9. Federal Reserve Banks

THIS SECTION CONTAINS statistics on the condition and operations of the Federal Reserve Banks. Their significance and their arrangement from the viewpoint of Federal Reserve policy and the money market are explained in "Member Bank Reserves and Related Items," Section 10 of *Supplement to Banking and Monetary Statistics*, published in 1962 by the Board of Governors. Discussions of the purposes, functions, and operations of the System are available in several publications of the Board, such as *The Federal Reserve System—Purposes and Functions*, published in 1963, and *Banking Studies*, published in 1941.

The statistics in this section show the financial condition of the 12 Reserve Banks and are published in the Board's weekly release (H.4.1), "Factors Affecting Bank Reserves and Condition Statement of Federal Reserve Banks," and in the *Federal Reserve Bulletin*. As required by Section 11 of the Federal Reserve Act, the statements show the character of the money held as reserve and the amount, nature, and maturities of the paper and other investments owned by Federal Reserve Banks.

The first condition statement of the Federal Reserve Banks was published November 21, 1914, five days after the Banks opened. Through April 22, 1921, the statements were released Saturday as of Friday; since then they have been released Thursday as of Wednesday. Because of its broad coverage and the promptness with which it is available, the statement is useful in indicating the direction of Federal Reserve policy as it influences the supply of member bank reserves.

The form of the condition statement has changed over the years. Reporting of some items, especially those relating to reserves of Federal Reserve Banks and to collateral for Federal Reserve notes, has been affected by changes in the Federal Reserve Act, as noted below in the discussion of specific tables.

The material on operations of the Federal Reserve Banks was taken from a variety of reports that the Reserve Banks submit regularly to the Board of Governors. These statistics serve chiefly to assist the Board in supervising the Reserve Banks, and they also indicate the size and scope of Federal Reserve Bank services, and the expansion or contraction in the public's need for such services.

This section includes 10 tables. For the most part the statistics in these tables are for all Federal Reserve Banks combined. The exceptions are in Tables 1–B; 2; 8–B; and 9–B, each of which shows statistics for each of the 12 Reserve Banks. As a rule, the statistics are annual or semiannual for the period 1941-64. In Tables 1–B and 8–B, however, they are for selected year-end dates.

GOLD CERTIFICATE RESERVES

Federal Reserve Banks are required by law to hold certain minimum reserves in the form of gold certificates. Tables 1 and 2 show the amount of the reserves held by the Reserve Banks at the end of each year 1941-64, and Table 7 summarizes the reserve position of the Reserve Banks during the same period by months. Reserve ratios are discussed later under the heading "reserve position."

The gold certificate reserves of Federal Reserve Banks are backed dollar for dollar by gold in the Treasury. The supply of these reserves is dependent primarily upon the size of the monetary gold stock—or to be more precise, upon that part of the gold stock against which the Treasury has issued gold certificates or credits payable in gold certificates.

On the Federal Reserve Bank condition statements, reserves are divided between the gold certificate account and the redemption fund for Federal Reserve notes. Most of the gold certificate account is made up of the Interdistrict Settlement Fund, through which payments between Reserve Banks are effected, and the Federal Reserve Agents' Fund, representing gold certificates pledged as collateral for outstanding Federal Reserve notes. Together, the Interdistrict Settlement Fund and the Federal Reserve Agents' Fund make up the "Gold Certificate Fund—Board of Governors, Federal Reserve System," carried on the books of the U.S. Treasury as a gold liability. The redemption fund for Federal Reserve notes consists of a deposit by each Federal Reserve Bank with the Treasury against which the amounts of notes redeemed by the Treasury are charged. In practice these redemptions are small and are confined mostly to the notes the Treasury receives locally from commercial banks in the District of Columbia.

FEDERAL RESERVE BANK CREDIT

The Federal Reserve Banks acquire earning assets—principally Government securities, discounts and advances, and acceptances—when they supply additional reserve funds to member banks. Annual figures for these earning assets are shown by broad classes in Tables 1 and 2. More detailed figures, including maturity distributions, for each class of asset are shown in Tables 3-6.

The bulk of Federal Reserve Bank credit consists of holdings of U.S. Government securities, and purchases and sales of such securities provide the chief instrument of Federal Reserve monetary regulation. Table 5 shows the types of Government securities held by the Reserve Banks and their maturity distribution. Data on holdings of Government securities by each Federal Reserve Bank are shown in Tables 1-B and 2. Detailed information on issues held at the end of each year is given in the Board's *Annual Report*.

Totals for discounts and advances are shown in Tables 1 and 2. Table 3 shows borrowings by member banks separate from borrowings by others: the latter consist mostly of foreign loans on gold. Member bank borrowings are divided to show the total of rediscounted paper and the total of advances on promissory notes. Under promissory notes are shown the amounts secured by U.S. Government obligations, by other eligible collateral, and by collateral not eligible for discount or purchase under Sections 13, 13a, and 14 of the Federal Reserve Act. These classifications of discounts and advances are shown for all Federal Reserve Banks combined as of the end of June and December, 1937-64.

Table 4 shows the amounts of acceptances held by all Federal Reserve Banks combined. These are classified by method of purchase—that is, whether bought outright or bought under repurchase agreement. Total holdings are classified according to the maturity of holdings, and those bought outright are further classified according to the nature of the underlying transaction.

Detailed data regarding industrial loans—including the number and amount of loans applied for and approved, the outstanding amounts of direct advances, commitments, and participations, and the maturity distribution of advances—are given in Table 6.[2] (See Note, Table 6.)

DEPOSITS

Deposits at Federal Reserve Banks shown in Tables 1, 2, and 7 consist mainly of the reserves of member banks. However, they also include the principal checking accounts of the Treasury, deposits of foreign banks and governments, and various other deposits, such as those maintained by nonmember banks for use in clearing and collecting checks and deposits of various Government agencies.

Beginning late in 1959, the comparability of figures on member bank reserve balances was affected by a revision in the law. An amendment

[2] For a description of "industrial loans," see *Banking and Monetary Statistics*, Board of Governors of the Federal Reserve System, 1943, p. 327.

in that year to Section 19 of the Federal Reserve Act granted the Board authority to permit member banks to count all or part of their currency and coin as reserves. Part of such cash was allowed as reserves between December 1, 1959, and November 23, 1960, and all was allowed thereafter. Previously, since mid-1917, only the balance on deposit at a Federal Reserve Bank could be counted as reserves.[3]

FEDERAL RESERVE NOTES

Federal Reserve notes, which are liabilities of the Federal Reserve Banks that issue them, are the major part of the country's circulating medium. They are a prior lien on all assets of the issuing Reserve Bank and are also obligations of the U.S. Government.

Federal Reserve notes must be secured by the pledge of collateral of at least equal amount. The original Federal Reserve Act limited the collateral to eligible paper representing discounts by member banks, but the law was amended in 1916 to include bills bought in the open market and, in 1917, gold certificates and member bank promissory notes. The pledging of Government securities as collateral was first authorized by Congress in 1932 for a temporary period. The authority was periodically extended, and in 1945 it was made permanent.

The Federal Reserve Act originally prohibited a Federal Reserve Bank from paying out notes of another Federal Reserve Bank. This provision was thought to be necessary to prevent a redundancy in the circulation, but experience indicated that demand for currency was in no way related to the Bank of issue. The prohibition was removed by Congress in July 1954. Since that time each Federal Reserve Bank has been allowed to recirculate notes of other Federal Reserve Banks. They classify as cash any such notes on hand.

The liability of Reserve Banks for Federal Reserve notes is shown for year-end dates from 1941 through 1964 in Tables 1 and 2 and by months in Table 7. Information regarding the amounts of Federal Reserve notes issued and collateral pledged is given in Table 8. Data on Federal Reserve notes in circulation appear in Table 8 and also in Section 11 of *Supplement to Banking and Monetary Statistics.*

RESERVE POSITION

The Federal Reserve Act provides that each Federal Reserve Bank shall maintain a reserve in gold certificates of not less than 25 per cent against its Federal Reserve notes. The Board of Governors is authorized to suspend the requirement for temporary periods but is required to establish a graduated tax upon any deficiency in required reserves.

Before June 1945, the Reserve Banks were required to hold reserves in gold certificates of not less than 40 per cent against their notes in circulation and reserves in gold certificates or lawful money of not less than 35 per cent against deposits. Between June 1945 and March 1965 the reserve percentages required were 25 per cent in each case.[4]

For convenience, Table 1 on assets and liabilities of Reserve Banks includes, for year-end dates, ratios of total gold certificate reserves to deposit and Federal Reserve note liabilities combined although cash reserves other than gold certificates were countable against deposits during part of the period covered by the table. Table 7 shows monthly data relating to the reserve position of Federal Reserve Banks for the period 1941-64. Two columns in this table summarize the reserve position—"reserve ratio" and "excess reserves." The remaining columns show the data on which these figures are based. Except for the period January 1941–June 1945, the reserve ratio is the ratio of total gold certificate reserves to deposit and Federal Reserve note liabilities combined. During that period it was the ratio of gold certificate reserves and other

[3] Before June 21, 1917, member banks were authorized to hold a part of their reserves as cash in their own vaults and a part on deposit with other banks in addition to their balances with the Federal Reserve Banks.

[4] The Act of Congress, approved March 3, 1965 (Public Law 89-3), eliminated the requirement that Federal Reserve Banks maintain reserves in gold certificates against deposit liabilities.

cash to total deposits and note liabilities. Excess reserves are the amount by which total reserves exceed required reserves; the latter figures are computed by applying the current minimum legal ratios against notes and deposits.

EARNINGS

Table 9-A summarizes the earnings and their disposition for the years 1914-64 for all Federal Reserve Banks combined; and Table 9-B shows the details of earnings and expenses of each Reserve Bank in 1964, together with statistics on the number of officers and employees as of the end of the year.

The Federal Reserve Banks are not operated for profit, but they are self-supporting. The nature and the amount of Reserve Bank earnings depend largely upon the demand by member banks for Reserve Bank credit and upon Federal Reserve policy as to open market operations.

Until 1933, the law provided that the net earnings of the Reserve Banks, after the annual 6 per cent dividend on paid-in capital stock, should be allocated to surplus until it equaled subscribed capital stock. After that, 10 per cent of such earnings were to be added to surplus and 90 per cent paid as a franchise tax to the U.S. Government. In 1933 Congress required the Reserve Banks to subscribe an amount equal to one-half their accumulated surplus, or $140 million, for nondividend stock of the Federal Deposit Insurance Corporation and, at the same time, eliminated the franchise tax in order to permit the Federal Reserve Banks to restore their surplus accounts from future earnings.

By the end of 1946 the surplus of each Reserve Bank was at least equal to its subscribed capital, and the procedure was adopted whereby the Federal Reserve Banks began paying the bulk of their net earnings to the Treasury as interest on the amount of outstanding Federal Reserve notes not covered by gold certificate collateral. In the years 1947-58 the Reserve Banks paid to the Treasury nine-tenths of their net earnings after dividends and after adjustments to maintain their surplus accounts at the level of subscribed capital; in 1959 they began paying all of such earnings. Since 1964 surplus has been maintained at the level of paid-in capital (which is one-half subscribed capital).

The Reserve Banks may draw upon surplus to absorb losses and to meet expenses and the annual 6 per cent cumulative dividend when earnings are low. In case of liquidation of the Reserve Banks, the law provides that the surplus would go to the U.S. Government.

SERVICES OF THE RESERVE BANKS

Much of the time of the personnel of the Reserve Banks is occupied with a variety of services that they perform for banks and with their functions as fiscal agents, depositaries, and custodians for the Treasury and other Government departments and agencies.

The Reserve Banks are the medium through which Federal Reserve notes are issued and all other kinds of U.S. money—paper and coin—are put into circulation. They are also the medium through which money no longer needed by the public or unfit for further use is removed from circulation. A nation-wide system for the collection of checks is conducted for member banks and nonmember clearing banks.

The principal activities conducted by the Federal Reserve Banks for the Treasury are those incident to the issuance, exchange, and redemption of Government securities and the payment of Government checks and coupons. The Reserve Banks also perform services for other Government departments and agencies. For some agencies they issue, exchange, and redeem securities; for some they hold securities in safekeeping; and for some they perform special services, such as activities incident to the food stamp program and to the guarantee by the Government of loans under the Defense Production Act of 1950.

Table 10 is a summary of the principal services performed by the Reserve Banks during each of the years 1941-64. Current statistics are published each year in the Board's *Annual Report*.