Twenty-seventh Annual Report

of the

FEDERAL RESERVE BANK OF PHILADELPHIA

1941

Third Federal Reserve District

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OF PHILADELPHIA

June 1, 1942

To the Member Banks in the
Third Federal Reserve District:

The Twenty-seventh Annual Report of this Bank is presented herewith. It gives an account of significant developments in business, credit, and banking in the Third Federal Reserve District growing out of war conditions during 1941 and early 1942.

ALFRED H. WILLIAMS
President.

General Summary

With industrial, commercial, and financial resources highly developed and diversified, the war has had an especially strong impact upon the functions and operations of business and banking in the Third Federal Reserve District. Every part of the industrial, trade, and credit mechanism has been vitally affected, first by the growing tempo of defense activity and then by the attack on Pearl Harbor on December 7, 1941, plunging this country actively into a new world war of unprecedented scope, intensity, and profound implications.

The business and financial organization in this district, as throughout the country, has been confronted with heavy duties and responsibilities in meeting the vast requirements of the war. Our industry has been faced with the urgent task of broadening and speeding up production of war materials and machines. Our financial institutions have been called upon to give aid to the Government and to industries in the financing of this gigantic undertaking.

As the basic organization through which the monetary resources of the country are channeled into the war effort, our banking system has taken steps to adjust its functions to direct the flow of funds from peacetime requirements to the financing of war production. Banks in this district have rallied to the call of the present national emergency just as they did in the last World War. They have evidenced their desire and determination to share with industry and with the Government the responsibility for winning the war.

The financial side of the war program is stupendous. Current expenditures increased from about $1½ billion in January 1941 to $2 billion in December and exceeded $3½ billion in May 1942. The present budgetary estimates call for public financing of about $20 billion in the fiscal year ending June 30, 1942, and about $50 billion in the fiscal year ending June 30, 1943. It is generally recognized that to meet these requirements as much of the funds as possible should be obtained from the current income of the people, if economic dislocations are to be minimized. Taxation and borrowing savings provide most desirable methods of meeting the financial problem.

One of the most urgent jobs of the banking system, therefore, has been to promote the sale of War Savings Bonds, especially to individuals whose current earnings are steadily increasing. Along with taxation, it is the most effective means of absorbing rapidly expanding consumer income in the face of the shrinking supply of purchasable goods, and it is a desirable way to store up buying power for the post-war readjustment. Devoting current savings directly to the war effort helps to minimize the inflationary gap that arises from the growing unbalance between income and goods available for civilian purchases.

Immediately upon the announcement of the War Savings Program by the Treasury, the Federal Reserve Bank of Philadelphia greatly enlarged its facilities for handling War Savings securities and broadened its relationship with banks and industries in an effort to assist the field organization of the Treasury in promoting various methods of selling War Savings Bonds and Stamps. The personnel of the Bank's Fiscal Agency Department alone has been increased from about 25 to 170 workers. Banks in this district also have offered their facilities for this purpose, about 97 per cent of them having qualified for issuing War Savings securities.

Our banks have endeavored to perform their prime function of assuring credit to industry and trade, as well as to the United States Government during this emergency. To provide working capital to business in this district, member banks have expanded their commercial loans by over 35 per cent since 1939, when the war first broke out in Europe. They have also increased their investments in Government securities by about 40 per cent. Most of this expansion occurred during 1941.

The volume of credit extended by this Bank directly or in participation with other banks, under Section 13b, to industries primarily engaged in war work has increased over 80 per cent, more than one-half of such loans now outstanding in the System having been made by this Bank. The financing of war production was greatly facilitated by the provisions made in 1940 for the assignment of claims arising under Government contracts. A provision for Federal guarantee, through the Federal Reserve Banks, of certain advances to war industries was made in March 1942 under Executive Order No. 9112 and Regulation V issued by the Board of Governors.

In addition to loans for war production, banks have expanded their credit to enterprises not directly engaged in the war program but producing goods of essential civilian character. The problem in this respect has been growing increasingly complex by reason of the credit risk resulting largely from shortage of materials, labor skills, and from other factors affecting the standing of individual borrowers. With the increasing intensity of the war effort, recognition is being given to the fact that bank credit should not be used for the purpose of accumulating unduly large inventories or receivables, or of financing expansion or improvements which compete with war production.

In the midst of growing domestic unbalance between income and goods, the question of consumer credit was brought to the forefront during 1941, although formal action was taken only in the field of instalment credit. Next to sales finance companies, commercial banks have been the most important in making loans of this type. The volume of instalment credit extended through retail sales and cash loans in the country was virtually doubled between early 1939 and the fall of 1941, reflecting the influence of current and prospective income upon the demand for goods.

Banks in this district at the end of September 1941 had nearly $100 million or about one-quarter of the total instalment paper held here by all financial institutions dealing in this type of credit. As a result of expanding incomes, there has been a general tendency on the part of the civilian consumer to bid for goods on an instalment as well as a cash basis and thus force prices upward. This in turn has tended to increase the time indebtedness of individual consumers which in the long run may aggravate the debt situation when war expenditures become greatly reduced. The demand for consumer durable goods, moreover, has interfered with the defense effort as the production of such goods requires labor and material so urgently needed for war purposes. Largely for these reasons, Regulation W was adopted by the Board of Governors on August 21, 1941, and became effective on September 1, in an attempt to check the consumer demand by restricting terms and conditions of sales. Banks in this district have been most helpful to us in implementing the provisions of this regulation, more particularly in reaching many thousands of those trade units which became subject to this restriction.

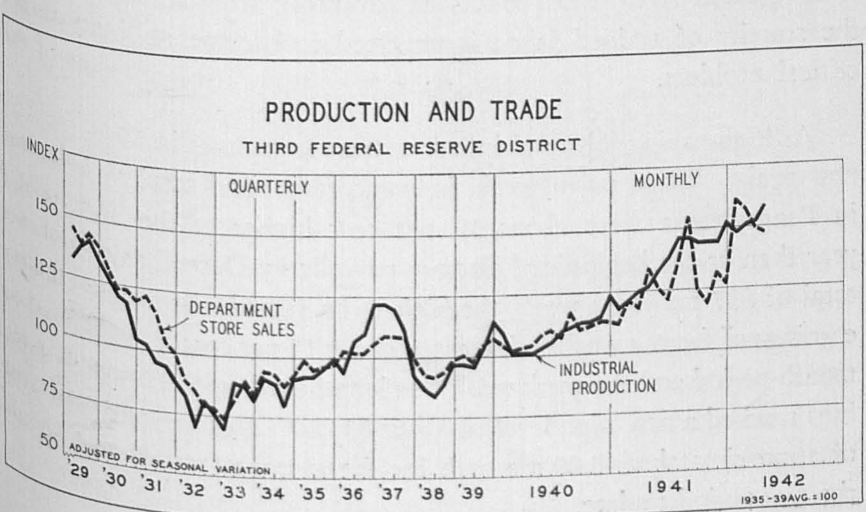
In consequence of current and prospective war activities, the volume of administrative work has increased immensely at the Federal Reserve Bank and co-operating banks. Virtually all functions of this Bank and its personnel have been expanded and the amount of overtime work has increased. The problem has been further complicated by the heavy labor turnover, owing chiefly to the enlarged labor market and to induction of men for military service. Our facilities have been taxed not only with respect to man power but also in regard to accommodation and equipment. Naturally the cost of operation also has increased. This condition is substantially true of our member banks which have generously cooperated with this Bank in all fiscal and credit matters including Treasury operations, War Savings Bonds, consumer credit, and Foreign Funds control. Like industry, the banking system in this district is again displaying its ability to adapt itself to the requirements of the grave national crisis that is now before us.

The rapid transition of the economy from a peacetime to a defense and subsequently to a wartime basis in this district as in the country has created a multitude of problems and imposed heavy responsibilities upon this Bank and the banking system as a whole. Business and finance have necessarily ceased to respond solely to the vagaries of the markets and have become conditioned primarily by the swift succession of external developments and by the growing internal dislocations that arise principally from bottlenecks on all fronts of our economy. The specific effects of these changes are indicated in broad terms in this report.

Business Conditions

The war production program got under way in earnest during 1941, and industries in this district played their effective part. Unusual efforts were made to erect new plants and to expand and convert old plants from peacetime to wartime operations; labor was trained in industries and through vocational schools and shifted from nonessential lines into war plants; resources generally were diverted from the aim of improving the peacetime standard of living to the aim of building in the shortest possible time the largest and best war machine in history.

The tremendous expansion in war production has absorbed so large a proportion of our natural resources and productive facilities that the supply of consumers' goods has become restricted, and further substantial reductions are in prospect. At the same time that civilian products are being diverted to the war effort, civilian incomes and spending are increasing sharply to new high levels. Heavy inventory buying by trade and industry to support expanded operations and to forestall anticipated shortages, combined with active consumer demand, have exerted strong upward pressure upon prices generally. Widespread controls have been adopted to restrict dangerous price advances and to facilitate the diversion of resources to the war effort.

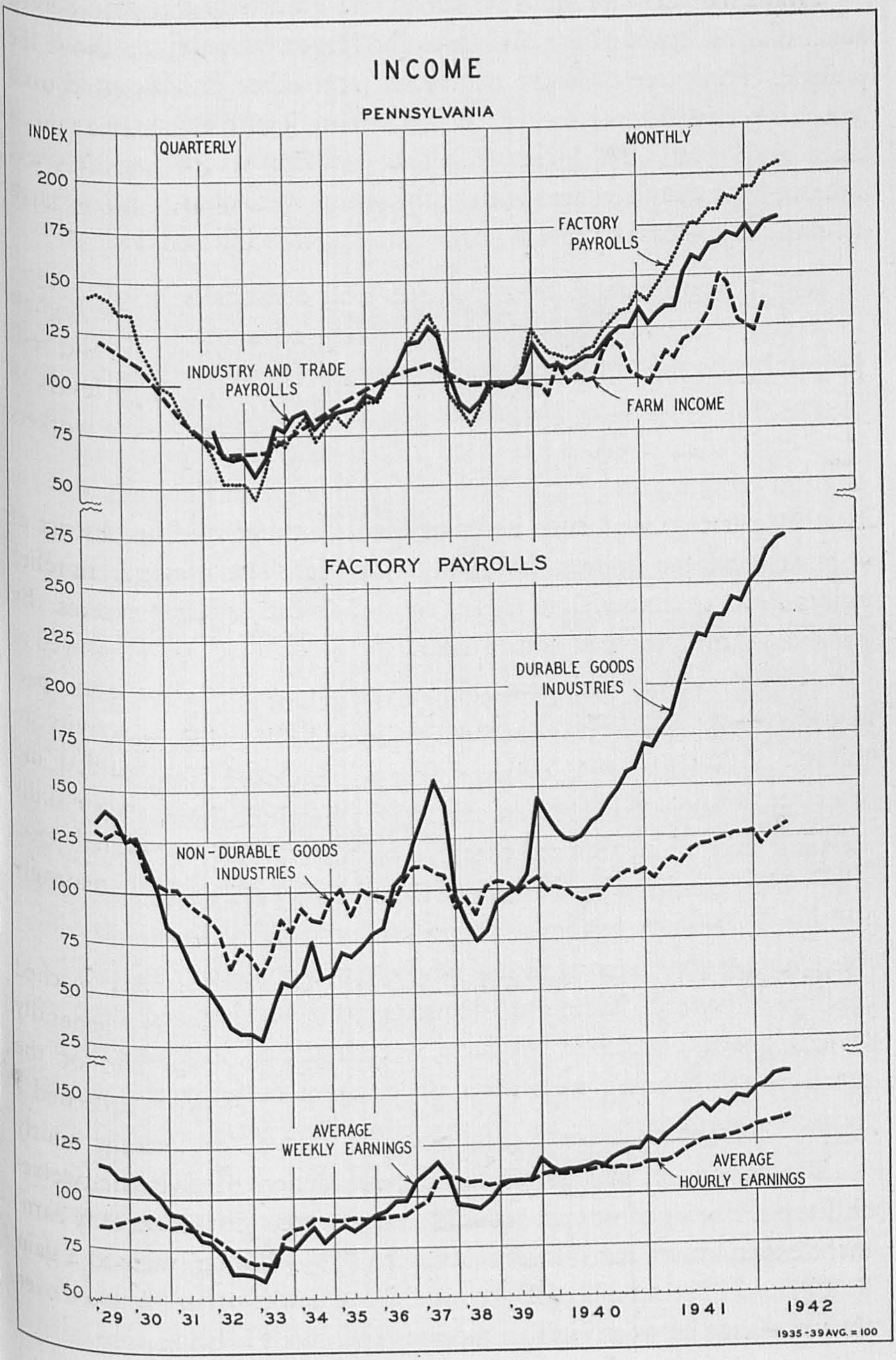


Productive activity in this district has shown an unprecedented expansion. Industrial output in 1941 averaged 25 per cent above the previous year; agricultural production and income increased considerably. Production of durable manufactured goods was half again as large as in 1940. The expansion in nondurable goods industries was much less pronounced, and gains in these lines were also due in large part to the production of war rather than consumers' supplies.

Construction activity in the district during 1941 was at the highest level since 1929. The industrial plant was expanded sharply, and residential building also increased further from the already high levels of previous years, chiefly to provide homes for the influx of war workers from other parts of the country.

The demand for labor in 1941 increased greatly in this district as in other industrial centers. Workers moved on a large scale from relief rolls, farms, and nonwar industries to shipyards and war factories. By the end of the year, well over a million wage earners were employed at manufacturing plants in Pennsylvania. Shortages of skilled labor, particularly in the metal products industries, became acute as activity increased. Apprentice and other training programs were expanded and job breakdowns were made more comprehensive to utilize labor skills to the fullest. With war production advancing at an accelerated pace, the scarcity of trained labor is expected to become an increasingly critical problem.

As high-paying jobs multiplied, consumer incomes in 1941 reached new peaks. Wage payments in industry, trade, and services generally in Pennsylvania were about 30 per cent higher at the end of the year than at the beginning. Factory payrolls by December exceeded a total of $37 million a week, the highest on record. As average hourly earnings of factory workers increased about 15 per cent over the twelve-month period and the work week was lengthened, average weekly earnings reached a new high level of about $35.00. This represented a gain of approximately $40.00 a month for the average factory worker over the war period to date.


INCOME
PENNSYLVANIA
INDEX
QUARTERLY
MONTHLY
200
175
150
125
100
75
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FACTORY PAYROLLS
INDUSTRY AND TRADE PAYROLLS
FARM INCOME
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250
225
200
175
150
125
100
75
50
25
FACTORY PAYROLLS
DURABLE GOODS INDUSTRIES
NON-DURABLE GOODS INDUSTRIES
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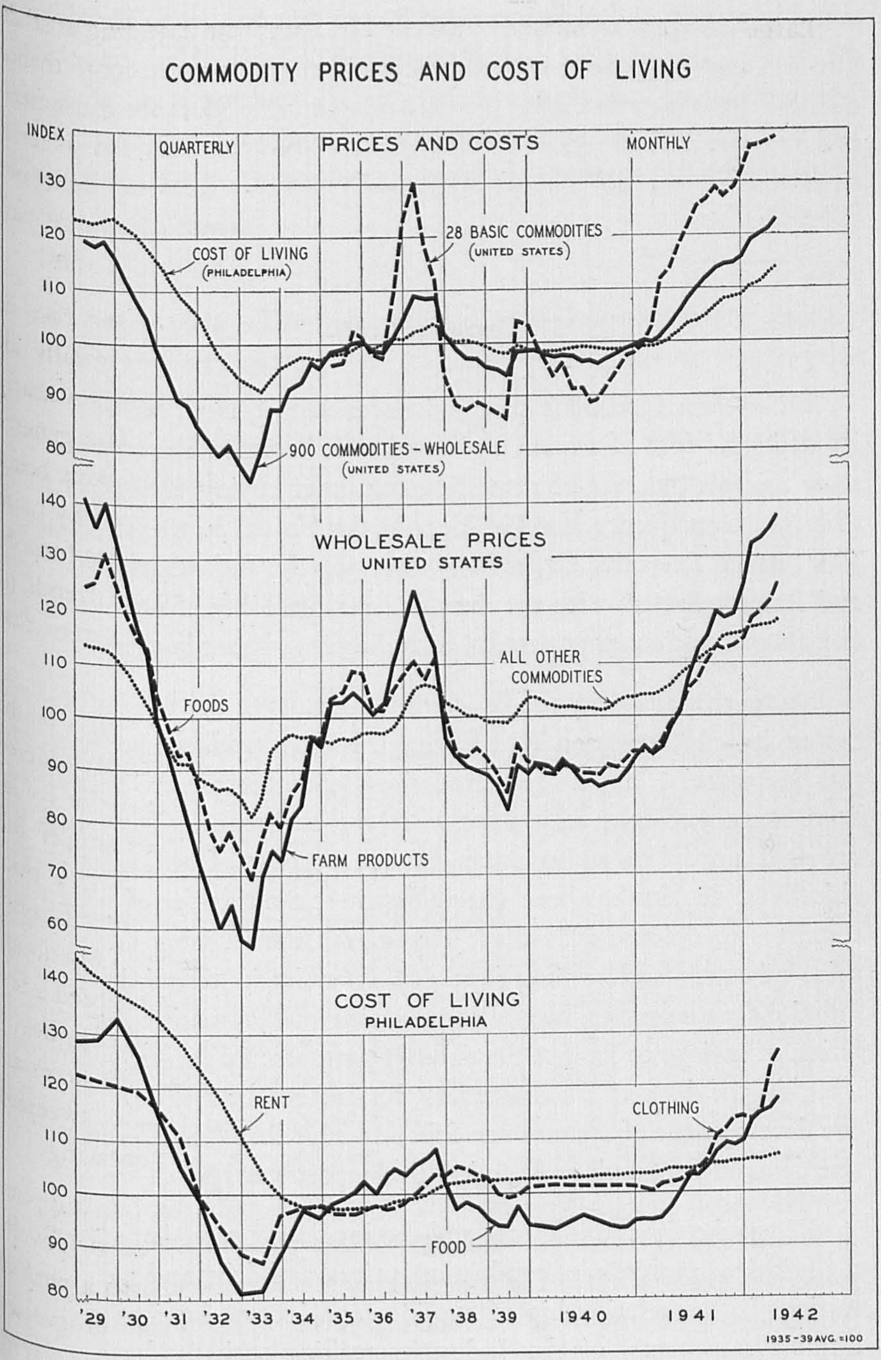
125
100
75
50
AVERAGE WEEKLY EARNINGS
AVERAGE HOURLY EARNINGS
'29 '30 '31 '32 '33 '34 '35 '36 '37 '38 '39 1940 1941 1942
1935-39 AVG. = 100

Large incomes, accumulated needs, and a wartime spending attitude pushed retail trade in the district to the largest volume in more than a decade. Purchases of home equipment and other durable consumers' goods were particularly heavy. Wholesale trade also expanded, as retail sales and inventories increased. The problem of making deliveries became increasingly acute. Freight shipments were unusually large, particularly in the case of raw materials moving into industrial plants.

The heavy demand from business and consumers in the face of increasingly scarce supplies brought sharp advances in virtually all prices. By the end of the year, staple commodities were selling for nearly 60 per cent more than before the war in August 1939. The general level of wholesale prices had risen 25 per cent, the largest gains being in farm products and food. The cost of living had increased by more than 10 per cent, and such items as food, clothing, and house-furnishings reached the highest levels in a decade. The upward trends of prices have continued into 1942, following the familiar pattern that occurred during the last World War.

To meet the problem of growing dislocations and their effect on the cost of living, controls through priorities and allocations were adopted on a selective basis. Price ceilings were also imposed formally or voluntarily upon more than 100 commodities where unbalanced supply and demand exerted an upward pressure on prices. Early in 1942 a price control law confirmed and extended the authority to impose specific price ceilings, except as to wages and farm products, and a General Maximum Price Regulation covering nearly all processed goods was adopted a few months afterward. Wherever demands grew heaviest and supplies of civilian goods, like rubber products, were restricted, it became necessary to resort to rationing with a strong prospect of using this sweeping measure on a large scale, as the war effort becomes all-embracing.

The expansion in war production, absorption of civilian supplies, and rapid rise in consumer incomes in 1941 grew out of total Government expenditures for war amounting to $13½ billion, with a peak of $2 billion in the month of December. As the war program progresses, the unbalance between civilian incomes and goods is being accentuated;


COMMODITY PRICES AND COST OF LIVING
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QUARTERLY
PRICES AND COSTS
MONTHLY
28 BASIC COMMODITIES (UNITED STATES)
COST OF LIVING (PHILADELPHIA)
900 COMMODITIES - WHOLESALE (UNITED STATES)
WHOLESALE PRICES UNITED STATES
ALL OTHER COMMODITIES
FOODS
FARM PRODUCTS
COST OF LIVING PHILADELPHIA
RENT
CLOTHING
FOOD
140
130
120
110
100
90
80
70
60
'29 '30 '31 '32 '33 '34 '35 '36 '37 '38 '39 1940 1941 1942
1935-39 AVG. = 100

monthly war expenditures increased 50 per cent further to $3 billion in the first quarter of 1942 and are expected to be doubled before long. This unbalanced flow of income and goods is resulting in an inflationary gap that requires widespread correctives through a comprehensive and well-integrated program of direct nonmonetary, fiscal, and credit controls.

Consumer Credit

To restrain inordinate price advances arising from the scarcity of goods in the face of expanding incomes, it became necessary to adopt some suitable measure of restricting consumer buying on an increasing scale. In consequence, the President of the United States on August 9, 1941, issued Executive Order 8843, charging the authorities of the Federal Reserve System with the duty and responsibility of preventing the excessive use of consumer credit, including instalment buying.

Under this authority the Board of Governors of the Federal Reserve System issued Regulation W, affecting consumer credit, to become effective September 1, 1941. The Executive Order directed the Federal Reserve System to take such steps as might be necessary to restrict the excessive use of consumer credit for the purpose of achieving certain objectives. Its aim has been (a) to facilitate the transfer of productive resources to defense industries; (b) to assist in curbing unwarranted price advances and profiteering; (c) to assist in restraining general inflationary tendencies, supporting taxation and promoting the accumulation of savings to finance the defense program; (d) to aid in creating a backlog of demand for consumers' durable goods; and (e) to restrain the development of a consumer debt structure that would repress effective demand for goods and services in the post-war period.

When the Executive Order and the regulation were issued, some of the principal problems of production, prices, and debt, and the chief distortions in the relationship of supplies and income lay in the field of durable consumers' goods. Industries making such products as automobiles, electric refrigerators, radios, and other household equipment or appliances were being called upon to an increasing extent to convert their facilities to war production. At the same time, demand for these so-called deferrable purchases approached record high levels. In consequence, the credit control measure was first directed primarily at these key consumers' lines.

It is estimated that expenditures on durable goods in the United States during 1941 totaled about $29 billion, representing an increase over 1940 of about 30 per cent. Approximately half of this increase reflected expansion in war production and the other half comprised chiefly heavy consumers' expenditures for household goods and passenger automobiles.

Outstanding consumer instalment credit throughout the country on September 30, 1941, approximated $7 billion, according to estimates based on a preliminary summary of reports from 157,000 registrants under Regulation W. About 80 per cent of all instalment receivables arose directly from the sale of goods.

Outstanding instalment receivables in this district substantially exceeded half a billion dollars, of which almost 90 per cent arose directly from the sale of goods. The principal fields in which instalment sales occurred were automobiles and furniture.

With the broad aim of restricting excessive demand and avoiding the accumulation of an unwieldy consumer debt structure during the emergency period of expanding incomes, limitations were first imposed upon instalment credit terms. As war needs became more extensive and more vital, particularly after formal entrance of this country into active warfare early in December, the problem of shortages and increasing buying power spread throughout many related lines of consumers' goods. As a result of actual and anticipated scarcities, the pressure of demand upon the price structure became increasingly heavy and the scope of Regulation W was expanded to include practically all types of consumer credit and terms of purchase for a wide variety of consumer goods.

Summary of Registration Statements Under Regulation W

Third Federal Reserve District January 15, 1942 (000's omitted in dollar figures)	Financial institutions					
	Number of registrants	Number of branches	Total instalment paper*	Paper purchased*	Direct loans*	Personal loans*
Sales finance companies	130	96	$291,495	$290,284	$845	$366
Commercial banks	842	101	98,542	44,523	22,121	31,898
Industrial loan companies and banks	12	121	5,197	229	1,106	3,862
State licensed small loan companies	223	113	29,916	376	2,056	27,484
Credit unions	331	0	7,491	0	997	6,494
Remedial loan companies	6	4	4	0	0	4
Building and loans, savings and loans, and miscellaneous financial institutions	985	34	5,125	3	3,264	1,858
Instalment loan credit held by retail dealers	22	..	347	289	37	21
Total	**2,551**	**469**	**$438,117**	**$335,704**	**$30,426**	**$71,987**

Third Federal Reserve District January 15, 1942 (000's omitted in dollar figures)	Retail instalment institutions						
	Number of registrants	Number of branches	Total sales†	Instalment sales†	Other credit sales†	Instalment accounts receivable*	Other receivables*
Department and general stores	217	134	$216,644	$38,095	$96,437	$19,371	$17,395
Automobile dealers	1,966	153	392,477	200,945	39,844	18,477	6,982
Furniture and home furnishings dealers	837	103	80,318	58,188	8,248	38,871	2,799
Household appliance dealers	864	55	34,612	18,497	7,439	6,556	2,115
Hardware and auto appliance dealers	381	174	31,039	4,528	8,555	1,358	2,403
Dealers and contractors in heating, plumbing, and air conditioning equipment	735	62	26,716	7,077	13,190	1,581	3,014
Dealers and contractors in other repair and construction materials	550	94	56,281	7,132	37,656	1,627	10,275
Jewelry stores	113	61	9,149	7,194	196	4,012	65
Piano, organ and music dealers	105	22	4,859	3,150	732	3,045	144
Motorcycle, aircraft, boat, bicycle, business supply, fuel and ice dealers	82	46	11,618	1,725	6,578	173	998
Electric and gas, manufacturing, farm implement, and miscellaneous dealers	288	302	32,534	15,544	13,533	10,184	6,086
Total	**6,138**	**1,206**	**$896,247**	**$362,075**	**$232,408**	**$105,255**	**$52,276**

* Outstanding September 30, 1941. † Year ended September 30, 1941.

As amended May 6, 1942, the regulation generally limited maturities on instalment credit to 12 months and required down payments of one-third on time-purchases of most durable and semi-durable goods. These provisions affected instalment loans as well as instalment sales. Maturities on single-payment loans were limited to 90 days, and provisions were included to encourage the payment of charge accounts within forty days of the end of the month in which they were incurred. If such accounts are not paid in this time, the sellers are not permitted to extend further credit to the defaulted customers in connection with the sale of the articles listed in the regulation, until the default is remedied.

In addition to the basic provisions regarding maturities and maximum amounts of credit that could be extended for the purchase of listed articles, the regulation includes certain miscellaneous provisions designed to effectuate the purposes of the Executive Order and the regulation. Among these are requirements that payments on instalment contracts shall be at regular monthly intervals and in substantially equal amounts, that statements shall accompany each transaction indicating the essential features involved in the contracts, that borrowers shall state the purpose of loans to buy listed goods, and that revisions or consolidations of credits are to be made only under certain circumstances which will not interfere with the effectiveness of the regulation. Exempt from the requirements of Regulation W are several types of loans which are deemed essential to the health or welfare of consumers or which are essentially of a commercial, industrial, or agricultural character.

In order to implement the provisions of Regulation W, all persons engaged in extending consumer instalment credit or in purchasing, discounting, or lending upon the security of such obligations are required to register with the Federal Reserve Bank of the district in which the main office of the registrant is located. Nearly 9,000 retailers and lenders registered in the Third Federal Reserve District. The number of registrants in various lines and the amounts of credit outstanding on September 30, 1941, are indicated in the accompanying table.

The Executive Order and the regulation, based upon the "Trading with the Enemy Act" and later confirmed in the "First War Powers

Act," provide for certain penalties in cases of wilful violations of the law, including suspension of license to sell or lend within the scope of the regulation and the imposition of fines or imprisonment in certain cases.

The Federal Reserve Bank of Philadelphia, along with the other Reserve Banks and Branches, has established a Consumer Credit Department to administer Regulation W. Provisions have been made to assist in the interpretation of the regulation as well as to enforce its requirements.

War Savings Bonds

The tremendous scope and cost of the war production program have necessitated the mobilization of financial resources as well as those of men and materials. Aside from issuance of currency, absorption of idle funds, and borrowing from Federal Reserve Banks, there are three principal ways of meeting the financial requirements of the war effort: first, through increased taxes; second, through expanding and diverting current savings into the war program; and, third, through the sale of Government securities to commercial banks. Increased tax revenues and borrowing expanded savings are by far the most important and desirable methods from the standpoint of the success of the war program and the general welfare of the country. Borrowing from banks or issuing currency meets immediate needs to pay for munitions but it seriously aggravates the problem of inflation, the importance of which is second only to the production problem itself. It increases already large purchasing power while the supply of goods is declining.

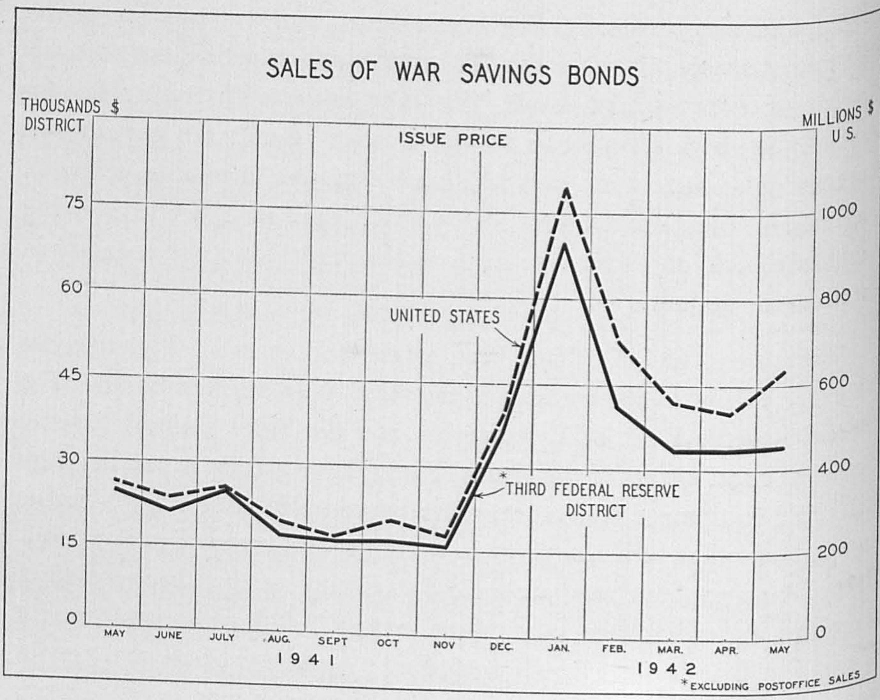
The Treasury is receiving a substantial amount of current income as a result of increased tax rates, and sales of tax-savings notes are adding to current receipts funds which otherwise would not be available until later. Corporations have purchased these notes heavily and higher tax rates have stimulated purchases by individuals. But the cost of the war is so great that even the heaviest practicable taxes will not pay the bill.

A major aim of fiscal policy is to meet as much as possible of the difference between Government tax receipts and expenditures through the sale of War Savings Bonds. The War Savings Program aids substantially in solving problems of war finance. Funds are provided to buy materials; current incomes which are excessive in relation to goods available for purchase are temporarily absorbed; and reserves of buying power are built up to provide markets for the products of industry in the post-war period.

Widespread facilities have been established to make it convenient for every person in the country to purchase War Savings Bonds. The Federal Reserve Bank of Philadelphia and the other Federal Reserve Banks, as fiscal agents of the United States, have greatly expanded their staffs and equipment and are working overtime to issue bonds. Large numbers of other banks, savings institutions, and companies in various lines of business have been authorized as issuing agents. In this district there are, in addition to post offices, nearly 1,400 authorized issuing agents for War Savings Bonds, including 97 per cent of all commercial and savings banks. Over 280 of the larger corporations in the district have been made issuing agents. Several establishments have set up booths or other facilities with full-time staffs to sell bonds to the public, and many companies have inaugurated the payroll allotment or savings plan for the convenience of their employees.

This payroll savings plan is an especially important phase of the savings bond program, as it provides for regular deductions from the current incomes of an increasing number of workers. Only through systematic savings can substantial funds be effectively diverted to the war effort, and if appropriate amounts are accumulated for the purchase of large denomination bonds the cost of issuance is reduced.

Savings bonds have been sold in one form or another since March 1935, but in May 1941 a new program was established making three types of securities available—two being sold on a discount or appreciation basis and the third on an income basis. These three types of War Savings Bonds are known as Series E, F, and G bonds. They are issued in registered form and are not transferable.



The Series E bonds, with face values ranging from $25 to $1,000, are sold to individuals on a discount basis to yield an average return of 2.9 per cent a year if they are held until they mature in 10 years. The Series F bonds yield an average of 2.53 per cent a year if held 12 years until maturity. The Series G bonds also have 12-year maturities, but they are sold at par with interest paid semiannually at a rate of 2.5 per cent a year. Both F and G bonds may be sold to any investors except commercial banks.

Sales of War Savings Bonds in this district and throughout the country have expanded sharply, but are still substantially below the levels necessary to provide adequate funds and to combat inflation. Total sales at issue price advanced from about $350 million in May 1941 to over $1 billion in January 1942. Slightly more than $700 million was received from this source in February and less than $600 million in March and in April 1942; but in May sales exceeded $600 million. From the inauguration of the program to the end of May 1942 a total of about $6 billion in War Savings Bonds was sold in the entire country.

Figured in terms of issue price, sales of War Savings Bonds by issuing agents other than post offices in the Third Federal Reserve District aggregated about $385 million in this period of thirteen months, ranging from a low of $16 million in November to a high of about $70 million in January. The figures are shown in the following table.

Sales of War Savings Bonds Issue price (Millions of dollars)	United States Total	Third Federal Reserve District Total	Series E $25-$50 par	Series E other	Series F	Series G
1941—May	$349.8	$24.6	$.3	$3.4	$2.3	$18.6
June	314.5	21.1	.5	3.5	2.2	14.9
July	342.1	25.0	.6	5.0	2.2	17.2
August	265.6	17.3	.6	4.0	1.4	11.3
September	232.3	16.5	.7	3.7	1.2	10.9
October	270.7	16.6	.8	4.0	1.8	10.0
November	233.5	15.9	.9	3.9	1.7	9.4
December	528.6	36.5	3.5	16.3	2.4	14.3
1942—January	1,060.6	69.7	5.5	29.9	6.1	28.2
February	703.2	41.2	3.5	14.5	3.3	19.9
March	557.9	33.4	3.9	11.4	2.9	15.2
April	530.5	33.5	5.1	11.3	2.7	14.4
May	634.4	34.0	6.1	11.3	2.4	14.2
Total	**$6,023.7**	**$385.3**	**$32.0**	**$122.2**	**$32.6**	**$198.5**

About two-fifths of total sales in this district has been in Series E bonds. There is some indication that War Savings Bonds have been purchased largely out of accumulated reserves up until recently, but there is an increasing tendency to buy bonds out of current income. The number of Series E bonds of $25 and $50 denominations sold in May 1941 totaled about 13,000 units or one-half of total sales of Series E bonds. Sales of the small bonds have increased almost steadily and in May 1942 totaled 282,000 units, or four-fifths of the number of E bonds sold. The larger denominations, while representing only about one-fifth of the number of securities sold in May, represented almost two-thirds of the value.

Series F and G bonds, which are bought chiefly by business establishments, trusts, and individuals in higher income groups, accounted for about four-fifths of the value of bonds sold in May 1941 but this proportion declined to about one-half in May of 1942. Sales of these bonds in the Third Federal Reserve District have been concentrated largely in the City of Philadelphia.

The volume of work entailed in the issuance of War Savings Bonds is indicated by the fact that nearly 2,200,000 individual transactions have been consummated in this district, and over 600,000 of these have been directly with the Federal Reserve Bank.

Foreign Funds Control

A key weapon in the economic aspects of the war has been the so-called "blocking" or "freezing" of foreign property held in this country. This Bank, along with the other Federal Reserve Banks, has been called upon to aid the Treasury in this program by administering the Foreign Funds Control. This responsibility has required taking an inventory of all foreign-owned property in this district, administering the regulations, and arranging special licenses for approved transactions involving foreign property. A new department was organized in the Bank to handle this function.

The underlying principles of this control are the safety of the funds or property placed in our custody and our own national security in a period of war or threat of war. Largely as a defensive measure, on April 10, 1940, under authority of Executive Order 8389 issued under the Trading with the Enemy Act of 1917, the control was first imposed upon assets held in this country by the nationals of Norway and Denmark. Subsequent orders extended the control to other European countries as they fell under German domination. These measures served to protect the interests of the invaded countries as well as to deny Germany part of the fruits of its aggression.

On June 14, 1941, the freezing order was greatly expanded to include the assets of all other nations in Continental Europe, including the Axis Powers themselves, thus becoming an offensive weapon in economic warfare. This extension prevented the use of German and Italian funds held here or the use by these countries of American assets owned by neutral or invaded nations to finance sabotage and propaganda in this country, or to purchase in world markets goods which were becoming increasingly scarce and which were vitally needed for our own defense efforts. On July 26, 1941, the control was further extended to the assets in this country belonging to Japan and China. This action, following Japanese occupation of Indo-China, had the effect of cutting off Japanese trade with this country, financed either directly or through assets taken from occupied China. After the outbreak of war with Japan, other Far Eastern areas occupied by Japan were added to the list.

Another phase of the Foreign Funds Control has been the issuance of the "Proclaimed List of Blocked Nationals", or the so-called "Black List", containing the names of several thousand persons in Latin America and other neutral areas whose activities are believed to benefit Axis interests. This list was first issued on July 17, 1941, and has subsequently been extended on several occasions. American citizens and American firms are forbidden to engage in any transactions with the listed persons, and their assets in this country are frozen.

The Foreign Funds Control has been carried out by the Federal Reserve Banks under the direction of the Treasury Department with substantial aid from commercial banks and other financial institutions, through whom foreign assets have been disclosed and with whose help these assets have been immobilized. These institutions have been relieved by this control of the burden of deciding manifold problems of conflicting claims against foreign property held by them.

Money Rates

The general structure of interest rates continued remarkably stable in the face of rapidly declining inflow of gold, growing demand for bank credit and currency, and increasing financial needs of the United States Government. The volume of excess reserves and the supply of investment funds remained in abundance throughout 1941 and the first quarter of 1942.

Average open market money rates in 1941 were generally below the levels of 1940 with the exception of the discount rate on Treasury bills, where the average was higher, and rates on bankers' acceptances and call money. The acceptance and call money markets were largely dormant, with quotations unchanged from the levels which have prevailed for several years. Interest rates on commercial loans extended by member banks were about the same as the year before.

For the most part, fluctuations in money rates throughout the year were narrow and governed chiefly by day-to-day and week-to-week developments in the war and international relations. The general strength of the markets was disturbed during only three relatively short periods. Early in the year, quotations on high grade bonds declined.

Money rates and yields (Open market)	Annual averages			End of year	
	1939	1940	1941	1940	1941
Commercial paper, prime	.59%	.56%	.54%	.56%	.56%
Bankers' acceptances, 90 days	.44	.44	.44	.44	.44
Call money renewals, New York	1.00	1.00	1.00	1.00	1.00
Treasury bills, placement rate*	.023	.014	.103	†	.310
Treasury notes, 3-5 year, tax-exempt	.59	.50	.46	.38	.58
Treasury bonds, long term, partly tax-exempt	2.36	2.21	1.95	1.88	2.02
Municipal bonds (Standard and Poor's)	2.76	2.50	2.10	2.06	2.31
Corporate bonds (Moody): Aaa	3.01	2.84	2.77	2.71	2.86
Baa	4.96	4.75	4.33	4.42	4.39

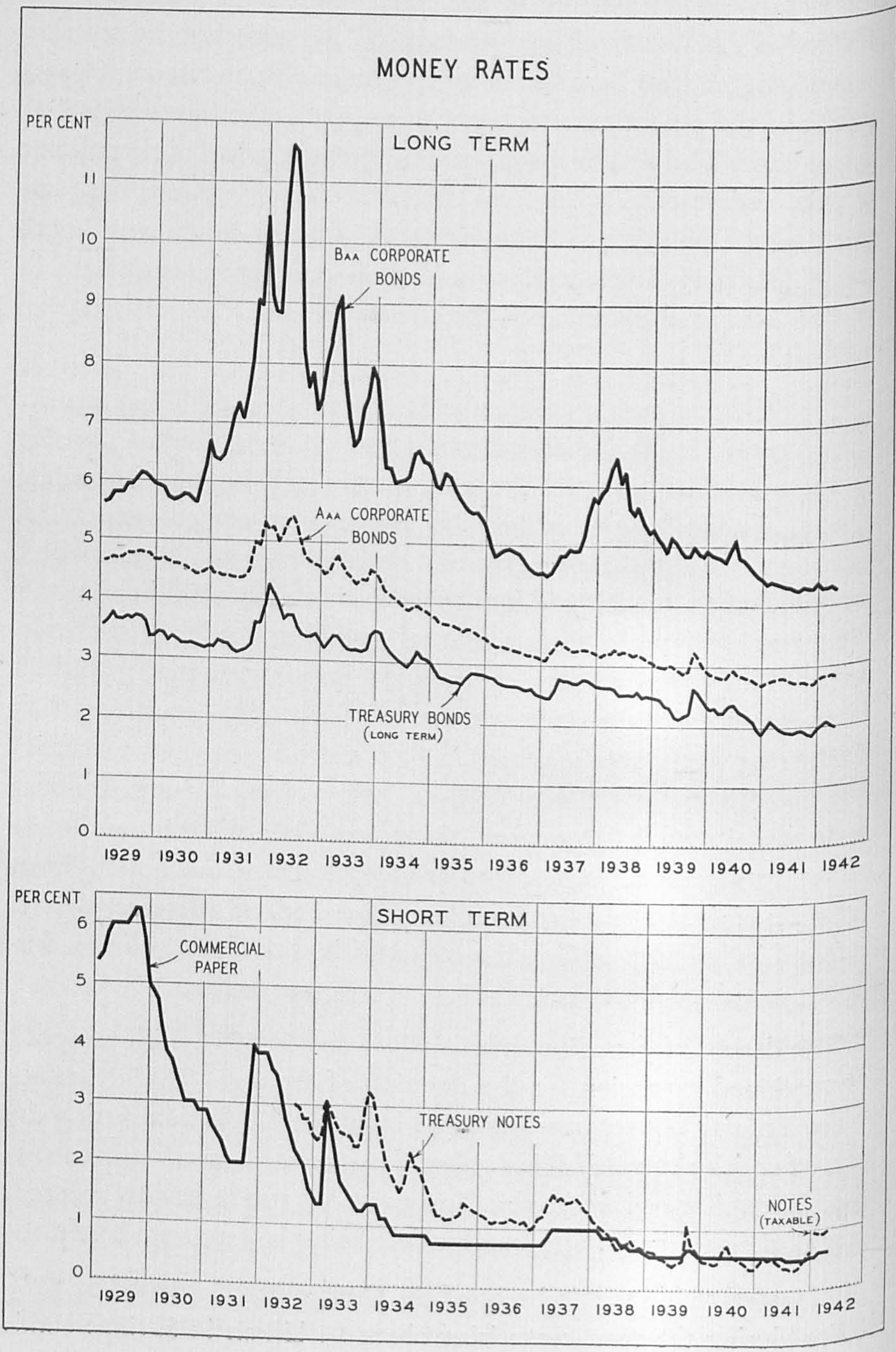
* Tax exempt to March 1941; taxable thereafter. † Average price above par.

This was partly attributable to the heavy Government expenditures indicated in the President's budget message, the widespread discussion of increasing Federal Reserve authority with respect to reserve requirements, and the general uncertainty with respect to the future effects of the war upon fiscal and financial policies. Security prices became firmer after the middle of February and continued slightly upward until the fall, when the prospect for large increases in taxes, the threat of more acute inflationary developments, tension in international relations in the Far East, and accentuated uncertainty resulted in some market weakness.

The third and perhaps most significant period of declining security prices occurred in December, following Pearl Harbor. At that time the gravity and the magnitude of the task became firmly impressed upon the financial system along with the other elements of our economy. The realization that already large expenditures would have to be multiplied, that speed was essential, and that relief from the financial burden was a long way off brought about a reversal of earlier trends. Prices weakened until the end of the year. Even so, the impact upon money markets of our entrance into the active war was relatively mild—much less than was the case when the war started in 1939 and when the Low Countries were invaded in early 1940. While a large volume of new Treasury bonds was issued in December, there was little disturbance in the market, as investment institutions assumed some of the responsibility for maintaining steady conditions. The Federal Reserve System increased its holdings of Government securities by only \$70 million during the month of December.

The demand for credit was unusually heavy in 1941, with prospects for continued expansion for the duration of the war. The gross debt of the Federal Government increased by about \$13 billion during the year, of which about \$6 billion reflected offerings of open market securities. The volume of marketable Treasury notes was somewhat reduced, most of the addition to open market debt being in long term bonds.

Nonmarketable public issues of the Government increased by \$5½ billion during the year, comprising about \$3 billion in Savings bonds


MONEY RATES
PER CENT
LONG TERM
BAA CORPORATE BONDS
AAA CORPORATE BONDS
TREASURY BONDS (LONG TERM)
0
1
2
3
4
5
6
7
8
9
10
11
1929 1930 1931 1932 1933 1934 1935 1936 1937 1938 1939 1940 1941 1942
PER CENT
SHORT TERM
COMMERCIAL PAPER
TREASURY NOTES
NOTES (TAXABLE)
0
1
2
3
4
5
6
1929 1930 1931 1932 1933 1934 1935 1936 1937 1938 1939 1940 1941 1942

and \$2½ billion in tax-anticipation notes. Special Government issues increased by \$1½ billion.

The demand for new money by corporations and Federal agencies also increased. Total new issues, including those of states and municipalities, exceeded \$2,800 million in 1941 as against less than \$2 billion in 1940. Most of the increase was in the securities of Federal agencies. The volume of refunding, while still substantial, declined slightly. Outstanding bank loans expanded by about \$3 billion in the year.

In the short term market, the principal change in rates was in Treasury bills, which sold at an average placement rate of .103 per cent as against .014 a year before. By the end of the year this placement rate exceeded .30 per cent. The average yield on tax-free Treasury notes maturing in 3-5 years was .46 per cent, or 4 points below the average for 1940. By the end of the year the yield had advanced to .58 per cent.

The supply of commercial paper, although increased in 1941, was not equal to demand, and prime issues sold at ½-⅝ per cent, an average slightly below that prevailing in 1939 and 1940. As demands for funds increased, however, the rate firmed and by early 1942 most issues were selling at the higher of the two rates. Activity in the call money and bankers' acceptance markets continued quiet with nominal rates of 1 per cent for the former and .44 per cent for 90-day bills.

The yield on long term, partly tax-exempt, Government securities declined to record low levels in the fall of 1941 and for the year as a whole averaged slightly less than 2 per cent, well below the average of the year before. Even after the advance culminating in the middle of February, the average yield was only 2.14 per cent, which was below the average for the year 1940.

Yields on high grade corporate bonds declined in 1941 to an average of about 2.8 per cent. The trend of rates in this market corresponded closely with that in Government securities. In the case of speculative corporate bonds, the reduction in yields was greater during the year and this market was firmer than the high grade markets in December and early 1942, owing to improved credit positions of many of the issuers.

Rates on commercial loans in 1941 were about the same as those which prevailed in the previous year. Reports for December from large Philadelphia banks indicated an average of 2.9 per cent as compared with 2.8 per cent a year ago. Of the dollar volume of commercial loans extended, about half was at rates below 3 per cent and only a small amount was extended at rates in excess of 4 per cent.

Rates on commercial and industrial loans made by seven Philadelphia banks (Dollar figures in thousands)	Dec. 1–15, 1939	Dec. 1–15, 1940	June 1–15, 1941	Dec. 1–15, 1941
1 per cent	$1,167	$254	$457	$1,247
Between 1 and 1½ per cent	500	600	0	730
1½ per cent	10,151	8,960	13,054	5,748
Between 1½ and 2 per cent	115	200	178	874
2 per cent	754	2,306	1,886	1,942
Between 2 and 3 per cent	2,260	1,028	2,371	2,611
3 per cent	2,460	4,290	3,973	4,266
Between 3 and 4 per cent	2,824	1,032	1,674	2,563
4 per cent	2,550	3,514	3,728	3,723
Between 4 and 5 per cent	948	800	834	1,882
5 per cent	1,614	2,052	1,386	1,475
Between 5 and 6 per cent	249	124	269	139
6 per cent	1,188	792	713	956
Total, dollar amount	**$26,780**	**$25,952**	**$30,523**	**$28,156**
Total number of loans	**1,115**	**1,195**	**1,176**	**1,336**
Average rate, based on dollar volume	2.7%	2.8%	2.6%	2.9%

Interest paid on time deposits declined somewhat further in 1941, averaging about 1.4 per cent for the year as against 1.6 and 1.8 per cent in the two preceding years. The legal maxima of 1 per cent in New Jersey and 2½ per cent on time deposits payable in six months or more in the rest of the district were unchanged. At some banks interest on time deposits was eliminated.

No changes were made in the interest and discount rates charged by the Federal Reserve Bank of Philadelphia during 1941, but effective March 21, 1942, the prevailing rate was reduced from 1½ per cent to a record low of 1 per cent. Changes were not made in the 2 per cent rate charged on advances under Section 10(b), which permits the tender of any collateral acceptable to the Federal Reserve Bank, or in the 2½ per cent rate charged on advances to individuals, partnerships, or corporations other than banks under the last paragraph of Section 13.

Discount and interest rates Federal Reserve Bank of Philadelphia	March 21, 1942
For member banks	
Advances secured by direct obligations of U. S. (up to 90 days; last par. Sec. 13)	1%
Advances secured by eligible guaranteed obligations of U. S. (up to 15 days; Sec. 13)	1
Discounts of and advances secured by eligible paper (up to 90 days; Sec. 13 and 13a‡)	1
Other secured advances (up to 4 months; Sec. 10(b))	2
For individuals, partnerships and corporations other than member banks	
(Advances up to 90 days; secured by direct obligations of U. S.; last paragraph Sec. 13)	
For nonmember banks	1
For others	2½
Industrial advances, under Section 13b (maturities up to 5 years)	
Advances direct to industrial or commercial organizations	3½–6
Advances to or in participation with financing institutions—	
On portion for which institution is obligated	2*
On remaining portion	†
Commitments to make advances	½–2

‡ Maturities may be longer on certain bankers' acceptances and agricultural paper.
* May be same as rate to borrower, if lower than rate shown.
† Same as to borrower.

Banking and Credit Conditions

Bank Reserves

The sharp increase in the speed and scope of the war production program in 1941 greatly accentuated the demand for money and credit to pay for unprecedented purchases of munitions, to finance the expansion and conversion of our industrial plant, and to meet the requirements of increased trade. Although the basic reserves of the credit system, that is, cash holdings of Federal Reserve Banks, were expanded, the excess reserves of member banks were reduced considerably. This change reflected a combination of basic influences, including an increase in reserve requirements.

On the supply side, additions to our gold stock declined from the record total of $4,351 million in 1940 to only $742 million in 1941 as available stocks of the metal abroad were depleted. Toward the end of October the monetary gold stock of the United States reached a peak of $22.8 billion; in the closing months of the year the stock declined somewhat, showing the first sustained contraction since early 1933, as increasing amounts were placed under earmark for foreign account.

On the demand side, the volume of money in circulation expanded $2.4 billion in the year to $11.2 billion and advanced further in the first quarter of 1942. This demand was due primarily to increased industrial payrolls and trade. Hoarding also continued to be a factor, as indicated by the type of currency demanded. The circulation of coin and bills in denominations up to $20 increased 30 per cent over the previous year, largely by reason of industrial and trade expansion. A similar rise occurred in notes of the $50 and $100 denominations, which are used much less actively in the ordinary course of trade. The increase in larger bills was only 6 per cent and was much less marked than in 1940.

Other active influences included a rising demand for credit requiring additional reserves to be maintained against newly created deposits, and the increased ratios of reserves resulting from action by the Board of Governors.

Federal Reserve Bank

The cash reserves of the Federal Reserve Bank of Philadelphia rose to a record high of $1,359 million in the course of the year and at the close of 1941 were $1,244 million, showing a net increase of $178 million. Required reserves against deposits did not change materially, as reductions in member bank reserves and in miscellaneous deposits were offset by increased Treasury balances. But there was a substantial advance in reserve requirements against Federal Reserve notes, which have continued to be the principal element in the rapidly rising volume of currency payments. On December 31 the cash reserves of this Bank were nearly 2½ times the requirements against note and deposit liabilities. Combined reserves of the twelve Reserve banks expanded to $20.8 billion at the close of the year and were approximately $12.4 billion above requirements. The reserve positions of this Bank and of the System as a whole are shown in the following table.

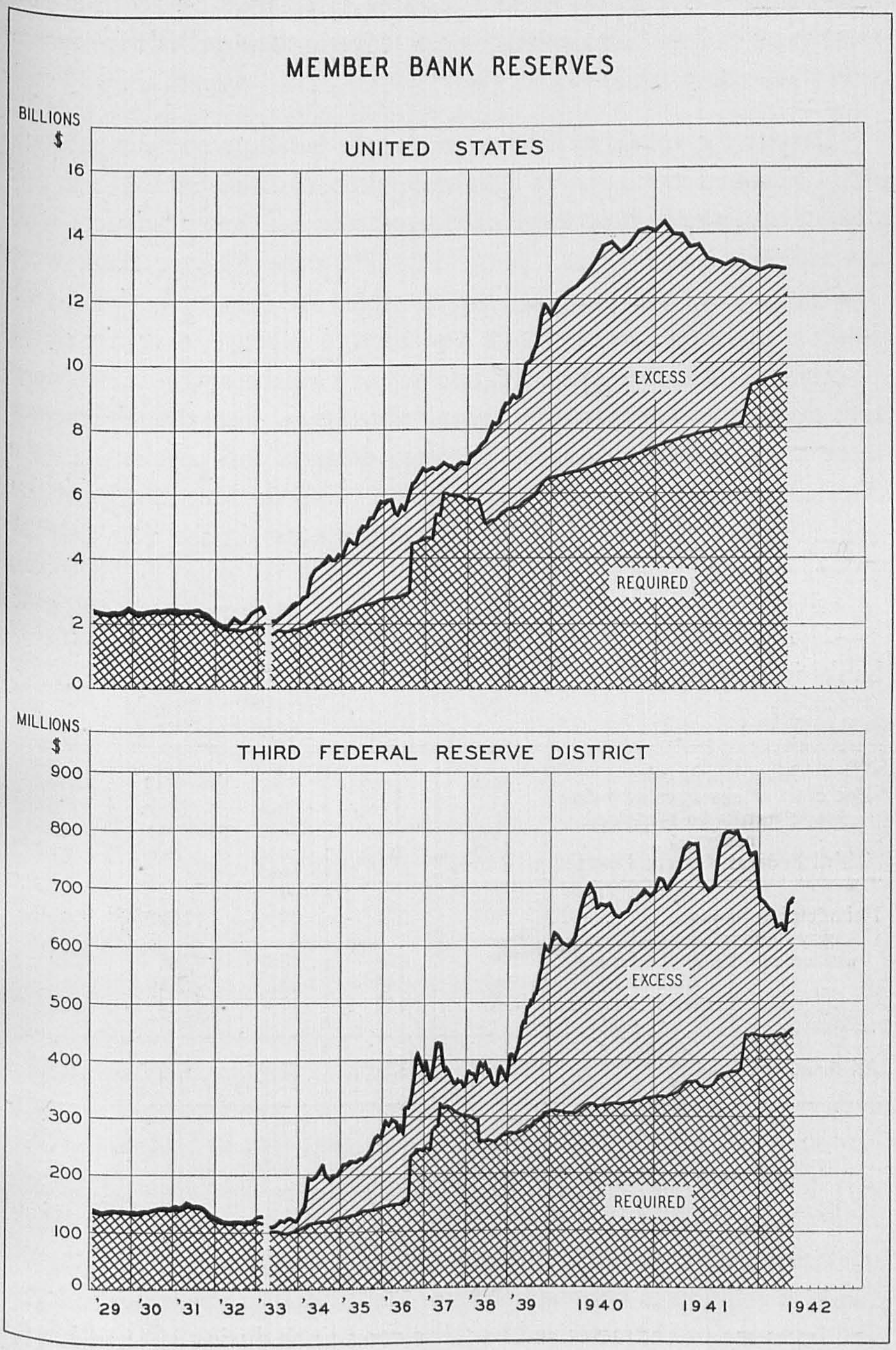
Cash reserves of the Federal Reserve Banks (End of year; dollar figures in millions)	Philadelphia		All Federal Reserve Banks	
	1940	1941	1940	1941
Total reserves	$1,066.4	$1,244.5	$20,035.6	$20,764.4
Required reserves:				
Against Federal Reserve notes (40% in gold certificates)	164.3	230.0	2,372.4	3,276.9
Against deposits (35% in gold certificates or lawful money)	286.9	287.6	5,644.3	5,137.3
Total required	$451.2	$517.6	$8,016.7	$8,414.2
Excess reserves	$615.2	$726.9	$12,018.9	$12,350.2
Proportion of total to required	236%	240%	250%	247%

Member banks

For the country as a whole the reserves of member banks declined $1½ billion in 1941 to $12½ billion, reflecting principally the impact of heavy currency demand. But excess reserves declined much more sharply, dropping $3.5 billion to $3.1 billion. This was due to expanding requirements against deposits, which were increased steadily throughout the year. On November 1 the Board of Governors raised requirements by about one-seventh or approximately $1.2 billion dollars. Required reserve ratios on the net demand deposits of central reserve city, reserve city, and country member banks are now 26 per cent, 20 per cent, and 14 per cent respectively, and on the time deposits of all members the ratio is 6 per cent.

In the Third Federal Reserve District, member bank reserves reached an all-time high of $808 million in the fall, but dropped to $662 million at the end of the year. The net decline of $42 million during 1941 represented a percentage reduction equal to about one-half that shown throughout the country. Nearly one-half billion dollars was gained in commercial and financial transactions with other districts, some part of this representing funds to be used in payments to the Government. The principal factors tending to restrict the growth in reserves were the withdrawal of $368 million from the market by the Treasury and a record-breaking increase of $168 million in currency demand, more than twice that reported in 1940. Treasury disbursements were heavy in this district, which holds a leading position in the supply of materials and equipment for defense and war, but the sharply increased tax collections and the proceeds of security sales provided a larger amount of

Member bank reserves and related items Third Federal Reserve District (Millions of dollars)	1939	1940	1941
Sources of funds:			
Reserve Bank credit extended in district	+ 2	+ 0	− 7
Interdistrict commercial transfers	+219	+170	+484
Mint gold purchases, net	+ 5	+ 4	+ 3
Treasury operations	+ 61	+ 19	−368
Total	+287	+193	+112
Uses of funds:			
Currency demand	+ 53	+ 75	+168
Member bank reserve deposits	+224	+113	− 42
"Other deposits" at Reserve Bank	+ 10	+ 5	− 14
Other Federal Reserve accounts	− 0	− 0	− 0
Total	+287	+193	+112


MEMBER BANK RESERVES
BILLIONS $
UNITED STATES
16
14
12
10
8
6
4
2
0
EXCESS
REQUIRED
MILLIONS $
THIRD FEDERAL RESERVE DISTRICT
900
800
700
600
500
400
300
200
100
0
EXCESS
REQUIRED
'29 '30 '31 '32 '33 '34 '35 '36 '37 '38 '39 1940 1941 1942

funds than was paid out here. Changes in reserves during the past three years and the factors which were active in these periods are shown in the preceding table.

Despite the moderate decline in reserve balances and the substantially increased requirements against deposits, the member banks in this district continue to hold large excess reserves and heavy balances with correspondent institutions. Borrowings from the Reserve Bank were low throughout the year. In the first half of November, when the increase in reserve requirements first became effective, over five-sixths of the banks still had combined reserves and balances with correspondents equal to two or more times required reserves. Even though reserves were reduced subsequently by currency demand and payments to the Treasury, the reserves and other balances of about three-fourths of the banks were still more than double requirements in the first half of February 1942.

The table below indicates changes in the reserve position of member banks in this district.

Member Banks Per cent of reserves and due from banks to required reserves Third Federal Reserve District	1939 Jan. 1st half	1940 Jan. 1st half	1941 Jan. 2nd week	1941 Nov. 1st half	1942 Feb. 1st half
Philadelphia banks	220%	294%	299%	239%	206%
Country banks: Cities with population of—100,000 or more	396	496	489	316	279
15,000 to 100,000	262	343	395	334	280
Under 15,000	285	412	439	372	318
All member banks	251%	331%	343%	272%	235%

Condition of Member Banks

Continued expansion in deposits with a declining trend of capital funds in relation to deposit liabilities and substantial increases in loans and investments characterized banking conditions during 1941 and early

1942. Bank earnings changed little, although there was some improvement over the preceding year in this respect.

The data below summarize in broad terms the trends and changes in the principal banking items.

Member banks (Dollar figures in millions)	Third Fed. Res. District			United States		
	Amount 1941	Per cent change from		Amount 1941	Per cent change from	
		1940	1927–29 average		1940	1927–29 average
Deposits	$3,609	+10	+48	$59,289	+12	+63
Capital accounts	484	+ 0	−16	5,823	+ 4	+ 0
Loans	1,101	+12	−36	17,043	+18	−30
Earnings on loans	45.7	+ 6	−52	665	+12	−52
Investments	1,481	+ 8	+60	24,232	+16	+138
Earnings on investments	40.3	− 2	−14	445	+ 3	− 7
Earnings from other sources	22.4	+ 4	+40	306	+ 3	− 7
Total current earnings	**108.4**	**+ 2**	**−31**	**1,416**	**+ 7**	**−36**

Deposits Deposits held by the member banks in this district advanced to a record high in the fall of 1941 and after some decline still amounted to $3.7 billion on December 31, or one-quarter billion dollars above the previous year. This increase was divided about equally between banks in Philadelphia and those outside of the city.

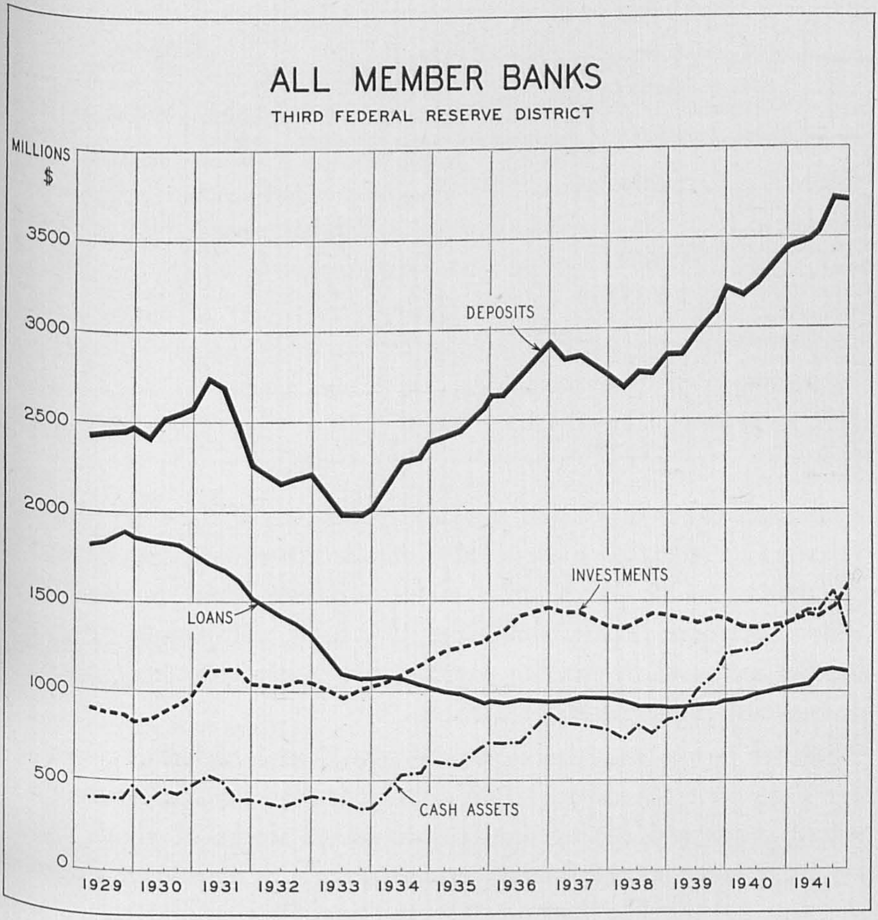
Demand deposits were increased sharply, rising $282 million to $2,635 million, largely as a result of Treasury disbursements and funds transferred from other districts. The gain was principally in balances of individuals and business concerns and, to a more limited extent, in those of states and political subdivisions. Interbank deposits reached a high point in the fall but for the year as a whole showed a moderate decline, owing in part to withdrawals to pay for Treasury securities or to adjust reserves to the higher level of requirements which went into effect on November 1.

Member banks Third Federal Reserve District (Millions of dollars)	December 31, 1941	Changes in 1940	Changes in 1941
RESOURCES			
Loans	1,118	+ 74	+ 98
Investments	1,600	− 17	+221
Cash assets	1,331	+180	− 52
Real estate assets	138	− 20	− 14
Other	21	− 7	− 1
Total	**4,208**	**+210**	**+252**
LIABILITIES AND CAPITAL ACCOUNTS			
Deposits	3,704	+221	+252
Other liabilities	22	− 3	....
Capital accounts	482	− 8	....
Total	**4,208**	**+210**	**+252**

In contrast to the growth in demand deposits, the volume of time deposits declined $30 million to $1,069 million, the lowest point since 1936. This change probably reflected in part the increased need for demand balances as business activity expanded, lower rates paid on time deposits, and some withdrawals to purchase United States Defense Savings Bonds. At the close of the year, time balances were 29 per cent of total deposits, as against 32 per cent a year earlier and an average of 44 per cent in 1929.

Deposits were used more actively as business increased. At the weekly reporting banks, located chiefly in Philadelphia, the demand balances of individuals and business enterprises turned over at a rate of 18 times in 1941 as against 16½ times in the previous year.

Loans and discounts The demand for bank credit in 1941 was the most active since 1929. Loans of member banks in the Philadelphia Federal Reserve District increased $98 million to $1,118 million, the largest amount outstanding at the end of the year since 1932. Virtually all of the increase was in the first three quarters of the year, when demand from industry and trade was especially heavy.



Banks in Philadelphia increased their loans by $78 million to $492 million, chiefly through commercial advances, while the smaller increase of $20 million to $626 million outside of the City was principally in real estate loans. At the close of 1941 direct business advances represented 56 per cent of the loans of Philadelphia banks, while loans on real estate accounted for 7 per cent. In the case of the country banks, these proportions were respectively 25 and 39 per cent. Changes in loans during the year are shown in the table on the next page.

In the eighteen months from the real beginning of the defense program through December 1941, commercial loans increased 35 per cent

Loans of Member Banks Third Federal Reserve District (Millions of dollars)	Actual—Dec. 31, 1941			Changes in 1941		
	Phila-delphia banks	Coun-try banks	All member banks	Phila-delphia banks	Coun-try banks	All member banks
Commercial	275.4	155.4	430.8	+58.2	+ 5.4	+63.6
Open market paper	32.1	29.3	61.4	+ 4.4	+ 4.9	+ 9.3
Brokers' loans	26.1	3.0	29.1	+ 4.0	− .3	+ 3.7
Other loans to carry securities	27.3	26.8	54.1	+ 1.8	− 6.3	− 4.5
Real estate loans	34.0	243.0	277.0	+ .6	+18.0	+18.6
Loans to banks	.4	.4	.8	− .4	+ .2	− .2
Other loans	96.3	168.4	264.7	+ 9.5	− 1.9	+ 7.6
Total loans	**491.6**	**626.3**	**1,117.9**	**+78.1**	**+20.0**	**+98.1**

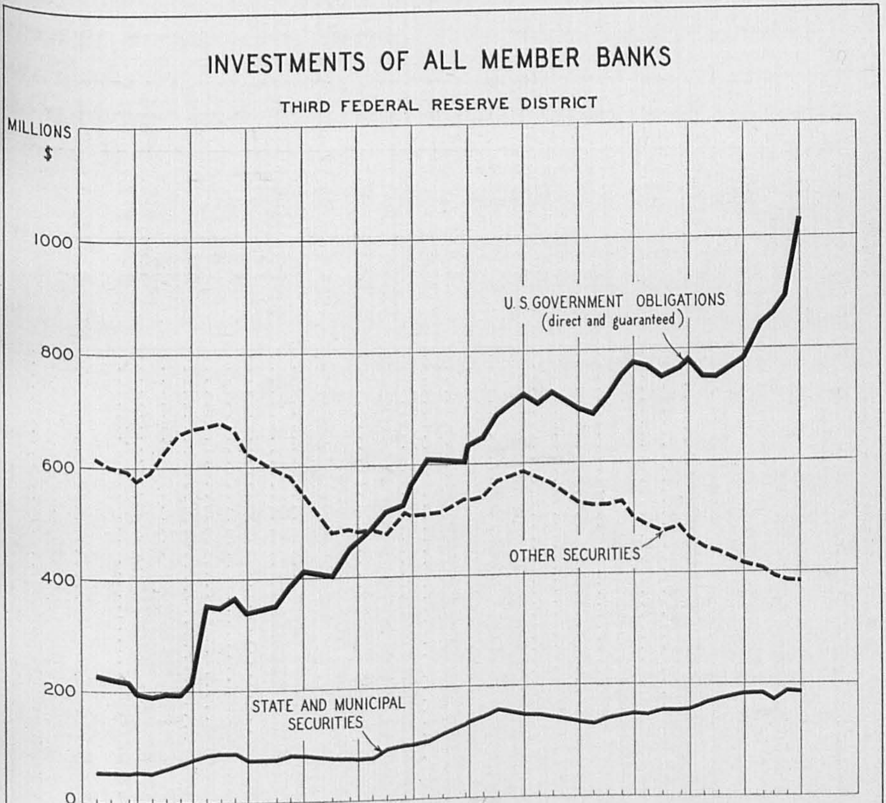
at member banks in Philadelphia and 9 per cent at the country banks. These gains reflected in part credit extended to enterprises engaged in the production of war supplies and equipment, where in many cases plants have been expanded and the need for working capital has been sharply increased by heavier payrolls, the larger volume of goods in process, and higher costs of materials.

Other factors contributing to the growth in commercial credit during 1941 were the expansion in activity at plants manufacturing consumer goods and the substantially increased stocks of goods carried by many trade establishments in anticipation of expanded consumer demand and possible shortages in some lines.

With but moderately active trading in equities during the year and depressed prices as it drew to a close, there was little change in the volume of member bank credit used to purchase or carry securities. At the turn of the year, loans of this character, including those to brokers and dealers as well as to customers, accounted for only 7 per cent of the loan portfolio.

Increased consumer incomes and industrial activity, particularly in the defense areas, stimulated the market for real estate, but many of the transactions were financed through agencies other than the banks. Consequently, the volume of loans on real estate at the member banks in this district increased only $19 million to $277 million.

Unclassified loans represent nearly one-fourth of total loans, and include direct personal and instalment advances by the banks to individuals. The increase of $8 million to $265 million in 1941 was about the same as in the preceding year. The volume of consumer credit outstanding at member banks increased over the early part of the year and on June 30 totaled $76 million or 7 per cent of member bank loans. But the trend upward subsequently was tempered by restrictions on the output of consumers' durable goods, the principal outlet for such credit, and by the requirements with respect to maturity and down payments which went into effect on September 1 by order of the Board of Governors.



Analysis of Member Bank Investments

Third Federal Reserve District (Dollar figures in millions)	December 31, 1941						Changes during 1941		
	Actual figures			Percentage distribution					
	Total	Phila. banks	Country banks	Total	Phila. banks	Country banks	Total	Phila. banks	Country banks
U. S. Government direct obligations	**$844.5**	**$433.7**	**$410.8**	**52.8%**	**56.1%**	**49.7%**	**+ $221.3**	**+ $99.0**	**+ $122.3**
Treasury bills	22.9	9.5	13.4	1.4	1.2	1.6	+ 21.4	+ 9.5	+ 11.9
Treasury notes	66.9	15.4	51.5	4.2	2.0	6.2	+ 3.7	− 2.6	+ 6.3
Bonds maturing—									
Within 5 years	42.9	21.7	21.2	2.7	2.8	2.6	− 7.1	+ 2.7	− 9.8
5 to 10 years	149.5	59.0	90.5	9.3	7.6	11.0	+ 35.3	+ 8.6	+ 26.7
10 to 20 years	448.8	270.9	177.9	28.0	35.0	21.5	+ 104.1	+ 57.9	+ 46.2
Over 20 years	113.5	57.2	56.3	7.1	7.4	6.8	+ 63.9	+ 22.9	+ 41.0
Obligations guaranteed by U. S. Government	**$187.5**	**$97.8**	**$89.7**	**11.7%**	**12.6%**	**10.9%**	**+ $28.5**	**+ $15.9**	**+ $12.6**
Reconstruction Finance Corporation	42.2	14.6	27.6	2.6	1.9	3.3	+ 22.8	+ 7.5	+ 15.3
Home Owners' Loan Corporation	108.4	70.2	38.2	6.8	9.1	4.6	+ 10.4	+ 9.3	+ 1.1
Federal Farm Mortgage Corporation	14.9	5.7	9.2	.9	.7	1.1	− 1.8	− 1.1	− .7
All other	22.0	7.3	14.7	1.4	.9	1.8	− 2.9	+ .2	− 3.1
Maturing within 5 years	*105.6*	*43.5*	*62.1*	*6.6*	*5.6*	*7.5*	*+ 22.0*	*+ 7.1*	*+ 14.9*
Obligations of states and political subdivisions	**$185.5**	**$96.7**	**$88.8**	**11.6%**	**12.5%**	**10.7%**	**+ $1.2**	**+ $.1**	**+ $1.1**
Maturing within 5 years	*89.3*	*48.5*	*40.8*	*5.6*	*6.3*	*4.9*	*+ 5.6*	*+ 1.9*	*+ 3.7*
Other bonds, notes, and debentures:									
Government corporations and agencies, not gtd.	**$18.5**	**$3.1**	**$15.4**	**1.2%**	**.4%**	**1.9%**	**− $.1**	**− $1.1**	**+ $1.0**
Maturing within 5 years	*14.1*	*2.5*	*11.6*	*.9*	*.3*	*1.4*	*+ 3.5*	*− .1*	*+ 3.6*
Other domestic corporations	**$301.5**	**$106.5**	**$195.0**	**18.8%**	**13.8%**	**23.6%**	**− $29.2**	**− $10.8**	**− $18.4**
Railroads	137.1	49.9	87.2	8.6	6.5	10.5	− 9.7	− .9	− 8.8
Public utilities	85.8	27.9	57.9	5.3	3.6	7.0	− 14.7	− 6.6	− 8.1
Industrials	71.9	26.6	45.3	4.5	3.4	5.5	− 3.0	− 2.4	− .6
All other	6.7	2.1	4.6	.4	.3	.6	− 1.8	− .9	− .9
*Maturing within 5 years**	*55.9*	*24.7*	*31.1*	*3.5*	*3.2*	*3.8*	*+ 4.8*	*+ 1.3*	*+ 3.4*
Corporate stocks, domestic	**$33.6**	**$18.7**	**$14.8**	**2.1%**	**2.4%**	**1.8%**	**− $1.0**	**− $.3**	**− $.8**
Foreign securities	**$29.1**	**$17.4**	**$11.7**	**1.8%**	**2.2%**	**1.4%**	**+ $.4**	**+ $1.3**	**− $.9**
Total investments	**$1,600.2**	**$773.9**	**$826.2**	**100.0%**	**100.0%**	**100.0%**	**+ $221.1**	**+ $104.1**	**+ $116.9**
Maturing within 5 years	397.6	165.8	231.7	24.8	21.4	28.0	+ 53.9	+ 19.8	+ 34.0
Defaulted securities	6.3	2.7	3.6	.4	.3	.4	− 2.8	− 1.2	− 1.6

* Includes foreign securities.

Invest-ments Security holdings of the member banks in this district increased $221 million during 1941 to a record level of $1,600 million. More than one-half of this expansion occurred at country banks. Holdings were increased principally in the last quarter of the year, when large issues were marketed by the Treasury.

Member banks invested heavily in obligations of the United States Treasury. Holdings of direct and guaranteed issues increased $250 million to $1,032 million. Additions comprised $196 million in Treasury bonds, mostly maturing in more than 10 years; $21 million of Treasury bills, which in other recent years have been held only in small amounts; $28 million of guaranteed securities, chiefly issues of the Reconstruction Finance Corporation; and a small amount of Treasury notes. At the close of the year nearly two-thirds of member bank investments were in direct and guaranteed Governments, the proportions being 69 per cent at banks in Philadelphia and 61 per cent at the country banks.

No material changes were made in holdings of state and municipal securities, which continued to represent about one-eighth of the total portfolio. The investment in liens of domestic corporations, however, was reduced $29 million further to $301 million. The downward trend in these securities has persisted over the last decade, with the result that

Proportion of corporate bonds to total investments of member banks December 31, 1941	Reserve city banks		Country banks	
	Third District	United States	Third District	United States
Bonds, notes and debentures of domestic corporations:				
Railroads	6.5%	2.4%	10.5%	4.7%
Public utilities	3.6	1.2	7.0	3.5
Industrial	3.4	1.6	5.5	2.9
Other	.3	.4	.6	.5
Total	**13.8%**	**5.6%**	**23.6%**	**11.6%**

they now account for only 19 per cent of total securities owned as against about 45 per cent at the close of 1931. Declines were again largest in utility and rail bonds. Banks in this district hold proportionately heavier amounts of corporate bonds than comparable groups of member banks throughout the country, as shown in the preceding table.

Capital funds The ratio of capital accounts to deposits continues higher at the member banks in the Third Federal Reserve District than in the country as a whole. During 1941 the volume of capital funds increased somewhat in Philadelphia but declined elsewhere in the district, while deposits expanded considerably at both groups of banks. The ratio of capital accounts to depreciable assets, which comprise loans, securities, and real estate, declined.

At the close of 1941 cash assets were equal to 36 per cent of deposits, and combined holdings of cash assets and United States Government obligations were nearly two-thirds of the deposit liabilities. These proportions averaged only 17 and 27 per cent respectively in the years 1927-29.

Real estate holdings have been declining recently, following a generally upward trend throughout the depression. In dollar amount these assets have decreased $43 million from the end of 1938 to the close of 1941, and in relation to capital accounts from 37 to 29 per cent. For all member banks of the Federal Reserve System this proportion is now about 20 per cent.

Earnings and expenses Net earnings from current operations have been relatively stable in the past several years, but net profits have varied considerably with shifting amounts of charge-offs, recoveries, and profits on security sales. Net profits declined to $12.2 million in 1941 from $16.6 million in the preceding year. This reflected principally heavier charge-offs by relatively few banks. Average net profits at member banks in this district increased from 1.3 per cent to 2.9 per cent of capital accounts and from 5.4 to 12.5 per cent of total earnings. Most banks disbursed less in dividends than their net profits for the year.

Total earnings increased from $105.8 million in 1940 to $108.4 million in 1941. The rate of return on loans again averaged 5.4 per cent, but as the volume of lending expanded total earnings from this source increased. Substantial additions also were made to the investment portfolio but, with lower rates of return than in 1940, income declined somewhat. Moderate increases were reported in other earnings, such as those from trust department operations and service charges on deposits.

Current expenses advanced somewhat more than earnings, rising from $69.8 to $72.7 million. There was a further reduction in interest paid on time deposits, but this was more than offset by heavier disbursements for salaries, taxes, and miscellaneous costs.

Noncurrent income was sustained at a level of approximately $20 million, with larger recoveries on loans, securities, and other assets compensating for a substantial decline in profits on sales of securities to the lowest point since 1937. This income, however, was more than offset by losses, depreciation, and charge-offs. The records of individual banks show a reduction in average charge-offs, but the total dollar volume increased from $40 to $44 million; losses on securities were reduced from 1940, while losses on loans and depreciation on real estate assets increased.

Analysis of Member Bank Assets in the Light of Current Banking Problems

The character and trend of bank assets have become increasingly important during this national emergency. The nature of loans and investments has changed and will change further as banks meet vast Government and industrial requirements for funds to finance war production. It is essential that these changes be made in a manner that will not only meet our vital war needs but will also sustain the strength of bank asset positions, which represent the foundation of our credit structure. The vigor and vitality of industry and trade during and after the war period rest to a large extent upon the strength and flexibility of the banks and other credit institutions.

The expansion of credit and deposits has placed an increasing burden upon the capital funds of the banking system, indicating a need to reduce asset exposure, while meeting the credit needs of the community and maintaining sound earnings positions. Credit standards and practices are being subjected to strain by the sweeping changes in industrial and commercial conditions; as financial leaders in thousands of communities, the banks strongly influence these credit trends.

The difficulties of improving asset positions are manifold. The war has stimulated many industries and at the same time depressed others. In addition to the ordinary risks of character, ability, and capital, credits are now subjected to the risks of scarce materials, labor, transportation facilities, and a multitude of other industrial and trade factors.

Constant review of asset positions is needed during this period of broad and rapid changes to increase our credit strength, to maintain favorable earnings upon which the soundness of banking depends in the long run, and at the same time to expand banking services to consumers, trade, industry, and Government.

The approach to the analysis of bank assets

A general analysis of member bank assets in this district has been undertaken in order to throw some light on the way in which banks have met past situations and on the positions of banks facing current and future problems. Similar appraisals of member bank investments in this district were made in 1937 and 1939.

The information used in this study was taken from condition statements, examination reports made largely in the summer and fall of 1941, and earnings and expense reports. The appraisal of investments was undertaken from the standpoint of maturity, quality, types, and income. Information with respect to holdings of inferior loans, types of loans, and earnings and losses on loans was included; and the proportions of cash, loans, and investments, composition of fixed assets, the proportions of time and demand deposits, and the composition of capital accounts were also shown. These data were combined in various test ratios to ascertain the extent to which short term funds are being invested, the pressure of depreciable assets upon available capital funds, the extent to which capital funds are available to protect liabilities, and the extent to which capital funds are employed in fixed assets.

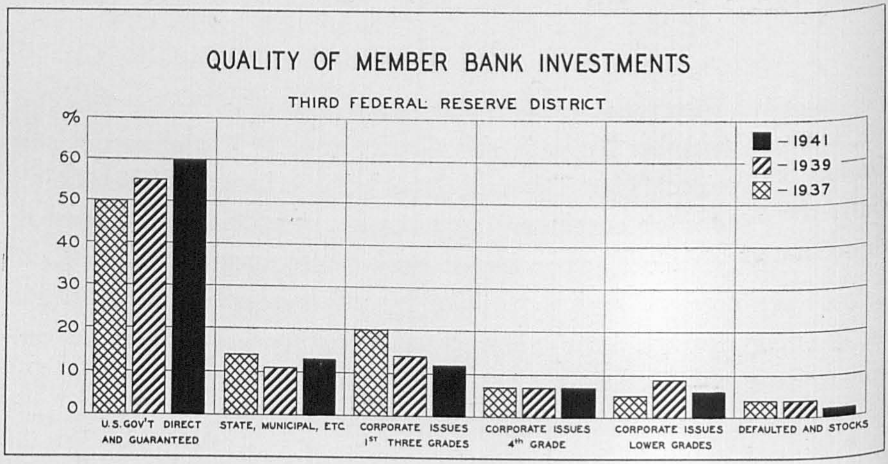
Averages for various groups of the 656 individual banks reveal certain general characteristics. The composition of assets and liabilities and earnings differs somewhat according to operating conditions, as is to be expected. From a statistical point of view the degree of dispersion around the averages for the various groups was relatively small and well-balanced.

Position of all member banks

Substantial changes have been shown in the positions of member banks in this district since 1937 and particularly since 1939. Demand deposits have increased sharply, reflecting continued large imports of gold into this country in 1940 and sustained expansion of bank credit since that time. Cash assets have increased, owing chiefly to this inflow of gold and the spread of its effects through the interdistrict settlement fund. Loans and investments have expanded since 1939, owing chiefly to the war demand for funds. Real estate holdings, particularly in the form of "other real estate" and assets indirectly representing real estate, have been substantially reduced as market conditions have improved. The quality of loans has also improved with better business conditions.

In the case of investments, the proportion of United States securities has expanded from 50 per cent of total investments in 1937 to 55 per cent in 1939 and 60 per cent in 1941 on an aggregate dollar basis. Holdings of state, municipal, and other local government securities declined from 1937 to 1939 and then increased. The proportions of investments in corporate securities in the first three ratings has declined almost by the same percentage as holdings of United States obligations have increased. Holdings of lower-grade corporates increased to 1939 but subsequently were reduced. The following table and chart show these changes.

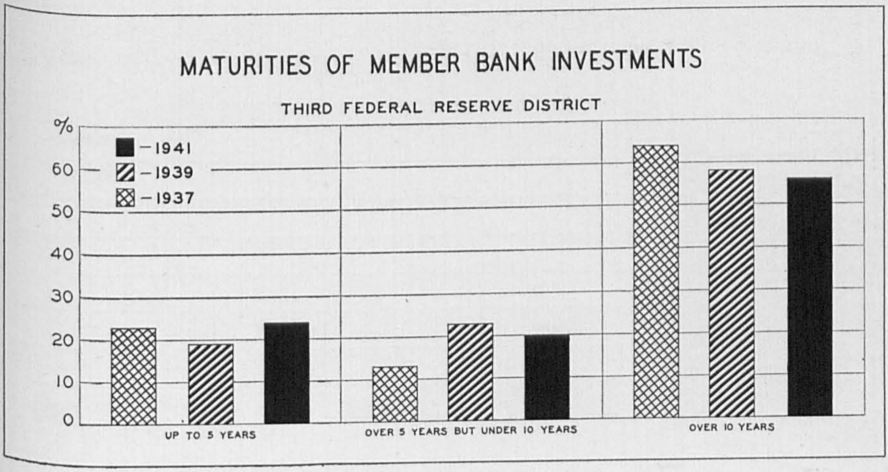
Quality of member bank investments (Based upon total dollar values)	1937	1939	1941
United States Government—direct and guaranteed	50%	55%	60%
State, municipal, etc.	14	11	13
Corporate issues—1st three grades	20	14	12
Corporate issues—4th grade	7	7	7
Corporate issues—lower grades	5	9	6
Defaulted issues	2	1	1
Stocks	2	3	1
Total	**100%**	**100%**	**100%**



Maturities of investments have been generally shortened, representing a shift primarily to bonds maturing in 5-10 years. This trend over the four-year period is shown in the next table and chart.

Maturities of member bank investments (Based upon total dollar values)	1937	1939	1941
Up to 5 years	23%	19%	24%
Over 5 years but under 10 years	13	23	20
Over 10 years*	64	58	56
Total	**100%**	**100%**	**100%**

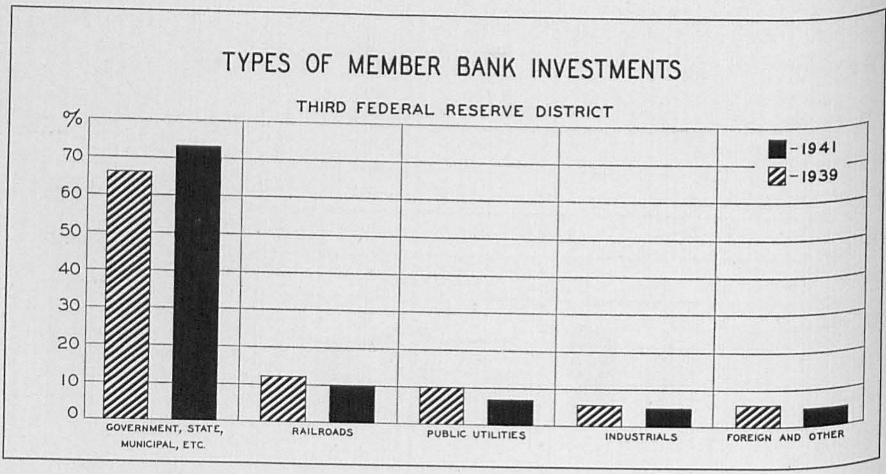
* Including defaulted issues and stocks.



The change in types of securities held represented the expansion in United States obligations and the reduction in corporate bonds, especially the obligations of public utilities and railroads. The summary of these changes follows.

Types of member bank investments (Based upon total dollar values)	1939	1941
U. S. Governments; state, municipal, etc.	66%	73%
Railroads	12	10
Public utilities	10	7
Industrials	6	5
Foreign and other	6	5
Total	**100%**	**100%**

Trends of member bank positions on the basis of averages for individual banks have been about the same as those based on dollar totals for all banks combined. Holdings of investments maturing in 5 years or less increased substantially from 1939 to 1941; intermediate term securities also advanced somewhat; but investments with maturities exceeding 10 years still represented more than one-half of total holdings. United States Government securities and obligations of states, munici-



palities, and corporations in the first three grades accounted for more than three-fourths of investments, the increase since 1939 being chiefly in Government securities. Among the corporate issues, holdings of rails still predominated. A continued decline in yields has resulted in reduced earnings.

Some slight improvement in the quality of loans was shown between 1939 and 1941 when 10 per cent were in Class II and 11 per cent in Classes II, III, and IV. The largest proportion of loans by banks in this district on the average represented loans on real estate. Miscellaneous loans, including personal and retail instalment loans, were next in importance, while advances to commerce, industry, and agriculture were

Types of member bank loans (Based upon averages for individual banks)	June 30, 1941
Commercial, industrial and agricultural	26%
Open market paper	2
Loans to brokers and dealers in securities	..
Other securities loans	3
Real estate loans	40
Loans to banks	..
All other loans (including overdrafts)	29
Total	**100%**
Personal and retail instalment paper (included above)	6

a close third. Average earnings on loans showed little change between 1939 and 1941.

The percentage of earning assets in the form of investments declined somewhat from 1939 to 1941 as did the percentage of time deposits to total deposits. Slightly less capital was tied up in fixed assets in 1941 than in 1939. The ratio of loans and investments to capital funds less fixed assets was about 10 to 1. Substandard and borderline loans and investments were equal to 70 per cent of total capital accounts and were about half again as large as capital less fixed assets. Deposits were 5.7 times capital accounts. But after deducting cash and short term Governments from deposit liabilities, deposits were somewhat less than four times total capital accounts and between eight and nine times the amount of capital accounts less fixed assets. The following table indicates the average capital position of member banks in this district in 1941.

Capital ratios (Computed on book value after allowance for valuation reserves)	Per cent
Fixed assets to capital account	36.6
Substandard and borderline loans and investments to capital account	69.6
Loans and investments to capital account minus fixed assets	1020.2
Substandard and borderline loans and investments to capital account minus fixed assets	153.5
Deposits to capital account	566.2
Deposits minus cash assets and short term Governments to capital account	376.1
Deposits minus cash assets and short term Governments to capital account minus fixed assets	863.7

Variations among groups of banks

Substantial differences in the nature of assets and in capital positions were shown among the various sizes and types of banks, and these differences were similar to those indicated in 1939. The quality of loans generally was not influenced by the size of the bank, but in the case of investments the larger banks apparently had greater relative holdings of superior grades. As indicated in the next table, the large banks held greater proportions of United States Government securities.

Quality of member bank investments by size of bank*	Deposits in millions of dollars									All members
	0–¼	¼–½	½–1	1–2	2–5	5–10	10–20	20–50	50 & over	
U. S. obligations, direct and guaranteed......	46%	47%	45%	47%	49%	54%	66%	67%	63%	49%
U. S. obligations, state, local and first three grades of corporates..	65	73	72	76	76	81	90	90	87	76
Fourth grade corporates	15	12	12	10	10	9	4	3	5	10
Lower grades, defaults, and stocks..........	20	15	16	14	14	10	6	7	8	14

* Expressed as percentage of total investments.

Larger banks also held considerably greater proportions of short term investments than did the smaller banks. This was due in part at least to the fact that deposits at banks in larger centers are somewhat more fluid than those in smaller institutions, owing to correspondent balances and demand balances of large financial, industrial, and commercial enterprises. In the intermediate maturities, holdings were similar irrespective of the size of the banks, while the smaller banks held larger proportions of the long term assets.

Maturity of member bank investments by size of bank*	Deposits in millions of dollars									All members
	0–¼	¼–½	½–1	1–2	2–5	5–10	10–20	20–50	50 & over	
Up to 5 years..........	9%	13%	17%	20%	24%	28%	29%	39%	28%	20%
Over 5, not over 10 years	25	24	23	23	20	21	23	15	23	22
Over 10 years..........	65	62	58	55	54	49	46	43	45	56
Defaults and stocks....	1	1	2	2	2	2	2	3	4	2

* Expressed as percentage of total investments.

Large banks held more Government securities and fewer corporates, the difference being especially marked in the case of rails and utilities. Holdings of foreign and defaulted issues and stocks were about the same in all size groups. The types of investments for the various sizes of banks are shown on the next page.

Types of member bank investments by size of bank*	Deposits in millions of dollars									All members
	0–¼	¼–½	½–1	1–2	2–5	5–10	10–20	20–50	50 & over	
Governments; state, municipal, etc.	54%	57%	55%	62%	63%	68%	81%	81%	77%	61%
Railroads	19	16	18	16	15	15	9	6	8	16
Public utilities	14	13	13	11	10	7	4	5	5	11
Industrials	9	11	10	7	7	6	2	3	4	8
Foreign and other	4	3	4	4	5	4	4	4	6	4

* Expressed as percentage of total investments.

In the case of loans the larger banks showed greater proportions of commercial, industrial, and agricultural advances, and smaller proportions of loans on real estate. This distribution is shown in the next table.

Types of member bank loans by size of bank June 30, 1941	Deposits in millions of dollars									All members
	0–¼	¼–½	½–1	1–2	2–5	5–10	10–20	20–50	50 & over	
Commercial, industrial, and agricultural	28%	24%	25%	24%	25%	25%	31%	37%	46%	26%
Open market paper	...	...	2	2	3	3	5	5	7	2
Loans to brokers and dealers in securities	...	...	...	...	...	...	...	1	6	...
Other securities loans	...	2	2	3	5	5	5	7	7	3
Real estate loans	34	39	43	41	39	41	26	27	10	40
Loans to banks	...	...	...	...	...	...	...	...	1	...
All other loans (including overdrafts)	38	35	28	30	28	26	33	23	23	29
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Personal and retail instalment paper	7	5	8	6	6	5	6	7	4	6

While holding smaller proportions of time deposits, larger banks had a relatively greater volume of their earning assets in the form of investments than did smaller banks. The pressure for earnings and the relative scarcity of demand for loans have led the large banks with heavy demand deposits to invest short term funds in securities. Earnings on both loans and investments were lower, owing in part to keener competition among banks and to the availability of open-market financing by corporations having access to the money market through commercial paper.

The analysis of the distribution of assets and capital positions according to the proportions of time deposits held by various groups of banks was generally similar to that shown in 1939 and to that made on the basis of size groups. This reflects the fact that the larger banks generally have smaller proportions of time deposits. With respect to the quality of assets, the banks holding a small percentage of time deposits held somewhat higher grade loans and investments, having more Government securities and high grade corporates.

As is to be expected, the banks with predominantly demand liabilities had substantially more short term investments and fewer of the longest term. In the case of intermediate maturities, there was little difference.

Banks having large proportions of time deposits, and being under somewhat greater pressure for earnings by reason of deposit costs, held substantially smaller proportions of Government securities and larger proportions of rails and utilities. They also held considerably more real estate loans and fewer commercial and agricultural loans than was the case in banks with shorter term liabilities. The banks with low proportions of time deposits held more cash and at the same time had a greater percentage of their earning assets in the form of investments.

Banks with heavy time deposits showed lower ratios of deposits to capital accounts but substantially higher ratios of substandard assets to capital accounts and to capital accounts less fixed assets.

Banks whose assets generally were of superior grades held substantial amounts of short term investments, had more Government securities, and fewer rails. They also held somewhat more in the form of commercial loans and less in real estate loans than was the case at banks where the general quality of assets was somewhat lower. As would be expected, banks with high quality assets had better cushions of capital accounts against their depreciable assets, had less capital tied up in real estate, and, generally speaking, had somewhat lower ratios of deposits to capital accounts.

Summary In general, the analysis reveals that while member banks in this district have been subjected to special problems as a result of the war emergency they have been adapting their operations to current requirements. Substantial funds have been supplied to the Government, owing partly to the fact that new offerings of capital issues are largely by the Government rather than by corporations. Some gains have been made in the elimination of weaker corporate holdings.

The quality of loans has improved since 1939 and, while capital accounts are smaller in relation to liabilities, there is less pressure upon capital from substandard assets than was the case in 1939. There is also evidence to show that the banks have made efforts to strengthen the consumer debt structure by tightening terms of repayment. Earnings on loans have been sustained, but current earnings on investments have been reduced, owing to low market yields. At the same time the pressure of losses in the investment account is being relieved by additions of high quality securities.

Progress has been made in strengthening bank assets generally, but the indications are that banking positions could be further improved and the effectiveness of the banking system increased if considered policies and programs were more widely adopted.

Federal Reserve Bank

The functions and operations of this Bank expanded sharply in 1941, as facilities were organized or enlarged to help meet Government financial requirements and to assist the national effort to combat inflationary developments. These are particularly reflected in greatly increased fiscal activity, consumer credit, foreign funds control, and credit work, chiefly in connection with defense or war production.

The resources of the Bank increased in the year from about \$1.3 to \$1.5 billion, owing principally to a further increase in the volume of

Statement of Condition

Federal Reserve Bank of Philadelphia (000's omitted in dollar figures)	End of year 1939	1940	1941
RESOURCES			
Gold certificates on hand and due from U. S. Treasury	$846,062	$1,046,557	$1,224,286
Redemption fund—Federal Reserve notes	1,071	1,073	892
Other cash	26,470	18,754	19,344
Total reserves	**$873,603**	**$1,066,384**	**$1,244,522**
Bills discounted:			
Secured by U. S. Government obligations*	150	187	624
Other bills discounted	513	278	50
Total bills discounted	**$663**	**$465**	**$674**
Bills bought in open market	0	0	0
Industrial advances	3,084	2,052	3,468
United States Government securities	212,695	183,006	177,982
Total bills and securities	**$216,442**	**$185,523**	**$182,124**
Due from foreign banks	5	5	5
Federal Reserve notes of other F. R. banks	1,945	1,865	2,700
Uncollected items	73,955	63,085	84,370
Bank premises	4,572	4,501	4,866
All other resources	5,830	4,910	4,061
Total resources	**$1,176,352**	**$1,326,273**	**$1,522,648**
LIABILITIES			
Federal Reserve notes in circulation	**$348,938**	**$410,704**	**$575,036**
Deposits:			
Member bank reserve account	598,597	703,580	661,703
United States Treasurer—general account	65,043	13,664	73,577
Foreign	39,416	75,944	74,057
Other deposits	16,821	26,675	12,392
Total deposits	**$719,877**	**$819,863**	**$821,729**
Deferred availability items	73,866	60,412	90,557
Other liabilities	965	875	839
Total liabilities	**$1,143,646**	**$1,291,854**	**$1,488,161**
CAPITAL ACCOUNTS			
Capital paid in	$12,115	$11,882	$11,923
Surplus—Section 7	14,198	15,144	15,171
Surplus—Section 13b	4,393	4,393	4,393
Other capital accounts	2,000	3,000	3,000
Total liabilities and capital accounts	**$1,176,352**	**$1,326,273**	**$1,522,648**
Ratio of total reserves to deposit and Federal Reserve note liabilities combined	81.7%	86.7%	89.1%
Contingent liability on bills purchased for foreign correspondents	0	0	0
Commitments to make industrial advances	$930	$162	$2,617

* Includes bills secured by obligations fully guaranteed by U. S. Government.

gold certificate reserves. A substantial amount of funds was gained through increased transactions with other Reserve districts.

Reserve Bank credit Discounts for member banks and credit extended directly through industrial advances continued to account for a relatively small proportion of the bill and security holdings of the Bank during 1941. The slight reduction to $182 million in all classes of earning assets was due to a decline of $5 million to $178 million in United States Government securities, which represent the participation of this Bank in the System Open Market Account.

The large volume of excess reserves and correspondent balances carried by the member banks minimized the use of Reserve Bank credit. Discounts for members at the highest point of the year amounted to only $1,157,000, and at the low point reported in the early fall, borrowing was practically non-existent. There are more than 650 member banks in this district, but only 49 borrowed at any time during 1941.

The volume of advances under Section 10 (b), which permits the tender of any collateral acceptable to the Federal Reserve Bank, was small, the maximum amount being $106,000; over most of the year there was no borrowing under this Section. No loans to individuals, partnerships or corporations under the last paragraph of Section 13, on the security of direct obligations of the United States, have been made since 1933. Over brief periods the discounts of this Bank included small participations in foreign loans made on gold; none was outstanding at the end of the year.

Industrial loans The demand for working capital to finance current requirements for material and labor increased in 1941. During the year 226 inquiries were received, or more than four times the number in 1940. Practically all of them were from concerns having direct Government contracts, or subcontractors engaged in defense work. ?

Outstanding industrial loans expanded from $2 million in 1940 to

$3.5 million, and commitments to make such loans increased from $162,000 to over $2.5 million. By early April 1942, outstandings approximated $5 million and were more than one-half of the total for all Federal Reserve Banks.

The Bank reviewed 84 applications for a total of $7.8 million in 1941. Twelve were withdrawn, and a few were still under consideration at the turn of the year. The number approved was twice the number rejected, and the total of $6.6 million involved in approved applications was more than seven times the amount turned down. As in other years, rejections were based principally on the deficiencies in management, the unsatisfactory condition of the applicant, or generally poor business prospects.

Operations since the Reserve Banks first were authorized to make industrial loans, in June 1934, are summarized in the accompanying table.

Applications for industrial loans Federal Reserve Bank of Philadelphia	1941	June 30, 1934– Dec. 31, 1941
Number:		
Approved	46	269
Rejected	23	447
Withdrawn	12	60
Under consideration	3	3
Total number	**84**	**779**
Dollar amount:		
Approved	$6,616,000	$46,597,000
Rejected	872,000	16,763,000
Withdrawn	226,000	2,485,000
Under consideration	80,000	80,000
Total amount	**$7,794,000**	**$65,925,000**

Out of earnings totaling over $1,400,000 on industrial loans and commitments since June 1934, the Bank has transferred $375,000, or 26 per cent, to surplus accounts and paid $431,000, or 30 per cent, to the Treasurer of the United States. The balance of $620,000 covered expenses, charge-offs, and reserves.

Volume of work The greatly increased volume of business transactions, heavy currency demand, and fiscal activities of the Treasury resulted in sharply increased operations in many departments of the Bank, and necessitated substantial additions to the staff.

The number of ordinary checks handled increased from 100 to 109 million and the dollar amount from $26.9 to $33.9 billion; on October 15 a record volume of 741,000 checks passed through the work. These figures do not include checks distributed in bulk to banks in Philadelphia and vicinity by the automobile run service. There was a substantial reduction in work relief checks, as this phase of governmental activity was curtailed, but the expanding defense program was reflected in a rise from 3.8 to 5.4 million in the number of Government checks and warrants handled; the amount involved expanded from $795 million to $1,446 million.

The more active demand for money, resulting principally from rapidly rising industrial payrolls, added substantially to the work of the Bank. The number of pieces of currency counted rose to 185 million in 1941 from 169 million in 1940, and coin counted increased to 365 million from 295 million pieces.

Growth in the volume of fiscal agency work was still more pronounced, reflecting principally the heavy sales of Defense Savings Bonds by the Bank and qualified agencies. In the period May 1941 through May 1942, issuing agents other than post offices sold nearly 2,200,000 Savings bonds. Large amounts of tax anticipation notes also were sold through this Bank. Subscriptions received for other notes and bonds totaled $3.3 billion in 1941; allotments totaled $434 million. These amounts compared with $816 million and $121 million respectively in 1940.

Much greater use than in the previous year was made of the services of the custody department, as shown by an increase from $632 to $753 million in the securities held for member banks, and an increase from 451 to 470 thousand in the coupons removed from these securities for collection. The number of United States Savings Bonds held in custody was nearly doubled, rising from 10,000 to 19,000 pieces.

Volume of work Federal Reserve Bank of Philadelphia	**Pieces or transactions handled** (000's omitted)		**Dollar amounts** (000,000's omitted)	
	1940	1941	1940	1941
Discounts and advances	1	1	$6	$15
Currency counted	169,391	185,500	688	799
Coins counted	295,186	365,350	28	32
Ordinary checks	100,442	109,124	26,922	33,882
Checks handled in packages by automobile run service	16,782	18,567	...	...
U. S. Government checks	3,821	5,439	795	1,446
Work relief checks	4,676	2,797	126	91
Collection items:				
Coupons of U.S. Government and agencies	1,117	1,077	48	47
All other (notes, drafts and coupons)	335	318	201	232
Transfers of funds	54	55	3,105	4,366
Issues, redemptions and exchanges by fiscal agency department:				
U. S. Government direct obligations	240	881*	340	1,023*
All other	16	13	23	100

* Includes Savings Bonds sold through other issuing agents.

The Bank was also active in the dissemination of information on business, credit, and banking conditions. As indicated elsewhere in this report, it was charged with the administration of Regulation W, affecting consumer credit, and in its capacity as the representative of the Treasury Department was called upon to exercise increasing controls over foreign funds. These activities necessitated numerous group meetings and widespread contacts with financial institutions and business concerns throughout this district.

The number of special calls made by the bank relations department also increased considerably, owing in part to the growing complexity of banking problems in the emergency and interest in membership.

The number of employees of the Bank, excluding officers, rose from

783 to 933 during 1941 and to over 1,000 in early 1942. Changes in the number of employees in various departments between December 31, 1940, and March 31, 1942, are shown in the table.

Number of employees Federal Reserve Bank of Philadelphia	Dec. 31, 1940	Mar. 31, 1942	Change
Currency and coin	77	82	+ 5
Discount and credit	40	28	− 12
Transit and collections	266	326	+ 60
Fiscal agency and R. F. C. custodian	54	188	+134
Vault, securities, custody	29	30	+ 1
Wire transfer	7	5	− 2
Bank examination	38	38	0
Bank relations	5	4	− 1
Research, statistics and library	18	21	+ 3
Foreign funds control	0	18	+ 18
Consumer credit	0	6	+ 6
Secretaries	8	7	− 1
Accounting, general ledger	54	59	+ 5
Audit	19	15	− 4
Building and service departments	168	193	+ 25
Total	**783**	**1,020**	**+237**

Earnings and expenses

Total earnings from current operations of the Bank declined from \$3,607,000 to \$3,344,000 in 1941. At the same time operating expenses and Federal Reserve note costs were increased with the result that current net earnings decreased from \$1,240,000 to \$698,000. Supplemental income was much smaller than in 1940, and the Bank's total net earnings declined from \$2,717,000 to \$822,000. As a result, little was added to surplus. Dividend payments absorbed \$713,000; the balance was taken up largely by the payment of \$81,000 to the Treasury in accordance with the provisions of Section 13b; payments of this kind by all Federal Reserve Banks totaled \$141,000.

Profit and loss account Federal Reserve Bank of Philadelphia (000's omitted)	1940	1941
Earnings from:		
Bills discounted	$5	$4
Bills bought	0	0
Industrial advances	121	139
United States Government securities	3,426	3,179
Other sources	55	21
Total earnings	**$3,607**	**$3,344**
Expenses:		
Operating expenses*	$2,106	$2,283
Cost of Federal Reserve currency	96	184
Assessment for expenses of Board of Governors	165	179
Total net expenses	**$2,367**	**$2,646**
Current net earnings	**$1,240**	**$698**
Additions to current net earnings:		
Profits on sales of U. S. Government securities	$979	$110
Transfers of reserves in excess of requirements	518	2
Other additions	7	14
	$1,504	$127
Deductions from current net earnings	27	3
Net additions to current net earnings	**$1,477**	**$124**
Net earnings available for distribution	**$2,717**	**$822**
Distribution of net earnings:		
Paid to Treasury of United States, Sec. 13b	$56	$81
Dividends paid to member banks	714	713
Transferred to surplus (Sec. 13b)	0	0
Transferred to surplus (Sec. 7)	1,947†	27

* After deducting reimbursements received for certain fiscal agency and other expenses.

† $1,000,000 subsequently transferred from Surplus (Sec. 7) to reserve for contingencies.

Membership Eleven state banking institutions were admitted to membership in 1941. On the other hand, three national bank members were lost through absorption, voluntary liquidation, or suspension, so that the total number of member banks in the Third Federal Reserve District increased from 651 to 659. Total assets of the members increased $252 million to $4.2 billion.

At the close of the year member banks accounted for 72 per cent of the number and 74 per cent of the assets of all banks in the Third District. Excluding mutual savings banks, these proportions were respectively 73 and 84 per cent. Details by states are given in the accompanying table.

Banks in Third Federal Reserve District December 31, 1941 (Dollar figures in millions)	Pennsylvania*	New Jersey*	Delaware†	Total
Number of banks				
Total	756	106	50	912
Member banks	554	87	18	659
Nonmember State banks & trust companies	196‡	17	30	243
Mutual savings banks	6	2	2	10
Proportions of total:				
Member banks	73.3%	82.1%	36.0%	72.3%
Nonmember State banks & trust companies	25.9%	16.0%	60.0%	26.6%
Mutual savings banks	.8%	1.9%	4.0%	1.1%
Total assets				
Total	$4,861.0	$483.5	$339.8	$5,684.3
Member banks	3,628.4	368.9	210.9	4,208.2
Nonmember State banks & trust companies	616.8‡	99.7	75.0	791.5
Mutual savings banks	615.8	14.9	53.9	684.6
Proportions of total:				
Member banks	74.6%	76.3%	62.1%	74.0%
Nonmember State banks & trust companies	12.7%	20.6%	22.1%	13.9%
Mutual savings banks	12.7%	3.1%	15.8%	12.1%

* Portion of the state in Third Federal Reserve District.
† Includes 6 nonmember branch banks.
‡ Includes 12 private banks.

Three national banks relinquished their rights to exercise fiduciary powers, reducing the number to 246. Of this number, 193 are in Pennsylvania, 44 in New Jersey, and 9 in Delaware.

Directors and officers There were several changes among the directors and official staff of the Bank during 1941. Joseph Wayne, Jr., Chairman of the Philadelphia National Bank, a class A director who had represented the banks of Group 1 since 1918, did not stand for reelection, and Howard A. Loeb, Chairman of the Tradesmens National Bank and Trust Company of Philadelphia, was elected to succeed him for a term of three years from January 1, 1942. Harry L.

Cannon was reelected by the banks of Group 2 to serve as a Class B director.

The President of the Bank, John S. Sinclair, resigned as of July 1 to become Vice President of the New York Life Insurance Company, and Alfred H. Williams, Deputy Chairman of the Bank and Dean of the Wharton School of Finance and Commerce, University of Pennsylvania, was elected to succeed him. By appointment of the Board of Governors of the Federal Reserve System, Warren F. Whittier was made Deputy Chairman, and Winfield W. Riefler was selected to complete Mr. Williams' term as a Class C director. The Board of Governors later redesignated Thomas B. McCabe as Chairman of the Board and Mr. Whittier as Deputy Chairman to serve during 1942, and appointed Mr. Riefler as a Class C director for a term of three years beginning January 1, 1942. Mr. McCabe in August 1941 was appointed Deputy Administrator of the Priorities Division of the OPM and in October was appointed Deputy Administrator of the Lend-Lease Administration; since March 1942, he has been serving as Acting Administrator.

William Fulton Kurtz, President of the Pennsylvania Company for Insurances on Lives and Granting Annuities, represented the district on the Federal Advisory Council during 1941, and was reelected to serve during 1942.

C. A. Sienkiewicz, who had been an Assistant Vice President, was made a Vice President of the Bank in the spring of 1941. John McDowell resigned as an Assistant Vice President as of the close of the year to become a Vice President of the Philadelphia National Bank, and Philip F. Coleman was selected to take his place as Assistant Vice President.

Directors

as of June 1, 1942

	Group	Term expires Dec. 31
Class A:		
Howard A. Loeb Chairman, Tradesmens National Bank and Trust Company, Philadelphia, Pennsylvania.	1	1944
George W. Reily President, Harrisburg National Bank, Harrisburg, Pennsylvania.	2	1942
John B. Henning President, Wyoming National Bank, Tunkhannock, Pennsylvania.	3	1943
Class B:		
C. Frederick C. Stout President, John R. Evans and Company, Camden, New Jersey.	1	1943
Harry L. Cannon President, H. P. Cannon & Son, Inc., Bridgeville, Delaware.	2	1944
Ward D. Kerlin Secretary and Treasurer, Camden Forge Company, Camden, New Jersey.	3	1942
Class C:		
Thomas B. McCabe, Chairman and Federal Reserve Agent President, Scott Paper Company, Chester, Pa. (On leave of absence; serving as Deputy Administrator of Lend-Lease Administration.)		1942
Warren F. Whittier, Deputy Chairman Lonicera Farms, Douglassville, Pennsylvania.		1943
Winfield W. Riefler Professor, Institute for Advanced Study, Princeton, New Jersey.		1944

Officers

as of June 1, 1942

ALFRED H. WILLIAMS, *President*

FRANK J. DRINNEN,
First Vice President

C. A. MCILHENNY,
Vice President and Cashier

W. J. DAVIS,
Vice President

ERNEST C. HILL,
Vice President

C. A. SIENKIEWICZ,
Vice President

WILLIAM G. MCCREEDY,
Assistant Vice President

L. E. DONALDSON,
Assistant Vice President

PHILIP F. COLEMAN,
Assistant Vice President

JAMES M. TOY,
Assistant Cashier

ARTHUR E. POST,
Secretary

PHILIP M. POORMAN, *Auditor*