

FEDERAL RESERVE BANK
OF NEW YORK
Fiscal Agent of the United States

[Circular No. 2823]
July 29, 1944

ENDORSEMENT OF CERTAIN GOVERNMENT CHECKS PAYABLE TO
MEMBERS OF THE ARMED SERVICES NOW SERVING OVERSEAS

*To all Banking Institutions
in the Second Federal Reserve District:*

The Treasury Department has requested us to convey the following information to banks in the Second Federal Reserve District with respect to the endorsement of checks on the Treasurer of the United States to the order of members of the armed forces now serving overseas drawn in payment of salary or refund of overpayment of income taxes:

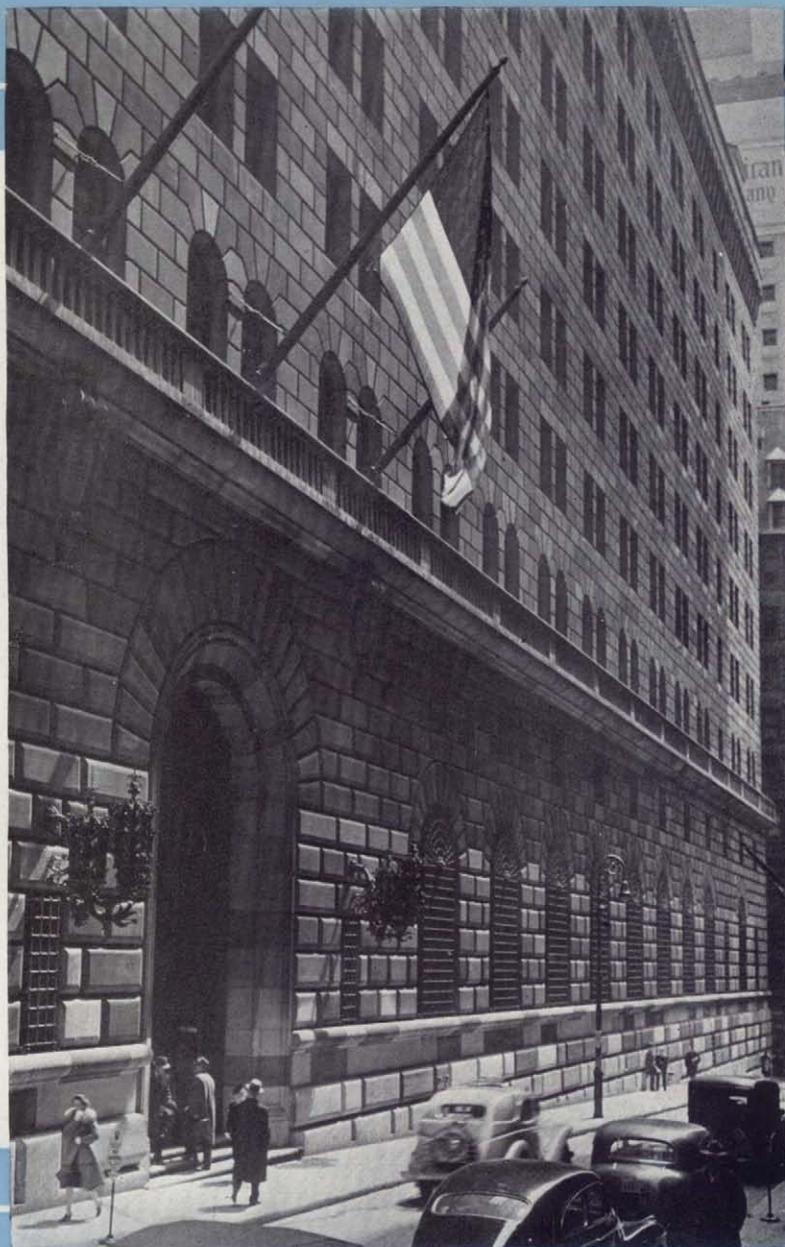
It is the general policy of the Treasury to require the endorsement by the payee or for him by power of attorney. However, where hardships might result from the inability of a wife or other dependent to obtain the proceeds of a check which a serviceman overseas intended to be used for his wife or other dependent, exceptions to the regulations will be made and the check may be endorsed by the bank for credit to the serviceman's account without his personal endorsement.

The endorsing bank should furnish the Treasurer of the United States a full description of the check involved, together with the serviceman's identification number and organization and the name and address of the dependent for whose benefit the check is negotiated. Upon receipt of this information the Treasurer will communicate direct with the dependent and request that a power of attorney in favor of the endorsing bank be obtained from the serviceman as soon as possible and forwarded to the Treasurer.

We call particular attention to the fact that this circular applies only to checks on the Treasurer of the United States to the order of servicemen who are serving overseas drawn in payment of salary or refund of overpayment of income taxes.

ALLAN SPROUL,
President.

E FEDERAL RESERVE BANK OF NEW YORK



AND THE WAR

JULY, 1944



**FEDERAL RESERVE BANK
OF NEW YORK**

To All Employees:

This booklet is a revised edition of a booklet first distributed in February 1943 entitled "The Federal Reserve Bank of New York and the War". It is intended to tell you how the work of the Federal Reserve Bank of New York, and of the nearly 5,000 members of its staff (3,100 of whom have come to the bank since December 7, 1941), contributes directly and indirectly to the war effort. You are working in a real war industry. Your service to your country is less obvious than building airplanes or ships or tanks, but it is none the less important.

The Federal Reserve System has grave responsibilities in this, the second world war in which the System has played a significant part. Your bank has correspondingly grave responsibilities. It is the biggest bank in the Federal Reserve System; it is the central bank in the principal financial center of the country; it serves a district which is making a heavy contribution to war production. Drawing on its experience in the last war, and during two decades of uneasy peace, the Federal Reserve Bank of New York is performing a variety of war-time tasks, and carrying forward its peace-time work in the service of war-time commerce and industry and agriculture.

Some of the things we are doing are outlined in this booklet. They could not be carried through without the understanding and the willing work of all members of the staff. Each of you in your own job is making a vital contribution to what is presently the main job of the bank—helping to win the war.

ALLAN SPROUL,
President.

July 31, 1944.

THE FEDERAL RESERVE BANK OF NEW YORK AND THE WAR



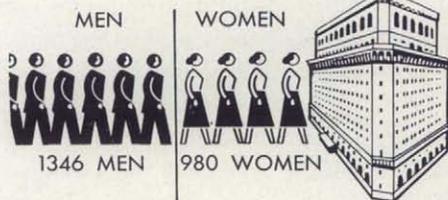
The Federal Reserve Bank of New York—your bank—acting in the public interest, directly serves the Second Federal Reserve District which includes New York State, Northern New Jersey, and Fairfield County, Connecticut. In a larger sense, it serves the whole country.

On July 1, 1944, the staff of the bank, including the Buffalo Branch, numbered 4,886. It has increased more than 100% since December 7, 1941 when this country entered the war.

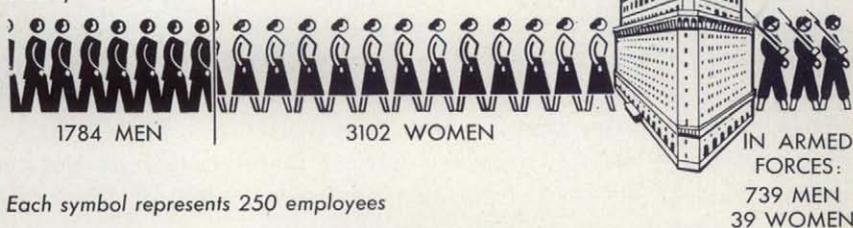
By July 1, 1944, 778 members of the staff had entered military service. Federal Reserve Bank men are serving in all branches of the service, at home and overseas. Nine of its women have joined the WACS, 24 have joined the WAVES, 4 have joined the SPARS, and 2 have joined the MARINES.

INCREASE IN PERSONNEL

JANUARY, 1940



JULY, 1944



Each symbol represents 250 employees



WAR FINANCING . . .

The United States Government is now spending nearly \$2 billion a week—\$260 million a day. To meet these expenditures during the 12 months ending June 30, 1944, the Treasury had to raise about \$95 billion. Taxes and other income provided about \$44 billion. This left about \$51 billion to be borrowed, but the Treasury actually borrowed about \$62 billion, increasing its working balance by nearly \$11 billion. Since December 1942 the major part of the Treasury's borrowing has been accomplished in a series of War Loan Drives directed primarily toward securing funds from investors other than commercial banks. These drives have been the largest financing operations ever undertaken by any country at any time. During the First World War the greatest amount raised in any one drive in this country was slightly less than \$7 billion. That was in the Fourth Liberty Loan in October 1918. In the Fourth War Loan Drive, which ended in February 1944, the Treasury raised nearly \$17 billion, and in the Fifth War Loan Drive, ending July 1944, it raised over \$20 billion.

Purchasers of Government Securities

The Government can sell its securities to all types of investors or it can rely mainly on the commercial banks to supply it with funds. The latter would be much easier than selling securities to individuals, corporations, insurance companies and other non-bank investors, but it has great disadvantages. When commercial banks purchase Government securities from the Treasury the purchasing power of the people throughout the country is increased by the amount of such purchases, whereas if the securities are purchased by individuals or organizations other than commercial banks there is no increase in purchasing power.

When John Doe buys a \$100 Government bond, his cash on hand or on deposit in his bank is reduced by \$100, and he no longer has that amount to spend. The Government soon pays out the \$100 it has borrowed from John Doe, and it goes into the pocket or the bank account of Richard Roe. Mr. Roe now has \$100 to spend but this increase in his purchasing power merely offsets the decrease in John Doe's purchasing power. There is no increase in the purchasing power of the entire country as a result of such Government borrowing and spending.

If, however, a commercial bank buys a \$100 Government bond, it ordinarily pays for it by crediting the Treasury with that amount on its books. This credit is drawn upon by the Government and the money is used to buy war materials, or for other purposes. In this way Richard Roe again gets \$100 but without John Doe's having put it up in the first place. As a result of the entire transaction, therefore, the people of the United States have \$100 more than they had before. On the other hand, the supply of goods for civilian consumption has continued to diminish in view of the devotion of so much of our production facilities to war purposes. The increased use of bank credit on a large scale in the purchase of Government securities thus carries with it the threat of extensive inflation, which, putting aside technicalities, means simply that demand—backed by the money, the spending power in the hands of the people—is outrunning the supply of things to be bought. Every one knows what happens when demand outruns supply. Whether it is butter, eggs or tickets to the World Series—prices go up. That is the way it is with inflation, except that inflation is general. It affects all prices.

To lessen the threat of inflation the Government wants to sell as many of its securities as possible to individuals and organizations other than commercial banks. The Federal Reserve Bank of New York is helping with this job—

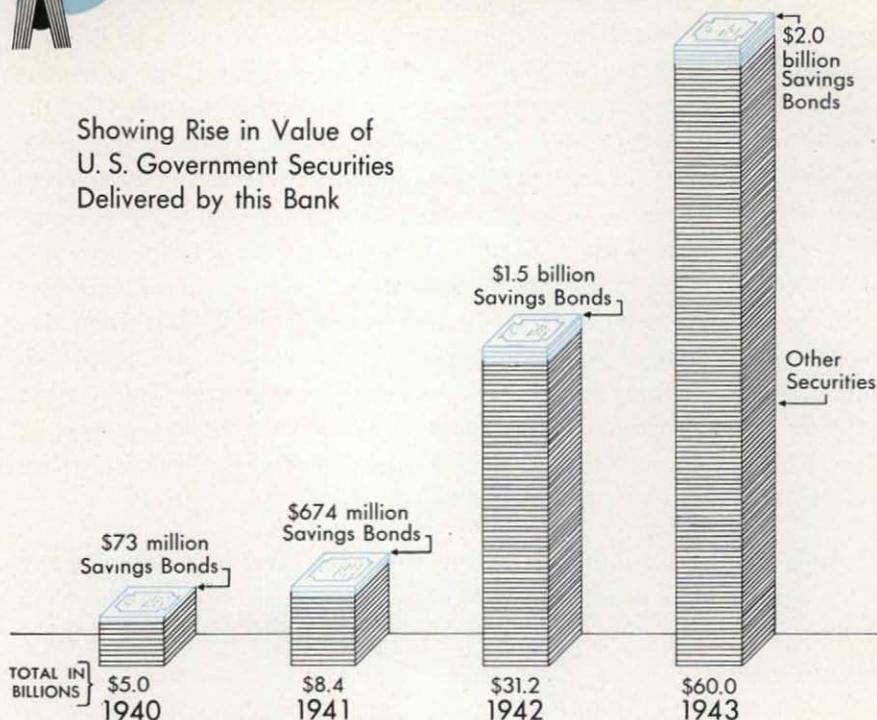
1. Through the aid it gives and the services it performs for the State War Finance Committees of the District.
2. Through your participation in the payroll allotment plan of the bank, and your purchases of Government bonds for cash during war loan drives.

Due to the vast Government financing program, however, it has not been possible for the Government to obtain all its borrowed funds from investors other than commercial banks. In the Government financing of marketable securities outside the war loan drives the commercial banks have stood ready to buy whatever amounts could not be sold to other investors. In addition, they have been active in purchasing securities sold in the open market by other investors. The reserves of these banks must be maintained so that they can continue to perform this important function of assuring the success of Treasury financing. Your bank, as part of the Federal Reserve System, helps to see to it that the commercial banks have the reserves they need for this purpose.



ISSUANCE AND HANDLING OF GOVERNMENT SECURITIES . . .

Showing Rise in Value of
U. S. Government Securities
Delivered by this Bank



The Federal Reserve Bank of New York has many other important jobs in connection with the Government's financing. The issue, distribution and redemption of Government securities are done largely through the twelve Federal Reserve Banks, as fiscal agents of the United States. Government securities are printed by the Bureau of Engraving and Printing in Washington, D. C. Their wholesale distribution is the job of the Federal Reserve Banks.

In the case of most Treasury issues, other than Savings Bonds, 40% or more of the dollar volume of sales for the entire country are made in the Second Federal Reserve District. The Federal Reserve Bank of New York in due course delivers most of these securities and also some securities sold in other districts. The number of pieces (individual certificates, notes, bonds, etc.) delivered by the bank in connection with original issue, and the total issue price of such securities for the last four and one-half years were approximately as follows:

NUMER OF PIECES

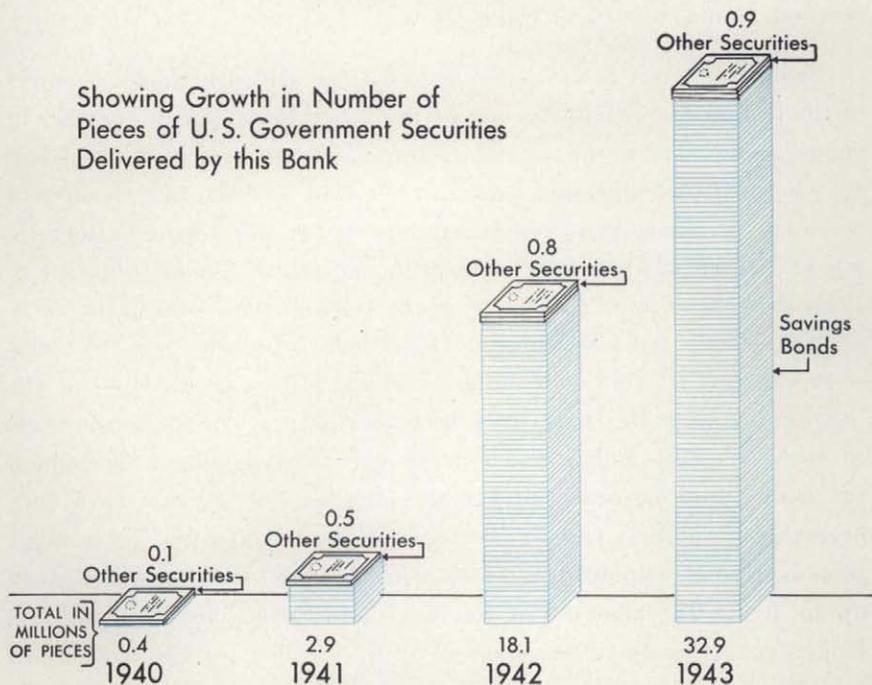
Year	Savings Bonds	Other Treasury Issues	Total
1940.....	310,000	107,000	417,000
1941.....	2,340,000	556,000	2,896,000
1942.....	17,330,000	848,000	18,178,000
1943.....	32,063,000	931,000	32,994,000
1944 (first half)	18,974,000	630,000	19,604,000

ISSUE PRICE

Year	Savings Bonds	Other Treasury Issues	Total
1940.....	\$ 73,503,000	\$ 4,954,183,000	\$ 5,027,686,000
1941.....	674,232,000	7,756,006,000	8,430,238,000
1942.....	1,549,259,000	29,649,259,000	31,198,518,000
1943.....	2,025,592,000	58,030,565,000	60,056,157,000
1944 (first half)	1,164,462,000	34,291,577,000	35,456,039,000

The increase in number of pieces from 417,000 in 1940 to 32,994,000 in 1943 and 19,604,000 in the first six months of 1944 is one big reason why the size of the bank's staff has increased so rapidly during the war years.

Showing Growth in Number of Pieces of U. S. Government Securities Delivered by this Bank



Issuance of Savings Bonds

Savings Bonds were first offered for sale through the post offices in 1935. Beginning in June 1936, they were also issued by the Treasury Department and the Federal Reserve Banks. Savings Bonds of Series E, which were first announced in April 1941, are now issued by the Treasury Department, the Federal Reserve Banks, and post offices. They are also issued by banking institutions and many other organizations which have been qualified by the Reserve Banks as issuing agents. These other types of organizations include business corporations operating payroll allotment plans for their employees, savings and loan associations, retail stores, radio stations, theatres and newspapers.

The Federal Reserve Bank of New York issues all Series F and G bonds sold in the district, and handles all Series E bonds sold in the district except those sold by post offices. It issues all Series E bonds for which it receives orders, and it supplies qualified issuing agents in the district with supplies of unissued Series E bonds and handles their remittances and reports of bonds sold.

Sales of Savings Bonds have increased tremendously since the entry of the United States into the war in December 1941, and the number of employees engaged in the sale, distribution and redemption of such bonds has shown a corresponding growth. On May 1, 1941, the number of employees in the Government Bond Department was approximately 75, but only a few of them were working with Savings Bonds. On July 1, 1944, there were 1,198 employees in the Government Bond Department and the Savings Bond Redemption Department, of whom more than 90% were engaged in work pertaining to Savings Bonds. In spite of the increased staff, it has frequently been necessary for these departments to work overtime (as has also been the case in many places throughout the bank), and in peak periods as many as 750 persons have been borrowed at one time from other departments. The bank's job is to get these bonds out without delay, and it prides itself on keeping this work up to date. The amounts of Savings Bonds issued by the bank and issuing agents qualified and serviced by it, during the years these bonds have been sold, have been as follows:

<i>Period</i>	<i>Issued by Reserve Bank</i>		<i>Issued by Agents</i>	
	<i>Pieces</i>	<i>Dollars</i>	<i>Pieces</i>	<i>Dollars</i>
1936 (7 mos.)	17,500	\$ 6,743,600	—	—
1937.....	60,000	16,652,100	—	—
1938.....	96,700	22,578,500	—	—
1939.....	220,200	51,231,900	—	—
1940.....	309,900	73,503,300	—	—
1941.....	654,000	489,644,600	1,685,700 ¹	\$184,587,300 ¹
1942.....	2,686,000	742,966,100	14,644,300	806,293,000
1943.....	2,522,000	790,119,100	29,541,200	1,235,472,700
1944 (first half)	985,200	389,036,500	17,988,900	775,425,200

¹ First issuing agents qualified in May 1941.

About 3,000 issuing agents had been qualified by the bank as of July 1, 1944. Such agents and their 1,400 branches provide approximately 4,400 sales outlets in the Second Federal Reserve District. These agents receive nothing for their services but are reimbursed for actual out-of-pocket expenses in returning stubs and spoiled bonds to the Reserve Bank. About 775 corporations, which operate payroll allotment plans for their employees, are among the issuing agents. The increase in sales by agents, both actually and in relation to the volume of direct sales by the Reserve Bank, is attributable principally to the development of payroll allotment plans during the past three years.

Issuance of Government Securities Other than Savings Bonds

Your bank prints and distributes announcements describing all new Treasury issues, receives subscriptions for such issues, notifies purchasers of the amount of securities they are to receive on allotment, receives payment for the securities, and makes delivery of them.

Exchanges, Transfers and Payment of Government Securities

Your bank makes denominational exchanges of various types of Government securities, handles registered securities where there is a transfer from one name to another, and pays matured securities and coupons.

Redemptions, Corrections and Reissues of Savings Bonds

The Savings Bond Redemption Department pays most Savings Bonds presented for redemption; forwards the others to the Treasury for payment; and makes changes in form of registration of Savings Bonds which have been issued by the bank or by other issuing agents. This department and its staff of 630 now occupy six floors at 51 Pine Street, one of the three annexes of the bank in New York City.

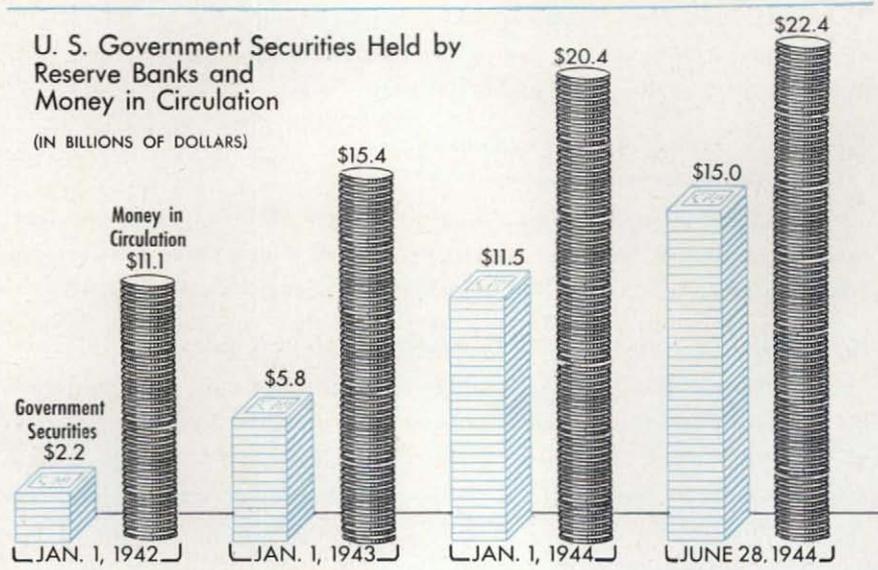


OPEN MARKET OPERATIONS . . .

One of our jobs is to keep constantly in touch with the Government securities and money markets. The bank studies developments in these markets, reports on them to the Treasury and the Federal Open Market Committee of the Federal Reserve System (this Committee is composed of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve Banks, including the President of the Federal Reserve Bank of New York); and participates in the formulation and execution of fiscal and credit policies.

Under the direction of the Federal Open Market Committee, the Federal Reserve Banks buy and sell Government securities in the open market. These purchases and sales currently are undertaken primarily to help maintain orderly market conditions and to assist commercial banks in maintaining and adjusting their reserves, thus making it possible for them to continue to give their support to the war financing program and to meet demands for currency.

These open market operations are carried out by your bank, on behalf of all the Federal Reserve Banks, in what is called the System Open Market Account. In addition to these operations for System Account, your bank also deals in Treasury bills for its own account, under the direction of the Federal Open Market Committee. Any holder of Treasury bills, which are a type of Government security sold on a discount



basis and usually maturing in 91 days, may sell such bills directly to any Federal Reserve Bank at a stated rate of discount, and the seller may, if he wishes, retain an option to repurchase the bills at the same rate.



THE TRADING ROOM

The actual purchases and sales of Government securities for the System Account, and of Treasury bills for account of the bank, are handled by the Securities Department. This department maintains a "trading room" from which there are direct wires connecting with the principal Government security dealers in New York City. It keeps constantly in touch with the Government securities market both here and out of town, studies market conditions, maintains records regarding the securities purchased and sold by it, allocates the securities held in the System Account among the twelve participating Federal Reserve Banks pursuant to the directions of the Federal Open Market Committee, and does the general bookkeeping for the System Account.

The increase in the holdings of Government securities by the Federal Reserve Banks since Pearl Harbor is indicated in the following table:

<i>Date</i>	<i>Amount</i>
January 1, 1942.....	\$ 2,254,000,000
January 1, 1943.....	5,863,000,000
January 1, 1944.....	11,543,000,000
June 28, 1944.....	15,080,000,000

This large increase is one reflection of the need of the commercial banks for additional reserve funds during this period.



CURRENCY . . .

With expanded employment, with higher wages, and with the public holding and carrying much more cash than ever before, the amount of money in circulation has increased to record figures. It has grown proportionately more rapidly than consumer expenditures and has outstripped the rate of growth of wages and salaries. Since the outbreak of war in Europe in September 1939 the amount of coins and \$1, \$2 and \$5 bills in circulation has increased at a moderate rate and is now approximately \$4 billion. On the other hand, the amount of \$10 and \$20 bills outstanding has more than tripled during the same period and is now nearly \$12 billion. The amount of \$50 bills and over has also more than tripled and is now more than \$6 billion. The total of all paper currency and coin in the hands of the public and the banks at the end of June, 1944, was over \$22 billion—over \$6½ billion higher than at the beginning of 1943. This is \$160 for every man, woman and child in the United States as compared with \$50 on January 1, 1938, and \$115 on January 1, 1943. Apparently, the public is doing much more banking “on the hip” or “in the mattress” than has been customary in the past, and there is also reason to believe that some currency is used in black market operations and for tax evasion purposes. To stamp out these latter practices is in the interest of all of us.

The Federal Reserve Bank of New York supplies the money used in the Second Federal Reserve District, takes it in, counts it, examines it for fitness, returns it to circulation or retires it—a never ending process.



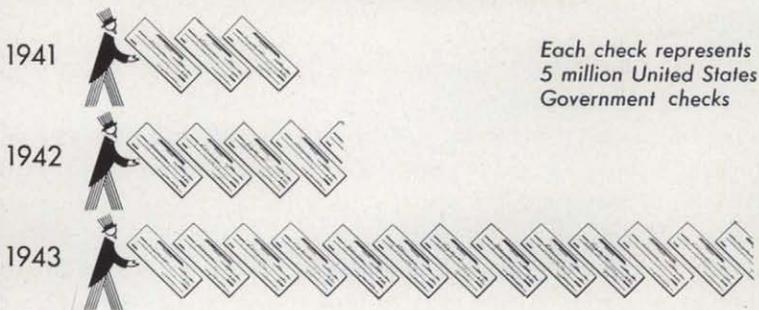
GOVERNMENT ACCOUNTS . . .

Just as John Doe uses his local bank, so member banks of the Federal Reserve System and the United States Government use the Federal Reserve Banks. The Federal Reserve Banks are the principal bankers for the Government. When the Government receives cash and checks resulting from the payment of taxes, from the sale of securities and from various other sources, it deposits the cash and checks in the Federal Reserve Banks. By drawing checks on these deposits, it pays its bills; bills for war supplies and other materials, for the services of its soldiers and sailors, for the services of its civilian employees. It also pays the interest it owes on its debts, and when the bonds and other obligations representing these debts come due, it pays the principal.

These transactions involve huge amounts. Incoming checks (exclud-

ing those in payment for Government securities) deposited by the Government in the Federal Reserve Bank of New York during 1942 numbered nearly 9 million and amounted to nearly \$5 billion. During 1943 they numbered more than 12 million and amounted to more than \$8 billion. During 1942 the bank handled nearly 22,000,000 checks drawn by the Government. It handled over 60,000,000 such checks in 1943 and over 43,000,000 in the first 6 months of 1944. Over 65% of these checks handled during the last 18 months were issued in "punch-card" form so that they could be sorted and tabulated by machine. Most of these card checks were in payment of allotments and allowances made by the Army and Navy, and over 3,800,000 were paid out by the Brooklyn Navy Yard to civilian workers on its payroll. Nearly 3,000,000 were issued by the Treasury Regional Disbursing Officer in New York City covering social security payments, refunds of withheld taxes, veterans' pensions and other governmental disbursements.

Number of U. S. Government Checks Handled by Federal Reserve Bank of New York



WITHHELD TAXES . . .

During 1943 your bank began handling funds representing Federal income taxes which employers are required to withhold from the wages and salaries of their employees under the Current Tax Payment Act of 1943, which became effective June 11, 1943. During July 1943 your bank qualified 817 banks in this district as Depositories for Withheld Taxes, supplied them with appropriate instructions

and forms, and commenced receiving from them deposits of withheld taxes. Employers are required to deposit withheld taxes in a depository bank which credits the amount so deposited to an account in the name of the Federal Reserve Bank as fiscal agent of the United States. The balance in such accounts is remitted periodically to the Federal Reserve Bank for account of the Treasurer of the United States.

By July 1, 1944, 932 banks had been qualified as depositories in the Second Federal Reserve District, and your bank had received from such depositories a total of \$1,428,866,000, represented by 689,700 separate depository receipts. Over 543,750 depository receipts representing tax payments of \$1,107,852,000 had been verified against duplicates received from Collectors of Internal Revenue.

In this way your bank has aided in putting into effect a new plan of tax collection, important to every one of us, in that our tax payments are now as nearly as possible on a current basis.



CHECK CLEARING AND COLLECTION . . .

One of the important peace-time functions of the Federal Reserve Banks is the handling and clearing of checks on behalf of the commercial banks of the country. This is the unseen efficient mechanism which permits business transactions in all parts of the country to be settled on bank books without actual shipments of coin and currency. Its peace-time importance is intensified in war. The greatly expanded production and distribution of war goods and foods move along as smoothly as in normal times, in so far as financial payments are concerned, because of the highly developed check clearing and collection machinery of the Federal Reserve Banks. The volume of this work has increased substantially as production has doubled and redoubled to meet our nation's military needs. The number and dollar amount of checks (exclusive of checks drawn by the Government) handled by the bank in its clearing and transit operations during the past four and one-half years are as follows:

<i>Year</i>	<i>Number of Checks</i>	<i>Dollar Amount</i>
1940.....	190,214,680	\$49,860,769,097
1941.....	204,636,295	63,180,335,620
1942.....	207,040,293	75,832,071,636
1943.....	220,787,359	95,707,001,375
1944 (first half) . . .	115,234,593	47,209,959,220

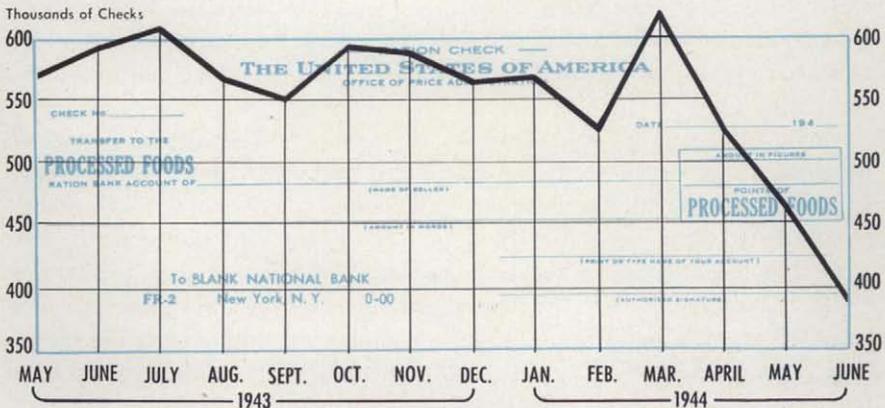


RATION BANKING . . .

The widening war-time rationing program has placed a new task upon the banking system and upon your bank. In January 1943, there was put into effect a plan to clear checks representing ration points through banking channels on a country-wide basis, in somewhat the same manner as dollar checks are cleared. Only sugar, coffee² and gasoline were initially included in the plan, but the clearing system has since been extended to ration checks covering meats and fats, processed foods, shoes, and fuel oil, as these commodities were added to the ration list. Consumers continue to turn over their coupons and stamps to retail merchants in the usual way in making purchases of rationed articles. As such coupons and stamps are received by larger retailers or are turned over by retailers to wholesalers, they are deposited in special ration bank accounts in the commercial banks throughout the country. It might be said that a new unit of value, the ration unit, has taken its place alongside your dollars and is required to supplement your dollars.

A dealer in food, for example, has a special ration account or accounts in the bank which carries his regular dollar checking account. He may have a ration bank account for sugar stated in pounds and another for processed foods stated in points. He deposits in these accounts the coupons and stamps which he receives from customers when selling rationed commodities. Special checkbooks are provided so that the dealer in replenishing his stock of sugar or other rationed merchandise can

² Coffee rationing was suspended in July 1943.



RATION CHECKS CLEARED

transfer to his suppliers, simply by drawing checks, the amount of ration points required for such replenishment up to the balance in his ration account in the particular commodity. His suppliers deposit these checks in their ration accounts at their own banks and receive credit in their accounts for the number of pounds or points represented by the checks.

These ration checks are cleared through the Check Department of your bank in the same way that ordinary checks are cleared. In February 1943, 17,876 ration checks were cleared. In May 1943, when the meats and processed food program got under way, the volume reached 570,596. During the remainder of the year 1943 the volume averaged nearly 580,000 per month. The total volume for the year amounted to almost 5,000,000. During the first half of 1944 all frozen foods, and some fruit juices, vegetables and meats were removed from the list of rationed foods and the volume of ration checks cleared by your bank declined accordingly. In June 1944 the volume of checks cleared had declined to 394,692.



CUSTODIAN AND OTHER SERVICES . .

Another job which has been performed by the Federal Reserve Banks for many years, and which has taken on certain war-time aspects, is the safekeeping of securities. The Federal Reserve Bank of New York holds in safekeeping securities belonging to member banks located outside of New York City and to various Government accounts, and it purchases and sells securities for such accounts.

Such safekeeping services relieve the member banks of the details of handling Government securities purchased and owned by them and thus further facilitate the Government's financing program. Maturing coupons are cut from securities held in safekeeping and the proceeds are paid into the account of the member bank for which the securities are held. Similarly, when the securities become due, the proceeds are collected and are paid into the member bank's account. If in the meantime the member bank wishes to use the securities as collateral for a loan from the Reserve Bank, the securities are instantly available for that purpose.



LOAN AND DISCOUNT OPERATIONS . . .

For several years prior to the inauguration of the Government financing program incident to the war the banks of the country were in general amply supplied with reserve funds and, accordingly, bank borrowing from the Federal Reserve Banks was relatively small. About a year before Pearl Harbor total reserves of all member banks of the Federal Reserve System reached a peak of over \$14 billion with excess reserves of nearly \$7 billion. By May 31, 1944, these excess reserves had declined to \$700 million. This reduction has come about primarily as a consequence of increased currency circulation and increased investment by the banks in Government securities. The Federal Reserve Bank of New York kept the bank lending machinery oiled throughout the years when total excess reserves were large by making loans from time to time to a few small banks which had occasion to borrow to obtain necessary reserve funds. Within the last year there has been a revival of bank borrowing. Beginning with some of the banks in New York City, it has spread gradually throughout the district. During the past few months the number of large banks in the district which borrowed from the Federal Reserve Bank, at least for brief periods, was the highest in a number of years. At the end of May 1944 member bank borrowings were the largest in over a decade. Our purchases and sales of Treasury bills at fixed rates during the last two years have also constituted a form of "borrowing". On Treasury bills commercial banks are now "borrowing" from your bank at $\frac{3}{8}$ of one per cent. On other Government securities maturing within a year, member banks may borrow at $\frac{1}{2}$ of one per cent. The regular discount rate is one per cent.



V, VT AND T LOANS . . .

Since April 1942 your bank has had an active part in another phase of the war effort—the financing of businesses engaged in war production. Acting under an Executive Order issued by the President of the United States on March 26, 1942, the Federal Reserve Banks, on behalf of the War Department, the Navy Department, and the Maritime Commission, have assisted in arranging for loans by member banks and other financing institutions to businesses engaged in war production and in guaranteeing to the financing institutions the ultimate

repayment of a stated percentage of such loans. General rules for the guidance of the Reserve Banks in handling such loans are prescribed in Regulation V of the Board of Governors of the Federal Reserve System and thus these loans have come to be known as "V" loans.

In September 1943, the program was extended to meet the needs of businesses which do not immediately require credit but may wish to make arrangements in advance in order that they may be sure of having cash resources available after the termination of their war production contracts and pending the settlement of their claims in connection therewith. Commitments to make cash available to these businesses in the future are issued by financing institutions and the repayment of a stated percentage of the loans made by the financing institutions pursuant to such commitments is guaranteed by the War Department or the Navy Department acting through your bank. These credits are commonly referred to as VT loans.

In this program the Reserve Bank, as fiscal agent of the United States, is the connecting link between the commercial banks and other financing institutions and the Government. Members of the Credit Department interview prospective applicants for such guarantees, receive applications, investigate and analyze the financial condition of the businesses, and transmit the applications together with the recommendations of the bank to Washington for consideration. Upon receipt of authorization from the Government departments in Washington, the bank issues guarantees and undertakes to service the loans in certain respects. In the case of certain loans it is not necessary for the bank to refer the application to Washington for approval in advance. The servicing of loans by the bank includes periodic reviews of the financial condition of the borrowers. In the case of borrowers who are experiencing financial difficulties the bank collaborates with the financing institution and the Government department in determining the best procedure for maintaining an uninterrupted flow of vital war material and the liquidation of the loan.

By July 1, 1944, more than 1,300 applications for V loans had been received by your bank, and more than 1,000 had been approved. By the same date approximately 90 applications for VT loans had been submitted and 70 had been approved. Included in the V loans is one commitment to lend a single concern up to \$1 billion. This credit is participated in by almost four hundred commercial banks throughout the country. It is the largest credit which has ever been arranged at one time for a private concern. Approximately one-third of the loans, however, are for \$100,000

or less, meeting the credit needs not only of large primary contractors but also of small subcontractors who previously may have found it difficult to obtain adequate credit accommodation.

The "Contract Settlement Act of 1944" approved July 1, 1944, provides among other things for interim financing in connection with the settlement of claims arising from terminated war contracts. Your bank, subject to such regulations as the Board of Governors of the Federal Reserve System may prescribe, is authorized to act, on behalf of the contracting agencies, as fiscal agent of the United States in carrying out the purposes of this Act. Loans made pursuant to this Act will be known as "T" loans and it is anticipated that our operations thereunder will be somewhat similar to those performed in connection with "V" and "VT" loans.



CONSUMER CREDIT . . .

We have talked about this bank's part in one aspect of the fight against inflation, namely, the sale of Government securities to the public rather than to banks. Another aspect of this fight in which we are all engaged, as part of the war effort, is the control of instalment debt. Under the authority of an Executive Order of the President of the United States made August 9, 1941, the Board of Governors of the Federal Reserve System in Washington on August 21, 1941, issued its Regulation W, placing restrictions upon instalment sales of a comprehensive list of durable and semi-durable goods for civilian consumption, and upon instalment loans. In May 1942 the list of goods subject to the regulation was greatly enlarged and the regulation was extended to practically all types of consumer credit, whether in the form of instalment sales and instalment loans, or in the form of charge accounts and single-payment loans.

The Credit Department of the bank has the responsibility of administering and enforcing the regulation in this district. It answers inquiries regarding the regulation; receives registration statements from business concerns the activities of which are subject to the regulation; issues registration certificates; conducts investigations; and carries on an educational program designed to inform people subject to the regulation regarding its terms. The Research Department collects substantial statistical material regarding consumer credit.



FOREIGN OPERATIONS . . .

Many foreign central banks and a few foreign governments maintain deposit accounts and security and gold custody accounts at the Federal Reserve Bank of New York. Ordinarily these accounts serve international trade and finance; now they largely serve the United Nations' war program. Since the United States Treasury also maintains accounts at the bank, a large volume of financial transactions between our Government and other governments can be readily effected. Nearly every day the Treasury Department, acting for the War, Navy and State Departments, instructs the Federal Reserve Bank to transfer funds to the accounts of foreign central banks or governments for the purpose of making money available for the use of our armed forces and the American consulates in various parts of the world. Similarly, the Federal Reserve Bank effects payment for various goods and commodities which our Government is purchasing throughout the world.

Among the various services which your bank, through the Foreign Department, performs for the United States Stabilization Fund, has recently been the opening and maintenance with the central banks of several countries of accounts denominated in foreign currencies. In accordance with arrangements made by our Treasury Department with the treasuries of foreign countries, foreign currencies are acquired abroad and paid into such accounts. Payments from our accounts abroad, for the use of our armed forces and Government agencies abroad, are ordered by this bank, acting on behalf of the United States Treasury.



FOREIGN FUNDS CONTROL . . .

One important weapon used in the economic war against our enemies, which supports the war of arms, is the control of foreign property in this country. By an Executive Order issued by the President of the United States on April 10, 1940, and amended from time to time, all property in the United States in which any of the countries named in the Order, or their citizens or residents, have any interest is "frozen" or "blocked", that is, transactions involving such property are prohibited except as permitted by licenses issued by the Secretary of the Treasury.

Freezing control extends to the Axis nations, to all of Continental Europe except Turkey, and to other countries which have been overrun by the Axis. As an aggressive weapon of economic warfare, it has among its objectives the following:

- (a) preventing the Axis from deriving any benefit from blocked assets;
- (b) facilitating the use of certain blocked assets such as patents, ships, factories, etc., in the war effort of the United Nations;
- (c) protecting American banks and business institutions in transactions involving blocked assets;
- (d) protecting Americans who have claims against foreign governments and their nationals, having in mind post-war negotiations and settlements.

Your bank, as agent of the Treasury Department, assists in the administration of the Executive Order, the formulation of policy under the Order and the preparation of public documents carrying out such policy. Imported currency and securities, which are required under the freezing control to be impounded in a Federal Reserve Bank pending investigation of ownership, are handled by the Cash Department and the Safekeeping Department, respectively. With these and one or two other minor exceptions the duties assigned to the bank as fiscal agent are performed by the Foreign Funds Control Department.

This department of the bank receives applications for licenses relating to transactions involving blocked countries or their nationals. The applications are reviewed by specialists in the kind of transaction involved, are approved or denied directly by the bank under authority of the Treasury Department, or are referred to the Treasury. Over six hundred thousand applications have been handled by the bank to date. The bank receives and checks reports covering transactions under licenses, and receives inventory reports of property in the United States owned by foreigners and of American-owned property abroad.

Your bank also assists the Treasury Department in the detection and prevention of financial transactions on the part of the Axis or others which might interfere with the war effort. Without relaxing its efforts in this respect, the Foreign Funds Control Department has recently also been studying methods and problems incident to the "defrosting" of frozen assets after the war.

The Foreign Funds Control Department occupies the fifth and part of the sixth floor of 70 Pine Street. The personnel of the department is now about 130.



FISCAL AGENT, CUSTODIAN AND DEPOSITARY FOR RECONSTRUCTION FINANCE CORPORATION . . .

The Reconstruction Finance Corporation and its various subsidiaries are now engaged almost exclusively in war activities, including the making of loans for the manufacture of war materials, the construction of production facilities for the manufacture of war materials, the procurement of stock piles of strategic materials, the operation of the Government's war damage insurance program, and other projects directly related to the war effort.

The Federal Reserve Banks, acting as fiscal agents, custodians and depositaries for the Reconstruction Finance Corporation, actively participate in the administrative aspects of the various programs of the Corporation and its subsidiaries.

Your bank disburses, by checks drawn on the Treasurer of the United States, the amounts of loans, subsidies and other payments for account of the Corporation and its subsidiaries, and receives, examines, and holds borrowers' notes and collateral as well as invoices, shipping documents, warehouse receipts and documents evidencing title to commodities purchased.

The Defense Plant Corporation, a subsidiary of the R.F.C., purchases and leases plants for war production and makes such facilities available to others engaged in war work. The bank receives, examines, and holds invoices and other documents, and makes and receives payments, in connection with such activities. The bank also prepares and maintains complete inventory records of the machinery and equipment owned by the Defense Plant Corporation and used by the lessees of over 300 plants. As many as 150,000 separate items of machinery and equipment may be recorded in the inventory of a single plant. As equipment is transferred from one plant to another it is necessary for the bank to make numerous adjustments of such inventories.

The Defense Supplies Corporation, the Metals Reserve Company, the Rubber Development Corporation, the Rubber Reserve Company and the U. S. Commercial Company, all of which are subsidiaries of the R.F.C., are primarily engaged in purchasing, holding and selling strategic and critical materials and supplies. Your bank receives, examines and holds documents and makes and receives payments incident to the purchases and sales of more than 100 different materials for account of the Defense Supplies Corporation and the U. S. Commercial Company,

and of more than 50 different metals for account of the Metals Reserve Company. Similar services are also performed by your bank for the Commodity Credit Corporation in connection with its purchases and sales of more than 200 different commodities.

In July 1942, the War Damage Corporation undertook to insure buildings and other tangible property against loss or damage resulting from enemy attack or action of our own armed forces in resisting enemy attack. Subsequently, coverage was also made available for money and securities when shipped by registered mail or express and under certain other circumstances. This insurance is written through the offices and facilities of hundreds of regular fire insurance, casualty and surety companies throughout the country which act as fiduciary agents of the Corporation. The bank receives from such companies statements regarding insurance written by them and premiums received in respect of such insurance less certain commissions and service fees. The bank verifies the computations, collects the checks and reports with respect thereto to the Corporation. Since July 1942, the bank has received for verification and filing approximately 8,000,000 tickets or advices relating to approximately 2,150,000 war damage insurance policies written in the Second Federal Reserve District. The bank also records changes of title to real property insured under these policies.

All of this work is performed through the R.F.C. Custody Department, whose employees now number 330. Some of the work of the department is performed in the bank's Annex Building at 95 Maiden Lane as well as in the main bank building.



BUFFALO BRANCH . . .

The Buffalo Branch—which directly serves the ten westerly counties of New York State, including the Cities of Buffalo and Rochester—also performs most of the functions performed by the head office of the bank in New York City. The Branch pays out and receives currency, receives deposits for account of the Government, handles and clears ordinary dollar checks and ration checks, handles withheld taxes, and issues Treasury Savings Notes and all series of Savings Bonds, and redeems Series E and earlier series of Savings Bonds. It also makes loans to member banks, performs custodian and other services for member banks, administers the consumer credit regulation, performs custodian, disbursing and other services for the Reconstruction

Finance Corporation and the Defense Plant Corporation, and in other ways serves the financial community and banking institutions in western New York.

As in the case of the head office, the operations of the Buffalo Branch have expanded to meet the demands of war. The number of employees of the Branch has increased from 116 on January 1, 1940, to 209 on July 1, 1944. A still larger staff would have been necessary were it not for the fact that the Branch is now operating on a work week of 48 hours. This longer work week was generally adopted, in the Spring of 1943, by war industries in Buffalo and other critical areas in accordance with the program of the War Manpower Commission.

In 1943 the issue price of Savings Bonds issued by the Branch totaled more than \$18 million compared with \$1 million in the preceding year. In 1943 the Branch handled over \$1 billion of Government checks, received 22,500 depository receipts for withheld taxes amounting to \$45 million, disbursed \$290 million in cash, handled nearly 700,000 ration checks, and examined 95,000 instalment sales transactions and 52,000 charge sales transactions. Last year the peace-time function of handling and clearing checks for commercial banks reached an all-time peak of 16 million items totaling \$6½ billion. These statistical highlights illustrate the important service the Buffalo Branch performs for the territory served by it.

OTHER FUNCTIONS OF THE BANK . . .

Increased work in old departments and the war-born establishment of new departments, described above, have meant that all of the employees of the bank have felt the pressure of war work. This has been true in the personnel, legal, research, accounting, disbursing, auditing, bank examinations, bank relations, press and circular, service, mail, protection, building operating and other departments, even though their work has not been discussed in detail. While some of these departments are more directly involved than others in the performance of the work described above, all of them perform functions which are necessary to enable the bank to carry out its responsibilities. If the boilers in the basement are not working, if the elevators are not running, if the telephone switchboard is out of order, the whole bank slows down or stops. This is a community enterprise in which everyone plays his part. This is a real war job. The Federal Reserve Bank of New York is a war industry for the duration.

“Where liberty dwells, there is my country.”

