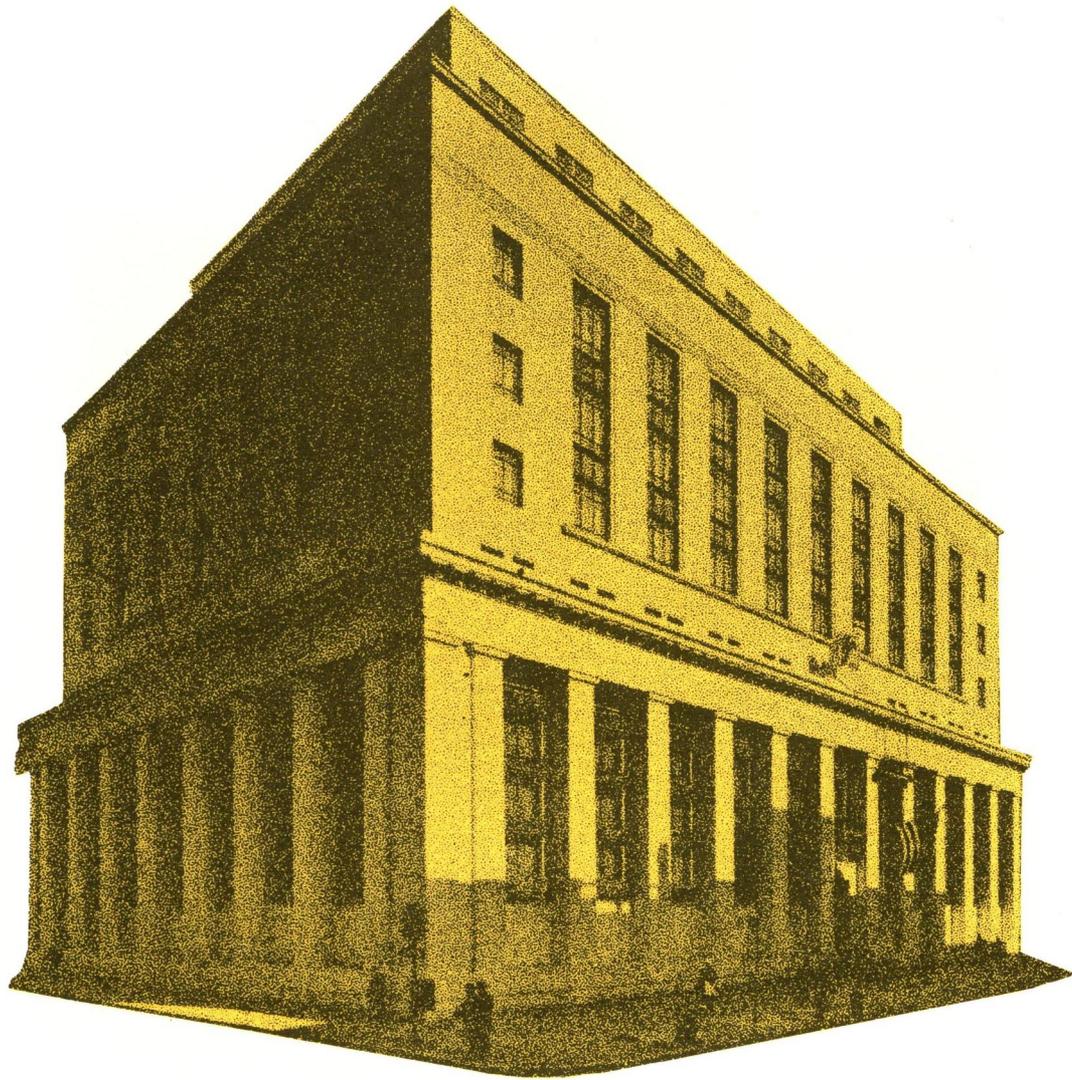




PRESIDENT'S ANNUAL REPORT 1969





FEDERAL RESERVE BANK
OF ST. LOUIS

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FEDERAL RESERVE BANK OF PHILADELPHIA

PHILADELPHIA, PENNSYLVANIA 19101

OFFICE OF THE
PRESIDENT

February 19, 1970

The Board of Directors of the
Federal Reserve Bank of Philadelphia, and
Member Banks of the Third Federal Reserve District

Mr. Hilkert and I relinquish the chief executive responsibilities of the Federal Reserve Bank of Philadelphia with mixed feelings. It is not easy to leave our colleagues and other friends, and we are not sure just what it will be like to leave our work. Nevertheless, we do look forward to a new life and we leave without regret. Above all, we leave without fear or worry for the future of the Bank.

We knew when we assumed our present responsibilities a dozen years ago that the Bank would survive us and that succession had to be a major concern. From the outset, therefore, we were acutely conscious of our responsibility for the future, for management succession. We not only permitted but encouraged our colleagues to assume responsibilities commensurate with their abilities; and appropriate authority was delegated. We devoted particular attention to our younger associates, those who would succeed us. The directors have not only been fully and continuously informed of our progress but have contributed significantly to the process. The reward for them and for us is not only a smooth transition from the old to the new management, but the assurance that the new is qualified to face the future with imagination and professional competence.

Mr. Hilkert and I anticipate new ventures and lessened responsibilities which retirement permits, and with the same enthusiasm with which we entered our present positions. We did agree that it is in the best interest of the Bank and of ourselves that we retire at the same time. We have long been convinced that compulsory retirement at a specified age is a sound management principle, and will continue to be until an equally objective and more relevant criterion is developed. We have not changed our minds merely because it now applies to us. Instead, we have prepared ourselves for retirement.

We have felt exceptionally close to our associates at all levels: the directors, our fellow officers, the staff. This has made our lives enjoyable as well as productive. In our relations with those outside the Bank we have felt that our motives have not been questioned even when differences of views developed. To us, these have been the most important matters which ultimately explain the specific developments that are reflected in this our final report.

With confidence we turn the management of the Bank over to David P. Eastburn as President and David C. Melnicoff as First Vice President. We hope the work will add as much to their lives as it has to ours.

Auf wiedersehen,

Karl R. Bopp



THE CHANGING OF THE GUARD

In January 1958, Henderson Supplee, Jr., then Chairman of the Board of Directors, announced the election of Karl R. Bopp as President and Robert N. Hilkert as First Vice President of the Federal Reserve Bank of Philadelphia. Mr. Bopp and Mr. Hilkert succeeded outgoing President Alfred H. Williams and First Vice President W. John Davis who were retiring after long and illustrious careers at the Bank's helm. Both Mr. Williams and Mr. Davis were highly regarded in banking circles and held in great esteem by the employees of the Bank.

Karl Bopp had joined the Bank staff as Director of Personnel in 1941. In 1942 he was made Director of Research and in 1947, Vice President in charge of research. He earned his A.B. in economics, his B.S. in business administration, his M.A. and Ph.D. from the University of Missouri. In addition to a wide and varied teaching background, Mr. Bopp studied central banking in England, France and Germany, and served as a technical secretary at the Bretton Woods Monetary Conference in 1944. During 1947-48 he was Chairman of the Staff Committee of the Federal Reserve System on Uniform Reserve Requirements for Member Banks. He also worked as a special temporary assistant to Thomas B. McCabe, Chairman of the Board of Governors of the Federal Reserve System, in 1948.

Mr. Bopp has written several articles and books on the central banks of the United States, England, France and Germany.

Mr. Hilkert came to the Federal Reserve Bank of Philadelphia in 1942 as Director of Personnel after a distinguished teaching career. He was made an Assistant Vice President in 1943 and a Vice President in 1947. An economics major, he was graduated from Yale University and received his Master of Arts degree from Columbia University. He has authored numerous articles on personnel administration and general management.

Electing men of academic background to guide the destiny of the Philadelphia Fed was not without precedent, for President Williams had served as Dean of the Wharton School of Finance and Commerce of the University of Pennsylvania prior to his election to the presidency in 1941. From the beginning of his presidency in March 1958, Karl Bopp proved to be well prepared for his task. His broad knowledge of central banking, his training in research and his abilities to advise and persuade helped the System perform its complicated task of keeping the economy on an even keel. He served as a member of the Federal Open Market Committee four times during his presidency, and was a committee alternate four times.

Over the years, Mr. Bopp has dedicated himself to the System's task of trying to reconcile the often conflicting objectives of full employment, price stability, and economic growth. The difficulty in achieving these objectives has been underscored by the economic problems of the past decade but great strides have been made in understanding the nature of these problems due to the contributions of men such as Mr. Bopp.

In addition to Dr. Bopp, the teacher, and President Bopp, the decision maker, there is Karl Bopp, the man. He believes



that more attention should be given to human values. This personal philosophy is expressed in the day-to-day operations of the Philadelphia Fed and in his relationships with the community generally.

Bob Hilkert's tenure as the Bank's First Vice President and his entire life style has been "people" oriented. Because of this, his labors have been a happy complement to Karl Bopp's humanism.

Not only have the employees of the Federal Reserve System benefited from Mr. Hilkert's dedication and devotion, particularly as a member of the System's Retirement Committee, but the entire community has been ably served by his involvement in innumerable civic organizations. His expertise in personnel administration and management development has laid the groundwork for the present management succession.

Therefore, it was not surprising when, on October 8, 1969, Willis J. Winn, Chairman of the Bank's Board of Directors, announced the election of two staff members, David P. Eastburn as President and David C. Melnicoff as First Vice President, effective March 1, 1970.

Three generations of management gather for a reunion at the Bank. From the left, First Vice President Robert N. Hilkert, President-elect David P. Eastburn, former First Vice President W. John Davis, First Vice President-elect David C. Melnicoff, former President Alfred H. Williams, and President Karl R. Bopp.

THE NEW TEAM

March 1, 1970, marks the beginning of the presidency of David P. Eastburn. At the same time, David C. Melnicoff becomes First Vice President, succeeding Robert N. Hilkert. In succeeding Karl R. Bopp as President, Mr. Eastburn brings to the task 28 years of experience at the Federal Reserve Bank of Philadelphia.

Mr. Eastburn's career at the Bank started in 1942 after graduating from Amherst College, and since his initial appointment as a statistical clerk in the Research Department, he has occupied various positions. From his first official appointment as a Financial Economist in 1956, Mr. Eastburn was promoted to Vice President in charge of research in 1958, and became Senior Vice President in charge of research in 1969.

In addition to overseeing research, he has had much experience in matters of monetary policy, serving as Associate Economist of the Federal Open Market Committee and advising the Board of Directors of this Bank. His duties have also taken him abroad where he has visited the major central banks of Europe.

After receiving his A.B. degree from Amherst College, Mr. Eastburn pursued his graduate work at the University of Pennsylvania, receiving his M.A. in 1945 and Ph.D. in 1957. He has published numerous articles in the Bank's *Business Review* and elsewhere, and is the author of a book, *The Federal Reserve on Record*. He has taught at the University of Pennsylvania, has lectured at several schools of banking and is a member of the Faculty Administrative Committee of the Graduate School of Banking at the University of Wisconsin. Mr. Eastburn, however, has not confined his expertise in management solely to the business and academic spheres, but has donated considerable time and talent to civic activities in Philadelphia which include the Citizens' Council on City Planning, Health and Welfare Council, Young Audiences and the Opportunities Industrialization Center. Mr. Eastburn is also a member of Governor Shafer's Economic Advisory Council.

David C. Melnicoff comes to the first vice presidency with a varied banking and business background. After serving as a junior economist in the Office of Price Administration in Washington during 1941 and 1942 and in the Coast Guard during the war years, Mr. Melnicoff came to the Federal Reserve Bank of Philadelphia in 1946 as a research assistant. He served in various capacities in research and administration until he left the bank in 1952 to join the Penn Fruit Company of Philadelphia. From 1952 to 1956 he was Assistant to the General Manager and to the President of that company, leaving in 1956 to become Manager of Economic Analysis for the Pennsylvania Railroad Company. In 1959 he joined Fels and Company, assuming the presidency in 1961. When Fels and Company was sold in 1964, Mr. Melnicoff returned to the Federal Reserve Bank as a Vice President. In 1969 he was appointed Senior Vice President in charge of the credit-discount, bank services, public information and building functions. Other matters under his direction included the Voluntary Foreign Credit Restraint Program, the administration of the Truth in Lending Act and the planning of the new Bank building.

Mr. Melnicoff holds B.A. and M.A. degrees from the University of Pennsylvania where he also taught. His professional associations include the National Association of Business

Economists, of which he is a Fellow and founding member. He has also been a director of the Central-Penn National Bank, Chairman of the Mayor's Economic Advisory Committee in Philadelphia and President of the Soap and Detergent Association. Mr. Melnicoff has devoted considerable time to community interests. Currently, he is a director of the Samuel Fels Fund, the Settlement Music School, the Pennsylvania Ballet Company and the Philadelphia Food Distribution Center.

The new top management team are acknowledged leaders in the banking community. The announcement of their appointments in October 1969 was greeted with enthusiasm in banking and business circles.



THIRD DISTRICT BUSINESS AND BANKING HIGHLIGHTS

Economic activity in the Third Federal Reserve District set new records in 1969 but showed some signs of losing momentum toward the end of the year. Industrial output and sales advanced during the year but at a slower rate than in 1968. Labor markets remained tight and rising prices continued to chip away at climbing wages.

District consumers lost some of their enthusiasm for spending in 1969. This was particularly true of spending for durable or "hard" goods. New car registrations in the District were off more than three percent when compared to 1968's banner year. Gains in District department store sales lagged slightly behind the national average.

Manufacturing output, measured in electric power consumed by industrial firms in the District, rose 7 percent last year—1968 showed a 10 percent increase. This reflected a gradual slowing of the economy during the second half of the year because of restrictive monetary and fiscal policies.

Construction outlays in the District dipped 10 percent in 1969—quite a comedown when compared to the previous year's 40 percent gain. This was directly attributable to a sharp decline in public works construction.

Despite the loss of some zip in economic activity, labor markets remained tight all through the year. The unemployment rate in the District actually dropped from 3.1 percent to 2.9 percent in 1969. At the same time, average weekly earnings in manufacturing climbed more than 6 percent. The real purchasing power of area workers rose only slightly, however, as price increases almost completely wiped out wage gains.

Responding to strong demand from business, loans at District member banks soared a solid 10 percent. Restrictive monetary policy, coupled with increased loan demand made it difficult for banks to increase their investment portfolios. District banks reported little change in holdings of Government and other securities during the year. Many banks raised additional nondeposit funds through Euro-dollar borrowing and the sale of commercial paper.

Time deposits rose only 3 percent in 1969, compared to 13 percent the previous year as savings depositors sought higher interest rates in other financial markets.

Departmental Reports

ACCOUNTING

Accounting operations include maintenance of the Bank's general books, General Account of the Treasurer of the United States, expense and disbursement records of the Bank, and preparation, recording, and distribution of budget and expense data by function and department. Other operations include continuous analysis of member bank reserve accounts to insure compliance with System regulations; maintenance of member bank reserve account statement files and functioning of appropriate adjustments; settlement of group and wire clearance plans; collection and reconciliation of payments received for checks sent to District country banks; reconciliation of accounts with other Reserve Banks; securing payments for services rendered Government agencies; and transfer of funds by wire and mail for member banks. In addition to operating the Bank's leased wire telegraph services connected with the Board of Governors, all other Reserve Banks and Branches, and the Treasury, the department utilizes commercial wire services and a closed circuit teletypewriter system for receiving transfer requests from six Philadelphia banks.



New high speed Western Union Teletype equipment will enable the Wire Transfer Unit to handle the growing volume of transfers of funds.

Money—its availability and movement—continued to have a major impact on this department's activities.

During the year Regulation D, Reserves of Member Banks, and Regulation M, Foreign Activities of National Banks, were amended by the Board of Governors. The amendments were all prompted by tight money conditions and dealt with instruments and/or transactions initiated by banks to obtain funds in the Federal funds and Euro-dollar markets and other sources. As a result, new and additional reporting requirements were instituted for banks participating in these activities.

The Wire Transfer Unit again experienced new highs in both items handled and dollar values. To keep abreast of this increased activity, additional equipment was installed to provide paper tape output for messages received over the Philadelphia Bank Teletype Network. Currently, the department is experimenting with a small computer to process this output and prepare a new tape in the required System format.

The System is in the final stages of its program to speed up the movement of money, securities and data. A new electronic switching center has been constructed and a complete new high speed communications network is scheduled to be activated in the early part of 1970. As a part of this program, new high speed equipment has been installed in the Wire Transfer-Telegraph Division.

As a continuation of the program to provide additional service to member banks, the department's reserve computation workbook was revised in September and a sixth printing was distributed to all member banks.

AUDIT

The Audit Department is supervised by the Vice President and General Auditor, who is directly responsible to the Board of Directors through its Audit Committee. The department conducts audits and examinations, reviews and appraises adequacy, soundness, and application of internal controls in other departments and functions of the Bank. The frequency and extent of audits and examinations conform with schedules approved by the Audit Committee of the Board of Directors. Reports of all audits, examinations, and special investigations are submitted to the Audit Committee monthly or more frequently if required by the Committee.



System personnel attending Senior Audit Workshop

Audit activities for the year 1969 were completed in accordance with the program approved by the Audit Committee of the Board of Directors. Eighty-nine periodic and thirty-nine spot audits were made of the various departments and functions of the Bank. The Audit Department also furnished over 2,800 lists of securities, confirmations and other data to member banks, supervisory authorities, accountants and other authorized individuals. In addition to the regularly scheduled audits and proof verifications, the program included special procedural and security reviews of the Post Office Division of the Cash Department, Guard Protection and the Telephone Center. Because of the increased activity in commercial banks' reserve accounts during the past year, additional emphasis was placed on the reconciliation of these accounts.

The importance of the audit function necessitates the selection of capable personnel to efficiently administer its program. In order to obtain this caliber of personnel and accomplish its protective goals, the Audit Department continues to cooperate with the Personnel Department in recruiting qualified college graduates. As part of its training program, novice auditors are assigned to operating departments to observe and acquire knowledge of Bank policies and procedures.

In March, this Bank's Audit Department acted as host to a Senior Auditors Workshop sponsored by the Conference of General Auditors of the Federal Reserve Banks. The three-day workshop, with all Districts represented, was the first to be held for senior audit personnel. Because of the benefits derived from this initial venture, similar workshops will be held annually in other Reserve Banks.

A follow-up review of this Bank's Audit Department by the accounting firm of Peat, Marwick, Mitchell & Company was begun in November 1968 and completed in April 1969. The initial review of the audit function was made by this same firm in 1963.

BANK EXAMINATION

It is the policy of this Bank to conduct an examination, in cooperation with the respective State banking authorities, of every State member bank in the District during each calendar year. The field work of the Bank Examination Department also includes (1) examinations of nonmember banks applying for membership, (2) examinations for the Federal Reserve Board of Edge Act Corporations located in this District, (3) investigations of applications of State member banks for branch offices, (4) examination of off-premises data processing service centers under the provisions of the so-called "Bank Service Corporation Act," and (5) investigations in connection with applications to merge, consolidate or purchase assets and assume liabilities. Supervisory responsibilities of the department include processing of applications for mergers when the surviving bank is a State member bank, rendering of opinions to the Board of Governors of the Federal Reserve System on competitive factors in connection with mergers when the surviving bank is a national or State nonmember insured bank, processing of reports regarding criminal violations, processing of applications to form Edge Act Corporations, and providing information on regulations issued by the Board of Governors of the Federal Reserve System. Since July 1, 1967, the Board of Governors delegated to the Federal Reserve Banks authority to approve certain applications; the chief activity under delegated authority has been approvals of applications by State member banks to establish branches. The department also does certain analytical work on various reports and statistical data and does the initial processing of adjustments in member bank holdings of Federal Reserve Bank stock.

At the close of 1969, 29 State member banks were subject to examination by the Bank Examination Department. Of these, 20 had trust departments, 10 operated one banking office and 19 had two or more offices. The number of State member banking offices totaled 320, an increase of 13 for the year.

All State member banks in the District were examined during 1969.

In 1969, three new banks were admitted to membership in the Federal Reserve System in connection with the establishment of one-bank holding companies. These banks subsequently merged with existing State member banks. Three State member banks with total assets of \$107,252,000 voluntarily withdrew from membership in the Federal Reserve System. As the result of these changes the number of State member banks in the District was reduced by three during the year.

There were a number of changes in the national bank structure in the Third District in 1969. Five new national banks were granted charters, four of which were in connection with the formation of one-bank holding companies; these four were merged subsequently with existing national banks. Three nonmember banks merged with national banks; nine national banks merged with other national banks; three nonmember banks merged into national banks; nine national banks merged into nonmember banks.¹ As a result of these changes, the net reduction in the number of national banks in 1969 was 15.

The department processed four applications under the Bank Merger Act in 1969, where the surviving bank would be a State member bank; two of these were in connection with the formation of one-bank holding companies by State member banks. Thirty-two opinions were prepared on the competitive factors involved in merger proposals where the surviving institutions would be national or insured nonmember State banks.

There are five Foreign Financing (Edge Act) Corporations in this District. All but one of them have affiliated corporations. The corporations and affiliates were examined by the department in 1969, although technically our examiners function in these examinations as direct representatives of the Board of Governors of the Federal Reserve System.

In 1969, ten one-bank holding companies were established in the Third District. As the result of these actions, four national banks became wholly owned subsidiaries of one-bank holding companies through merger with newly formed national banks; three national banks merged with newly organized insured nonmember banks and became wholly owned subsidiaries of one-bank holding companies; and three State member banks merged with newly organized State member banks and became subsidiaries of one-bank holding companies.

During the year this Bank conducted its initial examination of a London branch office of a Third District State member bank. Examiners Frederick M. Manning, William J. McCuen, Jr., and Robert A. Dobie (left to right in picture) participated with other examiners from the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York in conducting the examination. The examiners also con-

¹Includes three national banks with total assets of \$378,517,000 which in effect converted to State nonmember banks, although technically they merged into nonmember banks at the time one-bank holding companies were formed.

ducted examinations of two London branches of State member banks located in the Second Federal Reserve District. The experience gained by the examiners from the foreign branch examinations has given the department a broader understanding of foreign branch operations.

DISTRICT MEMBER BANK STRUCTURE

	1969	1968
	As of December 31 (Dollar amounts in millions)	
STATE MEMBER BANKS		
Number	29	32
Assets of Commercial Departments ...	\$ 7,032	\$ 7,060
Assets of Trust Departments	\$ 9,230 ¹	\$ 8,796 ¹
NATIONAL BANKS		
Number	311	326
Assets of Commercial Departments ...	\$13,039	\$12,198

¹Based on book values which usually are substantially less than market values.



"Our Men in London"

BANK RELATIONS AND SERVICES

Objectives of the Bank Relations and Services function are to maintain liaison with member banks and banking associations and groups concerning services, operations, and policies of this Bank and the System. Activities include (1) annual visits to all Third District country banks, (2) special bank visits upon request, (3) Internal circulation of reports on a county-by-county basis covering bank visits, (4) annual field conferences, (5) participation in meetings of banking groups and associations, (6) preparation of special reports, charts, and ratios for member banks, and (7) providing an annual Functional Cost Analysis program for member banks.

During 1969, this department continued its emphasis on services of a technical nature to District banks. These included assistance to member banks in connection with reserve account maintenance, accrual accounting methods, check clearings, the automatic charge plan and the Functional Cost Analysis program.

Regular visits by Field Representatives of the department to each country bank in the Third District continued during the year. This program serves as a means for acquainting District bankers with facilities of this Bank, for working out operating problems or complaints and for eliciting comments from District bankers about current monetary policy. Special-purpose visits were made during the year to member banks requesting assistance with operating problems. Visits were made to three newly chartered banks prior to their openings to discuss various forms, resolutions and regulations, check clearings, coin and currency arrangements and other matters related to opening for business. In all, 467 bank visits were made in 1969. Summaries of visits to all areas of the District were circulated internally.

Members of this department represented the Bank at meetings, conferences, conventions and other gatherings of bankers' groups throughout the District and accepted numerous invitations for talks and speeches. Attendance at these affairs provided additional points of contact with District bankers and other individuals. Over 500 New Jersey bankers who were in attendance at the 1969 convention of the New Jersey Bankers Association were guests at a luncheon sponsored jointly by this Bank and the Federal Reserve Bank of New York. President Karl R. Bopp was the principal speaker. Both he and First Vice President Robert N. Hilker were honored by the Association with formal citations for their contributions to banking over the past years.

The 24th annual series of field meetings, ten in number, was held in the spring at scattered locations throughout the District. Over 1,800 bankers, college teachers and other guests in those areas heard senior officers and economists of this Bank discuss economic and banking trends.

Seventy bankers from 59 of the larger District banks in Pennsylvania, Delaware and southern New Jersey were guests at a series of five luncheons sponsored by this Bank. The purpose of the luncheon series was to provide an opportunity for President-elect David P. Eastburn and First Vice President-elect David C. Melnicoff to renew acquaintances and to listen to views of District bankers on matters of mutual concern.

Two meetings were held with the Federal Reserve Relations Committee of the New Jersey Bankers Association. Federal Reserve policy and problems of Third District bankers located in New Jersey were discussed.

Members of the department hosted five seminars in this Bank which were sponsored by the Bank Administration Institute. Each seminar was attended by 35 employees of banks located in the Philadelphia area.

Fifty member banks in this District and about 1,000 member banks throughout the country participated in the Functional Cost Analysis program for 1969. The annual report containing the average figures of the 1,000 participants grouped in three deposit sizes is now used as a reference source by many bankers' groups. Copies of this report were distributed to all District member banks.

Many member banks continued to avail themselves of credit forms and folders supplied by this Bank to District member banks and the Bank's portable coin and currency exhibit was made available to a number of member banks for display in their lobbies for special occasions.

During the past year, the Truth in Lending division actively worked to inform creditors and others about the new law and Regulation Z. Members of the staff gave 111 speeches to more than 20,000 people. They filled requests to address such groups as the Pennsylvania and New Jersey Bankers Associations, Third District Chambers of Commerce, local and state Bar Associations and numerous other creditor groups. In addition, the division was active in counseling and advising creditors of their responsibilities under the law. For several months during the year, staff members were on loan to the Board of Governors to assist in preparing interpretations of Regulation Z.



Max Klass, Truth in Lending Administrator, addressing Pennsylvania Bankers Association Lending Conference in Harrisburg.

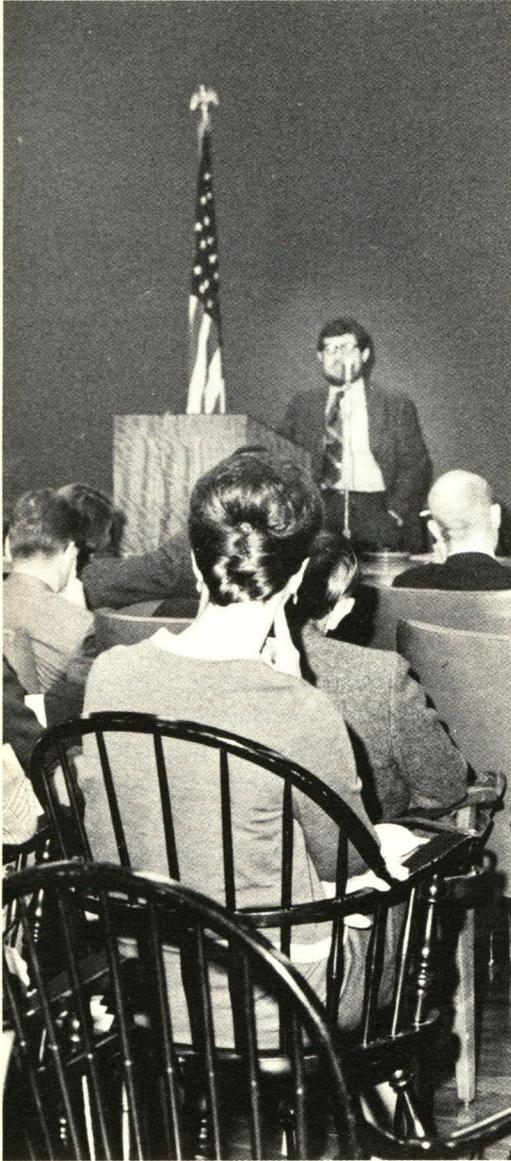
Meeting the Public



President Karl Bopp explains monetary policy decision-making to a group of military officers enrolled as resident students at the Industrial College of the Armed Forces, Fort McNair, Washington, D. C. The briefing was held in the Bank's board room early in December.



Olga DiLullo of the Bank's Public Information Department gives visiting students some pointers on how to detect counterfeit notes. More than 2,000 students toured the Bank in 1969.



Dr. Ralph Kaminsky of New York University addresses a group of high school economics teachers on the subject "Economics of the Cities." The meeting, held by the Bank on November 13, 1969, was co-sponsored with the Delaware Valley Council on Economic Education. More than 100 Philadelphia and suburban high school teachers attended.



Business Economist Ed Boehne of the Bank's Department of Research speaks to a group of college professors on economic conditions. The meeting, held in Bloomsburg, Pennsylvania, was one of four seminars co-sponsored with Third District state colleges in 1969.



During the year members of the Bank staff gave more than one hundred talks on the new Truth in Lending Law. Here, from the left, Max Klass, Truth in Lending Administrator for this Bank, William H. Wood, Esquire, and Moderator Harold Steinitz listen to John J. Brennen, Counsel for the Pennsylvania Bankers Association, discuss the new law with members of the Pennsylvania Consumer Finance Association at a meeting held in Pittsburgh on May 8, 1969.

CASH

The Cash Department maintains an inventory of Federal Reserve notes, Treasury currency, and coin to meet demands of banks in the Third Federal Reserve District. Currency and coin move into and out of circulation through banks in response to increases and decreases in public demand. All bank orders for cash are charged, and all incoming cash shipments are credited, to member bank reserve accounts. The Post Office Division of the Cash Department operates under United States Postal Regulations by contract agreement. It processes incoming and outgoing registered mail containing coin, currency, securities, and certified mail.

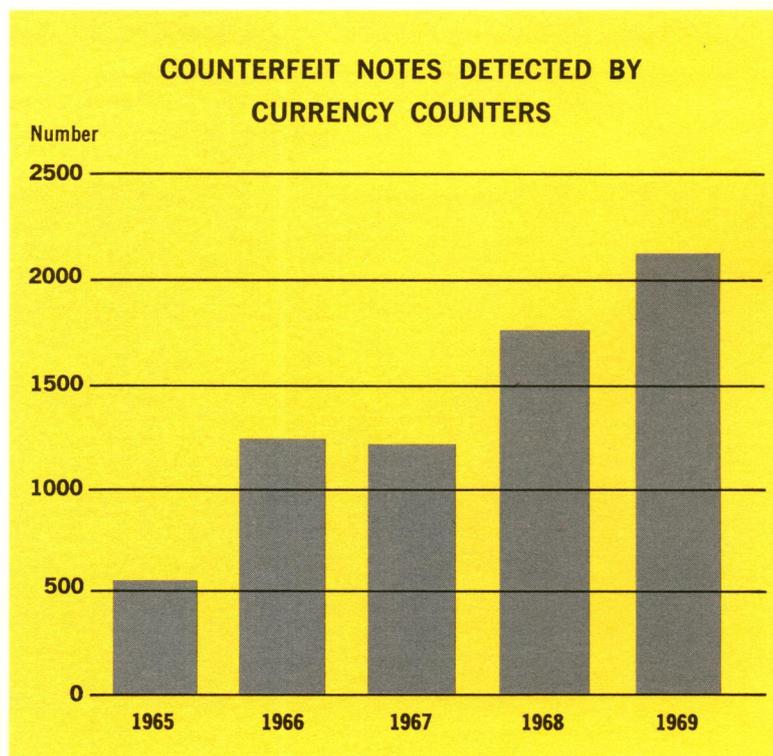
If you are wondering why you haven't had any \$500, \$1,000, \$5,000 or \$10,000 notes in your wallets lately, there is a very good reason. In July 1969, the Treasury Department announced that the issuance of these denominations would be discontinued and that they would be withdrawn from circulation when received by a Reserve Bank. There was little reaction from the public.

There has been a marked increase in the circulation of certain "notes," however, which is viewed by the Treasury Department with a jaundiced eye. The number of counterfeits detected has increased with each passing year (see chart). In 1969, a new high of 2,132 "queer" notes was exposed here at the Bank. Ten dollar notes seem to be the favorite denomination counterfeited by the Treasury Department's unwanted "competitors."

Each year this department finds it necessary to update equipment in order to cope with the increased work load. This past year new bag closing equipment was tested with satisfactory results and new scales were acquired for weighing clad coin. Also, a new NCR-pocket machine with magnetic ink character reading capabilities replaced an old model proof machine used in processing postmaster deposits.

The total volume of coin handled by the department jumped 63.2 percent over 1968. Nickels, dimes and quarters were deposited with the Bank in greater volume than ever before. Unfortunately, for the sixth consecutive year the supply of half dollars failed to meet demand, making strict rationing necessary.

During the year department personnel reviewed security operations with representatives of contract armored car companies. Over-the-road control of cash shipments and transfer procedures were given special attention and a number of improvements in security control were instituted.



COLLECTIONS

Federal Reserve Banks provide, on a nationwide basis, a system for the clearing and collection of checks and other cash items, and for the collection of noncash items such as drafts with documents attached, coupons, and securities. Fast processing and presentation of MICR qualified cash items and checks are achieved by the efficient use of automated reading and sorting equipment. The Department of Collections also handles and processes return items, adjustment of cash letters, food stamp coupons, and claims for refunds on previously paid items. These services are extended directly to member banks and agencies of the Federal Government.

Early in 1969 the Department of Collections was divided into three interrelated but separate departments. The "split" permits better opportunity to plan for the future while continuing daily operations.

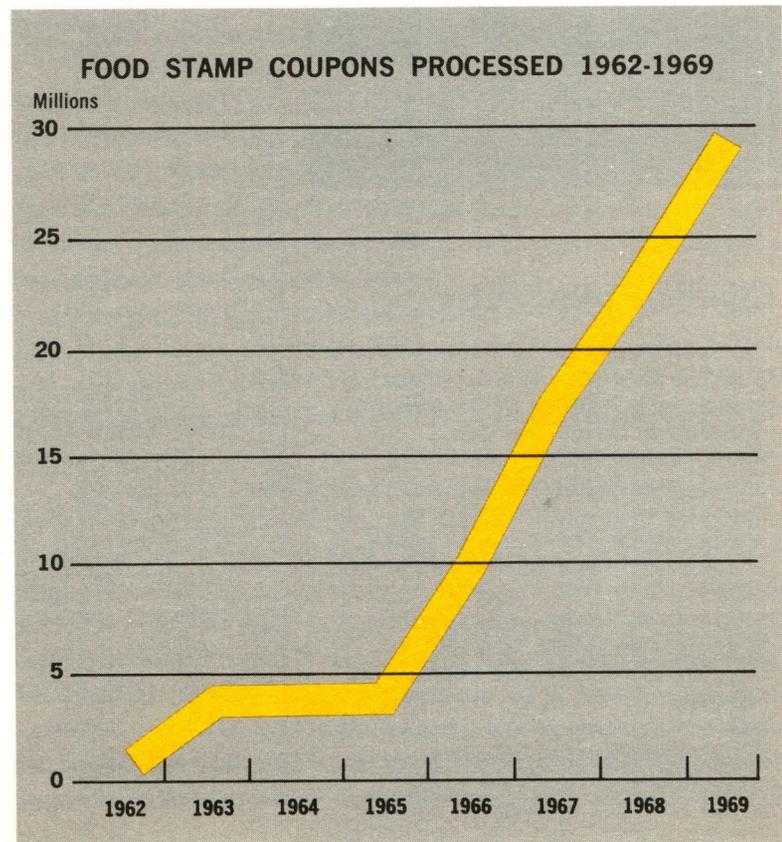
A new high of more than 360 million checks was processed during the year. This represents an average of 1.4 million checks each working day—an increase of 12 percent over 1968. The number of return items handled increased proportionately.

At year's end 51 of 60 counties in the Third District were participating in the Federal Food Stamp program. This increase of 30 percent over the previous year brought the total number of food stamps processed to almost the 30 million mark.

The "intercept" program continues to expand rapidly. There are 179 Third District banks now using off-premises bookkeeping. These banks have authorized sending cash letters direct to a correspondent bank or service center for demand deposit processing.

After careful study it was decided that third generation computer equipment had the capabilities and potential to be used for high speed processing of checks as well as various other operations within the departments. A major effort was made in systems planning and programming in order to effect installation of this new hardware early in 1970.

In October 1969, members of the collections staff together with representatives of the International Business Machines Corporation conducted a "benchmark" at the local IBM Data-center. The "test" successfully demonstrated many applications which can be expected to add new dimensions of efficiency and sophistication in the coming decade.



Assistant Vice President Al Spencer and Vice President Ed Aff discuss borrowing trends of member banks with Senior Vice President David Melnicoff.



CREDIT DISCOUNT

Federal Reserve Banks are empowered to supply funds under prescribed conditions to member banks through extension of credit. The Credit Discount Department administers loans to member banks. It is also responsible for administration of defense production loans on behalf of Government agencies guaranteeing the loans under the Regulation V Program, and for the administration of the Foreign Credit Restraint Program. In addition, the department maintains records of the earning assets of the Bank and of the accruals and income thereon, including participations in the System Open Market Account, holdings of Foreign Currencies and Foreign Loans on Gold.

Member banks borrowed more at this Bank's discount window in 1969 than in any previous year in the decade. The number of advances was twice that of 1968 and daily average borrowings of \$34.2 million more than tripled the previous year's daily average.

The need for funds coupled with the reduction of bank holdings of United States Government securities brought an increase in the use of items other than Governments as collateral for advances made to member banks. Sixty-four advances were made on eligible paper pledged as collateral, exceeding the number made in the preceding twelve years combined. These advances represented 46 percent of all advances made during the year and the amount, \$2.9 billion, was more than had been advanced on eligible paper in the preceding thirty-five years.

Obligations of Federal agencies were pledged as collateral on 147 advances made during the year. An amendment of the Federal Reserve Act late in 1968 made agency obligations, formerly acceptable only under Section 10(b), eligible as collateral for advances at the Bank's discount rate.

Nine advances were made in 1969 under Section 10(b) of the Federal Reserve Act. This was more than the total number of such advances made at this Bank during the past twenty-six years. Under Section 10(b), collateral pledged by a member bank may consist of any asset acceptable to the Reserve Bank even though it is ineligible for advances at the regular discount rate.

Reserve city banks became increasingly reliant on the Federal funds market in 1969. Net weekly purchases in most weeks exceeded the highest weekly purchases of the previous year. The combination of Federal funds purchased and Eurodollars acquired provided the city banks with more than 100 percent of required reserves in several weeks of the year. Country member banks in the District continued to supply large amounts of Federal funds to the market.

The discount rate was raised from 5½ percent to 6 percent early in April. The present 6 percent rate matches the record high charged at this Bank in 1920 and 1921. For the second consecutive year, 76 percent of the advances made to member banks were based on telephone requests for credit.

The Voluntary Foreign Credit Restraint Program, now five years old, was administered at this Bank during the year with no major difficulties. Guidelines for the program were revised by the Board in April and December, principally to give greater flexibility and more explicit recognition to the established priority for financing United States exports. The December revisions continued general ceilings applicable to banks and established separate, additional ceilings covering export term loans made by the banks.

For nonbank financial institutions, the December revisions brought long-term credits and investments in Japan under the controls of the guidelines. These credits and investments were specifically exempted under former guidelines.



A workman installs Data Processing Department's new computer, an IBM System 360/40.

In the final year of the sixties, the theme seemed to be "business as usual" despite the turmoil caused by continual change and expansion. In 1960 there was not a computer to be found in the Bank and the old Machine Tabulating Department numbered only thirty-nine employees. Today, three computers are housed in the Data Processing Department and fifty employees are involved in the operation.

The first computer was installed in 1961. The equipment did a fine job for many years. However, as computer technology improved, it seemed evident that the bank should give consideration to upgrading its general purpose equipment. As a result, during 1969, payroll checks and the deposit ledgers together with other related reports such as group clearings and automatic charges for cash letters were transferred to larger, more modern equipment.

Changes have not been limited to those of a technological nature. Last year the automation of "Book Entry" accounting for United States Government Securities was completed, and an entirely new approach was developed for processing Government Food Stamps. The Bank has also joined in the initial stages of a plan designed to automate the reconciliation of its accounts with other Federal Reserve Banks.

Planning for the future still consumes a great deal of time. At present, a new computer room is under construction. In the seventies it is expected that the Bank will centralize all of its computational capabilities in one area and, as a result, will be able to use larger, faster equipment and do a more efficient job.

By mid-1969 over fifty programs had been written to handle an integrated system of deposit ledger accounting and were in the testing stages. At that time management believed that progress would be more orderly if good administrative controls could be installed early in the development of our third generation system approach. It seemed desirable to make a separation between operations and programming. As a result, the Computer Services Department was spun off from the Data Processing Department. This new department is responsible for the planning, documentation, programming and implementation of accounting systems which are to be processed by the computer.

DATA PROCESSING

The Data Processing Department is primarily a service unit for other departments of the Bank. It takes source documents from these departments and transcribes them into punch cards that may be sorted, counted, and recorded by electronic and mechanical equipment. It then produces desired information and necessary records.

Customers line up to submit tenders for Treasury Bills.



GOVERNMENT SECURITIES AND SAFEKEEPING

As Fiscal Agents of the United States, Federal Reserve Banks sell new issues of Treasury marketable securities to the general public, conduct refunding operations, exchange and transfer bonds and notes, pay Government and agency coupons, maintain book-entry control of outstanding Treasury securities balances, and maintain Treasury Tax and Loan Accounts. Reserve Banks are authorized to issue, reissue, and redeem United States Savings Bonds and Retirement Plan Bonds, to issue and reissue United States Savings Notes, and to process and pay Armed Forces Leave Bonds. Reserve Banks qualify commercial banks and others as issuing agents of Series E Savings Bonds and of savings notes, and as paying agents of Series A through E bonds and of matured Series F, G, J, and K bonds.

Reserve Banks also act as depositaries for securities owned by member banks. All securities are serviced as to collection of interest, redemptions, and exchanges. Purchase or sale of any Government security can be made through Reserve Banks by member banks without charge.

The past year brought a "new look" to the Government Securities and Safekeeping Department. New equipment was purchased including a Bell and Howell inserting and sealing machine. The antiquated equipment it replaced was declared surplus with the Treasury Department.

In December the interest rate on U. S. Savings Bonds was upped to 5 percent. At the same time the Treasury Department announced that the sale of U. S. Notes (Freedom Shares) would be discontinued June 30, 1970. Magnetic tape is now being used for the issuance of Series E Bonds on computer in cases where large payroll deduction plans make it feasible.

During the year all transferable Treasury securities held by this Bank were converted to Treasury Book-Entry securities. This includes not only all transferable Treasury securities held in safekeeping for the account of member banks but also the pledged accounts. The conversion made available needed vault space and eliminated the cutting and handling of coupons and the processing of definitive securities on certain transactions.

The prevalent high interest rates on Government securities has wakened the public to a greater awareness of the advantages of this type of investment. As a result, there has been a tremendous increase in the number of Treasury Bill tenders submitted by individual subscribers. The volume of transactions of this nature reached new peaks during the last quarter of the year.

Public interest was further stimulated when the Treasury Department offered 8 percent Treasury Notes in October in exchange for various securities maturing late in the year. The response to the exchange offering increased the work load in this Bank and other Reserve Banks and the resultant interest of the public in the high yield increased the number of trades handled by commercial banks. Purchasers, in most cases, requested registered securities. Since this Bank is authorized to issue registered securities an unprecedented number of requests for registration was received and processed.

The department is currently undergoing a test program on new high speed computer equipment for the wire transfer of securities. The new process, expected to be in use by mid-1970, will increase the efficiency of the transfers and provide faster communications between the Reserve Banks on all wire transfers and conventional messages.

Manning the ramparts isn't easy these days. With competent personnel increasingly difficult to locate and attract in a tight labor market, the Personnel Department has found it necessary to reshuffle more than ever before in order to fill requisitions for help in the various departments of the Bank. In 1969, no fewer than 244 intradepartmental and 38 interdepartmental transfers were effected. This resulted in the establishment of 27 new jobs and the re-evaluation of 19 others because of significant changes in duties and responsibilities.

In order to smooth this transition, members of the department conducted 80 supervisory training sessions. In addition, orientation meetings were held periodically for new employees.

Last year, the turnover rate in the Bank reached 26.9 percent—highest of the past decade. The silver lining began to peep through in the last quarter of the year, however, when the number of separations slowed considerably. This might be attributable to a slight easing of labor market pressures, but the department is more inclined to believe that it is because channels of communication within the Bank have been improved. An attempt to unionize Bank employees brought to the surface individual grievances and misconceptions about personnel policies and practices. As a result, departmental supervisors were urged to coordinate employee objectives with management objectives.

Outside recruiting programs, including college visitations, were increased. In 1969, approximately 2,500 individuals applied for work at the Bank and of these, 276 were hired.

The Bank continued to support employees' efforts toward self improvement. Last year, 92 employees attended a variety of educational institutions.

During the year several important changes were made to keep employee benefits competitive with other leading firms. A Thrift Plan became effective at year's end and 93 percent of the employees are participating. At the same time, retirement, disability and death benefits were improved. Also, benefits under the hospitalization-surgical and major medical insurance programs were broadened.

While the Bank continued its practice of granting merit salary increases where appropriate, bi-annual salary surveys showed that salaries in the Philadelphia area rose rapidly in 1968-1969. The Board of Directors approved a 5 percent increase in January and a 4 percent increase in August for all employees.

The Bank introduced fair employment practices nearly two decades ago—long before it became the thing to do. Presently, more than 18 percent of the Bank's work force is non-white.

The Business Experience-Education Program initiated two years ago to provide high school students with work experience and income, as well as motivate them to remain in school, is working well.

The one solicitation for charity which is permitted in the Bank is for the United Fund Torch Drive. The Bank attained 105 percent of assigned quota in 1969 with 92 percent of the officers and employees participating.

Members of the department, as well as others of the Bank staff, continued to assist community agencies in the development and utilization of human resources in the Philadelphia area.

BEEP boys meet with Phil Anderson (second from left) and Vice President Bill James (far right standing) for briefing on business practices.



PERSONNEL

The Personnel Department administers Bank policies and programs of employment, job classification, and salary administration, together with payroll operations, including Retirement System and Social Security matters. Employee counseling, the direction of the cafeteria, the Medical Division, and employee and supervisory development and education are among its other major responsibilities.

Mary Ann Powell
helps area high school teacher
select bank publications for classroom use.



PUBLIC INFORMATION

This function provides the business community and the public at large with information about the Federal Reserve System and its policies, this Bank, and the District and national economies. In cooperation with other departments, officers and staff members write articles, deliver speeches, organize seminars, and represent the Bank at various conferences. Improvement of economic education in local high schools and colleges is a major objective. Public Information personnel prepare and distribute press releases emanating from the Bank and maintain personal liaison with communications media. Guided tours of the Bank are conducted on a regular basis.

Much like the bouquet of a fine old wine, the Public Information function varies somewhat with each year. 1969 was a vintage year because it presented the department greater opportunity to acquaint the public with the purposes and functions of the Federal Reserve System.

One of the year's highlights was an all-day seminar for economics teachers held at the Bank in November. The seminar, co-sponsored by the Delaware Valley Council on Economic Education, was attended by 120 Philadelphia and suburban high school economics teachers for the purpose of discussing the "Economics of the Cities." Dr. Ralph Kaminsky of New York University and Dr. Warren Gustus, Economic Advisor for the Bank, were the principal speakers.

Late in the fall a series of four seminars was held at the Millersville, Bloomsburg, West Chester and Trenton State Colleges. These were attended by economics professors serving colleges in each of the areas visited. Current issues confronting the economy were discussed with economists from the Department of Research.

Early in December the department hosted a group of high ranking military officers enrolled as resident students of the Industrial College of the Armed Forces, Fort McNair, Washington, D. C. This program, initiated in 1968, has become a permanent departmental feature. The "top brass" has expressed a desire to visit our Bank regularly as part of a field trip they make each year to study industrial plants in the Philadelphia area.

During the year the pamphlet, *How to Interpret Federal Reserve Reports*, was revised and made available for distribution. The pamphlet has been renamed *Guide to Interpreting Federal Reserve Reports*. Another of our publications, *Defending the Dollar*, is now being revised and updated.

An addition to the Series for Economic Education was ready for distribution at year's end. The new pamphlet, *Truth in Lending/What it Means for Consumer Credit*, is designed to help the consumer have a better understanding of Regulation Z. S.E.E. pamphlets continued to be a "hot" item. More than 1,500,000 copies were distributed during the year along with approximately 100,000 copies of other publications.

Students and bankers continue to find tours of the Bank interesting and educational. More than 2,000 availed themselves of the privilege during the course of the year, and it is necessary to schedule tours well in advance.

In 1969 all reasonable requests for speakers were accommodated. Approximately 200 speeches were given by Bank personnel, including special talks on the new Truth in Lending Law.

Warren J. Gustus, Economic Advisor for the Bank, discusses current monetary policy and economic trends before a luncheon meeting of educators in the Whittier Room.



RESEARCH

The principal functions of the Department of Research are to provide basic data and analyses needed in the formulation and evaluation of Federal Reserve policy; to keep abreast of national and international developments; to analyze regional growth within the District; to study banking and financial markets and the theory and techniques of central banking; to maintain a cooperative liaison with the financial, business, academic, and civic communities; and to contribute to the public's understanding of monetary policy and the workings of the economy.

The principal responsibility of the staff of the Research Department is to contribute to the formulation of the System's monetary policy. To fulfill that responsibility requires collection of sufficient, accurate, and timely data; processing of data into the most usable formats; careful economic analysis; and appropriate dissemination of the research results.

As changes take place in commercial banking, methods are being devised to gather information which will be useful to those who advise on policy decisions. During this past year, a statistical report was initiated which showed in detail the various sources of nondeposit funds tapped by commercial banks. Also, a new panel of reporting banks began to supply data regarding their activities in the consumer installment loan area, thereby furnishing more reliable information in this important aspect of economic activity. During the year, a panel of banks was selected to take part in a Demand Deposit Ownership Survey which will be in full operation by mid-1970. Throughout 1969 efforts were made to improve the quality and timeliness of all statistical series, so that information could be disseminated as rapidly as possible.

Plans have been made for significant improvements in computer support for research operations with the installation of an IBM 360/40 System in January 1970. The model 40 replaces the model 30 used by Research Department personnel for two years and is one of two similar systems to be shared by all computer users in the Bank. The increase in size and speed will upgrade current statistical operations and provide better service to the economists.

Analyses made by the staff of economists were presented in Open Market briefing sessions, in meetings of the Bank's Board of Directors, in System committee meetings and in meetings of civic, trade and academic groups throughout the District. The department has established a series of monthly seminars in which academic economists and other outside experts join with staff economists in discussing current theoretical and policy issues. This enables the department to keep abreast of economic research being done elsewhere and provides a forum for presentation of the department's research findings to other experts.

Although research analyses are disseminated in many forms, a significant number are presented in the *Business Review*, the department's monthly publication. The mailing list of the *Business Review* was revised in 1969. At the same time, a survey of subscribers was made in an attempt to learn some of the characteristics of the *Review's* audience. Information gained through the survey should enable the staff to meet the needs of readers more effectively.

OTHER DEPARTMENTS

Tony Teti, Assistant Head of the Building Department, supervises the construction of a new computer room.



BUILDING

The Building Department is responsible for the care, cleaning, operation, maintenance and alteration of the physical plant. Alteration played a major part in the department's activities in 1969 as every effort was made to keep an old building functioning like new. Security measures called for relocation of the Guard Control Station and the installation of new security doors in strategic areas of the Bank. New acoustical ceilings were installed on certain floors and lighting fixtures were redesigned and modernized. The Government Securities and Safekeeping Department was completely rearranged and renovations in the vault, begun in 1968, were completed during the year. Department personnel are presently installing enclosed computer areas on the third and fourth floors of the Bank building.

FEDERAL TAXES

Federal Reserve Banks, as Fiscal Agents of the United States, are authorized to accept tax funds either from employees directly or through qualified commercial banks. In 1969 this department processed one million more receipts than in 1950. During that period the dollar volume rose from \$6 million to \$7 billion. Federal Tax procedures have been changed many times over the years in order to speed the collection of funds. To cope with these changes and the increase in volume more sophisticated equipment is acquired regularly. In 1970 the internal processing of the taxes will be committed to new third generation computer equipment.

MEDICAL

Bank employees and their immediate families are again eligible to draw on the Red Cross Blood Bank this year. One hundred and sixty-six volunteer blood donors were accepted, exceeding the Bank's required quota. And would you believe—again in 1969 more than 13,000 employe cases were examined and treated by medical personnel.

CAFETERIA

Cafeteria personnel, all Bank employees, managed to perform a modern miracle in 1969. Quality meals were served to approximately 650 employees each day plus an average of between 75 and 100 weekly guests at no advance in prices. This takes a bit of doing with the cost of food steadily moving upward. Somebody must be doing something right.

EMERGENCY PLANNING

In carrying out a program designed to provide "insurance" in the event a national emergency should force this Bank to cease operations, a "vest pocket" branch of the Bank has been established at the Relocation Office in Lewisburg. Reconstruction and test activities are performed on a regular basis by the Relocation Office staff and at least once each year employees of the Bank go to Lewisburg to test certain programs by reconstructing the records.

GUARDS

The Guard Department is responsible for safeguarding Bank property and personnel. The performance of this function requires continual updating and improving of safety features. In 1969 a new console was installed housing the complete alarm system, teletype, PA system, monitors and some other hush-hush equipment. Also, new doors controlled by maximum security devices were installed at Bank entrances.

PRINTING

This department bore the brunt of 1969's paper explosion. Increased activity in the Regulations of the Board of Governors, a one hundred percent increase in the number of Bank circulars and a complete revision of the in-bank directory because of bank mergers, title changes, etc., kept the personnel of the department hopping all year. By year's end the addressograph section of the department had been revised, a complete revision of the listings of emergency check and cash areas had been effected and new large binders to accommodate the changed format for Board Regulations were made available. The increased work load made some changes of equipment necessary. One addition, an automatic plate maker, has proven to be a time and labor saver as it eliminates the making of negatives and metal printing plates.

LEGAL

The Legal Department has the responsibility of protecting the Bank's legal rights and delineating functions in the discharge of its legal obligations. It also represents the Bank in legal actions in which the Bank may become involved. Routine matters involve ascertaining the legal significance and interpretation of regulations and laws as adopted by legislative assemblies and the Board of Governors of the Federal Reserve System. Moreover, the many contracts and agreements entered into by other departments in the Bank must be prepared or reviewed. Legal opinions are submitted on behalf of applications for mergers, branches and other matters involving legal questions.



The new electronic console enables guard John Donaway to keep a close watch on all strategic areas of the Bank.

PURCHASING

The Purchasing Department made a complete physical inventory of all Bank-owned equipment in 1969. Machines and furniture that could no longer be used by the Bank were sold at auction to interested firms in the Philadelphia area. The supply division of the department filled orders for nearly 2 million copies of Bank publications during the year.

VAULT

The Vault Department is accountable for the custody and servicing of United States Government and other securities, and the storing of currency and coin. These represent about \$15 billion, so every precaution is observed to safeguard and facilitate the handling of this "hoard." As an added security measure all persons entering the vaults are now required to sign a vault log. Early in the year, two compartments in the South Vault housing unissued U. S. Savings Bonds and Notes and Retirement Plan Bonds were placed under the direct supervision of the Government Securities and Safekeeping Department.



Angelo Patrone stands watch as Joe Mullen and Joe Moritz of the Cash Department deposit currency in the vault for safekeeping.

BOARD MEETING

Director Henry A. Thouron and First Vice President-elect David C. Melnicoff seem satisfied with the results of Board meeting just finished.



First Vice President Robert N. Hilker and Directors Edward J. Dwyer and D. Robert Yarnall, Jr., discuss some unfinished business.



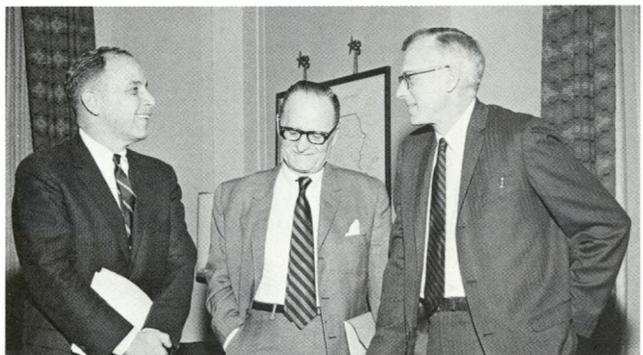
Senior Vice President Joseph R. Campbell and Director H. Lyle Duffey tell newly elected Director William H. Cosby (right) that it's "only the beginning" after Mr. Cosby's first meeting of the Board.



Chairman Willis J. Winn (left) and Deputy Chairman Bayard L. England "take a breather" after Board of Directors meeting at the Bank.



Director Harold F. Still, Jr., Vice President Edward A. Aff and President-elect David P. Eastburn enjoy a chuckle after a vigorous session.



DIRECTORS

Chairman

Willis J. Winn, Dean
Wharton School of Finance and Commerce, University of Pennsylvania
Philadelphia, Pa.

Deputy Chairman

Bayard L. England, Chairman of the Board
Atlantic City Electric Company
Atlantic City, N. J.

William R. Cosby
President
Princeton Bank and Trust Company
Princeton, N. J.

Philip H. Glatfelter, III
President and Chairman
P. H. Glatfelter Co.
Spring Grove, Pa.

H. Lyle Duffey
Executive Vice President
The First National Bank of McConnellsburg
McConnellsburg, Pa.

Harold F. Still, Jr.
President
Central-Penn National Bank
Bala Cynwyd, Pa.

Edward J. Dwyer
President
ESB Incorporated
Philadelphia, Pa.

Henry A. Thouron
President
Hercules Incorporated
Wilmington, Del.

D. Robert Yarnall, Jr.
President
Yarway Corporation
Blue Bell, Pa.

OFFICERS

Karl R. Bopp, *President*
Robert N. Hilkert, *First Vice President*

Joseph R. Campbell, *Senior Vice President*
David P. Eastburn, *Senior Vice President*
David C. Melnicoff, *Senior Vice President*
James V. Vergari, *Senior Vice President and*
General Counsel

Edward A. Aff, *Vice President*
Hugh Barrie, *Vice President*
Norman G. Dash, *Vice President*
Ralph E. Haas, *Vice President*
William A. James, *Vice President*
G. William Metz, *Vice President and General Auditor*
James A. Agnew, *Assistant Vice President*
Jack P. Besse, *Assistant Vice President*
Joseph M. Case, *Assistant Vice President*
D. Russell Connor, *Assistant Vice President*
Alexander A. Kudelich, *Assistant Vice President*
Warren R. Moll, *Assistant Vice President*
Henry J. Nelson, *Assistant Vice President*

Kenneth M. Snader, *Assistant Vice President*
Albert Spencer, Jr., *Assistant Vice President*
Russell P. Sudders, *Assistant Vice President*
James P. Giacobello, *Chief Examining Officer*
Thomas K. Desch, *Examining Officer*
William L. Ensor, *Examining Officer*
Jack H. James, *Examining Officer*
Leonard E. Markford, *Examining Officer*
Warren J. Gustus, *Economic Adviser*
William F. Staats, *Secretary and Senior Economist*
Mark H. Willes, *Senior Economist*
Samuel J. Culbert, Jr., *Bank Services Officer*
George C. Haag, *Public Information Officer*
Hiliary H. Holloway, *Assistant Counsel*
Eugene W. Lowe, *Securities Officer*
A. Lamont Magee, *Assistant General Auditor*
David P. Noonan, *Assistant Personnel Officer*

MEMBER OF FEDERAL ADVISORY COUNCIL

George H. Brown, Jr., Chairman of the Board, Girard Trust Bank, Philadelphia, Pa.

January 1, 1970

COMPARISON OF EARNINGS AND EXPENSES

	1969	1968
CURRENT EARNINGS:		
From U.S. Government securities	\$ 164,711,277.68	\$ 136,299,631.06
From discounts and advances and miscellaneous sources	8,370,373.52	4,604,275.39
Total current earnings	173,081,651.20	140,903,906.45
NET EXPENSES:		
Operating expenses (after deducting reimbursable or recoverable expenses)	10,700,943.23	9,584,109.40
Federal Reserve currency	1,262,303.71	1,384,812.91
Assessments for expenses of the Board of Governors	778,500.00	749,900.00
Total net expenses	12,741,746.94	11,718,822.31
Current Net Earnings	160,339,904.26	129,185,084.14
ADDITIONS TO CURRENT NET EARNINGS:		
Profit on sales of U.S. Government securities (net)	—	40,879.36
Miscellaneous non-operating income	319,339.61	426,673.50
Total additions	319,339.61	467,552.86
DEDUCTIONS FROM CURRENT NET EARNINGS:		
Loss on sales of U.S. Government securities (net)	316,619.68	—
Miscellaneous non-operating expenses	25,103.59	8,869.37
Total deductions	341,723.27	8,869.37
Net additions (<i>deductions</i>)	22,383.66	458,683.49
Net earnings before payment to U. S. Treasury	160,317,520.60	129,643,767.63
Dividends Paid	1,999,838.29	1,933,570.76
Paid to U.S. Treasury (interest on Federal Reserve notes)	157,082,482.31	126,754,046.87
Transferred to Surplus	1,235,200.00	956,150.00
	\$ 160,317,520.60	\$ 129,643,767.63

COMPARATIVE STATEMENT OF CONDITION

ASSETS	Dec. 31, 1969	Dec. 31, 1968
GOLD CERTIFICATE ACCOUNT.....	\$ 525,670,746.02	\$ 494,257,793.64
FEDERAL RESERVE NOTES OF OTHER FEDERAL RESERVE BANKS.....	34,613,760.00	35,063,655.00
OTHER CASH.....	5,034,092.41	4,901,516.20
LOANS AND SECURITIES:		
Discounts and advances.....	650,000.00	100,000.00
United States Government securities.....	3,071,751,000.00	2,810,204,000.00
Total Loans and Securities.....	3,072,401,000.00	2,810,304,000.00
OTHER ASSETS:		
Cash items in process of collection.....	729,778,399.54	634,903,044.39
Bank premises.....	2,475,074.94	2,358,817.56
All other.....	125,278,446.65	257,665,905.93
Total Assets.....	4,495,251,519.56	4,239,454,732.72
 LIABILITIES		
NOTE LIABILITIES:		
Federal Reserve notes.....	2,756,766,121.00	2,615,922,686.00
DEPOSITS:		
Member bank—reserve accounts.....	986,466,483.93	991,103,096.04
United States Government.....	70,869,685.64	522,375.94
Foreign.....	6,760,000.00	11,660,000.00
All other.....	17,964,564.87	13,321,161.21
Total Deposits.....	1,082,060,734.44	1,016,606,633.19
OTHER LIABILITIES:		
Deferred availability cash items.....	557,759,990.72	520,862,792.23
All other.....	30,630,673.40	20,499,021.30
TOTAL LIABILITIES.....	4,427,217,519.56	4,173,891,132.72
CAPITAL ACCOUNTS:		
Capital paid in.....	34,017,000.00	32,781,800.00
Surplus.....	34,017,000.00	32,781,800.00
Total Liabilities and Capital Accounts.....	\$ 4,495,251,519.56	\$ 4,239,454,732.72

