The Federal Reserve Bank of St. Louis conducts day-to-day operating and supervisory functions, as well as participating in the formulation of monetary policy. As a part of the Federal Reserve System it contributes to economic growth, a high level of employment, and a viable price level. Its policy actions and the economic information upon which they are based are frequently discussed in this Review. This article, however, focuses primarily on the operating aspects of the bank during 1965. Its operating and supervisory functions contribute to efficient commercial bank and Government financial operations in the Eighth Federal Reserve District.

Although the basic demand for Reserve Bank services reflects such factors as the area's population, income, and level of business and financial activity, the size and structure of the commercial banking system in the district is important in determining the volume of Reserve Bank activities. Some measures of the size and structure of commercial banking in the Eighth District and the nation since 1950 which have influenced the volume of operations at the Federal Reserve Bank of St. Louis are discussed in this article.

Structure of Eighth District Banking

As of June 30, 1965 there were 1,500 commercial banks, with combined assets of nearly $16 billion and deposits exceeding $14 billion, located in the Eighth Federal Reserve District. About 11 per cent of all commercial banks in the nation (7 per cent of all banking offices) are located in the district. However, reflecting their smaller average size, Eighth District banks hold only 4.4 per cent of the nation's bank assets and 4.5 per cent of all bank deposits.

Banking Offices

Eighth District banks in mid-1965 maintained 2,054 offices for conducting banking business (Table I). The total number of banking offices has increased substantially during the last 15 years, rising from 1,616 in 1950. The gain in banking offices reflects primarily the establishment of branches and additional offices rather than organization of new banks. The number of banks increased by only 30, from 1,470 in 1950 to 1,500 in 1965, while the number of branches and additional offices increased from 146 to 554.

The commercial banking system in the United States at mid-1965 comprised 13,791 banks maintaining a total of 28,938 banking offices. As in the Eighth District, the number of banking offices has increased rapidly in recent years, rising from 18,964 in 1950. Banking office gains in the nation resulted entirely from new branches and additional offices, as the number of banks declined from 14,121 in 1950 to 13,791 in 1965. The number of branches and additional offices more than tripled during the period, rising from 4,843 to 15,147.

### Table I

<table>
<thead>
<tr>
<th>Year</th>
<th>Eighth District</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Banks</td>
<td>Banking Offices</td>
</tr>
<tr>
<td>1950</td>
<td>1,470</td>
<td>1,616</td>
</tr>
<tr>
<td>1955</td>
<td>1,459</td>
<td>1,677</td>
</tr>
<tr>
<td>1960</td>
<td>1,476</td>
<td>1,826</td>
</tr>
<tr>
<td>1965 (June 30)</td>
<td>1,500</td>
<td>2,054</td>
</tr>
</tbody>
</table>

1Banking offices include banks, branches, and additional offices.
Ratio of Banking Offices to Population

The number of banking offices relative to population may be used as a rough approximation of the availability of banking services. In the Eighth District the number of banking offices per 100,000 persons was 16.3 in 1965, somewhat above the average of 14.8 for the nation (Table II).

Table II
RATIO OF BANKING OFFICES TO POPULATION

<table>
<thead>
<tr>
<th>Population</th>
<th>Banking Offices per 100,000 Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td>1950</td>
</tr>
<tr>
<td>Eighth District</td>
<td>10,472</td>
</tr>
<tr>
<td>Arkansas</td>
<td>1,910</td>
</tr>
<tr>
<td>Illinois</td>
<td>1,319</td>
</tr>
<tr>
<td>Indiana</td>
<td>693</td>
</tr>
<tr>
<td>Kentucky</td>
<td>1,561</td>
</tr>
<tr>
<td>Mississippi</td>
<td>1,041</td>
</tr>
<tr>
<td>Missouri</td>
<td>2,970</td>
</tr>
<tr>
<td>Tennessee</td>
<td>978</td>
</tr>
<tr>
<td>United States</td>
<td>132,271</td>
</tr>
</tbody>
</table>

1Includes banks and branches. District data exclude "limited service" offices and are not precisely comparable with United States data.
2Includes all of Arkansas but only portions of the remaining states.
3Estimated by the Federal Reserve Bank of St. Louis, based on county population data prepared by state health departments or agricultural experiment stations.

The rapid growth of branches and other offices in the district and the nation in recent years has resulted in a faster rate of increase in total banking offices than in population. Banking offices per 100,000 people in the district increased 8 per cent from 1950 to 1965; in the nation there was a 17 per cent increase.

Prior to the agricultural recession of the 1920's and the general depression of the 1930's substantially more banking offices existed in the United States relative to population (Table III). With the advantage of hindsight it appears that there may have been more banks in the 1920's than were economical. Many failed and were not replaced. During the four years 1929-33 the number of offices declined almost 50 per cent. Economic expansion was slow during the rest of the 1930's, and relatively few banking offices were established. Also, entry into banking was hampered by rules designed to prevent abuses caused by an excessive number of banks. The war effort required most of the nation's resources in the first half of the 1940's, and the ratio of banking offices to population continued relatively low.

Since World War II economic conditions have provided a strong demand for new banks or new banking offices. The rate of increase in banking offices, however, did not exceed that of population until about 1955. The number of banking offices is now almost as large as at the peak in 1920 but is far less in relation to population. A lower banking office-population ratio may be appropriate; first, there may have been an uneconomically large number of offices in the 1920's, and second, increased urbanization and improved transportation may have decreased the economical number of banking offices in relation to population.

The banking office-population ratio varies considerably within the Eighth District. In 1965 there were 12.9 offices per 100,000 people in Arkansas compared with 21.3 in Indiana. Since 1950 the ratio of offices to population has increased rapidly in the district portions of the branch banking states of Indiana, Kentucky, Tennessee, and Mississippi but has remained relatively stable in the nonbranching states of Arkansas, Illinois, and Missouri.

Several factors may be of importance in explaining variation in the banking office-population ratio. Included are variations in state banking laws and population density. State laws pertaining to branch banking apparently exert a strong influence, since those states which permit branching have had greater banking office-population ratio gains than have unit bank states. Urban areas have lower banking office-population ratios than rural areas. For example, there are 5.3 banking offices per 100,000 people in the St. Louis Metropolitan Area compared with 21.8 offices per 100,000 people in the rest of the district portion of Missouri. While rates of population and economic growth, differences in attitudes of state regulatory agencies in granting bank charters, and other factors are important in influencing the ratio of banking offices to population, the extent of their impact is more difficult to assess.

Bank Deposits

Total deposits at commercial banks in both the district and the nation increased throughout the 1950's,
and since 1960 the growth has accelerated. Deposits at Eighth District banks rose from $6.7 billion in mid-
1950 to $14.1 billion on June 30, 1965, an average annual rate of 5.1 per cent (Table IV). During this period deposits in the nation grew at an average rate of 5.3 per cent. Since 1960 total deposits in the district have risen 7.7 per cent annually compared with 8.3 per cent for the nation.

The growth of time and savings deposits has proceeded much faster than the growth of demand deposits. From 1950 to 1965 time and savings deposits at district banks rose from $1.4 billion to $5.6 billion, an annual rate of 9.9 per cent. Since 1960 such deposits have risen at an annual rate of 16.4 per cent. Time deposits in the nation increased somewhat less rapidly, rising at a 9.1 per cent annual rate during the whole 1950-65 period and at a 14.9 per cent rate since 1960. The substantial growth in time and savings accounts is the result of increased aggressiveness by commercial banks in seeking funds to meet a rising demand for credit. Reflecting this increased competition for funds were more liberal interest rates paid by banks. Banks have also developed additional sources of funds by issuing unsecured notes, subordinated debentures, and an increasing variety of certificates of deposit.

Demand deposits at district banks rose from $5.4 billion in 1950 to $8.3 billion on June 30, 1965, an average annual increase of 3.1 per cent. In the nation such deposits rose from $106.5 billion to $173.2 billion, a gain of 3.3 per cent annually. Since 1960 such deposits in the district have increased at a 3.6 per cent rate compared with 4.3 per cent in the nation.

Total bank deposits per capita increased at an annual rate of 3.5 per cent in the Eighth District from 1950 to 1964 compared with 2.9 per cent in the nation (Table V). Per capita demand deposits in the district and nation rose at annual rates of 1.5 per cent and 0.4 per cent, respectively, while per capita time and savings deposits rose at rates of 8.9 per cent and 6.0 per cent.

The higher rate of increase in district per capita deposits has reduced the disparity between the district and the national averages. Total deposits per capita in the district rose from 62 per cent of the national average in 1950 to 67 per cent in 1964. Per capita demand deposits rose from 73 per cent to 84 per cent, and time deposits, from 34 per cent to 50 per cent.

Although the district has made sizable gains in per capita deposits relative to the nation, a considerable

<table>
<thead>
<tr>
<th>Table IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>SELECTED ASSET AND LIABILITY ITEMS OF COMMERCIAL BANKS</td>
</tr>
<tr>
<td>(June 30)</td>
</tr>
<tr>
<td>Amount</td>
</tr>
<tr>
<td>(Billions)</td>
</tr>
<tr>
<td>1950</td>
</tr>
<tr>
<td><strong>District</strong></td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Total deposits</td>
</tr>
<tr>
<td>Demand</td>
</tr>
<tr>
<td>Time</td>
</tr>
<tr>
<td>Loans</td>
</tr>
<tr>
<td>U. S. Government securities</td>
</tr>
<tr>
<td>Other securities</td>
</tr>
<tr>
<td>Total capital accounts</td>
</tr>
<tr>
<td>Total assets</td>
</tr>
</tbody>
</table>

Average Annual Rates of Change

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>District</strong></td>
<td>U.S.</td>
<td>District</td>
<td>U.S.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Total deposits</td>
<td>4.4%</td>
<td>4.8%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Demand</td>
<td>4.0</td>
<td>4.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Time</td>
<td>6.2</td>
<td>6.0</td>
<td>7.4</td>
</tr>
<tr>
<td>Loans</td>
<td>8.8</td>
<td>10.9</td>
<td>7.5</td>
</tr>
<tr>
<td>U. S. Government securities</td>
<td>0.6</td>
<td>0.8</td>
<td>-0.6</td>
</tr>
<tr>
<td>Other securities</td>
<td>7.7</td>
<td>8.4</td>
<td>5.3</td>
</tr>
<tr>
<td>Total capital accounts</td>
<td>7.1</td>
<td>5.5</td>
<td>6.6</td>
</tr>
<tr>
<td>Total assets</td>
<td>4.7</td>
<td>4.9</td>
<td>3.5</td>
</tr>
</tbody>
</table>

1 Includes both time and savings deposits.
gap still remains. Both demand and time deposits per capita are below the national average. It is generally believed that demand deposits are desired as a convenient means for settling day-to-day transactions and as a means of storing wealth. If this is the case, the per capita level is likely to be related to both per capita income and wealth in a community. Per capita income in the Eighth District is below the United States average but, like demand deposits, is increasing at a somewhat higher rate than in the nation. Per capita time and savings deposits, in addition to their relationship to income and wealth, are perhaps associated with the convenience and competitive features of banking versus other savings-type institutions. Banks in the Eighth District may be less competitive in this respect than in the nation, due both to the structure of district banking and to legal restrictions. Four district states limit the rates paid on time and savings deposits.

Bank Credit

Loans at Eighth District banks increased from $2.2 billion in 1950 to $7.9 billion in 1965, an average annual rate of 9.0 per cent. During this period bank loans in the nation rose at an annual rate of 10.1 per cent. Since commercial banks have been increasing their loans faster than deposits, the loans-to-deposits ratio rose from 32.4 per cent in 1950 to 56.3 per cent in 1965. In the nation this ratio rose even faster, from 31.1 per cent to 60.3 per cent.

A decline in the holdings of U. S. Government securities relative to total bank assets has been a major complement to the increase of the loans-to-deposits ratio. While the amount of such securities held by district banks has remained about unchanged since 1950, Government securities have declined from 40 per cent of total assets to 20 per cent. In the nation, Government securities declined from 42 per cent to 16 per cent of total bank assets.

In contrast to Government securities, the relative importance of “other” securities (mostly obligations of state and local governments) in bank asset structure has been increasing. Such securities held by district banks increased from $0.5 billion in 1950 to $2.0 billion in 1965, an annual rate of 9.4 per cent. Between mid-1960 and mid-1965 district bank holdings of these securities more than doubled. Relative to total assets, these other securities increased from 7.1 per cent in 1950 to 12.6 per cent in 1965. A similar growth in such securities has occurred at commercial banks in the nation, with holdings increasing at an average annual rate of 9.2 per cent during the 1950-65 period. Such securities increased from 7.1 per cent of assets to 11.9 per cent.

Bank Capital

Total capital accounts of commercial banks in the Eighth District rose from $0.5 billion in 1950 to $1.4 billion in 1965, an average annual increase of 7.0 per cent. Bank capital has increased at a greater rate than some other important banking variables over this period. The 7.0 per cent annual rate of growth in bank capital compares with an annual increase of 5.1 per cent in total deposits, 5.8 per cent in bank credit, and 5.3 per cent in total assets. As a consequence, the capital-to-assets ratio of district banks rose from 6.9 per cent to 8.8 per cent during the period.

In the nation total bank capital rose from $11.4 billion in 1950 to $29.2 billion in 1965, an average annual increase of 6.5 per cent. The capital-to-assets ratio rose from 7.3 per cent to 8.2 per cent.
Bank capital relative to deposit liabilities has increased since 1950 in both the district and nation. Capital accounts at district banks rose from 7.4 per cent of deposits in 1950 to 9.8 per cent in 1965 (Table VI). In the nation capital relative to deposits rose from 7.9 per cent to 9.4 per cent. All of the rise in the ratio of capital to deposits occurred in the 1950-60 period; since 1960 this ratio has been about unchanged.

<table>
<thead>
<tr>
<th>Per Cent of Deposits</th>
<th>1950</th>
<th>1955</th>
<th>1960</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eighth District</td>
<td>7.4</td>
<td>8.4</td>
<td>9.9</td>
<td>9.8</td>
</tr>
<tr>
<td>United States</td>
<td>7.9</td>
<td>8.2</td>
<td>9.7</td>
<td>9.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Per Cent of Risk Assets</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Eighth District</td>
<td>18.0</td>
<td>16.8</td>
<td>16.6</td>
<td>13.7</td>
</tr>
<tr>
<td>United States</td>
<td>19.7</td>
<td>15.7</td>
<td>14.5</td>
<td>12.3</td>
</tr>
</tbody>
</table>

1 Total assets less cash assets and U. S. Government securities.

Relative to certain risk assets, bank capital has declined, both from 1950 to 1960 and since 1960. Capital relative to all assets less cash assets and U. S. Government securities declined from 18.0 per cent in 1950 to 13.7 per cent in 1965 at district banks. Most of this decline has occurred since 1960. Similarly, the capital-to-risk assets ratio in the nation declined from 19.7 per cent in 1950 to 12.3 per cent in 1965.

These data do not necessarily indicate that commercial banks are becoming more risky or that coverage for loan and security losses has declined. Many bank loans are guaranteed by agencies of the United States Government, which in effect makes the risk equivalent to that of Government bonds. Also, foreclosures and forced sales are at a very low rate compared with some historical periods. Furthermore, most banks maintain a sizable bad debt reserve which is deducted from loans and not reflected in the capital account.

**Concentration in District Banking**

Another important aspect of the banking structure in the district is the degree of concentration of banking activity. Other factors equal, it is generally assumed that a greater concentration of banking activity indicates less competition. To determine the level of concentration in the Eighth District, all insured banks were divided by volume of total deposits into 10 groups, each containing an equal number of banks. This array of groups revealed that the 10 per cent containing the largest banks in the district accounted for nearly 60 per cent of total deposits of all banks on June 30, 1965, whereas the 10 per cent containing the smallest banks held less than 1 per cent of total deposits (Table VII).

### Table VII

**DISTRIBUTION OF DEPOSITS BY BANK SIZE**

<table>
<thead>
<tr>
<th>Size Groups</th>
<th>1950</th>
<th>1955</th>
<th>1960</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 10 per cent</td>
<td>63.15</td>
<td>64.03</td>
<td>60.88</td>
<td>59.69</td>
</tr>
<tr>
<td>2nd 10 per cent</td>
<td>11.27</td>
<td>11.14</td>
<td>11.69</td>
<td>12.11</td>
</tr>
<tr>
<td>3rd 10 per cent</td>
<td>7.01</td>
<td>6.87</td>
<td>7.40</td>
<td>7.61</td>
</tr>
<tr>
<td>4th 10 per cent</td>
<td>5.20</td>
<td>5.06</td>
<td>5.59</td>
<td>5.76</td>
</tr>
<tr>
<td>5th 10 per cent</td>
<td>4.03</td>
<td>3.85</td>
<td>4.34</td>
<td>4.45</td>
</tr>
<tr>
<td>6th 10 per cent</td>
<td>3.08</td>
<td>2.95</td>
<td>3.31</td>
<td>3.46</td>
</tr>
<tr>
<td>7th 10 per cent</td>
<td>2.35</td>
<td>2.26</td>
<td>2.55</td>
<td>2.64</td>
</tr>
<tr>
<td>8th 10 per cent</td>
<td>1.83</td>
<td>1.76</td>
<td>1.93</td>
<td>2.00</td>
</tr>
<tr>
<td>9th 10 per cent</td>
<td>1.31</td>
<td>1.30</td>
<td>1.42</td>
<td>1.44</td>
</tr>
<tr>
<td>10th 10 per cent</td>
<td>0.77</td>
<td>0.78</td>
<td>0.89</td>
<td>0.84</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

1 All insured banks grouped by total deposits. Each group in 1950 contained 141.9 banks; in 1955, 142.4 banks; in 1960, 145.3 banks; and in 1965, 148.3 banks.

Since 1950 the percentage of total deposits held by the various groups of banks has changed somewhat. From 1950 to 1955 the share held by the group of largest banks rose slightly, from 63.15 per cent of all deposits to 64.03 per cent, while the share of each other group, except the smallest size group, declined. Since 1955 this trend has been reversed; total deposits of the group of largest banks declined from 64.03 per cent in mid-1955 to 59.69 per cent on June 30, 1965.

The diminution since 1955 in the percentage of total deposits held by the group of largest banks has permitted a small increase in the relative share of all other groups. Thus, it appears that, based on total deposits, the banking industry in the Eighth District since 1955 has become less, rather than more, concentrated. However, in a particular state or city the situation may be considerably different than in the district as a whole.

The trends in relative amounts of most other variables held by banks in the various groups are similar to the trend in total deposits. The proportion of total assets, time deposits, loans, and Government securities all declined for the group of largest banks and increased for all other groups. An exception to this generalization was the trend in total capital accounts. The proportion of capital in the first and the sixth through tenth groups increased slightly between 1950 and 1965, while the second through fifth groups showed declines.

Clifton B. Luttrell
William E. Pettigrew
Money Handling

Operations in the Money Department of the bank rose rapidly in 1965, primarily as a result of increased coin counting. Following three successive years of coin shortage, supplies began to gain on demand in 1965. By the end of the year most requests for coin, with the exception of half dollars, could be filled on schedule. During the shortage member banks seldom had excess coin to return to the Federal Reserve, and counting operations declined drastically. In 1965, however, coin counting rose to 318 million pieces from 227 million in 1964, a gain of 40 per cent. The dollar value rose from $24.5 million to $27.0 million, an increase of 10 per cent. This, however, was still substantially below the 1961 peak when 490 million pieces valued at $48.3 million were counted.

Introduction of a nonsilver quarter in early November contributed to increased supplies of coin. The new quarter is a three-layer coin with outer faces of the same alloy as is used for the five cent piece—75 per cent copper and 25 per cent nickel. These cupronickel faces are bonded to a core of pure copper. Nonsilver dimes, scheduled to go into circulation in early 1966, will be made of the same materials and in the same manner. Later in the year half dollars of reduced silver content will be introduced. They will be faced with layers of 80 per cent silver and 20 per cent copper, bonded to a core of 79 per cent copper and 21 per cent silver, giving them an overall 40 per cent silver content. All of the new coins have the same designs and are of the same size as their silver counterparts; however, the dime and quarter are 9.3 per cent lighter and the half dollar is 5 per cent lighter. The traditional dimes, quarters, and half dollars, all containing 90 per cent silver, are to remain in circulation with the new coins.

Currency counting at the Federal Reserve Bank of St. Louis rose to 219 million pieces in 1965 from 201 million pieces in 1964, an increase of 9.0 per cent. The dollar value rose to $1.4 billion, an increase of 9.4 per cent. Currency counting has shown little net change

<table>
<thead>
<tr>
<th>Table VIII</th>
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<tbody>
<tr>
<td>VOLUME OF OPERATIONS1</td>
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<table>
<thead>
<tr>
<th></th>
<th>Dollar Amount (Millions)</th>
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<tbody>
<tr>
<td></td>
<td>1960</td>
<td>1964</td>
<td>1965</td>
<td></td>
</tr>
<tr>
<td>Coin counted</td>
<td>43.3</td>
<td>24.5</td>
<td>27.0</td>
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<tr>
<td>Currency counted</td>
<td>1,186.0</td>
<td>1,300.2</td>
<td>1,421.9</td>
<td></td>
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<tr>
<td>Checks handled2</td>
<td>68,537</td>
<td>91,837</td>
<td>102,900</td>
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</tr>
<tr>
<td>Noncash collection items</td>
<td>391.1</td>
<td>466.7</td>
<td>566.2</td>
<td></td>
</tr>
<tr>
<td>Transfers of funds</td>
<td>61,434</td>
<td>94,453</td>
<td>109,066</td>
<td></td>
</tr>
<tr>
<td>U. S. Savings Bonds handled2</td>
<td>685.9</td>
<td>615.5</td>
<td>624.3</td>
<td></td>
</tr>
<tr>
<td>Other Government securities handled3</td>
<td>10,933.3</td>
<td>16,015.5</td>
<td>16,282.6</td>
<td></td>
</tr>
<tr>
<td>U. S. Government coupons paid</td>
<td>123.1</td>
<td>144.9</td>
<td>136.6</td>
<td></td>
</tr>
<tr>
<td>Loans to member banks—daily average outstanding</td>
<td>17.4</td>
<td>5.8</td>
<td>15.3</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Number (Millions)</th>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>1960</td>
<td>1964</td>
<td>1965</td>
<td></td>
</tr>
<tr>
<td>Coin counted</td>
<td>426.6</td>
<td>226.8</td>
<td>317.5</td>
<td></td>
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<tr>
<td>Currency counted</td>
<td>201.4</td>
<td>201.2</td>
<td>218.8</td>
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<tr>
<td>Checks handled2</td>
<td>170.7</td>
<td>226.1</td>
<td>244.6</td>
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<tr>
<td>Noncash collection items</td>
<td>.560</td>
<td>.528</td>
<td>.587</td>
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</tr>
<tr>
<td>Transfers of funds</td>
<td>.152</td>
<td>.188</td>
<td>.200</td>
<td></td>
</tr>
<tr>
<td>U. S. Savings Bonds handled2</td>
<td>7.534</td>
<td>8.155</td>
<td>8.784</td>
<td></td>
</tr>
<tr>
<td>Other Government securities handled3</td>
<td>.457</td>
<td>.554</td>
<td>.564</td>
<td></td>
</tr>
<tr>
<td>U. S. Government coupons paid</td>
<td>.872</td>
<td>.791</td>
<td>.733</td>
<td></td>
</tr>
</tbody>
</table>

1Including the Little Rock, Louisville, and Memphis branches.

2Total for the St. Louis office and the Louisville, Memphis, and Little Rock branches.

3Excludes Government checks and money orders.

Issued, exchanged, and redeemed.
since the early 1950's. Both dollar value and number of pieces declined from 1953 to 1961 but recovered the loss by 1965.

The amount of coin and currency in circulation in the country has risen rapidly since 1960. Coin in circulation has risen at a rate of 9.4 per cent in the last five years compared with a 4.5 per cent annual rate during the 1945-60 period (Table IX). Currency in circulation rose at an average annual rate of 3.9 per cent from 1960 to 1965 after increasing at a 1.0 per cent rate from 1945 to 1960.

Coin and currency counting at the Federal Reserve Bank is related to the volume in circulation. In turn, the volume in circulation is associated with the amount of transactions paid for by coin and currency. An individual has the choice of holding money either in the form of coin and currency or demand deposits. Since 1950 the amount of coin and currency held has totaled about 30 per cent of the amount of demand deposits. Coin has increased somewhat relative to demand deposits, while currency has declined slightly.

Relative to personal income, coin and currency in circulation rose rapidly during World War II but has declined fairly steadily since the early postwar years. From 10.0 per cent of personal income in 1940 the volume of coin and currency in circulation rose to 15.6 per cent in 1945 but has since declined to 7.6 per cent (Table X). All the relative coin and currency decline has occurred in the currency component, which dropped from 14.9 per cent of personal income in 1945 to 6.9 per cent in 1965. Coin totaled about 0.7 per cent of personal income in 1945, the same as in 1965.

Table X

<table>
<thead>
<tr>
<th>Year</th>
<th>Coin and Currency as a Per Cent of Personal Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>0.8% 9.2% 10.0%</td>
</tr>
<tr>
<td>1945</td>
<td>0.7 14.9 15.6</td>
</tr>
<tr>
<td>1950</td>
<td>0.6 11.3 11.9</td>
</tr>
<tr>
<td>1955</td>
<td>0.6 9.1 9.7</td>
</tr>
<tr>
<td>1960</td>
<td>0.6 7.4 8.0</td>
</tr>
<tr>
<td>1965</td>
<td>0.7 6.9 7.6</td>
</tr>
</tbody>
</table>

Check Collections

Progress toward automated check collection continued during 1965. A third computer for check handling was installed at the St. Louis office in September. Plans for automation were made and computer equipment ordered for delivery to the Memphis and Little Rock branches. Target dates for delivery are mid-1966 for Memphis and early 1967 for Little Rock. Such equipment at the branches will be used for numerous other operations in addition to check collections.

About 83 per cent of all checks received at the St. Louis office in recent months were sorted through electronic check processing equipment. This compares with about two-thirds of all checks similarly processed a year earlier. At the Louisville branch, automated in mid-1964, about 90 per cent of all checks received in recent months were sorted through electronic equipment. This compares with about 70 per cent a year earlier.

The Federal Reserve Bank of St. Louis may receive checks from each of the 483 member banks in the Eighth District, other Federal Reserve Banks and

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1Outside the Treasury and Federal Reserve Banks.

2Number as of December 31, 1965.
their direct-sending member banks, and Government agencies. Checks are sent to member banks and non-member par-remitting banks in the Eighth District and to other Federal Reserve Banks for collection.

The number of checks cleared through the Federal Reserve Bank of St. Louis, including the branches, rose from 226.1 million in 1964 to 244.6 million in 1965. The dollar volume of these collections rose from $91.8 billion in 1964 to $102.9 billion in 1965.

The growth in check collections at this bank and in the Federal Reserve System has generally paralleled the growth in gross national product. Since 1953 the dollar value of checks collected at the Federal Reserve Bank of St. Louis increased at an annual rate of 5.9 per cent, while such collections in the System rose at a 5.6 per cent rate, and GNP rose at a 5.3 per cent rate. From 1964 to 1965 checks collected at the Federal Reserve Bank of St. Louis rose 12.0 per cent and in the System rose 10.6 per cent in connection with transactions in U. S. Treasury obligations. Such transfers by this bank in 1965 totaled 200,000, up 6.4 per cent from a year earlier. The dollar value of transfers, totaling $109 billion, was up 15.5 per cent.

In addition to maintaining facilities for check collection, Federal Reserve Banks handle numerous other items for collection. Included are drafts, promissory notes, bonds and bond coupons, and various other documents. The combined dollar value of these non-cash collections was up 21.3 per cent in 1965 from 1964, while the number of items was up 11.2 per cent.
Directors and Officers

Directors

Chairman of the Board and Federal Reserve Agent
Raymond Rebsamen, Chairman of the Board
Rebsamen & East, Inc.
Little Rock, Arkansas

Deputy Chairman of the Board
Smith D. Broadbent, Jr.
Broadbent Hybrid Seed Co.
Little Rock, Arkansas

H. Lee Cooper, President, Ohio Valley National Bank of Henderson, Henderson, Kentucky

Harry F. Harrington, Chairman of the Board, The Boatmen's National Bank of St. Louis, St. Louis, Missouri
William King Self, President, Riverside Industries, Marks, Mississippi

Roland W. Richards, Senior Vice President, Laclede Steel Company, St. Louis, Missouri
Sherwood J. Smith, Vice President, Whirlpool Corporation, Evansville, Indiana

Mark Townsend, Chairman of the Board
Townsend Lumber Company, Inc.
Stuttgart, Arkansas

Member of Federal Advisory Council
A. M. Brinkley, Jr., Chairman of the Board
and Chief Executive Officer
Citizens Fidelity Bank and Trust Company
Louisville, Kentucky

Officers

Darryl R. Francis, President
Dale M. Lewis, First Vice President

Marvin L. Bennett, Vice President
John F. Breen, Vice President
Donald L. Henry, Vice President
Homer Jones, Vice President
Stephen Koptis, Vice President
John W. Menges, Vice President
Howard H. Weigel, Vice President and Secretary
Joseph C. Wotawa, Vice President
Orville O. Wyrick, Vice President
George W. Hirshman, General Auditor
Gerald T. Dunne, General Counsel and Assistant Secretary

Norman N. Bowscher, Assistant Vice President
Earl H. Chapin, Assistant Chief Examiner
Edgar H. Crist, Assistant Chief Examiner
George W. Dennison, Assistant Vice President
J. M. Geiger, Assistant Vice President
Woodrow W. Gilmore, Planning Officer
John J. Hofer, Assistant Vice President
Wilbur H. Isbell, Chief Examiner
Willis L. Johns, Assistant Vice President
Richard O. Kaley, Assistant Vice President
Eugene A. Leonard, Assistant Vice President
William R. Mueller, Assistant General Auditor
F. Garland Russell, Jr., Assistant Counsel
Paul Salzman, Assistant Vice President
W. E. Walker, Assistant Vice President
LITTLE ROCK BRANCH

Directors
ROSS E. ANDERSON, Chairman of the Board, The Commercial National Bank of Little Rock, Little Rock, Arkansas
FREDERICK P. BLANKS, Planter, Parkdale, Arkansas
CECIL W. CUPP, President & Chairman, Arkansas Bank and Trust Company, Hot Springs, Arkansas

OFFICERS
JOHN F. BREEN, Vice President and Manager
HOWARD J. JENSEN, Assistant Cashier

JOHN K. WARD, Cashier

LOUIS E. HURLEY, President, The Exchange Bank & Trust Company, El Dorado, Arkansas
R. M. LAGRONE, JR., President, The Citizens National Bank of Hope, Hope, Arkansas
REEVES E. RITCHIE, President, Arkansas Power & Light Company, Little Rock, Arkansas
CAREY V. STABLER, President, Little Rock University, Little Rock, Arkansas

LOUISVILLE BRANCH

Directors
LISLE BAKER, JR., Executive Vice President & General Manager, The Courier-Journal & Louisville Times Company, Louisville, Kentucky
RAY A. BARRETT, President, The State Bank of Salem, Salem, Indiana
W. G. DEATHERAGE, President, Planters Bank & Trust Co., Hopkinsville, Kentucky

OFFICERS
DONALD L. HENRY, Vice President and Manager
LUCAS A. NELSON, Assistant Cashier

JAMES E. CONRAD, Cashier

CLARENCE J. WOERTZ, Assistant Cashier

MEMPHIS BRANCH

Directors
LEON C. CASTLING, President, First National Bank at Marianna, Marianna, Arkansas
SAM COOPER, President, HumKo Products Division, National Dairy Products Corporation, Memphis, Tennessee
W. W. HOLLOWELL, President, The First National Bank of Greenville, Greenville, Mississippi

OFFICERS
JOHN W. MENGES, Vice President and Manager
PAUL I. BLACK, JR., Assistant Cashier

BENJAMIN B. MONAGHAN, Cashier

JAMES S. WILLIAMS, Plant Manager, American Greetings Corporation, Osceola, Arkansas

EDWARD B. LEMASTER, President, Edward LeMaster Co., Inc., Memphis, Tennessee
ALLEN MORGAN, President, The First National Bank of Memphis, Memphis, Tennessee
CON T. WELCH, President, Citizens Bank, Savannah, Tennessee

JOSEPH P. GARBARINI, Assistant Cashier
Fiscal Agency Operations

To facilitate orderly Government financial transactions in all parts of the country, the Reserve Banks act as fiscal agents of the United States Government. They carry the principal checking accounts of the Government, issue and redeem Government securities, administer the Treasury tax and loan deposit accounts at commercial banks, and perform various other Government financial duties.

The Federal Reserve Bank of St. Louis issued, exchanged, and redeemed 8.8 million United States Savings Bonds in 1965 compared with 8.2 million in 1964. The dollar value of such bonds was up 1.4 per cent from a year earlier.

Other Government securities issued, serviced, or retired in 1965 totaled 564,000, valued at $16.3 billion.

This was an increase of 1.8 per cent in number and 1.7 per cent in dollar value from 1964. Government coupons paid were down 7.3 per cent in number and 5.7 per cent in dollar value.

The Discount Rate and Lending Operations

The interest rate charged on loans to member banks (commonly called the discount rate) was raised from 4 to 4 1/2 per cent in December 1965. This increase, which followed rising market rates, was the highest rate charged on such loans since early 1929. The current uptrend in the discount rate began in mid-1963 with an increase from 3 to 3 1/2 per cent. The rate was increased to 4 per cent in late 1964.

Federal Reserve credit is generally extended on a short-term basis to a member bank to enable it to adjust its asset position when necessary because of developments such as a sudden withdrawal of deposits or seasonal requirements for credit beyond those which can reasonably be met by use of the bank’s own resources. Federal Reserve credit is also available for

3The rate charged under Sections 13 and 13a of the Federal Reserve Act on advances secured by U. S. Government securities and discounts of and advances secured by eligible paper.
longer periods when necessary to assist member banks in meeting unusual situations resulting from national, regional, or local difficulties or from exceptional circumstances involving only particular member banks.

Lending operations at the Federal Reserve Bank of St. Louis during 1965 approached the average of the 1954-60 period, following four years at relatively low levels. Average daily outstandings to member banks in the Eighth District in 1965 were $15.3 million, up from $5.8 million in 1964. In comparison, average daily borrowings were about $17 million for the seven years 1954-60.

Functional Cost Analysis

The Federal Reserve Bank of St. Louis, in cooperation with other Reserve Banks, in 1965 instituted a functional cost analysis program as a service to member banks in assessing their operations. This program is designed to provide participating banks a detailed breakdown of income and expenses by various functions. It also provides a comparative measure of each participating bank's performance with the average experience of a group of banks of similar functional size.

Member banks provide the Reserve Bank with income and expense data, certain item counts, and asset and liability averages for the year. The data is computer processed and each of the participating banks is given a report in which costs and income are allocated among the functions of loans and investments, demand deposits, time deposits, safekeeping, and trust department. The loan function is further broken into installment, real estate, and others, and the demand deposits function, into regular and special checking accounts.

The program is provided without charge to member banks and is strictly on a voluntary basis for those banks which have expressed a desire to participate.

Statements of the Federal Reserve Bank of St. Louis

Net earnings, before payments to the United States Treasury, rose to $47.2 million in 1965, up 13.5 per cent from 1964. Dividends to member bank stockholders, limited by law to 6 per cent of paid-in capital, were up 5.3 per cent. Payments to the Treasury (interest on Federal Reserve notes) of $44.9 million, were less than a year earlier, when the remainder of current earnings, after dividends, was augmented by a $16.3 million withdrawal from surplus.

Table XI

<table>
<thead>
<tr>
<th></th>
<th>1965</th>
<th>1964</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total earnings</td>
<td>$58,246</td>
<td>$52,073</td>
</tr>
<tr>
<td>Net expenses</td>
<td>11,053</td>
<td>10,482</td>
</tr>
<tr>
<td>Net earnings</td>
<td>$47,193</td>
<td>$41,591</td>
</tr>
<tr>
<td>Net earnings before payments to U.S. Treasury</td>
<td>$47,232</td>
<td>$41,612</td>
</tr>
<tr>
<td>Distribution of net earnings:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>$ 1,110</td>
<td>$ 1,054</td>
</tr>
<tr>
<td>Interest on Federal Reserve notes</td>
<td>44,935</td>
<td>56,863</td>
</tr>
<tr>
<td>Transferred to surplus</td>
<td>1,187</td>
<td>-16,305</td>
</tr>
<tr>
<td>Total</td>
<td>$47,232</td>
<td>$41,612</td>
</tr>
</tbody>
</table>

Table XII

<table>
<thead>
<tr>
<th>Assets</th>
<th>December 31, 1965</th>
<th>December 31, 1964</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold certificate reserves</td>
<td>$327,575</td>
<td>$436,030</td>
</tr>
<tr>
<td>Federal Reserve notes of other banks</td>
<td>42,029</td>
<td>32,033</td>
</tr>
<tr>
<td>Other cash</td>
<td>7,128</td>
<td>6,401</td>
</tr>
<tr>
<td>Discounts and advances</td>
<td>1,394</td>
<td>1,220</td>
</tr>
<tr>
<td>U. S. Government securities</td>
<td>1,456,710</td>
<td>1,436,374</td>
</tr>
<tr>
<td>Uncollected items</td>
<td>412,676</td>
<td>409,868</td>
</tr>
<tr>
<td>Other assets</td>
<td>40,003</td>
<td>26,543</td>
</tr>
<tr>
<td>Total assets</td>
<td>$2,577,515</td>
<td>$2,548,469</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Capital Accounts</th>
<th>December 31, 1965</th>
<th>December 31, 1964</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Reserve notes (net)</td>
<td>$1,450,866</td>
<td>$1,409,903</td>
</tr>
<tr>
<td>Deposits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member banks—reserve accounts</td>
<td>690,741</td>
<td>694,156</td>
</tr>
<tr>
<td>U. S. Treasurer—general account</td>
<td>55,282</td>
<td>56,288</td>
</tr>
<tr>
<td>Other</td>
<td>14,589</td>
<td>11,497</td>
</tr>
<tr>
<td>Deferred availability cash items</td>
<td>320,883</td>
<td>318,377</td>
</tr>
<tr>
<td>Other liabilities and accrued dividends</td>
<td>8,994</td>
<td>22,362</td>
</tr>
<tr>
<td>Total capital accounts</td>
<td>38,260</td>
<td>35,643</td>
</tr>
<tr>
<td>Total liabilities and capital accounts</td>
<td>$2,577,515</td>
<td>$2,548,469</td>
</tr>
</tbody>
</table>