FEDERAL RESERVE BANK OF RICHMOND

59th
ANNUAL REPORT
1973

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TO OUR MEMBER BANKS:

We are pleased to present the 1973 Annual Report of the Federal Reserve Bank of Richmond. The report’s feature article reviews recent trends in commercial banking. The report also includes highlights of the year’s operations, comparative financial statements, and current lists of officers and directors of our Richmond, Baltimore, Charlotte, Columbia and Culpeper offices.

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

Sincerely yours,

[Signature]

Chairman of the Board

[Signature]

President
The history of banking in the United States has been one of almost constant change, from the days of "wildcat" banking in the early and mid-nineteenth century (when some state constitutions prohibited banking), through the establishment of the National Banking System during the Civil War, the financial panics of the late nineteenth and early twentieth centuries, the creation of the Federal Reserve System, and the collapse of the banking system in the 1930's. As the foregoing suggests, many of the changes in banking were associated with serious economic or financial crises. Many important changes came about, however, during periods of quiet evolution. The changes in banking over the past several decades, while revolutionary in scope, represented the culmination of a long period of evolutionary change as well as recent innovations in the institutional nature of banking and bank management. Since these changes occurred during a period of relative quiet in financial markets and the economy, one might refer to these developments as the Quiet Revolution.

Many of the recent changes in banking involved a broadening and expanding of the kinds of services provided by commercial banks. Particularly important in this respect was the development of what is frequently called consumer banking, in the broad sense of that term. At the same time, there were important changes in the kinds of banking services provided to businesses. Of equal importance in the eyes of many bankers has been the introduction of liability management as a method of providing for bank liquidity. Finally, the last decade or so saw a vigorous expansion of the international operations of U. S. banks, coupled with a significant broadening of the base of international banking in the United States.

These changes were reflected in substantial alterations in the asset and liability structure of commercial banks, increases in the average size of banking organizations, and significant changes in the manner in which banks are organized. This article describes some of the more significant changes in banking in recent years and, in some instances, reviews the developments that gave rise to these changes.

**THE DEVELOPMENT OF CONSUMER BANKING**

Traditionally, a commercial bank has been, as the name implies, conceived of as an institution that provided credit to business to finance the distribution and sale of goods. For many years, in fact, the dominant theory of banking was known as the "Commercial Loan Theory" or the "Real Bills Doctrine." This theory held that, since a large part of the funds available to a bank are acquired by incurring demand
liabilities, bank assets should consist primarily of short-term, self-liquidating loans to finance the production, storage, and distribution of goods. Restricting bank credit to such “real bills” not only would provide adequately for bank liquidity but it would ensure the creation of just the right amount of money and credit to keep the economy on an even keel.

The trend away from this traditional concept and toward consumer banking began many years ago. It is not possible to pick out any one year or even one decade and say “here it all began.” The decade of the 1930’s, however, perhaps came closest to a watershed in American banking in this century. Although detailed breakdowns on loans and investments by type are not available for years prior to 1939, it appears that as late as the 1920’s commercial banks conformed fairly closely to the traditional concept. In 1929, for example, loans accounted for almost three-fourths of commercial bank earning assets, and a large part of the portfolio of the average bank was in short-term loans to business. National banks had not been allowed to make real estate loans until 1916, and this privilege continued to be severely restricted until 1927, although real estate loans made up about one-fourth of the total loans of state banks in 1929. Banks had long made loans to individuals, of course; but the first consumer loan department in a major commercial bank was not established until 1929.

The early 1930’s brought an almost cataclysmic collapse of the economy that was accompanied by an equally violent upheaval in the banking system. The number of commercial banks fell by almost 10,000 between 1929 and 1933, and the volume of loans held by commercial banks declined by about 55 percent. The banking situation appeared to reach a nadir in 1933. The remainder of the decade was a period of slow recovery and consolidation, during which commercial banks came under considerable pressure to find new outlets for funds. Because of the prolonged economic depression there was very little demand for business loans while a number of factors contributed to a substantial growth in bank liquidity.

To some extent bankers offset the weak loan demand by expanding investment portfolios. More importantly, however, they began to search for and develop new kinds of loans. One would not be going too far, perhaps, to say that this search led to the birth of consumer banking as we know it today. Real estate loans, for example, rose from 17½ percent of total assets in 1929 to 25 percent in 1939. Official data on consumer lending by commercial banks prior to 1939 are not available, but private studies indicate a substantial growth in this type of lending in the second half of the decade of the 1930’s.¹

These tentative first steps toward broadening the loan base of commercial banks were halted by the entrance of the United States into World War II in 1941. For the next four years the economic activity of the country was dominated by the need to produce machines and

equipment to fight the war. Production of most consumer durables was sharply curtailed as was residential construction, and the resources of financial institutions were diverted to financing the war.

CHANGES IN RECENT YEARS The return to a peacetime economy sparked a period of rapid economic growth that brought far-reaching changes in the economy. The diversions of production during the war had created enormous backlogs of demand for housing and durable consumer goods. Moreover, population grew at a much faster rate than it had during the 1930's, and families were formed at a record pace. Per capita income also rose rapidly. This growth was accompanied by dramatic shifts in demographic patterns, sharp changes in age distribution, large movements from rural to urban areas, and equally great migrations from central cities to the suburbs. The result of these changes was an enormous surge in spending on residential construction and durable consumer goods.

Much of the consumer spending in the immediate postwar years was financed out of savings accumulated during the war, but as time passed an ever increasing part of it came to be financed by borrowing. As a result, in the decade between 1947 and 1957 total commercial bank

Chart 1

CHANGES IN COMMERCIAL BANK LOANS
Selected Periods

Percent

<table>
<thead>
<tr>
<th></th>
<th>250</th>
<th>200</th>
<th>150</th>
<th>100</th>
<th>50</th>
<th>0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Consumer Loans are actually "Other Loans to Individuals" as reported in the Call Report.

Sources: *Federal Reserve Bulletin; FDIC, Assets and Liabilities.*
loans increased almost 147 percent (Chart 1). Real estate loans increased almost as fast as the total, but the rate of growth of business loans was below that of the total. Consumer loans, by contrast, increased at a whopping pace of 253 percent. The gain in consumer loans was especially large (over 300 percent) at the more than 6,000 so-called “country” member banks located outside Reserve cities.

Loans at commercial banks have continued to grow at a strong pace in recent years, with the total rising 177 percent between 1962 and 1972. Again, business loans increased at a slightly slower pace than total loans, with real estate and consumer loans increasing somewhat faster.

These changes have resulted in significant alterations in the structure of bank earning assets as well as changes in loan composition. Between 1957 and 1972, for example, loans rose from 55 percent to almost 65 percent of total earning assets. If Federal funds sold are included in the loan category for 1972, as they were prior to December 1965, the figure is in excess of 69 percent. At the same time, business loans decreased and consumer loans increased in relative importance.

### TABLE I

**LOANS AND INVESTMENTS OF COMMERCIAL BANKS**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Loans and Investments</strong></td>
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<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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<tr>
<td><strong>Federal Funds sold</strong></td>
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<td>—</td>
<td>—</td>
<td>—</td>
<td>4.5b</td>
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<tr>
<td><strong>Loans, total</strong></td>
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<td>58.2</td>
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<td>64.8b</td>
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<td>Commercial and industrial</td>
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<td>21.1</td>
<td>20.6</td>
<td>22.1</td>
</tr>
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<td>Agricultural</td>
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<td>2.4</td>
<td>2.6</td>
<td>3.0</td>
<td>2.4c</td>
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<tr>
<td>For purchasing or carrying securities</td>
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<td>2.5</td>
<td>2.6</td>
<td>3.1</td>
<td>2.6</td>
</tr>
<tr>
<td>To financial institutions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Banks</td>
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<td>0.4</td>
<td>0.4</td>
<td>1.1</td>
<td>1.1b</td>
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<tr>
<td>Others</td>
<td>—</td>
<td>—</td>
<td>3.7a</td>
<td>3.6</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Real estate</strong></td>
<td>8.1</td>
<td>13.6</td>
<td>14.7</td>
<td>14.5</td>
<td>16.4</td>
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<tr>
<td><strong>Consumer</strong></td>
<td>4.9</td>
<td>11.9</td>
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<td>14.6</td>
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<td><strong>Other</strong></td>
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<td>1.6</td>
<td>1.5</td>
<td>1.7</td>
<td>1.7c</td>
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<tr>
<td><strong>U. S. Treasury securities</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>59.5</td>
<td>34.2</td>
<td>31.0</td>
<td>28.2</td>
<td>11.2</td>
</tr>
<tr>
<td>Bills and securities</td>
<td>8.6</td>
<td>6.0</td>
<td>4.6</td>
<td>6.6</td>
<td>—</td>
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<tr>
<td>Notes</td>
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<td>6.2</td>
<td>7.8</td>
<td>10.1</td>
<td>—</td>
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<tr>
<td>Bonds</td>
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<td>18.6</td>
<td>11.4</td>
<td>—</td>
</tr>
<tr>
<td><strong>State and local government securities</strong></td>
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<td>8.2</td>
<td>8.9</td>
<td>10.5</td>
<td>14.9</td>
</tr>
<tr>
<td>Other securities</td>
<td>3.2</td>
<td>2.4</td>
<td>1.9</td>
<td>1.9</td>
<td>4.6c</td>
</tr>
</tbody>
</table>

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a Effective December 1959, loans to nonbank financial institutions were segregated. These loans were previously included in three categories: commercial and industrial, other, loans to banks.
b Prior to December 1965, Federal Funds sold were included with total loans and loans to “Banks.”
c Beginning with June 1966, loans to farmers directly guaranteed by CCC, were reclassified from loans to “Other Securities.” This increased “Other Securities” by about $1 billion.

**Source:** Computed by Research Department, Federal Reserve Bank of Richmond, from data in *Federal Reserve Bulletins* and Federal Deposit Insurance Corporation *Call Reports.*
<table>
<thead>
<tr>
<th>Assets</th>
<th>Total</th>
<th>$1 mil. to $2 mil.</th>
<th>$2 mil. to $5 mil.</th>
<th>$5 mil. to $10 mil.</th>
<th>$10 mil. to $25 mil.</th>
<th>$25 mil. to $50 mil.</th>
<th>$50 mil. to $100 mil.</th>
<th>$100 mil. to $500 mil.</th>
<th>$500 mil. to $1 bl. or more</th>
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<tbody>
<tr>
<td>Cash, Reserves, Balances with Banks, and</td>
<td>15.3</td>
<td>15.0</td>
<td>14.2</td>
<td>11.7</td>
<td>11.0</td>
<td>10.8</td>
<td>10.7</td>
<td>11.5</td>
<td>14.5</td>
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<tr>
<td>Collection Items</td>
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<td></td>
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<td></td>
<td></td>
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<td>Investment Securities, Total</td>
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<td>37.4</td>
<td>31.6</td>
<td>34.8</td>
<td>34.1</td>
<td>33.3</td>
<td>31.4</td>
<td>30.4</td>
<td>26.6</td>
</tr>
<tr>
<td>U. S. Government Securities</td>
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<td>10.8</td>
<td>27.4</td>
<td>27.0</td>
<td>22.5</td>
<td>19.0</td>
<td>16.2</td>
<td>14.8</td>
<td>12.2</td>
</tr>
<tr>
<td>Other</td>
<td>12.6</td>
<td>26.6</td>
<td>4.1</td>
<td>7.7</td>
<td>11.6</td>
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<td>15.2</td>
<td>15.6</td>
<td>14.4</td>
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<td>Trading Account Securities</td>
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<td>0.0</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.2</td>
<td>0.2</td>
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<tr>
<td>Federal Funds Sold and Securities</td>
<td>3.6</td>
<td>2.3</td>
<td>8.0</td>
<td>5.8</td>
<td>5.5</td>
<td>4.6</td>
<td>4.7</td>
<td>3.4</td>
<td>3.8</td>
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<tr>
<td>Purchased under Agreements to Resell</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and Discounts, Total</td>
<td>52.5</td>
<td>21.4</td>
<td>43.9</td>
<td>46.1</td>
<td>47.4</td>
<td>49.0</td>
<td>50.5</td>
<td>51.7</td>
<td>51.6</td>
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<tr>
<td>Other Assets</td>
<td>3.7</td>
<td>19.5</td>
<td>2.3</td>
<td>1.7</td>
<td>1.9</td>
<td>2.2</td>
<td>2.8</td>
<td>3.0</td>
<td>3.3</td>
</tr>
<tr>
<td>Total Assets</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

| Liabilities                                |       |                   |                   |                     |                     |                     |                      |                        |                          |                          |
| Deposits, Total                           | 83.3  | 17.6              | 82.3              | 88.4                | 89.4                | 89.6                | 87.2                 | 88.1                   | 85.6                     | 83.5                     | 78.4                     |
| Demand                                    | 40.1  | 10.3              | 44.8              | 40.8                | 38.9                | 37.7                | 36.6                 | 37.0                   | 40.0                     | 42.4                     | 41.4                     |
| IPC                                       | 43.3  | 7.2               | 37.4              | 47.6                | 50.5                | 51.9                | 50.6                 | 50.5                   | 45.6                     | 41.1                     | 37.0                     |
| Time and Savings                          | 36.6  | 6.7               | 33.0              | 43.4                | 46.1                | 47.0                | 45.3                 | 44.0                   | 38.4                     | 34.7                     | 29.6                     |
| Miscellaneous Liabilities, Total          | 8.6   | 40.5              | 2.2               | 1.6                 | 1.9                 | 2.3                 | 4.8                  | 4.1                    | 6.7                      | 8.5                      | 13.6                     |
| Total Liabilities                         | 91.9  | 58.1              | 84.5              | 90.0                | 91.3                | 91.9                | 92.1                 | 92.2                   | 92.3                     | 92.0                     | 92.0                     |
| Reserves on Loans and Securities, Total   | 0.9   | 0.1               | 0.4               | 0.6                 | 0.7                 | 0.8                 | 0.8                  | 0.8                    | 0.9                      | 0.9                      | 1.1                      |
| Capital Accounts, Total                   | 7.1   | 41.6              | 15.1              | 9.4                 | 8.0                 | 7.3                 | 7.1                  | 7.0                    | 6.9                      | 7.1                      | 7.0                      |
| Total Liabilities, Reserves, and Capital  | 100.0 | 100.0             | 100.0             | 100.0               | 100.0               | 100.0               | 100.0                | 100.0                  | 100.0                    | 100.0                    | 100.0                    |

1 Includes Minority Interest in Consolidated Subsidiaries, not listed separately, because it is 0.1% in "Less than $1 million" and 0 in all other sizes.

For all commercial banks, business loans dropped from 36.2 percent of total loans in 1959 to 34.2 percent in 1972. Again, if Federal funds sold are included in total loans, the relative decline in business loans over this period was even greater. Member banks located in New York City and Chicago experienced very large declines in the relative importance of business loans while large member banks located outside the money markets showed a modest drop. In contrast, business loans gained in relative importance at smaller banks. Nonmember banks, for example, show an increase in business loans from 20.8 percent to 26.2 percent of total loans.

For large member banks the decline in the relative importance of business loans was offset in part by increases in real estate loans and in loans to banks and other financial institutions. Consumer loans declined in relative importance at these banks. The experience of smaller banks (country member banks and nonmember banks) was again just the opposite of that of the large banks, with real estate loans declining in importance and consumer loans increasing.

A glance at Table II, which shows a breakdown of assets and liabilities by size of bank, reveals how diverse the commercial banking system in the United States is and how misleading it can be to think of some kind of average bank as being representative of all banks. There is very little similarity between the asset and liability structures of small banks and very large banks. At the end of 1972, for example, banks with from $1 million to $5 million in total deposits held more than 25 percent of total assets in U.S. Government obligations; banks with $500 million or more in deposits held 10 percent or less in this form. On the other hand, the ratio of loans to total assets rises steadily as the size of the bank increases, from 21 percent for very small banks to almost 55 percent for very large ones.

An examination of loan structure in relation to size reveals enormous differences in the lending practices of different size banks (Table III). It also shows how far most commercial banks diverge from the traditional concept of a commercial bank as primarily a provider of short-term credit to business. Business loans constitute less than 21 percent of the loan portfolios of banks with less than $25 million of deposits, and only the very large banks ($500 million or more of deposits) have more than a third of their loans in the form of business loans.

What might be termed small to moderate size banks, those with deposits of less than $100 million, are definitely “consumer banks” in the sense that real estate and consumer loans are both relatively more important in their portfolios than are loans to business. Banks in the

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2 Figures for 1959 are used because prior to that time loans to financial institutions other than banks were included in other loan categories, mainly business loans.

3 Only a little over 40 percent of all commercial banks are members of the Federal Reserve System, but they hold over 79 percent of all commercial bank assets. Until recently, almost 97 percent of member banks were classified as “country” banks, but they hold only about 40 percent of the assets of all member banks. Nonmember banks are mostly relatively small banks, but some fairly sizable banks are now included in this category.
### TABLE III

**LOAN STRUCTURE BY SIZE OF BANK**

**December 31, 1972**

<table>
<thead>
<tr>
<th>Loan Category</th>
<th>All Banks</th>
<th>Less than $1 mil.</th>
<th>$1 mil. to $2 mil.</th>
<th>$2 mil. to $5 mil.</th>
<th>$5 mil. to $10 mil.</th>
<th>$10 mil. to $25 mil.</th>
<th>$25 mil. to $50 mil.</th>
<th>$50 mil. to $100 mil.</th>
<th>$100 mil. to $500 mil.</th>
<th>$500 mil. to $1 bl. or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Loans and Discounts</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Real Estate Loans</td>
<td>25.3</td>
<td>15.7</td>
<td>20.3</td>
<td>26.3</td>
<td>30.7</td>
<td>33.4</td>
<td>33.1</td>
<td>33.8</td>
<td>29.4</td>
<td>27.7</td>
</tr>
<tr>
<td>Loans to Banks and Other Financial Institutions</td>
<td>7.7</td>
<td>0.5</td>
<td>1.4</td>
<td>0.9</td>
<td>0.8</td>
<td>1.0</td>
<td>1.6</td>
<td>2.0</td>
<td>4.6</td>
<td>7.1</td>
</tr>
<tr>
<td>Loans to Purchase or Carry Securities</td>
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<td>0.5</td>
<td>0.6</td>
<td>0.7</td>
<td>0.8</td>
<td>1.6</td>
<td>2.2</td>
<td>2.2</td>
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<tr>
<td>Loans to Farmers</td>
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<td>10.0</td>
<td>29.2</td>
<td>29.9</td>
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<tr>
<td>Commercial and Industrial Loans</td>
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<td>20.9</td>
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<td>28.4</td>
<td>31.7</td>
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<td>Consumer Loans</td>
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<td>53.1</td>
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<td>31.4</td>
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<td>27.4</td>
<td>23.6</td>
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<td>All Other Loans</td>
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<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
<td>1.2</td>
<td>2.3</td>
<td>2.9</td>
</tr>
</tbody>
</table>

* Does not include Federal funds sold.


### TABLE IV

**DEPOSIT STRUCTURE BY SIZE OF BANK**

**December 31, 1972**

<table>
<thead>
<tr>
<th>Deposit Category</th>
<th>All Banks</th>
<th>Less than $1 mil.</th>
<th>$1 mil. to $2 mil.</th>
<th>$2 mil. to $5 mil.</th>
<th>$5 mil. to $10 mil.</th>
<th>$10 mil. to $25 mil.</th>
<th>$25 mil. to $50 mil.</th>
<th>$50 mil. to $100 mil.</th>
<th>$100 mil. to $500 mil.</th>
<th>$500 mil. to $1 bl. or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Deposits</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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</tr>
<tr>
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<td>Time and Savings Deposits</td>
<td>51.9</td>
<td>41.5</td>
<td>45.5</td>
<td>53.9</td>
<td>56.5</td>
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<td>58.0</td>
<td>57.3</td>
<td>53.3</td>
<td>49.2</td>
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<td>Savings</td>
<td>(20.1)</td>
<td>(16.5)</td>
<td>(12.6)</td>
<td>(15.9)</td>
<td>(19.7)</td>
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<tr>
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<td>(32.7)</td>
<td>(31.1)</td>
<td>(30.7)</td>
<td>(28.5)</td>
</tr>
</tbody>
</table>

$10 million to $100 million deposit category are especially consumer oriented, with almost two-thirds of their total loans in the form of real estate and consumer loans. This pattern differs from that of the smaller banks, who hold a substantial part of total loans in the form of agricultural loans, and of larger banks, where “financial” loans constitute an important share of the total.

The diverse nature of the banking system is also revealed in a breakdown of liabilities and capital accounts by size of bank. Here, too, it may be possible to divide banks into three groups. Very large banks and very small banks rely less on deposits as a source of funds than do the moderate size banks. Deposits amount to from 87 to 90 percent of total liabilities and capital accounts for banks with deposits ranging from $2 million to $100 million, but they are much less important for banks with less than $2 million or more than $500 million deposits. Capital accounts are a much larger share of the total for small banks, and borrowings are more important for large banks.

Deposit structure also varies with respect to size of bank, with very small and very large banks having a higher proportion of total deposits in the form of demand deposits than the intermediate size banks (Table IV). Moreover, savings deposits constitute a much larger part of the total at intermediate size banks than at the very small or very large banks.

The overall picture one gets from a study of the sources and uses of bank funds in relation to size of bank is that of a banking system divided roughly into three groups. It should be recognized, of course, that there is a good deal of overlapping among these groups. Any one bank of a given size might have quite different characteristics than the average for the group of banks of that size. Nevertheless, it is possible to make some broad generalizations about these three categories of banks.

The large banks operate primarily in national and international loan markets, with their loan portfolios heavily weighted toward business loans and loans to financial institutions. Demand deposits are a more important source of funds to these institutions than to smaller banks, but savings deposits of individuals are relatively less important. These large banks obtain a fairly substantial part of their total funds from the money market, bidding for funds in the open market, and reinvesting these funds for a profit.

The small and intermediate size banks have many similarities, but there are also important differences. The very small banks operate primarily in local markets. They do not appear to bid very aggressively for time and savings deposits but instead rely more heavily on demand deposits than do the moderate size banks. Consumer loans and loans to farmers make up a large part of their loan portfolios, but real estate loans are much less important than they are to the intermediate size banks.

The intermediate size banks operate in both local and regional markets. Many banks in the $100 to $500 million range would be categorized as regional banks, while many of those in the $5 million to $25
million range would typically operate almost entirely in local markets. The intermediate size banks appear to be somewhat more consumer oriented than either the very large or the very small banks. Consumer and real estate loans make up almost two-thirds of their total loans, and more than 57 percent of their funds come from time and savings deposits. Indeed, these banks appear to have many of the characteristics of thrift institutions, with the savings deposits of individuals accounting for about one-fourth of their total funds.

CHANGES IN BANKING STRUCTURE AND ORGANIZATION

In the last quarter century rapid economic growth, dramatic shifts in population patterns, and significant changes in the commercial and industrial structure all helped to bring about enormous changes in the structure of the banking system and in the manner in which banks are organized. As noted earlier, this period saw large movements of people from rural to urban areas and massive migrations from central cities to the suburbs. The growing affluence of the population brought changes in savings and consumption patterns and created a need for increased banking services. At the same time, new industries developed, others shifted their geographic locations, and the average size of business units increased.

Population shifts centered the demands for new and increased services on areas that were served either inadequately or not at all by existing banking offices. Changes in the commercial and industrial structure, including the recent rapid growth in multinational corporations, also created needs for additional and different banking services in new areas. Finally, increasing costs and the growth of automation provided incentives for a technological revolution in banking, with important implications for the kinds of services banks could offer to their clients as well as for the manner in which banks were organized.

These changes, together with the trend toward consumer banking discussed earlier, put tremendous pressures on the banking industry to increase greatly the number of banking offices to serve the public and to achieve a substantial increase in the size of the average banking organization. There was also pressure on bank management to seek new methods of organizing banking institutions. These pressures resulted in a wave of bank mergers that began in the early 1950's and extended through the 1960's, an increase in de novo branches of monumental proportions, and a phenomenal growth in bank holding companies.

MERGERS AND DE NOVO BRANCHING  In earlier years the response to the changing conditions and needs described above might well have been a very rapid expansion in the number of banks, but this is not what occurred in the most recent period. Indeed, between the end of 1952 and the end of 1972, the number of banks in the United States declined. Although a substantial number of new banks were organized during this period, this increase was more than offset by the number of mergers and voluntary liquidations.
Chart 2

COMMERCIAL BANKING OFFICES
IN THE UNITED STATES

Number (in thousands)

Source: Board of Governors of the Federal Reserve System.

Chart 2 shows the changes in the number of banks, branches, and banking offices over the last several decades. As this chart indicates, while the number of banks has remained virtually unchanged over the last 20 years, the number of banking offices has increased dramatically. At the end of 1952, there were 19,319 banking offices in the United States, with head offices outnumbering branches by almost three to one. In the next 20 years the number of banking offices just about doubled, and branches came to outnumber head offices by almost two to one.

Most of this increase in branches came as a result of mergers or through the establishment of de novo branches. More than 3,000 banks were consolidated with or absorbed by other banks between 1952 and 1972, and more than 2,600 of these were converted into branches. During this same period 17,526 de novo branches were established. The rate at which new branches were established was much higher in the late 1960's than in the 1950's, while just the opposite was true of conversions. In the years 1950 through 1959 new branches were established at an average annual rate of about 384; in the years 1960-1965...
the average had moved up to about 933; and from 1968 through 1972 it was about 1,320. From 1954 through 1959, conversions averaged about 158 per year; from 1967 through 1972 they averaged about 114 per year.

Many of the changes in banking structure during this period, including many of the mergers, appear to have been motivated by a desire to expand branch banking systems. This was especially true of the changes that occurred in the 1950’s. As mentioned earlier, the growing emphasis on consumer banking and the large postwar shifts in population put pressure on banks to acquire additional banking offices closer to their customers. In contrast to an earlier age when bankers erected ornate office buildings in the downtown financial district and waited for their customers to come to them, bankers in recent years have made a determined effort to go where the people are.

BANK HOLDING COMPANIES Bank holding companies have been a part of American banking for many years, but only in the last decade did this form of bank organization become the vehicle for a profound reorganization of the banking structure. Moreover, many observers believe that the holding company device has perhaps the greatest potential for future changes in banking.

After a period of substantial growth in the 1920’s, bank holding companies declined in number and importance in the 1930’s and 1940’s. From a high of 97 at the end of 1931, the number of bank holding companies fell to a low of 20 at the end of 1948. In spite of this decline, however, the Federal Reserve System became concerned about the potentially adverse effects stemming from the activities of bank holding companies and as early as 1943 asked Congress for legislation to deal with the situation. Legislation enacted in the 1930’s had given the Board of Governors limited supervisory authority over holding companies, but the Board had little control over the formation and expansion of these organizations.

Two aspects of holding company activities were especially criticized by the Board. First, the ability of holding companies to acquire banks without prior consent appeared to be in conflict with Federal laws relating to branch banking. Second, the ability of bank holding companies to combine bank ownership with extensive nonbanking activities seemed to be in conflict with the intent of Congress that banks should not engage in business unrelated to banking.

Many years passed, however, before Congress enacted the Bank Holding Company Act of 1956. This Act required companies owning or controlling at least 25 percent of the stock of each of two or more banks to register with the Federal Reserve System. Moreover, the Act required prior approval by the Board of Governors for the formation of a holding company, for the acquisition by such a company of more than 5 percent of the voting shares of a bank, or for the acquisition of substantially all of the assets of a bank by a bank holding company.

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The Act also limited nonbanking activities of multi-bank holding companies to the performance of services that were "a proper incident to" banking or managing or controlling banks and, in addition, were "of a financial, fiduciary or insurance nature." Finally, the Act in effect limited the growth of bank holding companies by means of bank acquisitions to a single state for each company.

There was no great increase in the number of bank holding companies during the interval in which Congress was considering the holding company legislation, nor was there much growth in the following decade. By 1956, the number of holding companies had grown to 53, controlling 428 banks. In 1965 the number was still 53, controlling 468 banks.

From 1965 through 1970, however, substantial growth of multi-bank companies occurred. By the end of 1970, 121 companies controlling 895 banks and holding $78.0 billion of deposits were registered with the Board of Governors. Deposits of banks in multi-bank holding companies in 1970 amounted to 16.2 percent of total deposits, almost double the percentage just five years earlier.

ONE-BANK HOLDING COMPANIES  It is important to note that the provisions of the Bank Holding Company Act of 1956 did not apply to companies controlling only one bank. The Board of Governors had urged Congress to make the Act applicable to one-bank holding companies, pointing out that abuses resulting from combining both banking and nonbanking activities can exist regardless of whether one bank or more than one bank is controlled. Nevertheless, Congress excluded one-bank holding companies from regulation in 1956, apparently concluding that this type of organization was relatively unimportant at that time. One-bank holding companies, therefore, were totally unrestricted as to the types of business in which they could engage. Although the Bank Holding Company Act was amended in 1966, these organizations remained exempt from regulation. Not until 1970 were one-bank holding companies finally brought under regulation.

One-bank holding companies were relatively unimportant at the time the 1956 legislation was being considered. It has been estimated that about 117 one-bank holding companies existed in 1955 and that the banks controlled by these companies held some $12 billion in deposits. The great majority of these organizations appear to have had as a nucleus a small bank that for one reason or another the owners preferred to own through a holding company rather than owning it directly.

There seems to have been little change in the character of one-bank holding companies in the decade following passage of the Bank Holding Company Act. By 1965 the number of such organizations had increased to 550, but most of them still were relatively small organizations that controlled small banks. Their deposits amounted to only $15.1 billion, or 4.5 percent of total deposits. This figure was approximately half the size of deposits of banks owned by multi-bank holding companies.

But between 1965 and 1970 the number of one-bank holding companies increased dramatically, while the characteristics of the banks
involved changed significantly. From January 1, 1966 through June 30, 1968, 201 new one-bank holding companies were formed; and between June 30, 1968 and December 31, 1970, an additional 690 such companies were created. Some of the new companies owned very large banks. In 1965, only one billion-dollar bank had been affiliated with a one-bank holding company; at the end of 1970, 28 banks with deposits of $1 billion or more were affiliates of one-bank holding companies. In the latter year, one-bank holding companies accounted for 38 percent of the nation's commercial bank deposits.

Moreover, a large number of one-bank holding companies formed in the 1960's were primarily engaged in activities classified as not closely related to banking. This was especially characteristic of the holding companies formed by large banks between June 1968 and the end of 1970. No less than 23 of the 28 subsidiary banks with deposits in excess of $1 billion were controlled by holding companies classified as not closely related to banking. These organizations accounted for only 2.5 percent of the total number of diversified companies at the end of 1970, but they owned almost 8 percent of all nonbank subsidiaries.

FURTHER LEGISLATION The tremendous growth in one-bank holding companies and the extensive range of nonbanking activities engaged in by subsidiaries of these companies—some of which were not permitted to banks directly—caused much public concern. In 1970, this concern was manifested in amendments to the Bank Holding Company Act that brought all bank holding companies, both one-bank and multi-bank, under the supervision of the Federal Reserve System.

The effect of the amendment was to reduce drastically the activities open to one-bank holding companies while permitting multi-bank companies to engage in some activities that had not been open to them previously. In the course of its consideration of the 1970 amendments, Congress weighed the advisability of promulgating a lengthy "laundry list" of activities prohibited to bank holding companies. In the end, however, this approach was rejected. Instead, Congress laid down rather broad guidelines and authorized the Board of Governors to approve those activities the Board had determined to fall within the guidelines. Section 4(c)(8) of the Act authorizes bank holding companies to acquire (in addition to the shares of banks) shares of any company the activities of which have been determined by the Board of Governors to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making these determinations, the Board is required to weigh the public benefits of such activities (such as increased convenience, competition, or gains in efficiency) against possible adverse effects (such as undue concentration, decreased competition, or unsound banking practices).

Multi-bank holding companies and one-bank holding companies both grew rapidly in the late 1960's, but these two different types of

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organizations had been used to achieve quite different objectives. Prior to the 1970 amendments to the Bank Holding Company Act, registered bank holding companies were almost as restricted in their activities as were banks. One-bank holding companies, on the other hand, were almost completely unrestricted as to the types of businesses they could acquire. Therefore, most multi-bank holding companies were formed in an attempt to achieve geographic expansion in areas where there were legal restraints on branching. One-bank holding companies, however, were formed for the purpose of achieving diversification into activities not open to banks or to registered bank holding companies. The effect of the 1970 amendments was to enable all bank holding companies to achieve a reasonable amount of diversification by providing financial services closely related to banking, while preserving the separation of commerce and banking that has long been an objective of public policy. At the same time, holding companies retained the ability to expand geographically by acquiring banks and/or approved nonbank businesses within state limits and by providing nonbank services across state lines.

Thus far, 11 types of nonbanking activities, which may be broken down into some 17 or more specific activities, have been authorized under Section 4(c)(8). Requests for approval to engage in several types of activities have been denied, and there were several others under consideration at the time this article was prepared. It should be noted that the list of approved activities is not closed. In the years ahead, therefore, the Board of Governors may be asked to consider, and may approve, activities that are not even dreamed of at this time. Moreover, the Board may from time to time reconsider some activities that it has in the past denied.

RECENT DEVELOPMENTS The 1970 amendments to the Bank Holding Company Act closed off many activities previously open to one-bank holding companies and eliminated the advantages they had over multi-bank companies. As a result, much of the incentive to establish one-bank holding companies was removed. Consequently, the formation of these organizations has slowed, and many former one-bank companies have become multi-bank companies. Nevertheless, the holding company movement has resulted in an historic reorganization of American banking. By the end of December 1972, a total of 1,607 companies were registered with the Federal Reserve System. They controlled 2,720 banks operating over 16,000 offices and holding $379 billion in total deposits. Holding company banks accounted for 42 percent of all commercial banking offices, 61 percent of total deposits, and 63 percent of assets. The importance of bank holding companies varies from state to state, with holding company banks accounting for less than 5 percent of total deposits in some states and more than 75 percent in others.

The one-bank holding company movement and the legislation that grew out of it achieved what many bankers believed to be a desperately needed diversification of banking activities. Among the activities that subsidiaries may now engage in are commercial and consumer finance, mortgage banking, certain types of insurance services, personal prop-
erty leasing, data processing, factoring, investment advisory services, and several others. It is of equal importance, perhaps, that the list of permissible activities is not closed. The Board of Governors may continue to consider additional types of activities, thus giving the banking system added flexibility to respond to future changes in the economy and the financial system. It is also of great importance that bank holding companies may now provide a variety of financial services across state lines. This development could have great bearing on the future evolution of American banking.

THE DEVELOPMENT OF LIABILITY MANAGEMENT

The emergence of liability management as a method of providing for bank liquidity is considered by some bankers to be the most significant development in banking in recent decades. As noted earlier, because of the special nature of commercial banking, adequate provision for liquidity is of the utmost importance to bank management. But the methods employed by bankers to provide for liquidity have changed dramatically over time. In the early years of this century the most widely accepted theory of banking held that banks should provide for liquidity by restricting bank credit to short-term, self-liquidating business loans. Most bankers accepted this doctrine, at least in principle, although in practice there were many departures from it. By the decade of the 1970's, the departures from the commercial loan theory had become quite common, and the economic and financial collapse of the 1930's revealed all too clearly the fallacies of this theory. The demise of the commercial loan theory was followed by the emergence of the so-called shiftability theory, according to which a bank could provide for liquidity by holding assets that might easily be shifted to others with little loss in value. Short-term obligations of the United States Government are a good example of such “secondary reserves,” although other assets are characterized by varying degrees of shiftability.

The shiftability theory was dominant from the early 1930's through the mid-1960's and indeed is still widely accepted. Acceptance of this theory was encouraged by the growth of Government securities in the investment portfolios of commercial banks in the 1930's and especially during World War II, as well as by the Federal Reserve policy of supporting the prices of Government securities during and immediately after World War II. At the end of the Second World War, almost three-fourths of commercial bank assets were in the form of Treasury securities, many of them short-term. Over the next 15 years, therefore, banks were able to meet the strong loan demand generated by a prosperous and expanding economy by liquidating some of these securities.

A new approach to bank liquidity made its appearance in the early 1960's. According to this new view of liquidity, a bank may acquire the reserves needed to meet either an expanding loan demand or a loss in reserves by increasing its liabilities, usually by the issuance of some type of money market paper. In effect, the bank would go into the money
market and buy the needed reserves. Although a number of other new liability instruments have been employed over the last decade, the instrument most closely associated with liability management has been the negotiable certificate of deposit. Prior to the early 1960's, commercial banks had not competed actively against thrift institutions for savings accounts. In the early 1950's, for example, savers could earn more than twice as much on investments in savings and loan shares as they could on deposits in commercial banks. And although the interest rate paid by commercial banks rose faster than that on savings and loan shares in the late 1950's, the differential was still almost 1 1/2 percentage points as late as 1960.

In spite of this somewhat passive attitude on the part of bankers toward attracting savings accounts, time and savings deposits at commercial banks enjoyed good growth during the 1950's, almost doubling in that decade. Bank loans rose much more rapidly than deposits, however, and although banks met part of the loan demand by liquidating securities, by the early 1960's the growing demand for funds was putting increasing pressure on the liquidity positions of some banks. These pressures were especially intense on the large banks located in major money markets. Prior to 1961 New York City banks paid no interest on corporate time deposits; and, of course, they could not pay interest on demand deposits. At the same time, rising market interest rates provided ever larger incentives for corporate treasurers to invest temporarily idle funds in money market instruments. In contrast to the experience at other banks, therefore, between 1945 and 1960 there was almost no growth in total deposits at large New York City banks. In addition, some banks found that steady liquidation had reduced their security holdings almost to the amounts pledged against public deposits, while rising interest rates had reduced prices of securities in bank portfolios to such an extent that they could be sold only at large capital losses. It was these conditions that led to the introduction of the negotiable certificate of deposit in 1961 and eventually to a radical change in the approach toward liquidity management.

THE FEDERAL FUNDS MARKET Some writers trace the beginnings of liability management back to the rebirth of the Federal funds market in the early 1950's. But while Federal funds unquestionably have played an important role in liability management in recent years, it is doubtful that transactions in this market in the 1950's were of the positive, aggressive type characteristic of liability management. It seems more likely that they were the result of last minute attempts by banks to make adjustments in their reserve positions by borrowing excess reserves not needed by other banks. In recent years, however, Federal funds have become something more than a device for making last minute reserve adjustments. Large banks have been looking increasingly to the market as a more or less continuous source of funds in periods of intense reserve pressures. The phenomenal growth in this market in the late 1960's and early 1970's is evidence of this change. Gross purchases of funds averaged just over $1 billion in
1960, but in late 1968 they ranged between $4 and $5 billion, and by mid-1973 they had risen to the $14 to $15 billion range.

THE NEGOTIABLE CERTIFICATE OF DEPOSIT  Thus, while the purchase of Federal funds is thought by some to be one of the earliest examples of liability management, the introduction of the negotiable certificate of deposit is generally considered to be the most significant innovation in this field. Nevertheless, at the time negotiable CD's were introduced their potential for liquidity management was not fully realized, and it might be argued that true liability management did not emerge until some time later.7

After its introduction by a New York bank in 1961, the negotiable CD grew rapidly in popularity. The chief contributing factor was the development of a secondary market for CD's, which greatly increased their liquidity. Consequently, use of the CD soon spread to large banks throughout the country. Money position managers at these banks now learned that the volume of CD's they could market was very sensitive to variations in the interest rate paid. As long as interest rates on competing money market instruments were below the maximum rates banks could pay on CD's, the individual large money market bank had a great deal of control over the funds available to it for lending. If the bank had a sudden sharp increase in loan demand, it would simply raise the interest rate on its CD's and attract the needed funds. If, on the other hand, the Regulation Q ceiling was not raised in step with market rates, in periods of monetary restraint the banks would experience a runoff of CD's with consequent intense liquidity pressures.

This latter situation occurred in the periods of credit restraint in 1966 and 1969. Prior to 1966, the Federal Reserve had always raised the Regulation Q ceiling whenever market rates approached the ceiling rate, but in 1966 this was not done. Instead, market rates were permitted to rise above the ceiling rate without any change in the latter rate.

It should be noted that neither the purchase of Federal funds nor the issuance of CD's increases the total reserves available to the banking system. Federal funds transactions simply transfer excess reserves from banks that do not need them to banks that do. The sale of CD's may also bring about a redistribution of reserves in the banking system, but the final effect is different from the Federal funds transaction in at least two important respects. First, since the sale of CD's ordinarily transforms demand liabilities into time liabilities the required reserves of the banking system are reduced and excess reserves are increased. The exact effect on the reserve position of a particular issuing bank will depend on whether the purchaser of the CD pays for it by drawing a check on that bank or on another bank. The second difference is that in a Federal funds transaction, the bank losing reserves voluntarily sells them to the other bank. In a CD

transaction the bank losing reserves is not a party to the transaction.

These effects of CD transactions had a bearing on the 1966 change in Regulation Q policy. Although the popularity of negotiable CD's had increased rapidly following their introduction in 1961, only a relatively few large banks could control the flow of CD funds with any certainty. Smaller banks' CD's were not traded regularly in the secondary market and consequently did not enjoy the liquidity of the CD's issued by larger and better-known banks. The smaller banks found that they were not as able to control the volume of their CD's by varying the interest rate as were the money market banks. In a period of extremely tight money, as in 1966, the very large money market banks were able to attract reserves away from smaller banks throughout the country. One result of this was that the effects of the tight money policy fell more heavily on the small and medium size banks than on the very large banks. Moreover, since the loan demand at the very large banks was different from that of smaller banks, there was something of a redistribution of available bank credit toward large business borrowers.

When market rates rose above the Regulation Q ceiling in 1966, there was a moderate runoff of large-denomination CD's, a trend that was reversed in early 1967 when market rates declined. The sequence of events was very similar in 1969, except that the runoff was much larger and of longer duration. Outstanding large-denomination CD's of large weekly reporting commercial banks reached a peak of $24.3 billion in early December 1968, but by early February 1970 the volume had fallen to $10.3 billion.

A runoff of CD's tends to convert time liabilities of banks into demand liabilities, which, of course, increases required reserves of the banking system. A runoff of the magnitude experienced in 1969 would greatly reduce the excess reserves of the banking system and, unless offset by Federal Reserve actions, impose great pressure on the overall reserve positions of banks. The impact on money market banks would be especially severe. Because of this, some people began to look upon Regulation Q as a powerful monetary policy tool.

The severe impact of the runoff of CD's on the reserve positions of large banks at a time of strong loan demand and rising interest rates caused these banks to exercise their ingenuity in devising alternative methods of raising funds by the issuance of nondeposit liabilities that were not subject to either Regulation Q ceilings or reserve requirements. The banks showed they were not lacking in ingenuity. For several years they and the Federal Reserve System played something of a cat-and-mouse game in which the banks would devise a new method of raising funds not subject to Regulations D and Q, the System consequently would change the regulations to cover the new instrument, whereupon the banks would come up with another source of funds, and so on.

THE EURODOLLAR MARKET One of the earliest alternative methods of raising funds was the borrowing of Eurodollars, especially from foreign branches of the borrowing banks. U. S. banks had operated
in the Eurodollar market for some years; but it was during the period of severe credit stringency in 1966, when Regulation Q ceilings were causing a runoff of CD's, that a number of banks turned to the Eurodollar market as an important source of funds with which to meet a burgeoning loan demand. Liabilities of U. S. banks to their foreign branches rose from about $2 billion at mid-1966 to about $4 billion at year's end. They declined in the first half of 1967 as the volume of CD's rose sharply but rose almost steadily thereafter, reaching a total of about $15 billion in late 1969. In the first half of 1969, during the very sharp runoff of CD's, liabilities of U. S. banks to their foreign branches doubled, from $7 billion to about $14 billion. The Federal Reserve was concerned that these Eurodollar borrowings were enabling relatively few large banks to escape the effects of restrictive monetary policy, and in August 1969 the Board of Governors imposed a marginal reserve requirement on any additional borrowings in the Eurodollar market. Shortly thereafter loan demand in the United States eased and banks began to repay their Eurodollar borrowings. In the most recent period of tight money and high interest rates, when Regulation Q ceilings on large-denomination CD's were removed, Eurodollar borrowings rose very little.

OTHER NONDEPOSIT SOURCES OF FUNDS Banks have developed a number of other nondeposit sources of funds in recent years in an effort to soften the effect of restrictive monetary policy, lower the effective cost of borrowed money, or achieve better control over the funds available to them. During the runoff of CD's in 1966, for example, banks issued short-term promissory notes as a substitute for CD's, but Regulations D and Q were quickly amended to make such notes subject to reserve requirements and interest rate ceilings. More recently, banks have raised funds by selling commercial paper through their holding companies, affiliates, or subsidiaries. Other methods of acquiring reserves have included the sale of loans under repurchase agreements (often to bank affiliates) as well as the outright sale of loans to affiliates and to the nonbank public.

As noted earlier, many observers consider the emergence and growth of liability management to be the most significant development in banking in many decades. They say that it represents a basic change in the nature of banking itself. No longer does the banker act in the role of a fiduciary, passively accepting deposits and attempting to invest these funds in a manner that will preserve their value while earning what is considered an adequate return. Rather, he has become an active, aggressive money market broker, bidding for funds in national and international money markets and reinvesting them in a manner designed to maximize the return on invested capital. This change has brought the banker into active competition with a number of money market institutions, in addition to the rivalry he faces from more traditional competitors. Moreover, the practice of liability management has enabled large money market banks to avoid some of the impact of restrictive monetary policy.
THE GROWTH OF INTERNATIONAL BANKING

The international banking activities of U. S. banks expanded tremendously over the last decade or two. Prior to that time, U.S. banks had never been heavily involved in international banking. There had been a promising move toward overseas operations by American banks in the 1920's, but this activity was halted by the Great Depression of the 1930's and almost eliminated by World War II. The economic disruptions caused by the war and the elaborate systems of exchange controls that followed prevented any substantial recovery of private international banking operations for almost a decade following the cessation of hostilities.

The relaxation of exchange controls and the restoration of convertibility for most major currencies in the late 1950’s and early 1960’s, together with the creation of the Common Market in 1958, set the stage for a period of strong economic growth in Western Europe.

TABLE V
FOREIGN CLAIMS AND LIABILITIES REPORTED
BY BANKS IN THE UNITED STATES
(millions of dollars)

<table>
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<td>Total claims</td>
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<td>Payable in foreign currencies</td>
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<td>492</td>
<td>610</td>
<td>895</td>
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<td>Payable in dollars</td>
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<td>Loans</td>
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<td>2,970</td>
<td>3,061</td>
<td>3,969</td>
<td>5,674</td>
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<td>Collections outstanding</td>
<td>605</td>
<td>1,272</td>
<td>2,389</td>
<td>2,475</td>
<td>3,269</td>
</tr>
<tr>
<td>Acceptances made for foreign account</td>
<td>—</td>
<td>2,508</td>
<td>3,985</td>
<td>4,254</td>
<td>3,204</td>
</tr>
<tr>
<td>Other short-term dollar claims</td>
<td>1,233</td>
<td>492</td>
<td>766</td>
<td>1,079</td>
<td>2,478</td>
</tr>
<tr>
<td>Long-term claims</td>
<td>1,698</td>
<td>4,517</td>
<td>3,075</td>
<td>3,667</td>
<td>4,954</td>
</tr>
<tr>
<td>Payable in foreign currencies</td>
<td>9</td>
<td>25</td>
<td>92</td>
<td>22</td>
<td>40</td>
</tr>
<tr>
<td>Loans payable in dollars</td>
<td>4,508</td>
<td>2,098</td>
<td>3,345</td>
<td>4,539</td>
<td></td>
</tr>
<tr>
<td>To official institutions</td>
<td>504</td>
<td>575</td>
<td>833</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To banks</td>
<td>236</td>
<td>315</td>
<td>430</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To other foreigners</td>
<td>1,968</td>
<td>2,455</td>
<td>3,275</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other long-term claims</td>
<td>352</td>
<td>300</td>
<td>375</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>21,279</td>
<td>26,064</td>
<td>43,422</td>
<td>56,330</td>
<td>61,754</td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td>21,272</td>
<td>25,551</td>
<td>41,719</td>
<td>55,428</td>
<td>60,736</td>
</tr>
<tr>
<td>Payable in foreign currencies</td>
<td>113</td>
<td>59</td>
<td>306</td>
<td>392</td>
<td>496</td>
</tr>
<tr>
<td>Payable in dollars</td>
<td>21,159</td>
<td>25,492</td>
<td>41,351</td>
<td>55,036</td>
<td>60,239</td>
</tr>
<tr>
<td>Demand deposits</td>
<td>9,417</td>
<td>8,092</td>
<td>15,785</td>
<td>6,459</td>
<td>8,288</td>
</tr>
<tr>
<td>Time deposits</td>
<td>5,557</td>
<td>5,924</td>
<td>4,217</td>
<td>5,628</td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury bills and certificates</td>
<td>7,639</td>
<td>8,356</td>
<td>14,123</td>
<td>33,025</td>
<td>41,150</td>
</tr>
<tr>
<td>Other short-term liabilities</td>
<td>4,103</td>
<td>3,487</td>
<td>5,519</td>
<td>11,335</td>
<td>14,473</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>7</td>
<td>513</td>
<td>1,703</td>
<td>902</td>
<td>1,018</td>
</tr>
<tr>
<td>To international and regional organizations</td>
<td>311</td>
<td>789</td>
<td>446</td>
<td>580</td>
<td></td>
</tr>
<tr>
<td>To foreign countries</td>
<td>203</td>
<td>914</td>
<td>457</td>
<td>439</td>
<td></td>
</tr>
<tr>
<td>Official institutions</td>
<td>695</td>
<td>144</td>
<td>93</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks</td>
<td>166</td>
<td>237</td>
<td>259</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other foreigners</td>
<td>53</td>
<td>56</td>
<td>87</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Data differ slightly from earlier years because of expanded coverage.

Source: Federal Reserve Bulletins.

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8 This section is based on and uses much of the material in the 1970 Annual Report of the Federal Reserve Bank of Richmond.
and Japan and a rapid expansion in the growth of international trade and investment. With its stock of productive plant and equipment relatively unimpaired by World War II, it was natural that the United States should become a major capital exporter to a capital-hungry world once the restrictions on flows of funds were removed. While U. S. investment flowed in many forms to all points of the globe, for a variety of reasons direct investment in the Common Market countries proved especially attractive to American business.

At the same time, the position of the United States dollar as the key international currency served to increase the role of United States banks in international finance. The use of the dollar worldwide as a trading currency and its use by central banks as an intervention currency gave rise to a substantial foreign demand for dollar balances. The United States became the reserve center for private international traders and for foreign central banks alike. By the end of the 1960's the United States banking community had a large stake in international finance, with many of its larger institutions serving as bankers to the entire trading world.

Data on foreign claims and liabilities reported by banks in the United States provide some indication of the growth in foreign operations of U. S. banks since 1960 (Table V). Total claims on foreigners reported by U. S. banks more than doubled between 1960 and 1965, leveled off through 1969, and then increased sharply through 1972. Loans payable in dollars rose from $1.3 billion in 1960 to $3.0 billion in 1965, more or less leveled off through 1970, and then almost doubled by the end of 1972. The behavior of liabilities has been similar, with the total doubling between 1960 and 1970, and increasing sharply in the next two years. These figures include some claims and liabilities of the banks' customers, but the growth mainly reflects a substantial international involvement of the banks themselves.

Another measure of the rapid growth in the international financing activities of United States banks is the recent growth in the bankers acceptance market. Dollar acceptances outstanding rose from just over $1 billion at the end of 1959 to $7 billion at the end of 1970. Since 1970, outstandings have leveled off at about $7 billion, perhaps reflecting the weakness of the dollar over the last three years. In 1972, almost 40 percent of the acceptances financed United States imports, a little over 25 percent financed exports, and just over 33 percent financed goods stored in or shipped between foreign countries. In 1973, however, export financing rose sharply while import financing declined in relative importance.

Not only has the volume of banking services provided to foreigners risen sharply over the last decade, but the actual operations of U. S. banks in foreign locations have also grown. Chart 3 shows that member banks have expanded their network of overseas branches more than fivefold since 1960. At the end of 1972, 107 member banks had in active operation a total of 627 branches in 73 foreign countries and overseas areas of the United States. Total assets of these branches exceeded $77 billion, a fivefold increase from only five years earlier.
Latin America (including the Bahamas) accounted for slightly more than half the branches of member banks, with Europe (including the U. K. and Ireland) being the second most popular location.

After three decades of relative inactivity, Edge Act corporations once again became prominent institutions of international finance in the 1960’s. The number of Edge corporations grew from 6 at the end of 1959 to 63 at the end of 1970 and 87 at the end of 1972.

While the growth in international trade and investment and the role of the dollar as a key currency help to explain the growth in bank loans to foreigners and the export of banking services in general, they do not fully explain the growing inclination of United States banks to seek foreign locations for their international operations. Three de-
velopments contributing importantly to this tendency were the restrictions on capital movements imposed by the United States Government in the 1960’s, the rapid multiplication of multinational corporations, and the tight monetary policies of the late 1960’s.

The restrictions on capital outflows were designed to reduce the deficit in the balance of payments to manageable proportions. But in shifting the demand for credit from the United States to Europe and the Eurodollar market, United States banks were encouraged to expand their overseas facilities and to seek foreign sources of funds in order to participate in international finance.

Controls on capital movements took a variety of forms. First, there was the Interest Equalization Tax that was imposed in 1963. This tax was designed to discourage foreign borrowing in United States capital markets by raising the effective interest cost to foreigners. The tax initially applied to securities purchased from foreigners, but it was later extended to commercial bank loans to foreigners of more than one year maturity. This tax put United States banks at a disadvantage in competing with overseas lenders. Making foreign loans at a foreign branch or affiliate was one way to reduce this handicap.

The Voluntary Foreign Credit Restraint Program, introduced in 1965, represented another form of capital control. Under this program, ceilings were established on the outstanding claims of banks and other financial institutions on foreigners. A second part of this program, applicable to direct foreign investment abroad by nonfinancial corporations, was made mandatory in 1968. This latter program limited the amount of United States-financed direct investments abroad but placed no restrictions on investments financed by borrowing abroad. At the time these constraints were imposed the growth of multinational corporations was proceeding apace; and the constraints on capital movements meant that, beyond certain specified limits, overseas expansion by American firms had to be financed from foreign sources. They also made it necessary for United States banks that wanted to participate in financing the overseas operations of their domestic customers to obtain access to foreign sources of funds.

A more direct inducement for overseas expansion was provided by the ceilings on foreign credits of banks and their Edge and Agreement affiliates under the Foreign Credit Restraint Program. Even if United States firms had been permitted to finance their foreign operations from domestic sources, the restrictions on banks would have limited their participation. These restrictions did not apply to overseas branches or affiliates of U. S. banks so long as the funds used were raised abroad. Thus, they provided an added incentive for banks to seek foreign locations and foreign sources of funds. This incentive, of course, was in addition to that of financing foreign customers.

These capital control programs also influenced the geographical pattern of overseas expansion of U. S. banks. In the period since the controls were imposed, the share of new branches and affiliates has increased in Continental Western Europe, an area where a large portion of United States direct overseas investment has been concentrated and
where the ceilings on foreign lending have been especially restrictive. From the end of 1965 to the end of 1972, the number of foreign branches in Continental Western Europe increased from 21 to 89. While the guideline restrictions on the United Kingdom are less restrictive than on Continental Europe, the strategic location of the U. K. as the center of the Eurodollar market—so important in the reserve management operations of the larger U. S. banks—has also attracted numerous new branches.

The various capital control programs encouraged banks to seek funds abroad to finance their foreign lending; but tight monetary policies in the late 1960's, combined with the movement toward liability management on the part of United States banks, sent those banks abroad in search of funds to meet a strong domestic loan demand. As discussed earlier in this article, borrowing of Eurodollars by American banks from their foreign branches had risen almost steadily from mid-1966 through 1968. But in late 1968 short-term money market rates rose above Regulation Q ceiling rates on large-denomination CD's, and outstanding CD's fell very sharply throughout 1969. Between December 1968 and February 1970 the volume of CD's declined some $14 billion.

Many of the banks experiencing a loss of CD's, especially banks with foreign branches, turned to the Eurodollar market as an alternative source of funds. Foreign branches increasingly borrowed Eurodollars and loaned the proceeds to their parent banks. Since domestic banks' Eurodollar borrowings were not classified as deposits, they were not at that time subject to domestic reserve requirements or FDIC insurance premiums. They were, therefore, not subject to the same cost-increasing restrictions as domestic deposits. Moreover, they were not subject to the interest rate ceilings of Regulation Q. Because of these advantages of Eurodollar borrowings relative to other sources of funds, liabilities of United States banks to their branches reached a peak of more than $15 billion in late 1969.

In August 1969 the Board of Governors of the Federal Reserve System imposed a marginal reserve requirement on banks' liabilities to their foreign branches in excess of the daily average amount outstanding in the four weeks ending May 29, 1969. Shortly thereafter loan demand eased in the United States, interest rates began to decline, and banks rapidly repaid their Eurodollar borrowings. By May 1971, banks' liabilities to their foreign branches had fallen below $2 billion; and although they have fluctuated since that time, they have risen above $3 billion only on a few occasions.

A BROADER BASE In addition to the remarkable overall growth in international banking operations, the last decade has brought a significant broadening of the base of international banking in the United States. Traditionally, international banking has been dominated by a few large banks concentrated largely in New York. The New York banks remain dominant in international banking, but in recent years their relative share of U. S. international banking business has declined.
New York Clearing House banks now account for about two-thirds of all United States banks’ overseas deposits and assets, compared to three-fourths a few years ago.

Large and medium size banks all over the country have recently expanded previously dormant international departments or moved into the international field for the first time. And contrary to past experience, most of the banks establishing new foreign branches in recent years have been banks outside New York. Moreover, an increasing share of these branches represent the first foreign branch of banks just entering the international field. Still, the recent growth in the number of foreign branches, phenomenal as it has been, does not adequately reflect the growing number of domestic offices involved. The number of foreign branches of member banks increased from 244 in 1966 to 627 in 1972—an increase of 157 percent. Moreover, the number of member banks represented by these branches increased from 13 to 107—an increase of 723 percent. Thus, the number of member banks with foreign branches increased almost five times faster than the number of branches. This trend has been especially pronounced since 1969.

THE EXCITING FUTURE

Commercial banking has changed greatly, both structurally and functionally, over the last decade or two. The average bank has grown greatly in size, and the number of banking offices available to the public has increased enormously. The trend toward consumer banking has encouraged a broadening of the range of services provided to the public, a move that has been furthered by the development of bank holding companies. At the same time, the nature of banking itself has changed in recent years, with some banks, especially the very large ones, becoming aggressive money market brokers.

But it is likely that the evolution of the banking system in the next decade or so will bring even greater changes than those of the recent past. Some of these future changes will be nothing more than a continuation of trends that have been in progress for some time, such as the formation and growth of bank holding companies. The most recent amendments to the Bank Holding Company Act encourage banks to achieve diversification of activities through the formation of holding companies; and it is likely that this process will continue, although perhaps not at the hectic pace of the late 1960's. The ability to provide financial services across state lines will also encourage the formation and expansion of holding companies. This diminution in the importance of state boundaries may lead eventually to some relaxation in the restrictions on branch banking. Furthermore, the diversification of activities associated with the holding company may encourage more banks to put increased emphasis on liability management, thereby becoming more active money market participants.

The day of the electronic funds transfer system (EFTS) appears
to be almost upon us, a development that could bring enormous changes in the organization and operation of commercial banks. At the present time there are still many questions concerning EFTS, such as the ownership and operation of the system, conditions of access to it, and who will bear the costs. But there is little doubt that there will be an EFTS. Just what role commercial banks (as well as other financial institutions) will play in such a system remains to be seen.

Recent trends and proposals seem to portend a breaking down and a blurring of the sharp distinctions between commercial banks and other financial institutions. On the one hand, banks have used the holding company device to become involved in the provision of many financial services previously provided only by specialized financial institutions. On the other hand, other financial institutions, especially the thrift institutions, seem to be acquiring some of the powers previously reserved to commercial banks. It appears likely that many nonbank financial institutions will become more and more like commercial banks, and some may be eventually integrated into the commercial banking system. Finally, the growth of liability management may result in more and more commercial banks acquiring the characteristics of money market institutions. One of the results of these changes is that commercial banks will face new and increased competition from a variety of financial institutions.

Still, it is quite likely that the most significant changes in banking over the next decade or two are not visible to us today. All we can be sure of is that there will be changes. Indeed, commercial banking may well prove to be one of the most dynamic industries in the American economy during the 1970's and 1980's.
HIGHLIGHTS

EARNINGS AND CAPITAL ACCOUNTS  Net earnings before payments to the United States Treasury increased $74,969,653.15 to $321,234,499.49 in 1973. Six percent statutory dividends totaling $2,753,604.00 were paid to Fifth District member banks, and the sum of $308,264,119.83 was turned over to the Treasury.

Capital stock rose $5,333,050.00 to $46,898,000.00 as member banks increased their stockholdings in this Bank, as required by law, to reflect the rise in their capital stock and surplus accounts. The Bank's surplus account increased $5,333,050.00 to a total of $46,898,000.00.

NEW BUILDING PROGRAMS  Work continued on plans for a new building to house the Richmond Office. During the year the design development phase was completed and forwarded to the Board of Governors for approval.

Preliminary studies and space planning for a new Baltimore Branch building have been completed, and similar studies are now underway at Charlotte. Definite plans for construction of buildings in Baltimore and Charlotte, however, must await an amendment by Congress to Section 10 of the Federal Reserve Act, which limits aggregate expenditures on the construction of Federal Reserve Branch buildings. The present limit, set in 1962, has been reached.

REGIONAL CHECK PROCESSING CENTERS  The Richmond and Charlotte Regional Check Processing Centers did not begin operations, as anticipated, in 1973; but both centers are now scheduled to open in 1974. The delay was caused by a combination of factors resulting in operational difficulties in processing the unusually large increases in check volume during the year.

A lease for a building to house the Columbia, South Carolina, Regional Check Processing Center was signed in September. The site is located near the intersection of Interstate Highways I-20 and I-26, with excellent access to all main highways serving the state of South Carolina. In addition, several large Columbia banks have operations centers in the same general area. The building is scheduled for completion in April 1974, and limited operations are expected to begin by the middle of the year.

The Bank is in the process of selecting a site for the Charleston, West Virginia, Regional Check Processing Center.
DISCOUNT RATE  On seven occasions during the year the Board of Governors approved the action of the Directors of the Richmond Bank in raising the discount rate. These moves were made in recognition of economic developments and as part of continuing efforts to further the objectives of monetary stability.

The first increase became effective on January 15, 1973, when the rate was raised to 5% from 4⅛%. Subsequent changes brought the rate to 7⅛% in August, the highest level in the history of the Federal Reserve System.

Discount rate levels during 1973 and the effective date of increases in the rate are tabulated below:

<table>
<thead>
<tr>
<th>RATE</th>
<th>EFFECTIVE DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>1-15</td>
</tr>
<tr>
<td>5⅛%</td>
<td>2-27</td>
</tr>
<tr>
<td>5⅛%</td>
<td>4-23</td>
</tr>
<tr>
<td>6%</td>
<td>5-11</td>
</tr>
<tr>
<td>6⅛%</td>
<td>6-12</td>
</tr>
<tr>
<td>7%</td>
<td>7-2</td>
</tr>
<tr>
<td>7⅛%</td>
<td>8-14</td>
</tr>
</tbody>
</table>

NEW MEMBER BANKS  The following newly chartered banks opened for business during the year as members of the Federal Reserve System:

Capitol National Bank Raleigh, North Carolina April 2
Columbus National Bank Whiteville, North Carolina April 24
Aquia Bank & Trust Company Stafford, Virginia April 28
The Teays Valley National Bank Scott Depot, West Virginia May 11
Suburban National Bank of Martinsburg Martinsburg, West Virginia May 14
Union Central National Bank Vienna, West Virginia May 29
Bank of the James Manakin-Sabot, Virginia June 2
Virginia National Bank/ Henry County Martinsville, Virginia August 17
The First National Exchange Bank of Washington County Bristol, Virginia September 4
Elk National Bank Big Chimney, West Virginia September 10
Central Virginia Bank Powhatan, Virginia September 17
The Peoples Bank & Trust Company of Henrico Richmond, Virginia September 26
First & Merchants National Bank of Tidewater Chesapeake, Virginia October 1
Fidelity National Bank Roanoke, Virginia October 1
Burlington Bank & Trust Company Burlington, North Carolina October 18
American Indian National Bank Washington, D.C. November 15
Bank of Isle of Wight Smithfield, Virginia November 28
United Citizens Bank Winston-Salem, North Carolina November 30

Effective July 19, Dominion Bank of York County, Williamsburg, Virginia, converted from a nonmember to a national bank under the name of Dominion National Bank of the Peninsula.
CHANGES IN DIRECTORS In June, J. Pierre Bernard, Chairman, The Annapolis Banking and Trust Company, Annapolis, Maryland, was appointed a Director of the Baltimore Branch by the Richmond Board of Directors to fill the unexpired portion of the term of Tilton H. Dobbin, President and Chairman of Executive Committee, Maryland National Bank, Baltimore, Maryland, who resigned to become Assistant Secretary of Commerce. Mr. Bernard will serve through December 31, 1974.

In the early fall Fifth District member banks elected one Class A and one Class B Director to three-year terms on the Richmond Board of Directors. Claude Henson, Chairman of the Board and President, The First National Bank of Asheboro, Asheboro, North Carolina, was elected a Class A Director to succeed Thomas P. McLachlen, President, McLachlen National Bank, Washington, D. C., whose term expired December 31. Andrew L. Clark, President, Andy Clark Ford, Inc., Princeton, West Virginia, was elected a Class B Director to succeed H. Dail Holderness, President, Carolina Telephone & Telegraph Company, Tarboro, North Carolina, whose term also expired December 31.

The Richmond Board of Directors appointed Douglass Adams, President, The Parkersburg National Bank, Parkersburg, West Virginia, to a three-year term as a Director at the Baltimore Branch to succeed James J. Robinson, Executive Vice President, Bank of Ripley, Ripley, West Virginia, whose term expired December 31. J. Stevenson Peck, Chairman of the Board, Union Trust Company of Maryland, Baltimore, Maryland, was reappointed to a three-year term on the Baltimore Branch Board of Directors.


The Board of Governors of the Federal Reserve System redesignated Robert W. Lawson, Jr., Senior Partner, Charleston Office, Steptoe & Johnson, Charleston, West Virginia, Chairman of the Board of Directors and Federal Reserve Agent for 1974. Named Deputy Chairman of the Board of Directors for 1974 was E. Craig Wall, Sr., Chairman of the Board, Canal Industries, Inc., Conway, South Carolina.

The Board of Governors appointed E. Angus Powell, Chairman of the Board, Lea Industries, Inc., Richmond, Virginia, to a three-year term as a Class C Director of the Richmond Bank. He succeeded Stuart Shumate, President, Richmond, Fredericksburg and Potomac Railroad Company, Richmond, Virginia, whose term expired December 31.

The Board of Governors also appointed I. E. Killian, Manager, Eastern Region, Exxon Company, U.S.A., Baltimore, Maryland, to a three-year term at the Baltimore Branch. Mr. Killian succeeded John
H. Fetting, Jr., President, A. H. Fetting Company, Baltimore, Maryland, whose term expired December 31. Charles W. DeBell, General Manager, North Carolina Works, Western Electric Company, Inc., Winston-Salem, North Carolina, was reappointed by the Board of Governors to a three-year term on the Charlotte Branch Board.

**FEDERAL ADVISORY COUNCIL** The Board of Directors selected Thomas I. Storrs, Chairman of the Board, NCNB Corporation, Charlotte, North Carolina, to serve during 1974, for a second term, as the Fifth District representative to the Federal Advisory Council. The 12-member Council, consisting of one member from each of the Federal Reserve Districts, meets quarterly in Washington with the Federal Reserve System's Board of Governors to discuss business conditions and other topics of current interest to the System.

**CHANGES IN OFFICIAL STAFF** Several changes in the official staff of the Bank occurred during 1973.

In January, Aubrey N. Heflin, President of the Bank, died after 32 years of distinguished service to the Federal Reserve System.

Bradley H. Gunter, formerly in the Research Department, was named Assistant Cashier and Secretary, effective February 1.

In July, Robert B. Hollinger, Jr., of the Computer Services Department was promoted to Assistant Vice President. Boyd Z. Eubanks, formerly Assistant Vice President at the Charlotte Branch, was named Vice President. He will be the Senior Officer of the new Regional Check Clearing Office to be established in Columbia, South Carolina. R. Wayne Stancil of the Charlotte Branch was named Assistant Cashier and will assist Mr. Eubanks in the Columbia Office. Harry B. Smith and Jefferson A. Walker were both named Assistant Cashier at the Charlotte Branch. Mr. Smith was placed in charge of the Accounting, Securities, and Money Departments at Charlotte; and Mr. Walker assumed expanded responsibilities in the overall supervision of the Check Collection Department, including establishment of the Regional Check Clearing operations in Charlotte. At the Culpeper facility, Dale M. Cunningham, formerly Assistant Cashier, was named Assistant Vice President in August.

Robert P. Black, formerly First Vice President of the Bank, became President on August 6, succeeding the late Aubrey N. Heflin.

In September, Roy L. Fauber, formerly on the staff of the Board of Governors of the Federal Reserve System, joined the Richmond Office as Assistant Vice President in charge of the Planning Department. Mr. Fauber succeeded William H. Wallace, who resigned in July to join the staff of North Carolina State University. William F. Upshaw, Vice President and General Counsel of the Bank, died in late September.

Other promotions and changes, effective January 1, 1974, were announced in December 1973. At the Culpeper facility, Kenneth A. Adams was promoted to Assistant Cashier; and at the Charlotte Branch, Robert F. Stratton was appointed Bank Relations Officer.
<table>
<thead>
<tr>
<th>operations</th>
<th>1973</th>
<th>1972</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CHECK CLEARING &amp; COLLECTION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dollar amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial bank checks¹</td>
<td>297,787,536,000</td>
<td>245,977,101,000</td>
</tr>
<tr>
<td>Government checks²</td>
<td>23,098,871,000</td>
<td>20,677,704,000</td>
</tr>
<tr>
<td>Return items</td>
<td>2,536,220,000</td>
<td>2,101,786,000</td>
</tr>
<tr>
<td>Number of items</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial bank checks¹</td>
<td>912,730,000</td>
<td>772,507,000</td>
</tr>
<tr>
<td>Government checks²</td>
<td>71,900,000</td>
<td>71,386,000</td>
</tr>
<tr>
<td>Return items</td>
<td>10,134,000</td>
<td>8,272,000</td>
</tr>
<tr>
<td><strong>CURRENCY &amp; COIN</strong></td>
<td></td>
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</tr>
<tr>
<td>Currency disbursed—Dollar amount</td>
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<td></td>
</tr>
<tr>
<td>Coin disbursed—Dollar amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dollar amount of currency destroyed</td>
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<td></td>
</tr>
<tr>
<td>Daily average of currency destroyed</td>
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<tr>
<td>Dollar amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>DISCOUNT &amp; CREDIT</strong></td>
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</tr>
<tr>
<td>Dollar amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total loans made during year</td>
<td>21,816,710,592</td>
<td>2,246,741,000</td>
</tr>
<tr>
<td>Daily average loans outstanding</td>
<td>147,978,216</td>
<td>12,046,191</td>
</tr>
<tr>
<td>Number of banks borrowing during the year</td>
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<td>67</td>
</tr>
<tr>
<td><strong>FISCAL AGENCY ACTIVITIES</strong></td>
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<td></td>
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<td>Marketable securities delivered or redeemed</td>
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</tr>
<tr>
<td>Coupons redeemed</td>
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</tr>
<tr>
<td>Dollar amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings bond and savings note issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dollar amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings bond and savings note redemptions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dollar amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depositary receipts for withheld taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dollar amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TRANSFERS OF FUNDS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dollar amount</td>
<td>807,522,989,366</td>
<td>588,289,391,128</td>
</tr>
<tr>
<td>Number</td>
<td>707,687</td>
<td>576,707</td>
</tr>
</tbody>
</table>

¹ Excluding checks on this Bank.
² Including postal money orders.
COMPARATIVE STATEMENTS
Condition

ASSETS:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold certificate account</td>
<td>$1,283,210,587.02</td>
<td>$1,013,447,540.79</td>
</tr>
<tr>
<td>Special Drawing Rights certificate account</td>
<td>36,000,000.00</td>
<td>36,000,000.00</td>
</tr>
<tr>
<td>Federal Reserve notes of other Federal Reserve Banks</td>
<td>108,694,961.00</td>
<td>129,854,413.00</td>
</tr>
<tr>
<td>Other cash</td>
<td>27,830,683.81</td>
<td>35,597,950.72</td>
</tr>
</tbody>
</table>

LOANS AND SECURITIES:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans to member banks</td>
<td>52,000,000.00</td>
<td>52,150,000.00</td>
</tr>
<tr>
<td>Federal agency obligations</td>
<td>147,165,000.00</td>
<td>97,975,000.00</td>
</tr>
<tr>
<td>U. S. Government securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bills</td>
<td>2,802,553,000.00</td>
<td>2,216,307,000.00</td>
</tr>
<tr>
<td>Certificates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes</td>
<td>2,917,040,000.00</td>
<td>2,740,543,000.00</td>
</tr>
<tr>
<td>Bonds</td>
<td>239,179,000.00</td>
<td>258,681,000.00</td>
</tr>
<tr>
<td>TOTAL U. S. GOVERNMENT SECURITIES</td>
<td>5,959,372,000.00</td>
<td>5,215,531,000.00</td>
</tr>
</tbody>
</table>

TOTAL LOANS AND SECURITIES                           | 6,159,137,000.00       | 5,365,656,000.00       |

Cash items in process of collection                  | 789,927,481.59         | 965,382,347.55         |

Bank premises                                        | 13,552,534.98          | 13,200,002.95          |

Other assets                                         | 68,140,928.35          | 80,609,222.97          |

TOTAL ASSETS                                         | $8,486,494,176.75      | $7,630,747,477.98      |

LIABILITIES:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Reserve notes</td>
<td>$5,843,536,754.00</td>
<td>$5,315,476,419.00</td>
</tr>
</tbody>
</table>

DEPOSITS:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Member bank reserves</td>
<td>1,350,127,571.96</td>
<td>1,247,850,926.16</td>
</tr>
<tr>
<td>U. S. Treasurer—general account</td>
<td>365,415,834.87</td>
<td>164,018,215.05</td>
</tr>
<tr>
<td>Foreign</td>
<td>13,520,000.00</td>
<td>15,080,000.00</td>
</tr>
<tr>
<td>Other</td>
<td>48,462,266.38</td>
<td>30,656,616.19</td>
</tr>
</tbody>
</table>

TOTAL DEPOSITS                                        | 1,777,525,673.21       | 1,457,605,957.40       |

Deferred availability cash items                     | 701,499,465.32         | 734,371,794.22         |

Other liabilities                                     | 70,136,284.22          | 40,163,407.36          |

TOTAL LIABILITIES                                     | 8,392,698,176.75       | 7,547,617,577.98       |

CAPITAL ACCOUNTS:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital paid in</td>
<td>46,888,000.00</td>
<td>41,564,950.00</td>
</tr>
<tr>
<td>Surplus</td>
<td>46,888,000.00</td>
<td>41,564,950.00</td>
</tr>
</tbody>
</table>

TOTAL LIABILITIES AND CAPITAL ACCOUNTS                | $8,486,494,176.75      | $7,630,747,477.98      |

Contingent liability on acceptances purchased for     | $ 30,217,200.00         | $ 9,308,000.00         |
foreign correspondents
Earnings and Expenses

EARNINGS:

Loans to member banks ................................................................. $ 10,025,720.13
Interest on U. S. Government securities ........................................ 351,002,336.47
Foreign currencies ........................................................................ 23,341.34
Other earnings ........................................................................... 66,263.71
TOTAL CURRENT EARNINGS .......................................................... $361,117,661.65

EXPENSES:

Operating expenses (including depreciation on bank premises) after deducting reimbursements received for certain Fiscal Agency and other expenses .......................................................... $34,027,444.21
Assessment for expenses of Board of Governors ............................... 2,355,300.00
Cost of Federal Reserve currency .................................................... 2,529,865.85
NET EXPENSES ........................................................................... $39,883,162.16
CURRENT NET EARNINGS ............................................................... $321,234,499.49

ADDITIONS TO CURRENT NET EARNINGS:

Profits on sales of U. S. Government securities (net) .......................... $ 2,529,865.85
All other ................................................................................. 95,139.92
TOTAL ADDITIONS ....................................................................... $ 95,139.92

DEDUCTIONS FROM CURRENT NET EARNINGS:

Losses on sales of U. S. Government securities (net) ........................ 2,465,659.47
Losses on Foreign Exchange transactions ......................................... 2,465,659.47
All other ................................................................................. 52,396.59
TOTAL DEDUCTIONS .................................................................. $ 5,047,921.91

NET EARNINGS BEFORE PAYMENTS TO U. S. TREASURY

Dividends paid ........................................................................... $ 2,684,547.67
Payments to U. S. Treasury (interest on Federal Reserve notes) .......... 308,264,119.83
Transferred to surplus .................................................................. 3,276,300.00
TOTAL ....................................................................................... $316,281,717.50

SURPLUS ACCOUNT

Balance at close of previous year ................................................... $ 41,564,950.00
Addition account of profits for year ............................................... 5,394,250.00
BALANCE AT CLOSE OF CURRENT YEAR ....................................... $ 46,898,000.00

CAPITAL STOCK ACCOUNT

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

Balance at close of previous year ................................................... $ 41,564,950.00
Issued during the year .................................................................. 5,394,250.00
Cancelled during the year .............................................................. 61,200.00
BALANCE AT CLOSE OF CURRENT YEAR ....................................... $ 46,898,000.00
DIRECTORS
(December 31, 1973)

Robert W. Lawson, Jr. ___________ Chairman of the Board and Federal Reserve Agent
Stuart Shumate _________________ Deputy Chairman of the Board

CLASS A
Edward N. Evans _________________ President, The Farmers and Merchants National Bank of Cambridge
Cambridge, Maryland
(Term expires December 31, 1974)
John H. Lumpkin _________________ Chairman of the Board and Chief Executive Officer
The South Carolina National Bank
Columbia, South Carolina
(Term expires December 31, 1975)
Thomas P. McLachlen ________ President, McLachlen National Bank
Washington, D. C.
(Term expired December 31, 1973)
Succeeded by: Claude Henson
Chairman of the Board and President
The First National Bank of Asheboro
Asheboro, North Carolina
(Term expires December 31, 1976)

CLASS B
Henry Clay Hofheimer, II ___________ Chairman of the Board, Virginia Real Estate Investment Trust
Norfolk, Virginia
(Term expires December 31, 1974)
H. Dail Holderness _______________ President, Carolina Telephone and Telegraph Company
Tarboro, North Carolina
(Term expired December 31, 1973)
Succeeded by: Andrew L. Clark
President, Andy Clark Ford, Inc.
Princeton, West Virginia
(Term expires December 31, 1976)
Osby L. Weir ________________ General Manager, Metropolitan Washington-Baltimore Area
Sears, Roebuck and Co.
Bethesda, Maryland
(Term expires December 31, 1975)

CLASS C
Robert W. Lawson, Jr. _______________ Senior Partner, Charleston Office, Steptoe & Johnson
Charleston, West Virginia
(Term expires December 31, 1975)
Stuart Shumate _________________ President, Richmond, Fredericksburg and Potomac Railroad Company
Richmond, Virginia
(Term expired December 31, 1973)
Succeeded by: E. Angus Powell
Chairman of the Board, Lea Industries, Inc.
Richmond, Virginia
(Term expires December 31, 1976)
E. Craig Wall, Sr. ________________ Chairman of the Board, Canal Industries, Inc.
Conway, South Carolina
(Term expires December 31, 1974)

MEMBER FEDERAL ADVISORY COUNCIL
Thomas I. Storrs _______________ President, NCNB Corporation and North Carolina National Bank
Charlotte, North Carolina
(Term expires December 31, 1974)
OFFICERS

(Richmond, January 1, 1974)

Richmond

Robert P. Black
Welford S. Farmer
John L. Nosker
James Parthemos
John F. Rand
Raymond E. Sanders, Jr.
Lloyd W. Bostian, Jr.
W. Thomas Cunningham, Jr.
John G. Deitrick
H. Ernest Ford
William C. Glover
Arthur V. Myers, Jr.
Chester D. Porter, Jr.
Aubrey N. Snellings
Andrew L. Tilton
J. Lander Allin, Jr.
Elizabeth W. Angle
Fred L. Bagwell
J. Alfred Broaddus, Jr.
Wyatt F. Davis
George B. Evans
Clyde H. Farnsworth, Jr.
Roy L. Fauber
William C. Fitzgerald
John E. Friend
Robert B. Hollinger, Jr.
John C. Horgan
William D. Martin, III
William E. McLean
Robert D. McTeer, Jr.
Hobert D. Pierce
Joseph C. Ramage
Bartholomew W. Reese
Frank D. Stinnett, Jr.
Wilbur C. Wilson
Jack H. Wyatt
Jackson L. Blanton

President
Senior Vice President and Special Legal Adviser
Senior Vice President
Senior Vice President and Director of Research
Senior Vice President
Senior Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Assistant Vice President
Assistant Vice President
Chief Examiner
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Examining Officer

Bradley H. Gunter
James R. Slate
Joseph F. Viverette
H. Lewis Garrett

Assistant Cashier and Secretary
Assistant Counsel
General Auditor
Auditing Officer

Baltimore

H. Lee Boatwright, III
Gerald L. Wilson
B. F. Armstrong, Sr.
E. Riggs Jones, Jr.
Charles P. Kahler
William E. Pascoe, III
Ronald B. Duncan

Senior Vice President
Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice Cashier

Charlotte

Jimmie R. Monhollon
Stuart P. Fishburne
Winfred W. Keller
Fred C. Kruger, Jr.
O. Louis Martin, Jr.
Harry B. Smith
Robert F. Stratton
Jefferson A. Walker

Senior Vice President
Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Cashier

Columbia

Boyd Z. Eubanks
R. Wayne Stancil

Vice President
Assistant Cashier

Culpeper

J. Gordon Dickerson, Jr.
Albert D. Tinkelenberg
Dale M. Cunningham
Charles H. Imel
John G. Stoides
Kenneth A. Adams

Vice President
Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Cashier
BRANCH DIRECTORS (December 31, 1975)

BALTIMORE
David W. Barton, Jr. .......... President, The Barton-Gillet Company
Baltimore, Maryland
(Term expires December 31, 1975)
Annapolis, Maryland
(Term expires December 31, 1974)
James R. Chaffinch, Jr. ....... President, The Denton National Bank
Denton, Maryland
(Term expires December 31, 1975)
John H. Fetting, Jr. .......... President, A. H. Fetting Company
Baltimore, Maryland
(Term expired December 31, 1973)
Succeeded by: I. E. Killian
Manager, Eastern Region, Exxon Company, U.S.A.
Baltimore, Maryland
(Term expires December 31, 1976)
James G. Harlow .............. President, West Virginia University
Morgantown, West Virginia
(Term expires December 31, 1974)
J. Stevenson Peck ............. Chairman, Union Trust Company of Maryland
Baltimore, Maryland
(Term expires December 31, 1976)
James J. Robinson ............ Executive Vice President, Bank of Ripley
Ripley, West Virginia
(Term expired December 31, 1973)
Succeeded by: Douglass Adams
President, The Parkersburg National Bank
Parkersburg, West Virginia
(Term expires December 31, 1976)

CHARLOTTE
Charles F. Benbow .......... Senior Vice President, R. J. Reynolds Industries, Inc.
Winston-Salem, North Carolina
(Term expires December 31, 1974)
H. Phelps Brooks, Jr. ...... President and Trust Officer, The Peoples National Bank
Chester, South Carolina
(Term expired December 31, 1973)
Succeeded by: T. L. Benson
President, The Conway National Bank
Conway, South Carolina
(Term expires December 31, 1976)
William W. Bruner .......... Chairman and President, First National Bank of South Carolina
Columbia, South Carolina
(Term expires December 31, 1975)
C. C. Cameron ............... Chief Executive Officer, First Union National Bank of North Carolina
Charlotte, North Carolina
(Term expired December 31, 1973)
Succeeded by: Plato P. Pearson, Jr.
President, Citizens National Bank in Gastonia
Gastonia, North Carolina
(Term expires December 31, 1976)
L. D. Coltrane, III .......... President and Trust Officer, The Concord National Bank
Concord, North Carolina
(Term expires December 31, 1974)
Charles W. DeBell .......... General Manager, North Carolina Works,
Western Electric Company, Inc.
Winston-Salem, North Carolina
(Term expires December 31, 1976)
Robert C. Edwards .......... President, Clemson University
Clemson, South Carolina
(Term expires December 31, 1975)