THIRTY-FIRST

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1944

LETTER OF TRANSMITTAL

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, April 28, 1945.

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.

Pursuant to the requirements of Section 10 of the Federal Reserve Act, as amended, I have the honor to submit the Thirty-first Annual Report, prepared by direction of the Board of Governors of the Federal Reserve System, covering operations during the calendar year 1944.

Yours respectfully,

M. S. ECCLES, *Chairman.*

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ANNUAL REPORT OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

During 1944 the United States again used its industrial and agricultural resources at record capacity to support the armed forces of this country and her Allies. Output of civilian goods increased in some lines and was sufficient in the aggregate to maintain an undiminished volume of civilian consumption. Wartime controls over material, consumption, wages, and prices continued in effect and were successful in preventing vital shortages and rapid price advances. The cost of living showed little change during the year. Both individuals and businesses continued to have incomes far in excess of expenditures and to accumulate large amounts of liquid assets in the form of currency, bank deposits, and United States Government securities.

The year's outlays by the Federal Government were 96 billion dollars; this total compares with 90 billions in 1943 and 9 billions in 1939, the last year before the war. In 1944, as in the previous year, about 94 per cent of the outlays were for war purposes. Total expenditures, together with an increase of 10 billion dollars in the Treasury's cash balance, were financed to the extent of 44 billion dollars out of tax revenue and other Treasury receipts, 37 billions by borrowing individual and corporate savings, and 25 billions by borrowing from banks. The amount obtained by borrowing from banks was about the same during 1944 as during 1943 and 1942, but it was 24 per cent of the total funds raised, compared with 37 per cent in 1942.

The Federal Reserve authorities pursued the policy inaugurated shortly after the outbreak of the war of keeping banks supplied with sufficient funds to buy such Government securities as were not sold to other investors. In doing this the Reserve Banks added 7 billion dollars to their holdings of Government securities and in addition made advances to member banks, which at one time during the year exceeded half a billion dollars.

The Board and the Reserve Banks were active throughout the year in arranging for loans under Regulation V. These loans, made by banks and guaranteed in part by the Government, were used for financing war production and, to an increasing extent, to provide for funds that may be needed to release working capital pending settlement of canceled war contracts.

WAR FINANCE

War expenditures by the Government totaled 91 billion dollars in 1944, compared with 85 billions in 1943. Further growth in total war outlays is not in prospect since the construction of new war facilities is nearly completed and existing facilities are being used to full capacity. Some Government expenditures associated with the war, however, such as interest on the public debt, refunds of taxes, and veterans' benefits, probably will continue to grow. Other budget expenditures declined during the year and trust accounts and Government agencies had larger net receipts than they had in 1943. Total expenditures increased by 6 billion dollars to 96 billions.

Government receipts increased by 4 billion dollars more than the increase in expenditures. The largest part of this increase was in income taxes and reflected the higher level of corporate and individual incomes, the collection of more than half of the unforgiven individual income taxes of 1942, and the first full year of collection of withheld taxes. With the increase in the proportion of expenditures financed by taxes, the deficit declined from 56 to 52 billion dollars. The public debt increased by 62 billion dollars, however, of which 10 billions were added to the Treasury's cash balance. Growth in the debt was 4 billion dollars more than it had been during 1943, reflecting an additional war loan drive held near the end of the year. As a result, the Treasury's cash balance closed the year at an all-time high of 22 billion dollars.

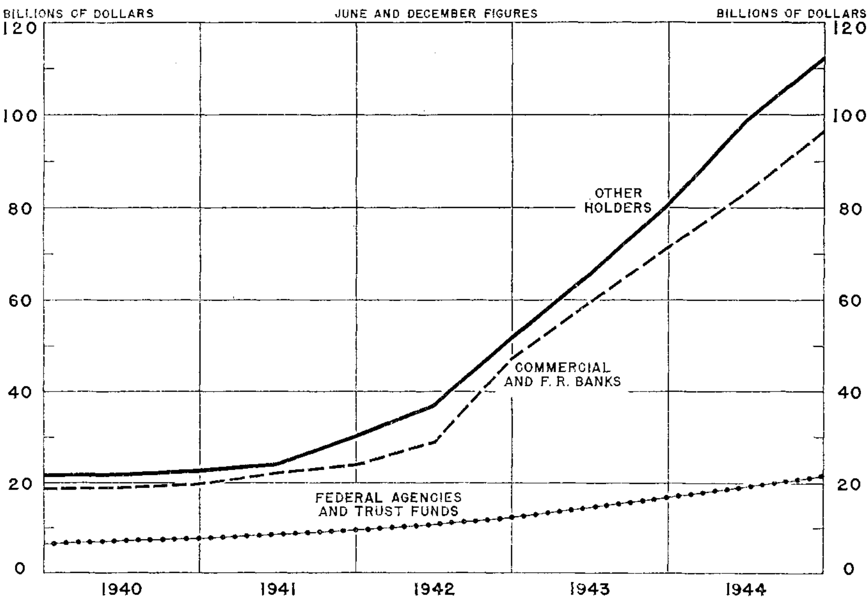
It has been the policy of the Government from the beginning of the war to sell the largest practicable amount of new securities to investors other than commercial banks in order to redirect into the war effort as large a part as possible of the income derived by the public from the Government's disbursements for the war. This policy was directed not only toward facilitating war finance but also toward diminishing the danger that income in excess of available civilian goods would bring inflationary pressure on prices. In pursuance of this policy the Treasury had three large-scale war loan drives in 1944 and encouraged pay roll savings plans. Sales of United States Government securities during the three drives totaled 59 billion dollars. Under pay roll savings plans, 27 million persons purchased savings bonds amounting to about 500 million dollars a month, or 10 per cent of their wages and salaries.

Net increases in holdings of United States Government securities by investors other than banks were considerably smaller than the amount of securities sold to such investors on direct subscription. Some of the original subscribers sold part of their holdings in the market and such securities were purchased by commercial banks and by the Federal Reserve Banks. There were also redemptions of savings notes in payment of taxes and of savings bonds and maturing marketable issues. In the aggregate, nonbank investors increased their holdings by 37 billion dollars, compared with 33 billions during 1943 and 24 billions during 1942. This amounted to 59 per cent of the increase in the public debt, compared with 58 per cent during 1943 and 51 per cent during 1942. The following chart shows the growth in holdings of Government securities by banks and by other investors.

Individuals, partnerships, and personal trust accounts accounted for about 40 per cent of the increase in nonbank holdings. This group of investors continued to have a substantial excess of income over expenditures and invested nearly half of its savings in Government securities. Insurance companies, mutual savings banks, and Government agencies and trust funds accounted for about 30 per cent of the increase in nonbank holdings and nonfinancial corporations for about 20 per cent. The latter expanded their liquid assets considerably less than during 1943, and they placed all of the increase in Government securities. The remainder of the increase in nonbank holdings was distributed among State and local governments, dealers and brokers, foreign investors, and savings and loan associations.

Commercial banks and the Federal Reserve Banks increased their holdings of Government securities by 25 billion dollars. Of this total, commercial banks acquired 18 billion dollars, for the most part in the open market.

OWNERSHIP OF U. S. GOVERNMENT SECURITIES



NOTE.—"Other" holders include individuals, partnerships and personal trust accounts, mutual savings banks, insurance companies, other corporations and associations, and State and local governments.

These banks were excluded from the war loan drives, except that they were permitted to subscribe for a limited amount, proportionate to their time deposits, of such long-term higher-rate securities as were made available in the drives for purchase by savings institutions. Banks acquired additional Government securities, however, through bids for the regular weekly offerings of Treasury bills and through purchases of outstanding securities.

Federal Reserve operations in the open market were directed toward the objectives of supplying banks with reserves sufficient to purchase such Government securities as were not bought and held by other investors and of maintaining stable prices and yields on marketable Government securities. Federal Reserve holdings increased by 7 billion dollars to a total of 19 billions. During the previous year the increase was 5 billion dollars.

The increase in Federal Reserve holdings was in Treasury bills, certificates, and short-term Treasury notes. The bills were purchased from banks requiring additional reserves and from dealers who were unable to sell all their allotments of new issues in the market. The certificates and short-term notes represented sales by banks in need of reserves and by nonbank investors desiring to increase their ability to subscribe for new issues offered in the drives. Federal Reserve holdings of bonds declined, as sales were made in the interest of market stability at times of strong demand for these securities. The Federal Reserve made no direct purchases of special short-term certificates from the Treasury during the year.

Yields on Government securities were steady throughout the year. The rate on three-month Treasury bills remained at ⅜ per cent and the yield on long-term Treasury bonds at 2½ per cent. Rates paid by the Treasury on new issues with other maturities and yields ranged between ⅜ and 2½ per cent.

THE WARTIME ECONOMY

Economic activity in 1944 maintained the record levels reached in 1943. Intensified military activities in Europe and in the Pacific by the year-end caused a reversal of the earlier policy of facilitating industrial reconversion to civilian output where available manpower was adequate. War production schedules were generally revised upward and a sharp expansion in output of a number of leading war products was planned. Federal controls over output and manpower were broadened and revised to achieve a fuller use of national resources for war purposes. Many foods were returned to the ration list and various steps were taken to preserve stability in civilian markets and to insure adequate supplies of essential goods and services. Enlarged war requirements indicated that supplies of goods available for civilians might reach the lowest level of the war period.

Scarcity of manpower was one of the factors contributing to the critical shortages of specific war items which developed toward the end of the year. Additional manpower required for the critical program was difficult to obtain as readily available reserves were lacking. This situation, together with the increased need for combat replacements in the armed forces, indicated the need for a general tightening of deferment, manpower, and civilian production policies.

National income and its distribution. National income in 1944 increased by 11 billion dollars to 161 billions. Owing in part to the further expansion of the armed forces, compensation of employees accounted for 10 billions of the increase. Net income of agricultural proprietors was roughly 12 billions, about the same as in 1943. Net income of unincorporated nonagricultural business was also about 12 billions, slightly above the year before. Interest payments rose with the growth in the public debt but, together with net rents, amounted to less than 11 billions. Corporate profits after tax were 10 billions, about the same as in 1943.

In 1944 the American people received nearly 14 billion dollars more in income payments than in 1943. Of this amount 11 billions were accounted for by the increase in national income. Business savings were unchanged but income from other sources, especially an increase in Treasury contributions to allotments for dependents of service men, brought the additional funds distributed to individuals to about 14 billions. About one-half of the increase was added to consumer expenditures and half to savings, additional personal taxes having absorbed a very small fraction of the increase.

Production, consumption, and prices. In 1944 the nation produced goods and services having a value of nearly 200 billion dollars at current prices. Half of the product was absorbed by the war effort and other public activities, a slightly larger proportion than in 1943. Supplies for civilian markets expanded in a few lines but contracted in others, with the result that there was no substantial change in the level of civilian consumption.

The labor force, including those in the armed services, reached a total of 63.2 millions in December. The increase in the armed forces was larger than the net addition to the labor force, however, and there was a moderate decline in the civilian manpower supply. At the year end, over 11.9 million were in the armed forces and of these over 7 million were overseas or on sea duty. Total civilian employment declined moderately, reflecting reduction of employment in munitions, other manufacturing, and construction that exceeded expansion in other lines, notably trade and service. Unemployment was below 1 million most of the year and toward the end of the year was less than 700,000.

Output at factories and mines in 1944 was 235 per cent of the 1935–39 average as compared with 239 in 1943, according to the Board's index. War production, including munitions as well as other products used for war purposes, continued to account for about two-thirds of total industrial production. Agricultural production increased somewhat further in 1944; about one-fourth of the total output of farms, including foodstuffs and industrial materials, was used by the armed services or exported under lend-lease arrangements. Output of livestock products was maintained at the high 1943 level and crop production surpassed the 1942 record.

Distribution of agricultural and industrial products remained generally at the exceptionally high level reached in 1943 and domestic transport of some classes of freight, especially for war purposes, expanded further. Ocean shipping facilities continued to expand owing to reduced losses in service and to a great volume of new ship construction in 1943 and 1944. Overseas supply needs for the armed services were much greater in 1944 than in 1943, however, so that shipping available for commercial exports and for imports for civilian use continued to be far short of demand. Exports, chiefly lend-lease shipments to our Allies, increased by 1.5 billion dollars and totaled 14.2 billions for the year. This compares with an average annual rate of 6.2 billion dollars during 1917 and 1918, the two years of our participation in the First World War. Imports increased both in value and quantity during 1944.

Imports of foreign goods for civilian use were below prewar levels, but supplies were supplemented by sharply expanded domestic production of substitute or synthetic materials such as rubber, vegetable oils, and rayon. Owing in part to this development, the physical volume of civilian consumption during 1944 was generally maintained at prewar levels. This level of consumption drew to some extent on inventories of goods held by manufacturers and distributors, but output of certain products like agricultural machinery, railroad equipment, and miscellaneous consumer durable goods, was larger than in 1943. Average food consumption per capita increased slightly above the 1943 average and was about 4 per cent higher than in 1939.

These relatively favorable supply conditions and the continued control over materials, incomes, and prices, together with a public disposition to save rather than to spend, resulted in the smallest price rise of any of the war years. According to the official indexes, on the average both wholesale prices and the cost of living advanced 2 per cent during 1944. Retail prices of clothing and housefurnishings rose 6–12 per cent, however, while food prices showed little change, owing in part to the payment of increased Federal subsidies.

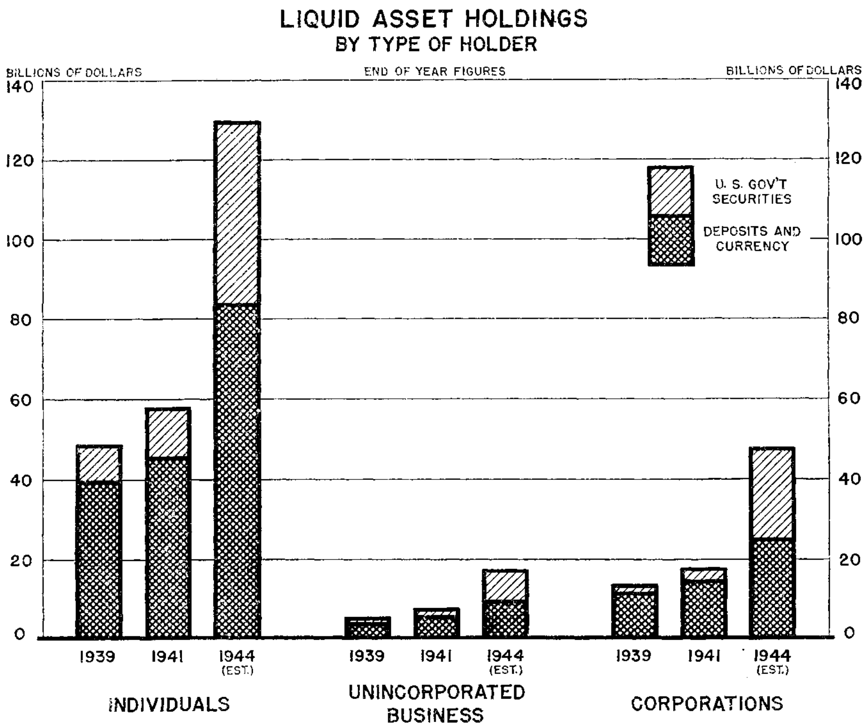
Total retail purchases by consumers increased somewhat further in 1944, reflecting largely higher prices of goods sold by apparel, department, and general merchandise stores. In the latter part of the year buying was considerably more active than usual even for the Christmas season and prices both in primary and retail markets showed more increases than in the spring and summer months of the year. Rural and urban land and property values continued to rise considerably throughout the year.

Savings and accumulation of liquid assets. During the war period the Federal Government has spent more for currently produced goods and services than it has collected in taxes. As a consequence, individuals and businesses have accumulated substantial amounts of unspent income or savings. During 1944 the net savings of individuals amounted to about 40 billions, thus exceeding the record level of the previous year. Net business savings remained at high levels and, in addition, depreciation and other business reserves tended to accumulate, owing to the wartime shortage of labor and materials for repairs and replacements.

The greater part of total wartime savings has gone into three types of liquid assets: United States Government securities, bank deposits, and currency. As indicated in the chart, individuals have more than doubled their holdings of liquid assets during the three war years; by the end of 1944, they held about 130 billion dollars of these assets, or over two-thirds of the total for businesses and individuals. Business—both noncorporate and corporate—likewise has more than doubled its holdings during the war years. By the end of 1944, corporations held about one-fourth and unincorporated business about one-tenth of the total.

During 1944, liquid asset holdings of individuals and businesses increased by more than 40 billion dollars. By the end of the year they amounted to about 194 billions in comparison with 82 billions at the end of 1941. In addition, individuals used about 4 billions of their current savings to increase their equities in private insurance and savings and loan associations, and about 1 billion dollars to increase their equities in real estate.

Of the total increase in individual and business holdings of liquid assets during 1944, 27 per cent was in the form of currency and demand deposits and 73 per cent in the form of time deposits and United States Government securities. During 1942 the currency and demand deposit accumulations of



Figures for corporations exclude holdings of banks, insurance companies, savings and loan associations, and all nonprofit associations. Holdings of individuals include those of professional people as well as farmers. Estimated distribution of United States Government securities for 1939 and 1941 was based largely on Treasury data and extrapolated on the basis of current data to Dec. 31, 1944. The estimated distribution of demand deposits was based on *Statistics of Income* for 1939 and 1941 and on an extrapolation of Securities and Exchange data as well as on the Federal Reserve deposit survey data for Dec. 31, 1944. Estimates of the liquid asset holdings of unincorporated businesses were based largely on the Federal Reserve deposit survey and on the Federal Reserve Retail Credit Survey.

the public accounted for 43 per cent of the total increase and during 1943 to 40 per cent. It would appear, therefore, that the demand on the part of the public for those liquid assets usually considered to be the most readily available for expenditure was decreasing. The demand still remaining was largely limited to individuals; business holdings of currency and demand deposits showed little change in 1944.

The wartime growth in liquid assets is essentially a product of fiscal operations, but that it has been accompanied by remarkable price stability indicates a willingness to curb spending in the face of limited supplies of goods and services available to civilians. Durable goods have been largely unavailable and the supply of many other civilian goods has been relatively small. Patriotism has also been a strong incentive to the purchase and holding of war bonds, and no doubt many individuals and businesses have viewed their liquid assets as a reserve against a possible loss of income in the future.

But the fight against inflation now or after the war will not be won unless individuals and businesses continue to be willing to save. Much depends upon the length of the war and the amount of further accumulation made necessary by Government expenditures in excess of taxes. Should individuals and businesses grow restive with the ever mounting volume of liquid assets, the pressure to use savings or excessive amounts of current incomes to purchase civilian goods and services before they are in ample supply would seriously endanger the price structure. On the other hand, the holding of these assets could serve as a safeguard against deflation by encouraging the fuller use of current income in the years after full conversion to peacetime economic activity. But large holdings of liquid assets will not of themselves assure prosperity after the war. High business balances may become habitual, for instance, and their maintenance may tend to discourage rather than encourage spending.

BANKING AND CREDIT DEVELOPMENTS

Banking developments in 1944 continued to be dominated by the requirements of war finance. Notwithstanding the efforts made to sell as large a part of the new Government securities as possible to nonbank purchasers, commercial banks and the Federal Reserve Banks absorbed 41 per cent of the increase in the public debt, a slightly smaller proportion than in 1943. Deposits and currency in circulation increased by 28 billion dollars to a level of 151 billions at the year end. This increase was somewhat more than in 1943 but the rate of expansion was about the same in both years. In contrast with the earlier phases of the war, when corporate business accounted for a large part of the monetary growth, most of the expansion in 1944 appears to have been in holdings of deposits and currency by individuals. Also, a larger part of the deposit expansion was in time deposits.

The Federal Reserve System extended 7.5 billion dollars of new credit during the year, for the most part through purchases of United States Government securities. During certain periods of the year there was a moderate revival of member bank borrowing, the first significant volume of such transactions in more than a decade. The most important use of Federal Reserve credit was to meet the withdrawal of currency into circulation, which amounted to about 5 billion dollars. In addition the credit offset a gold drain of more than 1 billion dollars, and increased member bank reserve balances by a billion and a half.

Growth of bank deposits, their character and ownership. Deposits expanded by 23 billion dollars during 1944 to a level of 127 billions, as shown in the table below. Almost half of this growth was accounted for by a 10 billion dollar increase in Government deposits. Balances in war loan accounts were at relatively low levels at the beginning of the year, just before the Fourth War Loan Drive, and at relatively high levels at the end of the year, soon after the Sixth War Loan Drive.

DEPOSITS AND CURRENCY
[In billions of dollars][1]

Item	Outstanding at end of year				Increase during year		
	1941	1942	1943	1944	1942	1943	1944
Total deposits and currency	**78**	**100**	**123**	**151**	**21**	**23**	**28**
Total deposits	**69**	**86**	**104**	**127**	**17**	**18**	**23**
Adjusted demand	39	49	61	67	10	12	6
Time and savings	28	28	33	40	1	4	7
U. S. Government	2	8	10	21	7	2	10
Currency outside banks	**10**	**14**	**19**	**24**	**4**	**5**	**5**

[1] Owing to rounding of figures, details may not add to totals. Deposit figures are adjusted to exclude interbank deposits and items in the process of collection. Time deposits include deposits in the Postal Savings System while Government deposits include U. S. Treasurer's *time* deposits, open account. Figures for 1944 are preliminary.

Of the remaining 13 billions of deposit expansion, 7 billions was in the form of time deposits. Since the middle of 1943 time deposits have been growing at the rate of more than a half a billion dollars a month. This wartime growth is strikingly similar to that of the last war. At that time the growth of time deposits got under way much later than that of demand deposits, but, once in motion, continued into the postwar period and even during the contraction of 1920–1921 when demand deposits were falling. Both relatively and in absolute amounts, the increases in time deposits were greater in commercial banks than in mutual savings banks.

The 6 billion dollar expansion of demand deposits represents a considerable slackening in the rate of growth which is in part due to the timing of war loan drives but also probably indicates a general belief that demand deposits are adequate for all current and prospective needs. It appears that personal holdings account for the major part of the growth. The estimated deposit ownership for recent periods is shown in the table below.

DEMAND DEPOSIT OWNERSHIP
[Estimates, in billions of dollars]

Type of ownership	Dec. 31 1941	July 31 1943	Feb. 29 1944	July 31 1944	Jan. 31 1945
Total demand deposits of individuals, partnerships and corporations	**37.6**	**55.6**	**57.2**	**59.6**	**65.9**
Total for domestic business	**24.8**	**36.3**	**35.9**	**37.6**	**40.4**
Nonfinancial business	20.4	31.6	31.5	33.0	35.3
Financial business	4.4	4.6	4.3	4.7	5.1
Personal	**9.6**	**15.8**	**17.7**	**18.4**	**21.5**
All other[1]	**3.2**	**3.5**	**3.6**	**3.5**	**4.1**

[1] Includes nonprofit organizations, trust funds of individuals and businesses, and deposits of foreigners other than banks and governments.

NOTE.—Revisions of figures previously published in *Federal Reserve Bulletin*. Owing to rounding, details may not add to total.

The geographic distribution of deposit expansion was much more even in 1944 than in the earlier war years, although southern and western States continued to account for a large part of the deposit growth. The dominance of individual deposits in the growth probably accounts for the more even spread.

Currency expansion. Currency in circulation increased during the year by 4.9 billion dollars to 25.3 billions. With allowance for the dampening effect of three war loan drives in 1944 as against two in 1943, the amount of expansion was virtually the same in the two years. Since vault cash of banks increased only slightly over the year, the currency outside banks increased by virtually the same amount as the total and at the year-end is estimated to have been 23.5 billions of dollars.

Large denomination currency accounted for a growing proportion of the total currency increase. Among the denominations of $50 or more, the $100 bill accounted for the largest dollar volume of increase, over one-fourth of the total, and its rate of increase was also among the most rapid. The $50 bill was the second most important large denomination. Circulation of very large denominations—$5,000 and $10,000—continued to be under prewar levels and to account for a negligible part of the currency outstanding. The $10 and $20 denominations accounted for 2.3 billions of the increase, but the total rate of outflow of these denominations slackened and was the lowest since 1940. Small denominations increased relatively little. Coin and paper currency of $5 or less increased by only 0.4 billion dollars.

Growth and composition of Government security portfolio. Commercial bank holdings of Government securities increased by 18 billion dollars during 1944 to 78 billions. Purchases were made mainly in the open market during war loan drives when the transfer of funds from private deposits to the war loan accounts of the Government reduced required reserves and increased excess reserves. Direct subscriptions for other than Treasury bills accounted for 2 billions of the increase in holdings. As indicated earlier in this Report, commercial banks were permitted to purchase only limited amounts of securities in the war loan drives.

All of the increase in commercial bank holdings was in securities maturing within 10 years, and at the end of the year commercial bank holdings in this category constituted 90 per cent of their total holdings, compared with 86 per cent at the end of 1943. Further growth in holdings of medium- and short-term securities is in accordance with the Treasury's policy of limiting commercial bank purchases of new securities to issues maturing within 10 years. The purpose of this policy, which has been in effect for more than two years, has been both to maintain the liquidity of the banking system and to limit the increase in earnings that commercial banks can obtain from the larger amount of the Government's war debt. Bank earnings, nevertheless, rose to new high levels in 1944.

Although the United States Government securities added to commercial bank portfolios were largely short-term, the average maturity of the additions during 1944 was somewhat longer than during the preceding two years. The largest relative increase was in holdings of securities maturing within 5 to 10 years, and the additions to this group comprised more than half of the increase in total holdings. Holdings of Treasury bonds and of Treasury notes and certificates combined showed substantial increases. On the other hand, holdings of Treasury bills declined for the year. Annual changes by type of issue and by maturities are shown in the table below.

COMMERCIAL BANK HOLDINGS OF GOVERNMENT OBLIGATIONS WITH ANNUAL CHANGES
[In billions of dollars]

Type of issue	Outstanding—end of year			Change during year		
	1942	1943	1944	1942	1943	1944
Total for banks reporting to Treasury[1]	38.8	55.5	72.0	+18.2	+16.8	+16.5
Treasury bills	4.5	4.7	4.1	+3.5	+.2	−.6
Certificates of indebtedness	6.5	12.7	15.0	+6.5	+6.2	+2.3
Treasury notes	5.7	7.4	15.4	+2.4	+1.7	+8.0
Treasury bonds	19.4	28.3	36.5	+7.3	+8.8	+8.2
Maturing within 5 years	2.6	5.0	4.8	+1.2	+2.5	−.2
Maturing in 5–10 years	9.4	15.6	24.4	+5.9	+6.3	+8.8
Maturing in 10–20 years	6.2	6.1	5.4	+.2	−.2	−.7
Maturing after 20 years	1.3	1.5	1.9	....	+.2	+.3
Guaranteed issues	2.7	2.5	1.0	−1.5	−.2	−1.5
Estimated total for all commercial banks	41.4	59.8	77.5	+19.6	+18.5	+17.7

[1] Reports are not received from all commercial banks, and data are not entirely comparable from month to month.

NOTE.—Owing to rounding of figures, details may not add to total.

Growth of bank loans. Total loans of commercial banks were about 2.5 billion dollars larger at the end of 1944 than at the beginning. Substantially all of this change was accounted for by loans for purchasing and carrying United States Government securities, which increased during the war loan drives and decreased between drives. They were at a high point at the end of the year, coming soon after the Sixth War Loan, and at a relatively low point at the beginning of the year, immediately preceding the start of the Fourth War Loan. With allowance for these fluctuations, however, such loans appear to have increased during the year. Loans made during the Fourth War Loan appear to have been largely liquidated before the Fifth War Loan, but some of those made during the Fifth Loan were still on the books when the Sixth Loan opened.

Commercial loans at member banks declined somewhat during the first half of 1944 and increased by about the same amount in the second half. They amounted to 7.5 billion dollars at the close of the year. Loans for war purposes decreased and loans for nonwar purposes increased, thus reversing the trend of the two preceding years. Loans in commercial banks traceable to changes in the volume of consumer credit outstanding increased slightly during the year.

Reserve position and borrowing. The decline in member bank excess reserves, which had been in progress since the end of 1940, virtually ceased by the beginning of 1944 and fluctuations in excess reserves were largely in response to changing phases of the war-financing program. The shifts of funds from deposits against which reserves are required to reserve-exempt war loan accounts of the Treasury at the time of war loan drives and the reverse transfers between drives resulted in wide fluctuations in the amount of required reserves. These varied in the course of the year from a low point of about 11 billion dollars to a high point of nearly 14 billions, but there was a definite upward tendency. Excess reserves varied much less widely—within a range of less than a billion dollars. As a consequence, total member bank reserve balances fluctuated closely in conformity to the changes in required reserves and showed a net growth for the year—the first substantial growth since 1940.

As indicated elsewhere in this Report, these additional reserves, together with funds needed to meet currency demands and a loss of gold, were supplied through an increase in Reserve Bank credit.

Most of the excess reserves were held by banks outside leading cities, especially by banks in smaller places which gained deposits and reserves as rapidly as they increased investments. City banks, particularly those in the large money market centers, to an increasing extent operated on a full investment basis, keeping their reserves close to requirements. These banks, in addition to selling Treasury bills and certificates, at times borrowed substantial amounts in order to maintain their reserve positions. At first a large part of this borrowing was from other banks that had excess reserves, and there was in the latter part of 1943 and early 1944 considerable activity in the Federal funds market. By the latter part of 1944, however, virtually all of the larger money market banks had gone on a full investment basis, so that the sources of Federal funds dried up. Thereafter, more of the borrowing was directly from the Reserve Banks, and discounts and advances at Federal Reserve Banks rose sharply in the periods before the Fifth and Sixth War Loan Drives, at one time reaching 600 million dollars—the largest amount since 1933. In both cases most of the credit was repaid during the subsequent drive when reserves were released by the transfer of funds to Government deposits against which reserves are not required. Some encouragement to borrowing rather than selling securities may have resulted from the excess profits tax provisions, which permit the use of one-half of such borrowings in computing the capital base for profits exempt from taxation.

Reserve ratio of Federal Reserve Banks. As the result of a large increase in Federal Reserve notes in circulation and some decline in gold certificate holdings, the ratio of the Federal Reserve Banks' reserves to their combined note and deposit liabilities continued to decline and stood at 49 per cent at the end of the year. It was apparent that, if the demand for currency continued unabated and there were further inroads into the System's reserves, the reserve ratio would by the end of 1945 approach or reach the minimum prescribed by law. For this reason early in 1945 the Board recommended to Congress that the reserve requirement in the law, which is 40 per cent in gold certificates against notes and 35 per cent in gold certificates or lawful money against deposits, be reduced to a uniform rate of 25 per cent in gold certificates against both kinds of liabilities. An explanation of this recommendation and of alternative courses of action appears in the Appendix on page 56 of this Report.

Consumer credit. During the entire period that this country has been at war, the consuming public has been spending more money than before the war and doing so with less use of consumer credit. People have bought more goods and services every year than they did before the war, at generally higher prices, but have been paying for them more largely out of current income. They have been able to do this because, even after paying taxes, consumers as a whole have had more current income left for spending and for saving and because the only consumer goods on the market were more largely of the nondurable kind. Such goods sell per unit at prices that people can pay without going into debt. On net balance, up to February 1944, people paid off currently more debt than they incurred. The volume of consumer credit outstanding went down by more than 5 billion dollars or about 50 per cent. Since then debt incurred has slightly exceeded debt paid off, but consumer credit outstanding has remained close to the 5 billion dollar level, about where it was at the end of 1935.

Among the factors accounting for both the initial decrease and the subsequent absence of much increase has been the Board's Regulation W, put into effect in September 1941, and both broadened and stiffened in the spring of 1942. Since then typical requirements for instalment purchases of durable goods and for consumer loans to finance such purchases have been one-third down and 12 months in which to pay the balance. The Board made no changes in the standard requirements during 1944 but amended the regulation in some administrative respects; these are summarized on page 38 of this Report.

Regulation W is based on an Executive Order issued under legislative authority which limits the life of the Order to a period of emergency but does not itself prescribe when the period shall begin or end. Consumer credit regulation by the Federal Government, however, can not be continued indefinitely without Congressional action.

REGULATION V LOANS TO INDUSTRY

During 1944 the Federal Reserve Banks under the general supervision of the Board of Governors continued to act as Fiscal Agents for the War Department, Navy Department, and Maritime Commission in guaranteeing loans made by financing institutions to war contractors. The volume of such loans outstanding amounted to about 2 billion dollars during most of the year but declined to about 1¾ billions at the end of the year.

On August 18, following passage of the Contract Settlement Act of 1944, the Director of Contract Settlement issued his General Regulation No. 1 prescribing procedures and policies to be followed by the War and Navy

Departments and the Maritime Commission in guaranteeing termination loans through the agency of the Federal Reserve Banks. Such termination loans, known as "T" loans, are for the purpose of enabling war contractors to obtain the use of funds tied up in war production pending final settlement of claims arising from terminated contracts.

The T loan program is a logical extension of the V and VT loan programs (described in the 1943 Annual Report), and the Board's Regulation V was revised September 11, 1944, to cover loans made under the Contract Settlement Act as well as loans for war production made under the President's Executive Order No. 9112 of March 26, 1942.

The T loan program has been simplified and liberalized as compared with the preceding V loan program. The War Department and Maritime Commission have delegated to the Federal Reserve Banks authority to execute guarantees of loans totaling (a) $500,000 or less to any one borrower when the requested percentage of guarantee is not in excess of 90 per cent and (b) $100,000 or less to any one borrower when the requested percentage of guarantee is not in excess of 95 per cent.

Since the beginning of the T loan program in September 1944, only two types of guaranteed loans have been authorized—T loans and 1944-V loans. "1944-V" loans, made under the provisions of Executive Order No. 9112, are loans to provide working capital for war production purposes or to provide for both production and termination financing. These new V loans are similar to the VT loans made prior to September 1944, except that the form of guarantee agreement has been simplified and shortened. The War Department has delegated to the Federal Reserve Banks authority to execute guarantees of V loans totaling $250,000 or less to any one borrower when the requested percentage of guarantee is not in excess of 90 per cent. Similar authority has been delegated to the Federal Reserve Banks by the Maritime Commission with respect to guarantees of $100,000 or less on loans to any one borrower when the requested percentage of guarantee is not in excess of 90.

During 1944 the War Department, Navy Department, and Maritime Commission authorized 2,087 guaranteed loans, aggregating $2,747,535,000. Included in this amount were 231 T loans, amounting to $123,050,000, authorized under the provisions of the Contract Settlement Act of 1944. From the beginning of the Regulation V program in April 1942 to the end of December 1944, the Armed Services and the Maritime Commission authorized 7,434 loans for a total of $9,310,582,000. Loans outstanding at the end of the year under executed agreements amount to $1,735,970,000, of which $1,482,038,000 was guaranteed. In addition, about $4,453,586,000 was available to borrowers under outstanding agreements.

Regulation V loans to industry have proved themselves to be of great value in time of war. The procedure whereby the Government assumes contingent liabilities which will not materialize if private efforts are successful holds promise for the reconversion period and afterwards. It represents a cooperative compromise between the need for government action and the ability of the private enterprise system to function to the maximum possible extent.

ABSORPTION OF EXCHANGE CHARGES

There were further important developments during the year with respect to the question whether, under any circumstances, the absorption of exchange charges by member banks constitutes a payment of interest within the meaning of the prohibition of the law and the Board's Regulation Q against the payment of interest on demand deposits.

In August 1943, the Board ruled in a specific case that the absorption of exchange charges by a particular member bank constituted a payment of interest on demand deposits in violation of the law and the Board's Regulation; and that ruling was published in the *Federal Reserve Bulletin* for September 1943. In December 1943, the Committee on Banking and Currency in the House of Representatives began hearings with respect to the matter. These hearings were continued through January and February of 1944, after the introduction of bills in both Houses of Congress (S. 1642; H.R. 3956) for the purpose of amending section 19 of the Federal Reserve Act to provide that the absorption of exchange and collection charges by member banks shall not be deemed to be a payment of interest. The enactment of either of these bills would have granted permission to member banks to absorb exchange charges under all circumstances, including permission to resort to the practice as a device for the payment of interest.

The House bill was passed by the House of Representatives on March 2, 1944. Its passage was followed by protests from many bankers, bankers' associations, business men, and business associations throughout the country.

In December 1944, hearings on the Senate bill (S. 1642) were held by the Committee on Banking and Currency in the Senate. While the hearings were in progress, the substance of the Senate bill was offered on the floor of the Senate in the form of an amendment to the pending Federal Crop Insurance bill. After considerable debate the amendment was defeated by a vote of 45 to 25. Following this action, the hearings before the Senate Banking and Currency Committee were closed.

The Board's formal report to the Committee on Banking and Currency in the Senate was printed in the *Federal Reserve Bulletin* for February 1944, and the statement at the Senate hearings by the Chairman of the Board follows.

Statement of Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, S. 1642

Mr. Chairman, shortly after Mr. Maybank introduced his Bill, the Board, in response to the Committee's request, made a formal report. I would like to suggest that all of the correspondence on the subject in the Committee's files, pro and con, be included in the record. In the House it was argued, you know, that no one was opposed to the Bill except the Board.

This is really the first time opponents, other than the Board, have had an opportunity to be heard. For reasons beyond anyone's control and which everyone understands, it has been possible for only a few members of the Committee to hear the testimony which has been offered. I hope that members of the Committee will have time to see what the many bankers associations, trade associations, bankers, and business men have to say about the pending proposal. It is for these reasons that the suggestion is made.

I shall try to confine my statement to the broader implications of the proposed legislation and to certain matters which seem pertinent to the light of developments since the Board's report.

First, I understand that the question has been asked why, if this law has been in the books since 1933, was it not enforced until September 1943? I understand also that it has been said, with all the innuendos which such a statement implies, that the Board's action was taken only after the sudden death of Representative Steagall in the latter part of November 1943.

Let me say that there never has been a time since I have been on the Board when all of the Board have not believed that the absorption of exchange by a member bank under the circumstances outlined in its published ruling of September 1943 was a violation of the statute Congress enacted. In December 1935 the Board proposed to incorporate in its Regulation Q language which, in so many words, would so provide. The F.D.I.C. refused to go along in its corresponding regulation applicable to nonmember insured banks so the Board postponed the effective date of its proposed amendment. The Board did so because it seemed extremely unfortunate that member banks should operate under one rule and nonmember banks under another. It hoped to be able to find some basis for agreement between the two viewpoints and to avoid the very situation which now exists.

In December of 1936 the Board again proposed an amendment to its Regulation Q along the lines of the 1935 proposal. It was at that time that Chairman Steagall of the House Banking and Currency Committee and the Chairman of this Committee asked the Board again to defer the effective date of the proposed amendment. Some Members of Congress indicated that they had in mind proposing an amendment to the statute. The Board acceded to the request for a deferment but it did not recede from its position. Let me read the Board's press statement of January 30, 1937, announcing its action:

> "Chairman Steagall, of the House Banking and Currency Committee, and Chairman Wagner, of the Senate Banking and Currency Committee, have requested the Board of Governors of the Federal Reserve System to postpone the effective date of the definition of interest in subsection (f) of section (1) of the Board's regulation Q, which the Board on December 21, 1936, announced would become effective February 1, 1937.
>
> "The Board, after careful consideration, had reached the conclusion that the law and the existence of certain banking practices required the adoption of this definition. But the Board feels that the request which these two chairmen have now made should be granted, in view of the fact that the Board has been informed that a number of Members of Congress are giving consideration to the question of the advisability of amending the law under which the Board's regulation was issued, and desire additional time for that purpose.
>
> "The Board therefore has postponed from February 1 to May 1, 1937, the effective date of subsection (f) of section (1) of the regulation Q which contains the definition of interest."

Before May 1, 1937, the Board conceived the idea and suggested to Mr. Crowley that the lawyers of the two agencies get together and write a definition of interest which would merely restate what the courts have said in defining the term. This was done and on February 12, 1937, the applicable regulation of the F.D.I.C. and the Board's Regulation Q were amended to provide that, for the purposes of both Regulations, "interest" should mean "any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit." The Regulations of both agencies thereupon became uniform in this respect. At the same time the Board and the F.D.I.C. issued a joint statement for the press in which it was pointed out that the effect of the amendments was to declare existing law rather than to interpret and apply the law to particular practices. It was stated that this would permit the general application by each agency of a uniform law and a determination, based upon the facts involved, in specific cases.

Never, since the enactment of the law, has the issue of exchange absorption been dead. But it became much more acute with the advent of the defense program which brought with it a huge Government financing program and an opportunity for investment in Government obligations on a scale no one had ever before thought of. The preceding period had been one in which money relatively was a drug on the market. Some banks, because of the assessment for deposit insurance and the lack of investment opportunity, were even trying to decrease their deposits. The Board had hoped the problem of exchange absorption would solve itself but it became increasingly evident that the practice was increasing.

In July 1942 the Comptroller of the Currency addressed a letter to the Board submitting the facts of a practice being followed by a certain national bank and requested a ruling as to the applicability of the law to the facts of that case. The Board delayed an expression of its views pending several examinations of the bank which cumulatively developed that the bank was actually absorbing exchange for the purpose of compensating certain of its depositors for the use of their funds. Moreover, in October 1942, before expressing its views, the Board suggested to the Comptroller of the Currency that representatives of the three agencies meet and consider the matter. Such meetings were held on November 11, 1942 and January 29, 1943. On August 6, 1943, well in advance of the issuance of the ruling, the Board wrote Chairman Steagall of the House Banking and Currency Committee and Chairman Wagner of the Senate Banking and Currency Committee sending them a copy of the proposed ruling in order that they might have an opportunity to object or comment if they desired to do so. Mind you, this was almost three months before Mr. Steagall's sudden death and obviously before the Board could have forecast that untimely event. At the same time a copy of the proposed ruling was also sent to Chairman Crowley of the F.D.I.C. Receiving no objections or comments from either Chairman, the ruling was transmitted to the Comptroller of the Currency on August 23, 1943, and was subsequently published in the September issue of the *Federal Reserve Bulletin*. I have before me copies of all the correspondence to which I have referred and which I would like to have inserted in the record.

There is another matter which has come to my attention upon which I would like to comment. Because my convictions with respect to how the banking system could be made to function more effectively have been publicly stated, the Board has been charged with having ruled as it did in September 1943 for reasons outside and beyond its statutory responsibility under section 19 of the Federal Reserve Act. One such charge has been built around creating the false notion that the Federal Reserve System is a "big bank system" catering to the large banks, trying in its September ruling to abolish the dual banking system and to make it easy for the extension of branch banking by striking at the existence of small banks.

Absurd charges, such as these, illustrate the length to which the proponents have gone. They talk as though the Federal Reserve Act was not patterned to the dual banking system. The Board has consistently recommended changes in the law designed to make it possible for more State banks to become members. There are at this time over 1,700 member State banks and the Board and every Federal Reserve Bank wishes there were more. Strangely enough, some of the very same critics, who now say the Board is out to destroy the State banks, have, on other occasions, been equally critical of the System's activities in inviting State banks to become members.

On the matter of the System's interest in the smaller banks, I point to the fact that of a total membership of approximately 6,700 banks over 5,000 had deposits, as of December 1943, of less than 5 million dollars each. Over 3,200 of these had deposits of less than 2 million dollars each. Compare this with the nonpar banks. Attached to this statement are some very interesting maps and statistics comparing par and nonpar banks as to location, number, and size. It is apparent that if this Bill is enacted, it will be to favor a very small minority of banks holding a still smaller proportion of the country's deposits against the overwhelming majority of banks holding a still greater proportion of deposits. Even the maps and statistics do not present the picture in its entirety. As has been pointed out to the members of the Committee, the practice of exchange absorption is not as extensive as the practice of charging exchange. Only in the southeastern States does it appear that the practice of absorbing exchange is extensively followed. Thus the passage of this Bill would indeed be a case in which not only would the tail be wagging the dog but the flea would be pushing the elephant around.

The System is composed of small banks and its interest in their welfare has been evidenced by more than giving lip service to the idea. Opening up the credit facilities of the System to permit loans to nonmember banks on the security of Government obligations was in aid of small banks, not large ones, nor I add member banks. The System's support of Treasury efforts to make Government securities more readily available to banks by simplifying the bidding, making automatic allotments, and giving certain preferential terms has been in aid of the small banks, not the large ones. The Board's consistent opposition to the extension of the business of savings and loan associations into the commercial banking field has been in behalf of small banks, not the large ones. Its position, alone of all the Federal banking agencies, in the matter of the extension of P.C.A. loans, was in behalf of small banks, not large ones. These are a few recent illustrations.

My final comments are concerned with the discriminatory character of the proposed Bill as applied to member banks and particularly to small member banks. Members of the Committee are familiar wirh the provisions of the Federal Reserve Act which require member banks to be par banks. It comes about by reason of the fact that the Act provides that Federal Reserve Banks shall receive checks at par and member banks are prohibited from charging exchange on checks presented by a Federal Reserve Bank.

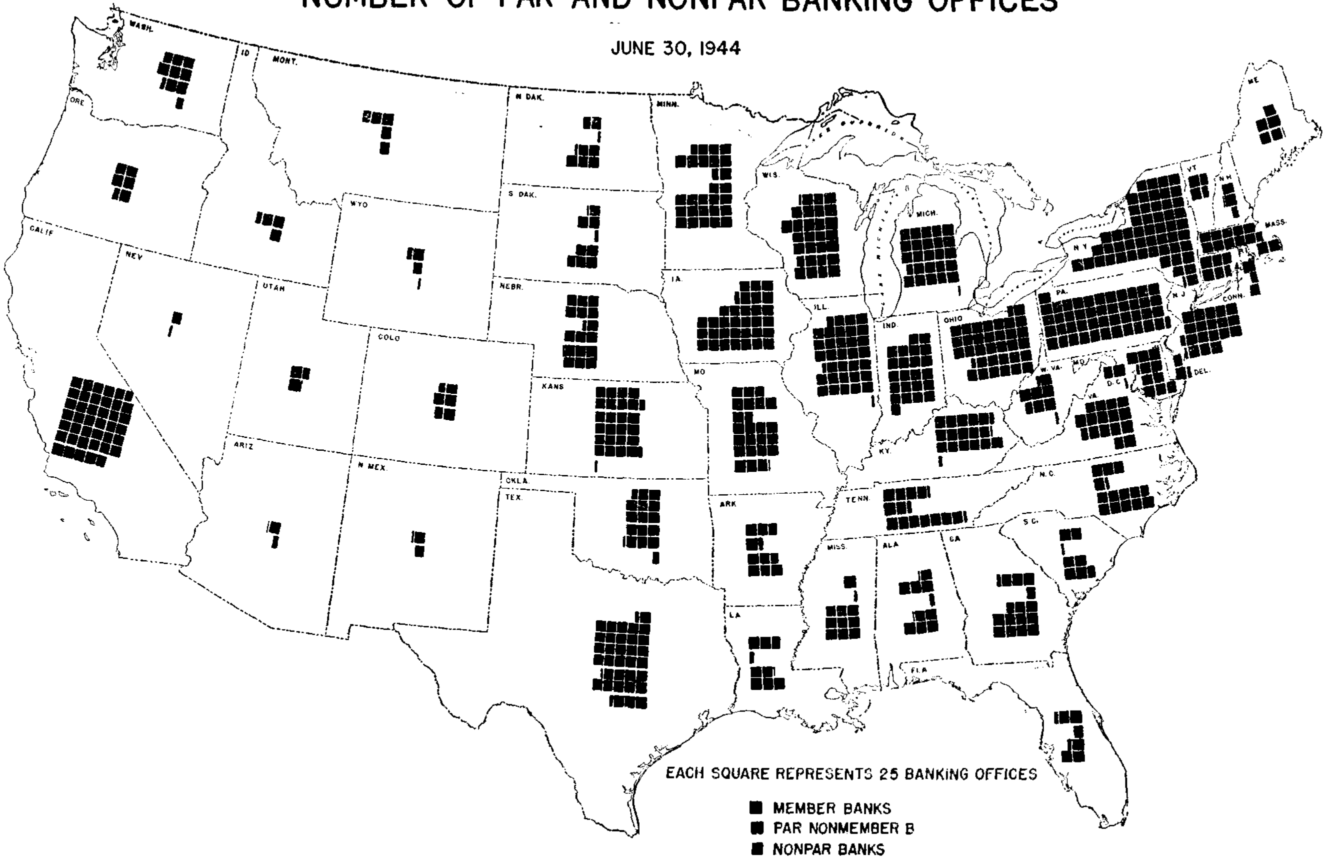
If Congress, by this legislation, authorizes the absorption of exchange, it must be because Congress believes that banks, or at least small banks, should be permitted to charge exchange. Certainly, therefore, it would be extremely unfair to the small national and member State banks, which are equally as small and greater in number than the nonpar banks, for Congress to continue to require them to be par banks. I believe that such action would be decidedly a backward step and would put a heavy and undue burden on business and commerce; but, in the last analysis, the question is one for Congress and if it is right for one small group of banks it should be right for all banks.

Moreover, if Congress believes that member banks should be permitted and thus encouraged to absorb exchange charged by nonmember banks, I would like to say a word in behalf of the proportionately far greater number of small banks which have no exchange to be absorbed and to suggest as a not too happy alternative that member banks be permitted to pay interest on bank balances to the extent such balances are not a part of the required reserves of the depositing bank. Since member banks receive no interest on their required reserves, this would result in all small banks alike receiving interest on their balances with correspondent banks to the extent, of course, that their correspondent banks would be willing to pay interest on such accounts. At the same time, unrestrained bidding for balances on the scale which contributed to the Bank Holiday in 1933 could be reduced by authorizing the Board to fix the maximum amount of interest which could be paid on these accounts in the same manner as it now does in the case of time deposits.

Mr. Chairman, I can not sit by as Chairman of the Board of Governors of the Federal Reserve System without raising my voice in protest against a measure designed to undermine the System as this would. Not only would it discriminate against the Federal Reserve System but it would be equally discriminatory against the national banking system, both of which were created by Congress in the first instance. I can see in this Bill encouragement to withdraw from the System, encouragement to extend nonpar clearance, and encouragement to revert to the unsound practices of the pre-Bank Holiday period and all of this would come at a time of all times when the banking system must continue to meet the greatest challenge it has ever faced.

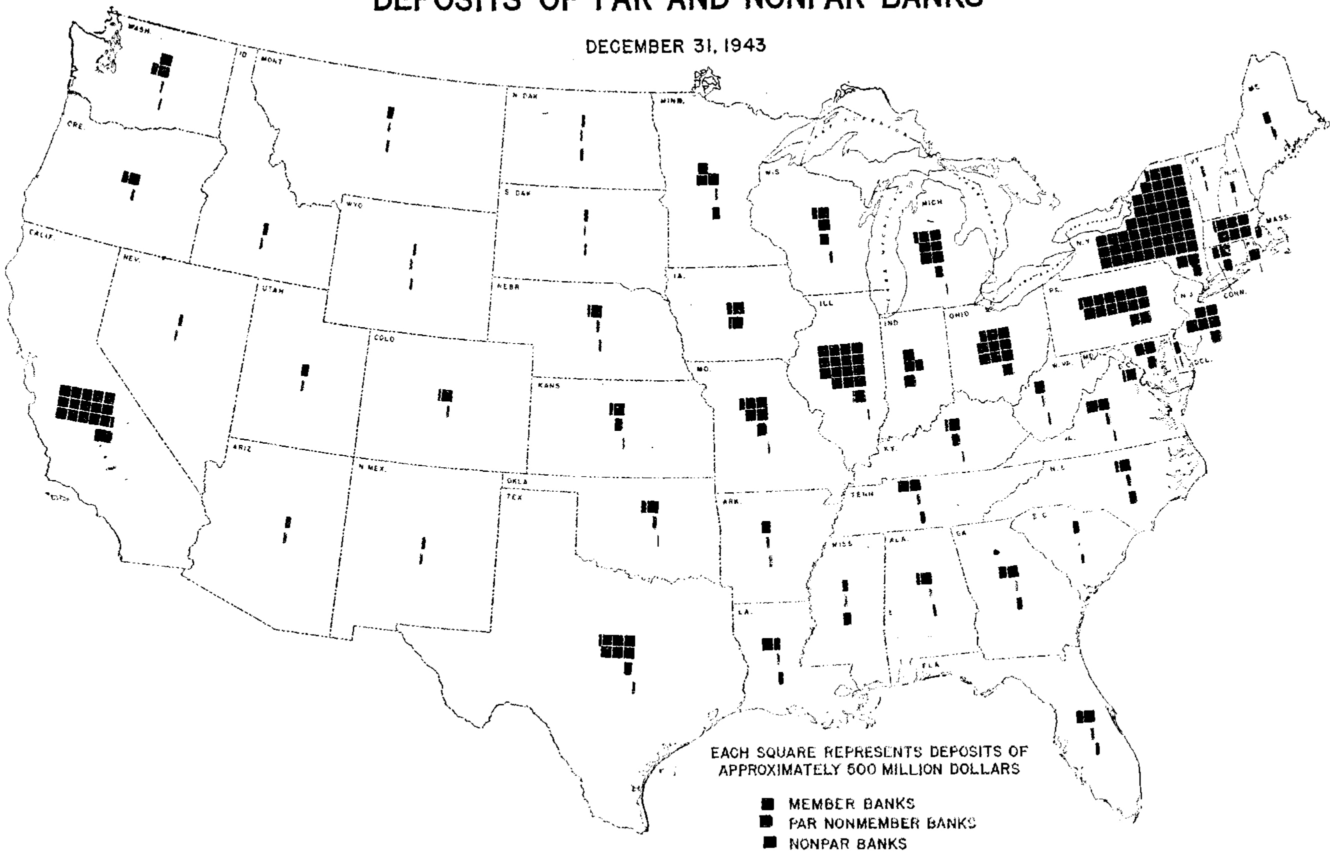
NUMBER OF PAR AND NONPAR BANKING OFFICES

JUNE 30, 1944



DEPOSITS OF PAR AND NONPAR BANKS

DECEMBER 31, 1943



FEDERAL RESERVE SYSTEM

NUMBER AND DEPOSITS OF COMMERCIAL BANKS CLASSIFIED ACCORDING TO FEDERAL RESERVE PAR LIST STATUS, JUNE 30, 1944

[Deposits as of December 1943, in thousands of dollars]

Preliminary figures, subject to minor change

State	All commercial banks[1]		Member banks[2]		Par nonmember banks		Nonpar banks	
	Number	Deposits	Number	Deposits	Number	Deposits	Number	Deposits
Alabama	217	841,422	83	706,896	7	13,666	127	120,860
Arizona	12	229,188	7	198,130	5	31,058	......	......
Arkansas	223	483,671	66	348,905	28	32,936	129	101,830
California	192	8,857,658	110	8,100,708	82	756,950	......	......
Colorado	140	720,327	92	662,258	48	58,069	......	......
Connecticut	116	1,290,318	63	873,090	53	417,228	......	......
Delaware	41	372,770	17	278,728	24	94,042	......	......
District of Columbia	21	705,729	18	685,422	3	20,307	......	......
Florida	164	1,057,874	60	842,772	18	69,098	86	146,004
Georgia	344	1,191,869	62	913,273	17	48,820	265	229,776
Idaho	46	257,898	25	225,031	21	32,867	......	......
Illinois	827	8,520,887	466	7,953,023	359	566,083	2	1,781
Indiana	494	1,974,956	223	1,446,149	271	528,807	......	......
Iowa	652	1,428,031	162	774,486	490	653,545	......	......
Kansas	622	1,028,152	213	695,494	407	331,808	2	850
Kentucky	389	1,022,057	113	697,077	269	322,773	7	2,207
Louisiana	148	1,062,773	40	833,888	4	26,350	104	202,535
Maine	66	346,111	40	251,717	26	94,394	......	......
Maryland	175	1,322,927	79	974,796	96	348,131	......	......
Massachusetts	192	3,581,779	154	3,302,333	38	279,446	......	......
Michigan	439	3,760,199	228	3,391,755	210	368,176	1	268
Minnesota	671	1,873,354	209	1,498,988	40	78,429	422	295,937
Mississippi	200	486,214	25	187,473	2	5,734	173	293,007
Missouri	591	2,901,699	171	2,410,913	343	423,898	77	66,888
Montana	110	319,052	69	264,542	21	24,737	20	29,773
Nebraska	408	834,275	146	661,373	110	95,153	152	77,749
Nevada	10	99,101	8	93,359	2	5,742	......	......
New Hampshire	65	158,644	53	134,492	12	24,152	......	......
New Jersey	351	3,098,143	293	2,633,344	58	464,799	......	......
New Mexico	41	162,238	27	130,427	14	31,811	......	......
New York	695	28,102,757	593	26,687,950	102	1,414,807	......	......
North Carolina	202	1,127,680	54	682,049	22	148,756	126	296,875
North Dakota	153	299,836	42	129,913	3	59,087	108	110,836
Ohio	680	5,068,468	415	4,580,990	265	487,478	......	......
Oklahoma	382	914,691	215	793,707	155	115,780	12	5,204
Oregon	68	897,132	32	848,329	36	48,803	......	......
Pennsylvania	1,029	7,489,012	764	6,509,211	265	979,801	......	......
Rhode Island	22	507,894	13	457,230	9	50,664	......	......
South Carolina	145	393,510	28	283,974	4	6,552	113	102,984
South Dakota	164	240,051	60	168,264	7	6,604	97	65,183
Tennessee	293	1,297,637	76	1,046,847	54	114,978	163	135,812
Texas	848	3,658,958	535	3,302,448	229	307,859	84	48,651
Utah	57	383,855	34	327,925	23	55,930	......	......
Vermont	71	159,804	39	85,647	32	74,157	......	......
Virginia	313	1,255,671	194	1,035,782	84	179,269	35	40,620
Washington	124	1,458,162	56	1,367,838	53	77,432	15	12,892
West Virginia	180	545,563	107	426,961	68	113,060	5	5,542
Wisconsin	560	1,897,237	157	1,351,252	267	432,511	136	113,474
Wyoming	56	136,023	37	112,008	18	23,754	1	261
Total	14,009	105,823,257	6,773	92,369,167	4,774	10,946,291	2,462	2,507,799

[1] Includes (a) 102 private banks that do not report to State banking departments, in Georgia, Iowa, Michigan, and Texas, (b) 13 "cooperative" banks in Arkansas. Excludes (a) all nonmember mutual savings banks, on a few of which some checks are drawn, (b) 51 nonmember industrial banks and 54 nonmember nondeposit trust companies on which no checks are drawn.

[2] Comprises all member banks, including 3 mutual savings banks and 5 nondeposit trust companies.

NOTE.—This table does not include deposits of industrial banks and "trust balances" of nondeposit trust companies on which no checks are drawn; also, deposit figures in this table are aggregates of *December 1943* figures reported by banks that were in existence in *June 1944*. Consequently they differ from total deposits in December 1943 of banks then in existence. The member bank figures include, and the nonmember bank figures exclude, deposits of bank sthat became members between December 1943 and June 1944.

NUMBER OF PAR AND NONPAR BANKING OFFICES, BY STATES, JUNE 30, 1944

[Includes branches and additional offices, except offices at military reservations, classified according to Federal Reserve Par List status. Preliminary figures, subject to minor change.]

State	Total, all commercial banking offices[1]	Banking offices on Federal Reserve Par List			Banking offices not on Federal Reserve Par List
		Total	Of member banks[2]	Of nonmember banks	
Alabama	237	110	103	7	127
Arizona	38	38	28	10	....
Arkansas	241	100	67	33	141
California	1,016	1,016	893	123	....
Colorado	140	140	92	48	....
Connecticut	132	132	69	63	....
Delaware	52	52	18	34	....
District of Columbia	51	51	47	4	....
Florida	164	78	60	18	86
Georgia	369	101	83	18	268
Idaho	86	86	63	23	....
Illinois	827	825	466	359	2
Indiana	564	564	246	318	....
Iowa	808	808	162	646	....
Kansas	622	620	213	407	2
Kentucky	420	413	134	279	7
Louisiana	202	76	69	7	126
Maine	126	126	73	53	....
Maryland	255	255	131	124	....
Massachusetts	312	312	264	48	....
Michigan	614	613	373	240	1
Minnesota	677	255	215	40	422
Mississippi	248	27	25	2	221
Missouri	591	514	171	343	77
Montana	110	90	69	21	20
Nebraska	410	258	148	110	152
Nevada	23	23	20	3	....
New Hampshire	67	67	54	13	....
New Jersey	472	472	388	84	....
New Mexico	47	47	27	20	....
New York	1,332	1,332	1,174	158	....
North Carolina	341	100	70	30	241
North Dakota	176	45	42	3	131
Ohio	849	849	563	286	....
Oklahoma	382	370	215	155	12
Oregon	138	138	98	40	....
Pennsylvania	1,135	1,135	850	285	....
Rhode Island	59	59	39	20	....
South Carolina	169	53	49	4	116
South Dakota	205	87	80	7	118
Tennessee	344	162	105	57	182
Texas	848	764	535	229	84
Utah	70	70	43	27	....
Vermont	79	79	41	38	....
Virginia	386	339	221	118	47
Washington	219	204	144	60	15
West Virginia	180	175	107	68	5
Wisconsin	695	502	178	324	193
Wyoming	56	55	37	18	1
Total	17,584	14,787	9,362	5,425	2,797

[1] Includes (a) 102 private banks that do not report to State banking departments, in Georgia, Iowa, Michigan, and Texas, (b) 13 "cooperative" banks in Arkansas. Excludes (a) all nonmember mutual savings banks, on a few of which some checks are drawn, (b) 51 nonmember industrial banks and 54 nonmember nondeposit trust companies on which no checks are drawn.

[2] Includes 3 mutual savings banks and 5 nondeposit trust companies.

INTERNATIONAL TRADE AND FINANCE

During the year 1944, the foreign trade of the United States and changes in the international financial position of the United States continued to reflect the magnitude of our war effort.

The total merchandise exports and export surplus were the largest ever recorded. Merchandise exports amounted to 14.2 billion dollars (excluding shipments to our armed forces abroad), imports to 3.9 billions, and the merchandise export surplus to 10.3 billions. Since lend-lease shipments accounted for 11.3 billions of our exports, cash exports were only 3 billions. Our international trade on a cash basis therefore actually resulted in a net deficit of about 960 million dollars. There were also substantial net payments to foreigners arising from expenditures by the Government and by American troops in foreign countries.

The large net payments to foreign countries on account of trade and military expenditures enabled foreign countries to make substantial gold purchases in the United States and at the same time to increase their dollar balances to some extent. The acquisition of gold by foreign countries is the principal factor accounting for the decline in the monetary gold stock of the United States by 1,319 million dollars during the year to 20,619 million dollars. The net effect of other factors affecting the monetary gold stock was insignificant. Since gold under earmark for foreign account increased by only 460 million dollars to 3,937 million dollars, it is clear that the major part of the gold purchased by foreign countries was exported rather than earmarked for foreign account as has been the practice in recent years.

Foreign banking funds in the United States increased by only 116 million dollars during 1944 to 5,271 million dollars at the end of the year. Of this amount 3,010 millions was for account of foreign central banks and governments. In contrast to the rapid growth of official funds in recent years, there was a decrease of 89 million dollars in these accounts. Transactions in securities accounted for a further inflow of 313 million dollars. This movement resulted principally from purchases of long-term United States Government securities and foreign bond redemptions.

Total estimated gold and dollar reserves of foreign countries amounted to more than 17.5 billion dollars at the end of 1944 as compared with 7 or 8 billions in 1928 before the breakdown of the gold standard. If the position of foreign countries is further strengthened by adoption of the proposals agreed on at the International Monetary and Financial Conference held at Bretton Woods, there will be every reason to expect more stability, order, and freedom in international exchange relationships in the postwar world.

The Conference formulated proposals for the establishment of two international institutions, an International Monetary Fund and an International Bank for Reconstruction and Development.

The proposed Fund would provide an 8.8 billion dollar reserve of gold and currencies which could be used to give any member country facing an international drain a breathing spell during which it could make necessary adjustments. It would thus assist member countries to maintain stable exchange rates and avoid harmful exchange restrictions. While members of the Fund agree to maintain established exchange rates a procedure is provided for orderly changes in rates by international agreement when necessary.

The proposed Bank is designed to revive the flow of productive capital to areas in which it is needed. It would encourage long-term productive foreign loans by guaranteeing such loans made through the investment market. It could also make such loans out of its own fund or out of funds borrowed from private investors. The total authorized capital of the Bank is 10 billion dollars. Twenty per cent of the Bank's capital is subject to call for use in making loans, while 80 per cent could be called only if needed to meet obligations of the Bank because of defaults on loans made or guaranteed by the Bank.

BANKING OPERATIONS AND STRUCTURE

Bank earnings. Earning assets of the banking system increased about 23 per cent in 1944, following increases of 24 per cent in 1943 and 28 per cent in 1942. In amount, the increase of 23 billion dollars in 1944 was greater than in either of the two preceding years. At the close of 1944, earning assets totaled almost 120 billion dollars, nearly three-fourths of which consisted of Government securities. The increase in the total volume of assets more than compensated for lower yields, and net profits of banks reached new high levels.

The increase in net profits in 1944 was relatively larger at reserve city and country banks than at central reserve city banks. In 1943, the biggest gain was at banks in central reserve cities, and in 1942 net profits of central reserve and reserve city banks increased while those of country banks declined. Although gross earnings and net current earnings of member banks in 1944 were lower than in 1929, the previous peak year, net profits were higher because of the excess of recoveries, profits on securities, etc., over losses and charge-offs. Losses and charge-offs exceeded recoveries and profits in most years prior to 1943. Dividend payments were slightly higher in 1944 than in 1943.

Capital accounts. Capital accounts of member banks increased about 493 million dollars in 1944 as compared with 374 million dollars in 1943. This increase came very largely from profits remaining after dividend payments, though there were some sales of additional common stock. Declarations of stock dividends out of accumulated surplus and profits by a number of banks increased the "fixed" portion of their capital structure.

The increases in capital accounts have not kept pace with the growth in deposit liabilities, but most of the increase in liabilities has been accompanied by increased holdings of Government securities. The ratio of capital accounts of member banks to total assets other than cash, reserves with Federal

Reserve Banks, balances due from other banks, and Government securities, was 28 per cent on December 30, 1944, compared with 23 per cent on December 31, 1941.

Changes in number of banking offices. The number of banking offices, other than offices at military reservations, increased by 13 in 1944. This is the first yearly increase reported since 1934. The number of offices at military reservations increased by 74. The total number of banking offices at the end of the year was 18,599, comprising 14,535 banks, 3,756 branches and 308 offices located at military reservations. Nearly all of the latter are temporary "facilities" established through arrangements made by the Treasury Department with banks designated as depositaries and financial agents of the Government.

The number of banks (head offices) decreased by 44 during the year. The decrease was due almost entirely to the 112 consolidations and liquidations; the only other decrease was the reported suspension of one insured nonmember bank. There were 69 new banks opened for business in 1944, comprising 13 member banks, 48 insured nonmember banks, and 8 noninsured banks. The number of new banks organized during the year was larger than in any other year since 1935. During the 10-year period 1935–1944 a total of 519 new commercial banks were incorporated, but as a result of consolidations (including conversions of banks into branches), liquidations, and suspensions, the number of incorporated commercial banks at the end of 1944 was 1,293 less than ten years before.

The number of branches and additional offices, other than offices at military reservations, increased by a net of 57 during the year to a total of 3,756. The gross number of such branches and additional offices established during the year was 74, approximately half *de novo* and half by conversion of banks into branches; the number discontinued was 17, the smallest in many years. During the 10-year period 1935–1944, the number of branches and additional offices (other than offices at military reservations) has increased by 623.

Increase of membership in Reserve System. Membership in the Federal Reserve System continued to increase in 1944, registering a net gain of 76 banks for the year. The number of national banks declined by a net of 15, as a result of consolidations and liquidations offset in part by the organization of new national banks and the conversion of State into national banks. The number of State member banks increased by a net of 91, reflecting principally admissions of 113 State banks (including 5 newly organized banks). All of the 108 operating State banks admitted to membership were already members of the Federal Deposit Insurance Corporation. Total deposits of these 108 banks were about 350 million dollars (excluding deposits of a large national bank which was absorbed by a State bank at the time the latter was admitted to Federal Reserve membership). Over two-thirds of the State banks admitted to membership were located in four Federal Reserve districts —New York, Chicago, St. Louis, and Minneapolis.

The 6,814 member banks that were in operation at the end of 1944 accounted for 49 per cent of the number and 87 per cent of the deposits of all commercial banks in the country. The corresponding percentages in December 1932, the last report date before the banking holiday of March 1933, were 38 per cent and 80 per cent, respectively. The State member banks of the Federal Reserve System constitute about 20 per cent of the total number and hold about 71 per cent of the deposits of all State commercial banks.

Par and nonpar banks. At the end of 1944 there were 11,552 banks remitting at par to the Federal Reserve Banks for checks drawn on them. These par remitting banks comprised approximately 83 per cent of all banks on which checks are drawn and held about 98 per cent of the deposits of all commercial banks in the country.

During the year 153 banks were added to the Federal Reserve Par List,[1] 14 withdrew from the Par List, and 87 par banks terminated existence, resulting in a net increase of 52 par banks. In 1943 there was a gross addition of 228 par banks (111 in Iowa, where State legislation was enacted providing for the clearing at par of all checks drawn on Iowa State banks) and a net increase of 79.

There was a net decrease of 84 in the number of banks not on the Par List during 1944, compared with a net decrease of 181 in 1943. At the end of 1944 there were 2,445 banks on which checks are drawn that were not on the Federal Reserve Par List.

About half of the gross addition of 152 banks to the Federal Reserve Par List in 1944 took place in five States (Illinois, Missouri, Texas, Wisconsin, and Montana). At the end of the year all banks in 22 States and the District of Columbia were on the Federal Reserve Par List. In addition there were 9 other States in which the number of nonpar banks was very small, ranging from one each in Michigan and Wyoming to 14 in Washington. Of the 2,445 banks not on the Par List at the end of 1944, about 98 per cent were located in 17 States, as follows: Minnesota 421, Georgia 271, Mississippi 174, Tennessee 162, Nebraska 151, Wisconsin 134, Arkansas 129, Alabama 127, North Carolina 126, South Carolina 109, North Dakota 107, Louisiana 105, South Dakota 99, Florida and Texas 82 each, Missouri 79, and Virginia 34.

RESERVE BANK OPERATIONS AND PERSONNEL

OPERATIONS

Fiscal agency operations. The war financing program and other Treasury transactions resulted in a continued large volume of fiscal agency operations by the Federal Reserve Banks during 1944. Operations incident to the issuance, redemption, and exchange of Government securities reached unprece-

[1] The "Federal Reserve Par List" comprises all member banks—which are required to remit at par for checks presented to them by the Reserve Banks—and nonmember banks that have agreed to pay without deduction of exchange charges such checks drawn upon them as are forwarded for payment by the Reserve Banks.

dented proportions, particularly those connected with the issue and redemption of United States Savings bonds. As the volume of Savings bonds outstanding steadily increased, the number of redemptions also increased. Coupled with manpower and space shortages, this resulted in some delay in receipt by the owners of the proceeds of surrendered bonds. Anticipating further increases in the volume of Savings bonds and in redemptions, the Treasury, beginning with October 1944, empowered commercial banks to cash Savings bonds, Series A to E. This action afforded a measure of relief to the Reserve Banks as it reduced the volume of bonds presented or mailed by individuals direct to them.

The volume of foreign transactions passing through the Federal Reserve Bank of New York continued large in 1944. Substantial amounts of gold were earmarked and released from earmark. On balance gold under earmark for foreign account increased by 460 million to 3,937 million dollars. United States securities held for foreign account rose by 127 million to 960 million dollars. Deposits for the account of foreign central banks and governments, on the other hand, declined by 159 million to 1,201 million dollars. At the end of 1944 the Federal Reserve Bank of New York held accounts for the central banks and governments of 60 foreign countries. Imports of gold were small and the market continued to absorb all foreign silver. No loans on gold to foreign central banks by the Federal Reserve Bank of New York were outstanding at the close of 1943 and none were made in 1944.

The Federal Reserve Bank of New York continued to carry out the operations of the United States Stabilization Fund in accordance with authorizations and instructions from the Treasury and all of the Federal Reserve Banks continued to do a substantial amount of work as agents for the Foreign Funds Control in the Treasury.

Among the many fiscal agency functions performed by the Reserve Banks for the Treasury is the handling of allotment and allowance checks (in card form) issued by Government disbursing officers to dependents of the military personnel. The handling of these card checks by the Reserve Banks relieved the Treasury Department of a large amount of work.

In addition to acting as fiscal agent for the Treasury, the Reserve Banks act in a similar capacity and also as custodian for a number of other Government departments and agencies, prominent among these being the Reconstruction Finance Corporation and its several subsidiaries and the Commodity Credit Corporation.

During the past year the Reserve Banks continued the program, begun in 1942, of increasing the powers and functions of their branches in order that they might improve still further their services to the banks and the general public. With the approval of the Treasury Department, this program included greater participation by the branches in Government financing operations. The work went forward as rapidly as practical difficulties, such as supplying stocks of Government bonds, training personnel, acquiring necessary equipment, etc., could be overcome. Many of the branches now perform fiscal agency functions comparable to those of the head office.

Volume of operations. Operations of the Reserve Banks were in considerably larger volume in 1944 than in 1943, especially those relating to the issuance and redemption of securities and to other activities as fiscal agents of the United States. Figures showing the volume of some of the principal operations of the Banks are given in the following table.

VOLUME OF PRINCIPAL OPERATIONS OF FEDERAL RESERVE BANKS
[Number in thousands; amounts in thousands of dollars]

Operation	Number of pieces handled[1]		Amounts handled	
	1943	1944	1943	1944
Currency received and counted	2,874,099	3,006,898	15,599,680	17,157,034
Coin received and counted	3,810,300	4,167,265	381,254	417,014
Checks handled:				
U. S. Government checks	266,686	426,460	113,791,554	127,931,710
All other	1,246,384	1,288,465	509,640,311	532,755,045
Collection items handled:				
U. S. Government coupons paid[2]	r16,527	17,054	r1,481,520	1,840,647
All other	5,072	4,622	7,882,053	7,962,994
Issues, redemptions, and exchanges of U. S. Government obligations[3]	270,608	357,782	211,749,395	264,138,176
Transfer of funds	r865	906	203,510,209	215,006,532

r Revised.
1 Two or more checks, coupons, etc., handled as a single item are counted as one "piece."
2 Includes coupons from obligations guaranteed by the United States.
3 Exclusive of war savings stamps received for redemption.

Earnings and expenses. Current earnings of the Federal Reserve Banks amounted to 104 million dollars in 1944, or 35 millions more than in 1943. The increased earnings resulted from larger holdings of Government securities. Current expenses of 49 million dollars were about 5.5 million larger in 1944 than in 1943. Net earnings were 58 millions as compared with 49 millions in 1943.

Current earnings, current expenses, and distribution of net earnings of the Federal Reserve Banks during 1944 compared with 1943 are shown in the accompanying table. A statement in greater detail, which shows figures for each Federal Reserve Bank, was published in the February 1945 issue of the *Federal Reserve Bulletin*.

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF FEDERAL RESERVE BANKS IN 1943 AND 1944
[In thousands of dollars]

Item	1943	1944
Current earnings	69,306	104,392
Current expenses	43,546	49,176
Current net earnings	25,760	55,216
Net additions to current net earnings	23,768	3,222
Net earnings	49,528	58,438
Paid U. S. Treasury (Sec. 13b)	245	327
Dividends paid	8,911	9,500
Transferred to surplus (Sec. 13b)	135	201
Transferred to surplus (Sec. 7)	40,237	48,410
Total	49,528	58,438
Transferred from surplus (Sec. 7) to reserves for contingencies	12,551	8,354

NOTE.—More detailed data were published in the *Federal Reserve Bulletin* for February 1945, pp. 186–187. For back figures, including those for each Federal Reserve Bank, see the *Annual Report* of the Board of Governors for 1943, pp. 70–71.

Average daily holdings of discounts and securities by the Reserve Banks, and average rates of earnings thereon during 1943 and 1944 are shown in the table below.

EARNINGS ON LOANS AND SECURITIES
[Amounts in thousands of dollars]

Source of earnings	Average daily holdings		Earnings		Average rate of earnings (Per cent)	
	1943	1944	1943	1944	1943	1944
Discounts and advances	24,759	135,459	152	724	0.61	0.53
U. S. Government securities direct and guaranteed	7,724,488	14,772,201	68,090	102,810	0.88	0.70
Industrial loans	12,404	9,936	414	303	3.34	3.05
Total	7,761,651	14,917,596	68,656	103,837	0.88	0.70

Assets and liabilities. Statements of condition of the twelve Federal Reserve Banks at the end of the year 1944 are shown in the table on page 76.

Sharing of losses. During the year 1944 the agreement between the Federal Reserve Banks to share certain losses not covered by insurance was expanded. Effective January 1, 1945, the Federal Reserve Banks discontinued the purchase of insurance on currency, coin, and securities shipments made at their expense.

Bank premises. Additional property was purchased during the year at the Boston, Atlanta, St. Louis, and San Francisco head offices and at the Charlotte, Memphis, and Los Angeles Branches. The acquisition of additional property adjoining the Detroit Branch building has been authorized.

PERSONNEL

Chairmen and Deputy Chairmen. One of the Class C directors of each Federal Reserve Bank is designated annually to serve as Chairman and Federal Reserve Agent, and another Class C director is appointed annually as Deputy Chairman. A list of the Chairmen and Deputy Chairmen is shown on page 67.

The Chairman at each of the twelve Federal Reserve Banks was redesignated to serve as such during the year 1944.

Douglas W. Brooks, President of The Newburger Company, Memphis, Tennessee, who had been a Class C director of the Federal Reserve Bank of St. Louis since January 1, 1940, was appointed Deputy Chairman for the year 1944.

J. R. Parten, President of the Woodley Petroleum Company, Houston, Texas, who was appointed a Class C director of the Federal Reserve Bank of Dallas effective January 1, 1944, was also appointed Deputy Chairman for the year 1944.

Harry R. Wellman of Berkeley, California, who had been a Class C director of the Federal Reserve Bank of San Francisco since October 27, 1942, was appointed Deputy Chairman for the year 1944. Mr. Wellman is Director of the Giannini Foundation of Agricultural Economics and Professor of Agricultural Economics, University of California, Berkeley, California.

The directors who had been serving as Deputy Chairmen of the other nine Federal Reserve Banks were reappointed as Deputy Chairmen for the year 1944.

Directors. A list of directors of the Federal Reserve Banks and Branches as of the close of the year is shown on pages 69–75.

The Board made the following appointments of new directors either for terms beginning January 1, 1944, or to fill vacancies during the year:

William H. Stead, Dean, School of Business and Public Administration, Washington University, St. Louis, Missouri, was appointed a Class C director of the Federal Reserve Bank of St. Louis for the term beginning January 1, 1944.

J. R. Parten, President, Woodley Petroleum Company, Houston, Texas, was appointed a Class C director of the Federal Reserve Bank of Dallas for the term beginning January 1, 1944.

On July 3, Brayton Wilbur, President, Wilbur-Ellis Company, San Francisco, California, was appointed a Class C director of the Federal Reserve Bank of San Francisco.

Thomas Robins, Jr., President, Hewitt Rubber Corporation, Buffalo, New York, was appointed a director of the Buffalo Branch of the Federal Reserve Bank of New York for the term beginning January 1, 1944.

Malcolm E. Holtz, a farmer and stockman of Great Falls, Montana, was appointed a director of the Helena Branch of the Federal Reserve Bank of Minneapolis for the term beginning January 1, 1944.

George A. Slaughter of Wharton, Texas, was appointed a director of the Houston Branch of the Federal Reserve Bank of Dallas for the term beginning January 1, 1944. Mr. Slaughter is engaged in farming.

Henry A. Dixon, President, Weber College, Ogden, Utah, was appointed a director of the Salt Lake City Branch of the Federal Reserve Bank of San Francisco for the term beginning January 1, 1944.

On March 14, William Howard Smith, a planter and cattle raiser of Prattville, Alabama, was appointed a director of the Birmingham Branch of the Federal Reserve Bank of Atlanta.

On June 20, W. Bratten Evans, President, Tennessee Enamel Manufacturing Company, Nashville, Tennessee, was appointed a director of the Nashville Branch of the Federal Reserve Bank of Atlanta.

On September 7, Rosco Stone of Hickman, Kentucky, was appointed a director of the Louisville Branch of the Federal Reserve Bank of St. Louis. Mr. Stone is engaged in farming.

Changes in Presidents and First Vice Presidents. During the year the presidents of two of the Federal Reserve Banks availed themselves of the privilege of retiring under the provisions of the Retirement System of the Federal Reserve Banks.

After more than 25 years' service in the Federal Reserve System, William W. Paddock retired as President of the Federal Reserve Bank of Boston on May 1, 1944. He was succeeded as President by Ralph E. Flanders of Springfield, Vermont, President of Jones & Lamson Machine Co., who had served as a Class B director of the Federal Reserve Bank of Boston since August 1941. Mr. Flanders resigned as a Class B director on April 29, 1944.

After having been an officer of the Federal Reserve Bank of Cleveland for nearly 30 years, Matthew J. Fleming retired as President on September 15, 1944. He was succeeded as President by Ray M. Gidney, formerly a Vice President of the Federal Reserve Bank of New York, who also had been with the Federal Reserve System for a period of nearly 30 years, serving first as a member of the staff of the Federal Reserve Board and later as an officer of the Federal Reserve Bank of New York.

E. B. Stroud resigned as First Vice President and General Counsel of the Federal Reserve Bank of Dallas September 30, 1944, to resume the general practice of law. He was succeeded as First Vice President by W. D. Gentry, formerly Vice President and Cashier of the Bank, who had been a member of the Bank's staff since April 1916 and an officer of the Bank since June 1923.

Staff. At the end of the year the total number of officers and employees of the twelve Federal Reserve Banks and their twenty-four Branches and one Agency was 24,442 as compared with 24,741 at the close of the previous year.

BANK SUPERVISION BY THE FEDERAL RESERVE

The scope and volume of banking activity related to the war effort continued to expand during 1944. The Federal Reserve authorities have endeavored to follow examination and supervisory policies and practices which would facilitate the financing and operation of the war program and enable banks to discharge effectively their responsibilities in the war effort.

Examination of Federal Reserve Banks. The twelve Federal Reserve Banks and their twenty-four branches were examined during the year, by the Board's Division of Examinations, as required by law.

Examination of State member banks. State member banks are subject to examinations made by direction of the Board of Governors or of the Federal Reserve Banks by examiners selected or approved by the Board of Governors. The established policy is to make at least one regular examination of each State member bank, including its trust department, during each calendar year, by examiners for the Reserve Bank of the district in which the bank is situated, with additional examinations if considered desirable. Wherever practicable, such examinations are made jointly in cooperation with State banking authorities or, by agreement with State authorities, alternate examinations are made.

Notwithstanding difficulties prevailing under wartime conditions, particularly as regards travel and turnover in personnel, the program for the examination of all State member banks in 1944 was substantially completed.

Bank holding companies. During 1944, the Board acted upon applications for voting permits submitted by holding company affiliates of banks and authorized the issuance of two permits for general purposes and three permits for limited purposes.

Section 301 of the Banking Act of 1935 provides that the term "holding company affiliate" shall not include, except for the purposes of section 23A of the Federal Reserve Act, any organization which is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. During the year the Board made such determinations with respect to five organizations.

In its Annual Report to Congress for the year 1943, the Board recommended that legislation be enacted to prevent the creation of new bank holding companies or the further expansion of those now in existence. For the reasons stated in that Report, there is urgent need for legislation designed to prevent the use of the corporate device to circumvent and evade sound banking principles, regulatory statutes, and declared legislative policy.

Trust powers of national banks. Under the provisions of section 11 (k) of the Federal Reserve Act, the Board granted to 16 national banks authority to exercise one or more trust powers. This number includes the grant of additional powers to 5 banks which previously had been granted certain trust powers. Trust powers of 18 national banks were terminated, 7 by voluntary liquidation or consolidation and 11 by voluntary surrender. At the end of 1944, there were 1,791 national banks holding permits to exercise trust powers.

Foreign branches and banking corporations. Applications made pursuant to the provisions of section 25 of the Federal Reserve Act were received in 1944 from a member bank for permission to establish 6 foreign branches. The applications were approved and one such branch was established and opened for business. The liberation of Belgium and France restored to the parent member bank the control of two branches located in these countries.

At the end of 1944, 7 member banks were operating a total of 67 branches or offices in 16 foreign countries or dependencies or possessions of the United States, exclusive of branches or offices in enemy occupied territory. Of the 67 branches and offices, 4 national banks were operating 61 and 3 State member banks were operating 6. The foreign branches were distributed geographically as follows:

Latin America		42
Argentina	10	
Brazil	4	
Chile	2	
Colombia	3	
Cuba	16	
Mexico	1	
Panama	3	
Peru	1	
Uruguay	1	
Venezuela	1	
Far East		2
India	2	
Continental Europe		2
Belgium	1	
France	1	
England		10
U. S. Insular Possessions and Dependencies		11
Canal Zone	4	
Puerto Rico	7	
Total		67

There was no change during the year in the list of the four corporations operating under agreements entered into with the Board of Governors pursuant to the provisions of section 25 of the Federal Reserve Act relating to the investment by member banks in stocks of corporations engaged principally in international or foreign banking. One corporation has a branch in England and during the year the Board of Governors approved its application for permission to establish another foreign branch which, however, had not been opened for business by the end of the year. One corporation has an English fiduciary affiliate while the other two corporations have no foreign offices. During the year the Board of Governors approved the application of a member bank for permission to increase its investment in the stock of one of the foreign banking corporations.

There is only one banking corporation in operation organized under the provisions of section 25(a) of the Federal Reserve Act and chartered by the Board of Governors to engage in international or foreign banking. Its head office was examined during the year by the Board's Division of Examinations. The institution's three branches in the Far East are in enemy occupied territory. The Paris Branch was restored to the control of the parent bank following the liberation of France.

RESEARCH AND ADVISORY SERVICES

The Board of Governors throughout the year adapted its usual reporting services to the special problems growing out of the war and to supplying information and advice to interdepartmental conferences and committees engaged in furthering the war effort and planning for reconstruction after the war.

Members of the staff of the Board of Governors participated in the discussions on postwar international monetary and investment problems which preceded the calling of the International Monetary and Financial Conference at Bretton Woods. Two members of the Board took part in the Conference. Officials and staff members of the Board and of the Reserve Banks assisted in preparing the agenda for the Conference and served as advisors to the United States delegation and in various other capacities at the Conference. Since the Conference, members of the staff of the Board and of the Banks have participated in meetings and discussions on the Bretton Woods Agreements with a view to contributing to a full understanding of the proposals.

Continuing its cooperative work in the field of Latin American central banking in 1944, the Board upon request sent two of its representatives to Paraguay for several months to advise and assist in the revision of banking legislation and the development of statistical series useful to the monetary authorities. At the request of the central bank of Costa Rica, one of the Board's representatives spent several weeks at that institution also, advising and assisting in the development of monetary measures. In both these missions the Federal Reserve Bank of Cleveland cooperated by sending a member of its research staff to assist in the work. During the year students of banking from Bolivia, Mexico, and Nicaragua were for various periods engaged in study and training in the Board's offices.

Analysis of regional economic conditions was continued by the research departments of the various Federal Reserve Banks during 1944. Throughout the year an increasing amount of time was spent in providing information on local developments to the public through the medium of articles published in pamphlet form or in the Banks' Monthly Reviews of Business Conditions, participation in meetings and forums, and cooperative work with local organizations engaged in conducting community surveys. This type of public activity represents a byproduct of the work that is done regularly by the research departments in order to supply Federal Reserve Bank officials and the Board of Governors with the economic information necessary to the discharge of their responsibilities.

BOARD OF GOVERNORS—STAFF AND EXPENDITURES

Reappointment of the Chairman. Marriner S. Eccles, whose term as a member of the Board of Governors expired January 31, 1944, was reappointed for a term of fourteen years beginning February 1, 1944. Mr. Eccles was also redesignated by the President as Chairman of the Board for a term of four years, effective February 1, 1944.

Redesignation of the Vice Chairman. Ronald Ransom was redesignated as Vice Chairman of the Board for a term of four years, effective August 6, 1944.

Staff. On December 31, 1944, the Board's employees, exclusive of those on military leave or on leave without pay, numbered 448, as compared with 459 at the end of 1943.

During the year two of the Board's employees who had been on military leave returned to the Board and were reemployed after discharge from the military service after service abroad, leaving 70 of the Board's permanent employees on military leave at the end of the year. In addition, 24 employees who had received temporary appointments had resigned to enter military service.

Effective July 1, 1944, Bonnar Brown was appointed Assistant Director of the Division of Security Loans. Mr. Brown had been a member of the staff of the Division since October 1, 1937, and for two years prior to that had been on the staff of the Federal Reserve Bank of San Francisco.

Effective November 16, 1944, the Board created in its staff a Division of Administrative Services, to which were transferred certain administrative, financial, budgetary, accounting, and service functions previously performed in the Office of the Secretary. Liston P. Bethea and Fred A. Nelson, formerly Assistant Secretaries, were appointed Director and Assistant Director, respectively, of the new division. At the same time Bray Hammond, formerly Chief of the Correspondence and Publications Section of the Secretary's Office, was made Assistant Secretary. Mr. Hammond has been a member of the Board's staff since July 1, 1933.

B. Magruder Wingfield resigned in January as Assistant General Attorney to accept an official position with a national bank.

During 1944 the Board's personnel continued to participate in the pay roll savings plan for the purchase of War Savings Bonds. Deductions from salaries for this purpose throughout the year averaged 15.5 per cent of gross pay roll.

Retirement System. Effective January 1, 1944, a separate plan was established within the Retirement System of the Federal Reserve Banks to provide employees of the Board with substantially the same retirement and disability allowances as are provided by the Civil Service Retirement System and at the same cost to the employee. In order that the Retirement System might continue to be fully funded a special payment of $272,918 was made to the System to provide for the additional accrued liabilities under the new plan.

Expenditures. The current expenses of the Board for the year 1944 aggregated $2,061,142. Two assessments were levied on the Federal Reserve Banks, representing about six-tenths of one per cent of their average paid-in capital and surplus for the year to cover the general expenses of the Board. Details are shown in the following table.

RECEIPTS AND DISBURSEMENTS OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM FOR THE YEAR 1944

General fund account:				
Balance January 1, 1944:				
For general expenses of the Board			$221,282.05	
For expenses chargeable to Federal Reserve Banks			397,001.57	
For purchase of War Savings Bonds for employees under Board's Voluntary Pay Roll Savings Plan			9,479.30	
For income tax withholdings due Collector of Internal Revenue			57,912.35	$685,675.27
RECEIPTS				
For general expenses of the Board:				
Assessments on Federal Reserve Banks for estimated general expenses of the Board		$2,296,356.54		
Subscriptions to the Federal Reserve Bulletin		6,364.81		
Other publications, sales		2,075.40		
Reimbursements for leased wire service		42,157.55		
Cafeteria operations		53,090.40		
Miscellaneous receipts, refunds, and reimbursements		30,753.52	2,430,798.22	
For expenses chargeable to Federal Reserve Banks:				
Assessments on Federal Reserve Banks for:				
Cost of printing Federal Reserve notes		4,795,050.21		
Expenses of leased wire system (telegraph)		59,671.02		
Expenses of leased telephone lines		9,337.25		
Expenses of Federal Reserve Issue and Redemption Division (Office of the Comptroller of the Currency)		41,002.49		
Miscellaneous expenses		1,559.11	4,906,620.08	
Employees' pay roll allotments for purchase of War Savings Bonds			250,695.00	
Income tax withheld from salaries			233,165.40	
Total receipts				7,821,278.70
Total available for disbursement				8,506,953.97
DISBURSEMENTS				
For expenses of the Board:				
Current expenses of 1944 (per detailed statement)	$2,061,141.75			
Less accounts unpaid December 31, 1944	54,297.98	2,006,843.77		
Expenses of prior years paid in 1944		51,106.89		
Expenses of leased wire service, reimbursable		42,851.65		
Retirement System (final adjustment of reserves incident to 1943 liberalization of benefits)		272,918.00		
Cafeteria operations		46,230.05		
Miscellaneous refunds and items reimbursable		9,094.60	2,429,044.96	

RECEIPTS AND DISBURSEMENTS—Continued

For expenses chargeable to Federal Reserve Banks:			
Cost of printing Federal Reserve notes	5,154,150.21		
Expenses of leased wire system (telegraph)	60,279.26		
Expenses of leased telephone lines	9,819.00		
Expenses of Federal Reserve Issue and Redemption Division (Office of the Comptroller of the Currency)	41,002.49		
Miscellaneous expenses	5,008.46	5,270,259.42	
Purchase of War Savings Bonds and refunds under Board's pay roll plan		252,439.00	
Collector of Internal Revenue—income tax withheld from salaries		232,772.95	
Total disbursements			8,184,516.33
Balance in general fund account December 31, 1944:			
For general expenses of the Board		223,035.31	
For expenses chargeable to Federal Reserve Banks		33,362.23	
For purchase of War Savings Bonds for employees under Board's Voluntary Pay Roll Savings Plan		7,735.30	
For income tax withholdings due Collector of Internal Revenue		58,304.80	
			$322,437.64

CURRENT EXPENSES

Personal services:	
Salaries	$1,587,223.86
Retirement contributions	126,701.02
Total personal services	$1,713,924.88
Nonpersonal services:	
Traveling expenses	115,828.23
Postage and expressage	5,959.22
Telephone and telegraph	46,227.04
Printing and binding	51,251.33
Stationery and supplies	15,437.40
Furniture and equipment	2,928.90
Books and subscriptions	7,031.34
Heat, light, and power	27,165.59
Repairs and alterations (building and grounds)	1,636.03
Repairs and maintenance (furniture and equipment)	3,217.75
Medical service and supplies	706.33
Insurance	2,217.46
Cafeteria operations	18,295.23
Legal fees and expenses	24,577.75
Miscellaneous	24,737.27
Total nonpersonal services	$347,216.87
GRAND TOTAL	$2,061,141.75

Under an arrangement with the Federal Reserve Bank of Richmond, the accounts of the Board for the year 1944 were audited by the Auditor of the Federal Reserve Bank of Richmond, who certified them to be correct.

LEGISLATION RELATING TO THE FEDERAL RESERVE SYSTEM AND REPORTS TO CONGRESS

Financing of war contract termination. The Contract Settlement Act of 1944 approved July 1, 1944, which provided for the guaranteeing of termination loans to war contractors, authorized the Federal Reserve Banks, subject to regulations prescribed by the Board of Governors, to act on behalf of any contracting agency of the Government as fiscal agent of the United States in carrying out the purposes of the Act.

The position taken by the Board of Governors on a bill under consideration by Congress (S.511), which would authorize the Federal Reserve Banks to guarantee financing institutions against part of the loss on loans made to business enterprises, or to make commitments to purchase such loans from financing institutions, is stated in the Appendix on page 61 of this Report.

Purchase of Government obligations directly from the United States. By an Act of Congress approved December 20, 1944, the period during which the Federal Reserve Banks can purchase obligations of the United States directly from the United States under section 14(b) of the Federal Reserve Act was extended until December 31, 1945, unless sooner terminated by Congress or the President. The amount of securities that can be held by the Reserve Banks under this provision is limited to 5 billion dollars at any time.

Reports to Congress. On several occasions during the year, members of the Board were called upon to appear before committees of Congress to give information on proposed legislation. At the request of such committees, and of the Bureau of the Budget, the Board submitted reports on proposed legislation relating to the absorption of exchange charges, the providing of credit for forestry, the payment of fraudulent Government checks, the providing of credit for small business, the extension of the time during which Federal Reserve Banks may purchase Government obligations directly from the United States, the establishment of branches by national banks, State taxation of national banks, various aspects of the Federal Home Loan Bank System, and the payment of the cost of examination of insured banks.

CHANGES IN REGULATIONS OF THE BOARD OF GOVERNORS

The regulations of the Board of Governors were changed during the year 1944 in the following respects:

Relations by Federal Reserve Banks with foreign banks and bankers. Effective January 1, 1944, as noted in its Report for 1943, the Board revised Regulation N, principally in order to conform to changes in the law.

Consumer credit. Effective on different dates in 1944 the Board amended Regulation W in a number of administrative respects.

The first, effective April 3, made about 15 small changes, of which one permitted cash-lenders to use a form of their own (instead of one prescribed by the Board) in obtaining from the borrower information concerning the purposes of the loan, another gave merchants more latitude in handling small balances in charge accounts and handling instalment sales of articles priced up to $10, and another gave creditors a free hand in adjusting indebtedness incurred by servicemen prior to their induction into the armed forces.

The second, effective June 22, clarified the application of the regulation to mixed credits, those consisting in part of credit subject to the regulation and in part of credit not subject to it.

The third became effective on the same date (July 10) as price ceilings for used cars established by the Office of Price Administration. It provided that thereafter the basis for calculating the maximum credit value of used cars should be those ceilings instead of figures in automobile appraisal guides.

The fourth, effective November 6, exempted servicemen's loans of a certain category, viz., loans guaranteed under the Servicemen's Readjustment Act of 1944.

Financing of war production and war contract termination. Effective September 11, 1944, the Board revised Regulation V so as to cover operations of the Federal Reserve Banks as fiscal agents of the United States pursuant to the Contract Settlement Act of 1944 as well as under the President's Executive Order No. 9112 of March 26, 1942. The Board also amended Regulation A, effective September 11, 1944, so as to provide that paper guaranteed pursuant to that Act need not be negotiable in order to be eligible for discount by a Federal Reserve Bank.

APPENDIX

NOTE.—For data usually included in numbered tables preceding the Appendix of the *Annual Report*, reference is made to other parts of this Report and to the regular and special tables published in the *Federal Reserve Bulletin*.

RECORD OF POLICY ACTIONS BOARD OF GOVERNORS

MEETING ON MARCH 23, 1944

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. Draper; Mr. Evans.

Amendment to Regulation W, Consumer Credit.

By unanimous vote, Regulation W was amended, effective April 3, 1944, to (1) modify the provision relating to instalment sales which exempted articles of small value from down-payment requirements so that it would apply to articles costing $10 or less instead of $6 or less, (2) permit merchants to omit a description of the articles from the Statement of Transaction required for an instalment sale if the article were purchased by means of a coupon book or similar credit medium on which a down payment of at least one-third had been received, (3) permit merchants to restore credit privileges to members or former members of the armed forces whose charge-account obligations in default (incurred prior to induction) were adjusted by an appropriate agreement, (4) set a limit of 30 days from date of sale instead of 15 days for the notice (calling for return of the merchandise or immediate payment) which had to be sent to customers who, under a special provision for articles costing up to $10, had charged listed articles against charge accounts in default, (5) modify the provision permitting merchants to continue credit sales to customers whose defaulted charge accounts were small so that it would apply to all defaults that were less than $10 instead of less than $2, (6) eliminate the requirement that a Statement of the Borrower as to the purposes of an instalment loan or a single-payment loan should be obtained on a form prescribed by the Board but require the registrant to obtain the information on his own form, (7) expand the provisions giving registrants discretion in making renewals or revisions of instalment-credit or single-payment-loan obligations of members of the armed forces (incurred prior to induction) so as to make them apply after discharge from service as well as during service, (8) exempt from the regulation extensions of credit to finance the repair of heating equipment or the replacement of heating equipment if it was worn out, damaged beyond repair, or destroyed, (9) exempt from the regulation rehabilitation loans to Indians made under regulations of the Secretary of the Interior, (10) eliminate the requirement that the Statement of Necessity to Prevent Undue Hardship be obtained on a form prescribed by the Board but require the registrant to obtain the information on his own form, (11) require that relevant records be preserved for the life of the obligation to which they relate except that the Statement of the Borrower must in any case be preserved for at least one year, (12) clarify the provisions with reference to reports, inspections, and production of records, and (13) permit registrants to disregard a deficiency of less than $1 in the total of the down payments received with a mail order.

These changes, which were either technical or administrative in character, were designed primarily to improve the practical workings of the regulation by relieving both creditors and their customers from detailed requirements that were not of sufficient importance to warrant the extra work which they sometimes involved. None of the changes required the credit grantor to do anything that he was not previously required to do. The amendment was not intended to have any material effect in influencing either the expansion or contraction of the total volume of consumer credit outstanding.

Meeting on June 16, 1944

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. Draper; Mr. Evans.

Amendment to Regulation W, Consumer Credit.

By unanimous vote, Regulation W was amended, effective July 10, 1944, to eliminate the requirement that automobile "appraisal guides" be used in calculating the minimum down payment for used automobiles.

Before this amendment the regulation required that credits for the purpose of purchasing used automobiles should not exceed two-thirds of the cash price or two-thirds of the average retail value as published in an automobile appraisal guide, whichever was lower. Effective July 10, 1944, the effective date of the amendment, the Office of Price Administration fixed ceiling prices on used automobiles, and it was the decision of the Board of Governors that with the establishment of such prices the use of appraisal guides for the purposes of the regulation was no longer necessary. A provision remaining in the regulation limited the amount of credit which could be extended on used cars to not more than two-thirds of the ceiling price, so that the effective rule after the adoption of the amendment was two-thirds of the bona fide cash price or two-thirds of the ceiling price, whichever was lower.

Meeting on June 19, 1944

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. Draper; Mr. Evans.

Attendance of Chairman Eccles as a Delegate at the United Nations Monetary and Financial Conference.

Chairman Eccles having been designated by the President to serve, in his capacity of Chairman of the Board of Governors, as a member of the United States delegation to the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire, beginning July 1, 1944, the Board, by unanimous vote, approved the Chairman's attendance at the conference as a member of the American delegation representing the Board of Governors, with full discretion to act, according to his judgment as to the best interests of the Federal Reserve System in the light of the available information, on any matters which might require the consideration of the American delegation.

This action was prompted by the Board's interest in helping to develop a solution of the international monetary problems, and by the bearing of these problems on the responsibilities of the Board for the domestic monetary and credit situation. For more than a year experts representing the United and Associated Nations had studied the possibility of monetary cooperation and members of the Board's staff had participated in these studies at the technical level. Establishment of an International Monetary Fund and a Bank for Reconstruction and Development had been suggested as a result of the studies and a formal conference of delegates of the United and Associated Nations had been called by the President to be held at Bretton Woods, New Hampshire, beginning July 1, 1944, for the formulation of definite proposals. With these considerations in mind, the Board believed that it should continue to cooperate in working out a plan designed to meet the problems in the international monetary field and to complement essential programs for the maintenance of full employment at home and the restoration of international trade on a sound and lasting basis, and that, for that purpose, the Chairman should attend the Conference.

Meeting on June 20, 1944

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. Draper; Mr. Evans.

Amendment to Regulation W, Consumer Credit.

> By unanimous vote, Regulation W was amended, effective June 22, 1944, to provide that when credit was extended for "mixed purposes" (partly subject to the regulation and partly not subject to the regulation), the part of the credit not subject to the regulation could be treated as if the regulation did not exist.

Previously Regulation W required that the portion of a credit of this kind which was not subject to the provisions of the regulation be treated in good faith as if it stood alone; that is, the payments which would be required by the creditor if it were the only credit being extended should be added to the payments required on the portion of the credit subject to the regulation. Under the amendment the portion of the credit not subject to the regulation may be paid under any terms and conditions agreed upon by the parties. The principal reason for the amendment was that the old provision of the regulation, which was designed to prevent circumvention, had been found by experience to be susceptible of such misunderstanding and avoidance that to preserve it would entail educational work on the part of the Federal Reserve Banks out of proportion to its value.

Meeting on September 6, 1944

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Draper; Mr. Evans.

Adoption of Revised Regulation V, Financing of War Production and War Contract Termination.

> With the approval of the Director of Contract Settlement, the Board of Governors, by unanimous vote, adopted a revision of Regulation V to become effective September 11, 1944.

As originally adopted by the Board in April, 1942, Regulation V established a procedure under which the Federal Reserve Banks were authorized to act, pursuant to the provisions of Executive Order No. 9112, as fiscal agents for the War Department, Navy Department, and Maritime Commission in facilitating and expediting the financing of contractors, subcontractors, and others engaged in war production. The purpose of the revised regulation was to expand this procedure to enable the Federal Reserve Banks to act also as fiscal agents for the armed services and the Maritime Commission in connection with the financing of claims arising out of the termination of war contracts or operations as authorized by the Contract Settlement Act which was approved by the President on July 1, 1944. The reasons for the Board's action are set forth in a statement released to the press on September 11, 1944, which read in part as follows:

> "The Board of Governors today announced inauguration of the program of guaranteed loans and commitments authorized under the Contract Settlement Act of 1944. Such termination loans, commonly called T loans, will be made by private financing institutions, chiefly commercial banks, to war production contractors to liquefy or 'unfreeze' working capital tied up in terminated contracts pending final settlement of claims arising therefrom. Guarantees will be executed by the Federal Reserve Banks as fiscal agents of the United States acting in behalf of the War Department, the Navy Department, and the United States Maritime Commission. The Reserve Banks are today distributing to all banks in their districts printed forms and detailed information.
>
> The T loan program is a logical extension of the V and VT loan programs under Executive Order 9112, which provide war contractors with financing necessary for production. VT loans, in use since September 1, 1943, provide both production and termination financing, but have not been available after cancellation has taken place. T loans, which are authorized under the Contract Settlement Act, may be guaranteed *after* the borrower's war production contracts have been terminated. However, commitments for such loans may be guaranteed *in advance of* cancellation. Thus the program affords war production contractors a means of insurance against the freezing of their working capital which might result from sudden termination of their war contracts.

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(The paragraphs omitted relate to interest rates and guarantee and commitment fees under the revised regulation.)

> While the prospective need of war production contractors for T loans cannot be accurately estimated, the commercial banks should be prepared to make a large number of such loans within the first few weeks after the end of the European phase of the war. If applications for such loans were not filed until after cancellations occur in large volume, it might be physically impossible to process them promptly. Therefore, the program will emphasize the desirability of contractors and their banks, in advance of cancellation, negotiating commitments to make such loans. These commitments will be guaranteed by the Federal Reserve Bank, acting as fiscal agent of the United States, so that upon termination, borrowers can promptly obtain such loans and the banks will already have the protection of the guarantee.
>
> In comparison with the V and VT loan programs, the T loan program is simplified and liberalized in recognition of the obligation of the Government, as expressed in the Contract Settlement Act, to provide prompt and adequate interim financing to contractors pending final settlement of their claims."

Guarantee and Commitment Fees and Rates on Loans under Regulation V.

In accordance with Section 4 of the revised Regulation V, and with the concurrence of the Director of Contract Settlement, the Board of Governors, by unanimous vote, prescribed a maximum rate of interest of 4½% per annum and the following guarantee and commitment fees on T loans and on V and VT loans executed on the revised form of 1944 V-Loan Guarantee Agreement, all to become effective September 11, 1944. In connection with these fees it was provided that no termination fee, service fee, or other fee of a similar character, except charges covering out of pocket expenses, could be charged a borrower by a financing institution:

Per cent of loan guaranteed	Guaranteed fee (Per cent of interest payable by borrower on guaranteed portion of loan)
80 or less	10
85	15
90	20
95	30
Over 95	50

Maximum Commitment Fee That May Be Charged Borrower By Financing Institution
¼ of 1 per cent per annum[1]
or
A flat fee of not to exceed $50.00[2]

[1] To be based on average daily unused balance of the maximum principal amount of the loan.
[2] Without regard to the amount or maturity of the commitment.

The maximum interest rate and the guarantee fees referred to above were lower than had been prescribed by the Board for V and VT loans and the schedule of guarantee fees was simplified. These changes were made to establish a schedule of rates and fees which it was believed would be practical and equitable, would popularize the program, and would reflect the spirit of the Contract Settlement Act which recognized the obligation of the Government to provide prompt and equitable interim financing to contractors pending final settlement of their claims.

Amendment to Regulation A, Discounts for and Advances to Member Banks by Federal Reserve Banks.

By unanimous vote, subsection (h) of Section 1 of Regulation A was amended, effective September 11, 1944, to provide that the requirement of the section that an instrument be negotiable in order to be eligible for discount at a Federal Reserve Bank should not be applicable with respect to any note, draft, or bill of exchange evidencing a loan which was in whole or in part the subject of a guarantee or commitment made pursuant to the Contract Settlement Act of 1944.

This change in the Regulation was made to extend to T loans the same exemption as was provided for V and VT loans by a similar amendment made to Regulation A in September, 1942. The reason for the change, which was substantially the same for both amendments, was as follows: The incorporation by reference of certain provisions in obligations evidencing loans guaranteed by the War or Navy Department or Maritime Commission rendered them non-negotiable and under the provisions of Regulation A, negotiability was one of the requirements for eligibility for discount by a Federal Reserve Bank or as collateral for advances under section 13 of the Federal Reserve Act. The requirement of negotiability was not a requirement of the Federal Reserve Act but had been placed in Regulation A as a means of protecting the Federal Reserve Banks against certain legal disadvantages of non-negotiable paper. It was represented to the Board that, if war production loan obligations were eligible for discount, they would be more readily accepted, and the Board was of the opinion that, in the circumstances under which the notes were issued and in view of the participation of the Federal Reserve System in the procedure involved in such transactions, it could safely amend Regulation A so that negotiability of such paper would not be required as a condition of eligibility for discount by a Federal Reserve Bank or as collateral for advances under section 13 of the Federal Reserve Act.

MEETING ON NOVEMBER 3, 1944

Members present: Mr. Ransom, Vice Chairman; Mr. McKee; Mr. Draper; Mr. Evans.

Amendment to Regulation W, Consumer Credit.

> By unanimous vote Regulation W was amended, effective November 6, 1944, to exempt from its provisions any loan guaranteed in whole or in part by the Administrator of Veterans' Affairs pursuant to the provisions of the Servicemen's Readjustment Act of 1944.

The Servicemen's Readjustment Act provided for Government guarantee of loans to veterans for specified purposes including the purchase of homes, home repairs and improvement, purchase of business property, and purchase, repair and improvement of farm property and equipment. The credit within the scope of the Readjustment Act which was also subject to Regulation W consisted principally of residential repairs and improvements and certain consumers' durable goods occasionally purchased for business use. It appeared to the Board that Congress intended that the terms of guaranteed veterans' loans should be fixed within the limitations of the Servicemen's Readjustment Act and the amendment to Regulation W was adopted to exempt such loans from any provisions of the Regulation that would interfere with that intention being carried out.

RECORD OF POLICY ACTIONS
FEDERAL OPEN MARKET COMMITTEE

MEETING ON FEBRUARY 29, 1944

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Draper, Mr. Evans, Mr. Paddock, Mr. Fleming, Mr. McLarin, Mr. Peyton (alternate for Mr. Day).

1. Purchase of Treasury Bills for System Account.

As stated in the open market policy record covering the meeting of the Federal Open Market Committee on October 18, 1943, the Treasury, in lieu of an arrangement providing for the direct replacement of maturing Treasury bills held in the System account, requested the Federal Reserve Bank of New York as fiscal agent of the United States to use its best efforts to see that sufficient tenders for Treasury bills were forthcoming from the market each week to insure the sale of whatever amount of bills was offered by the Treasury. Under this procedure the volume of purchases of bills from the dealers by the Federal Reserve Bank of New York in its option account became very large. To make it possible for all of the Federal Reserve Banks to participate in these purchases, an arrangement was worked out with the approval of the members of the Federal Open Market Committee under which the dealers would offer bills to the Federal Reserve Bank of New York at the posted rate of 3/8 per cent without a repurchase option and the Reserve Bank would purchase these bills for the System account. In order to provide the New York Bank with adequate authority to acquire these bills for the System account, the members of the Federal Open Market Committee, on December 1, 1943, approved an amendment to the direction issued to the executive committee at the meeting of the full Committee on October 18, 1943, to exclude from the limitation on the authority of the executive committee to increase or decrease the amount of securities held in the System account bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum. Following this action by the full Committee a similar amendment was made by the executive committee in its direction to the Federal Reserve Bank of New York.

At this meeting of the Federal Open Market Committee, upon motion duly made and seconded and by unanimous vote, the actions of the members of the Federal Open Market Committee as set forth above were approved, ratified, and confirmed for the reasons stated.

2. Terms upon which Federal Reserve Bank of New York Will Transact Business with Brokers and Dealers in Government Securities for the System Open Market Account.

Upon motion duly made and seconded, unanimous approval was given to a statement of the terms upon which the Federal Reserve Bank of New York will transact business with brokers and dealers in United States Government securities for the System Open Market Account, it being understood (1) that the procedure set forth in the statement would be put into effect at such time as in the judgment of the executive committee such action appeared to be desirable after having informed the Treasury of the proposed arrangement, and (2) that the executive committee was authorized to issue such instructions to the Federal Reserve Bank of New York as agent for the System account in connection with the proposed procedure as appeared to the executive committee to be desirable, including the manner in which advice of the arrangement was to be sent to dealers who might qualify thereunder. In accordance with this action, the following instructions were issued to the Federal Reserve Bank of New York by the executive committee on May 6, 1944, and the other Federal Reserve Banks were requested to furnish a copy of the statement of procedure to any broker or dealer in their respective districts which evidenced an interest in qualifying thereunder and in the opinion of the Reserve Bank would have a reasonable chance of qualifying:

1. The Federal Reserve Bank of New York shall furnish copies of the statement of terms to each broker or dealer in Government securities with whom the Bank has been transacting business on behalf of the System open market account, and to such other brokers and dealers as evidence to the Bank an interest in qualifying and in the opinion of the Bank would have a reasonable chance of qualifying. On and after May 15, 1944, the New York Bank will transact business on behalf of the System open market account only with the brokers and dealers who meet the qualifications, have executed the agreement, and comply with the terms set forth in the statement.

2. When the statement has been presented to the brokers and dealers with whom transactions are now conducted for the System open market account, the Bank shall give copies to representatives of the press informally as a formalization of existing procedure.

3. The Bank shall keep the executive committee of the Federal Open Market Committee informed of each broker and dealer with whom it ordinarily transacts business and of each addition to, or removal from, the list of qualified brokers and dealers.

4. The Bank shall encourage the observance of high standards of commercial honor and just and equitable principles of trade by the brokers and dealers in Government securities, through the medium of the Bank's contacts with the brokers and dealers and the Government Security Dealer Group or any other similar organization that may exist or develop.

5. When any broker or dealer has been removed from the list of qualified brokers and dealers for failure to meet the qualifications set forth in the statement of terms or for willful violation of or failure to perform any of the terms and conditions set forth in the agreement, and the Bank is satisfied that he has taken appropriate steps to correct any default and to prevent the occurrence of similar defaults in the future, the Bank may restore him to the list of qualified brokers and dealers and resume the transaction of business with him, after obtaining the consent of the executive committee of the Federal Open Market Committee.

The approved statement of terms was as follows:

Terms on Which Federal Reserve Bank of New York Will Transact Business with Brokers and Dealers in United States Government Securities for the System Open Market Account

The Federal Open Market Committee has directed the Federal Reserve Bank of New York (hereinafter referred to as the Bank) to transact business in United States Government securities for the System open market account with reputable brokers and dealers in such securities who meet the qualifications and agree in writing to comply with the terms and conditions set forth below.

1. In determining whether a person (individual, partnership or corporation, including a bank) is a qualified broker or dealer with whom the Bank will transact business, and the extent to which business will be transacted with such person, the following factors will be taken into consideration:

(a) Integrity, knowledge, and capacity and experience of management;
(b) Observance of high standards of commercial honor and just and equitable principles of trade;
(c) Willingness (in the case of a dealer) to make markets under all ordinary conditions;
(d) The volume and scope of business and the contacts such business provides;
(e) Financial condition and capital at risk of business; and
(f) The reliance that can be placed on such person to cooperate with the Bank and the Federal Open Market Committee in maintaining an orderly market for Government securities; to refrain from making any recommendations or statements or engaging in any activity which would encourage or stimulate undue activity in the market for Government securities; and to refrain from disclosing any confidential information which he obtains from the Bank or through his transactions with the Bank.

2. The Bank will obtain from such person an agreement in writing to comply with the following terms and conditions:

(a) He will furnish the Bank with a statement for the confidential information of the Bank and the Open Market Committee showing as of the close of business each business day:
  (1) The total amount of money borrowed (directly and indirectly);
  (2) The par value of all Government securities borrowed;
  (3) His position, both long and short, in Government securities, classified by classes of securities and maturity groups (or by issues, if so requested by the Bank);
  (4) The volume of transactions during the day in Government securities, classified by classes of securities and maturity groups (or by issues, if so requested by the Bank); and
  (5) Such other statistical data as in the opinion of the Bank will aid in the execution of transactions for the System open market account.
(b) At or before the completion of each transaction with the Bank, he will furnish the Bank with a written notification disclosing whether he is acting as a broker for the Bank, as a dealer for his own account, as a broker for some other person, or as a broker for both the bank and some other person. In the absence of a special agreement to the contrary with the Bank with respect to a particular transaction, he will not act as broker for any other person in connection with any transaction with the Bank,

and he will receive no compensation or profit of any kind in connection with the transaction other than the specified commission paid him by the Bank.

(c) In the absence of special arrangements with the Bank, delivery of securities will be made at the office of the Bank before 2:15 p.m. on the next full business day following the day of the contract and all payments by the broker or dealer will be in immediately available funds.

(d) He will furnish the Bank not less frequently than once during each calendar year with a report of his financial condition as of a date not more than 45 days prior to the delivery of the report to the Bank in form acceptable to the Bank and prepared or certified by a public accountant acceptable to the Bank; and, upon the request of the Bank, he will furnish it with a statement of condition as shown by his books as of a date specified by the Bank.

(e) Unless the Bank shall have informed him of its desire to purchase or sell a particular issue of Government securities, he will not solicit from any other person offerings of or bids for any issue of Government securities for the purpose of placing himself in a position to offer to sell to or to buy from the Bank securities of such issue.

The Federal Open Market Committee has further directed that the Bank decline to transact any further business with a broker or dealer in any case in which the Bank has concluded that the broker or dealer no longer meets the qualifications set forth above or has willfully violated or failed to perform any of the terms and conditions set forth in the agreement.

To the Federal Reserve Bank of New York:

The undersigned hereby agrees to meet the qualifications and to comply with the terms and conditions set forth above.

Dated: ....

(Signature)

The above action of the Federal Open Market Committee followed a thorough study of the relationships with the dealers and brokers through which transactions for the System open market account were executed. The Committee felt that, although the informal arrangement that had existed previously was satisfactory for a period when the volume and amount of transactions for the System open market account were relatively small, the increase in the activity of the account, and the likelihood that operations in very large amounts would continue during the remainder of the war and into the postwar period, made it desirable to place the existing relationships on a formal basis. The terms of agreement represent in substance the informal agreements that had been in effect between the Federal Reserve Bank of New York, as agent, and the dealers and brokers with whom the Reserve Bank previously had transacted business for the System open market account.

Meeting on March 1, 1944

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Draper, Mr. Evans, Mr. Leach, Mr. Young, Mr. Davis, Mr. Peyton.

1. Purchase by Federal Reserve Banks of Treasury Bills at Posted Discount Rate.

Upon motion duly made and seconded, the following direction to the Federal Reserve Banks was approved by unanimous vote, with the understanding that resales of Treasury bills held under option would be for immediate delivery when so requested by the option holder:

"Until otherwise directed by the Federal Open Market Committee, the twelve Federal Reserve Banks are directed to purchase all Treasury bills that may be offered to such Banks on a discount basis at the rate of $\frac{3}{8}$ per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased under this direction are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all such purchases are to be made to the Manager of the System Open Market Account."

This was the first meeting of the Federal Open Market Committee attended by the representatives of the Federal Reserve Banks who were elected for a term of one year beginning March 1, 1944. Because of the change in the membership of the committee, it was agreed that it would be desirable to review and renew the above direction, which was in the same form as the direction issued by the Committee on June 28, 1943. It was approved unanimously for substantially the same reasons as prompted the earlier action.

2. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded and by unanimous vote, the following direction was approved:

"That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary in the practical administration of the account, or for the purpose of maintaining about the present general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date (other than (1) bills purchased outright in the market on a discount basis at the rate of $\frac{3}{8}$ per cent per annum and bills redeemed at maturity and (2) special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury) shall not be increased or decreased by more than $1,500,000,000.

"That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the amount of such certificates held in the account at any one time shall not exceed $1,500,000,000."

The policy of the Federal Reserve System of facilitating the Treasury program of war financing by assuring the existence at all times of an ample supply of member bank reserves, and of exerting an influence toward the maintenance of conditions in the Government security market that would be satisfactory from the standpoint of the Government's requirements, continued during the year 1943 to be the all-important factor in the System's open market operations. The borrowings of the Government to finance the war continued to be large and it was necessary for the Federal Reserve System, largely through open market purchases, to make funds available to the banks for required reserves against increased deposits resulting from bank purchases of Government securities as well as to enable the banks to meet an increase in the volume of currency in circulation and a reduction in the monetary gold stock of this country.

This was the situation when this meeting of the Federal Open Market Committee was held and it was the unanimous decision of the Committee that the open market policies followed during the previous year should be continued for substantially the reasons stated in connection with the adoption of these policies. The direction set forth above was issued in furtherance of that purpose. It differed from the direction previously in effect in that it exempted from the limitation in the direction the redemption of maturing Treasury bills held in the System account. The redemption of such bills and the purchase of a like amount of new bills in the market amounted, in effect, to the replacement of maturing securities in the System account, and for that reason it was felt that there was no need to include these redemptions in the limitation imposed by the direction.

Meeting on May 4, 1944

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Draper, Mr. Evans, Mr. Leach, Mr. Young, Mr. Davis, Mr. Peyton.

1. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, the following direction to the executive committee was approved by unanimous vote:

"That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary in the practical administration of the account, or for the purpose of maintaining about the present general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date (other than (1) bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum and bills redeemed at maturity and (2) special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury) shall not be increased or decreased by more than $1,500,000,000.

"That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the amount of such certificates held in the account at any one time shall not exceed $1,500,000,000."

The discussions of open market policy at this meeting were in the light of the announced plans of the Treasury for the Fifth War Loan Drive and it was agreed that there should be no change in the existing policies of the Committee. Therefore, the above direction was in the same form as the direction approved at the meeting of the Federal Open Market Committee on March 1, 1944, and was issued for substantially the same reasons as the earlier direction.

Meeting on September 21, 1944

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. McKee, Mr. Ransom, Mr. Draper, Mr. Evans, Mr. Leach, Mr. Young, Mr. Davis, Mr. Peyton.

1. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, and by unanimous vote, the following direction to the executive committee was approved:

"That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary in the practical administration of the account, or for the purpose of maintaining about the present general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date (other than (1) bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum and bills redeemed at maturity and (2) special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury) shall not be increased or decreased by more than $1,500,000,000.

"That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the amount of such certificates held in the account at any one time shall not exceed $1,500,000,000."

Since the last meeting of the Federal Open Market Committee on May 4, 1944, there had been no change in the monetary and credit situation that called for any revision of the open market policies adopted by the Federal Open Market Committee. It also appeared that the plans for the Sixth War Loan Drive would be best served by the continuation of the existing policies. The Committee decided, therefore, that these policies should be continued for the reasons previously stated and the above direction, which was in the same form as the directions issued at the meetings on March 1 and May 4, 1944, was issued for that purpose.

Meeting on December 11, 1944

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Draper, Mr. Evans, Mr. Leach, Mr. Young, Mr. Davis, Mr. Peyton.

1. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, and by unanimous vote, the following direction to the executive committee was approved:

"That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary in the practical administration of the account, or for the purpose of maintaining about the present general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date (other than (1) bills purchased outright in the market on a discount basis at the rate of $\frac{3}{8}$ per cent per annum and bills redeemed at maturity and (2) special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury) shall not be increased or decreased by more than $1,500,000,000.

"That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the amount of such certificates held in the account at any one time shall not exceed $1,500,000,000."

The reasons which formed the basis for the current open market policies of the System continued to exist when this meeting was held and the above direction, which was in the same form as the directions issued to the executive committee at the earlier meetings of the Committee during 1944, was adopted in order to continue these policies in effect.

REDUCTION IN RESERVE RATIO AND RENEWAL OF AUTHORITY TO PLEDGE UNITED STATES GOVERNMENT OBLIGATIONS AS COLLATERAL FOR FEDERAL RESERVE NOTES

The statement below was submitted to the Banking and Currency Committees of the Senate and the House of Representatives at hearings on S. 510 held in February 1945.

The bill under consideration (S. 510) would accomplish the following purposes: (1) Extend indefinitely the authority of the Federal Reserve Banks to pledge United States Government securities against Federal Reserve notes issued by the Federal Reserve Agents (existing authority will expire June 30, 1945); and (2) reduce the requirements of reserves to be held by Federal Reserve Banks from their present level of 40 per cent in gold certificates against Federal Reserve notes in circulation and 35 per cent in gold certificates or lawful money against deposits, to a uniform minimum of 25 per cent in gold certificates against combined note and deposit liabilities.

The need for reducing the high reserve requirements of the Federal Reserve Banks was mentioned by the President in his Budget message transmitted to the Congress on January 3, 1945.

Pledging of United States Government securities against Federal Reserve notes.—In conditions prevailing today, with Federal Reserve notes outstanding in an amount of 21.7 billion dollars and deposit liabilities of the Federal Reserve Banks in an amount of 16.4 billion, it is imperative to extend the power to pledge United States Governments as collateral for the notes. Without this authority the Federal Reserve Banks would be obligated to engage in a series of operations for the sole purpose of obtaining other assets that would be eligible as collateral for Federal Reserve notes in place of United States Government securities which would not be eligible. They would have to sell a large enough volume of Government securities to make it necessary for banks to borrow as much as 10 billion dollars from the Federal Reserve Banks at this time and possibly as much as 18 billions by the end of the year. The manner in which this would work is that the Reserve Banks would sell the securities in the open market; payment for them would take out an equivalent amount of funds from the market, and member banks would have to borrow this amount from the Federal Reserve Banks in order to replenish their reserves. The promissory notes of member banks at the Reserve Banks would be eligible under the law as collateral for Federal Reserve notes. No public interest would be served, but in the process the market for United States Government war obligations would be disrupted at a time when the Treasury must still raise vast sums to finance the war. It is clear that this must not occur and that, therefore, the power to pledge Government securities against Federal Reserve notes must be continued.

In proposing to permit the Reserve Banks to pledge United States Government obligations as collateral for Federal Reserve notes, it is recommended that no time limit be placed on this authorization. In view of the fact that the Federal Reserve Banks' assets, other than gold certificates, consist at present almost entirely of Government securities, most of which were acquired during the war, and the improbability that these Banks will have any considerable volume of other earning assets in the foreseeable future, it would not be in the public interest to have the authority to use United States securities as backing for notes terminate at a predetermined date.

Periodic renewal of this authority not only involves delay, unnecessary expenditure of effort for the Congress and the Board, and the necessity of rehearsing the same arguments over and over again, but it also may result in a period of uncertainty which is disturbing to the United States Government security market. Maintenance of stable conditions in this market is essential in view of the dominant role that Government securities have come to play in our financial structure, and this stability has been and must remain indefinitely a primary objective of Federal Reserve policy. Uncertainty about continued eligibility of Government securities as collateral for Federal Reserve notes would have an adverse effect on this stability.

The pledging of Government securities as collateral was first authorized thirteen years ago as an emergency measure at the depth of the depression when the Federal Reserve Banks needed to buy Government securities in order to ease the pressure of debt on member banks and thus create easier credit conditions. The authority has been renewed from time to time. It is apparent that it will have to be renewed for many years to come. It would be far wiser to extend the authority for an indefinite period, the Congress of course always retaining the right to repeal the authority if this should appear to be desirable.

When the collateral provisions for Federal Reserve notes were first formulated there were practically no Government securities in the market, member banks had a large volume of so-called eligible commercial paper, and were expected to borrow on that paper when they required additional reserves or currency. The situation has radically changed since then. There is now an enormous public debt which constitutes a large part of the earning assets of member banks; the total volume of eligible paper has declined, and many banks have practically no such paper. Banks are also reluctant to borrow from the Reserve Banks and, if they should borrow in considerable volume, this would result in a tightening of credit conditions with disturbing effects on the price of Government securities. Furthermore, if they borrowed, they would borrow on their promissory notes secured by Government obligations. Consequently, what would be back of the notes would still be United States Government securities but with an endorsement by a member bank. Surely an obligation of the United States Government is not improved in credit standing by endorsement of some member bank.

Collateral requirements are not an effective limitation on credit expansion by the Federal Reserve Banks. Open-market operations of these Banks are governed by considerations of the public interest and not of Federal Reserve Bank earnings. When the Reserve Banks purchase United States Government securities they pay for them by deposit credit. Once these deposit liabilities have been incurred the Federal Reserve Banks are obliged to permit their withdrawal in currency. The public demand for currency, in turn, depends on business conditions, activity of trade, the volume of wage payments, the price level, and the extent of the people's wish to hold their liquid assets in the form of cash rather than bank deposits or Government securities. Member banks, to avoid insolvency, must permit their customers to withdraw their deposits in currency; Federal Reserve Banks in turn must permit the member banks to obtain the currency by drawing on their balances with the Reserve Banks. Consequently, the Reserve Banks have no choice in the matter because they have no control over the demand for currency. It serves no useful purpose to encumber these unavoidable operations by legal restrictions which inevitably must give way as soon as they would actually restrict.

In any case Federal Reserve notes have a prior lien on all assets of the

Federal Reserve Banks and are obligations of the United States Government. Segregation of special assets of the Federal Reserve Banks as collateral for these notes adds nothing to their quality. It is merely an absolete piece of machinery conceived at a time when conditions were radically different from those that prevail today. By authorizing the pledging of Government securities as collateral for Federal Reserve notes the collateral requirement is extended to practically all the assets of the Reserve Banks and ceases to be an interference with the performance of their duties and the discharge of their responsibilities. This extension should, therefore, be a permanent part of the law.

Reduction of reserve ratio.—Conditions arising out of the war have caused the reserve ratio of Federal Reserve Banks to decline from 91 per cent at the end of 1941, soon after our entry into the war, to 49 per cent at the end of 1944. If developments continue at the rate of recent months the ratio will fall almost to the legal minimum by the end of the present calendar year. If gold export or currency withdrawals or both should be greater than in 1944, the legal minimum will be reached sooner. The following table shows the factors in the situation, together with hypothetical projections through 1945 based on probable trends of currency, deposit, and gold movements.

Federal Reserve Bank	Dec. 31, 1941	Dec. 31, 1944	Projections	
			June 30, 1945	Dec. 31, 1945
	(In billions of dollars)			
Reserves	20.8	18.7	18.2	17.7
Deposits	14.7	16.4	17.4	18.4
Federal Reserve notes outstanding	8.2	21.7	23.7	26.7
Liabilities requiring reserves	22.9	38.1	41.1	45.1
	(Per cent)			
Reserve ratio	90.8	49.0	44.3	39.2

It will be seen that the decline in the reserve ratio has been due to a reduction in Federal Reserve Bank reserves and to increases in Federal Reserve note and deposit liabilities. Reduction of reserves has reflected the fact that most of this country's exports have been on lend-lease, while our imports have been on a cash basis. Countries that have sold commodities to the United States have not been able to buy goods here, on account of war restrictions, and have either withdrawn or earmarked gold against the time when goods will once more be available for sale.

Growth of Federal Reserve note circulation has been a part of the general expansion of currency which has accompanied war activity in every country in the world. Expansion of both notes and deposits has reflected growth of Government war expenditures, enlargement of national money income, and advancement of pay rolls and trade at higher prices. So long as the Federal Reserve Banks continue to do their part, as they surely must, to assist the Treasury in Government financing and in maintaining stable conditions in the market for United States Government securities, these Banks must not be restricted by an arbitrary reserve ratio.

While the reserve ratio for all the Federal Reserve Banks combined is at present still nearly 49 per cent, that is, considerably above the legal minimum, individual Reserve Banks have ratios that are much nearer to the low point required by law. A table is attached showing the reserve position of individual Reserve Banks at selected typical dates. While adjustment in individual Bank ratios is made periodically by changing their participation in the System holdings of United States Government securities, this involves a great deal of unnecessary work in practical operation. Since it is apparent that means must be found to handle the ratio problem, it is highly desirable that action be taken promptly. This would not only allay fears and uncertainties among holders and prospective purchasers of United States Government securities, but would also eliminate the necessity of making frequent and complicated adjustments among the Reserve Banks.

RESERVE RATIO OF EACH FEDERAL RESERVE BANK
ON THE 15TH OF THE MONTH FROM JULY 1944 TO FEBRUARY 1945
[Per cent]

Federal Reserve Bank	July 1944	October 1944	January 1945	February 1945
Boston	53.8	43.6	45.4	45.8
New York	50.6	46.4	52.8	50.7
Philadelphia	48.8	48.6	43.8	44.4
Cleveland	52.9	43.3	45.3	43.6
Richmond	57.5	47.6	45.6	46.6
Atlanta	57.0	51.7	52.0	52.1
Chicago	64.7	63.6	49.7	51.7
St. Louis	54.2	58.0	43.3	46.5
Minneapolis	49.6	51.5	44.9	44.8
Kansas City	53.2	45.7	45.0	45.9
Dallas	51.1	46.6	45.5	44.1
San Francisco	66.5	63.8	54.2	51.3
Total	56.0	52.0	49.3	48.8

There are several ways to meet the situation, all of which have been carefully considered. One way would be to issue Federal Reserve Bank notes, which require no reserves, in place of Federal Reserve notes; another way would be suspension of reserve requirements by the Board of Governors of the Federal Reserve System, which is authorized by law, and a third way would be a reduction of reserve requirements by the Congress. Other devices, such as issuance of currency by the Treasury, or reduction of member bank reserve requirements, have been reviewed and found to be inadequate or inappropriate. Reduction of the ratio by law, which is proposed in the bill, is the most clear-cut method, as well as the most consistent with the responsibility of the Congress to regulate the country's monetary policy.

Issue of Federal Reserve Bank notes in their present form was authorized by the Emergency Banking Act of March 1933, and the authority will expire when the President declares that the emergency is over. The need for the lower ratio may continue beyond that date. Furthermore, the difference between Federal Reserve notes and Federal Reserve Bank notes gives rise to misunderstanding, and it would be simpler and less confusing to the public if Federal Reserve currency were all of one kind. It would be best at a time like this to have a Federal Reserve ratio that indicated to the Congress and to the people the amount of gold certificates held by the Reserve Banks against their total deposit and note liabilities of all kinds.

The authority in section 11(c) of the Federal Reserve Act to suspend reserve requirements does not appear to be the best method of meeting the situation, because the power was not designed for a situation like the present which is of indefinite duration. Suspension must be for a period not to exceed thirty days, renewable at intervals of fifteen days. It also requires a penalty in the form of a progressive interest rate, to be determined by the Board, and added to the discount rate of the Federal Reserve Banks. At a time like the present, when discount rate charges must fit into the general rate policy adopted for war financing, this would not be the best procedure.

Consequently the bill provides for a direct reduction of the required ratio. Such an action would be entirely consistent with the changes in conditions which have occurred since the ratio was first established by the Congress. The original purposes of the ratio were (1) to assure adequate resources for the Reserve Banks to meet demands for gold or lawful money by depositors and note holders, (2) to limit the expansion of Federal Reserve Bank credit, and (3) to assure the public that there was at least 40 per cent in gold back of the Federal Reserve notes which were then being introduced for the first time.

The first purpose is no longer compelling since gold redemption is now not permitted for domestic use, and gold can be exported only under license. While the country's aggregate gold reserves are ample to meet any conceivable foreign demand, a reserve ratio high enough to meet possible demands for both domestic and foreign use is no longer appropriate under present conditions. The second purpose—limitation of Federal Reserve Bank expansion—is not relevant at a time when expansion by the Reserve Banks is essential to the needs of war finance. Thirdly, confidence in Federal Reserve notes is well established, and whether the amount of gold back of the notes is 40 per cent or 25 per cent makes no practical difference.

War conditions have caused all belligerents to reduce or abolish central bank reserve requirements. Mechanical limitations on the ability of a central banking organization to extend credit must inevitably give way in time of war to the paramount obligation to support the war effort.

A reduction to 25 per cent is proposed because it would be sufficient for all forseeable contingencies. It would enable the Reserve Banks to meet such additional demands for currency by the public and for reserve balances by member banks as are likely to occur. The currency supply and the bank deposit structure could nearly double before the legal minimum would be reached.

The bill provides for elimination of the distinction made in the present law between reserves required against notes and against deposits both as to percentage and as to composition of the reserves. Since the two liabilities are interconvertible at the option of the owners, the same requirements should apply to both. The provision in the bill that legal reserves should consist only of gold certificates would also eliminate controversy as to what constitutes lawful money, and whether the Federal Reserve Banks could, if so minded, use their own notes (Federal Reserve notes or Federal Reserve Bank notes) as reserves against their own deposits.

A clean-cut uniform requirement of gold certificate reserves of 25 per cent against both notes and deposits appears to be the best solution of the problem.

In conformity with the proposed reduction of the ratio to 25 per cent the bill decreases proportionately the levels of the ratio at which the imposition of the different penalty rates provided in the law when reserves are suspended would be prescribed.

PROPOSED GUARANTEE BY FEDERAL RESERVE OF LOANS TO BUSINESS ENTERPRISES

Letter of the Board of Governors of the Federal Reserve System to Honorable Robert F. Wagner, Chairman of the Committee on Banking and Currency of the United States Senate.

February 26, 1945.

My dear Mr. Chairman:

This refers to your request of February 13, 1945, for an opinion with respect to the merits of the bill S. 511 "To amend section 13b of the Federal Reserve Act, as amended," which was introduced by you on February 12.

This bill would authorize the Federal Reserve Banks to guarantee financing institutions against loss on loans made to business enterprises or to make commitments to purchase such loans from financing institutions. The percentage of the loan to be guaranteed would vary with specific cases, but in no case could it exceed 90 per cent. In other words, the commercial bank would be required to assume at least 10 per cent of the risk involved in any loan.

It will be recalled that the Baruch-Hancock Report on War and Postwar Adjustment Policies of February 19, 1944, recommended that the Federal Reserve System's authority to make industrial loans or commitments be expanded and liberalized to provide a permanent source of credit for small and medium-sized enterprises, such loans to be made in such a way as to supplement and not to compete with private investment. As you know, the Wagner-Spence Bill in the last Congress, which was substantially the same as S. 511, was strongly recommended by Honorable James F. Byrnes, Director of War Mobilization and Reconversion. In his report to the Congress dated January 1, 1945, it is stated on page 14:

> "Small business has been the backbone of American prosperity. Its future requires the establishment of a readily available source of credit. The Wagner-Spence bill has this purpose in view. In revoking the present authority of the Federal Reserve banks to make loans direct to industry, it substitutes authority for them to guarantee the principal and interest of loans by commercial banks to business enterprise. It, or other forms of legislation to this end, deserves the immediate consideration of the Congress."

The Board believes that in many cases the financial needs of worthy industrial enterprises, particularly during the reconversion period, will represent degrees of credit risk that banks ordinarily should not be expected to assume. Such needs may be met either by encouraging the private banking and credit system of the nation to perform the task or by further expansion in direct lending by the Government. The Board emphatically favors the former course.

The bill S. 511 would authorize the Federal Reserve Banks to guarantee, up to 90 per cent, loans made by private banking institutions to business enterprises, rather than to make direct loans to such enterprises. Thus, the Federal Reserve Banks would not be in competition with the private banking system. On the contrary, the bill would encourage a greater flow of funds from the private banking and credit system into those marginal credit risks which banks would not assume without a guarantee. All loans would originate with banks or other private financing institutions. Consequently the operation of this plan of financing would be decentralized throughout the United States, but with the cooperation of the Federal Reserve Banks and under the general supervision of the Board of Governors of the Federal Reserve System.

No new appropriation would be required by this bill. An appropriation made by Congress in 1934, amounting to $139,000,000 would be adequate to guarantee a total of more than $500,000,000 of loans outstanding at any one time.

Because of the experience of the Federal Reserve Banks in this field, particularly in connection with the administration of the V-loan program inaugurated under the President's Executive Order No. 9112 and the more recent T-loan program authorized by the Contract Settlement Act of 1944, the guaranteeing, up to 90 per cent, of loans to business enterprises contemplated by this bill could be put into effect without delay and the credits consummated expeditiously.

In further explanation of the Board's views on this subject, there is enclosed a copy of a letter dated December 18, 1944, which the Board addressed to Senator James E. Murray, Chairman of the Special Committee to Study Problems of American Small Business, in reply to a circular letter which was sent by Senator Murray to individual members of the Board of Governors asking for expressions of opinion on reconversion credit legislation for small business.

For the reasons above stated, the Board of Governors favors S. 511 and hopes that it will be enacted.

Very truly yours,
CHESTER MORRILL,
Secretary

Enclosure

Letter of the Board of Governors to Honorable James E. Murray, Chairman of the Special Committee of the Senate to Study Problems of American Small Business.

December 18, 1944.

Dear Senator Murray:

In response to your circular letter addressed to the individual members of the Board of Governors asking for expressions of opinion on reconversion credit legislation for small business, the Board submits this reply. The ten specific points set forth in the letter are having further study.

The Board is already on record as favoring the enactment of the Wagner-Spence bill (S. 1918) which would authorize the Federal Reserve Banks to guarantee business loans. It regards this measure as the simplest and most effective means of aiding reconversion and postwar economic readjustment by stimulating the greatest possible use of private credit. Although the liquid resources of business as a whole, including small business, have increased greatly during the war, there will be enterprises that must resort to credit in order to accomplish their individual reconversion and readjustment. The credit needs of a substantial number of these can be met by the banks in the form of regular bank loans. The Board believes, however, that in many cases the financial needs of worthy enterprises, particularly during the reconversion period, will represent degrees of credit risk that banks ordinarily should not be expected to assume.

The desired extension of the credit area to cover these situations may be brought about either by encouraging the private banking and credit system of the nation to perform the task or by further expansions and innovations in direct lending by the Government. The Board emphatically favors the former course.

The Board recognizes that whenever private credit appears to be restricted or otherwise inadequate, pressure for increased Government lending is inevitable. However, no expansions of Government activity in the field of credit should be permitted unless and until it is clearly demonstrated that the private financial system is either unable, or able but unwilling, to do the job. The supply of funds today in the hands of the private banking system is abundantly adequate for all demands of reconversion and readjustment of business. Bankers are actively seeking outlets for increased commercial and industrial lending. The Board believes that as long as private enterprise in finance can and will do the work, it should be encouraged and aided in doing so.

The Wagner-Spence bill embodies principles which the Board considers sound. It abolishes the direct lending features of Section 13(b) of the Federal Reserve Act and, without additional Congressional appropriation, extends and makes more workable a loan-guarantee mechanism by which the private banking system could meet more fully the credit needs of business and industry.

Arguments in behalf of this bill have already been presented by Chairman Eccles to the Senate and House Committees on Banking and Currency. The arguments in favor of the bill, as changed by three limiting amendments suggested by the Chairman in the hearings, may be summarized as follows:

> The bill would encourage a greater flow of funds from the private banking and credit system into those marginal credit risks which banks would not assume without a guarantee.
>
> All loans would originate with banks or other private financing institutions. Amounts, terms, collateral and other details of proposed loans would be worked out between the borrower and the financing institution to which he applies. Thus the operation of the plan would be decentralized throughout the United States.
>
> Credit extensions in the marginal area of risk would be encouraged by guarantees up to 90 per cent of those loans on which banks may desire guarantees. The lender would share in the risk to the extent of 10 per cent or more, which would be a sufficient exposure to prevent lending institutions from involving the guarantee fund in careless or excessive credit hazards.
>
> No new appropriation would be required. An appropriation made by Congress in 1934, amounting to $139,000,000, would be adequate to guarantee a total of more than $500,000,000 of loans outstanding at any one time.
>
> The benefits of the guarantee would go primarily to the smaller units of business and industry. For the small businesses that are regarded by bankers as marginal or debatable credit risks, the guarantee would be the decisive factor in establishing their credit. Term lending, in which the risk factor is generally higher, would be especially encouraged.
>
> The plan would be administered by experienced personnel in the Federal Reserve Banks who are administering the V-loan and T-loan programs, a similar credit mechanism. Financing institutions are already familiar with services of the Federal Reserve Banks in this field. Thus no new personnel, controls over banking, or untried activities or principles, are involved.

Finally, no competition between direct Government lending and the private credit system would be involved. On the contrary, the guarantee plan would encourage the existing private system to extend credit which otherwise might be furnished by the Government or not at all. The trend toward multiplication of Government credit agencies, if continued, may threaten the destruction of the private banking system.

Thus far, legislative emphasis, as is natural, has been on the immediate and temporary problems of war contract termination and disposal of surplus Government property. Beyond this is the general need of devoting the nation's resources to the revival and resumption of civilian operations of every type, including increased lending activities of the smaller commercial banks. This need also involves every form of business and industrial financing. On the one hand will be those businesses that have been deprived of materials, markets and manpower, and must revive. On the other hand are small war plants whose expanded borrowings have been guaranteed by war agencies, but who must approach their banks for financing during a period of uncertain changes with the wartime guarantees discontinued. Only the Wagner-Spence bill, among all the proposals for legislation that have come to the attention of the Board, is directed toward meeting this broad and manifold problem within the framework of the private credit system.

The foregoing are the general views of the Board as it sees the problem at this time and on the basis of information available to it. The discussion has been limited to the credit needs of small business, as specified by your letter. The Board wishes, however, to emphasize its view that the problem of small business cannot be met satisfactorily by pumping out more and more credit. Programs in other fields would have greater importance. Chief among them would be a modification of the corporation income tax giving substantial and preferential advantages to smaller corporations and to new ventures. This would encourage the flow of equity capital to such enterprises and correspondingly reduce the need for credit not obtainable from banks on the usual basis. Another aid to small business would be a provision for better access to industrial research and the use of patents. In the opinion of the Board, such measures would be much more effective in maintaining the competitive position of small business than any of the current proposals to provide more credit through some form of governmental assistance.

Should your Committee hold hearings on this matter, the Board would welcome an opportunity to be heard.

Very truly yours,
CHESTER MORRILL,
Secretary

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[December 31, 1944]

	Term expires
MARRINER S. ECCLES, of Utah, *Chairman*	January 31, 1958
RONALD RANSOM, of Georgia, *Vice Chairman*	January 31, 1956
M. S. SZYMCZAK, of Illinois	January 31, 1948
JOHN K. MCKEE, of Ohio	January 31, 1946
ERNEST G. DRAPER, of Connecticut	January 31, 1950
R. M. EVANS, of Virginia	January 31, 1954

LAWRENCE CLAYTON, *Assistant to the Chairman*
ELLIOTT THURSTON, *Special Assistant to the Chairman*
CHESTER MORRILL, *Secretary*
S. R. CARPENTER, *Assistant Secretary*
BRAY HAMMOND, *Assistant Secretary*
WALTER WYATT, *General Counsel*
J. P. DREIBELBIS, *General Attorney*
GEORGE B. VEST, *Assistant General Attorney*
E. A. GOLDENWEISER, *Director, Division of Research and Statistics*
WOODLIEF THOMAS, *Assistant Director, Division of Research and Statistics*
LEO H. PAULGER, *Director, Division of Examinations*
C. E. CAGLE, *Assistant Director, Division of Examinations*
WILLIAM B. POLLARD, *Assistant Director, Division of Examinations*
EDWARD L. SMEAD, *Director, Division of Bank Operations*
J. R. VAN FOSSEN, *Assistant Director, Division of Bank Operations*
J. E. HORBETT, *Assistant Director, Division of Bank Operations*
CARL E. PARRY, *Director, Division of Security Loans*
BONNAR BROWN, *Assistant Director, Division of Security Loans*
ROBERT F. LEONARD, *Director, Division of Personnel Administration*
LISTON P. BETHEA, *Director, Division of Administrative Services*
FRED A. NELSON, *Assistant Director, Division of Administrative Services*
EDWARD L. SMEAD, *Administrator, Office of Administrator for War Loans Committee*
GARDNER L. BOOTHE, II, *Assistant Administrator, Office of Administrator for War Loans Committee*
O. E. FOULK, *Fiscal Agent*
JOSEPHINE E. LALLY, *Deputy Fiscal Agent*

FEDERAL OPEN MARKET COMMITTEE

[December 31, 1944]

MEMBERS

MARRINER S. ECCLES, *Chairman* (Board of Governors)
ALLAN SPROUL, *Vice Chairman* (Elected by Federal Reserve Bank of New York)
CHESTER C. DAVIS (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)
ERNEST G. DRAPER (Board of Governors)
R. M. EVANS (Board of Governors)
HUGH LEACH (Elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)
JOHN K. MCKEE (Board of Governors)
J. N. PEYTON (Elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)
RONALD RANSOM (Board of Governors)
M. S. SZYMCZAK (Board of Governors)
C. S. YOUNG (Elected by Federal Reserve Banks of Cleveland and Chicago)

OFFICERS

CHESTER MORRILL, *Secretary*
S. R. CARPENTER, *Assistant Secretary*
WALTER WYATT, *General Counsel*
J. P. DREIBELBIS, *Assistant General Counsel*
E. A. GOLDENWEISER, *Economist*
HENRY H. EDMISTON, *Associate Economist*
E. A. KINCAID, *Associate Economist*
JOHN K. LANGUM, *Associate Economist*
ARTHUR R. UPGREN, *Associate Economist*
JOHN H. WILLIAMS, *Associate Economist*

EXECUTIVE COMMITTEE

MARRINER S. ECCLES, *Chairman*
ALLAN SPROUL, *Vice Chairman*
ERNEST G. DRAPER
HUGH LEACH
JOHN K. MCKEE

AGENT

FEDERAL RESERVE BANK OF NEW YORK
R. G. ROUSE, *Manager of System Open Market Account*

FEDERAL ADVISORY COUNCIL

[December 31, 1944]

OFFICERS

President, Edward E. Brown
Vice President, Charles E. Spencer, Jr.
Secretary, Walter Lichtenstein

EXECUTIVE COMMITTEE

Edward E. Brown, *ex officio*	Charles E. Spencer, Jr., *ex officio*
Robert V. Fleming	William F. Kurtz
B. G. Huntington	John C. Traphagen

MEMBERS

District No. 1—Charles E. Spencer, Jr., President, The First National Bank of Boston, Boston, Massachusetts.

District No. 2—John C. Traphagen, President, Bank of New York, New York, New York.

District No. 3—William F. Kurtz, President, The Pennsylvania Company for Insurances on Lives and Granting Annuities, Philadelphia, Pennsylvania.

District No. 4—B. G. Huntington, President, The Huntington National Bank of Columbus, Columbus, Ohio

District No. 5—Robert V. Fleming, President, The Riggs National Bank of Washington, D. C., Washington, D. C.

District No. 6—Keehn W. Berry, President, Whitney National Bank of New Orleans, New Orleans, Louisiana.

District No. 7—Edward E. Brown, President, The First National Bank of Chicago, Chicago, Illinois.

District No. 8—Ralph C. Gifford, Chairman, First National Bank, Louisville, Kentucky.

District No. 9—Lyman E. Wakefield, President, First National Bank of Minneapolis, Minneapolis, Minnesota.

District No. 10—A. E. Bradshaw, President, National Bank of Tulsa, Tulsa, Oklahoma.

District No. 11—Ed. H. Winton, President, Continental National Bank of Fort Worth, Fort Worth, Texas.

District No. 12—George M. Wallace, President, Security-First National Bank of Los Angeles, Los Angeles, California.

Note.—In accordance with the requirement of the law that the Federal Advisory Council meet in Washington at least four times a year, meetings were held in Washington on February 13-14, May 14-15, September 17-18, and December 3-4, 1944.

SENIOR OFFICERS AND DIRECTORS OF FEDERAL RESERVE BANKS

[December 31, 1944]

CHAIRMEN AND DEPUTY CHAIRMEN

Federal Reserve Bank of—	Chairman	Deputy Chairman
Boston	Albert M. Creighton	Henry S. Dennison
New York	Beardsley Ruml	William I. Myers
Philadelphia	Thomas B. McCabe	Warren F. Whittier
Cleveland	George C. Brainard	Reynold E. Klages
Richmond	Robert Lassiter	W. G. Wysor
Atlanta	Frank H. Neely	J. F. Porter
Chicago	Simeon E. Leland	W. W. Waymack
St. Louis	Wm. T. Nardin	Douglas W. Brooks
Minneapolis	W. C. Coffey	Roger B. Shepard
Kansas City	Robert B. Caldwell	Robert L. Mehornay
Dallas	Jay Taylor	J. R. Parten
San Francisco	Henry F. Grady	Harry R. Wellman

Conference of Chairmen

The Chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen which meets from time to time to consider matters of common interest, and to consult with and advise the Board of Governors.

During the first part of the year, Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland served as Chairman of the Conference and as Chairman of the Executive Committee of the Conference. The other members of the Executive Committee were Mr. Creighton, Chairman of the Federal Reserve Bank of Boston, and Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta.

During the latter part of the year, Mr. Creighton served as Chairman of the Conference and as Chairman of the Executive Committee of the Conference. The other members of the Executive Committee were Mr. Leland, Chairman of the Federal Reserve Bank of Chicago, and Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis.

Conference of Presidents

The Presidents of the Federal Reserve Banks are organized into a Conference of Presidents which meets from time to time to consider matters of common interest, and to consult with and advise the Board of Governors.

During the year Mr. Day, President of the Federal Reserve Bank of San Francisco, served as Chairman of the Conference, Mr. Sproul, President of the Federal Reserve Bank of New York, served as Vice Chairman, and Mr. Sienkiewicz, Vice President of the Federal Reserve Bank of Philadelphia, served as Secretary.

PRESIDENTS AND VICE PRESIDENTS

Federal Reserve Bank of—	President First Vice President	Vice Presidents	
Boston	Ralph E. Flanders William Willett	E. G. Hult J. C. Hunter[1]	Carl B. Pitman O. A. Schlaikjer
New York	Allan Sproul L. R. Rounds	J. W. Jones L. W. Knoke Walter S. Logan A. Phelan	J. M. Rice Robert G. Rouse John H. Williams V. Willis
Philadelphia	Alfred H. Williams Frank J. Drinnen	W. J. Davis E. C. Hill	C. A. McIlhenny[2] C. A. Sienkiewicz
Cleveland	Ray M. Gidney Reuben B. Hays	Wm. H. Fletcher J. W. Kossin A. H. Laning[2]	B. J. Lazar K. H. MacKenzie W. F. Taylor
Richmond	Hugh Leach J. S. Walden, Jr.	J. G. Fry Geo. H. Keesee[1]	R. W. Mercer Edw. A. Wayne
Atlanta	W. S. McLarin, Jr. Malcolm H. Bryan	V. K. Bowman L. M. Clark	H. F. Conniff
Chicago	C. S. Young H. P. Preston	Allan M. Black[1] Neil B. Dawes J. H. Dillard Charles B. Dunn	E. C. Harris John K. Langum O. J. Netterstrom A. L. Olson Alfred T. Sihler
St. Louis	Chester C. Davis F. Guy Hitt	O. M. Attebery Henry H. Edmiston	Wm. E. Peterson C. M. Stewart
Minneapolis	J. N. Peyton O. S. Powell	A. W. Mills[1] Otis R. Preston E. W. Swanson	Sigurd Ueland A. R. Upgren Harry I. Ziemer
Kansas City	H. G. Leedy Henry O. Koppang	L. H. Earhart Raymond W. Hall C. O. Hardy	Jos. E. Olson G. H. Pipkin D. W. Woolley[2]
Dallas	R. R. Gilbert W. D. Gentry	E. B. Austin[2] R. B. Coleman W. J. Evans	W. O. Ford W. H. Holloway L. G. Pondrom
San Francisco	Wm. A. Day Ira Clerk	C. E. Earhart J. M. Leisner[1]	H. N. Mangels H. F. Slade

[1] Cashier. [2] Also Cashier.

Directors of Federal Reserve Banks

Class A and Class B directors are elected by the member banks of the district. Class C directors are appointed by the Board of Governors of the Federal Reserve System.

The Class A directors are chosen as representatives of the member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The Class C directors may not, under the law, be officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

SENIOR OFFICERS AND DIRECTORS OF FEDERAL RESERVE BANKS, Dec. 31, 1944—Cont.
DIRECTORS OF FEDERAL RESERVE BANKS

District No. 1—Boston

		Term Expires Dec. 31
Class A:		
Allan Forbes	President, State Street Trust Company, Boston, Mass.	1944
Leon A. Dodge	President, The First National Bank of Damariscotta, Damariscotta, Maine	1945
Allen W. Holmes	President, The Middletown National Bank, Middletown, Conn.	1946
Class B:		
Philip R. Allen	Director, Bird & Son, inc., East Walpole, Mass.	1944
Laurence F. Whittemore	Assistant to President, Boston & Maine Railroad, Pembroke, N. H.	1945
Roy L. Patrick	President and Director, Rock of Ages Corporation, Burlington, Vermont	1946
Class C:		
Albert M. Creighton	Chairman of the Board	1944
Henry S. Dennison	President, Dennison Manufacturing Co., Framingham, Mass.	1945
Henry I. Harriman	Director and Vice Chairman, New England Power Association, Boston, Mass.	1946

District No. 2—New York

Class A:		
William J. Field	President, Commercial Trust Company of New Jersey, Jersey City, N. J.	1944
Warren W. Clute, Jr.	President, Glen National Bank of Watkins Glen, Watkins Glen, N. Y.	1945
S. Sloan Colt	President, Bankers Trust Company, New York, N. Y.	1946
Class B:		
Vacancy		1944
Carle C. Conway	Chairman of the Board and President, Continental Can Company, Inc., New York, N. Y.	1945
Donaldson Brown	Vice Chairman of the Board, General Motors Corporation, New York, N. Y.	1946
Class C:		
Beardsley Ruml	Treasurer, R. H. Macy & Company, Inc., New York, N. Y.	1944
William I. Myers	Dean, New York State College of Agriculture, Cornell University, Ithaca, N. Y.	1945
Robert D. Calkins	Dean, School of Business, Columbia University, New York, N. Y.	1946

Buffalo Branch

Appointed by Federal Reserve Bank:		
Reginald B. Wiltse	Managing Director, Buffalo, N. Y.	1944
Robert R Dew	President, Dunkirk Trust Company, Dunkirk, N. Y.	1944
Lewis G. Harriman	President, Manufacturers and Traders Trust Company, Buffalo, N. Y.	1945
Elmer B. Milliman	President, Central Trust Company, Rochester, N. Y.	1946
Appointed by Board of Governors:		
Marion B. Folsom	Treasurer, Eastman Kodak Company, Rochester, N. Y.	1944
Gilbert A. Prole	Farmer, Batavia, N. Y.	1945
Thomas Robins, Jr.	President, Hewitt Rubber Corporation, Buffalo, N. Y.	1946

District No. 3—Philadelphia

Class A:		
Howard A. Loeb	Chairman, Tradesmens National Bank and Trust Co., Philadelphia, Pa.	1944
George W. Reily	President, Harrisburg National Bank, Harrisburg, Pa.	1945
John B. Henning	President, Wyoming National Bank, Tunkhannock, Pa.	1946
Class B:		
Vacancy		1944
Ward D. Kerlin	Secretary & Treasurer, Camden Forge Company, Camden, N. J.	1945
James T. Buckley	Chairman, Executive Committee, Philco Corporation, Philadelphia, Pa.	1946
Class C:		
C. Canby Balderston	Dean, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pa.	1944
Thomas B. McCabe	President, Scott Paper Company, Chester, Pa.	1945
Warren F. Whittier	Farmer, dairyman and cattle breeder, Chester Springs, Pa.	1946

District No. 4—Cleveland

		Term Expires Dec. 31
Class A:		
F. F. Brooks	President, First National Bank at Pittsburgh, Pittsburgh, Pa.	1944
Ben R. Conner	President, The First National Bank of Ada, Ada, Ohio	1945
H. B. McDowell	President, The McDowell National Bank of Sharon, Sharon, Pa.	1946
Class B:		
G. D. Crabbs	Chairman of Board, Philip Carey Manufacturing Company, Cincinnati, Ohio	1944
Thomas E. Millsop	President, Weirton Steel Company, Weirton, W. Va.	1945
R. P. Wright	Secretary-Treasurer, Reed Manufacturing Company, Erie, Pa.	1946
Class C:		
A. Z. Baker	President and General Manager, The Cleveland Union Stock Yards Company, Cleveland, Ohio	1944
Reynold E. Klages	President, Columbus Auto Parts Company, Columbus, Ohio	1945
Geo. C. Brainard	President, The General Fireproofing Company, Youngstown, Ohio	1946

Cincinnati Branch

Appointed by Federal Reserve Bank:		
J. G. Gutting	President, The Second National Bank of Cincinnati, Cincinnati, Ohio	1944
Frederick V. Geier	President, The Cincinnati Milling Machine Company, Cincinnati, Ohio	1945
Buckner Woodford	Vice President and Cashier, Bourbon-Agricultural Bank and Trust Company, Paris, Ky.	1945
Appointed by Board of Governors:		
Frank A. Brown	Farmer, Chillicothe, Ohio	1944
Francis H. Bird	Professor of Commerce, College of Engineering and Commerce, University of Cincinnati, Cincinnati, Ohio	1945

Pittsburgh Branch

Appointed by Federal Reserve Bank:		
E. B. Harshaw	Vice President and Cashier, Grove City National Bank, Grove City, Pa.	1944
Archie J. McFarland	President, Wheeling Steel Corporation, Wheeling, W. Va.	1945
Clarance Stanley	President, The Union Trust Company of Pittsburgh, Pittsburgh, Pa.	1945
Appointed by Board of Governors:		
W. C. Arthur	Meadville, Pa.	1944
Robert E. Doherty	President, Carnegie Institute of Technology, Pittsburgh, Pa.	1945

District No. 5—Richmond

Class A:		
John A. Sydenstricker	Cashier, First National Bank in Marlinton, Marlinton, W. Va.	1944
Charles E. Rieman	President, Western National Bank, Baltimore, Md.	1945
James C. Braswell	Chairman of Board, Planters National Bank & Trust Company, Rocky Mount, N. C.	1946
Class B:		
Edwin Malloy	President & Treasurer, Cheraw Cotton Mills, Inc., Cheraw, S. C.	1944
Charles C. Reed	President, Williams & Reed, Inc., Richmond, Va.	1945
H. L. Rust, Jr.	President, H. L. Rust Company, Washington, D. C.	1946
Class C:		
Charles P. McCormick	President, McCormick & Company, Inc., Baltimore, Md.	1944
W. G. Wysor	General Manager, Southern States Cooperative, Inc., Richmond, Va.	1945
Robert Lassiter	Chairman, Mooresville Cotton Mills, Mooresville, N. C.	1946

Baltimore Branch

Appointed by Federal Reserve Bank:		
W. R. Milford	Managing Director, Baltimore, Md.	1944
George W. Reed	President, National Marine Bank, Baltimore, Md.	1944
James C. Fenhagen	Vice Chairman of Board, Baltimore National Bank, Baltimore, Md.	1945
George M. Moore	Vice President, Union National Bank, Clarksburg, W. Va.	1946
Appointed by Board of Governors:		
W. Frank Thomas	Construction Engineer and Real Estate Management, Westminster, Md.	1944
Joseph D. Baker, Jr.	Secretary and Treasurer, The Standard Lime and Stone Co., Baltimore, Md.	1945
W. Frank Roberts	President, Standard Gas Equipment Corporation, Baltimore, Md.	1946

Charlotte Branch

		Term Expires Dec. 31
Appointed by Federal Reserve Bank:		
W. T Clements	Managing Director, Charlotte, N.C.	1944
J. Gerald Cowan	Vice President, Wachovia Bank & Trust Company, Asheville, N. C.	1944
Angus E. Bird	Chairman of Board, The Citizens and Southern National Bank of South Carolina, Charleston, S. C.	1945
Allen H. Sims	Executive Vice President and Trust Officer, Citizens National Bank in Gastonia, Gastonia, N.C.	1946
Appointed by Board of Governors:		
Charles L. Creech, Sr.	Chairman of Board, B. F. Huntley Furniture Company, Winston-Salem, N. C.	1944
D. W. Watkins	Director of Extension,Clemson College, Clemson, S. C.	1945
George M. Wright	President, Republic Cotton Mills, Great Falls, S.C.	1946

District No. 6—Atlanta

Class A:		
George J. White	President, The First National Bank of Mount Dora, Mount Dora, Fla.	1944
Thomas K. Glenn	Chairman of the Board, Trust Company of Georgia, Atlanta, Ga.	1945
W. D. Cook	President, First National Bank in Meridian, Meridian, Miss.	1946
Class B:		
Ernest T. George	President and Chairman, Seaboard Refining Company, Ltd., New Orleans, La.	1944
J. A. McCrary	Vice President and Treasurer, J. B. McCrary Company, Inc., Atlanta, Ga.	1945
Fitzgerald Hall	President, Nashville, Chattenooga & St. Louis Railway, Nashville, Tenn.	1946
Class C:		
Frank H. Neely	Executive Vice President and Secretary, Rich's, Inc., Atlanta, Ga.	1944
J. F. Porter	President and General Manager, Tennessee Farm Bureau Federation, Columbia, Tenn.	1945
Rufus C. Harris	President, The Tulane University of Louisiana, New Orleans, La.	1946

Birmingham Branch

Appointed by Federal Reserve Bank:		
P. L. T. Beavers	Managing Director, Birmingham, Ala.	1944
Gordon D. Palmer	President,The First National Bank of Tuskaloosa, Tuscaloosa, Ala.	1944
M. B. Spragins	President, The First National Bank of Huntsville, Huntsville, Ala.	1945
James G. Hall	Executive Vice President, The First National Bank of Birmingham, Birmingham, Ala.	1946
Appointed by Board of Governors:		
Donald Comer	Chairman of the Board, Avondale Mills, Birmingham, Ala.	1944
Wm. Howard Smith	Planter and cattle raiser, Prattville, Ala.	1945
Edward L. Norton	Chairman of the Board, Voice of Alabama, Inc., Birmingham, Ala.	1946

Jacksonville Branch

Appointed by Federal Reserve Bank:		
Geo. S. Vardeman, Jr.	Managing Director, Jacksonville, Fla.	1944
J. L. Dart	President, The Florida National Bank of Jacksonville, Jacksonville, Fla.	1944
B. C. Teed	Executive First Vice President, First National Bank in Palm Beach, Palm Beach, Fla.	1945
J. C. McCrocklin	President, First National Bank in Tarpon Springs, Tarpon Springs, Fla.	1946
Appointed by Board of Governors:		
Walter J. Matherly	Dean, College of Business Administration, University of Florida, Gainesville, Fla.	1944
Charles S. Lee	Farmer, Oviedo, Fla.	1945
F. D. Jackson	President and General Manager, Jackson Grain Company, Tampa, Fla.	1946

Nashville Branch

Appointed by Federal Reserve Bank:		
Joel B. Fort, Jr.	Managing Director, Nashville, Tenn.	1944
B. L. Sadler	President, First National Bank in Harriman, Harriman, Tenn.	1944
Edward Potter, Jr.	President, Commerce Union Bank, Nashville, Tenn.	1945
Leslie R. Driver	President, The First National Bank in Bristol, Bristol, Tenn.	1946

		Term Expires Dec. 31
Appointed by Board of Governors:		
Clyde B. Austin	President, Austin Company, Inc., Greeneville, Tenn.	1944
W. E. McEwen	Director, County Farm Bureau, Williamsport, Tenn.	1945
W. Bratten Evans	President, Tennessee Enamel Manufacturing Company, Nashville, Tenn.	1946

New Orleans Branch

Appointed by Federal Reserve Bank:		
E. P. Paris	Managing Director, New Orleans, La.	1944
J. F. McRae	President, The Merchants National Bank of Mobile, Mobile, Ala.	1944
T. G. Nicholson	President, The First National Bank of Jefferson Parish, Gretna, La.	1945
John Legier	President, National American Bank of New Orleans, New Orleans, La.	1946
Appointed by Board of Governors:		
Alexander Fitz-Hugh	President, P. P. Williams Company, Vicksburg, Miss.	1944
John J. Shaffer, Jr.	Farmer, Ellendale, La.	1945
E. F. Billington	Vice President, Soule Steam Feed Works, Meridian, Miss.	1946

District No. 7—Chicago

Class A:		
Frank D. Williams	President, First Capital National Bank, Iowa City, Iowa	1944
Walter J. Cummings	Chairman, Continental Illinois National Bank and Trust Company of Chicago, Chicago, Ill.	1945
Horace S. French	President, The Milwaukee Avenue National Bank of Chicago, Chicago, Ill.	1946
Class B:		
Nicholas H. Noyes	Vice President in Charge of Finances, Eli Lilly and Company, Indianapolis, Ind.	1944
William C. Heath	President, A. O. Smith Corporation, Milwaukee, Wis.	1945
Clarence W. Avery	President and Chairman, The Murray Corporation of America, Detroit, Mich.	1946
Class C:		
Simeon E. Leland	Chairman, Department of Economics, and Professor of Government Finance, University of Chicago, Chicago, Ill.	1944
W. W. Waymack	Editor and Vice President, The Register & Tribune, Des Moines, Iowa	1945
Paul G. Hoffman	President, The Studebaker Corporation, South Bend, Ind.	1946

Detroit Branch

Appointed by Federal Reserve Bank:		
Joseph M. Dodge	President, The Detroit Bank, Detroit, Mich.	1944
Rudolph E. Reichert	President, Ann ArborBank, Ann Arbor, Mich.	1944
Walter S. McLucas	Chairman, The National Bank of Detroit, Detroit, Mich.	1945
Appointed by Board of Governors:		
L. Whitney Watkins	Farmer, Manchester, Mich.	1944
H. L. Pierson	President, Detroit Harvester Co., Detroit, Mich.	1945

District No. 8—St. Louis

Class A:		
Sidney Maestre	President, Mississippi Valley Trust Company, St. Louis, Mo.	1944
Max B. Nahm	Vice President, Citizens National Bank, Bowling Green, Ky.	1945
G. R. Corlis	Cashier, Anna National Bank, Anna, Ill.	1946
Class B:		
John R. Stanley	Secretary-Treasurer, Stanley Clothing Company, Evansville, Ind.	1944
A. Wessel Shapleigh	President, Shapleigh Hardware Company, St.Louis, Mo.	1945
H. H. Tucker	President, Fones Bros. Hardware Company, Little Rock, Ark.	1946
Class C:		
Douglas W. Brooks	President, The Newburger Company, Memphis, Tenn.	1944
Wm. T. Nardin	Vice President and General Manager, Pet Milk Company, St. Louis, Mo.	1945
Wm. H. Stead	Dean, School of Business and Public Administration, Washington University, St. Louis, Mo.	1946

Little Rock Branch

Appointed by Federal Reserve Bank:		
A. F. Bailey	Managing Director, Little Rock, Ark.	1944
Paul R. McCoy	Chairman, Peoples National Bank, Stuttgart, Ark.	1944
Chas. A. Gordon	Vice President, Simmons National Bank, Pine Bluff, Ark.	1945
W. A. McDonnell	Vice President, Mercantile-Commerce Bank & Trust Company, St. Louis, Mo. (Resigned effective December 31, 1944)	1946

		Term Expires Dec. 31
Appointed by Board of Governors:		
S. M. Brooks	President, Brooks Advertising Agency, Little Rock, Ark.	1944
R. E. Short	Farmer, Brinkley, Ark.	1945
I. N. Barnett	Manager, Barnett Bros. Mercantile Company, Batesville, Ark.	1946

Louisville Branch

Appointed by Federal Reserve Bank:		
C. A. Schacht	Managing Director, Louisville, Ky.	1944
Wallace M. Davis	Vice President, Citizens Fidelity Bank & Trust Co., Louisville, Ky.	1944
Lee L. Persise	President, The State Bank of Salem, Salem, Ind.	1945
Phil E. Chappell	President, Planters Bank & Trust Company, Hopkinsville, Ky.	1946
Appointed by Board of Governors:		
E. J. O'Brien, Jr.	President, E. J. O'Brien & Company, Louisville, Ky.	1944
G. O. Boomer	Vice President, The Girdler Corporation, Louisville, Ky.	1945
Rosco Stone	Farmer, Hickman, Ky.	1946

Memphis Branch

Appointed by Federal Reserve Bank:		
W. H. Glasgow	Managing Director, Memphis, Tenn.	1944
Oliver Benton	President, National Bank of Commerce, Jackson, Tenn.	1944
V. J. Alexander	President, Union Planters National Bank & Trust Company, Memphis, Tenn.	1945
W. W. Campbell	President, National Bank of Eastern Arkansas, Forrest City, Ark.	1946
Appointed by Board of Governors:		
J. Holmes Sherard	President, Jno. H. Sherard & Son, Sherard, Miss.	1944
J. P. Norfleet	President, Sledge and Norfleet, Memphis, Tenn.	1945
Rufus C. Branch	Cotton planter and ginner, Pecan Point, Ark.	1946

District No. 9—Minneapolis

Class A:		
J. R. McKnight	President, Pierre National Bank, Pierre, S. D.	1944
F. D. McCartney	Vice President, First National Bank, Oakes, N. D.	1945
S. S. Ford	President, Northwestern National Bank, Minneapolis, Minn.	1946
Class B:		
J. E. O'Connell	President, Eddy's Bakeries, Inc., Helena, Mont.	1944
Ray C. Lange	President, Chippewa Canning Company, Chippewa Falls, Wis.	1945
Homer P. Clark	Chairman, West Publishing Company, St. Paul, Minn.	1946
Class C:		
Roger B. Shepard	President, Finch, Van Slyck & McConville, St. Paul, Minn.	1944
W. C. Coffey	President, University of Minnesota, Minneapolis, Minn.	1945
W. D. Cochran	W. D. Cochran Freight Lines, Iron Mountain, Mich.	1946

Helena Branch

Appointed by Federal Reserve Bank:		
R. E. Towle	Managing Director, Helena, Mont.	1944
P. B. McClintock	Vice President, Farmers National Bank, Chinook, Mont.	1944
Peter Pauly	President, Deer Lodge Bank & Trust Co., Deer Lodge, Mont.	1945
Appointed by Board of Governors:		
R. B. Richardson	President, Western Life Insurance Co., Helena, Mont.	1944
Malcolm E. Holtz	Farmer and stockman, Great Falls, Mont.	1945

District No. 10—Kansas City

Class A:		
W. L. Bunten	Vice President and Cashier, Goodland State Bank, Goodland, Kan.	1944
T. A. Dines	President, United States National Bank, Denver, Colo.	1945
M. A. Limbocker	President and Chairman, Citizens National Bank, Emporia, Kan.	1946
Class B:		
L. C. Hutson	President and General Manager, Chickasha Cotton Oil Company, Chickasha, Okla.	1944
Willard D. Hosford	Vice President and General Manager, John Deere Plow Company, Omaha, Neb.	1945
J. M. Bernardin	Lumberman, Kansas City, Mo.	1946
Class C:		
Robert L. Mehornay	President, North-Mehornay Furniture Company, Kansas City, Mo.	1944
Lyle L. Hague	Farmer and stockman, Cherokee, Okla.	1945
Robert B. Caldwell	Caldwell, Downing, Noble and Garrity, Kansas City, Mo.	1946

Denver Branch

		Term Expires Dec. 31
Appointed by Federal Reserve Bank:		
Harold Kountze	President, Colorado National Bank, Denver, Colo.	1944
P. K. Alexander	Vice President, The First National Bank, Denver, Colo.	1945
W. C. Kurtz	President and General Manager, Independent Lumber Company, Grand Junction, Colo.	1946
Vacancy		1946
Appointed by Board of Governors:		
J. B. Grant	Lewis and Grant, Denver, Colo.	1944
W. A. Alexander	Vice President and Assistant General Manager, The Denver Tramway Corporation, Denver, Colo.	1945
M. E. Noonen	Sheep rancher, Kremmling, Colo.	1946

Oklahoma City Branch

Appointed by Federal Reserve Bank:		
Hugh L. Harrell	Vice President, First National Bank and Trust Company, Oklahoma City, Okla.	1944
A. E. Stephenson	Chairman, Central National Bank, Enid, Okla.	1945
D. M. Tyler	First Vice President, Dewey Portland Cement Company, Dewey, Okla.	1946
Appointed by Board of Governors:		
Neil R. Johnson	Rancher and farmer, Norman, Okla.	1944
Lloyd Noble	President, Noble Drilling Corporation, Tulsa, Okla.	1945

Omaha Branch

Appointed by Federal Reserve Bank:		
George W. Holmes	President, First National Bank, Lincoln, Neb.	1944
T. L. Davis	President, First National Bank, Omaha, Neb.	1945
George A. Bible	President, First National Bank, Rawlins, Wyo.	1946
Vacancy		1946
Appointed by Board of Governors:		
L. E. Hurtz	President, Fairmont Creamery Company, Omaha, Neb.	1944
Walter S. Byrne	General Manager, Metropolitan Utilities District of Omaha, Omaha, Neb.	1945
John D. Clark	Dean, College of Business Administration, University of Nebraska, Lincoln, Neb.	1946

District No. 11—Dallas

Class A:		
J. E. Woods	Chairman of Board, Temple National Bank, Temple, Texas.	1944
Walter P. Napier	President, Alamo National Bank, San Antonio, Texas	1945
Frank Turner	President, First National Bank, Decatur, Texas	1946
Class B:		
E. L. Kurth	President and General Manager, Angelina County Lumber Company, Keltys, Texas	1944
J. R. Milam	President, The Cooper Company, Inc., Waco, Texas	1945
Geo. A. Hill, Jr	President, Houston Oil Company of Texas, Houston, Texas.	1946
Class C:		
Vacancy		1944
Jay Taylor	Ranching and stockyards, Amarillo, Texas	1945
J. R. Parten	President, Woodley Petroleum Company, Houston, Texas	1946

El Paso Branch

Appointed by Federal Reserve Bank:		
J. E. Moore	Vice President, First National Bank, Roswell, N. M.	1944
H. A. Jacobs	Vice President, El Paso National Bank, El Paso, Texas	1945
John K. Hicks	President and Manager, Hicks-Hayward Company, El Paso, Texas	1945
R. W. McAfee	President, State National Bank, El Paso, Texas	1946
Appointed by Board of Governors:		
Frank M. Hayner	President, Las Cruces Lumber Company, Las Cruces, N. M.	1944
R. E. Sherman	Leavell and Sherman, Realtors, El Paso, Texas	1945
Jack B. Martin	President, Arizona Ice and Cold Storage Company, Tucson, Ariz.	1946

Houston Branch

Appointed by Federal Reserve Bank:		
John W. McCullough	President, Hutchings-Sealy National Bank, Galveston, Texas.	1944
B. C. Roberts	President, Wharton Bank & Trust Co., Wharton, Texas	1945
James A. Elkins	President, City National Bank, Houston, Texas	1945
W. N. Greer	President, Citizens State Bank, Houston, Texas	1946
Appointed by Board of Governors:		
Henry Renfert	Cotton shipper, Galveston, Texas	1944
J. S. Abercrombie	President, J. S. Abercrombie Company, Houston, Texas	1945
George A. Slaughter	Farming, Wharton, Texas	1946

San Antonio Branch

		Term Expires Dec. 31
Appointed by Federal Reserve Bank:		
T. C. Frost, Jr.	Vice President, Frost National Bank, San Antonio, Texas	1944
E. J. Miller	President, South Texas National Bank, San Antonio, Texas	1945
R. D. Barclay	President, National Bank of Commerce, San Antonio, Texas	1945
J. A. Walker	Executive Vice President, Del Rio National Bank, Del Rio, Texas	1946
Appointed by Board of Governors:		
J. M. Odom	General Contractor, Austin, Texas	1944
George W. Stocking	Professor of Economics, University of Texas, Austin, Texas	1945
Holman M. Cartwright	Livestock and farming, Twin Oaks Ranch, Dinero, Texas	1946

District No. 12—San Francisco

Class A:		
Reno Odlin	President, Puget Sound National Bank of Tacoma, Tacoma, Wash.	1944
Carroll F. Byrd	Chairman and Executive Vice President, The First National Bank of Willows, Willows, Calif.	1945
C. K. McIntosh	Chairman, The Bank of California, N. A., San Francisco, Calif.	1946
Class B:		
St. George Holden	St. George Holden Realty Company, San Francisco, Calif.	1944
Reese H. Taylor	President, Union Oil Company of California, Los Angeles, Calif.	1945
Elmer H. Cox	President, Columbia Timber Company, San Francisco, Calif.	1946
Class C:		
Henry F. Grady	President, American President Lines, Ltd., San Francisco, Calif.	1944
Harry R. Wellman	Director, Giannini Foundation of Agricultural Economics, University of California, Berkeley, Calif.	1945
Brayton Wilbur	President, Wilbur-Ellis Company, San Francisco, Calif.	1946

Los Angeles Branch

Appointed by Federal Reserve Bank:		
W. N. Ambrose	Managing Director, Los Angeles, Calif.	1944
Herbert D. Ivey	President, Citizens National Trust & Savings Bank of Los Angeles, Los Angeles, Calif.	1944
F. E. Snedecor	President, The First National Bank of Corona, Corona, Calif.	1945
Appointed by Board of Governors:		
C. E. Myers	Agriculturist, Covina, Calif.	1944
Y. Frank Freeman	Vice President, Paramount Pictures, Inc., Hollywood, Calif.	1945

Portland Branch

Appointed by Federal Reserve Bank:		
D. L. Davis	Managing Director, Portland, Ore.	1944
William C. Christensen	President, The Commercial National Bank of Hillsboro, Hillsboro, Ore.	1944
Paul S. Dick	President, The United States National Bank of Portland, Portland, Ore.	1945
Appointed by Board of Governors:		
William H. Steen	Livestock and farming, Milton, Ore.	1944
George T. Gerlinger	President, Willamette Valley Lumber Co., Dallas, Ore.	1945

Salt Lake City Branch

Appointed by Federal Reserve Bank:		
W. L. Partner	Managing Director, Salt Lake City, Utah	1944
Orval W. Adams	Executive Vice President, The Utah State National Bank of Salt Lake City, Salt Lake City, Utah	1944
Frederick P. Champ	President, Cache Valley Banking Company, Logan, Utah	1945
Appointed by Board of Governors:		
R. C. Rich	Livestock and farming, Burley, Idaho	1944
Henry A. Dixon	President, Weber College, Ogden, Utah	1945

Seattle Branch

Appointed by Federal Reserve Bank:		
C. R. Shaw	Managing Director, Seattle, Wash.	1944
Fred. L. Stanton	President, The Washington Trust Company, Spokane, Wash.	1944
Andrew Price	President, The National Bank of Commerce of Seattle, Seattle, Wash.	1945
Appointed by Board of Governors:		
Fred Nelsen	Farmer and dairyman, Renton, Wash.	1944
Charles F. Larrabee	President, Roslyn-Cascade Coal Company, Bellingham, Wash.	1945

STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS COMBINED AT END OF 1943 AND 1944 AND OF EACH FEDERAL RESERVE BANK AT END OF 1944

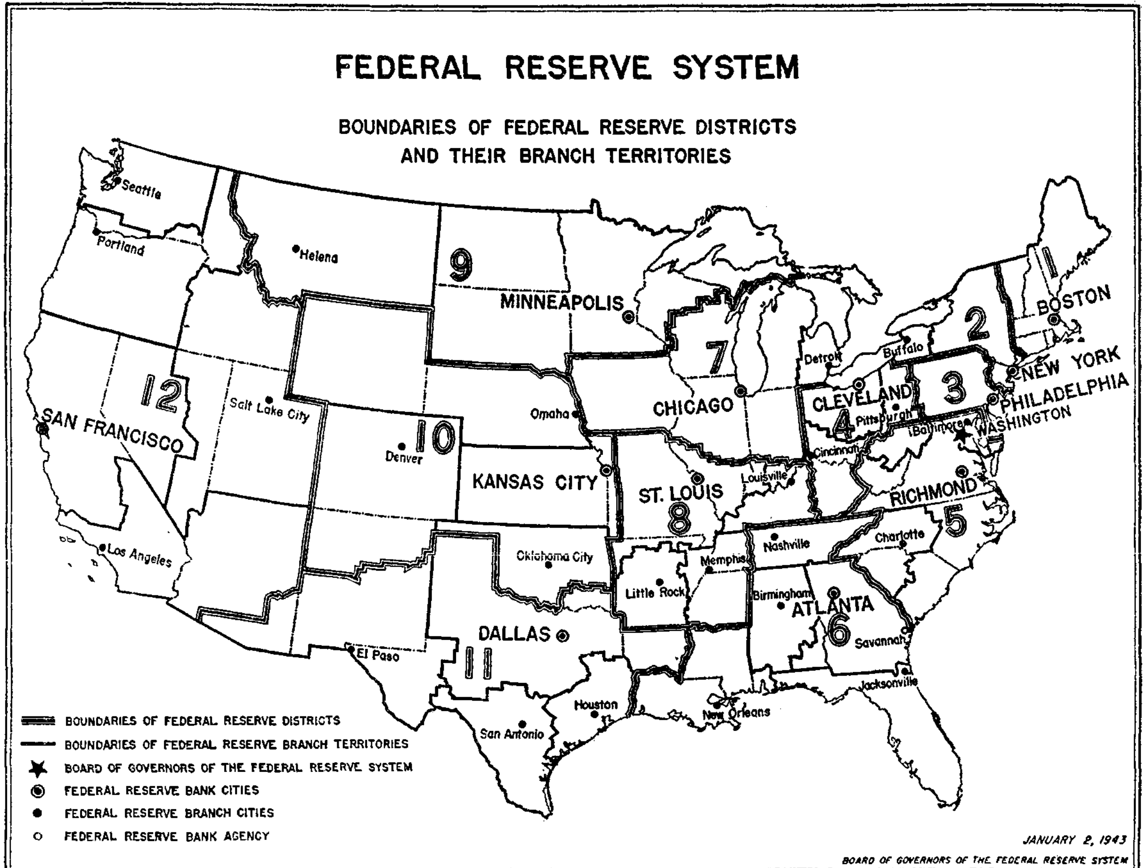
[In thousands of dollars]

Item	Total 1943	Total 1944	Boston	New York	Phila-delphia	Cleve-land	Rich-mond	Atlanta	Chicago	St. Louis	Minne-apolis	Kansas City	Dallas	San Fran-cisco
ASSETS														
Gold certificates	19,532,580	17,850,365	878,238	5,149,403	945,229	1,314,819	905,275	890,388	3,236,811	619,419	345,553	649,877	527,145	2,388,208
Redemption fund—Federal Reserve notes	233,671	594,126	40,929	106,731	42,799	57,694	49,204	38,521	97,907	32,783	14,820	25,779	17,755	69,204
Other cash	329,822	242,189	17,980	57,125	17,816	19,184	15,779	19,481	29,840	13,473	5,933	14,151	9,434	21,993
Total reserves	20,096,073	18,686,680	937,147	5,313,259	1,005,844	1,391,697	970,258	948,390	3,364,558	665,675	366,306	689,807	554,334	2,479,405
Discounts and advances	5,255	79,825	245	77,775	505	....	650	....	....	....	....	450	200	....
Industrial loans	10,134	3,751	201	12	2,570	308	126	21	....	....	....	25	....	488
U. S. Government securities:														
Bills	6,768,268	11,147,918	832,508	2,259,370	787,511	1,258,178	764,847	714,028	1,453,730	459,871	326,202	527,505	461,372	1,302,796
Certificates	2,467,300	4,886,640	233,390	1,622,723	295,001	284,067	255,244	171,197	906,499	232,353	88,636	188,719	133,449	475,362
Notes	677,900	1,568,221	74,900	520,764	94,670	91,164	81,913	54,940	290,914	74,567	28,444	60,565	42,827	152,553
Bonds	1,629,479	1,243,426	59,387	412,908	75,063	72,283	64,948	43,561	230,663	59,124	22,553	48,021	33,957	120,958
Total U. S. Government securities (including guaranteed securities)	11,542,947	18,846,205	1,200,185	4,815,765	1,252,245	1,705,692	1,166,952	983,726	2,881,806	825,915	465,835	824,810	671,605	2,051,669
Total loans and securities	11,558,336	18,929,781	1,200,631	4,893,552	1,255,320	1,706,000	1,167,728	983,747	2,881,806	825,915	465,835	825,285	671,805	2,052,157
Due from foreign banks	136	136	10	[1]49	12	12	6	4	17	4	3	4	4	11
Federal Reserve notes of other Federal Reserve Banks	90,598	112,514	3,303	17,759	4,042	6,072	10,539	12,160	14,752	8,426	3,913	5,214	5,802	20,532
Uncollected items	2,113,044	2,448,145	184,062	569,682	153,977	272,593	201,593	119,603	361,579	108,109	44,130	119,635	80,740	232,442
Bank premises	35,205	34,278	1,610	8,894	3,457	4,101	2,852	1,611	2,879	2,116	1,252	2,667	901	1,938
Other assets	61,174	57,077	3,002	16,460	3,278	4,042	2,916	2,471	10,154	3,058	1,274	2,591	1,787	6,044
Total assets	33,954,566	40,268,611	2,329,765	10,819,655	2,425,930	3,384,517	2,355,892	2,067,986	6,635,745	1,613,303	882,713	1,645,203	1,315,373	4,792,529

[1] After deducting $87,000 participations of other Federal Reserve Banks.

LIABILITIES														
Federal Reserve notes in actual circulation[1]	16,906,359	21,731,017	1,366,544	4,851,017	1,427,509	1,893,593	1,487,766	1,276,563	3,978,835	930,849	475,794	796,543	546,527	2,699,477
Deposits:														
Member bank—reserve account	12,885,984	14,372,899	677,659	4,554,844	710,778	1,128,014	636,754	628,914	2,169,950	528,958	317,789	670,715	642,981	1,705,543
U. S. Treasurer—general account	578,617	440,487	31,269	175,050	28,722	46,017	23,385	9,566	27,827	15,916	15,877	26,291	12,085	28,482
Foreign	1,360,488	1,203,703	83,042	[2]466,212	106,353	102,885	46,241	36,992	143,346	35,836	25,432	33,524	33,524	90,316
Other deposits	355,936	393,881	4,730	287,547	4,578	7,662	2,324	2,850	4,802	11,790	2,109	4,240	3,721	57,528
Total deposits	15,181,025	16,410,970	796,700	5,483,653	850,431	1,284,578	708,704	678,322	2,345,925	592,500	361,207	734,770	692,311	1,881,869
Deferred availability items	1,432,303	1,633,226	133,586	319,639	105,809	160,573	136,942	94,140	245,947	73,102	32,597	97,541	60,207	173,143
Other liabilities including accrued dividends	5,589	7,071	763	1,139	614	827	396	373	927	263	229	279	558	703
Total liabilities	33,525,276	39,782,284	2,297,593	10,655,448	2,384,363	3,339,571	2,333,808	2,049,398	6,571,634	1,596,714	869,827	1,629,133	1,299,603	4,755,192
CAPITAL ACCOUNTS														
Capital paid in	154,104	162,531	10,053	59,281	12,227	16,339	6,517	5,851	19,599	5,142	3,501	5,237	5,238	13,546
Surplus (Section 7)	188,097	228,153	15,239	84,903	19,872	19,071	7,813	7,936	33,201	7,048	4,950	6,196	6,025	15,899
Surplus (Section 13b)	26,965	27,165	2,880	7,143	4,468	1,007	3,290	762	1,429	527	1,073	1,137	1,307	2,142
Other capital accounts	60,124	68,478	4,000	12,880	5,000	8,529	4,464	4,039	9,882	3,872	3,362	3,500	3,200	5,750
Total liabilities and capital accounts	33,954,566	40,268,611	2,329,765	10,819,655	2,425,930	3,384,517	2,355,892	2,067,986	6,635,745	1,613,303	882,713	1,645,203	1,315,373	4,792,529
Commitments to make industrial loans	9,270	4,165	....	....	3,048	50	415	....	....	55	....	....	....	597
FEDERAL RESERVE NOTE STATEMENT														
Federal Reserve notes:														
Issued to Federal Reserve Bank by Federal Reserve agent	17,512,088	22,507,705	1,414,389	5,020,538	1,472,713	1,958,442	1,536,494	1,335,337	4,068,615	971,228	486,557	822,824	586,556	2,834,012
Held by Federal Reserve Bank	605,729	776,688	47,845	169,521	45,204	64,849	48,728	58,774	89,780	40,379	10,763	26,281	40,029	134,535
In actual circulation[1]	16,906,359	21,731,017	1,366,544	4,851,017	1,427,509	1,893,593	1,487,766	1,276,563	3,978,835	930,849	475,794	796,543	546,527	2,699,477
Collateral held by agent for notes issued to banks:														
Gold certificates on hand and due from U. S. Treasury	13,266,000	11,298,000	610,000	3,020,000	623,000	812,000	615,000	605,000	2,200,000	375,000	195,000	320,000	249,000	1,674,000
Eligible paper	4,990	79,625	245	77,775	505	....	650	....	....	....	....	450	....	....
U. S. securities	4,488,690	11,534,902	810,000	2,000,000	850,000	1,150,000	950,000	750,000	1,900,000	654,902	300,000	525,000	345,000	1,300,000
Total collateral held	17,759,680	22,912,527	1,420,245	5,097,775	1,473,505	1,962,000	1,565,650	1,355,000	4,100,000	1,029,902	495,000	845,450	594,000	2,974,000

[1] Includes Federal Reserve notes held by the U. S. Treasury or by a Federal Reserve Bank other than the issuing bank.
[2] After deducting $735,225,000 participations of other Federal Reserve Banks.



NOTE.—There has been no change in district or branch territory boundaries since the publication of the description in the *Annual Report* of the Board of Governors for 1942, pp. 138-145. The Agency of the Federal Reserve Bank of Atlanta, located in Savannah, Georgia, was discontinued on Jan. 31, 1945.

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