

**SECOND ANNUAL REPORT**

**Federal Reserve Bank of Richmond  
FIFTH DISTRICT**

**CALDWELL HARDY**  
*Chairman and Federal Reserve Agent*

*Richmond, Virginia, December 30, 1916*

# Second Annual Report

## FINANCIAL RESULTS OF OPERATION

On December 31, 1915, the Bank paid its first dividend at the rate of 5 per cent. per annum from the date of organization up to that date, leaving a balance of \$23,015.26 to the credit of profit and loss. On April 1, 1916, a second dividend at the rate of 1 per cent. per annum was paid for the same period, making 6 per cent. per annum to December 31, 1915.

On December 28, 1916, a third dividend at the rate of 6 per cent. per annum was paid for the period commencing January 1st and ending October 31, 1916. All organization expenses have been charged off, furniture and fixtures written down to a conservative figure, and all expenses incident to the operations for the full year have been charged off. After providing for the April 1st dividend of \$30,387.65 and the December dividend of \$167,534.69, a balance of \$11,664.70 remains to the credit of profit and loss. This leaves the Bank in arrears at 6 per cent. per annum, which is the full rate the Bank is permitted to pay its stockholders, only for the months of November and December. The business of the Bank has been conducted on an efficient and conservative basis and the result should be satisfactory to its member banks.

The comparative balance sheet for December 31, 1915-1916, shows a gratifying increase in the business of the Bank. Deposits of member banks show an increase of nearly \$14,000,000, which reflects not only the increase in the percentage of reserves which are required to be kept with us by the member banks, but also the very largely increased amount which is required to be kept against the enormous increase of deposits held by member banks themselves.

## GENERAL BUSINESS AND BANKING CONDITIONS IN THE DISTRICT

A summary of conditions throughout the District, as shown by our monthly reports, evidences an extraordinary condition of continued prosperity. Business in all lines, with a few exceptions, has been in unprecedented volume at high prices. Labor has been well employed at high wages, traffic has been somewhat impeded owing to scarcity of cars, and raw materials of all descriptions have been difficult to obtain in satisfactory volume, even at the high prices which have been ruling. Notwithstanding this, products of all descriptions have not only sold freely, but as a rule have been in urgent demand at prices affording, in most instances, very satisfactory returns to the producers.

Results from agriculture have been satisfactory and in many cases were beyond any which had ever been obtained before. Crops have been produced in only fair volume as a rule, some restricted sections having produced only very limited crops owing to special conditions, particularly flood damage. Prices, however, have been exceedingly high, average grades of cotton having sold as high as twenty cents per pound and tobacco at an average of eighteen to twenty cents per pound; in some cases special grades brought even higher prices, the average probably showing an increase of 100 per cent. over any recent prices.

## ACTIVITIES OF THE BANK DURING THE YEAR

Total productive assets on January 1, 1916, amounted to about \$7,750,000, which, with varying fluctuations, reached \$10,000,000 in July. This increase was represented by an accumulation of holdings in United States bonds commencing in February, and by some increase in bankers' accept-

ances and municipal warrants. During this period there had been a decrease since January in bills discounted for member banks of something over \$1,000,000. From September until December 1st there was a steady decrease in productive assets, owing chiefly to a decrease in notes discounted for member banks and to sales of United States 3 per cent. bonds, the total volume of productive assets declining by December 1st to \$5,000,000. During the month of December there was a gradual increase, the final total of earning assets on the last day of the year being about \$10,500,000. This increase was represented almost exclusively by bankers' acceptances and purchases from member banks in December of about \$2,000,000 of United States 2 per cent. bonds.

In April, 1916, the Bank was still carrying some volume of cotton loans, which it was thought desirable to liquidate prior to the approach of another cotton season. Accordingly, the rate on commodity paper was raised from 3 to  $3\frac{1}{2}$  per cent., effective April 24th, and these loans were gradually liquidated.

The \$11,000,000 of bankers' acceptances purchased during the year, as shown by Exhibit F, were almost exclusively those of our member banks, only a few acceptances of non-member banks having been purchased, and most of these with the endorsement of member banks.

The Bank's operations in United States securities are shown in Exhibit I. As will be seen, purchases of United States bonds, \$4,335,250, have been exclusively from member banks. The amount of conversions into 3 per cent. bonds and notes is shown by the exhibit referred to. It has been the Bank's policy to pay our member banks full rates for bonds (par and interest) rather than to seek a profit at their expense out of these transactions.

The course of our legal cash reserve for the year is illustrated in the chart, Exhibit J. The decline to 70 per cent. the last of April was due to a decline in deposits and an increase of \$500,000 in bills discounted. The increase in May was due to an increase of deposits resulting from the 1 per cent. increase in reserves of member banks, while the decline of July from 80 to 70 per cent. was due to the repayment to the United States Government of its special deposit of \$5,000,000. The increase in October was due to an increase in member banks' deposits following the imposition of penalties for deficiencies in reserves, and the further increase in November was due to the increase of 1 per cent. additional in member banks' reserves. The decline again in December was due to the purchase of bankers' acceptances and United States bonds.

The legal reserve of the Bank during the latter part of the year was not materially affected by the increased issue of Federal Reserve notes for the reason that rediscounts of member banks were materially reduced during that period, the Bank being paid in gold which was turned over to the agent upon the withdrawal of the discounted bills held by him as collateral for outstanding Federal Reserve notes. Under these conditions, the Bank having reduced its liability for outstanding Federal Reserve notes, as required by law, was not required to show a liability for such Federal Reserve notes (against which the Federal Reserve Agent held 100 per cent. in gold) in its statement, or to carry a gold reserve against them.

### FEDERAL RESERVE BANK AND MEMBER BANKS

There have been no changes in memberships due to transfers from and to other districts, our District having remained unchanged during the current year. The change in members and in capital stock has been very slight, as will be seen by reference to Exhibit K. Some recent changes in capitalization and surplus, particularly of a few of the larger members, will necessitate some stock increases early in the coming year.

Relations with member banks have as a rule been cordial and satisfactory. The inauguration of the par collection plan in July created conditions in which some friction had to be adjusted.

The charging up of matured collection items caused some impairment of reserves, the items not having been fully covered, and the enforcement for the first time of penalties for such infringement caused a temporary dissatisfaction in certain quarters.

There has been considerable irregularity in the mails in the District, apparently owing to an effort toward economy, and claims have been made by member banks for additional time within which to receive and cover collection items. Where these claims have seemed reasonable, as was frequently the case, concessions satisfactory to the members have been made, and with the close of the year this bank is having a minimum of friction in this direction, with a fairly full maintenance of reserves. Some of the larger cities, notably Baltimore, have undertaken to maintain reserves with us sufficient to make items on them immediately available. Member banks have evinced a disposition to cooperate to a reasonable extent in the collection of items on State banks.

Referring to Exhibit L herewith, it will be seen that during the year 202 banks were accommodated either through rediscounts or the purchase of their acceptances, the aggregate amount of which exceeded \$45,000,000. While rates were low, and the demand from members not urgent, the amount of accommodation extended indicated that the Bank was of great service within the District.

The general attitude of State banks has been one of antagonism towards the Federal Reserve System. This attitude grows chiefly out of their hostility to the collection system. Small country banks are receiving at par miscellaneous checks, which they are collecting at considerable cost, generally by the maintenance of large balances with correspondents, and aiming to recoup themselves by the imposition of heavy charges for remittances of customers' checks on themselves. They are reluctant to yield these charges and consider reform in the collection system an invasion of their rights, although, as a matter of fact, if they would place the burden of carrying their float on their own customers, who properly ought to carry it, and lend out their idle and excessive balances now carried with correspondents, they would profit. Such a policy would foster the growth of their business and materially add to its volume and value. State banks realize that they are receiving the benefit indirectly of the Federal Reserve System and would not see it abandoned; and yet they are not willing to give it their support.

The establishment by member banks of differential rates for checks on non-member banks, which decline to remit at par, has been suggested as a possible help to the collection system, and the establishment of such differential rates has been strongly urged upon member banks. A deterring factor against State banks joining the Federal Reserve System is their unwillingness to be subjected to the present limitations of United States Statute 5200. A possible amendment to the National Bank Act exempting from this limitation all loans secured on readily marketable, non-perishable staples, represented by warehouse, terminal, or other similar receipts, or bills of lading, has been suggested as worthy of consideration, such loans to be limited to ninety days. Such an amendment would appeal to our National bank members also.

The deposits of member banks, as shown by Exhibit M filed herewith, show an increase from about \$11,000,000 to over \$25,000,000.

We receive regularly from our members copies of reports to the Comptroller of the Currency on each call for statements, also copies of all examiners' reports to the Comptroller of the Currency, of examinations made. These are kept on file, and carefully examined with a view to passing intelligently on paper offered by member banks for rediscount, particularly where banks appear to be borrowing freely. The information given by these reports is invaluable, and the close relations which we have established with the Chief National Bank Examiner of this District and his efficient staff have been of material assistance, particularly in the handling of rediscounts for members.

Credit statements have been given assiduous attention, and our credit files are already quite extensive and growing in importance. We are constantly using our best efforts to have our member banks realize the importance of obtaining at regular intervals up-to-date credit statements for their own information and protection.

There have been but two failures among member banks during the year. The Fourth National Bank of Fayetteville, N. C., closed its doors on February 4th. It had about \$40,000 of paper under rediscount with us at the time, for which we held additional collateral, but this was taken care of within three months. When this paper had all been paid or taken up, this Bank paid over to the receiver the amount of the failed bank's holdings of our stock. The Williamstown National Bank of Williamstown, W. Va., closed its doors on November 15th. It had no rediscounts with this Bank; outstanding collection items were paid or returned, and the amount of Federal Reserve bank stock will be paid over to the receiver in due course.

The Bank has had during the year only a very small amount of overdue paper, this being endorsed by the Fourth National Bank of Fayetteville. It was all paid within a reasonable time, as referred to above. No overdue paper is held at the end of the year.

### FEDERAL RESERVE BANK AND THE PUBLIC

Open market operations have so far been negligible, only five bills amounting to less than \$100,000 having been purchased outside of the District. Our discount rate policy has had a strong tendency to reduce general rates for money to reasonable figures. The high prices of agricultural products and the large profits from general business have increased the deposits of member banks to unusual figures. This has made money extremely easy and had a considerable effect upon lending rates. We do not look for the indefinite continuance of these abnormal conditions, but anticipate eventually the hardening of rates, which will make business more remunerative to the banks.

The unusual conditions above referred to, and the high rates of interest paid on deposits by competing member banks has caused considerable complaint of unprofitable business. This Bank's staff has availed of every opportunity to foster and maintain cordial relations between the public and our institution.

The following visits have been made and addresses or talks delivered by the officers:

#### GOVERNOR SEAY:

National Credit Men's Association at Norfolk, Va., in February;  
South Carolina Bankers' Association at Kanuga, N. C., June 20th, and immediately following a visit made to the Virginia Bankers' Convention at Old Point Comfort;  
National Credit Men's Association at Richmond, Va., December 8th.

#### VICE-GOVERNOR PEUPLE:

Tri-State Convention of Accountants at Richmond, Va., April 13th;  
Richmond Credit Men's Association at a monthly meeting;  
District of Columbia Bankers' Association, Washington, D. C., May 5th;  
A number of addresses at Mechanics' Institute, Richmond, Va., and to American Institute of Bank Clerks;  
Visited Washington in November for conference with Mr. Delano and Mr. Hurley of the Federal Trade Commission, concerning credit statements and audits, submitting report on same later.

#### FEDERAL RESERVE AGENT:

West Virginia Banker's Association, Wheeling, W. Va., May 25th;  
Richmond Credit Men's Association, July 25th;  
Conference with Chief Bank Examiner and his assistants, August 3rd, on general relations with member banks and examinations;  
Attended conference with Federal Reserve Board on Clayton-Kern Act cases on August 4th;  
Meeting of Group 5, Virginia Bankers' Association, at Pulaski, Va., October 7th;  
National Credit Men's Association, Richmond Va., December 8th.

#### AUDITOR W. E. CADWALLADER, *Assistant to Federal Reserve Agent:*

Group 3 of South Carolina Bankers' Association at Chester, S. C., May 25th;  
Group 6 of South Carolina Bankers' Association at Lancaster, S. C., May 26th.

### FEDERAL RESERVE BANK AND THE GOVERNMENT

The Bank has extended every possible service to the Government, in the transaction of its business, and is in a position to further extend this service by exercising eventually the present functions of sub-treasuries. Among other services rendered has been the making of transfers to the Government for member banks, simply by debit and credit entries on our books.

There was repaid to the Government in July a special deposit of \$5,000,000, but the current operations of the Treasury have resulted in the carrying with the Bank since that date of an average balance of \$3,000,000.

Our relations with the office of the Comptroller of the Currency have been most cordial, and we have had the cooperation of the Chief Bank Examiner and his assistants to the fullest possible extent.

We have been called upon for reports on member banks applying for the exercise of fiduciary powers, and our management is strongly of the opinion that these powers should not be too liberally granted. It will be exceedingly difficult for examiners to check up all possible fiduciary liabilities, and, with inexperienced employees, the possibility of mistakes and errors in the conduct of such business is manifested. Unexpected liabilities might, therefore, develop, and where the capital of banks is small, might seriously affect the solvency of the institution, and the protection afforded to commercial and other depositors.

### FEDERAL RESERVE BANK AND NOTE ISSUES

Operations in Federal Reserve notes are shown in Exhibit N, approximate average life of Federal Reserve notes in Exhibit O, inter-District movement of Federal Reserve notes in Exhibit P.

The general policy of this Bank has been to supply member banks with Federal Reserve notes whenever desired. Immediately after the opening of the Bank and for some time after, transportation charges were paid on Federal Reserve notes. It was necessary, however, to stop this practice when the new collection system went into operation. One of the features of this system was the payment by the Bank of charges on incoming Federal Reserve notes and lawful money in case the member bank was unable to supply exchange. Even this led sometimes to possible imposition, but the cases were rare and were promptly eliminated by efficient attention. It has been the Bank's policy in every way to encourage the circulation of Federal Reserve notes and retain gold in the hands of the Federal Reserve Agent rather than to pay it out to member banks.

There has been \$1,000,000 of Federal Reserve Bank notes printed for this Bank, but none have been used. In view of the contemplated gradual retirement of National Bank notes, we do not under present conditions favor the use of Federal Reserve Bank notes. On the other hand, the extension and general use of Federal Reserve notes would seem very desirable.

## INTERNAL MANAGEMENT OF THE BANK

The functions of the Directors, Executive Committee, executive officers and other departments of the bank seem admirably adjusted for the effective administration of the affairs of the bank. These seem to be most wisely coördinated, and with the cordial coöperation which exists throughout our entire organization, have brought efficiency to the highest degree and accomplished correspondingly satisfactory results.

Board meetings have been most regularly attended by members, the entire membership usually being present. The reading of the minutes of previous meetings and their approval, as well as the approval of the acts of the Executive Committee, is always first in order. The Governor reviews at each meeting the general status of the Bank as shown by the daily balance sheet, calling attention to changes and matters of importance, all of which are freely and fully discussed with and by the Board. Letters of importance are read and all subjects of interest and importance are reported. The Chairman of the Board presides at all meetings, and, as Federal Reserve Agent, reads all important correspondence with the Federal Reserve Board, or others, relating to his department, discussing fully all matters under consideration.

During August, September and October, in the neighborhood of 175 applications for permission to serve in two or more banks under the Kern Amendment to the Clayton Act were referred by the Federal Reserve Board to the Federal Reserve Agent for investigation and report. This involved detailed inquiries and investigations with regard to the location and status of most of the banks in Washington and Baltimore and numerous banks in other locations throughout the District.

On October 20th an election circular was issued to 170 banks in Group 2 for the election of one Class A Director, and to 178 banks in Group 3 for the election of one Class B Director. As a result of the election, out of 108 ballots cast by Group 2, 100 were first choice for Col. John F. Bruton, of Wilson, N.C., as Class A Director, and out of 77 ballots cast by Group 3, 68 were first choice for Capt. James F. Oyster, of Washington, D. C., as Class B Director, and these gentlemen were, therefore, re-elected for a term of three years each, beginning January 1, 1917.

On December 19th the Chairman was advised of the re-appointment by the Federal Reserve Board of Mr. James A. Moncure as Class C Director for a three-year term, beginning January 1, 1917, and of his designation as Deputy Chairman and Deputy Federal Reserve Agent for the year 1917.

The Governor, Vice-Governor, Cashier and Federal Reserve Agent meet daily at ten o'clock, or as soon thereafter as the mails are distributed and read. All communications of interest are reviewed and discussed, thus keeping all of these officers in daily and constant touch with current business of every description. A full interchange of views is had on all subjects with practically unanimous decisions. Daily meetings of the Executive Committee are held at twelve o'clock, attended by the Federal Reserve Agent, the Governor and the third member of the Board if available, these meetings also being attended by the Vice-Governor and Cashier. The passing upon discounts is the chief function exercised at these meetings. There has been the best possible service and coöperation on the part of the employees.

Mr. J. W. Norwood, member of the Advisory Council, has, after conferences with our officers before the meetings of the Advisory Council, reported the result of these conferences and kept us in touch with their spirit and result.

Mr. William Ingle, original Chairman of the Board of Directors and Federal Reserve Agent, resigned on February 3rd (his resignation to take effect on February 12th), having accepted the presidency of the Baltimore Trust Company, Baltimore, Md. He left behind him a high record of efficiency and of prompt discharge of his official duties.

The present incumbent, Mr. Caldwell Hardy, was appointed on March 7th a Class C Director to succeed Mr. William Ingle for his unexpired term to December 31, 1917, and designated Chairman of the Board of Directors and Federal Reserve Agent. He took office on April 1st, the official duties of the position between Mr. Ingle's retirement having been efficiently discharged by the Deputy Chairman and Deputy Federal Reserve Agent, Mr. James A. Moncure.

On April 6th Mr. W. E. Cadwallader, Auditor, was appointed also Assistant to the Federal Reserve Agent, the appointment being confirmed by the Board on April 7th.

The present bank premises and office are totally inadequate to the requirements of the Bank. It is located in an old store building on Main Street, the main floor of which was first fitted up in very primitive style for the use of a bank, and for which an annual rental of \$4,000 is paid.

The increase of force to a total of sixty-three, due to the inauguration of the collection system in July, has necessitated the use of three floors in the present building. The Bank occupies seven large safes in the modern vault of the First National Bank, for which it is paying an annual rental of \$2,100.

With the approval of the Federal Reserve Board, our Board of Directors in April appointed a committee consisting of Messrs. Hardy, Seay and Moncure to consider and report on a site for a new bank building. This resulted in the acquisition at a cost of \$122,500 of a site containing about 11,000 square feet, fronting ninety-three feet on Ninth Street, opposite Capitol Square, running back 120 feet on Franklin Street to a twenty-foot lane, the front exposure being to the east and the Franklin Street exposure to the south. It is little more than one square from the Post Office, and very accessible to the entire financial district of the city. Of all the sites available this one was the most reasonable in price per square foot, presenting also decided advantages over all other possible locations with reference to exposure, light and air. In addition to this, it was the only location in which a bank building could be erected that would be entirely isolated from all buildings on its four sides. Steps have been taken to procure plans for a suitable building to be erected at once on this site.

A general examination of the Bank was made by the division of audit and examination, Federal Reserve Board, as of March 28, 1916. This examination was most thorough and conducted with the greatest possible consideration for the convenience of the officers and employees. Examinations were made of the accounts of Federal Reserve Agent William Ingle on January 3rd, and again on February 11th, when he retired. The Federal Reserve Agent's accounts were again audited on March 28th, when Mr. Caldwell Hardy assumed office. Mr. Hardy's accounts were audited on December 28th. Efficient examinations, such as these, are most gratifying as well as essential and it is a pleasure to report satisfactory results, both to the examiners and the examined.

### CLEARING PROBLEM

Between January 1st and July 14th (under the voluntary collection plan) the total number of items cleared was 582,935, amounting to \$431,174,700, or a daily average of 3,576 items, amounting to \$2,645,244.

From July 15th to December 31st (Exhibit Q herewith) under the new collection plan the total number of items cleared was 2,020,065, amounting to \$891,077,800, or an average of 14,429 items per day, amounting to \$6,346,842.

Comparison of these figures will show that under the new collection system more than four times as many items are being cleared daily on the average, while the amount is considerably more than doubled. A comparison of these average figures with the averages for the last months in the year would indicate a much greater ratio of increase.

The Gold Settlement Fund has afforded facilities for receiving deposits from member banks in Washington and Baltimore, and making payments to the Government for member banks; also for making payments for the purchase from member banks of United States bonds held by the Treasurer as security for circulation. It has also provided a ready means of adjusting transactions between the Bank and Federal Reserve Agent by transfers to and from either's account, besides rendering invaluable aid in the settlement of balances, without the physical transfer of moneys, between the twelve Federal Reserve Banks, in adjustment of the extensive and continuous transactions between them. It is to be hoped that its efficiency may be furthered in the near future through the adoption of daily gold settlements between the twelve banks.

A recent canvass of the Fifth District, at important clearing house points, indicates varying policies in regard to collection charges. There is a largely prevalent custom among banks of receiving all items at par, resulting in a considerable loss to the banks receiving items under these conditions. These banks are either at considerable direct expense in collecting such items, or maintain, at central points considerable balances with correspondents, on which there is a large loss of interest as an inducement to such correspondents to clear these items at par. Where clearing houses have established uniform collection charges on items received from depositors, there has not been, as a rule, a proper differential established between items on member banks of the Federal Reserve System, which clear items at par, and State banks declining to remit at par. Efforts are being made to correct these conditions, in order that checks on member banks of the Federal Reserve System may receive the preferential consideration to which they are entitled.

#### SUMMARY OF CONDITIONS IN DISTRICT

Attention is called to Exhibit R filed herewith. This chart shows the fluctuations in our total productive assets, consisting of notes discounted, bankers' acceptances, municipal warrants, United States securities, and member banks' collateral notes, total active assets at the close of business for the year being \$10,537,168.08.

The remarkable increase which has taken place in the last few months of the year in the use of bankers' acceptances, and the increased interest (as shown by our correspondence) in the use of the trade acceptance indicate a growing disposition on the part of the bankers and the public generally to make full use of the facilities offered by the Federal Reserve System.

The officers of this Bank have lost no opportunity to spread and increase the knowledge of the general principles, as well as the technical details with reference to these two matters, and it is confidently expected that both the bankers' acceptance and the trade acceptance will play a much larger part in the business of this Bank during the coming year.

The outlook for general business and that of the Bank for the present year is most encouraging.

CALDWELL HARDY,  
*Chairman of the Board.*