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*1949*  
*ANNUAL*  
*REPORT*

FEDERAL RESERVE BANK  
OF ST. LOUIS

**FEDERAL RESERVE BANK  
OF ST. LOUIS**

February 15, 1950

To the Stockholders of the  
Federal Reserve Bank of St. Louis:

I am pleased to present herewith the Annual  
Report of the Federal Reserve Bank of St. Louis  
for the year 1949.

Yours very truly,

  
President.

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# THE ECONOMY IN 1949

When the economic record of 1949 is viewed in relation to that of previous years the high average level of activity for the year as a whole is impressive. Both in the nation and in the Eighth Federal Reserve District, 1949 was a good year. In each, total activity averaged out at a level that was slightly lower than in the postwar peak year, 1948, but higher than in any other peacetime year.

This record was achieved despite appreciable declines in some important segments of the economy. Nationally these decreases were concentrated mainly in the business segment of demand (for inventories, and new plant and equipment) and in farm prices. Consumer demand fell off somewhat in the first part of 1949, but then leveled off—and subsequently recovered most of the loss. Farm production also was off from the 1948 record but was high relative to any other year. In this district, farm output dropped appreciably more than it did nationally.

But before the downward adjustments became cumulative and affected all segments of the economy, the downtrend was arrested and then reversed. Subsequent recovery resulted in a year which as a whole averaged out at a level just below that of 1948.

## Production

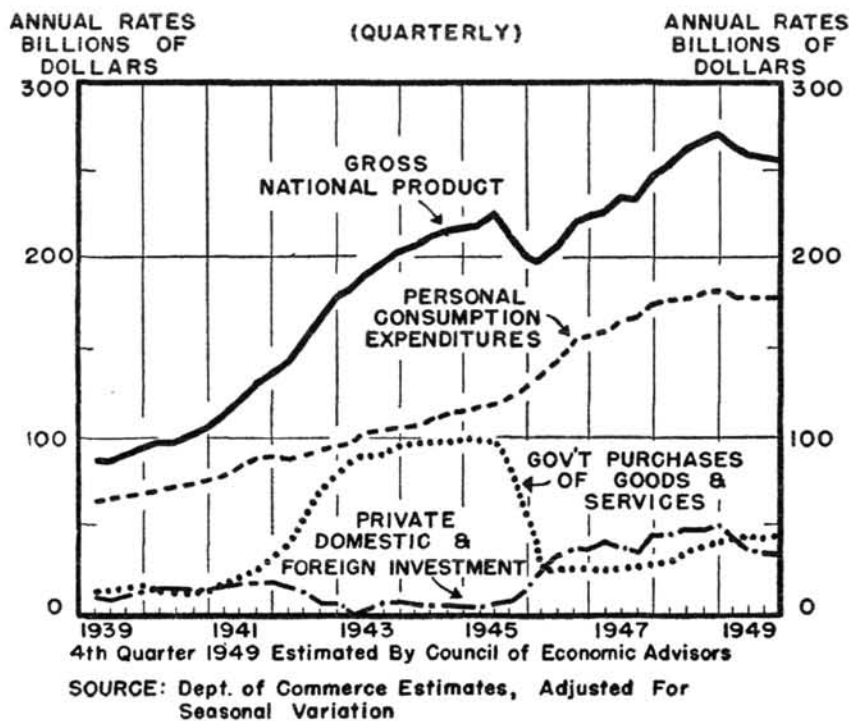
The total value of all goods and services produced in the nation last year is estimated at \$259 billion. In 1948 the nation's output was valued at \$262 billion. Part of this small decline reflected the decrease in the physical volume of goods produced in the factories and mines and on the farms of the nation. But at the same time a portion of the decrease can be attributed to lower average prices.

Total industrial production in the nation last year was about 8 per cent smaller than in 1948, as measured by the Federal Reserve Board's adjusted index. Minerals production declined relatively more than production of manufactured goods. Substantially larger cutbacks were made in some manufacturing industries, particularly in the durable goods group where aggregate output was off 11 per cent relative to that in 1948. The decline in total output of nondurable goods was only half as large, percentagewise, as in the durables.

Industrial activity in the Eighth District also declined from the previous year's peak level. Actual estimates of aggregate industrial production in the district are not available, but various measures of activity indicate that the decline in this region probably was relatively smaller than that in the nation as a whole.

Manufacturing activity in the district trended downward during the first half of the year but subsequently recovered a portion of these losses. There were sizable reductions in operations in the primary and fabricated metals industries. Manufacturers of electrical machinery, whose operations were at their peak in mid-1948, curtailed production in the early months of 1949 and nonelectrical machinery plants also cut back during this period. The major reductions among manufacturers of nondurables were in the leather products industry. Shoe output, estimated at 86 million pairs for the year, was off 10 per cent from 1948. In other lines operations also averaged lower than in the previous year, the principal exception being the food products industry in the nondurables group and the transportation equipment industry in the durable goods group.

### GROSS NATIONAL PRODUCT



## Agriculture

Agricultural production in the nation and in the Eighth District declined in 1949 but in total output was second only to that in 1948. The index of aggregate crop production in the United States was 132 per cent of the 1923-32 average as against 137 per cent in 1948. The yield index also was second only to the 1948 level, while planted acreage was larger than in any recent year.

Crop production in the Eighth District was off more relative to 1948 than was national output. The only exceptions to this general decline in the district were a 2 per cent increase in wheat production, a 5 per cent increase in hay production, and a fractional increase in rice production. Output of rice in Arkansas reached a new high in 1949.

These increases were not large enough to offset declines in the production of cotton, corn, oats and tobacco. The decrease in cotton production was the most serious crop decline in the district. The 1949 crop, amounting to 3.8 million bales, was off more than a million bales or 21 per cent as compared with production in 1948. This was in sharp contrast to the 8 per cent increase nationally. Excessive moisture and boll weevil infestation caused the decline, despite a larger planted acreage.

Larger-than-national decreases occurred in the corn-producing portions of the district where output was down 12 per cent from 1948 as against an 8 per cent decline in the nation. Tobacco production was 4 per cent less than in 1948 as compared with a 1 per cent increase nationally, while district oats production was off 13 per cent as against an 11 per cent decline nationally.

## Employment

The decline in industrial operations in 1949 was reflected in some reduction in employment. However, total employment in the nation last year averaged almost 59 million, down less than 1 million from the record level in 1948. The decline was concentrated in the nonfarm industries since average employment on the farms was slightly larger than in the previous year. Manufacturing employment was off 8 per cent for the year.



Accompanying the decrease in employment was a further expansion in the nation's labor force. The increase, together with the decline in the number of persons actually employed, resulted in an increase in unemployment. During the year there was an average of almost 3.4 million workers who were seeking employment or about 1.3 million more than in 1948. The rise in unemployment occurred principally in the first half of the year, coinciding with the downward trend in industrial operations. From the peak in July, unemployment declined seasonally and then remained fairly stable during the closing months of 1949.

In addition to the lower level of manufacturing employment last year there also was a small decline in the average length of the work week. In 1948, workers in the durable goods manufacturing industries worked an average of 40.5 hours per week. Last year there was only one month in which the work week in these industries averaged as much as 40 hours. In the nondurable goods industries, too, there was a decline in hours worked per week in 1949.

Employment trends in the Eighth District closely paralleled those in the nation last year. The first half of 1949 was marked by declines which in general were reversed at midyear and were followed by some recovery in the third and fourth quarters.

In the district's five largest labor market areas nonagricultural employment averaged about 2 per cent less than in 1948 when an all-time peak was reached. This represented a slightly larger decline than that in the nation as a whole and resulted from a larger-than-national decrease in nonmanufacturing employment. Manufacturing industries, which employ almost one-third of the workers in the major district cities, reduced their average employment less than nationally—5 per cent as against 8 per cent in the nation.

In three of the cities—St. Louis, Memphis and Little Rock—the declines from 1948 were quite small. Nonagricultural employment in each of these cities was only 1 per cent below the 1948 average. Manufacturing employment in Little Rock was at about the same level as in 1948, while in Memphis and St. Louis it dropped only 3 per cent and 4 per cent, respectively. In Evansville and Louisville, however, there were sizable declines, particularly in manufacturing employment. Industry in Evansville employed 9 per cent and in Louisville 10 per cent fewer workers than in 1948.

Unemployment increased in this district as it did in other parts of the country in 1949. It is estimated that the number of unemployed workers last year was almost two-thirds larger than in 1948, but it should be remembered that unemployment was abnormally low in 1948.

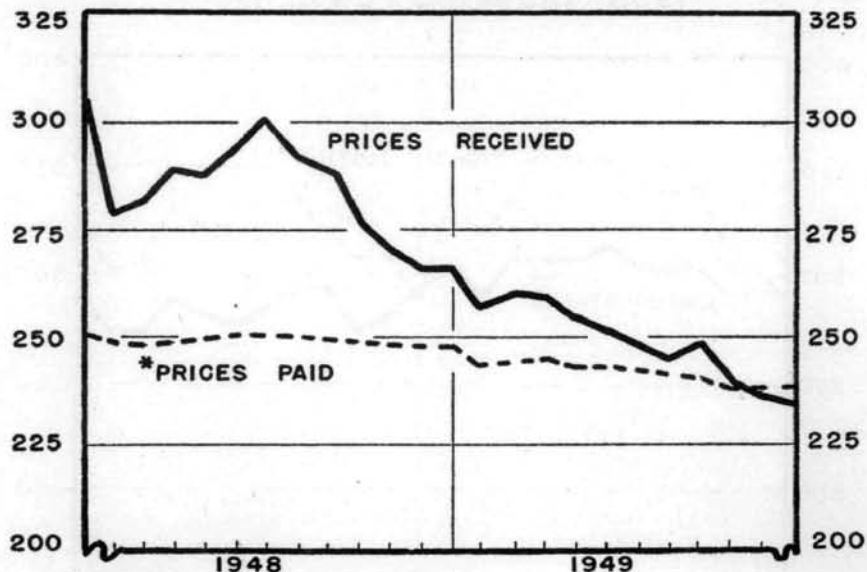
## Income

The fact that income received by individuals in 1949 totaled as large as in the previous year, despite the decline in industrial operations and farm production, was one of the significant developments in 1949.

Personal income in the nation last year amounted to about \$210 billion, approximately \$2 billion below the peak year, 1948. In the Eighth District, total income is tentatively estimated at \$10.8 billion or just under that in 1948. In the nation and in this district, aggregate wages and salaries were larger than in 1948, reflecting both the high level of employment and the slightly higher wage rates paid in 1949. Farm income was off appreciably, with the district decline larger than that in the nation. As noted elsewhere in this report, farm production and average prices received by farmers for their products were down from the 1948 levels. As a result, farm income nationally, which in 1948 was \$23 billion, dropped to about \$18.4 billion in 1949.

### PRICES RECEIVED AND PAID BY FARMERS

1910-1914 = 100 PER CENT



\*Includes Interest And Taxes  
SOURCE: U. S. Dept. of Agriculture

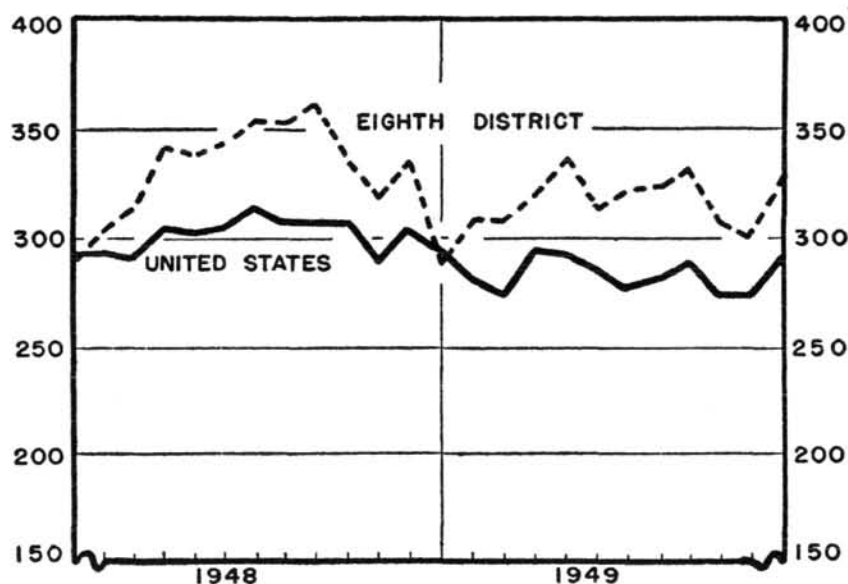


The weakness in the agricultural situation was particularly significant to the Eighth District. Farm income represents a relatively larger proportion of total income in this district than in the nation. Thus, even a decline in farm production and prices comparable to that in the nation would have had a relatively greater impact on this region's income. In 1949, however, output declined more in the district than in the nation. As a result, the drop in income received by the district's farmers was somewhat larger than the 20 per cent decline nationally. Nevertheless, in the over-all impact on the district's economy the drop in farm income was largely offset by increases in income from other sources.

## Expenditures

The fact that consumers' income last year remained relatively stable in the face of the sharp decline in production and employment during the first half year obviously was of fundamental importance to business. It provided the purchasing power that was necessary to support consumers' expenditures at levels approximating those in 1948—and a high level of consumer spending was a major requisite to the maintenance of total economic activity.

DEPARTMENT STORE SALES  
1935 - 1939 = 100 PER CENT



Late in 1948 consumer spending in the nation reached its peak. In the closing months of that year, however, consumers cut down their purchases of some durable goods. Sales of refrigerators and appliances in general as well as furniture began to decline. But sales of nondurables continued to increase and in the last quarter of 1948 were at their peak.

At the beginning of 1949 retailers generally were impressed by the decline in consumer spending for durables—and were of the opinion that 1949 would see further declines in sales. Acting accordingly, they began trimming their inventories in lines thought to be out of balance, and reducing advance commitments for goods. During most of the first nine months of the year, this policy of stopping inventory accumulation and, to some extent, of actually liquidating stocks was followed. The effect in each case was to reduce demand for production that was flowing into stocks. This in turn resulted in cutbacks in total industrial production and employment as noted earlier.

But during this period consumers continued to spend their money. Their income remained high and it was supplemented by increased use of credit and past savings. In the nation, total consumption expenditures for goods and services held at an almost constant level throughout the year and were almost the same as the \$179 billion in 1948.

Consumers in the Eighth District also kept their expenditures at a high level. Tentative estimates indicate that outlays for goods and services declined just about 1 per cent from the previous year. Part of the decline, of course, reflected lower average prices, and hence the estimates tended to understate the physical volume of goods that moved into the hands of consumers.

Total retail trade in the district and in the nation was strongly supported by the demand for automobiles. Less money was spent for other durables, although in the last half of the year there was a sizable recovery in the demand for furniture and major electrical appliances. This increase, which coincided with the elimination of consumer credit controls, was not sufficient, however, to lift the year's volume of durables other than automobiles to that of 1948.

The weaknesses that developed in nondurable goods lines in this district were essentially the same as those which developed nationally. Consumers spent fewer dollars for apparel, and in department stores their purchases of piece goods and household textiles also declined. Throughout a large part of the nondurable goods field, however, declines

in aggregate sales volume often reflected lower prices rather than a decrease in the physical volume of goods sold.

While the economy received as much support from consumers' expenditures in 1949 as in 1948, the impact of business outlays was somewhat less. A decline in business investment in new plant and equipment had been anticipated. Postwar industrial construction programs were well on their way to completion in 1948. This was particularly true in manufacturing industries and to a large extent it was applicable to commercial construction. Additional expenditures in the public utilities field were anticipated and in most industries outlays for new equipment were expected to hold at a relatively high level. In total, however, investment in plant and equipment was expected to decline. Consequently the drop in expenditures nationally from \$19.2 billion in 1948 to \$17.9 billion in 1949, as estimated jointly by the Securities and Exchange Commission and the Department of Commerce, came as no surprise.

In this district as elsewhere in the nation, investment in new plant facilities declined in 1949. Manufacturing industries in the previous year began to reduce their expenditures for new plants and the downward trend continued in 1949. Investment in commercial construction apparently held at about the 1948 volume and a substantially larger investment was made in the public utilities industry.

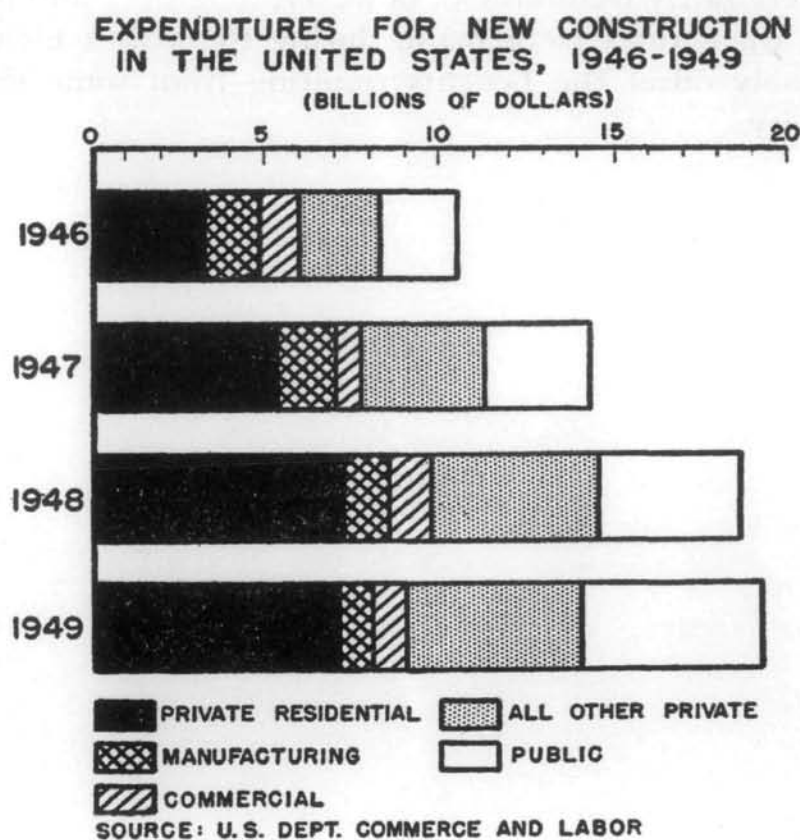
The decline in business spending for inventories referred to earlier was not foreseen, however. In 1948, when stocks were being accumulated by manufacturers, wholesalers and retailers, the net addition to nonfarm inventories represented an investment of \$5 billion and in the fourth quarter of that year was at an annual rate of \$7 billion. In 1949 the picture changed rapidly and during much of the year little, if any, investment was for the purpose of building up inventories in excess of consumption requirements. This was true in the district as well as nationally. Not until late in the year did investment begin to flow into inventories.

In part, the decline in business expenditures was offset by larger outlays by Government—Federal, state and local. Federal Government expenditures for goods and services rose from \$21 billion in 1948 to about \$26 billion in 1949. Other governmental bodies increased their outlays from \$16 billion to almost \$18 billion in 1949. Despite the expansion in public spending, however, the increase was not enough to offset the large drop in private investment.

## Construction

Although investment in new industrial and commercial construction declined in 1949, total new construction expenditures were at a record level of more than \$19 billion. The increase over 1948 resulted largely from an expansion in public construction of schools, hospitals, highways and other types of building. Aggregate public expenditures for construction rose 25 per cent to more than offset the 3 per cent decline in privately financed projects. While private residential expenditures also were smaller than in 1948, measured in terms of the number of units put under construction 1949 was the best year on record. More than a million nonfarm dwelling units were started last year. Many of these were begun late in the year and expenditures for materials and labor on these will tend to bolster the construction industry during the early months in 1950.

This shift in the relative importance of public construction nationally was not typical of the Eighth District, according to available evidence.



As measured by the value of construction contracts awarded in the major portion of this district, publicly financed projects accounted for a relatively smaller proportion of the value of all awards in 1949 than in 1948.

The total value of work contracted for in the district last year was at a new peacetime high of \$671 million or 8 per cent larger than in 1948. There were gains in residential as well as nonresidential construction. The residential field was marked by a sizable increase in privately financed building and by fairly large gains outside the larger cities. St. Louis City and County and Louisville constituted the only major urban areas in which the value of housing contracts increased in 1949. In the nonresidential field a larger volume of construction of public utilities and public works projects accounted for most of the increase in total nonresidential construction.

Construction costs in this area were stable during the year and probably averaged out at a level not much different from that in 1948. Building materials prices moved downward during the first half of 1949, continuing the decline that began in the third quarter of 1948. Decreases were fairly well limited, however, to lumber and paint. Some increases in wage rates were made during the year which to a large extent probably offset the benefits resulting from some improvement in productivity.





## BANKING DEVELOPMENTS

Banking in 1949 experienced a profitable year. Loan totals averaged about the same as in 1948, but investments were larger. Deposits declined in the first part of the year but regained this loss and expanded further in the second part. For member banks, reserve requirements were reduced, thus providing more free funds for acquiring earning assets.

### Federal Reserve Policy

The general policy followed by the Federal Reserve System during 1949 was to ease credit controls sufficiently that the nation's banks would be in position to moderate the economic downturn which began in late 1948. In the first part of the year, bank loans declined more rapidly than usual. In order to add liquidity to the banking system so that sound credit demand by business, agriculture and individuals could be met easily, the System early in May reduced reserve requirements for member banks, freeing about \$1.2 billion in reserves. At the end of June the System's temporary additional authority over reserve requirements expired and another \$800 million in reserves were freed. In August and in September, requirements were reduced again, freeing an additional \$1.8 billion in reserves.

Accompanying these actions the Federal Reserve took other steps to remove such credit barriers to recovery as might exist. In March and again in April, consumer credit controls were eased. Also in March, margin requirements on listed stocks were lowered—loan values were raised from 25 to 50 per cent. At the close of June all System control over consumer credit was eliminated with the expiration of authority in this field.

As the downward adjustment in economic activity slackened after midyear and was replaced by a moderate recovery, growth in bank credit was resumed. As a result of the renewal of the expansion in bank credit, the Federal Reserve System did not ease member bank reserves further after the August reduction. Market forces were allowed to tighten money market rates somewhat in the last six weeks of the year. The System worked generally in the direction of more flexible short-term money rates so as to be in better position to deal either with resumption of inflation or return of recession.



With the decline in loans and the addition of reserves, bank demand for United States Government securities increased. Prices rose and yields declined. During the first half of the year, the Federal Open Market Committee attempted to moderate the effect of the increased demand by supplying securities from the System portfolio. Substantial sales were made to the market in this period, and these plus retirement of some maturing securities reduced System holdings of Governments by \$3.8 billion in the first half of 1949.

On June 28, the Open Market Committee announced a change in policy. It stated it would attempt to buy and sell Government securities with primary regard for the general business and credit situation rather than preservation of a definite rate pattern. At the same time it stated that the policy of maintaining orderly conditions in the Government security market, and the confidence of investors in Government bonds, would be continued. Under this policy System sales slackened, but it was necessary to continue to supply some securities to the market to maintain order. System holdings declined another \$700 million net in the last half of the year.

## Member Bank Reserves

Already noted was System action in reducing reserve requirements by about \$3.8 billion during 1949. In addition to this gain, the member banks increased their total reserves during the year by another \$700 odd million, as net currency inflow, Treasury operations and net gold inflow added to reserve balances substantially. These funds were used primarily to add to bank holdings of Government securities, most of them being supplied by the Federal Reserve System. In other words, Federal Reserve action to reduce reserves, plus the reserve gains from other sources, resulted in a transfer of earning assets to the banking system.

There were some differences between the first and second halves of the year. In the first part, most factors (entirely exclusive of System statutory reserve requirement reductions) added to reserve balances of member banks. During the first six months gains from regular factors totaled about \$1.7 billion. System action freed another \$1.2 billion and the decline in deposits released about \$600 million more. In the second half, the regular factors reduced reserves, and deposit growth

absorbed some additional funds for required reserves. But the reduction in statutory requirements more than met the losses, so that the banks still had a net gain of free funds. The following table shows the factors for each half year and the full year.

### FACTORS AFFECTING MEMBER BANK RESERVE BALANCES

(In Millions of Dollars)

	12/29/48 to 12/28/49	12/29/48 to 6/29/49	6/29/49 to 12/28/49
(+) indicates addition to, (-) indicates reduction in free reserves.			
Currency in circulation.....	+ 560	+ 899	- 339
Treasury operations.....	+ 324	+ 803	- 479
Gold and foreign account operations	+ 42	+ 337	- 295
Miscellaneous (including Federal Reserve float).....	- 195	- 329	+ 134
Net sub-total.....	<u>+ 731</u>	<u>+1,710</u>	<u>- 979</u>
Reduction in statutory requirements	+3,800	+1,200	+2,600
Change in requirements due to deposit changes.....	- 62	+ 646	- 708
Net sub-total.....	<u>+3,738</u>	<u>+1,846</u>	<u>+1,892</u>
Additions of free reserves from above .....	4,469	3,556	913
Excess reserves as of earlier date shown .....	1,058	1,058	679
Total free funds available.....	<u>5,527</u>	<u>4,614</u>	<u>1,592</u>
Federal Reserve holdings of Governments .....	-4,558	-3,830	- 728
Loans, discounts and advances to banks.....	- 112	- 105	- 7
Total free funds used.....	<u>-4,670</u>	<u>-3,935</u>	<u>- 735</u>
Estimated excess reserves as of later date shown.....	857	679	857

## Eighth District Banking

Eighth District member banks' reserve positions, measured by the average daily balance of reserve accounts with the Federal Reserve Bank of St. Louis and their deposit liability subject to reserve requirements, for the semi-monthly periods of December 16-31, 1948, June 16-30, 1949, and December 16-31, 1949 are shown in the following table.

### RESERVE POSITION OF EIGHTH DISTRICT MEMBER BANKS SELECTED DATES<sup>1</sup>

(In Millions of Dollars)

	December, 1948	June, 1949	December, 1949
Net Demand Deposits subject to reserve requirements .....	3,330	3,054	3,308
Time Deposits.....	943	973	964
Required Reserves.....	714	622	556
Excess Reserves.....	42	34	50

<sup>1</sup> Deposits and reserves shown are averages of daily figures for the second half of month.

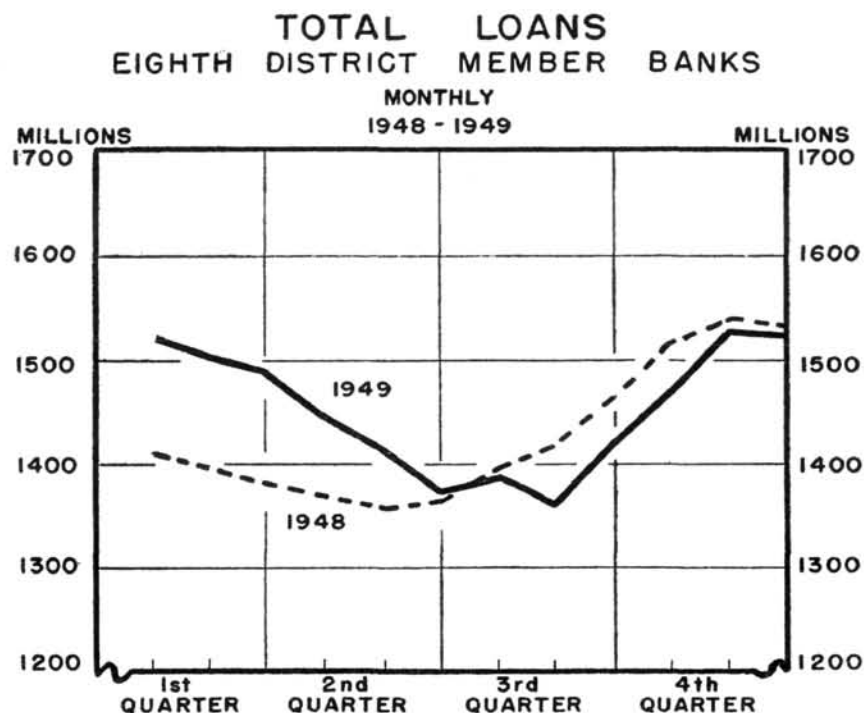
**Loan Trends**—At the close of 1949 total loans of Eighth District member banks were \$1.5 billion, almost as high (within 0.5 per cent) as a year earlier. Between the year-end dates, however, the course of loans was quite different than in the previous year.

Ordinarily in this district total bank loans decline in the first half of the year and expand in the second half. During many of the war and postwar years this seasonal movement was obscured by other factors. In 1949 the movement was quite pronounced, with the seasonal change apparently reinforced to a degree by the moderate downturn in general economic activity in the first three quarters of the year.

From December, 1948 to July, 1949, total member bank loans in this district dropped \$161 million. After recovering in July, volume fell off again in August to the low point of the year, down \$169 million or 11 per cent from the previous year end. A year earlier the low point came in May and the drop from the year-end high was much smaller—\$38 million or 3 per cent. Loan volume rose sharply in the later months of 1949, the increase amounting to \$162 million in September

through November alone. This autumn rise was particularly noteworthy in view of the fact that the expansion in CCC loan volume, which was an important factor in the seasonal rise in 1948, was considerably reduced in strength in 1949. With a short district cotton crop and low mill inventories which needed building up, CCC loan volume at banks in Memphis and Little Rock late in 1949 was less than one-third as large as a year earlier.

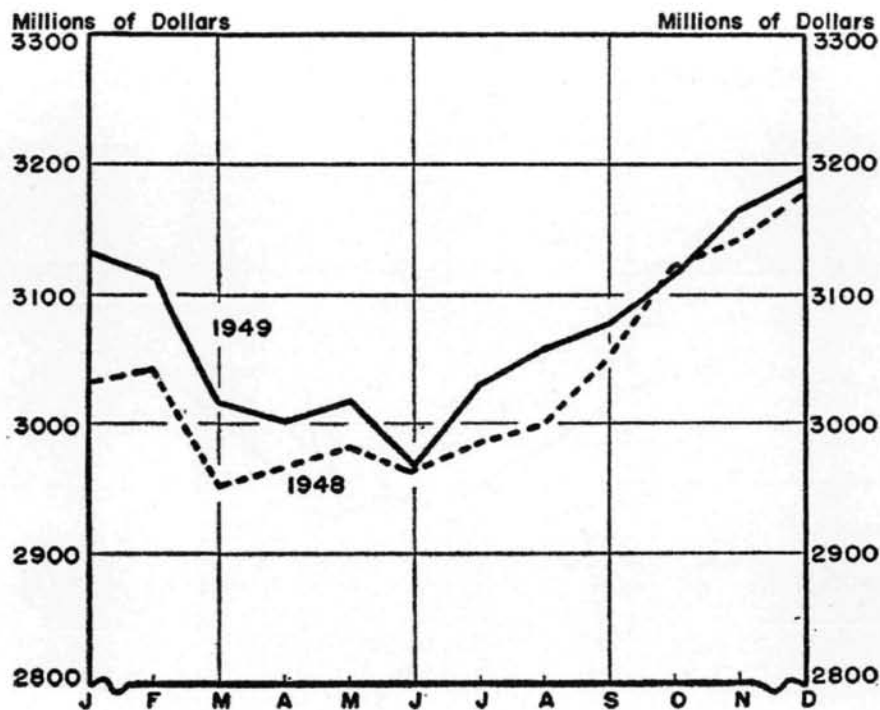
Significantly, the composition of total loans was changed at the end of 1949 by comparison with the pattern prevailing at the close of 1948. On the basis of the classifications of loans reported by 34 larger member banks in the district, there was a shift toward real estate loans and to a lesser extent toward consumer credit loans to help make up for the loss in business and agricultural loans. It should be noted that district member banks increased their real estate loans more rapidly and their consumer credit loans less rapidly than did all weekly reporting member banks in the nation. The more rapid expansion of real estate loans in this district than nationally is explained in part by the fact that private construction held up somewhat better in this district than it did nationally and in part by the fact that during the second half of the year the return on mortgage loans became relatively more attractive to the banks as money-market interest rates declined after June.



Loan trends also differed as between big city and country banks. At the larger urban institutions the loan decrease in the first half year apparently was more than seasonal, and, similarly, the fall expansion was more than seasonal. At rural banks the usual pattern is a rise in spring and summer and a decline in the fall after harvesting. The spring-summer increase in 1949 was smaller than in 1948, but there was some gain—2 per cent as against the previous year's 13 per cent. Country bank loan volume, however, increased contraseasonally in the latter part of 1949. As a result, total loans were slightly higher at the close of 1949 than a year earlier.

**Deposit Trends**—At the close of the year, deposits (excluding inter-bank deposits) at all Eighth District member banks totaled \$3.2 billion, just fractionally more than a year earlier. While deposit levels were practically the same at the two year-end points, some decline in deposits took place in the first six months, followed by a recovery of equal magnitude in the last half of the year.

GROSS DEMAND DEPOSITS, EXCEPT INTERBANK  
ALL MEMBER BANKS, 8th DISTRICT  
1948 - 1949  
MONTHLY





There was a slight tendency for deposits to shift from the rural to the city banks. This reflected not only the decline in farm income (stronger in this district than nationally) but also the fact that farmers' expenditures were continued at a relatively high level despite the income decline. Undoubtedly there were important deposit losses in the case of banks in certain areas which were hit relatively harder than the rest of the district—coal mining areas or some cotton producing areas, for example—and the steadiness of the aggregate volume should not minimize the losses where they did occur. The over-all picture, however, is one of unusual steadiness in face of the general business decline in the first part of the year.

**Modest Gain in Time Deposits**—Time deposits at district member banks at the close of 1949 totaled \$965 million, up \$19 million (2 per cent) for the year. These deposits were above the 1948 year-end level at both city and rural banks. The growth occurred in the first half of the year, principally in February and April. In view of the business slowdown, the increase in unemployment, and the reduction in farm income, which was sharp in some instances, the growth in time deposit volume is noteworthy. It suggests that these deposits are in firm hands as a fairly permanent part of private investment and savings plans, and that they will not be easily liquidated.





## ACTIVITIES OF THE FEDERAL RESERVE BANK OF ST. LOUIS

As one of twelve regional banks which, with the Board of Governors and the member banks, comprise the Federal Reserve System, the Federal Reserve Bank of St. Louis engages in a variety of activities. All of its activities are either direct central banking operations, or arise from such operations, or are necessary to maintain the work.

The staff departments of Research and Bank Relations keep the directors and officers informed on developments—both national and regional—in connection with this bank's responsibility, as part of the Federal Reserve System, in formulating monetary policy. Partly as a by-product of this function, partly as a direct service, they also provide and disseminate economic information to banks, business and the general public.

The Examination Department is charged with the supervision of member banks, particularly state member banks. Through periodic examinations and counsel with member banks it contributes to the strength of Eighth District banking in particular, and to stability in the economy in general.

The Credit Department deals directly with member banks in advances and discounts, and works with them on industrial loans under Section 13b of the Federal Reserve Act. For part of 1949, a Consumer Credit Department was concerned with regulation of such credit.

The operating departments, in performing such typical central banking functions as check collection, money shipments and receipts, keeping books on member bank reserve balances, etc., naturally extend a number of services to banking, particularly to member banks. Other operating departments in carrying out the function of Fiscal Agent of the United States Government, perform services directly for Government. Out of some of these also arise services to the commercial banks—such as collection of certain noncash items and safekeeping of securities.

Finally, the internal staff departments such as Audit, Personnel, Budget and Planning, Banking House, etc., have a variety of functions necessary to the maintenance of any large-scale organization.

The efficiency of operations is increased by the presence of three branches of the Federal Reserve Bank of St. Louis—at Little Rock, Louisville and Memphis. Aside from certain staff departments, each

of these branches is organized along the general lines of the St. Louis office. By dividing the Eighth District geographically into four sections, the functions of the Bank can be performed more smoothly and quickly.

During 1949, the number of employees at the St. Louis Bank and branches continued to decline from the wartime peak level. The January 1, 1950 total of 1,070 reflects a net reduction of 61 people during the year. During 1944 and 1945 total employment ran slightly in excess of 1,500. At the beginning of 1941 it was 677.

While much of the decline in employment in the postwar years can be attributed to a decrease in operating volume, a large part, particularly in the last two years, is traceable to increased efficiency. In turn this reflects a more stable working force and sharply lessened employment turnover. Last year the Bank added only 177 employees to offset, in part, 238 separations. In 1948 additions were 281 and separations 335. In 1942, in order to effect an increase of 328 in total employment, the Bank actually had to hire 883 people to offset a loss of 555 from separations.

It is doubtful that much further reduction in employment will take place in the near future. A large part of the increase relative to 1941 reflects expanded operations in Check Collection and Fiscal Agency Departments. It appears unlikely that volume operations in these departments will shrink appreciably in the foreseeable future.

In the brief review which follows, the activities of the Federal Reserve Bank of St. Louis are grouped into six broad functional divisions: (1) Operating functions concerned primarily with member banks; (2) operating functions concerned primarily with services to the United States Government and its agencies; (3) credit functions; (4) supervisory functions; (5) informational functions; and (6) internal operating functions. Activities of the head office and branches are treated as combined.

## Operating Functions—Member Banks

During 1949, about 42 per cent of the employees of the Federal Reserve Bank of St. Louis were engaged in operating functions concerned primarily with member banks.

**Check Collection**—For the sixteenth consecutive year, volume of checks collected in 1949 increased over the preceding year. Almost

129 million items were handled in 1949, compared with 121 million in 1948. Volume in the past year was about three and a half times that of 1933 and almost double that of 1939. In terms of dollars, checks collected in 1949 aggregated almost \$42 billion, about \$2 billion less than in 1948, reflecting the moderate downturn in business activity. Dollar volume in 1949 was almost eight times that of 1933.

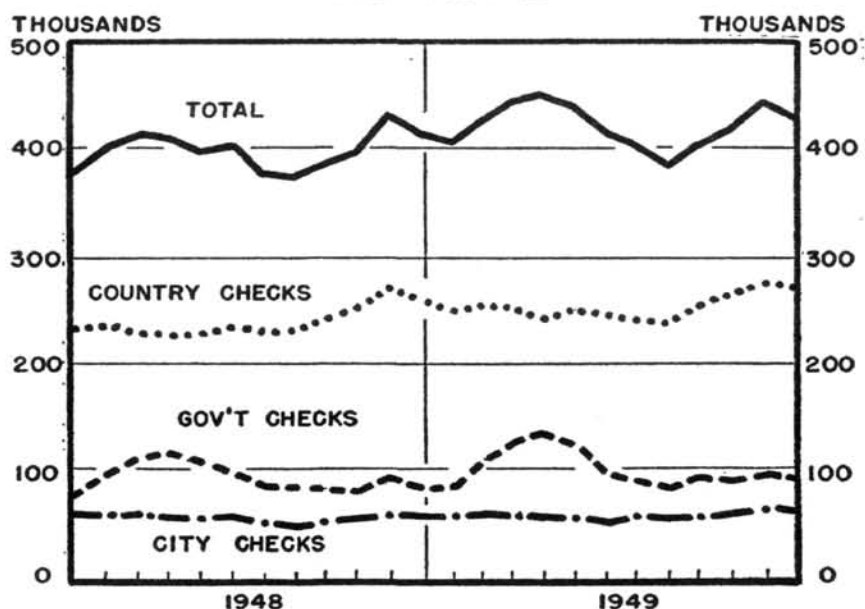
Although 1949 volume (number of items) increased 6 per cent over 1948, the number of persons employed in the operation declined approximately 8 per cent, indicating increased efficiency.

Air transportation as a means of expediting the collection of checks has been used by the Bank for nearly a quarter of a century. As air service grew and new lines were opened and schedules expanded, its use gradually increased. The program was accelerated in recent years and since August 1, 1947 checks have been sent by air in all cases where presentation or availability of funds may be advanced by the use of air transportation.

Further progress was made in 1949 in connection with the check routing symbol program. A survey conducted near the close of the past year indicated that nearly 67 per cent of all checks on par banks in this district now bear the symbol. A similar survey made a year earlier indicated 58 per cent use.

### NUMBER OF CHECKS HANDLED AT ST. LOUIS AND BRANCHES

DAILY AVERAGE

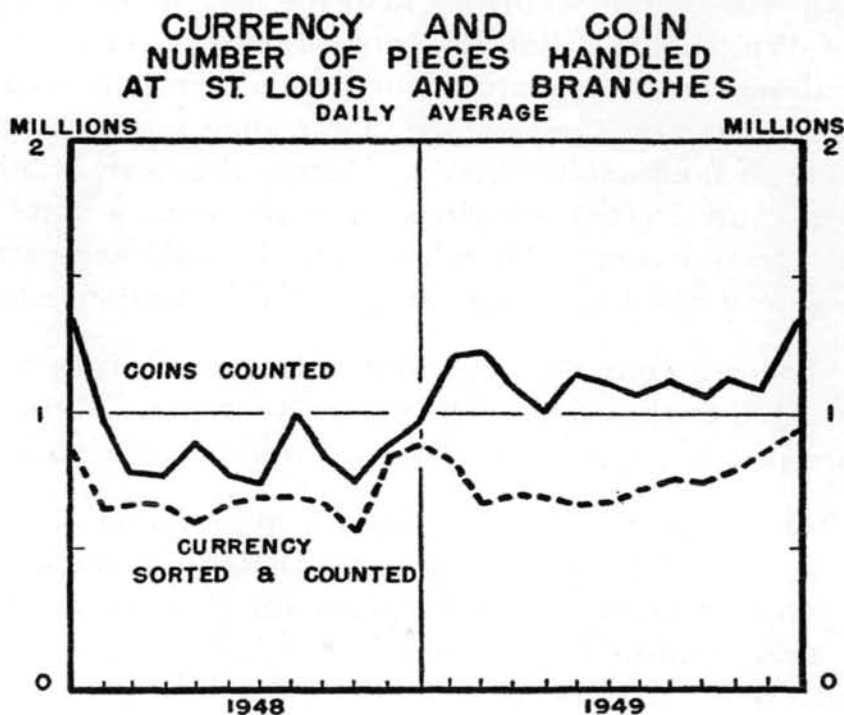


**Wire Transfers of Funds**—The number of wire transfers of funds handled for member banks in 1949 totaled 88,000 and involved \$16 billion. These figures represent a 1 per cent decrease in number of transfers and a 13 per cent increase in amount from 1948. During December, 1949, dollar volume of transfers amounted to \$1.2 billion, the first time that monthly dollar volume topped the billion dollar mark.

**Money Operations**—The number of units handled in 1949 increased over 1948, but dollar aggregates declined. Currency sorted and counted aggregated 199 million pieces with a dollar value of \$1.1 billion in 1949. In the preceding year the unit volume was 196 million but dollar value was slightly higher.

Coin counted increased substantially in 1949 both in number of pieces and value. More than 286 million pieces with a value of \$25 million were counted in 1949, as against 239 million pieces and \$21 million value in 1948. The increase reflected mainly heavier return flow of loose coin, as banks increased their preference for wrapped coin, a new service inaugurated last April.

Work with respect to shipments of currency also increased in 1949, primarily as a result of increased use of Federal Reserve Bank services by member banks requesting shipments to nonmember banks. In





1949 there were 45,500 individual currency shipments, 3,000 more than in 1948. Number of coin shipments declined by about 1,500.

**Noncash Collection**—In 1949, the Bank handled 475,000 noncash collection items. Because of a change in operating procedure, precisely comparable figures are not available for 1948, but some small decline in activity in 1949 was indicated.

About 880,000 United States Government interest coupons (including those clipped from securities in our safekeeping and those received from banks and others) were paid. Again a change in procedure makes data for 1948 not exactly comparable, but there also was some decline in volume in this activity in 1949.

Effective November 1, 1949, the Treasury Department changed its operating procedure in connection with redemption and processing of United States Government interest coupons. These are now accounted for by coupon value without regard to individual issue, instead of having to be sorted by issue. This change has eliminated considerable sorting work on the part of depositing banks.

**Safekeeping**—During 1949, securities were held in safekeeping for 483 of the 496 member banks and 520 of the 979 nonmember banks in the Eighth District. At year end almost 160,000 individual securities were so held. All of the securities held for nonmember banks were in the form of War Loan collateral (now Treasury Tax and Loan collateral), withheld taxes collateral, or as collateral to secure Government deposits of public funds, since safekeeping services are not otherwise available to nonmember banks. During the year 71,500 securities were received and 75,000 securities were released, a total of 146,500 "in and out" transactions. All safekeeping records are carried on key punch cards, and the entire operation is fairly well mechanized.

As they mature, coupons are clipped from securities held and the proceeds credited to the banks. During the year 265,000 coupons having an aggregate par value of more than \$18 million were so handled.

**Accounting Operations**—The 496 member banks of this district maintain reserve balances with the Federal Reserve Bank of St. Louis. In addition, 35 nonmember banks maintain clearing accounts. Daily transcripts are furnished each of these banks—reflecting details of charges and credits arising from check collections and clearings, non-

cash collection transactions, transfers of funds, money shipments and receipts, and other deposits and withdrawals of funds. Changes in capital stock of this Bank owned by member banks also involve accounting operations.

A considerable volume of accounting work at the St. Louis Bank arises from operations as Fiscal Agent for the United States Government. One phase alone—handling of withheld taxes, in which funds are received from the commercial banks maintaining such special deposit accounts and credited to the United States Treasurer—involved 144,000 receipts in 1949.

In addition, accounting operations are concerned with internal affairs of the Bank. Transactions through the Federal Reserve Inter-district Settlement Fund, this Bank's share of transactions of the System Open Market Account, and internal expense items were major sources of activity in 1949.

## Operating Functions—United States Government

During 1949, about 18 per cent of the employees of the Federal Reserve Bank of St. Louis were engaged in operating functions concerned primarily with services to the United States Government and its agencies.

**Fiscal Agency**—Much of the work in connection with this function relates to activity in sales, redemption and reissue of U. S. Savings Bonds. In some of this work there is direct contact with the general public, but the great bulk of transactions is with issuing and paying agents—banks, businesses and others.

Both in direct dealings and in dealings with agents, activity in 1949 was off somewhat from 1948. At the close of 1949, the Bank was working with 1,625 issuing agents and 1,556 paying agents—in total almost exactly the same number as a year earlier. Sales by issuing agents in 1949 totaled 2,180,000 pieces—about 27,000 less than a year earlier. Redemptions by paying agents were much smaller in 1949 than in 1948—about 480,000 fewer pieces. Direct issue of Series E, F and G Bonds by this Bank involved 277,000 pieces, and redemptions totaled 143,000 pieces. In combination, direct transactions in 1949 accounted for about 20,000 fewer pieces than in 1948.

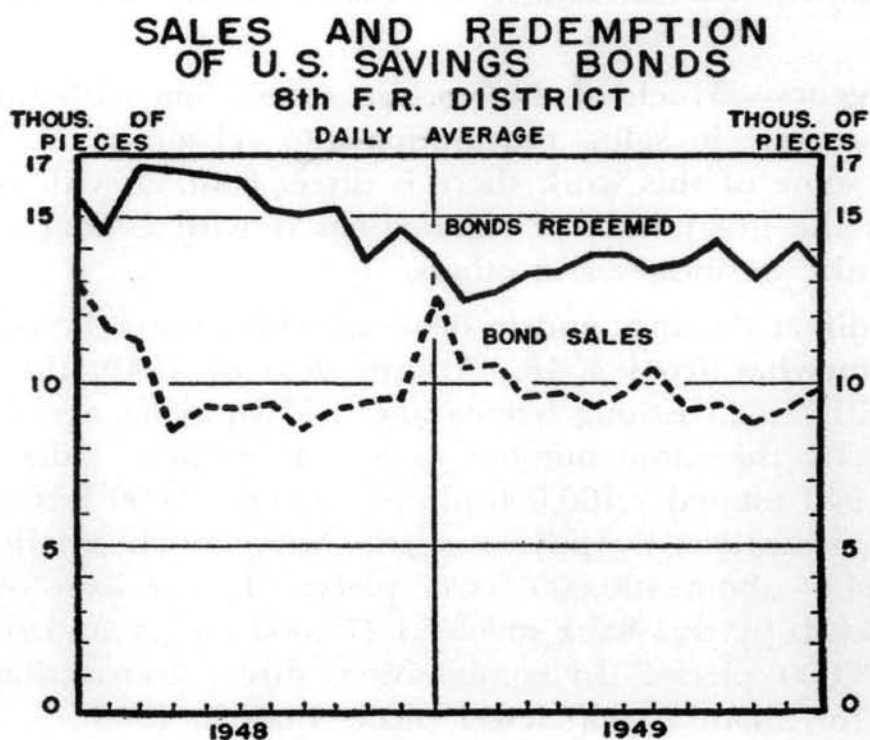


Activity in reissue (changes in name of owner or beneficiary for various reasons, or replacement of bonds lost) increased in 1949, with 267,000 pieces so handled—almost 30,000 more than in 1948.

Most of the other work in Fiscal Agency involves sales, exchanges, maturities and transfers of marketable Government securities. In 1949, about 7,700 applications for new offerings were processed, and 33,000 individual securities were issued—in both cases somewhat more than in 1948. Transactions involving Special Depository Accounts also were somewhat more in 1949 than in 1948. Exchange and redemption transactions fell off in volume, as did transactions involving telegraphic transfers of securities and purchases and sales for the account of member banks.

One function was revived in 1949—processing of applications for exchanges involving Government instrumentalities. In addition, the detail of handling certain Treasury transactions, including more extensive records and tabulations, increased the work load somewhat.

In summary, operating volume in Fiscal Agency work in 1949 was smaller than in 1948. Employment decreased more than volume, however, pointing to increased efficiency per worker.



**Other Fiscal and Custodial Work**—A number of United States Government agencies are served by the Federal Reserve Bank of St. Louis. This Bank issues disbursement checks for the Reconstruction Finance Corporation and its loan agencies. It also receives remittances direct from RFC borrowers and loan agencies. A considerable volume of securities, notes, deeds of trust and other valuables is held in safe-keeping for the Corporation.

Among other functions, the Bank does work in connection with the Production and Marketing Administration program of farm price support loans, and handles certain fiscal and custodial work for the Public Housing Administration and the General Services Administration. Also certain reports are collected for the Treasury Department; for example, reports of unusual currency transactions and transactions with, or for the account of, foreign interests.

## Credit Functions

With member bank reserve positions generally easier in 1949, direct credit granting to member banks was on a smaller scale than in 1948. Just 37 banks borrowed as compared with 49 in the preceding year. The aggregate number of advances in 1949 was 525 and the aggregate amount was \$692 million. In 1948, about \$945 million was advanced. The peak in outstandings during 1949 was \$21 million and came at the close of September. All but two advances in 1949 were secured by United States Government obligations.

Late in September, 1949 a circular was sent all banks calling their attention to the availability of financing under Section 13b. At the close of the year one industrial loan commitment (under Section 13b) was outstanding; the amount involved was \$500,000. Two applications totaling \$230,000 were pending at year end. During the year the number of inquiries concerning such loans increased.

**Consumer Credit**—Until June 30, 1949, regulation of consumer instalment credit in the Eighth District was a function of this Bank. Consumer credit regulation had been re-authorized by the Congress in mid-August, 1948 as a temporary measure. The authorization expired at mid-1949.

In the first half of the year, work under this function involved issuance of certificates of registration, interpretation of Regulation W

and investigation and examination of vendors and lenders. The department handling this work was disbanded after June 30.

## Supervisory Functions

During the course of the year, in conformity with established policy, each of the 171 state member banks in the district was examined at least once. Following long-standing practice, examinations were made jointly with examiners for the seven State Banking Departments of the district, except in those few instances where practicable schedules could not be arranged. In addition a number of investigations, both joint and independent, were made. A table showing the number of examinations and investigations undertaken during the year follows:

### EXAMINATIONS OF STATE MEMBER BANKS

	Joint	Independent
Commercial Departments.....	161	12
Trust Departments.....	49	—
Holding Company Affiliates.....	—	1
Affiliates other than Holding Companies.....	14	2

### INVESTIGATIONS

	Joint	Independent
Holding Company Affiliates.....	1	1
Affiliates other than Holding Companies.....	30	4

## Information and Analysis

The service of providing information on and analysis of economic conditions for banks, businesses and the public grows out of several functions of the Federal Reserve Bank of St. Louis. The directors and officers need to be kept informed on economic developments in the nation and the district in order to fulfill their responsibilities as a part of the Federal Reserve System. The Board of Governors in Washington for similar reasons wishes factual and interpretive reports on district developments. The collection of regular statistical material, partly as a by-product of other activities, partly as a definite program, is a typical central banking function.

Much of this information is useful to the business community and to individuals, and hence is made available—through statistical releases,

through the Monthly Review and through special publications. But beyond this, the Bank feels a responsibility to work with various groups which are endeavoring to make the Eighth District a better place in which to live and work. Among such groups are private organizations such as the Committee for Economic Development; The National Planning Association's Committee of the South; state and local associations of businessmen, farmers and professional men; the state universities; various state and Federal agencies; and the state bankers' associations. The Bank is keenly interested in problems connected with regional economic development. The Eighth District is a low income region. The Bank, along with many others, is studying the broad aspects of the problem of raising income in the district. Results of such studies are given publicity through printed media and through special meetings and speeches.

Most of the 30 meetings held in 1949 were sponsored jointly by the Federal Reserve Bank of St. Louis, the state bankers' associations and the state universities. About 1,500 Eighth District bankers, bank directors and others attended. All but four of the meetings dealt with problems of resource development in the district—in agriculture and in forestry. These four were aimed at problems of banking policy and operations.

In addition to these activities, representatives of this Bank participated in 222 meetings sponsored by banker groups and others, and made 159 public addresses. More than 1,700 individual visits to Eighth District banks were made by officers and special representatives. About 2,900 students, teachers, bankers and businessmen were conducted on tours through the head office or branches.

## Internal Operations

Functions necessary to keep the complex machinery of the Bank operating at full efficiency are numerous and varied. Such internal operations run the gamut from preparing budgets to painting walls, from hiring and training employees to installing electrical equipment for power. Employees needed for these internal operations in 1949 totaled 32 per cent of total employees.

**Personnel**—The decline in total employment, and the decrease in turnover, lessened the amount of work necessary to keep the various departments of the Bank adequately staffed. At the same time, internal



transfers, maintenance of records for the job evaluation and merit review programs, and interviewing were heavy by any but wartime or immediate postwar standards.

One major personnel development of 1949 was the inauguration of a new executive training program in the bank. Its objectives are:

1. To offer opportunities for training and advancement to individuals currently employed by the bank who are believed to possess qualities required in more responsible positions.
2. To develop an alert and trained group of potential officers, department heads, supervisors and specialized personnel.
3. To recruit into the organization and train a few college graduates who are believed to possess unusual qualities and who should be capable of absorbing accelerated and specialized training.

Substantial progress toward the first two of these objectives was made in 1949. The program, of course, is long-range in emphasis and is expected to produce cumulative improvements.

**Budget and Planning**—The Bank operates under a budget which is prepared on a calendar year basis and contains each item of expense expected to be incurred during the budget year. Actual expenditures for the calendar year 1949 were within the budget.

The budget is used to establish predetermined objectives and provides the basis for measuring performance against these objectives; it supplies advance estimates of expense which are useful in considering changes in present policies or in establishing future policies; it stimulates cost consciousness by fixing the responsibility for expense control upon individuals; and it enforces better planning by showing good or adverse trends currently.

**Audit**—The primary function of the Audit Department is to maintain a check on operating procedures and controls, with particular emphasis on those operations involving money or securities. During 1949, as in previous years, audits were conducted at irregular intervals.

**Physical Plant**—Rehabilitation of the old Nugent property adjacent to the Federal Reserve Bank at St. Louis was virtually completed in 1949. The property was acquired by the Bank in June, 1944 and was

partially rehabilitated in 1945 and 1946 to accommodate urgent needs for space arising from the war and immediate postwar increase in work. Only work vital for this purpose was done when building labor and materials were short.

The rehabilitation program was resumed when this situation eased. The exterior was refaced; mechanical equipment and plumbing put in order or replaced; air conditioning, acoustical ceiling, fluorescent lighting and tile flooring installed. It will be ready for occupancy in early 1950.

At St. Louis, construction was started in 1949 on a parking garage at Fourth and St. Charles Streets. The garage is to be a single-story structure with three-level parking—basement, street level and roof. It will be used primarily to accommodate the Bank's, employees', visitors' and customers' automobiles. At the end of 1949 excavation had been completed and the pouring of footings and foundation walls begun.

Also at St. Louis, in 1949 installations were made in the main building of electrical systems to allow for the purchase of all electrical power requirements, and to retire the main generators to stand-by equipment for emergency use. All circuits, with the exception of those supplying motor equipment, were converted to alternating current, the main switchboard and branch distribution panels were replaced, and one of the two direct current generators was replaced with an alternating current generator.

At Little Rock, a contract has been let for the extension of the existing mezzanine around the main banking room. Alterations will include the installation of fluorescent lighting and acoustical metal tile ceiling, and will provide approximately 2,000 square feet of additional floor space.

At Louisville, preliminary planning is under way by architects for a new branch building. Preliminary studies indicate that construction on the site of the present branch building is feasible and desirable.

Also the Bank finally was able to consolidate its ownership of all ground beneath it. As is fairly common in downtown St. Louis, part of the ground upon which the Bank stands was held in a long-term trust and could not be sold without permission of the court. The court, in early 1950, permitted the trustees to dispose of the lot not previously owned by the Bank and it has now been purchased.



# COMPARATIVE STATEMENT OF CONDITION

ASSETS	Dec. 31, 1949	Dec. 31, 1948
GOLD CERTIFICATES .....	\$ 686,839,736	\$ 669,692,232
REDEMPTION FUND .....	42,929,214	44,871,088
OTHER CASH .....	18,957,850	16,621,474
Total Cash .....	748,726,800	731,184,794
DISCOUNTS AND ADVANCES.....	2,502,000	7,344,500
U. S. GOVERNMENT SECURITIES	1,020,561,000	1,288,272,000
Total Loans and Securities.....	1,023,063,000	1,295,616,500
F. R. NOTES OF OTHER BANKS..	8,780,550	8,853,020
UNCOLLECTED ITEMS .....	171,468,707	160,762,303
BANK PREMISES (NET).....	1,926,133	1,941,265
OTHER ASSETS .....	6,805,515	8,596,921
Total Assets .....	1,960,770,705	2,206,954,803
<b>LIABILITIES</b>		
FEDERAL RESERVE NOTES.....	1,090,460,145	1,144,264,725
DEPOSITS:		
Member Bank—Reserve Account.....	611,854,729	776,122,438
U. S. Treasurer—General Account.....	31,880,808	84,997,905
Other Deposits .....	57,262,821	33,121,267
Total Deposits .....	700,998,358	894,241,610
DEFERRED AVAILABILITY		
ITEMS .....	136,305,898	138,814,065
OTHER LIABILITIES .....	475,311	564,806
Total Liabilities .....	1,928,239,712	2,177,885,206
<b>CAPITAL ACCOUNTS</b>		
CAPITAL PAID IN.....	6,894,200	6,692,850
SURPLUS (Section 7).....	19,117,860	17,973,827
SURPLUS (Section 13b) .....	521,317	521,317
OTHER CAPITAL ACCOUNTS.....	5,997,616	3,881,603
Total Liabilities and Capital		
Accounts .....	1,960,770,705	2,206,954,803

# COMPARATIVE STATEMENT OF EARNINGS AND EXPENSES

	1949	1948
<b>EARNINGS</b> .....	17,022,134	16,544,716
<b>EXPENSES:</b>		
Operating Expenses .....	4,050,803	3,861,194
Assessment for Expenses of Board of Governors .....	117,300	115,550
Federal Reserve Currency.....	384,052	351,700
	4,552,155	4,328,444
Total Current Expenses.....	4,552,155	4,328,444
Current Net Earnings.....	12,469,979	12,216,272
<b>Additions to Current Net Earnings:</b>		
Profit on Sales of U. S. Government Securities .....	1,646,280	322,194
Other Additions .....	126	137
	1,646,406	322,331
Total Additions .....	1,646,406	322,331
Deductions from Current Net Earnings.....	154,618	185
Transferred to Reserves for Contingencies.....	2,116,055	2,129,843
Paid United States Treasury (Interest on Outstanding Federal Reserve Notes).....	10,294,486	9,014,434
	11,565,159	11,154,462
Net Earnings After Reserves and Payments to United States Treasury.....	1,551,226	1,394,141
Dividends Paid .....	407,193	392,300
	1,144,033	1,001,841
Transferred to Surplus (Section 7).....	1,144,033	1,001,841
<b>SURPLUS ACCOUNT (SECTION 7)</b>		
Surplus January 1.....	17,973,827	16,971,986
Transferred to Surplus—as above.....	1,144,033	1,001,841
	19,117,860	17,973,827
Surplus December 31.....	19,117,860	17,973,827

# DIRECTORS AND OFFICERS

February 15, 1950

◆  
D I R E C T O R S

*Chairman*

RUSSELL L. DEARMONT, Chief Counsel for Trustee  
Missouri-Pacific Lines  
St. Louis, Missouri

*Deputy Chairman*

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Dixie Wax Paper Company  
Memphis, Tennessee

TOM K. SMITH, *Chairman of Board*  
Boatmen's National Bank  
St. Louis, Missouri

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Planters Bank and Trust Company  
Hopkinsville, Kentucky

J. E. ETHERTON, *President*  
Carbondale National Bank  
Carbondale, Illinois

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Serval, Incorporated  
Evansville, Indiana

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Missouri Portland Cement Company  
St. Louis, Missouri

RALPH E. PLUNKETT, *President*  
Plunkett-Jarrell Grocer Company  
Little Rock, Arkansas

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WM. E. PETERSON, *Vice-President*

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F. N. HALL, *Assistant Vice-President*

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J. J. CHRIST, *Assistant Vice-President*

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H. B. KLINE, *Counsel*

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St. Louis, Missouri

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Western Textile Products Company  
St. Louis, Missouri

CLARENCE S. FRANKE, *President*  
American Furnace Company  
St. Louis, Missouri

G. A. HEUSER, *President*  
Henry Vogt Machine Company  
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JAMES LOUIS CRAWFORD, *President*  
Walsh Refractories Corporation  
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Alton Box Board Company  
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Stebbins and Roberts, Incorporated  
Little Rock, Arkansas

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Bank of Russellville  
Russellville, Arkansas

HARVEY C. COUCH, JR., *President*  
Union National Bank  
Little Rock, Arkansas

THOS. W. STONE, *Executive Vice-President*  
The Arkansas National Bank  
Hot Springs, Arkansas

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Farmer  
Stuttgart, Arkansas

LLOYD SPENCER, *President*  
First National Bank  
Hope, Arkansas

STONEWALL J. BEAUGHAMP, *President*  
Terminal Warehouse Company  
Little Rock, Arkansas



OFFICERS

C. M. STEWART, *Vice-President and Manager*

CLIFFORD WOOD, *Assistant Manager*

CLAY CHILDERS, *Assistant Manager*

<sup>1</sup> As of March 1, 1950

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University of Louisville  
Louisville, Kentucky

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Ohio Valley National Bank  
Henderson, Kentucky

SMITH BROADBENT, JR.  
Farmer  
Cadiz, Kentucky

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L. S. MOORE, *Assistant Manager*

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Circle M. Ranch  
Senatobia, Mississippi

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Commercial National Bank  
Greenville, Mississippi

BEN L. ROSS, *Chairman of Board*  
Phillips National Bank  
Helena, Arkansas

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Stratton-Warren Hardware Company  
Memphis, Tennessee

H. W. HICKS, *President*  
First National Bank  
Jackson, Tennessee

HUGH M. BRINKLEY  
Farmer  
Hughes, Arkansas

### OFFICERS

PAUL E. SCHROEDER, *Vice-President and Manager*  
S. K. BELCHER, *Assistant Manager*      C. E. MARTIN, *Assistant Manager*  
H. C. ANDERSON, *Assistant Manager*