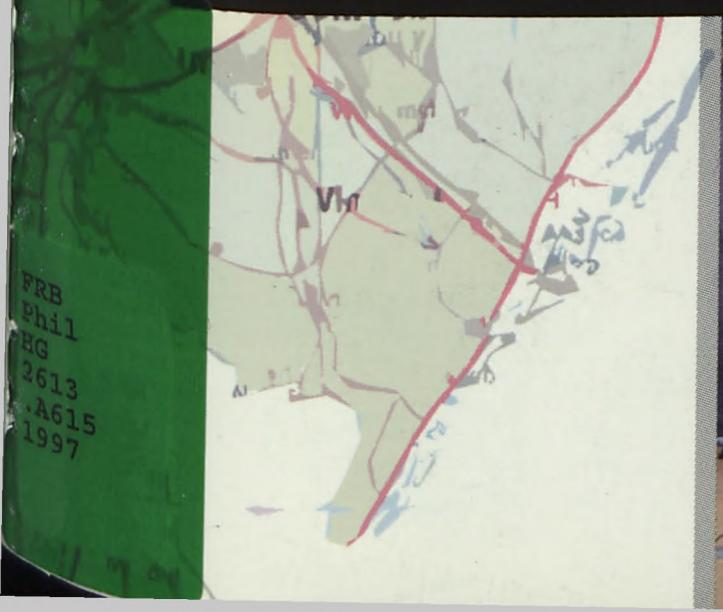


Federal Reserve Bank of Philadelphia
ANNUAL REPORT 97



AN INTERSECTION OF INTERESTS: BRINGING BANKS AND COMMUNITIES TOGETHER

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Executive Letters

The year 1997 was a remarkable one for the economy in the Third District and across the nation. Nationally, the economic expansion completed its seventh consecutive year. Production of goods and services grew more rapidly than at any time this decade, while unemployment declined to its lowest level in 24 years. Inflation slowed, long-term interest rates declined, and despite concern about ongoing economic instability in Asia late in the year, the outlook for the American economy is favorable. In the District, economic growth continued, spurred by the long national expansion and efforts by state and local governments to create a more receptive climate for business and job creation.

Though the economic news is undeniably good, it is also true that the prosperity accompanying it is not evenly distributed. Some people are completely untouched by the optimism spreading through the economy and financial markets. There are still those who can't afford to purchase homes and who, though they work full-time, cannot earn enough to support their families. And numerous communities have been strained by economic shifts that have left them with smaller tax bases and less self-sufficient populations.

While no single entity can solve these problems, banks, through their community reinvestment activities, have contributed to innovative community-based responses, providing both financial backing and expertise. Banks know their customers and their communities. They understand the problems, yet can see the potential that lies beyond. Banks serve as catalysts for community reinvestment, helping to mobilize businesses and create jobs.

In this Annual Report, we explore the collaboration between banks and community organizations in the Third District and describe the role of our Bank in bringing these groups together. I believe that it is particularly important to recognize the contributions of banking to community revitalization now, as banking and financial services undergo dramatic and rapid restructuring. Despite the challenges of consolidation, banks must continue to contribute to the vitality of the cities, towns, and neighborhoods in which they do business.

Edward G. Roehner

In 1997, our Bank maintained its commitment to continuous improvement in the efficiency of our operations and the quality of our services.

In payments, we improved the speed and reliability of our check imaging service for depository institutions, and we began imaging checks for the U.S. Treasury. On behalf of the Federal Reserve System, and in conjunction with the Treasury, we helped introduce the new \$50 note with enhanced security features. And, in unison with the other Reserve Banks across the country, we continued to consolidate and refine our electronic payments service. As a result, we further reduced prices for wire transfers and automated clearinghouse transactions.

In response to the ongoing consolidation of the banking industry, we continued to work with the Board of Governors and the other Reserve Banks to streamline our bank examination processes and focus on the factors critical to maintaining the soundness of the nation's banking system. At the same time, we continued to promote neighborhood development and fair access to credit here in our District. Those efforts are the focus of this Annual Report.

I want to close by recognizing the contributions of our employees to the Bank's successes in 1997. It is through their initiative that we found new ways to increase efficiency, improve existing services, and develop new ones. The pace of change in our industry and in the economy as a whole will not slow in the years ahead, but for all of us at the Federal Reserve Bank of Philadelphia, the commitment to quality service is one thing that will not change.

William H. Stone Jr.



William H. Stone, Jr.
First Vice President

Edward G. Boehne
President

An Intersection of Interests

BRINGING BANKS AND COMMUNITIES TOGETHER

Financial institutions must try to serve all parts of the communities in which they do business. When this principle was formally enunciated in the Community Reinvestment Act (CRA) 20 years ago, it changed bankers' and civic groups' perceptions of each other. The partnerships that grew out of that changed perception have benefited neighborhoods, towns, and cities across the country.

With CRA, community reinvestment became law, but responsible bankers, civic leaders, and government representatives already knew that it made sense. They understood that economic vitality across an area depends on the prosperity, stability, and security of every neighborhood. Bankers and community representatives recognized that their goals, like their communities, are common ground. Their interests intersect in the neighborhoods, and the ques-



PHOTO: THOMAS TOOHEY BROWN

Frederick M. Manning has directed community development efforts at the Federal Reserve Bank of Philadelphia since 1981 and has made the Third District an exemplary proponent of the Community Reinvestment Act. His approach is straightforward: "Simple logic tells us that we need each other. Lenders need activists to alert them to difficulties, to grassroots attitudes and opportunities, and to be their advocates in the community. Conversely, community groups need financial institutions for credit, banking services, financial management, and business planning advice."

tion they faced—then and now—is how to extend financial resources to underserved areas profitably and maintain an acceptable level of risk. Since 1977, CRA has given banks the impetus to take action, and the Federal Reserve has supported their efforts.

Much of the support provided by the Federal Reserve Bank of Philadelphia for community reinvestment comes from the Community and Consumer Affairs Department.

"Consolidation in banking has the potential to exacerbate tensions between banks, community organizations, and government. One way to avoid that is through close and cooperative dialogue."

—Fred Manning

Though Community Affairs is not responsible for enforcing the Act, the department helps banks meet their responsibilities by serving as a conduit for information, contacts, and technical assistance.

The real work of community reinvestment is done by the people in banks, civic groups, and government agencies. Community Affairs serves as a catalyst for the process, gathering and circulating information, bringing people from different arenas together, and creating an environment in which leaders can transform good intentions into workable plans. The Community Affairs staff helps financial institutions, economic development agencies, and the public answer the essential questions: What are communities' predominant needs? What resources are available? Are there existing programs that can be duplicated or adapted? How can banks' interests be protected while improving service to low- and moderate-income clients? What can communities do to make sure mortgage and loan programs succeed? How can diverse groups work together most effectively?

The department is an important but subtle link in community reinvestment, giving the people in board rooms and the people in the neighborhoods the opportunity to talk with each other. Over time, that talk has led to partnerships and programs that have enriched communities across the Third District with more affordable housing, flexible financing for first-time homebuyers, start-up funding and training for microbusinesses, private support for the arts, education, health, and recreation, and increased volunteerism.

While the intention of CRA has remained the same over the years, both the Act and the relationships it inspired have adapted to changing circumstances. That adaptive ability has never been more essential than it is now, given the dramatic and rapid consolidation of the financial services industry. At a time when banks are moving to ever more distant corporate headquarters, and service areas are spoken of in terms of states instead of neighborhoods, maintaining ties with individual communities will require increased diligence on all sides. In such an environment, the information, contacts, and consultation provided by Community Affairs will be critical in connecting decisionmakers on all sides.



THE COMMUNITY AFFAIRS STAFF

Frederick M. Manning
Vice President and
Community Affairs
Officer

Vera Bowders
Community
Development Advisor

Keith Rolland
Community
Development Advisor

Donald James
Community Affairs
Specialist

TAKING THE PULSE OF A COMMUNITY

The process of community revitalization begins with an assessment of current conditions. Community Affairs staff members spend time in a designated area, interviewing bankers, business owners, housing specialists, health care providers, and people who operate human services organizations. They examine census data and other statistics, on employment, demographics, income, lending, and deposits, and review the existing assistance network,



Community Development Advisor Keith Rolland (right) and Steven W. Cappelli, mayor of Williamsport, Pa., tour the Weightman Block, a \$4.3 million redevelopment project that created 64 low- and moderate-income residential units in the city's historic Victorian district. Funding sources include the City of Williamsport, which provided approximately \$1 million in Community Development Block Grant funds and loan guarantees, and Northern Central Bank.

including public-private partnerships, government programs for housing, small business and economic development, and nonprofit initiatives.

Their findings are summarized in a Profile of Community Credit Needs, a written report analyzing the area's history, present social and economic situation, resources, and factors hampering development. By clearly stating the problems and then identifying resources to address them

in a single document, community profiles enable everyone involved to consider revitalization in a cohesive way. For example, the 1996 profile of Williamsport, Pa., revealed a lack of affordable housing and funding for small and new businesses, needs common to many communities in the Third District. A few pages later, the profile lists 46 programs available to assist with affordable housing and business development.

Community profiles are really a region's perception of itself, supported by independent data. In documenting that perception—perhaps for the first time—Community Affairs positions the Fed as an impartial, informed intermediary, an advocate for the area as a whole rather than for any particular constituency. For banks, profiles provide the information necessary to get involved in revitalization. As they speak with people throughout the Third District, Community Affairs staff members reinforce an awareness among banks, government organizations, community groups, and individuals of how their interests intersect. When aware of their interdependence, people are more prepared to take action together.

PHOTO: THOMAS TOOHEY BROWN



Federal Reserve Board Governor Laurence H. Meyer (second from left) visited Philadelphia last fall for a firsthand look at redevelopment projects in North Philadelphia and Germantown. Among those accompanying him were (from left) Philadelphia Fed President Edward G. Boehne, First Vice President William H. Stone, Jr., and Vice President and Community Affairs Officer Frederick M. Manning.

COMMUNITY PROFILES

Delaware
Southern Delaware
Wilmington

New Jersey
Camden
Trenton
Vineland

Pennsylvania
Easton
Harrisburg
Lancaster
Reading
Scranton/Wilkes-Barre/Hazleton
Williamsport

BRINGING PEOPLE TOGETHER

Even in an age in which much communication takes place electronically, the most meaningful relationships are built face-to-face. Personal contact is central to Community Affairs' approach. It underlies the considerable time staff members spend on the road, and it is the reason behind the formation of Councils of Community Affairs Officers, regional groups that respond to the issues raised in community profiles.

PHOTO: PAUL CRANE, CRANE PHOTOGRAPHY



Community Affairs Councils are regional forums that bring together bankers and community representatives to discuss issues of local concern. Often, a casual conversation at a council meeting leads to a creative solution out in the community. A joint meeting of the Camden-Trenton and Southern New Jersey councils is pictured.

Soon after a region's profile has been completed, community reinvestment officers from local banks are invited by the Fed to join the council. For each of the next five years, three or four meetings are organized and sponsored

by the Philadelphia Fed's Community Affairs Department, with the hope that the council will continue on its own after that.

Meetings focus on existing or emerging issues in the region. Recent council gatherings have addressed microenterprise lending in Pennsylvania's Lehigh Valley, rural and



PHOTO: COY BUTLER, BUTLER PHOTOGRAPHY

PNC Bank has committed its financial and human resources to the renewal of Norris Square, a North Philadelphia neighborhood. In 1994, the bank promised \$2.5 million over 10 years to strengthen the economy, housing, and community life of Norris Square. PNC Bank employees have volunteered for hands-on jobs to spruce up the area.

small-business development in central Pennsylvania, and financing for lead paint abatement in older housing in southern New Jersey. Those invited to speak have experience relevant to the topic but can come from any quarter, including bankers from outside the council area, legal experts, representatives of federal and state agencies, and local community leaders.

Community Affairs Councils, which originated with the Philadelphia Fed, have effectively increased bank involvement in local economic development. From the perspective of those invited to make presentations, council meetings offer critical exposure to decisionmakers, potential sources of collaboration, advice, and funding.

SERVING THE UNDERSERVED

Cal Hollis, manager of a community development credit union in tiny Houston, Del., was concerned about his customers who worked on poultry farms and at processing plants scattered across rural Kent and Sussex counties.

In a presentation to the Southern Delaware Council of Community Affairs Officers, Hollis talked about the challenges his organization, Delmarva FIFE FCU, faces. Its clients are widely dispersed, speak mainly Spanish, and come from cultures in which banks are not trusted. As a result of Hollis' presentation, Delmarva FIFE FCU secured funding from several major Delaware banks for a mobile branch office to make weekly visits to customers in Georgetown, Smyrna, Harrington, and Milford.

Four days a week, the mobile office staff was on the road, providing bilingual services, opening accounts, making \$100 loans to help clients establish credit, and counseling customers on the value of saving money. Funding for the mobile office was provided by Felton Bank, First Omni Bank, Greenwood Trust, J.C.Penney Bank, and NationsBank. According to Cal Hollis, the credit union

would never have been able to assemble a consortium of such powerful friends without the opportunity provided by the council meeting.



PHOTO: DELMARVA FIFE FEDERAL CREDIT UNION

"The council meetings are very beneficial. The topics are timely and help the agency see what is going on with economic development in the area."

— Howard Henderson
Rural Development
Coordinator
U.S. Department of
Agriculture
Southern New
Jersey Council

"Almost every meeting brings people with special knowledge whom one would not otherwise meet."

— Paul Baker
Vice President
Colonial Bank, FSB
Southern New
Jersey Council

"The county commissioners' speeches at the last meeting regarding Lycoming County's economic development strategy were very interesting. The bank was unaware of all of the initiatives that office was planning."

— John Frey
Assistant Vice
President
Jersey Shore State
Bank
Williamsport Council

DEVELOPING RESOURCES FOR HOUSING AND EMPLOYMENT

The role of the Fed in community development is like a gardener who cultivates native plants. The gardener can't really take credit for the plants—they occur naturally—but by weeding and watering around them, the gardener enables them to bloom more fully. And when the garden is green and thriving, taking credit isn't nearly as important as enjoying the view.

In many economically disadvantaged areas of the Third District, where affordable housing and secure employment are pressing needs, some promising projects have taken root.

Affordable housing enables renters to become owners, gives them a financial interest in preserving and improving their neighborhoods, and provides stability for the community. Secure employment provides the resources necessary to buy and improve homes, support families, and build security for the future.

One estimate holds that 57% of all families, and 91% of single people, who rent in America cannot afford the median-priced home in their communities. Working together, banks and communities can overcome many issues that in the past have derailed the development of affordable housing. For example, it may be difficult for banks to provide mortgages to low- and moderate-income families: in addition to limited resources, applicants may have poor credit records, or no record at all. Yet these are exactly the people who can revitalize neighborhoods by becoming permanent residents. Interestingly, community groups have found that low- and moderate-income people do not necessarily have a greater chance of defaulting on loans—often, they are successfully paying more in rent than they would pay on a mortgage.

In the Philadelphia area, lenders have developed products and programs to assist first-time homebuyers with low and moderate incomes. One program uses flexible loan qualifications: consistent payment of rent and utility bills is considered evidence of creditworthiness, and payments from Social Security and welfare are accepted as income. Banks have also reduced their risk through consortium financing, and community groups have helped prepare loan appli-

"These people have been previously shut out of the banking system. Now, they're allowed inside...and communities are being rebuilt as a result of this lending."

— Fred Manning

cants by providing counseling to those who need to resolve old debts or learn how to save and budget. As a final step, specially designed loans are marketed widely to make potential customers aware of their availability.

Supporting the development of microbusinesses has proven more complex than affordable housing, probably because there are more variables involved. In addition

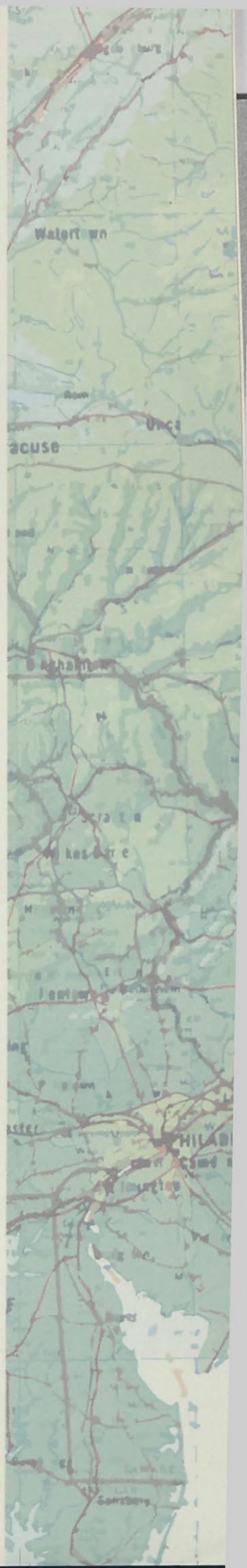
to a borrower's creditworthiness, there is the question of the viability of the business itself, which may be a home-based or part-time effort. Owners of such enterprises often do not have formal business plans and may be unfamiliar with business principles. Even so, with the support of community development groups that serve as intermediaries for training, consultation, and oversight,

many microenterprises are gaining access to the expertise and funding they need to thrive.

PHOTO: THOMAS TOOHEY BROWN



Saint Joseph's Carpenter Society is rebuilding Camden, N.J., one block at a time. Since 1985, the organization has purchased and rehabilitated 160 homes in East Camden, selling them at affordable rates to first-time buyers. Among the local banks that have provided funding, reduced-interest mortgages, and other assistance are CoreStates, PNC, and Summit. In 1994, a grant from Campbell Soup enabled Saint Joseph's to establish a course for families who purchase homes. The training, which covers household finances, credit, home maintenance, and community development, may be part of the reason Saint Joseph's has so far not had a single default.



Incubating New Businesses

Microbusinesses can make bankers nervous. Fledgling entrepreneurs may be talented in their specialty, but might not have a clue about how to run a business. They tend to be isolated and work out of their homes. Often the owner sees the whole workforce when he or she looks in the mirror.

From a banker's perspective, microbusinesses typically are tiny, risky, and inexperienced clients.

Microbusinesses can also assist neighborhood revitalization. A source of new products and services, they give birth to creative ideas and approaches. This is where untested entrepreneurs gain the experience and confidence that build thriving careers for themselves and their employees.

From a community perspective, microbusinesses are a source of innovation and employment in areas battered by economic shifts.

Reconciling these views is the work of microenterprise programs such as Working Capital Delaware of Wilmington, and the Entrepreneurial Development and Global Education (EDGE) Center at Kutztown University in Reading, Pa., which provide training, networking, mentoring, and access to funding.

The Philadelphia Fed assists these groups by creating awareness of them. By inviting representatives to make presentations before Community Affairs Councils and other groups, the Fed places the topic on bankers' agendas. One of those invitees is Mary Dupont, director of Wilmington's Women's Center for Economic Options, who helped establish Working Capital Delaware after making a presentation on peer lending for the Philadelphia Fed. Dupont has subsequently presented the Working Capital concept to bankers from Philadelphia, Maryland, and Hawaii. "With the Fed

in there in the beginning as a player, we can at least get the banks to the table," she says.

Working Capital Delaware

Through Working Capital Delaware, people can start a business from ground zero—without collateral, credit history, or a formal business plan—and emerge with experience in both business and credit management. Under traditional lending standards, most of the program's participants would be classified as high-risk—too small, too inexperienced, too expensive to work with. Yet with the program's scaled-down loan program and practical training in business fundamentals, Working Capital entrepreneurs have been very successful. In its first three years of operation, Working Capital Delaware has served 400 members, made 360 loans, and maintained a 98% repayment rate.

Program members form peer groups and progress as a team through successive levels that combine loans and training in concepts such as loan review, cash-flow management, operations, and marketing.



PHOTO: THOMAS TOOMEY BROWN

Each group is responsible for approving its members' loans and overseeing repayment.

Wilmington photographer Harry A. Brown, Jr. was already working full-time in his business by the time he joined the program, which currently exists in eight states. For Brown, the incentive was not the \$500 loan that new participants receive, but the opportunity to get feedback.

Another Working Capital participant, dressmaker Lilliam Lopez, says that the program encourages individuals to take their businesses seriously, adding that the support provided by her peer group has been invaluable.

Brown, who comes from a family of entrepreneurs, concurs. His sister, brother, wife, and mother all have businesses and followed him into Working Capital. "The program allows us to exchange ideas, solve problems, and be a sounding board for each other," he says.

Working Capital Delaware is a joint venture of the YWCA of New Castle County and the First State Community Loan Fund.

EDGE Center/Mindco

The EDGE Center pairs entrepreneurs taking training at the Minority Development Council (Mindco) in Reading with advanced business students at Kutztown University. The joint program, which is targeted to female- and minority-owned businesses in Reading, provides peer and academic support to 50 new and prospective business owners each year, enabling them to develop business plans that can be used to acquire funding.

Bolaji Owoloja opened African Imports, a shop offering clothing, jewelry, and arts and crafts in the Reading Outlet Center in October 1996, before she completed the EDGE Center/Mindco program. She credits the program with enabling her to secure \$5,000 in loans, which she used to purchase inventory.

Among the successful entrepreneurs who have benefited from microenterprise incubator groups are Bolaji Owoloja (opposite page), a retail merchant, Lilliam Lopez (left), a dressmaker, and Harry A. Brown, Jr. (right), the man who photographed Lilliam.



PHOTO: HARRY BROWN, JR.

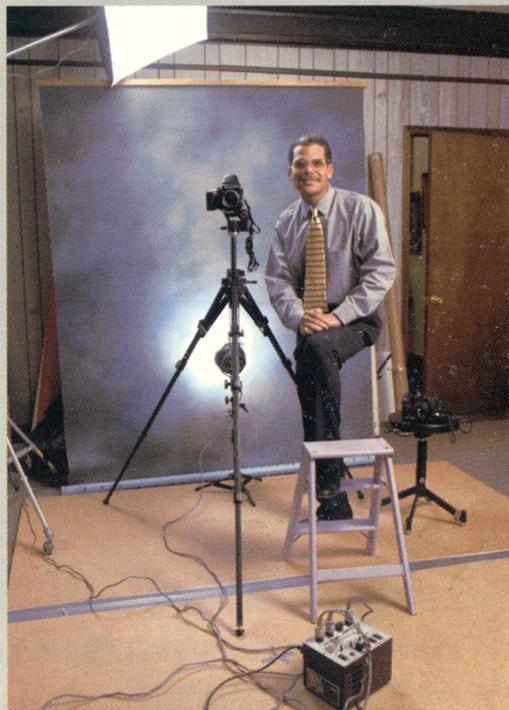
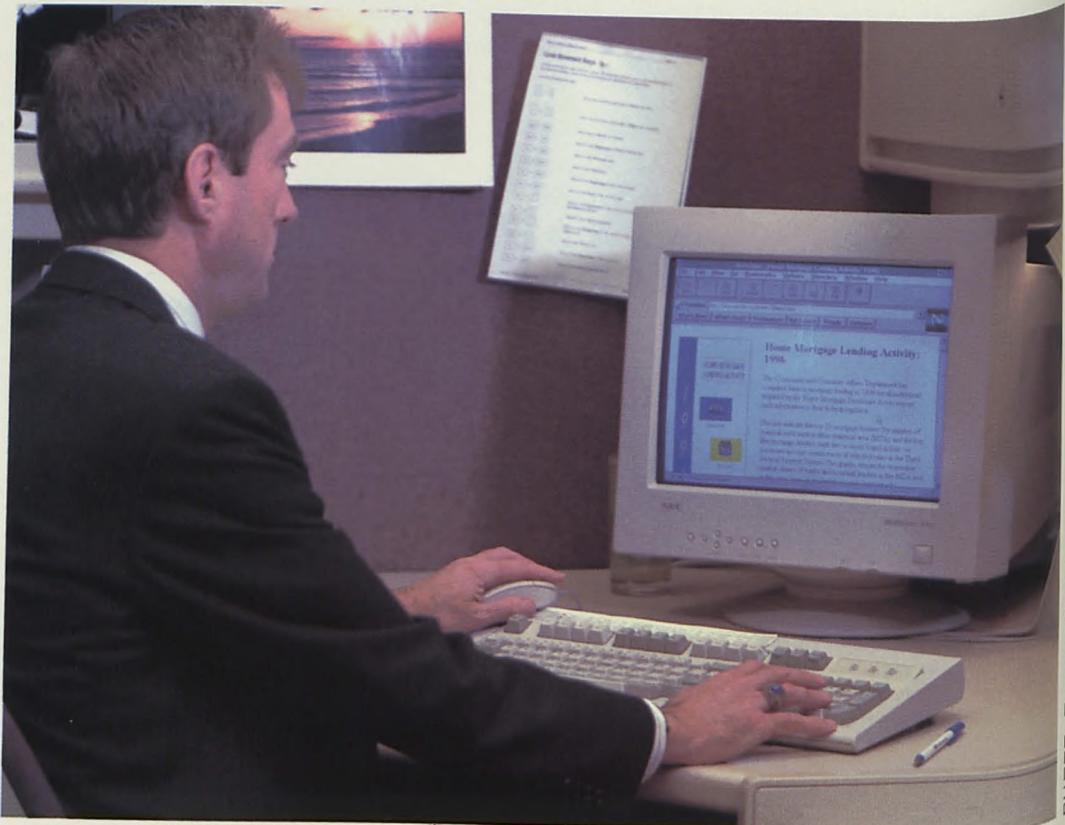


PHOTO: THOMAS TOOHEY BROWN

A POINT OF REFERENCE

In addition to providing the opportunity for bankers, community representatives, and other groups to work together, Community Affairs gives them the information they need to make the most of their combined efforts. The Philadelphia Fed, in particular, has become an information clearinghouse for banks, community groups, and other organizations as well. If there is a model program, a key contact, or a source of good advice on a reinvestment topic anywhere in the country, chances are that the Philadelphia Fed's Community Affairs staff knows about it and has catalogued it in print, on video, or on its web page.

The department publishes an extensive list of brochures, directories, and guides that detail successful programs and strategies, as well as the institutions and contact persons behind them. Among these publications are *Strategy for Building Development Partnerships with Banks*, a brochure for community and consumer groups that contains step-by-step instructions on how to approach banks for funding, *Partners in Progress for Philadelphia*, a directory of organizations working to revitalize city neighborhoods, and *Small Business = Big Possi-*



With a few keystrokes, anyone can reach Community Affairs' web page:
www.phil.frb.org/pubs/comaff.html

bilities, a guide that profiles leading small-business lenders and partnerships from across the nation.

Cascade, a community reinvestment and consumer credit newsletter, is published three times each year to update bankers and community groups on projects and initiatives in the Third District.

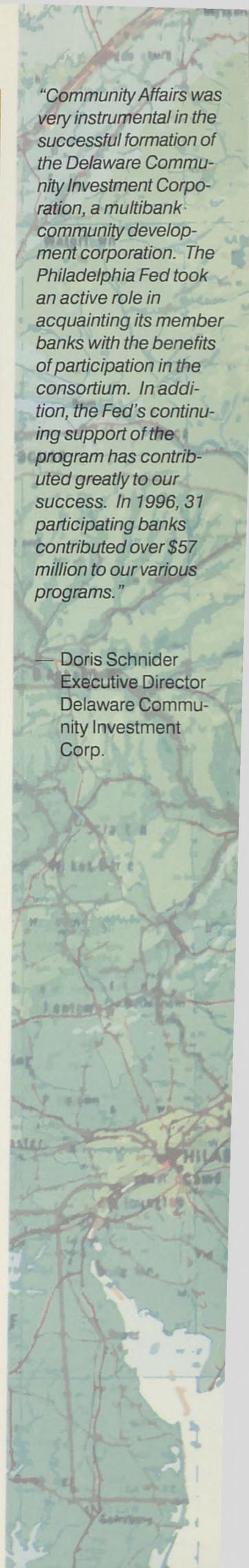
The history of the Community Reinvestment Act and recent changes in its implementation are among the topics of two Community Affairs videos. In addition, the department has a web page that includes brief descriptions of publications, home loan data, and contact lists. Web site visitors who have questions and requests can e-mail them directly to the department through the site.

THE CHALLENGE OF THE FUTURE

The effects of the Community Reinvestment Act (CRA) cannot be measured like funds in a bank account, but it is possible to identify individual successes that grew out of work inspired by the Act. Owing in part to its influence, lending in previously overlooked areas has become competitive, and loan performance has been good. Since the passage of the Act, more than \$220 billion has been committed by lenders to traditionally underserved communities in the United States—\$175 billion of that since 1994 alone.

These accomplishments are due to the imagination, cooperation, and hard work of the people at banks and in the neighborhoods, who continue to strive to revitalize the places in which they do business, live, and work. The Federal Reserve and the Philadelphia Fed are proud to have assisted them.

As CRA enters its third decade, the challenge for everyone interested in community reinvestment is to sustain the relationships already developed and extend them to include institutions that are larger, more distant geographically, and less familiar with local priorities. As the number of banks decreases and staffs shrink, it seems likely that financial institutions' role in community revitalization will change. For its part, the Philadelphia Fed's Community Affairs function will strive to ease the transition by continuing to provide information and contacts, and by cultivating an environment in which bankers and community representatives can work together for the benefit of their communities.



"Community Affairs was very instrumental in the successful formation of the Delaware Community Investment Corporation, a multibank community development corporation. The Philadelphia Fed took an active role in acquainting its member banks with the benefits of participation in the consortium. In addition, the Fed's continuing support of the program has contributed greatly to our success. In 1996, 31 participating banks contributed over \$57 million to our various programs."

— Doris Schneider
Executive Director
Delaware Community Investment Corp.

Directors



Deputy Chairman, Joan Carter (left), President & Chief Operating Officer, UM Holdings Ltd., Haddonfield, N.J., and Chairman, Donald J. Kennedy, Business Manager, International Brotherhood of Electrical Workers, Local Union #269, Trenton, N.J.



J. Richard Jones (left), President & Chief Executive Officer, Jackson-Cross Company, Philadelphia, Pa., with Robert D. Burris (center) President & Chief Executive Officer, Burris Foods, Inc., Milford, Del., & Howard E. Cosgrove, Chairman, President, & Chief Executive Officer, Delmarva Power and Light Company, Wilmington, Del.

Officers

PHOTO: THOMAS TODDNEY BROWN



Albert B. Murry (left), President and Chief Executive Officer, Lebanon Valley National Bank, Lebanon, Pa., and Dennis W. DiLazzero, President and Chief Executive Officer, Minotola National Bank, Vineland, N.J.

PHOTO: THOMAS TODDNEY BROWN



David B. Lee (left), President & Chief Executive Officer, Omega Bank, National Association, State College, Pa., and Charisse R. Lillie, Partner, Ballard Spahr Andrews & Ingersoll, Philadelphia, Pa.

Officers

In 1997, numerous promotions and administrative changes took place among the official staff:

Linda K. Kirson was appointed Treasury Services Officer.

Gerard A. Callanan was named Vice President and Discount Officer for the Supervision, Regulation and Credit Department.

Sharon N. Tomlinson became the Assistant Vice President for the Business Planning and Budgets Department.

Mary Ann Hood became Assistant Vice President in Check Adjustments.

Richard A. Valente was named Assistant General Auditor.

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Executive
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Heritage Valley FCU
York, Pa.

The Federal Reserve Bank's three advisory councils include representatives from many of the Third District's leading industries. The regular meetings between members of the councils and the Bank's senior officers provide a venue for exchanging important information about local business and the economy.

John P. Kebles
CEO
Choice One FCU
Wilkes-Barre, Pa.

David F. LaSala
Executive Vice President
Benchmark FCU
West Chester, Pa.

William J. Lavage
President & CEO
Service First FCU
Danville, Pa.

Heloise L. Osborne
Manager
Gemco Employees FCU
Wilmington, Del.

Gary H. Penrose
President & CEO
Mercer County Teachers
FCU
Hamilton, N.J.

Steven D. Schlundt
Manager
Atlantic City Firemen's FCU
Northfield, N.J.

SMALL BUSINESS & AGRICULTURE COUNCIL

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Sharon Dauito-Baxter
President
Ralph Dauito & Sons
Vineland, N.J.

Deputy Chair
Art Daube
General Manager
WBRE-TV
Wilkes-Barre, Pa.

Ruben Bermudez
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Juvante, Inc.
Vineland, N.J.

Della L. Clark
Director
West Philadelphia Enterprise Center
Philadelphia, Pa.

Joan R. Henderson
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J.R. Henderson & Associates
Lancaster, Pa.

Thomas E. Hoversen
President
Comarco Products
Camden, N.J.

Rodney L. Metzler
Owner
Pleasantview Farms
Martinsburg, Pa.

Philip B. Mitman
Owner
Bixler's Jewelers, Inc.
Easton, Pa.

David R. Rice
President
Rice Fruit Company
Gardners, Pa.

G. Erwin Sheppard
Vice President
Sheppard Farms, Inc.
Cedarville, N.J.

Steven J. Shotz
President
Quantum Group
Wilmington, Del.

W. Gregory Wood
President
Hoher Manufacturing Company, Inc.
Rehoboth Beach, Del.

Federal Reserve Bank
of
Philadelphia
LIBRARY

STATEMENT OF CONDITION

(IN MILLIONS)

	As of December 31,	
	1997	1996
ASSETS		
Gold certificates	\$ 350	\$ 423
Special drawing rights certificates	282	396
Coin	53	43
Items in process of collection	222	476
Loans to depository institutions	16	9
U.S. government and federal agency securities, net	14,509	15,259
Investments denominated in foreign currencies	1,014	924
Accrued interest receivable	137	138
Bank premises and equipment, net	75	74
Other assets	15	13
	<hr/>	<hr/>
Total Assets	\$ 16,673	\$ 17,755
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND CAPITAL		
LIABILITIES:		
Federal Reserve notes outstanding, net	\$ 13,970	\$ 13,822
Deposits:		
Depository institutions	1,720	1,297
Other deposits	10	8
Deferred credit items	184	261
Statutory surplus transfer due U.S. Treasury	9	7
Interdistrict settlement account	162	1,762
Accrued benefit cost	49	47
Other liabilities	12	10
	<hr/>	<hr/>
Total Liabilities	16,116	17,214
	<hr/>	<hr/>
CAPITAL:		
Capital paid-in	284	273
Surplus	273	268
	<hr/>	<hr/>
Total Capital	557	541
	<hr/>	<hr/>
Total Liabilities and Capital	\$ 16,673	\$ 17,755
	<hr/> <hr/>	<hr/> <hr/>

The financial statements of the Federal Reserve Bank of Philadelphia were audited by an independent accounting firm as of December 31, 1997 and for the year then ended. Copies of the financial statements and footnotes, together with the auditor's opinion, are available free of charge by writing the Bank's Public Affairs Department.

STATEMENT OF INCOME

(IN MILLIONS)

For the years ended December 31,

	1997	1996
INTEREST INCOME:		
Interest on U.S. government securities	\$ 878	\$ 944
Interest on foreign currencies	<u>22</u>	<u>21</u>
Total Interest Income	<u>900</u>	<u>965</u>
OTHER OPERATING INCOME (LOSS):		
Income from services	40	41
Reimbursable services to government agencies	20	18
Foreign currency losses, net	(154)	(80)
Government securities gains, net	0	1
Other income	<u>4</u>	<u>4</u>
Total Other Operating Loss	<u>(90)</u>	<u>(16)</u>
OPERATING EXPENSES:		
Salaries and other benefits	65	64
Occupancy expense	9	8
Equipment expense	10	9
Cost of unreimbursed Treasury services	2	3
Assessments by Board of Governors	22	24
Other expenses	<u>48</u>	<u>48</u>
Total Operating Expenses	<u>156</u>	<u>156</u>
Net Income Prior to Distribution	<u>\$ 654</u>	<u>\$ 793</u>
DISTRIBUTION OF NET INCOME:		
Dividends paid to member banks	\$ 17	\$ 12
Transferred to surplus	11	83
Payments to U.S. Treasury as interest on Federal Reserve notes	0	553
Payments to U.S. Treasury as required by statute	<u>626</u>	<u>145</u>
Total Distribution	<u>\$ 654</u>	<u>\$ 793</u>

STATEMENT OF CHANGES IN CAPITAL (IN MILLIONS)

For the years ended December 31, 1997 and December 31, 1996

	Capital Paid-in	Surplus	Total Capital
Balance at January 1, 1996 (3.8 million shares)	\$ 190	\$ 190	\$ 380
Net income transferred to surplus		83	83
Statutory surplus transfer to the U.S. Treasury		(5)	(5)
Net change in capital stock issued (1.7 million shares)	83		83
Balance at December 31, 1996 (5.5 million shares)	\$ 273	\$ 268	\$ 541
Net income transferred to surplus		11	11
Statutory surplus transfer to the U.S. Treasury		(6)	(6)
Net change in capital stock issued (.2 million shares)	11		11
Balance at December 31, 1997 (5.7 million shares)	\$ 284	\$ 273	\$ 557

OPERATING STATISTICS

	1997 Volume	1997 Dollar Value	1996 Volume	1996 Dollar Value
SERVICES TO DEPOSITORY INSTITUTIONS				
Wire Transfer of Funds	7.2 million transfers	\$19.8 trillion	6.9 million transfers	\$17.6 trillion
ACH:				
Government	161.7 million items	\$215.8 billion	149.0 million items	\$77.1 billion
Commercial	126.5 million items	\$331.0 billion	108.8 million items	\$230.6 billion
Check processing:				
U.S. Government	23.1 million checks	\$23.8 billion	20.4 million checks	\$21.4 billion
All others	831.3 million checks	\$1,181.2 billion	816.4 million checks	\$932.4 billion
Cash operations:				
Currency processed	1,110.6 million notes	\$17.9 billion	961.8 million notes	\$17.0 billion
Coin processed	143.2 thousand bags	\$69.3 million	94.1 thousand bags	\$47.2 million
Loans to depository institutions	326 loans	\$766 million	457 loans	\$1.1 billion
SERVICES TO U.S. TREASURY				
Electronic book-entry transfers	1.6 million transfers	\$21.3 trillion	1.5 million transfers	\$19.1 trillion
Food coupons processed	139.1 million coupons	\$718.6 million	156.8 million coupons	\$802.5 million

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