairy farming also is an activity of much importance.

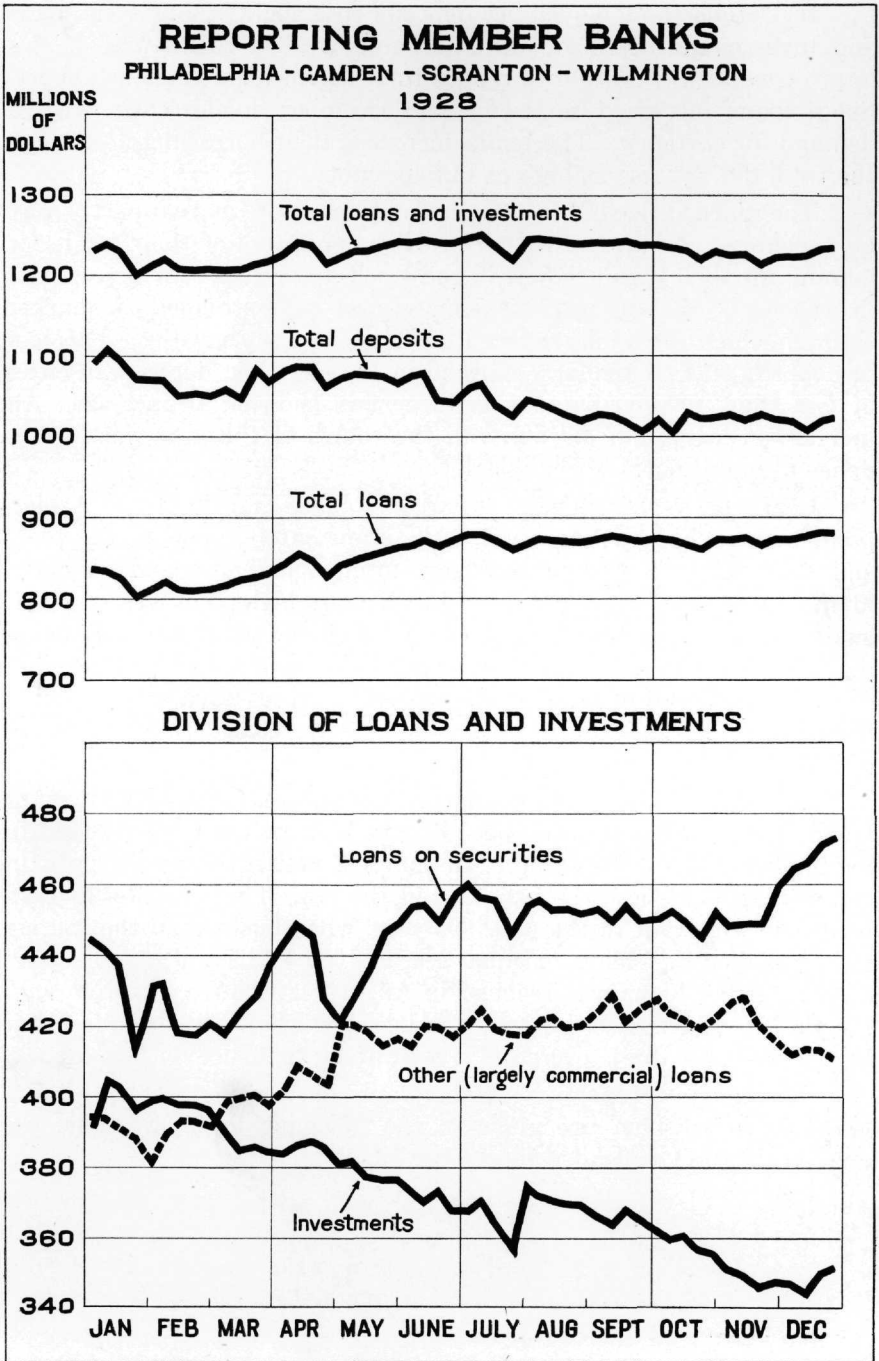
The record of distribution was not as satisfactory as that of production. Retail sales were in slightly smaller volume than in 1927, and wholesale trade also fell below that year. Total car loadings in the Allegheny district, too, were fractionally smaller, although merchandise and miscellaneous loadings exceeded those in 1927.

Check payments, as recorded by banks in seventeen cities of the district, were in larger volume than ever before. This reflects increases in physical volume and in prices in some lines of business, but probably is due in greater measure to heavy turnover and higher prices in the stock market. Philadelphia shows an increase of 12.4 per cent in the year, but in the smaller cities the gain was only 4.8 per cent.

Commercial failures increased in number, but the amount of liabilities was less than in 1927.

The weekly reports of member banks in Philadelphia, Camden, Scranton, and Wilmington furnish a valuable picture of banking conditions in this district. The loans and investments of the reporting banks make up about 46 per cent of the total for all member banks in the district, and the records are available at close intervals. The changes which take place in their condition ordinarily are more extreme than in smaller cities, and find quick reflection in the condition of the Federal Reserve Bank.

From a high point in the first report of the year, the loans and discounts of member banks in the four cities receded during January and remained low in February. Thereafter the trend was upward till early in July, but over the balance of the year loans were steadier. The trends of loans and deposits were somewhat alike in the first four months of the year, but in succeeding months there was a decline in deposits which lasted until October. The ratio of loans to deposits rose from 78 per cent at the end of April to 86.8 per cent at the close of September. In this period, indeed over most of the year, investments declined, probably reflecting the efforts put forth by the banks to meet deposit losses. The sale of investments was not nearly sufficient to accomplish this, however, and recourse was had to borrowing from the Federal Reserve Bank. The decline in investments contrasts sharply with the accumulation of securities in 1927.



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In October and November deposits rose slightly, but total loans and investments declined, and the banks availed themselves of this improvement in condition to reduce their borrowings. This was short-lived; loans increased somewhat in December concurrently with a demand for currency. The banks increased their borrowings, although the total did not rise as high as in September.

The marked decline in deposits over much of the year partly may be accounted for by the withdrawal by depositors of their funds for loaning for their own account in the stock market and for investment in securities. Such investment demand may have provided the market through which the banks reduced their holdings of securities. This loss in deposits was particularly marked in Philadelphia, deposits in cities of less than 100,000 population in general showing an increase. An increase in loans and discounts in the course of the year was in evidence in many parts of the district.

Loans on securities were in larger volume than in 1927. A high point was reached on January 4, 1928, immediately following the year-end financial transactions and large interest and dividend disbursements. A decline followed, but on July 3 a new high point was attained, again at a time when heavy interest and dividend payments were being made. There was a gradual decline until November. Toward the close of that month and in December loans on securities advanced, reaching the peak for the year on the 26th and exceeding considerably the figure of a year earlier.

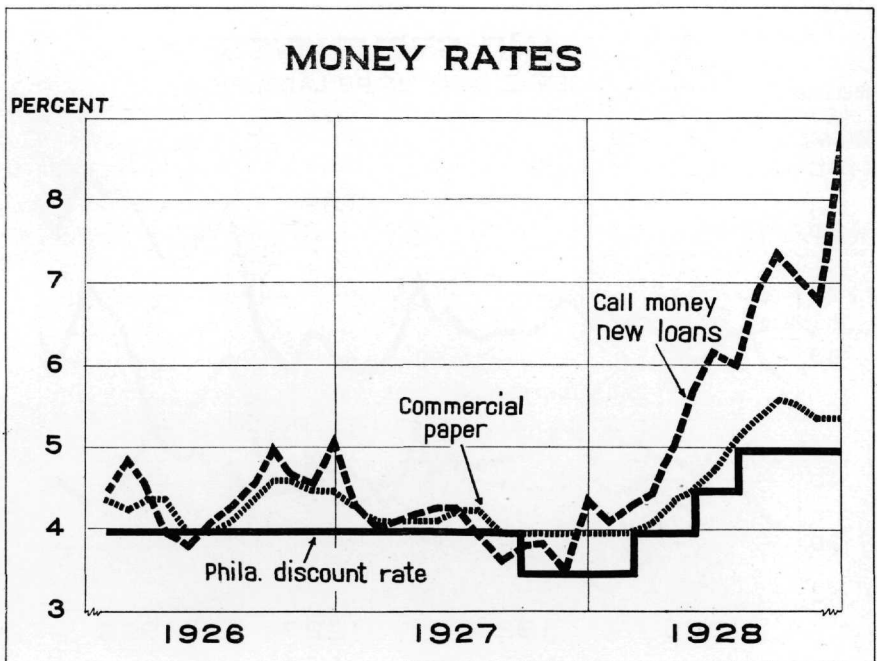
"Other loans," largely commercial in nature, followed an upward trend from February until the fall, and high points were reached in September and in November. In times of active business a peak in commercial loans is to be expected in the fall. The situation in 1928 contrasts with that in the previous year, when business in the last six months failed decidedly to equal seasonal expectations, and the peak of commercial loans was reached in August. Although rates on commercial loans increased during the year, there is little reason to feel that higher costs for funds exercised a restraining influence on business.

The figures of reporting member banks in twenty-one of the leading cities of the district are given in the following table, which shows changes in the year ended December 12, 1928:

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Changes in condition of reporting member banks from
December 14, 1927 to December 12, 1928
(In thousands of dollars)

	Number of banks	Loans and discounts	Investments	Net demand deposits	Time deposits
Allentown.....	6	+ 2,363	+ 196	+ 1,153	+ 617
Atlantic City.....	8	+ 108	- 316	- 854	- 477
Bethlehem.....	3	+ 1,480	- 298	+ 367	+ 905
Chester.....	4	+ 931	+ 27	- 124	+ 443
Easton.....	4	+ 978	- 603	+ 156	+ 65
Harrisburg.....	3	+ 15	+ 73	- 525	+ 149
Hazleton.....	5	+ 1,706	- 431	+ 276	+ 306
Johnstown.....	4	- 654	- 313	- 687	- 18
Lancaster.....	3	+ 1,356	- 64	- 492	+ 1,537
Lebanon.....	3	+ 479	+ 339	+ 384	+ 302
Norristown.....	3	+ 379	+ 1,347	+ 98	+ 604
Philadelphia.....	32	+24,968	-39,052	-69,100	+11,292
Reading.....	6	+ 1,934	+ 747	+ 1,020	- 343
Scranton.....	4	+ 2,480	- 2,178	- 4,895	- 2,129
Trenton.....	3	- 2,539	- 444	- 4,976	+ 820
Wilkes-Barre.....	5	+ 2,185	- 421	+ 1,354	- 789
Williamsport.....	4	- 167	- 2,041	+ 74	- 2,401
Wilmington.....	6	+22,257	- 2,368	+ 4,748	+ 584
York.....	11	+ 3,332	- 21	+ 1,322	+ 935
Other cities.....	3	- 1,318	- 2,542	- 487	- 5,511
Totals.....	120	+62,273	-48,363	-71,188	+ 6,891



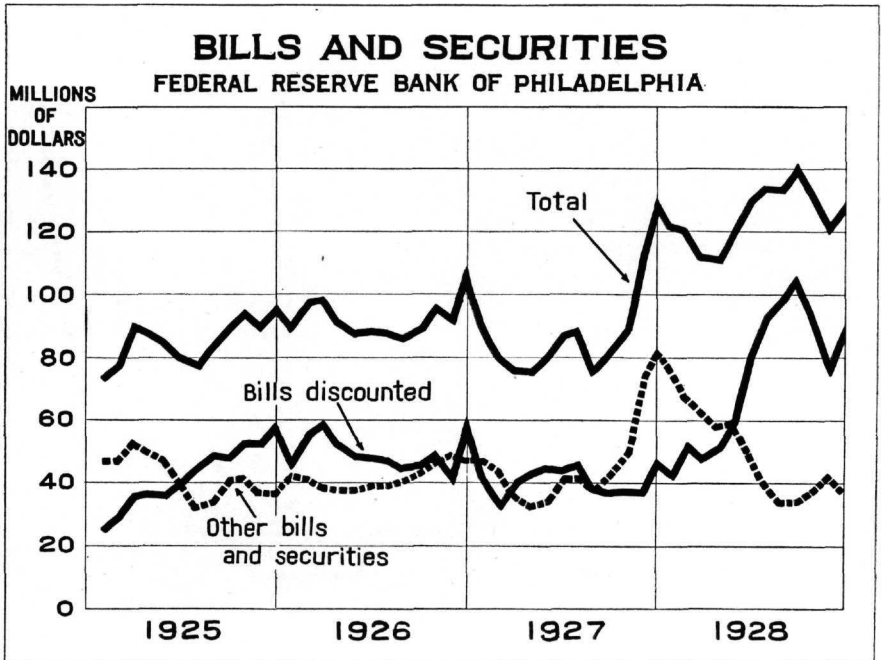
Rates reported by large member banks in Philadelphia give evidence of firmer monetary conditions. Loans to customers on their prime commercial paper were quoted at $4\frac{1}{4}$ to $4\frac{1}{2}$ per cent in the week of December 15, 1927, but in the corresponding week of 1928 the prevailing rate was $5\frac{1}{2}$ per cent. Market rates for commercial paper advanced from 4 per cent to $5\frac{1}{4}$ - $5\frac{1}{2}$ per cent in the same period. Sales of such paper to Philadelphia banks were much smaller than in 1927.

Discounts and purchases of bills and securities

Although year-end figures of this bank show a decline in total holdings of bills and securities, daily averages for 1928 were larger than in any year since 1921. Comparative average holdings for the past three years follow:

	1928	1927	1926
Bills discounted.....	\$75,400,000	\$42,100,000	\$50,900,000
Bills bought.....	24,500,000	17,400,000	18,600,000
United States securities.....	26,400,000	29,300,000	21,300,000
Other securities.....	*	1,000,000	2,900,000
Totals.....	\$126,300,000	\$89,800,000	\$93,700,000

*Less than \$100,000



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From an average of 130 millions in December, 1927, the bill and security holdings of the bank receded to 112 millions in April, but over each of the first four months of this year were from 30 to 40 millions in excess of the same months last year. This was followed by an advance to 142 millions in September. The average did not fall below 122 millions in October and November, and rose to 129 millions in December.

The number of banks which borrowed during 1928 was 562, or about 72 per cent of all member banks in the district. Holdings of bills discounted in 1928 were much in excess of 1927. There was a decline to 29 millions on January 26, but during February, March, April, and the greater part of May discounts hovered between 40 and 65 millions. Late in May there was a sharp turn upward and in September the daily average was in excess of 100 millions. The reports of member banks in leading cities of the district show that loans expanded in this interval, but that net demand deposits declined materially.

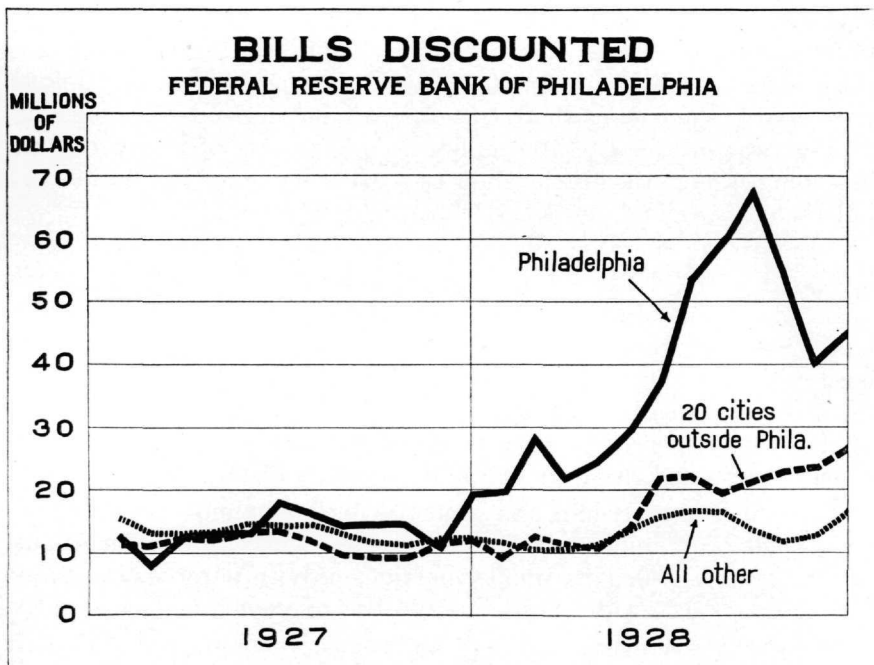
In October and November deposits of the weekly reporting banks increased slightly, loans were comparatively stable, and the banks disposed of some of their investments. The borrowings of all member banks were reduced to 68 millions late in November. The increased need for currency in connection with the holiday season began to manifest itself in increasing measure and, chiefly to meet this demand without impairing reserves, member banks borrowed more heavily, the total of bills discounted rising to 102 millions before Christmas.

Holdings of other bills and securities declined almost steadily from an average of 82 millions in December, 1927 to 35 millions in August and September, reflecting smaller holdings of both purchased bills and United States securities. Subsequently this average increased slightly.

Monthly averages of the bill and security holdings of this bank follow:

	Bills discounted	Bills bought	United States securities	Other securities	Total bills and securities
1927—Dec.	\$47,854,000	\$36,738,000	\$45,740,000	\$93,000	\$130,425,000
1928—Jan.	44,376,000	35,990,000	41,604,000	0	121,970,000
Feb.	53,062,000	32,855,000	35,027,000	0	120,944,000
Mar.	49,157,000	29,753,000	33,840,000	0	112,750,000
Apr.	52,707,000	28,638,000	30,807,000	0	112,152,000
May.	60,433,000	36,603,000	23,994,000	10,000	121,040,000
June.	80,201,000	28,676,000	21,709,000	67,000	130,653,000
July.	93,811,000	19,253,000	21,788,000	0	134,852,000
Aug.	99,125,000	13,949,000	21,322,000	0	134,396,000
Sept.	106,486,000	12,562,000	22,916,000	21,000	141,985,000
Oct.	93,701,000	17,900,000	21,209,000	30,000	132,840,000
Nov.	79,289,000	22,028,000	21,410,000	118,000	122,845,000
Dec.	91,338,000	16,107,000	21,934,000	116,000	129,495,000

Under the federal reserve system well operated banks have found that they may, with perfect safety, work close to the limit of their reserves, depending on the reserve banks to care for the usual ups and downs of business and such emergencies as may occur. A loss of deposits which is temporary in nature does not, as in former years, mean necessarily a contraction of loans and a change in loaning policy, as the reserve banks can furnish the necessary funds to keep the banks' reserve position properly adjusted.



Borrowing by cities

Year-end figures show little change in the borrowings of Philadelphia banks, although sharp fluctuations during the year were largely the results of their operations, as the accompanying chart shows. Banks in many other cities on December 31, 1928 were borrowing more actively than a year earlier.

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	December 31, 1928	December 31, 1927	December 31, 1926
Allentown	\$768,000	\$77,000	\$330,000
Atlantic City	2,014,000	1,943,000	3,341,000
Bethlehem	149,000	585,000	612,000
Chester	1,800,000	1,583,000	625,000
Easton	474,000	945,000	1,354,000
Harrisburg	0	0	0
Hazleton	873,000	534,000	721,000
Johnstown	0	60,000	40,000
Lancaster	0	0	0
Lebanon	115,000	150,000	200,000
Norristown	600,000	150,000	270,000
Philadelphia	43,066,000	43,893,000	36,509,000
Reading	2,026,000	240,000	1,572,000
Scranton	6,195,000	1,318,000	540,000
Trenton	2,187,000	1,193,000	671,000
Wilkes-Barre	790,000	250,000	756,000
Williamsport	521,000	395,000	1,240,000
Wilmington	920,000	85,000	190,000
York	839,000	160,000	655,000
Other communities	20,977,000	13,810,000	18,215,000
Totals	\$84,314,000	\$67,371,000	\$67,841,000

Classification of rediscounts

As in 1927, manufacturers and dealers in textiles and textile materials and in foods and food products were heavily represented in the paper which was offered to this bank for rediscount, making up 38.5 per cent of the total in 1928. The following percentages are the proportions which the paper of firms in the lines indicated bore to total bills rediscounted:

	1928	1927
Agriculture	0.9%	1.7%
Automobiles	3.2 "	4.1 "
Building materials	5.0 "	9.7 "
Chemicals and drugs	1.1 "	1.3 "
Cigars and tobacco	8.6 "	3.6 "
Contractors and builders	1.8 "	3.0 "
Department stores	4.5 "	3.9 "
Food and food products	15.4 "	15.3 "
Furniture	2.1 "	2.7 "
Hides, leather and shoes	5.0 "	6.9 "
Metals and metal products	6.4 "	5.4 "
Paper and printing	1.8 "	3.2 "
Rubber	2.7 "	1.6 "
Textiles and textile materials	23.1 "	21.6 "
Miscellaneous	18.4 "	16.0 "
Totals	100.0%	100.0%

Discount policy

The discount rate of this bank at the opening of the year was 3½ per cent. Effective February 16, May 17, and July 26, advances of one-half of one per cent each were made, raising the rate to 5 per cent.

The Federal Reserve Bank has been alert during the year to avoid as far as possible the use of reserve credit for the support of stock market operations, and at the same time to maintain an adequate supply of credit for commerce and business at reasonable rates. Reserve bank credit reaches the ultimate user through the banks. It does not flow continually in predetermined channels; from the support of current business it may be diverted to the purchase of capital equipment or to stock speculation. In passing upon the applications of our member banks for rediscounts, it only is possible to be assured that the proceeds are to be used for commercial or agricultural purposes.

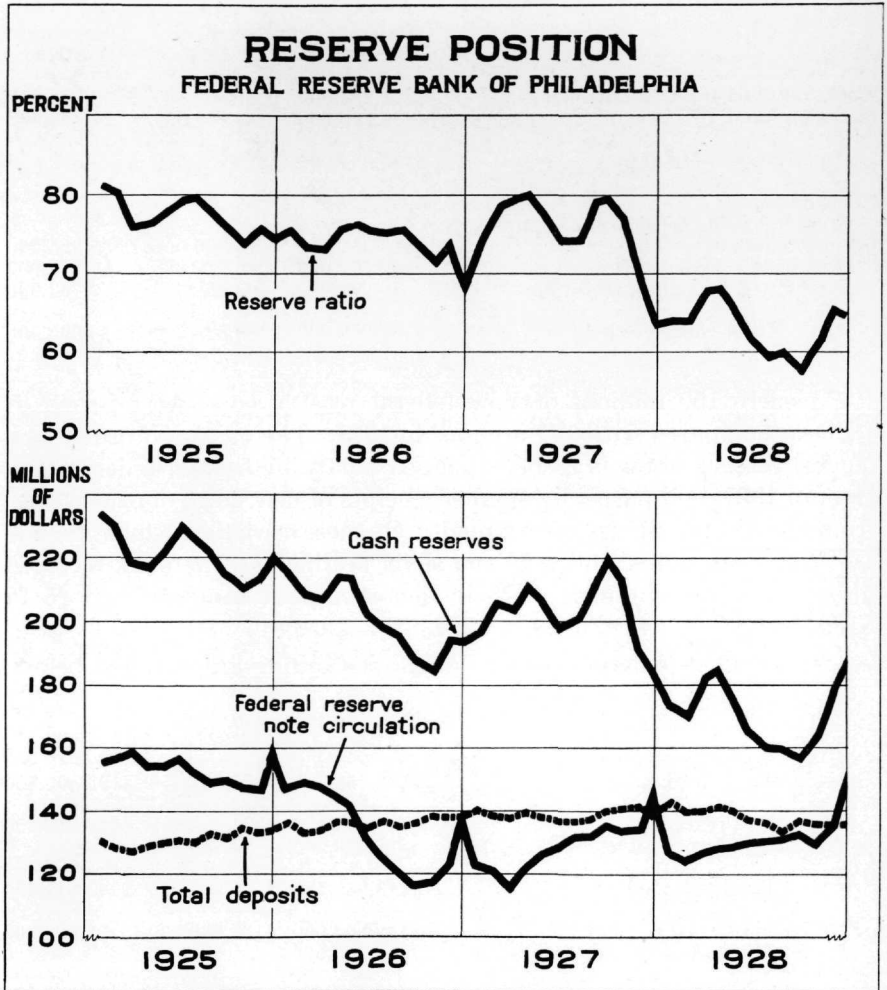
Within the limits of the law, the banks are at liberty to invest in whatever manner their judgment may indicate to be sound and profitable. During the past year collaterally secured loans have offered satisfactory investments at most tempting rates. Much self control has been exercised by the officers of our member banks in resisting the temptation to borrow from the Federal Reserve Bank and to obtain large profits by using the proceeds in making such loans. The officers of this bank have given constant and careful scrutiny to the borrowing banks in the endeavor to see that the credit extended to them has been used properly. We have met with general acceptance of the principle that reserve bank credit is not to be used for speculative purposes.

Reserve position

Although the reserve ratio of the bank rose from 52.9 per cent at the end of 1927 to 66.7 per cent at the close of 1928, the average for the year was lower than in 1927. Daily averages of the reserve ratio and the items used in its computation follow:

	1928	1927
Reserve ratio	63.6%	75.8%
Total deposits	\$138,800,000	\$139,800,000
Federal reserve note circulation	132,000,000	130,300,000
Cash reserves	172,300,000	204,600,000

The January average of total deposits was higher than at any time in the past four years, but the tendency over the rest of 1928 was



generally downward, reflecting chiefly a decline in reserve requirements arising from a falling off in the net demand deposits of member banks. Federal reserve note circulation tended upward from a low point late in January and exhibited the usual changes before and after the Christmas holidays.

Federal reserve note issues

A statement of the federal reserve agent's accounts at the close of each of the past three years follows:

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	December 31, 1928	December 31, 1927	December 31, 1926
Notes received from comptroller	\$221,234,000	\$211,867,000	\$203,542,000
Notes on hand	30,300,000	33,100,000	27,700,000
Notes outstanding	\$190,934,000	\$178,767,000	\$175,842,000
Collateral held:			
Gold and gold certificates on hand	0	0	0
Gold redemption fund	\$13,357,000	\$8,990,000	\$8,965,000
Gold fund—Federal Reserve Board	101,777,000	65,777,000	96,877,000
Discounted and purchased bills	76,072,000	106,059,000	70,763,000
Total collateral held	\$191,206,000	\$180,826,000	\$176,605,000

Nearly 150 millions of new federal reserve notes were issued in 1928, as compared with 131 millions in 1927. The increased use of new federal reserve notes is to be explained partly by heavier redemptions than in 1927, and partly by smaller receipts of new notes of other types from the United States government. Of these varieties, which include United States notes, and gold and silver certificates, the bank received about 50 millions during 1928 in denominations ranging from \$5 to \$100, as against 64 millions in 1927.

Changes in federal reserve notes outstanding are detailed below:

	1928	1927	1926
Outstanding at beginning of year	\$178,766,785	\$175,841,510	\$195,800,860
Unfit notes redeemed	\$140,632,480	\$124,974,725	\$142,819,350
Fit notes returned to agent	3,000,000	3,000,000	0
Total returned	\$143,632,480	\$127,974,725	\$142,819,350
New notes issued to bank	\$149,800,000	\$130,900,000	\$122,860,000
Fit notes reissued to bank	6,000,000	0	0
Total issued	\$155,800,000	\$130,900,000	\$122,860,000
Outstanding at end of year	\$190,934,305	\$178,766,785	\$175,841,510

Fiscal agency activities

Bonds of the Third Liberty Loan issue matured on September 15, 1928. The original allotment to this district was \$361,963,500, and redemptions totaled \$100,932,750. Holders were given the opportunity of exchanging their bonds and purchases were made for various accounts, in addition to direct redemptions on the maturity date. The details follow:

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Exchanged for:	
Treasury notes, C-1930-1932	\$16,510,500
Treasury bonds, 1940-1943	3,521,950
Certificates of indebtedness TJ-1929	4,266,350
Matured, September 15, 1928, redemption	66,008,000
Optional redemption at par	1,452,450
Purchased:	
For sinking fund at 100 $\frac{1}{32}$	5,015,350
From surplus money at 100 $\frac{2}{32}$	3,187,050
From surplus money at 100 $\frac{3}{32}$	971,100
Total	\$100,932,750

Redemptions of six maturing certificate issues totaled \$38,453,700 in the course of the year, which compares with original allotments of these issues to the district of \$161,923,600. Ten new issues of securities were offered at rates varying from 3 $\frac{1}{4}$ to 4 $\frac{3}{4}$ per cent; subscriptions amounted to \$462,450,200 and allotments to \$211,349,150.

Other fiscal agency activities included the payment of 2,545,000 government coupons, the handling of 1,963,000 government checks and warrants, and operations in connection with currency and coin which formerly were handled by the local subtreasury.

Improved methods of handling transit items

This bank recognizes it as a duty to take every opportunity to acquaint member banks with the facilities for conducting business to which their membership entitles them.

Before the establishment of the federal reserve system, many hundreds of millions of dollars of float was shown in the statements of the banks. This was recognized as an evil and the federal reserve system was expected to correct it. The method of collecting checks followed by the system, known as its transit operations, has shortened the time in transit by sending checks to their destinations by the shortest routes and has reduced the risk and float by the daily telegraphic settlement of balances. It can be reduced further by the development of county and regional clearings on a broader scale and the more wide-spread practice of sending checks, payable in other districts, directly to those districts.

Under the direct sendings plan, an arrangement is entered into between the member bank and the Federal Reserve Bank whereby the former may forward checks drawn on banks in other districts directly to the reserve banks in those districts. At least one day of transit time is saved thereby. The checks do not come through this bank at all; the member bank simply advises us of the total amounts and destina-

tions of the letters accompanying the checks which they have sent to other districts. More than three hundred banks in this district are now following this plan and it is urged that others avail themselves of it.

The majority of the checks handled by nearly all country banks are on banks comparatively nearby. In handling such checks through the usual channels, a period of three or more days is required before payment can be received. Country banks within a given area may enter into an agreement whereby they may send checks directly to one another by mail and, by daily advices of these sendings to the reserve bank, have the balances resulting from these interchanges credited or debited to their reserve accounts one day later, thus saving at least two days. If any of the banks cooperating in such a clearings system are not members of the federal reserve system, the balances of such banks can be settled through their city correspondents. In this district four county clearings systems, including 43 banks in 21 cities, are in operation outside of Philadelphia.

Departmental operations

Over the past five years there has been a large increase in the activities of many departments. Comparisons over a brief term are more or less inconclusive, because of the influence of bank consolidations, the direct sending of checks, and the use of the county clearings plan, which tend to diminish the volume of work handled in some departments.

Comparisons follow of operations in 1928 with those in 1927 and in 1923:

	Operations in 1928 compared with			
	1927		1923	
	Number of items	Dollar amounts	Number of items	Dollar amounts
Bills discounted	- 1%	+150%	-23%	+71%
Currency received and counted	+ 3 "	- 2 "	+37 "	+21 "
Coin received and counted	+ 9 "	+ 2 "	+69 "	+89 "
Transit checks handled (including return items, but omitting government checks)	- 3 "	+13 "	+35 "	+82 "
Collection items handled (other than government coupons)	+ 1 "	- 1 "	+44 "	+36 "
Transfers of funds	+ 7 "	- 2 "	+57 "	+78 "
Fiscal agency activities:				
U. S. securities issued, redeemed, canceled and exchanged	- 2 "	-36 "	-92 " *	-12 "
United States coupons paid	-27 "	- 9 "	-60 "	-45 "
Government checks and warrants handled	- 2 "	- 2 "	+ 1 "	-14 "

*In 1923 war savings stamps were redeemed.

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The vault department reports an average balance of \$229,500,000 in securities held for member banks during 1928; this compares with \$223,400,000 in 1927.

The duties of the bank as fiscal agent of the United States government entail a great deal of work in the handling of issues and redemptions of securities, the oversight of deposits of government funds, the payment of government coupons, and the handling of government checks and warrants. Although the work has declined in volume in recent years, it still calls for a considerable staff. The bank is reimbursed for only a small portion of the expenses incurred.

To expedite the work of the bank, many types of labor saving machinery have been installed. Large numbers of currency and coin counting, adding, calculating, bookkeeping and check endorsing machines are used. A check photographing machine has been added to the equipment of the transit department that automatically makes a detailed record of the items sent, thereby avoiding much hand work.

Personnel

Board of Directors

Class	Name	Residence	Term expires
A.	Group 1 Joseph Wayne, Jr., president, Philadelphia National Bank, Philadelphia, Pa.	Philadelphia, Pa.	December 31, 1929
	Group 2 George W. Reily, president, Harrisburg National Bank, Harrisburg, Pa.	Harrisburg, Pa.	December 31, 1930
	Group 3 John C. Cosgrove, vice pres., First National Bank, Hastings, Pa.	Johnstown, Pa.	December 31, 1928
B.	Group 1 C. Frederick C. Stout, member, John R. Evans & Co., Philadelphia, Pa.	Ardmore, Pa.	December 31, 1928
	Group 2 Arthur W. Sewall, president, General Asphalt Co., Philadelphia, Pa.	Philadelphia, Pa.	December 31, 1929
	Group 3 Arthur C. Dorrance, general manager, Campbell Soup Co., Camden, N. J.	Riverton, N. J.	December 31, 1930
C.	Richard L. Austin, chairman of the board	Philadelphia, Pa.	December 31, 1929
	Alba B. Johnson, deputy chairman of the board	Rosemont, Pa.	December 31, 1930
	Harry L. Cannon	Bridgeville, Del.	December 31, 1928

The terms of John C. Cosgrove, C. Frederick C. Stout, and Harry L. Cannon as directors of the bank terminated on December 31, 1928. Elections held in November resulted in the reelection of Mr. Cosgrove

to represent the group 3 banks as a class A director, and of Mr. Stout to represent group 1 banks as a class B director. The Federal Reserve Board reappointed Mr. Cannon as a class C director for a term of three years from January 1, 1929.

By appointment of the board of directors of this bank, Levi L. Rue, chairman of the board of directors of the Philadelphia National Bank, represented the Third Federal Reserve District on the Federal Advisory Council during 1928. Mr. Rue has been the representative of this district since the opening of the bank and his able services have been highly appreciated by the directors and officers.

Richard L. Austin was designated by the Federal Reserve Board as chairman of the board of directors and federal reserve agent during 1928, and Messrs. Arthur E. Post and Ernest C. Hill were designated as assistant federal reserve agents for like terms.

At the first meeting of the year the officers of the bank were reappointed to serve during 1928. The staff of the bank at the close of the year included 12 officers and 700 employees, which compares with 12 officers and 717 employees on December 31, 1927.

Membership

On June 30, 1928 member banks held 61 per cent of the loans and investments of all banks in the district. The loans and investments of members in this district also were 7.5 per cent of the total for all member banks in the country.

During 1928, the number of active member banks in this district increased from 777 to 778, despite consolidations and several withdrawals. Additions to membership included the formation of eleven new banks under national charter, the conversion of three non-member banks into national banks, and the admission of four state banks to membership.

Consolidations accounted for most of the losses in membership. In five instances national banks consolidated without liquidation, and in seven other cases member banks liquidated prior to consolidation. One national bank took out a state charter without retaining membership, and three state members withdrew from the system. One national bank suspended operations; only three member banks in this district have suspended operations since the start of the system.

Changes in membership during 1928 are summarized in the following table:

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	National banks	State member banks	Totals
Active membership, December 31, 1927.....	687	90	777
Changes during 1928:			
Gains—			
New national banks.....	11	0	11
Non-member converted to national bank....	3	0	3
National bank converted to state member..	0	1	1
New state bank members.....	0	4	4
	14	5	19
Losses—			
Suspension.....	1	0	1
Withdrawal of state member banks.....	0	3	3
Liquidation and consolidation with member.	2	1	3
Consolidation of national banks.....	5	0	5
Liquidation and consolidation with non-member bank.....	4	0	4
National bank liquidated and converted to state member bank.....	1	0	1
National bank liquidated and converted to non-member state bank.....	1	0	1
	14	4	18
Active membership, December 31, 1928.....	687	91	778

This statement does not reflect gains to membership resulting from the absorption of non-member state banks by member banks.

The resources of all member banks increased by 158 millions in the year ended October 3, as the following figures, taken from the call reports, show:

(Dollar figures in millions)	October 3, 1928	October 10, 1927	Changes
Assets			
Loans, discounts and overdrafts.....	\$1,732	\$1,620	+\$112
Bonds, stocks and securities.....	964	970	- 6
Banking house, furniture and fixtures.....	93	84	+ 9
Other real estate owned.....	14	14	0
Cash in vault.....	41	41	0
Reserve with Federal Reserve Bank.....	142	142	0
Items with F. R. Bank in process of collection.	63	56	+ 7
Due from banks, bankers and trust companies.	120	106	+ 14
Exchanges for clearing house and checks on other banks in same place.....	64	47	+ 17
Outside checks and other cash items.....	3	3	0
Other resources.....	44	39	+ 5
Total assets.....	\$3,280	\$3,122	+\$158

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(Dollar figures in millions)	October 3, 1928	October 10, 1927	Changes
Liabilities			
Capital stock paid in	\$173	\$164	+ \$9
Surplus and undivided profits	398	380	+ 18
Reserved for taxes, interest, etc., accrued	20	10	+ 10
Due to Federal Reserve Bank	8	8	0
Due to banks, bankers and trust companies	204	204	0
Certified and cashiers' checks outstanding	22	18	+ 4
Demand deposits	1,118	1,145	- 27
Time deposits	1,107	1,026	+ 81
United States deposits	8	42	- 34
Bills payable and rediscounts	114	39	+ 75
Acceptances executed for customers	13	13	0
National bank notes outstanding	55	55	0
Other liabilities	40	18	+ 22
Total liabilities	\$3,280	\$3,122	+\$158

Fiduciary powers

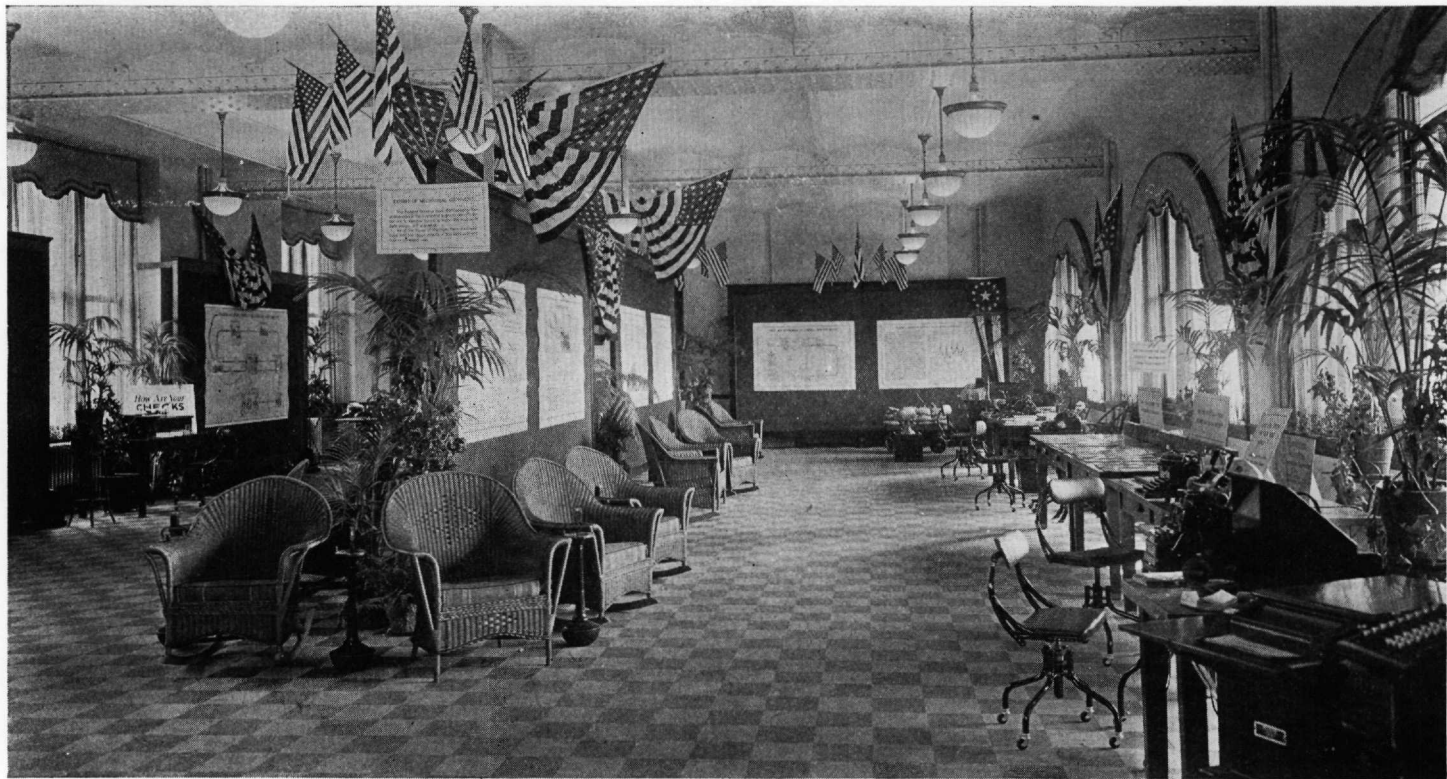
The right to exercise fiduciary powers has proved attractive to national banks in this district. Excluding grants of powers which were the result of consolidations of banks previously having them, 33 original applications for full fiduciary powers were granted in 1928, and 4 banks with partial powers were granted full powers. Reductions in the number of banks having full powers included the liquidation of 3 national banks and the loss of 4 others through consolidation within the system. The net gain for the year was 26. At the end of the year, 286 of the 687 national banks in the district had these privileges. The steady increase in the number of banks having fiduciary powers is shown below:

	Full powers	Partial powers	Totals
December 31, 1923	124	47	171
“ “ 1924	150	46	196
“ “ 1925	169	45	214
“ “ 1926	195	43	238
“ “ 1927	224	36	260
“ “ 1928	254	32	286

Acceptance powers

No additional banks were granted the right to accept up to 100 per cent of capital and surplus, and the number was reduced from six to five during 1928 through the consolidation of two large banks, each of which had this privilege.


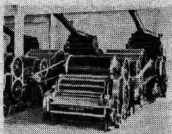


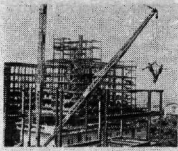


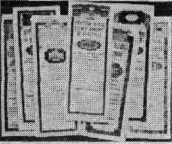
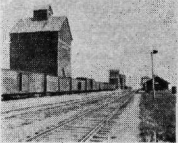



The volume of acceptances outstanding of banks in this district on December 31 was larger than a year earlier, but the proportion to



Some of the methods and modern office appliances used by this bank in carrying on its operations were demonstrated at an exhibit held in the bank in October, 1928, while the convention of the American Bankers' Association was in session.

What Kind of Paper May Be Rediscounted at the Reserve Bank?

Notes used for business or agricultural purposes—except capital outlay

Eligible	Not eligible	
	<p>Notes of manufacturers to purchase machinery if discounted for the makers <i>eligible if discounted for endorsers</i></p>	
	<p>Paper to purchase farm land or buildings or to pay mortgage interest</p>	
	<p>Paper of home buyers to purchase houses and lots</p>	
	<p>Notes to purchase or trade in stocks and bonds other than United States securities</p>	
	<p>A bank should not rediscount to enable it to loan funds for stock exchange operations</p>	
	<p>Notes of warehouse companies to secure funds which are to be loaned to customers</p>	
	<p>Bills secured by documents to finance domestic or export shipments of readily marketable staples</p>	
<p>Financial statements Maximum maturity</p>	<p>In this district, if notes are \$5,000 or more, a statement of maker or endorser must be available. From time received by federal reserve bank: commercial or industrial paper 90 days; agricultural or livestock paper 9 months.</p>	

Federal Reserve Bank of Philadelphia, February 1939

This is a picture of a placard distributed to all member banks in the district illustrating the kind of paper which is eligible for rediscount at a federal reserve bank.

the total for all banks in the country was only 1.4 per cent, although the banks in this district have about 7.1 per cent of the deposits (exclusive of bank deposits) of all banks in the country.

Bank relations activities

A bank relations force of three men is maintained to visit banks of the district, looking to the development and continuance of good relations between those banks and the Federal Reserve Bank. In the course of the year more than 1,700 visits were made, of which about 1,100 were to member banks. On several occasions special trips have been made in response to requests from our members to assist them in meeting special problems, such as the installation of accounting systems, an activity in which members of the bank examination force also join. Further contact with the district was obtained through nearly 1,500 visits to this bank by bank officers in the course of the year.

We find that the efforts we make to have our member banks understand the mechanics of the system's operations are often misunderstood and sometimes misinterpreted. In presenting the advantages and opportunities of the system to members, it is not primarily with the idea of getting more business, but to acquaint member banks with the amount and kind of work this system will do for them. As stockholders it is only right that they should be made familiar with all the facilities the institution provides for the conduct of their operations. After we have made known to our member banks what can be done for them, we regard it as a matter for their own particular judgment whether or not they should take advantage of the services this bank offers them. During the annual convention of the American Bankers' Association, which took place early in October in Philadelphia, an exhibit was held in the bank to draw to the attention of visiting bankers the methods and procedure followed in furnishing these services to member banks. Nearly five hundred people attended the exhibit.

A chart illustrating the classes of paper which are eligible for rediscount and those which are not eligible was found to be of particular interest. This chart has been elaborated somewhat and will shortly be distributed in placard form to the member banks to assist them in determining upon the eligibility of paper which they carry in their portfolios. It is reproduced on a reduced scale on page 28.

Bank examination activities

The bank examination department is not only concerned with the verification of the assets and liabilities of banks, it also stands ready and is constantly being called upon to render assistance in the improvement of methods and operating policies.

In the course of its routine work, the department cooperated in 94 examinations with the state banking departments and the national bank examiners; 8 complete examinations were made of banks which were contemplating membership, and in a few other instances our examiners assisted in audits upon request. The department was called upon to investigate nine applications for the formation of new national banks, and five applications by state banks which desired national charters. In numerous cases national banks requested the privilege of exercising trust powers, and many applications under the Clayton Act for permission to hold directorships were received, all of these necessitating individual investigation and action.

Member bank earnings and expenses

Increasing attention is being paid by banks to income and expenses, but the individual bank lacks the figures which are necessary to enable it to determine whether or not its earnings and expenses are unduly large or small. To give a basis of comparison, this bank has made elaborate statistical surveys of the operating results of member banks in the years 1925 and 1927. In these studies the banks have been grouped according to size, measuring this by average loans and investments. The national banks also were divided according to the proportion of time to gross deposits in the latest survey. Some of the figures for 1927 are summarized below:

National banks—1927 Third district	Percentages of time to gross deposits				
	0-20%	20-40%	40-60%	60-80%	80-100%
Number of banks included.....	24	40	167	342	70
Percentages of total loans and investments:					
Interest and discount earned on loans and investments.....	5.18%	5.50%	5.52%	5.56%	5.59%
Gross earnings.....	5.72 "	6.21 "	6.30 "	6.27 "	6.42 "
Total expenses.....	3.59 "	4.04 "	4.28 "	4.19 "	4.33 "
Net losses.....	.36 "	.29 "	.32 "	.35 "	.22 "
Net profits.....	1.77 "	1.88 "	1.70 "	1.73 "	1.87 "
Capital funds to gross deposits.....	26.85 "	26.99 "	22.94 "	21.49 "	18.21 "
Investments to loans and investments.....	31.69 "	33.62 "	36.84 "	48.08 "	54.89 "
Loans and investments to capital funds.....	433.77 "	429.16 "	495.68 "	526.67 "	612.52 "
Net profits to capital funds.....	7.22 "	8.12 "	8.35 "	9.08 "	11.37 "
Salaries to gross earnings	20.64 "	21.83 "	20.77 "	17.22 "	14.40 "
Interest on deposits to gross deposits.....	1.50 "	1.55 "	1.96 "	2.47 "	2.85 "

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The following figures, prepared by the Federal Reserve Board, give a summary of the earnings of member banks in this district during the years ended on June 30, 1928, 1927, 1926, and 1925:

	1928	1927	1926	1925
Amount per \$100 of earning assets:				
Interest received.....	\$5.26	\$5.40	\$5.40	\$5.29
All other earnings.....	.96	.84	.93	.92
Gross earnings.....	\$6.23	\$6.24	\$6.32	\$6.22
Interest on deposits.....	\$2.03	\$2.01	\$1.98	\$2.00
Interest on borrowed money.....	.09	.09	.11	.07
Salaries and wages.....	1.08	1.09	1.07	1.07
Taxes.....	.34	.31	.33	.30
Other expenses.....	.62	.62	.62	.62
Total expenses.....	\$4.17	\$4.13	\$4.10	\$4.06
Net earnings.....	\$2.06	\$2.10	\$2.22	\$2.16
Total losses.....	.47	.39	.47	.32
Recoveries.....	.15	.13	.19	.15
Net losses.....	.32	.27	.28	.17
Net addition to profits.....	\$1.74	\$1.84	\$1.94	\$1.99

Federal Reserve Bank of Philadelphia

Directors and Officers Appointed and Elected for the Year 1929

DIRECTORS

Class A

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

Class B

Arthur C. Dorrance, Riverton, N. J.
Arthur W. Sewall, Philadelphia, Pa.
C. Frederick C. Stout, Ardmore, 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	George W. Norris, Governor
Alba B. Johnson, Deputy Chairman	William H. Hutt, Deputy Governor
Arthur E. Post, Assistant Federal Reserve Agent	C. A. McIlhenny, Cashier and Secretary
Ernest C. Hill, Assistant Federal Reserve Agent	

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

William G. McCreedy, Comptroller