1969
annual report

FEDERAL RESERVE BANK OF RICHMOND

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INCORPORATED MAY 18, 1914

To Our Member Banks:

We are pleased to present the Annual Report of the Federal Reserve Bank of Richmond for 1969. The report features a review of background factors affecting interest rates in the 1960's. Also included are the Bank's annual financial statements, a brief summary of the highlights of the year's operations, and a current list of officers and directors at our Richmond, Baltimore, and Charlotte offices.

On behalf of our directors and staff, we wish to thank you for the splendid cooperation and support you have extended to us throughout the past year.

Sincerely yours,

Chairman of the Board

President

THE FEDERAL RESERVE BANK OF RICHMOND

Fifty-Fifth Annual Report

Contents

SOME BACKGROUND FACTORS AFFECTING INTEREST RATES IN THE 1960'S

The Soaring Sixties have now passed into history, leaving behind a mixed record of economic and financial performance that will no doubt long occupy and intrigue economic theorists as well as business annalists. It is, of course, premature to evaluate the legacy of this ten-year period at this close range. Yet even a cursory review of the record invites the temptation to label it one of the most interesting decades in the country's economic history. While this applies to the overall performance of the economy, it seems preeminently applicable to the financial vicissitudes of the period and especially to the behavior of interest rates over the final half of the decade.

For a generation prior to the Sixties, U. S. financial markets had become accustomed to interest rate levels which, by historical standards, were extremely low. Through the depressed 1930's, with business credit demands at a low ebb, most market rates were frequently under 3 per cent and yields on some short-term Government obligations were often under 1 per cent. During World War II easy money policies to facilitate war financing kept rates at close to these unusually low levels even in the face of heavy Treasury borrowing and growing business demands for credit. For six years following termination of the war, the Federal Reserve continued the policy, instituted in 1942, of pegging the prices of Government bonds at close to the low coupon rates common at that time. This policy led to large increases in bank reserves, with correspondingly large increments in credit supplies that kept rates from rising significantly even in the face of growing demands for credit.

In March 1951 the Treasury-Federal Reserve Accord formally ended the policy of pegging the prices of Governments, although the Federal Reserve publicly acknowledged a commitment to intervene in the market whenever disorderly conditions threatened to develop. Following the Accord, yields on market instruments began to reflect more closely changing demand conditions in the several markets for loan funds, as well as basic supply conditions as modified by credit policy measures. In particular, they exhibited a classical cyclical pattern, moving upward in periods of strong business expansion, when credit demands were heavy, and downward in periods of slack business, when credit demands eased off and policy restraints were being relaxed. This was the typical pattern throughout the remainder of the decade of the 1950's. Most rates drifted upward substantially in the business expansions of 1950-53, 1954-57, and 1958-59, with the movements reversed sharply in the business recessions of 1953-54 and 1957-58. Nevertheless, the general trend of rates over this period was moderately upward and a weighted average of rates in the 1950's would show substantial increases over comparable figures for 1940 and for the second half of the decade of the 1930's.

Compared with experience in the preceding 30 years, interest rate behavior in the 1960's was dramatic indeed. Although virtually all the drama was confined to the last half of the decade, it seems likely that in many quarters the Soaring Sixties will be remembered best for soaring interest rates. By the end of the decade, yields in many sectors of the money and capital markets reached levels that had not been seen in more than a century.

The factors that figure in the dramatic behavior of rates in the 1960's are multifarious and complex and cannot be adequately analyzed in the brief scope of this report. The Vietnam War and sizable Federal deficits clearly played a major role, although no attempt is made to evaluate their effects here. It is equally clear that the general behavior of rates was heavily conditioned by a number of other broad background factors that may not have been given sufficient attention in the contemporaneous commentaries of market analysts. Taking a longer-run viewpoint, for example, it is not possible to understand the behavior of rates in the 1960's without reference to the unprecedented business prosperity of the decade and the burgeoning credit demands generated by this prosperity. Similarly, the behavior of rates in domestic markets was obviously influenced in an important way by a number of developments in the international economy and, perhaps more immediately, by important innovations in the international financial system. Finally, although certainly not exhaustively, certain institutional changes in domestic financial markets, including important new departures in commercial banking, probably exercised significant background effects on rate behavior in the period.

The sections of this report that follow are concerned primarily with these three broad background influences on rates in the 1960's. A supplementary section considers the vicissitudes of credit policy in the decade, with some observations on the general role played by policy in influencing broad swings in yields.

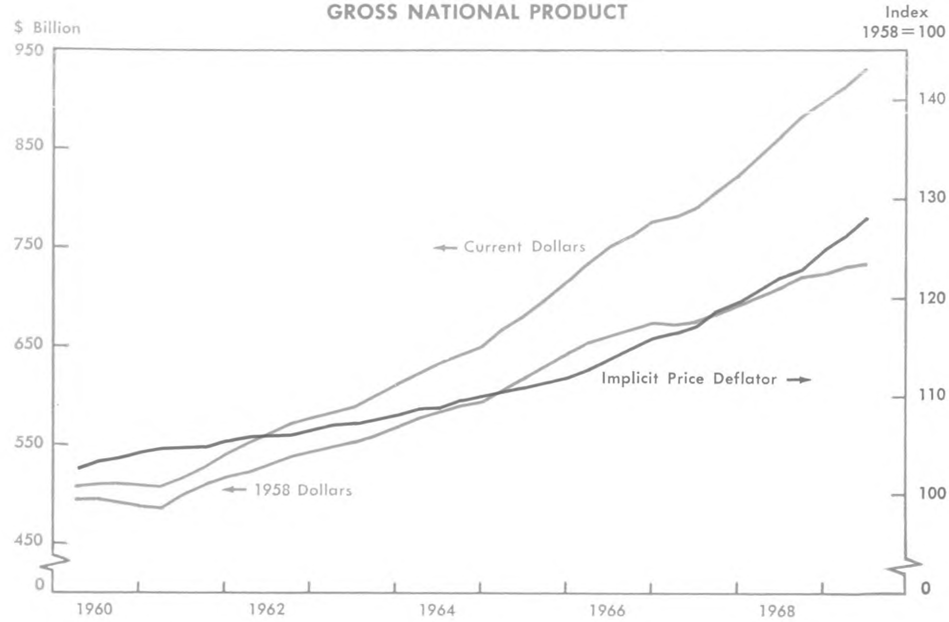
The Domestic Economy

Despite the general feeling that interest rate behavior in the ten years ended last December was somehow unusual, the general cyclical pattern of market yield movements in the decade was not essentially different from that noted for the 1950's. This is to say that rates generally moved downward in periods of business recession and then came under strong upward pressure in periods of business expansion. The essential difference between the two decades is not to be found in dissimilar patterns of rate movements but rather in the relative intensity and duration of general business cycle swings. For while the 1950's produced three nearly complete cycles, with three distinct periods of expansion and two short but sharp recessions, the 1960's experienced less than one complete cycle, with a shallow recession at the beginning of the decade followed by an unprecedented 106-month expansion.

PROSPERITY AND CREDIT DEMANDS The 1960's began inauspiciously enough, with the economy in the late stages of the short business expansion that dated from early 1958. This cyclical movement peaked in the second quarter of 1960, and for the next four quarters real output—i.e., the Gross National Product measured in constant dollars—receded in a gentle decline from this high point. From that cyclical trough, reached in February 1961, business activity took off on a historic expansion, not yet ended, which made the 1960's by all odds the most prosperous decade in the nation's history. Measured in current dollars, the Gross National Product rose from \$484 billion in 1959 to \$932 billion in 1969, a gain of 93 per cent. Corrected for price changes, so that the figure reflects only the change in real output, the gain was 53 per cent. Over the same period, population increased only about 14 per cent and, accordingly, GNP per capita grew at a rapid rate. In real terms the gain per head came to over one-third. Industrial output, measured by the Federal Reserve Industrial Production Index, climbed 64 per cent. Total employment rose to 78.2 million, an increase of 13.5 million, or 21 per cent, from ten years earlier. The number of new jobs created exceeded the net addition to the labor force by more than one and a quarter million, and the unemployment rate, which averaged 5½ per cent ten years earlier, averaged only 3½ per cent in 1969.

The well-known tendency for interest rates to move up in periods of prosperity was all the stronger in the 1960's for the unusual vigor and duration of the business advance. Credit demands generated in the private sector by the rapid escalation of activity were enormous. With consumer incomes rising rapidly and the growth spilling over to embrace hitherto low-income groups, sales of consumer durables, financed mainly on credit, grew at record rates. By the end of 1969 consumer credit outstanding reached \$120 billion, nearly two

GROSS NATIONAL PRODUCT



Source: U. S. Department of Commerce.

and a quarter times its level at the beginning of 1960. Private residential mortgage credit outstanding rose at only a slightly slower pace, just about doubling in the course of the decade. Responding to growing demands for all kinds of goods and services, businessmen made record outlays for new plant and equipment to expand production facilities. Expenditures for this purpose, financed in large part through borrowing, moved up at a sharp pace after the first quarter of 1963 and in 1969 amounted to more than twice their level in 1959. Similarly growing business inventory requirements, made necessary by large increases in sales, further augmented business credit demands.

A PERIOD OF STABLE GROWTH Growth in the economy, and in credit demands, did not proceed at a uniform pace over the decade. As noted earlier, 1960 was a year of mild recession. At the end of the year the unemployment rate stood at 7 per cent and the capacity utilization rate in manufacturing was only slightly above 80 per cent. The ensuing expansion can be studied conveniently in two distinct chronological periods: one running from early 1961 through the end of 1964 and the other from the beginning of 1965 to the end of 1969.

The first of these was a period of remarkably stable and balanced growth. Aggregate demand, as measured by the GNP in current dollars, grew at an average annual rate of about 6½ per cent, while real output (GNP in constant dollars) increased at an average annual rate of slightly over 5 per cent. Output gains thus kept fairly closely in step with spending increases and the substantial real growth of the period was achieved with little upward pressure on prices. Growth cut steadily into the margin of unused resources and at the end of 1964 the unemployment rate had been reduced to 5 per cent and the capacity utilization rate in manufacturing was up to 90 per cent. Both private and government credit demands grew substantially, but savings and credit growth kept supply increases in line with demand expansion and only the mildest upward pressures were introduced on the interest rate structure. In general, the 1961-64 period was characterized by stable and balanced economic growth, with more or less matched expansion of credit demands and credit supplies and extraordinary stability in both price and interest rate levels.

A HALF DECADE OF INFLATION This pattern was altered sharply in the last half of the decade. Beginning early in 1965, aggregate demand growth accelerated sharply, under the double stimulus of the delayed effects of the 1964 tax cut and step-by-step escalation of the Vietnam War. For the five-year period, GNP in current dollars rose at an average annual rate of more than 8 per cent, with little interruption except in the brief "mini-recession" of the first half 1967. The step-up in the pace of spending occurred against a background of a rapidly disappearing margin of unused resources, as the unemployment rate fell below 4½ per cent by the end of 1965 and moved steadily downward to a low of 3.3 per cent in early 1969. In this context, growth in real output began to encounter bottlenecks. Real growth averaged 4½ per cent per year for the five-year period, but tapered off substantially in the final three years. For these three years the average annual rate was only 3¼ per cent and for the final year of the decade it was 2.9 per cent.

With spending increases accelerating and output gains slowing, inflation soon became a serious problem. Measured by the implicit GNP deflator, the rate of inflation moved up sharply and steadily, from 1.9 per cent in 1965 to 3.2 per cent in 1967 and 4.7 per cent in 1969. This development was of great significance for interest rate behavior in the period, for it added a dimension to the demand for credit and introduced a new element of reluctance in lender attitudes toward the commitment of funds. Moreover, the inflation problem and the related question of the timing of remedial policy measures became important elements in a constellation of factors that fostered the development of an unusual degree of uncertainty in credit markets, with a corresponding degree of volatility in yield movements.

The External Accounts and the Foreign Sector

Developments in the international economy and in the United States' economic relations with the rest of the world also played an important role in interest rate movements over the decade. This was in part an indirect consequence of the U. S. balance of payments problem, which had begun to assume serious proportions in the late 1950's and which throughout the 1960's proved frustratingly resistant to remedial measures. Balance of payments considerations figured importantly in both fiscal and credit policy decisions through most of the decade and frequently influenced the adoption of policy measures which introduced upward pressure on the entire interest rate structure. Moreover, as the problem persisted through the decade, now worsening, now showing some promise of improvement, it became a major factor shaping market expectations patterns and contributing to the volatility of these patterns. This was especially the case in view of the close relationship between the U. S. balance of payments position and conditions in the international exchanges, in the world's gold markets, and in international financial markets generally.

THE CHANGING WORLD ECONOMY The decade also witnessed a number of fundamental changes in international economic relationships that had important implications for both credit demands and credit supplies in domestic markets. The period was marked by a notable extension of the movement toward international economic integration. The stage was set for this movement in the late 1950's, with the establishment of the European Economic Community and the restoration of substantial currency convertibility by the leading trading nations. Especially through the first half of the 1960's, both tariff barriers and exchange restrictions were relaxed progressively and foreign trade and international flows of capital grew apace. The integrating tendencies that followed linked the U. S. economy, and U. S. financial markets, to their foreign counterparts to a degree not known for a generation.

WORLD PROSPERITY Over the same period, the economies of most of the trading nations abroad were experiencing booms comparable to that in the U. S. General prosperity in the world trading community gave a further fillip to world trade and to demands for credit to finance this trade. Probably more important, rapid growth abroad, coupled with the elimination or relaxation of many currency restrictions, provided a strong stimulus to U. S. foreign investment. Direct investments by U. S. firms seeking new and cheaper sources of industrial materials or entry into increasingly lucrative markets moved up sharply, especially in the first five years of the decade. At the same time, relatively high interest rates in many foreign markets proved increasingly attractive to U. S. lenders and portfolio investors, while borrowers in capital-poor areas of the world found U. S. loan and capital markets attractive compared with the less well-developed markets abroad. Large outflows of capital became a matter of concern for the U. S. balance of payments and led in the second half of the decade to controls on U. S. outflows for direct investment and to a program of voluntary restraint on the foreign lending and investment of U. S. financial institutions.

But the avenues opened up for international capital flows by the increasing integration of the world economy were not one-way. The dynamic of American business in the Sixties, the long record of steady economic growth and great political stability in this country compared with the rest of the world, the relatively high degree of freedom from restrictions on foreign investors, and other factors combined to make U. S. money and capital markets attractive outlets for foreign funds. Especially in the later years of the decade, foreign funds moved in substantial volume into U. S. markets, mainly through direct purchases of U. S. equities and indirectly through Eurodollar borrowings and negotiable CD sales abroad by U. S. commercial banks. In brief, so far as U. S. financial markets are concerned, supply conditions as well as demand conditions were affected by the closer interlinkage of the U. S. economy with the rest of the trading world.

In the context of this increasingly close interconnection of the world's financial markets, interest rates in this country moved into a tighter relationship with rates abroad and became more sensitive to foreign financial developments than at any time since the 1920's. Precisely how the strengthened international tie affected the level and behavior of rates in this country is problematical. The large deficits in the capital account of the U. S. balance of payments over much of the decade suggest that on the whole these international developments may have tended to keep domestic rates higher than they would have been otherwise. Moreover, in the light of the unusual volatility of conditions in foreign financial markets, in the international exchanges, and in the world's gold markets in the 1960's, the strengthened connection with these markets may well have added a dimension of instability to the U. S. interest rate structure.

The Changing Institutional Pattern

From the standpoint of the financial historian, the decade of the 1960's was perhaps most notable for numerous significant changes in the institutional machinery for bringing together demanders and suppliers of funds. Arrangements for mobilizing capital funds both at home and abroad and for channeling these funds into their ultimate uses reached new peaks of efficiency and this no doubt exercised some dampening effect on the strong upward pressures on rates generated by the great business expansion.

INSTITUTIONAL CHANGE IN INTERNATIONAL FINANCE Among the most significant instutional changes in the decade were those closely related to the international developments discussed in the preceding section. Facilities for trading in the major currencies of the world expanded rapidly, as commercial banks and other foreign exchange dealers geared up to meet growing demands for international financial services. Many U. S. commercial banks with hitherto small or token international departments moved aggressively to enlarge these departments, while numerous others entered the field anew. Paralleling the increasing internationalization of the operations of many large nonfinancial businesses, bankers moved in growing numbers to establish foreign branches or, via Edge Act subsidiaries, to acquire foreign bases for their own expanded operations. Increasingly, too, nonbank financial institutions, notably insurance companies, brokerage houses and other securities firms, and sales finance companies, established facilities abroad which linked them directly to many foreign financial markets. This movement abroad by U. S. institutions was matched by a comparable multiplication of the U. S. offices of foreign institutions, and by the middle of the decade an elaborate multinational network of market functionaries linked together the major financial markets of the world.

The decade was notable, too, for the growth and development of foreign money and capital markets, and especially for the robust growth in two relatively new international markets, the Eurodollar market and the Eurobond market. The evolution of capital markets abroad, primarily in Continental Europe, was given considerable impetus as a result of U. S. capital restrictions imposed to help ameliorate the balance of payments problem. The same restrictions, notably the Interest Equalization Tax of 1963, the Voluntary Foreign Credit Restraint Program instituted in 1965, and the voluntary and mandatory controls on U. S. capital outflows for direct investment, were instrumental in promoting the emergence and rapid development of the Eurobond market after the mid-1960's. The Eurodollar market, in its infancy at the beginning of the decade, quickly grew to major dimensions and was a primary factor in international finance before 1965.

The full significance of the development of these markets for the behavior of U. S. interest rates is difficult to assess. After 1965 Eurobonds became an important source of funds for U. S. corporations operating abroad, while in 1969 the Eurodollar market was a major funds source for large U. S. commercial banks. Of more fundamental significance, through these markets convenient dollar-denominated income-bearing claims, of a large spectrum of maturities and other liquidity characteristics, and with minimum foreign exchange risks, became readily available to investors over the entire trading world. Largely because of this fact, the markets quickly became important vehicles promoting the international mobility of capital and prime institutional links connecting the various national money and capital markets. By the close of the decade, the Eurodollar market, especially, had come to be recognized as a more than rudimentary mechanism through which the effects of credit policy measures in one major country might be transmitted to markets in other countries.

DOMESTIC DEVELOPMENTS IN COMMERCIAL BANKING Paralleling these developments in the international area came equally significant institutional changes in domestic money and capital markets. Rapid economic growth and other secular developments at home introduced growing and changing demands on the financial system and the system responded with a number of significant institutional adjustments.

Perhaps the most significant of these occurred in commercial banking, which through the entire decade showed itself to be a dynamic industry indeed. The ten-year period saw numerous changes in banking codes and regulations, and with the continuation of the merger and consolidation movement, significant changes in the structure of banking markets and in both the scale and scope of operations of individual institutions. In some measure, developments in banking represented an extension of trends dating back to the earlier years of the post-World-War era. But in addition the pressure of growing credit demands in the 1960's fostered among commercial banks an increasingly aggressive disposition to seek out new sources of funds and to tap existing sources more intensively. Larger banks especially began to rely more heavily on the Federal funds market, and as market interest rates moved up, it became more costly for smaller banks to hold reserves idle. As a result, the volume of Federal funds trading adjusted upward substantially and this market assumed increased importance as a mobilizer of capital resources.

Through most of the decade, however, the major fund-raising efforts of banks centered primarily in the market for thrift deposits and in the money market. With successive relaxations in interest rate restrictions represented in Regulation Q, commercial banks raised rates payable on passbook accounts and also developed a variety of new consumer-type thrift certificates. Through these activities they brought themselves into sharper competition with such savings intermediaries as mutual savings banks and savings and loan associations. At the same time, the large money market banks developed the negotiable certificate of deposit as a device to tap portions of the money market that had hitherto been left mainly to the U. S. Treasury and other large nonbank borrowers. As a money market instrument, the negotiable CD caught on quickly and the emergence of a secondary market for trading in this instrument shortly after its introduction in 1961 has to be reckoned one of the significant institutional developments of the decade.

Increasing reliance by bankers on relatively high cost thrift and money market funds was accompanied by important changes in bank loan and investment policies. Generally speaking, the adjustments in assets patterns made by banks in this period involved increased emphasis on relatively high-return assets, such as consumer loans, real estate mortgages, and especially municipal securities. Except for the unusually tight money years 1966 and 1969, commercial banks constituted the backbone of the market for state and local securities after 1961.

In brief, commercial banks in the 1960's moved vigorously to diversify their operations and in particular to increase their efforts to serve as intermediaries through which savings funds and short-term contingency balances are channeled into loan and investment markets. For more than a generation, commercial banks had been content to leave the bulk of this kind of financial intermediation to nonbank financial institutions which, as a group, had grown at an unusually rapid rate in the late 1940's and throughout the 1950's. Now, in the 1960's, commercial banks entered into a keen competition with mutual savings banks, savings and loan associations, and nonbank fund-raisers in the money market.

In the later years of the decade, the one-bank holding company emerged as a popular device through which some large banks sought to diversify their operations and expand their role as intermediaries. This consolidating device involved the establishment of a parent company which could acquire controlling interest in a well-established commercial bank as well as a number of specialized financial companies such as insurance firms, sales finance companies, mortgage companies, etc. Through the one-bank holding company device, a commercial bank could project itself into the leadership of what came to be known in some quarters as a "congeneric," i.e., a closely interrelated group of financial companies with different—although sometimes overlapping—specialties, centering around a large commercial bank. As the decade drew to a close, the future of the one-bank holding company as a device through which commercial banks could diversify their activities was in doubt. A bill severely limiting the operations of these companies had passed the House of Representatives but had not yet been acted on by the Senate.

INTERMEDIATION, DISINTERMEDIATION AND INTEREST RATES

The aggressive move by commercial banks to expand their role as financial intermediaries probably has to be counted one of the important institutional developments of the decade. The extent of their success in this endeavor is reflected in the rapid growth in the relative importance of their time and savings deposits. Such deposits represented 32 per cent of total commercial deposits at the end of 1960. This figure rose quickly after 1961, to 44½ per cent at the end of 1965 and in mid-1969 it came to 47 per cent.

Expansion in the commercial banks' intermediation function, however, did not proceed evenly through the decade. As a matter of fact, it experienced notable interruptions when market rates rose above Regulation Q ceilings and commercial banks found it difficult to compete for either thrift funds or money market funds. In the tight money periods of 1966 and again in 1969, commercial bank deposit losses, especially of negotiable CD's, were great, amounting to several billion dollars. To denote such large-scale run-offs of time and savings deposits, as they affected both commercial banks and other depository institutions, the decade spawned the term "disintermediation," which quickly became part of the jargon of the marketplace. Disintermediation reached especially large proportions in 1969, when commercial banks experienced a run-off of well over half the outstanding volume of their large-denomination negotiable CD's. To recoup these heavy losses, many banks moved aggressively to raise funds from other, so-called "nondeposit," sources. Large banks with good foreign connections borrowed heavily in the Eurodollar market. Others, through subsidiaries and affiliates—including one-bank holding companies—sold sizable amounts of commercial paper and some resorted to sales of loans to nonbank customers.

Precisely how the jerky growth of financial intermediation by commercial banks impinged on the structure of interest rates cannot be easily assessed. To the extent that commercial bank activity in this area improved the efficiency with which thrift and money market funds were mobilized and channeled into their alternative uses, rates in some markets at least should have been held below levels that they might otherwise have reached. But it is not unlikely that increased intermediation by banks also had the effect of channeling funds away from some markets and toward others, so that resulting yield pressures might have been downward in some markets and upward in others. Allocative effects were more conspicuous in periods of disintermediation, when funds clearly were diverted away from mortgage markets with accompanying sharp upward movements in mortgage rates.

The Policy Environment

Money and credit policy is, of course, a major factor conditioning the behavior of interest rates in any period, although the relationship between policy changes and rate movements in given sectors of the money and capital market is probably considerably more complicated than it may appear at first glance. As a short-run matter, an easing of policy is likely to lead to rate reductions and a tightening to rate increases, but it is a serious oversimplification to consider that the matter ends there. Generally speaking, policy changes affect the supply side of credit markets and hence can be expected to influence the price of credit via these effects. But as a short-run matter, these effects of policy are likely to be concentrated in markets for short-term credit, where supplies are highly sensitive to changes in bank reserve positions. Supply effects in long-term markets work out over a longer period of time and are not nearly as clear-cut as those in short-term markets.

But in addition to the immediate impact of policy changes on credit supplies, there are also effects on expectations patterns and hence on the attitudes of both borrowers and lenders. These expectational effects, which are often not predictable with any great degree of confidence, can exert a major influence on both supply and demand in credit markets, both short-term and long-term.

As a longer-run matter, any assessment of the interest rate impact of a policy change, or of a given posture of policy maintained over time, must take account of the implications of policy for prices and money incomes. This is true because changes in prices and incomes are among the more important determinants of the demand for loan funds. As the effects of a given policy change work themselves out over time, money and credit flows in the economy as a whole are enlarged or diminished and demands for goods and services of all kinds are affected. Eventually employment, production, prices, and money incomes are also likely to be affected, with credit demands adjusting to any changes in these magnitudes that may occur as well as to expectational shifts that may accompany such changes. Hence a sudden easing of policy, for example, may through its short-run impact on credit supplies, lower some interest rates. But if, as the result of such a move, prices and money incomes begin to rise, credit demands will likely increase and interest rates will come under upward pressure and tend to move back up toward the level prevailing before the easing move was made. For this reason, many economists, while conceding the importance of the short-run rate effects of credit policy moves, question whether policy can in fact override the marketplace as a determinant of interest rates over the long pull.

POLICY IN THE EARLY 1960'S For most of the first half of the decade monetary policy was keyed primarily to promoting domestic business expansion through keeping credit readily available on easy terms. Over the same period, however, policy makers were confronted with a serious balance of payments problem and a risk of sizable capital outflows if short-term rates in this country fell significantly below those abroad. Accordingly, in the first years of the decade efforts were made to supply reserves to the banking system through means that would introduce minimal downward pressure on short-term rates. In late 1960 and through 1961 the term "Operation Twist" was often applied to these efforts. As publicized in the financial press of the times, Operation Twist represented a policy of maintaining short-term interest rates at relatively high levels for balance of payments purposes while trying to lower long-term rates in order to encourage domestic investment. From the standpoint of the manner in which monetary policy was conducted, it represented efforts to shift the interest-depressing effects of reserve-supplying operations from short-term markets, where they ordinarily focus, to long-term markets. To this end, the Federal Reserve made a number of notable changes in the manner in which it used its tradional policy tools. Open market purchases, which had hitherto been concentrated chiefly in the market for short-term Governments, were shifted in part to the market for over one-year maturities. Similarly, small-step reductions in reserve requirements were used to supply reserves for seasonal purposes.

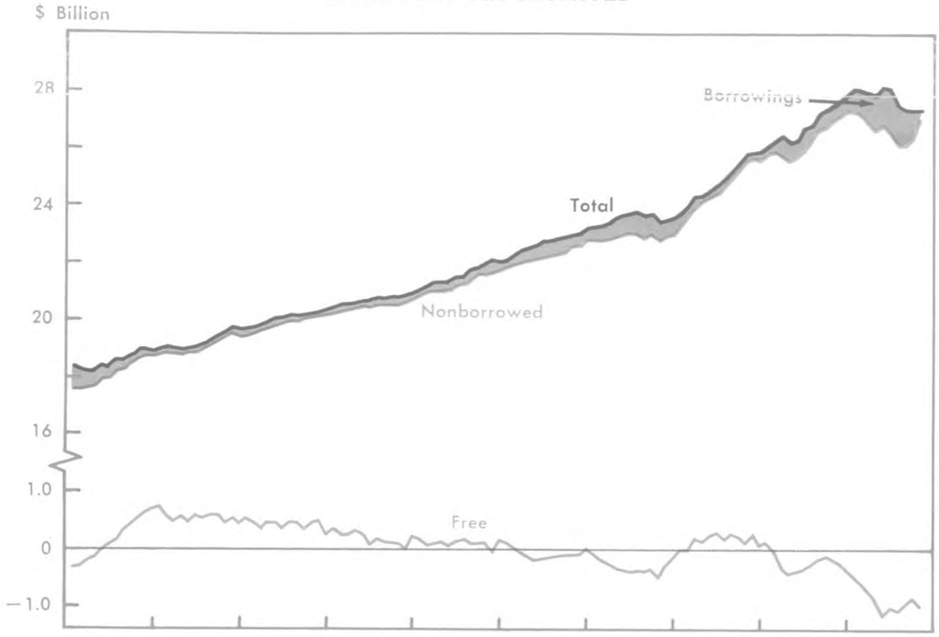
Despite the persisting seriousness of the balance of payments problem, credit policy remained easy by almost any definition through 1964. It was especially easy through 1962. Reserves were supplied to the banking system in abundance. Net free reserves rose sharply after the first quarter in 1960, moving well past $500 million before the end of the year and remaining close to that level through most of 1962. This marginal reserve measure drifted downward through 1963, however, and stayed mainly in a range of $100 to $150 million from mid-1963 through 1964. This decline was accompanied by an increase in member bank borrowings at the discount window and reflects somewhat less ease than existed in 1961 and 1962. Nevertheless, Federal Reserve credit supplied through open market operations continued to rise steadily and the mild firming in credit conditions after 1962 reflects chiefly increasing credit demands rather than a reduced pace of supply growth. As short-term market rates drifted upward in response to this firming, the discount rate was raised in July 1963 from 3 to 3½ per cent. The reason for this action, however, was related more to balance of payments pressures than to any effort to restrain domestic credit growth. The discount rate was raised again in November 1964, to 4 per cent, but again this second increase followed a sharp rise in both official and market rates in London and was designed to keep domestic rates in line with foreign money rates.

For the five-year period 1960-64 all the monetary aggregates showed steady and substantial growth. Member bank reserves (adjusted to take account of a number of reserve requirement changes in the period) expanded at an average annual rate of slightly more than 3½ per cent. Total loans and investments of all commercial banks grew at an average annual pace of just under 8 per cent. The money stock grew at a rate slightly above 2½ per cent per year, but the money stock plus time deposits increased at an average annual rate of 7 per cent. Time and savings deposits at commercial banks grew far faster than demand deposits reflecting the aggressive efforts of commercial banks to tap thrift deposits and money market sources of funds. The rapid acceleration in growth of commercial bank time and savings deposits was facilitated by three hikes in Regulation Q ceilings. These ceilings were raised in January 1962 and again in July 1963 and November 1964.

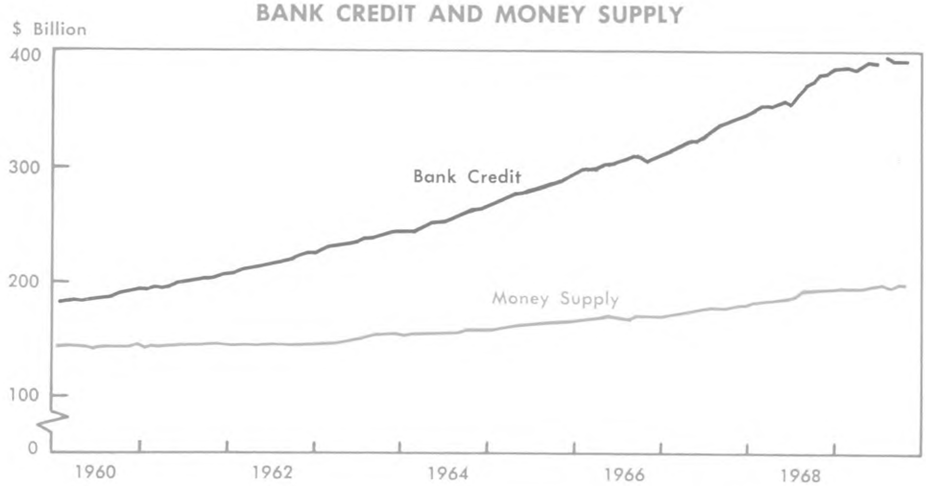
In general, growth in all the monetary aggregates proceeded at a considerably more rapid pace in the 1960-64 period than in the 1950's. Moreover, for the first half of the decade growth in these aggregates, as shown in the charts on the following page, was smooth and stable, with little year-to-year deviation from the average rates for the five-year period.

THE TIGHT MONEY EPISODE OF 1965-66 The overall climate of credit policy in the second half of the decade differed sharply from that in the first five years. The basic reason for the difference is the contrasting nature of the problems confronted by policy in the two

MEMBER BANK RESERVES



BANK CREDIT AND MONEY SUPPLY



Note: Beginning July 1969, bank credit data are revised to include all bank premises, subsidiaries and other significant majority-owned domestic subsidiaries; earlier data are for commercial banks only. Also bank credit components are now reported gross of valuation reserves rather than net as previously reported.

Source: Board of Governors of the Federal Reserve System.

periods. The first half of the decade was dominated by problems of underemployment, retarded growth, and balance of payments deficits. The balance of payments problem persisted in the second half of the decade, which also witnessed several exchange and gold market crises which posed policy problems. On the domestic scene, the problems of underemployment and slow growth became after 1964 problems of overemployment and an overheating economy. The objectives of policy were correspondingly transformed, moving from goals of actively promoting domestic growth while contributing to balance of payments improvement to goals of restraining domestic inflation and shielding the international payments system from the shock waves of a variety of international financial disturbances.

Early in 1965 the Federal Open Market Committee modified the posture of credit policy by directing the New York Reserve Bank to work through the Trading Desk for slightly firmer money market conditions. For the remainder of that year, the marginal reserve measures reflected increasing restraint. Net free reserves of $100 million early in the year became net borrowed reserves of more than $150 million by mid-year and for most of the remainder of the year member banks' borrowings at the discount window, which rose substantially, exceeded member banks' excess reserves. With some interruption in late 1965 and early 1966, this firming of policy continued, culminating in the extremely tight money period of the summer and early autumn of 1966.

While the Federal Reserve moved progressively to restrain credit in 1965, it was not until December of that year that the discount rate was raised, from 4 per cent to 4½ per cent. By this time, growing credit demands, coupled with the firming policy, had produced sharp rises in most market interest rates and it was clear that market rates remained under heavy upward pressure. In the period immediately following the December discount rate hike, the Federal Reserve supplied reserves generously through open market operations to smooth the transition to a higher level of rates and to reassure increasingly nervous markets. This temporarily slowed the slide in the marginal reserve measures, but with credit demands remaining heavy, banks early in 1966 stepped up their borrowings at the discount window and net borrowed reserves moved to the $400 million level by late summer.

Interestingly, while late 1965 and early 1966, are generally regarded as the tight money prelude to the so-called "credit crunch" of late summer 1966, the monetary aggregates over much of this period grew more rapidly than in the preceding five years. Aggregate reserves of member banks, for example, rose at an annual rate of more than 5 per cent in 1965 and more than 4½ per cent in the first half of 1966. The comparable rate of growth in 1960-64 was 3.8 per cent. Similarly, bank credit expanded at a 10.0 per cent rate in 1965 and a 9.0 per cent annual rate in the first half of 1966, compared with an average rate of under 8.0 per cent in 1960-64. The money supply, which grew at an average rate of slightly more than 2½ per cent in 1960-64, expanded at an annual rate of better than 4½ per cent in 1965 and the first half of 1966. The accelerated pace of growth of these aggregates suggests that the sharp upward movement of rates in this period was due more to large increases in credit demands than to any curtailment of credit supplies.

The tight money situation of 1966, however, is reflected in the behavior of the monetary aggregates in the second half of that year. Member bank reserves in that half-year declined at an annual rate of over 2.0 per cent while the annual rate of increase of bank credit fell from over 9.0 per cent in the first half to only 2.0 per cent in the second half. Growth in the money stock began to taper off as early as April 1966 and was negative over most of the remainder of the year. For the second half, the money stock declined at an annual rate of about 1.0 per cent. Growth in the money stock plus time deposits at commercial banks was also sharply curtailed, falling from an annual rate of nearly 7.0 per cent in the first half to slightly over 2.0 per cent in the second half.

RETURN TO EASE, 1967-68 In the course of the tight money episode of 1966, long-term interest rates had moved to historic highs and the construction industry was especially hard hit by an acute shortage of mortgage funds. Consumer outlays on durables began to slow and as 1966 drew to a close it became clear that the pace of the economy's advance was moderating. Some dampening of business capital outlays was expected to follow suspension of the 7 per cent investment tax credit in October and a sizable inventory correction appeared imminent. In the face of these prospects for a further reduction in the pace of the business expansion, policy began to move over to a distinctly easier posture beginning in November 1966.

From that time through most of 1967, both the marginal and the aggregate measures of policy reflect a sharp easing. Free reserves moved from a negative \$300-\$400 million in late 1966 to a positive \$300 million by mid-1967 and remained near that level until the end of the year. Member bank borrowings, which had averaged as high as \$800 million around mid-year, quickly moved down to normal levels. Member bank reserves rose at an annual rate of nearly 11.0 per cent in the first half of the year and 10.0 per cent for the year as a whole. Bank credit expanded nearly 12.0 per cent for the year, while the money supply increased almost 6½ per cent. As part of the easing process, the discount rate was reduced from 4½ per cent to 4.0 per cent in April 1967.

Toward the end of 1967, however, policy became distinctly less easy. This move toward restraint was led by a hike in the discount rate at the time of the British devaluation in November 1967. At about the same time free reserves began to move down sharply, falling to a negative \$350 million by June 1968, while member bank borrowings moved up close to the levels prevailing in mid-1966. International financial disturbances in the wake of the British devaluation were a dominant consideration in policy decisions in early 1968 and, for the most part, dictated a definite firming. Discount rate increases in March and April, bringing this rate to 5½ per cent, were related primarily to these international disturbances.

Despite this firming of credit conditions, the monetary aggregates continued to expand at a relatively fast pace in early 1968, although they slowed considerably from the sharp rate of increase in the previous year. Member bank reserves in the first half grew at an annual rate just under $4\frac{1}{2}$ per cent while bank credit rose at a rate of about $6\frac{1}{2}$ per cent. Growth in the money stock, on the other hand, actually accelerated in the first half, moving up to a rate of 6.8 per cent compared with 6.2 per cent in 1967.

Shortly after passage of the 10 per cent surcharge on the Federal income tax in June 1968, policy again moved over to an easier posture. The discount rate was cut to $5\frac{1}{4}$ per cent in August and both the marginal and the aggregative reserve measures began to register easier credit conditions. Net borrowed reserves declined to $150 million in September and member bank borrowings fell to a range of $300-$350 million. Bank reserves grew at a rate of over 9.0 per cent per year in the second half, while bank credit moved up at a rate of over 15 per cent per year and the money supply at a better than 6 per cent rate.

TIGHT MONEY AGAIN, 1969 As it became apparent that the 10 per cent surcharge was not exerting the expected restraining effects on the economy's advance, policy was once again tightened in December 1968. At that time the discount rate was raised to $5\frac{1}{2}$ per cent and this was followed by another hike, to 6 per cent, in April 1969. Bank reserve growth was brought under a tight rein. Net borrowed reserves rose rapidly, surpassing the $1 billion mark in the second quarter and fluctuating in a range of $700 million to $1.2 billion for the rest of the year. Member bank borrowings also rose rapidly, reaching $1.5 billion in the summer months and remaining at or near record levels through the year.

The aggregate measures also reflected a sharp tightening. Growth in bank reserves came to a virtual halt in the first half and in the remainder of the year reserves showed a substantial decline. Growth in bank credit also slowed sharply in the first half and was negative over much of the second half. The money stock showed virtually no net increase for the year.

The Course of Rates

The behavior of selected groups of short-term and long-term rates during the decade is shown in the charts on pages 22 and 23. The innumerable ups-and-downs of the several series cannot, of course, be explained in terms of the broad background factors discussed here; nor is it the purpose of this report to provide an explanation of these short-run fluctuations in rates. These can be explained partly by short-run variations in credit demands not only of businesses and consumers but also of Federal, state, and local governments. In part, too they are explainable by short-run supply variations associated with shifts in market expectations as well as with policy changes. The general pattern of rate movements over the sweep of the decade, however, can be discussed in terms of these background factors, although it may not be possible to identify the precise influence of each factor separately.

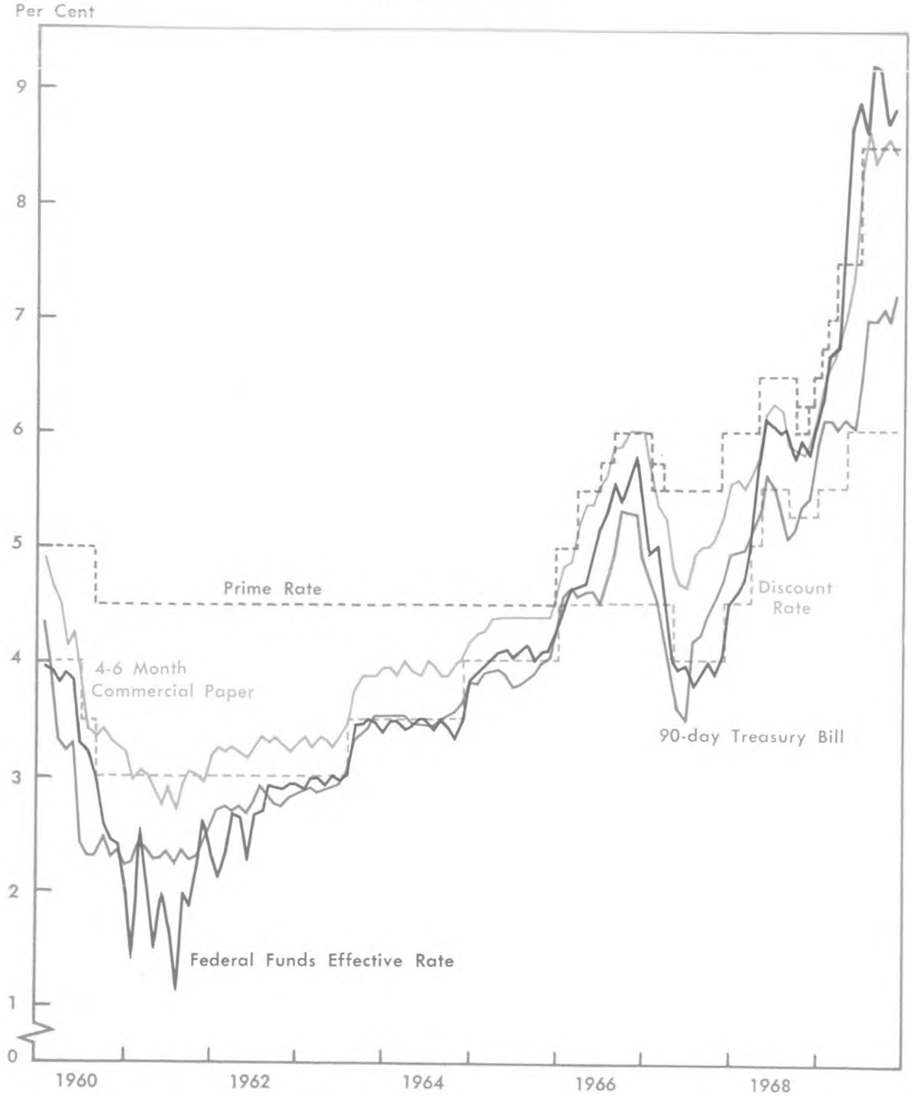
A NOTABLE CONTRAST Perhaps the most striking feature of the patterns shown in the charts is the contrast between rate movements in the first half of the decade and those in the second. The contrast is especially sharp in the chart showing yields on long-term bonds. In this connection, the decade divides almost precisely in half. For the first half, rates generally showed some tendency to drift gradually upward, although considering the magnitude of the business expansion they remained remarkably stable. Then after about the middle of 1965 the upward movement accelerated and all across the maturity spectrum rates rose sharply. For the most part, this sharp upward movement continued throughout the remainder of the decade, although there were two notable interruptions in this uptrend. The first came in the massive inventory adjustment of the first half of 1967, following the so-called "credit crunch" of August-September 1966. The second followed enactment of the 10 per cent surcharge on the Federal income tax in June 1968. In both cases, a substantial easing of Federal Reserve policy figured in the temporary reversal of the upward movement.

Despite these interruptions, the general drift of rates all across the board was sharply upward over the remainder of the decade. In the final year of the period, rates in many maturity sectors had moved to levels not seen in this country in more than one hundred years. Yields on Treasury bills moved to successive records—with three-month and six-month maturities reaching 8.10 per cent in December—and the U. S. Treasury was having to pay more for borrowed funds than at any time since before the Civil War.

MOVEMENTS IN SHORT RATES The behavior of short rates over the decade followed the general pattern described earlier, although yields in short-term markets moved, as is usually the case, both more erratically and over a wider range than did long rates. In addition to this, some effects of a number of the background factors discussed earlier are more apparent in the behavior of short rates than in the movement of long rates. In the first half of the decade, for example, the behavior of short rates was heavily conditioned by the nation's balance of payments problem. These rates declined in the recession year, 1960, but they fell less in this recession than in most previous ones, mainly because of official efforts to cushion the decline in order to minimize capital outflows from this country. Moreover, much of the upward movement in these rates between 1961 and 1965 followed discount rate hikes, in July 1963 and November 1964, which were dictated in large measure by balance of payments considerations.

To what extent the updrift of short rates between 1961 and 1965 is related to the emergence of the large denomination CD is problematical. The CD quickly became a major competitor with commercial paper and Treasury bills and, as the chart shows, rates on these two money market instruments rose more than 100 basis points between the end of 1961 and the end of 1964. But clearly a large part of this increase represents upward adjustments to the two dis-

MONEY RATES



Source: Board of Governors of the Federal Reserve System.

count rate hikes in the period. Moreover, as recovery from the 1960-61 recession proceeded, the general demand for short-term funds rose correspondingly.

The movement of short rates in the second half of the decade cannot be analyzed separately from the burgeoning demand for funds in a booming, inflation-ridden economy. But the sharp temporary swing in these rates in the 1965-67 periods and their precipitous rise again in 1969 were associated with changes in credit policy as described in an earlier section of this report.

Among the more interesting features of short rate behavior in the last half of the decade is the rapid-fire run-up, with two brief interruptions, in the prime rate, and the persisting tendency of the Fed-

CAPITAL MARKET YIELDS

Source: Board of Governors of the Federal Reserve System.

eral funds rate to remain well above the discount rate. Both reflect, in large measure, the growing pressure on banks to meet rising customer demands. Through the 1950's and early 1960's it had become customary in many quarters to consider that the discount rate represented something of a ceiling on Federal funds rates. But a Federal funds rate considerably higher than the discount rate became something of a rule after 1965 and at times in 1969 Federal funds traded as high as four full percentage points above the discount rate. In some measure, this phenomenon reflects the increasingly aggressive quest for loan funds among bankers as described in an earlier section of this report.

LONG RATES Long-term rates in the first half of the decade were remarkably stable, with only intermediate governments showing any pronounced net upward movement between 1961 and 1964. Municipals especially showed remarkable strength and stability through this period and at the end of 1964 yields in this sector were lower than in 1961. In some large measure, this reflects the increasing participation of commercial banks in the tax exempt market. In turn, this increasing participation was largely a by-product of more aggressive efforts by banks to raise thrift funds and money market funds. In the early part of this half-decade, too, official policy sought to maintain downward pressure on long rates, as discussed earlier.

In the second half of the decade, again as in the case of short rates, credit demand was perhaps the paramount factor behind the broad movement of long rates. Swings in policy in 1965-67 and again in late 1968 and 1969 are reflected in the chart, but much less than in the movement of short rates. As a matter of fact, through much of the first half of 1967, long rates rose in the face of a massive increase in bank reserves and bank credit and a pronounced slowdown in business growth. The movement of these rates in this short period is explainable in part by heavy demands for long-term credit to restore liquidity positions eroded away in the extremely tight money period of 1966.

For the most part, rates in the several long markets over the last half of the decade moved up in parallel. For a time in 1966 and again in 1969, however, rates on municipals rose at a more rapid pace than other long rates. One reason for this was the impact of disintermediation on commercial bank investment policies. Just as intermediation tended to make commercial banks more willing buyers of tax-exempts, so disintermediation tended to curtail sharply net commercial bank demand in the municipals market. Especially in 1969, disintermediation reduced commercial bank CD funds by more than 50 per cent, and while banks were able to recapture some of these funds through tapping other so-called nondeposit sources, their net purchase operations in tax-exempt markets were curtailed sharply. This was a major factor in the rise of tax-exempt yields to record levels.

HIGHLIGHTS OF 1969

EARNINGS AND CAPITAL ACCOUNTS Net earnings before payments to the United States Treasury increased $41,956,750.02 to a record $224,141,078.92 in 1969. Six per cent statutory dividends totaling $2,008,397.94 were paid to Fifth District member banks, and $220,778,680.98 was paid to the Treasury as interest on Federal Reserve notes.

Capital stock rose $1,354,000.00 to $34,203,350.00 as member banks increased their stockholdings by three per cent of the rise in their capital and surplus. The Bank's surplus account increased $1,354,000.00 to a total of $34,203,350.00.

DISCOUNT RATE On April 4, the Richmond Reserve Bank, with the approval of the Board of Governors, raised its discount rate from 5½ per cent to 6 per cent in an effort to check inflationary pressures. The 6 per cent rate is the highest on record at the Richmond Bank.

BORROWINGS OF FIFTH DISTRICT MEMBER BANKS Daily borrowings of member banks in the Fifth District reached an all-time high during 1969. They climbed to $132.7 million on May 23, rose to $137.7 million on June 27, advanced to $162.6 million on July 25, and peaked at a record $190.2 million on October 24. There was also a significant increase during the year in the frequency and amount of borrowings by member banks using municipal securities and eligible customers' paper as collateral.

REGIONAL CLEARING CENTER Plans were completed during the year for the opening of a regional check clearing center at the Baltimore Branch on January 2, 1970. The center evolved from a jointly conducted three-year study by Federal Reserve staff members and commercial bankers from Northern Virginia, Suburban Maryland, and the cities of Baltimore and Washington.

The clearing center serves about 90 banks located within a 40-mile radius of Washington, D. C. Included in the service area are the city of Washington; the city of Baltimore and the counties of Anne Arundel, Baltimore, Calvert, Charles, Howard, Montgomery, and Prince Georges in Maryland; and the cities of Alexandria, Falls Church, and Fairfax and the counties of Arlington, Fairfax, Loudoun, and Prince William in Virginia.

The new center processes checks for banks that formerly presented them directly to other banks located in the same town or city, or to correspondent banks, clearinghouse associations, the Federal Reserve, or some combination of these media. Each participating bank sends daily to the center all checks it has received which are drawn on other area banks and in turn receives from the center checks which are drawn on its own customers' accounts. Concentrating the clearing function in a single regional clearing center easily accessible to area banks is expected to accelerate check collection and the return of unpaid checks, give earlier credit on checks, help stem "check kiting," and reduce check "float." So far the center has processed an average of almost 900,000 checks daily.

This regional clearing center is the first operation of its kind to be established by a Federal Reserve Bank and represents another step in the System's continuing effort to provide maximum efficiency in check clearing operations.

CULPEPER FACILITY The Communications and Records Center, Culpeper, Virginia, on which construction began in September 1966, was completed and occupied during the year. The facilities were dedicated on December 10.

In addition to serving as an emergency relocation site and a records storage facility, the Culpeper installation will house the central switch for a computer-operated communications switching system linking together the nation's Federal Reserve offices. Installation of the new switch is expected in early 1970, and the complete network will go into full operation following several months of testing. It is expected that the communications network will greatly speed up the movement of money, securities, and economic statistics.

NEW MEMBER BANK One Fifth District bank became a member of the Federal Reserve System in 1969. Community Bank and Trust, Fairmont, West Virginia, a nonmember institution, converted to a national charter and System membership on October 15, under the title of Community Bank and Trust, N.A.

CHANGES IN DIRECTORS The election, by Fifth District member banks, of one Class A and one Class B director to three-year terms on the Richmond Board of Directors was held in the fall. Hugh A. Curry, President, The Kanawha Valley Bank, Charleston, West Virginia, was elected a Class A director succeeding Robert C. Baker, Chairman of the Board, American Security and Trust Company, Washington, D. C. Elected as a Class B director was Robert S. Small, President and Chief Executive Officer, Dan River Mills, Inc., Greenville, South Carolina. Mr. Small succeeded Thaddeus Street, President, Carolina Shipping Company, Charleston, South Carolina.

Wilson H. Elkins, President, University of Maryland, College Park, Maryland, was redesignated Chairman of the Board for 1970. Reappointed by the Board of Governors to a three-year term as a Class C director and renamed Deputy Chairman of the Board was Robert W. Lawson, Jr., Managing Partner, Charleston Office, Steptoe & Johnson, Charleston, West Virginia.

Arnold J. Kleff, Jr., Manager, Baltimore Refinery, American Smelting and Refining Company, Baltimore, Maryland, was reappointed by the Board of Governors to a three-year term as a member of the Board of Directors at the Baltimore Branch. The Board of Governors appointed E. Craig Wall, Sr., Chairman of the Board, Canal Industries, Inc., Conway, South Carolina, to a three-year term on the Charlotte Board of Directors. Mr. Wall succeeded James A. Morris, Commissioner of Higher Education, The South Carolina Commission on Higher Education, Columbia, South Carolina.

The Richmond Board appointed James R. Chaffinch, Jr., Executive Vice President, The Denton National Bank, Denton, Maryland, as a director at the Baltimore Branch succeeding John P. Sippel, President, The Citizens National Bank, Laurel, Maryland. J. Willis Cantey, President, The Citizens & Southern National Bank of South Carolina, Columbia, South Carolina, was re-elected to a three-year term as a director of the Charlotte Branch.

FEDERAL ADVISORY COUNCIL The Board of Directors selected Robert D. H. Harvey, Chairman of the Board and Chief Executive Officer of Maryland National Bank, Baltimore, Maryland, to serve as the member of the Federal Advisory Council representing the Fifth Federal Reserve District for the year 1970. Mr. Harvey succeeded J. Harvie Wilkinson, Jr., Chairman of the Board, United Virginia Bank/State Planters, Richmond, Virginia.

CHANGES IN OFFICIAL STAFF A number of changes were made in the official staff during the year. In the Examining Department, effective June 1, Fred L. Bagwell and Wyatt F. Davis were promoted to Examining Officers. On July 1, H. Lee Boatwright, III joined the Baltimore staff as a Vice President.

Donald F. Hagner, Senior Vice President in charge of the Baltimore Branch, retired January 1, 1970, after 47 years of distinguished service. He was succeeded by Mr. Boatwright, who was appointed Senior Vice President effective January 1, 1970.

Also effective January 1, 1970, were the following promotions and changes. John G. Deitrick was elevated to Vice President in charge of Fiscal Agency and Securities, Joseph F. Viverette was named General Auditor, and G. Harold Snead was appointed Senior Adviser in the Auditing Department. Wilbur C. Wilson was named Assistant Cashier in Fiscal Agency and Securities and Joseph C. Ramage was made Assistant Cashier in Discount and Credit. Vice President Arthur V. Myers, Jr. was assigned the responsibility for the Accounting and Bank Accounts Departments in addition to his present duties in the Bank and Public Relations Department.

John F. Rand was named Vice President in charge of communications at the Culpeper facility, Boyd Z. Eubanks was promoted to Assistant Vice President at the Charlotte Branch, and Charles P. Kahler was named Assistant Cashier at the Baltimore Branch.

Summary of Operations

CHECK CLEARING & COLLECTION	1969	1968
Dollar amount		
Commercial bank checks[1]	154,553,326,000	136,720,488,000
Government checks[2]	14,184,745,000	12,288,027,000
Return items	1,055,809,000	946,277,000
Number of items		
Commercial bank checks[1]	499,162,000	488,551,000
Government checks[2]	66,058,000	63,728,000
Return items	5,898,000	5,397,000

CURRENCY & COIN

Currency disbursed—Dollar amount	3,046,362,299	2,832,717,000
Coin disbursed—Dollar amount	150,655,860	150,002,776
Dollar amount of currency withdrawn for destruction	1,087,116,889	961,121,222
Dollar amount of currency burned	1,079,930,385	1,030,628,600
Daily average of currency burned		
Dollar amount	4,235,021	4,025,893
Number	764,219	724,813

DISCOUNT & CREDIT

Dollar amount		
Total loans made during year	10,698,050,400	3,897,413,600
Daily average loans outstanding	57,452,742	21,286,430
Number of banks borrowing during the year	112	89

FISCAL AGENCY ACTIVITIES

Marketable securities delivered or redeemed		
Dollar amount	13,969,235,175	14,239,513,644
Number	352,267	270,329
Coupons redeemed		
Dollar amount	86,260,506	98,283,112
Number	304,453	333,885
Savings bond and savings note issues		
Dollar amount	371,618,450	367,899,080
Number	10,389,683	10,590,872
Savings bond and savings note redemptions		
Dollar amount	546,468,910	464,444,138
Number	12,309,004	10,606,335
Depositary receipts for withheld taxes		
Dollar amount	8,591,714,516	6,010,544,702
Number	1,975,201	1,543,647

TRANSFERS OF FUNDS

Dollar amount	289,995,671,461	266,547,198,717
Number	389,437	364,867

[1] Excluding checks on this Bank.

[2] Including postal money orders.

COMPARATIVE STATEMENTS

Condition

ASSETS:	DEC. 31, 1969	DEC. 31, 1968
Gold certificate account	$ 926,579,929.99	$ 861,188,243.08
Federal Reserve notes of other Federal Reserve Banks	67,815,864.00	82,832,052.00
Other cash	6,414,018.09	12,704,406.20
Discounts and advances	12,150,000.00	3,310,000.00
U. S. Government securities:		
Bills	1,664,937,000.00	1,409,622,000.00
Certificates	———	———
Notes	2,347,358,000.00	2,157,409,000.00
Bonds	261,448,000.00	411,436,000.00
TOTAL U. S. GOVERNMENT SECURITIES	4,273,743,000.00	3,978,467,000.00
TOTAL LOANS AND SECURITIES	4,285,893,000.00	3,981,777,000.00
Cash items in process of collection	1,070,079,540.79	886,393,584.75
Bank premises	10,858,191.24	10,336,706.02
Other assets	137,232,291.92	144,668,725.92
TOTAL ASSETS	$6,504,872,836.03	$5,979,900,717.97

LIABILITIES:		
Federal Reserve notes	$4,327,423,885.00	$4,142,317,669.00
Deposits:		
Member bank—reserve accounts	1,089,525,344.69	1,020,706,548.37
U. S. Treasurer—general account	130,767,416.21	576,533.18
Foreign	6,760,000.00	11,440,000.00
Other	30,296,932.65	21,717,517.66
TOTAL DEPOSITS	1,257,349,693.55	1,054,440,599.21
Deferred availability cash items	808,930,309.66	687,570,410.44
Other liabilities	42,762,247.82	29,873,339.32
TOTAL LIABILITIES	6,436,466,136.03	5,914,202,017.97

CAPITAL ACCOUNTS:		
Capital paid in	34,203,350.00	32,849,350.00
Surplus	34,203,350.00	32,849,350.00
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$6,504,872,836.03	$5,979,900,717.97

Contingent liability on acceptances purchased for foreign correspondents	$ 7,586,800.00	$ 5,678,400.00

Earnings and Expenses

EARNINGS:	1969	1968
Discounts and advances	$ 3,404,671.02	$ 1,128,269.42
Interest on U. S. Government securities	236,068,720.12	195,815,740.73
Foreign currencies	6,333,270.83	3,980,001.57
Other earnings	49,694.63	32,809.12
TOTAL CURRENT EARNINGS	245,856,356.60	200,956,820.84
EXPENSES:		
Operating expenses (including depreciation on bank premises) after deducting reimbursements received for certain Fiscal Agency and other expenses	18,843,497.13	16,103,164.89
Assessments for expenses of Board of Governors	780,700.00	734,000.00
Cost of Federal Reserve currency	1,892,778.10	2,402,749.52
NET EXPENSES	21,516,975.23	19,239,914.41
CURRENT NET EARNINGS	224,339,381.37	181,716,906.43
ADDITIONS TO CURRENT NET EARNINGS:		
Profit on sales of U. S. Government securities (net)		58,222.40
All other	306,622.09	419,142.55
TOTAL ADDITIONS	306,622.09	477,364.95
DEDUCTIONS FROM CURRENT NET EARNINGS:		
Loss on sales of U. S. Government securities (net)	448,948.42	
All other	55,976.12	9,942.48
TOTAL DEDUCTIONS	504,924.54	9,942.48
NET ADDITIONS OR DEDUCTIONS	−198,302.45	467,422.47
NET EARNINGS BEFORE PAYMENTS TO U. S. TREASURY	$224,141,078.92	$182,184,328.90
Dividends paid	$ 2,008,397.94	$ 1,909,325.95
Payments to U. S. Treasury (interest on Federal Reserve notes)	220,778,680.98	178,500,502.95
Transferred to surplus	1,354,000.00	1,774,500.00
TOTAL	$224,141,078.92	$182,184,328.90

SURPLUS ACCOUNT

	1969	1968
Balance at close of previous year	$ 32,849,350.00	$ 31,074,850.00
Addition account of profits for year	1,354,000.00	1,774,500.00
BALANCE AT CLOSE OF CURRENT YEAR	$ 34,203,350.00	$ 32,849,350.00

CAPITAL STOCK ACCOUNT

(Representing amount paid in, which is 50% of amount subscribed)

	1969	1968
Balance at close of previous year	$ 32,849,350.00	$ 31,074,850.00
Issued during the year	1,721,000.00	1,905,500.00
	34,570,350.00	32,980,350.00
Cancelled during the year	367,000.00	131,000.00
BALANCE AT CLOSE OF CURRENT YEAR	$ 34,203,350.00	$ 32,849,350.00

DIRECTORS

(December 31, 1969)

Wilson H. Elkins	*Chairman of the Board and Federal Reserve Agent*
Robert W. Lawson, Jr.	*Deputy Chairman of the Board*

CLASS A

Robert C. Baker	*Chairman of the Board, American Security and Trust Company* *Washington, D. C.* *(Term expired December 31, 1969)* *Succeeded by:* Hugh A. Curry *President, The Kanawha Valley Bank* *Charleston, West Virginia* *(Term expires December 31, 1972)*
Giles H. Miller, Jr.	*President, The Culpeper National Bank* *Culpeper, Virginia* *(Term expires December 31, 1970)*
Douglas D. Monroe, Jr.	*President, Chesapeake National Bank* *Kilmarnock, Virginia* *(Term expires December 31, 1971)*

CLASS B

H. Dail Holderness	*President, Carolina Telephone and Telegraph Company* *Tarboro, North Carolina* *(Term expires December 31, 1970)*
Charles D. Lyon	*Retired President, The Potomac Edison Company* *Hagerstown, Maryland* *(Term expires December 31, 1971)*
Thaddeus Street	*President, Carolina Shipping Company* *Charleston, South Carolina* *(Term expired December 31, 1969)* *Succeeded by:* Robert S. Small *President and Chief Executive Officer, Dan River Mills, Inc.* *Greenville, South Carolina* *(Term expires December 31, 1972)*

CLASS C

Wilson H. Elkins	*President, University of Maryland* *College Park, Maryland* *(Term expires December 31, 1971)*
Robert W. Lawson, Jr.	*Managing Partner, Charleston Office, Steptoe & Johnson* *Charleston, West Virginia* *(Term expires December 31, 1972)*
Stuart Shumate	*President, Richmond, Fredericksburg, and Potomac Railroad Company* *Richmond, Virginia* *(Term expires December 31, 1970)*

MEMBER FEDERAL ADVISORY COUNCIL

J. Harvie Wilkinson, Jr.	*Chairman of the Board, United Virginia Bank/State Planters* *Richmond, Virginia* *(Term expired December 31, 1969)* *Succeeded by:* Robert D. H. Harvey *Chairman of the Board and Chief Executive Officer, Maryland National Bank* *Baltimore, Maryland* *(Term expires December 31, 1970)*

OFFICERS

Richmond

Aubrey N. Heflin, *President*

Robert P. Black, *First Vice President*

Welford S. Farmer, *Senior Vice President and General Counsel*
Upton S. Martin, *Senior Vice President*
James Parthemos, *Senior Vice President and Director of Research*
John G. Deitrick, *Vice President*
J. Gordon Dickerson, Jr., *Vice President*
William C. Glover, *Vice President*
Jimmie R. Monhollon, *Vice President*

Arthur V. Myers, Jr., *Vice President*
John L. Nosker, *Vice President*
John F. Rand, *Vice President*
Raymond E. Sanders, Jr., *Vice President*
Aubrey N. Snellings, *Vice President*
William F. Upshaw, *Vice President and Associate General Counsel*
H. Ernest Ford, *Cashier*

J. Lander Allin, Jr., *Assistant Vice President*
Clifford B. Beavers, *Assistant Vice President*
Lloyd W. Bostian, Jr., *Assistant Vice President*
Wm. T. Cunningham, Jr., *Assistant Vice President*
William C. Fitzgerald, *Assistant General Counsel*
John E. Friend, *Assistant Vice President*
*William B. Harrison, III, *Assistant Vice President*

Chester D. Porter, Jr., *Chief Examiner*
Victor E. Pregeant, III, *Assistant Vice President and Secretary*
Frank D. Stinnett, Jr., *Assistant Vice President*
Andrew L. Tilton, *Assistant Vice President*
William H. Wallace, *Assistant Vice President*
Jack H. Wyatt, *Assistant Vice President*

Fred L. Bagwell, *Examining Officer*
Wyatt F. Davis, *Examining Officer*
George B. Evans, *Assistant Cashier*

Wenifred O. Pearce, *Assistant Cashier*
Joseph C. Ramage, *Assistant Cashier*
Wilbur C. Wilson, *Assistant Cashier*

Joseph F. Viverette, *General Auditor*
G. Harold Snead, *Senior Adviser*

John C. Horigan, *Assistant General Auditor*

Baltimore Branch

H. Lee Boatwright, III, *Senior Vice President*
A. A. Stewart, Jr., *Vice President*
B. F. Armstrong, *Assistant Vice President*
E. Riggs Jones, Jr., *Assistant Vice President*
Gerald L. Wilson, *Assistant Vice President*
Charles P. Kahler, *Assistant Cashier*

Charlotte Branch

Edmund F. Mac Donald, *Senior Vice President*
Stuart P. Fishburne, *Vice President*
Boyd Z. Eubanks, *Assistant Vice President*
Winfred W. Keller, *Assistant Vice President*
Fred C. Krueger, Jr., *Assistant Vice President*
O. Louis Martin, Jr., *Assistant Cashier*

*On leave of absence.

BRANCH DIRECTORS

(December 31, 1969)

Baltimore

Tilton H. Dobbin	*President and Chairman of Executive Committee, Maryland National Bank* *Baltimore, Maryland* *(Term expires December 31, 1971)*
John H. Fetting, Jr.	*President, A. H. Fetting Company* *Baltimore, Maryland* *(Term expires December 31, 1970)*
James M. Jarvis	*Chairman of the Board, Jarvis, Downing & Emch, Inc.* *Clarksburg, West Virginia* *(Term expires December 31, 1971)*
Arnold J. Kleff, Jr.	*Manager, Baltimore Refinery, American Smelting and Refining Company* *Baltimore, Maryland* *(Term expires December 31, 1972)*
Adrian L. McCardell	*Chairman of the Board, First National Bank of Maryland* *Baltimore, Maryland* *(Term expires December 31, 1970)*
James J. Robinson	*Executive Vice President and Cashier, Bank of Ripley* *Ripley, West Virginia* *(Term expires December 31, 1970)*
John P. Sippel	*President, The Citizens National Bank* *Laurel, Maryland* *(Term expired December 31, 1969)* *Succeeded by:* James R. Chaffinch, Jr. *Executive Vice President, The Denton National Bank* *Denton, Maryland* *(Term expires December 31, 1972)*

Charlotte

H. Phelps Brooks, Jr.	*President and Trust Officer, The Peoples National Bank* *Chester, South Carolina* *(Term expires December 31, 1970)*
C. C. Cameron	*Chairman of the Board and President, First Union National Bank of North Carolina* *Charlotte, North Carolina* *(Term expires December 31, 1970)*
J. Willis Cantey	*President, The Citizens & Southern National Bank of South Carolina* *Columbia, South Carolina* *(Term expires December 31, 1972)*
L. D. Coltrane, III	*President and Trust Officer, The Concord National Bank* *Concord, North Carolina* *(Term expires December 31, 1971)*
John L. Fraley	*Executive Vice President, Carolina Freight Carriers Corporation* *Cherryville, North Carolina* *(Term expires December 31, 1971)*
William B. McGuire	*President, Duke Power Company* *Charlotte, North Carolina* *(Term expires December 31, 1970)*
James A. Morris	*Commissioner of Higher Education, The South Carolina Commission on Higher Education* *Columbia, South Carolina* *(Term expired December 31, 1969)* *Succeeded by:* E. Craig Wall, Sr. *Chairman of the Board, Canal Industries, Inc.* *Conway, South Carolina* *(Term expires December 31, 1972)*