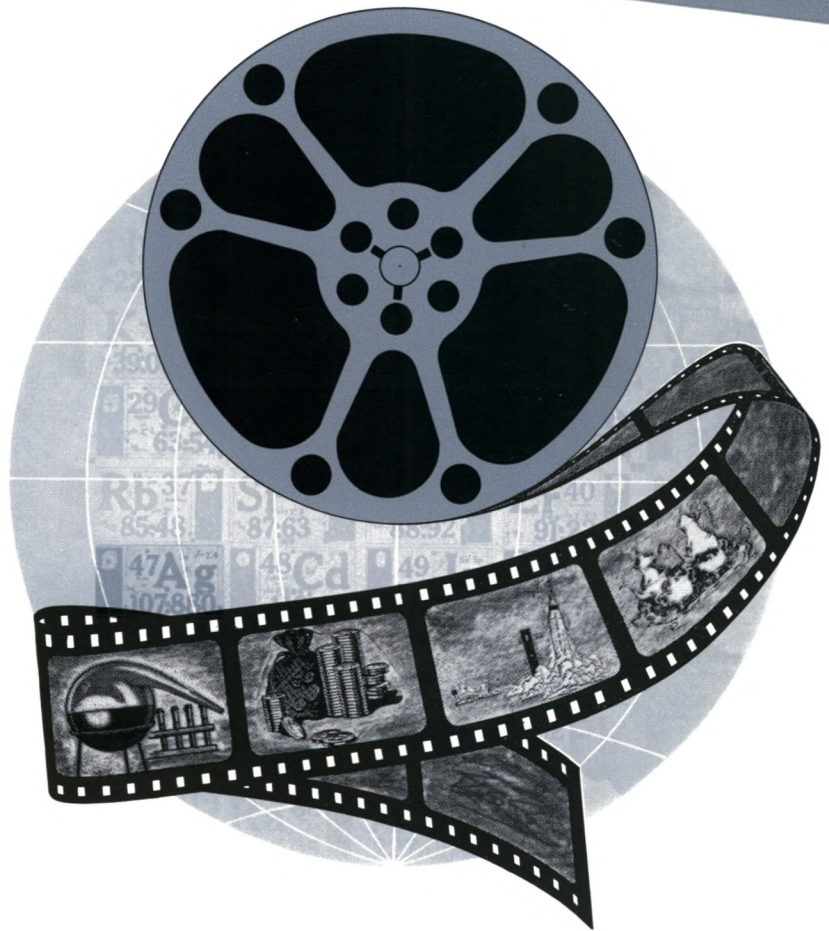


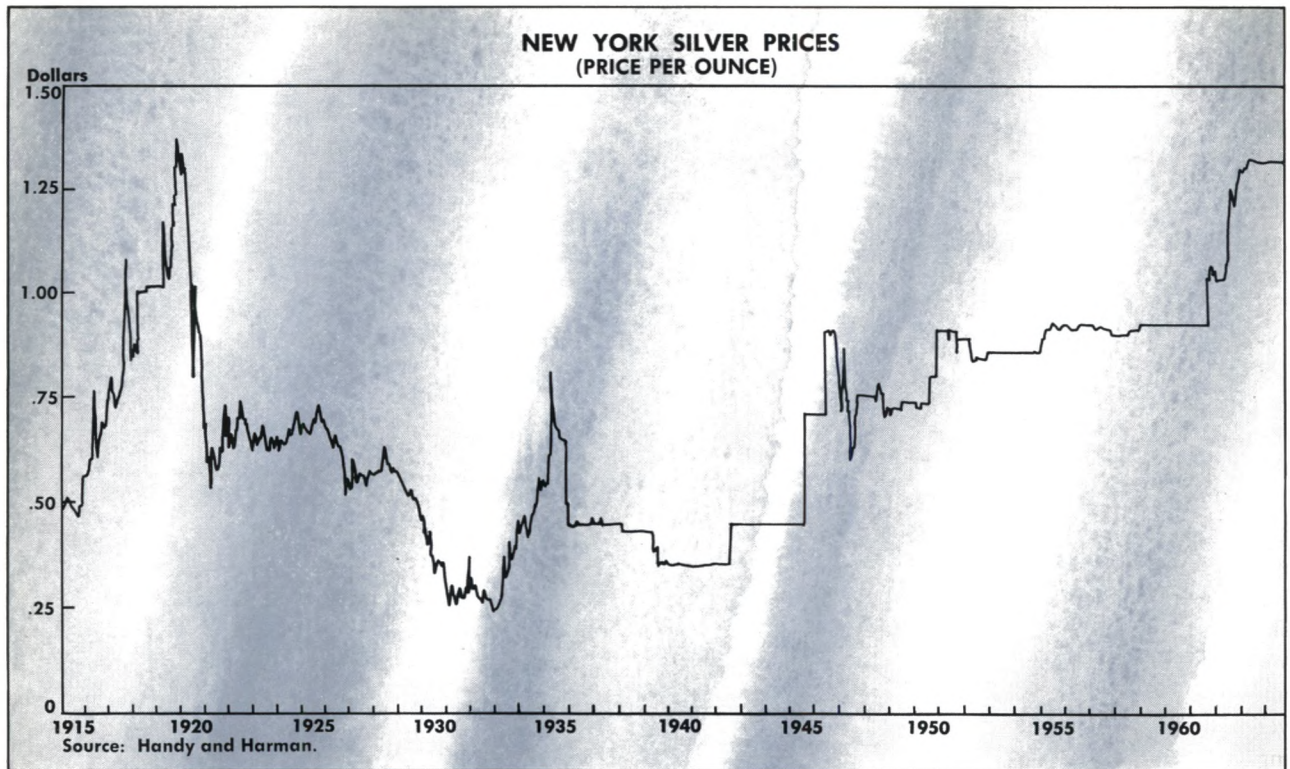
MONTHLY REVIEW



Expanding industrial and monetary uses account for the growing demand for silver.

FEDERAL RESERVE BANK OF RICHMOND

APRIL 1965



SILVER: SUPPLY AND DEMAND

For many years, silver has played an important role in the American economy, both as a monetary metal and as an industrial raw material. Since silver came of age industrially, it usually has been available in ample quantities, but in recent years stocks have been depleted rapidly as consumption has exceeded production. For several years prior to 1961, the Treasury met the production deficit by selling silver from its stocks at 90.5 cents per ounce. Then, to conserve its dwindling supplies the Treasury halted sales in the fall of 1961, and the price rose rapidly. When it reached \$1.293 per ounce, the Treasury again entered the market. In order to keep silver coins in circulation, the Treasury began selling sufficient silver to hold the price down to \$1.293 per ounce. If the price should go much above that level it would be profitable to melt silver dollars to sell as bullion. If the price should go much above \$1.38 per ounce, it would be profitable to melt dimes, quarters, and half dollars.

At present rates of consumption and production, the Treasury's silver stocks will be exhausted in about three years. Thus, within that brief span of time, action must be taken to reduce consumption, to

increase production, or to insulate United States coinage from the effects of a further increase in the price of silver.

Silver Consumption Silver has been used as an industrial raw material throughout history. Due to its beauty, durability, and the ease with which it can be worked, it has been used for jewelry, silverware, and ornamentation of all sorts. In World War II, the uses of silver multiplied rapidly and industrial demand climbed to unprecedented heights. Silver's ductility and high electrical conductivity make it ideal for many purposes in defense production. Since the war, its military uses have expanded even further. It is a key ingredient in solid fuel rockets, electronic devices, and soldered connections for missiles and rockets, in photographic film, batteries, and other essential military goods. The use of silver in the production of nonmilitary photographic and electronic goods as well as in jewelry, silverware, and other ornamental goods has also increased gradually. Over the past five years the industrial use of silver has increased even more rapidly abroad than in the United States.

Although industrial consumption of silver has risen significantly in recent years, the great upsurge in demand since 1959 is due primarily to the tremendous expansion of United States coinage. In 1960, 46 million ounces of silver were used to produce \$63 million of coin, and production of coins was apparently sufficient. But the public absorbed coins at such a pace that in 1964, 203 million ounces of silver were used in coinage, and there were shortages of every denomination. More than 72 million ounces of this went into approximately 202 million Kennedy half dollars, which are not yet circulating freely. The coinage of 45 million silver dollars has been authorized by Congress, but has been delayed due to the fear that they will be hoarded. Many other coins are also being hoarded or held by collectors, but a great many coins are apparently being held by the general public with no intention of hoarding.

The coin shortage was not precipitated by the silver shortage. It apparently stemmed from failure to anticipate the tremendous increase in demand stemming from population growth, the growing use of vending machines, the great upsurge in coin collecting, and the general expansion of business activity and wealth. However, the rising price of silver probably accentuated the coin shortage during the last two years. Many speculators no doubt accumulated coins in anticipation of an increase in the price of silver large enough to raise their value.

Supply of Silver At the current rate of consumption the prospects of increasing silver supplies enough to meet the demand without further substantial price increases are very dim. The American Mining Congress, speaking for silver producers who want silver to continue to be used as a basic monetary metal, has made optimistic predictions of future production. But, as shown in the chart on page 4, United States mines produced less silver in 1964, when the price was \$1.293 per ounce than they did in 1960 when the price was 90.5 cents per ounce. The lack of a close relationship between price and production is probably because almost 70% of the silver produced is a by-product of copper, lead, or zinc production. Of the 25 largest producers of silver in the United States, only four are primarily silver mines.

Mexico, Peru, the United States, and Canada are the world's largest silver producers, in that order. Together these countries produce almost three fourths of the world's silver. But total western hemisphere production was only 159 million ounces in 1964 compared with 158.8 million ounces in 1960. Net additions to the supply from other sources, such as stocks of foreign governments, salvage, and sales from Com-

munist countries, was 53.2 million ounces in 1960. This figure rose to approximately 125 million ounces in 1961, but fell back to 51.4 million ounces in 1964.

Recognizing the pressing need for an increase in the supply of silver, the Federal Government has taken a number of steps to encourage domestic production. Seventy-five per cent of the exploration costs of prospectors are now underwritten with Government money, and the Bureau of Mines is studying new techniques for finding silver, for mining low-grade deposits, and for reactivating idle, low-output mines. Even so, there is little hope that domestic production will increase enough to match the present rate of consumption over the next few years. The Treasury predicts that domestic silver output, now running at an annual rate of about 36 million ounces, will rise only to about 41 million ounces by 1970.

Production outside the United States is increasing more rapidly, but foreign consumption is rising at an even faster pace, and this country is now exporting more silver than it is importing. Before 1964, imports exceeded exports, as shown in the chart on page 5, but in the past year exports jumped to 99 million ounces and imports fell to 54 million ounces. Most silver imports came from Canada and Mexico, while exports went primarily to Europe and Japan.

Historical Background Problems with silver are not a novelty in United States monetary history. Episodically in the nineteenth century and again during World War I, developments in commercial markets for silver posed serious threats to the country's coinage system. Indeed, in the early 1850's and during the Civil War, silver dollars and many other silver coins disappeared from circulation as the commercial value of the metal soared considerably above its monetary value.

After the Civil War, large silver discoveries brought the price of silver down substantially, and silver coins returned to circulation during the 1870's. They continued to circulate freely, and the price of silver was relatively stable at about 50 cents per ounce for many years before World War I. Then, although there was no shortage of silver coins, the demand for silver drove the price up to \$1.3825 per ounce, the highest point reached in this century.

But the trend was sharply reversed just after the war, and the price fell to 25 cents per ounce in 1932. In 1933, silver purchases carried out under a Presidential directive began raising the price. And in the next two years, under the provisions of the Silver Purchase Act of 1934, which was passed in part as a price support measure, Treasury purchases of silver forced the market price up rapidly. It went

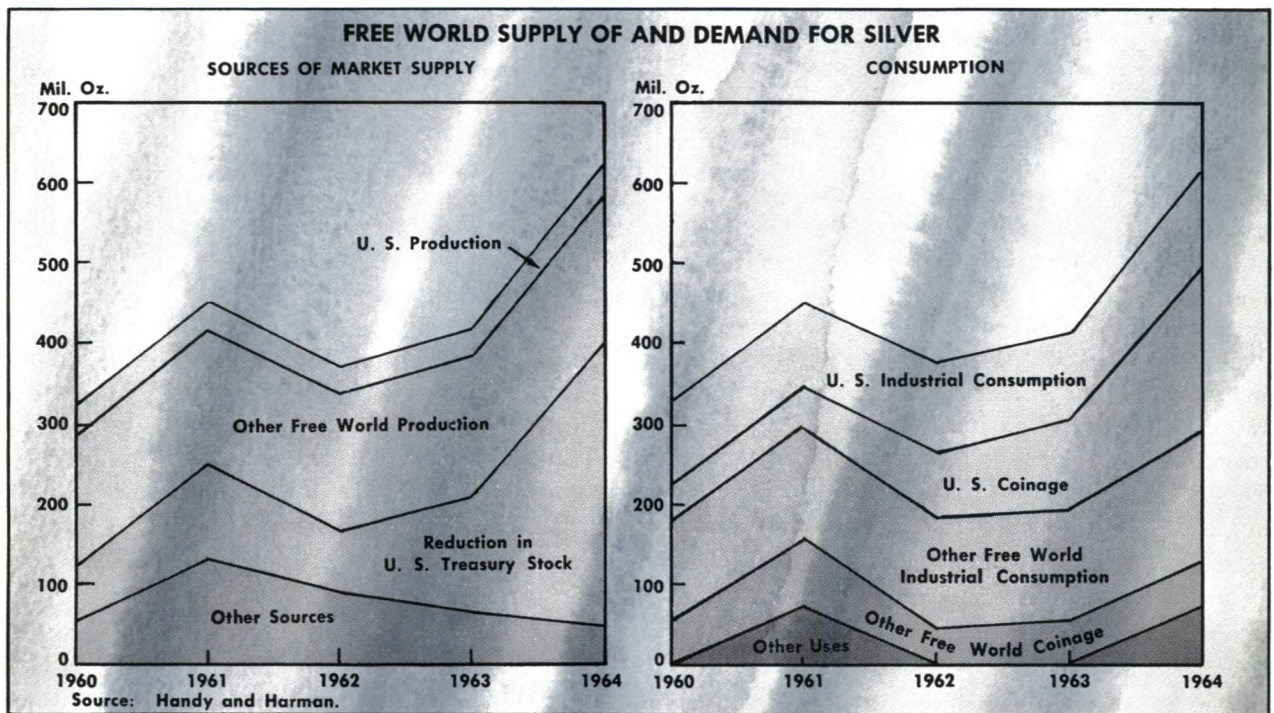
above 80 cents per ounce in 1935, but dropped sharply later in the same year, and fell to 35 cents per ounce in 1939. Increased demand in World War II raised the price again, but for some years after the war, the Treasury's purchase price of 90.5 cents, established in 1946, was above the market price. Domestic producers consequently found it to their advantage to sell their output to the Treasury rather than on the open market.

Under this program the Treasury accumulated by the middle 1950's a stock of silver in excess of two billion ounces, not all of which was monetized. The portion of this stock that was not required as support for outstanding silver certificates was termed "free" silver and could be sold by the Treasury at a price of 90.5 cents per ounce plus handling costs.

The growing demand for silver gradually forced the market price up to the level of the Treasury's support price. After 1955 the Treasury purchased little silver and sold heavily from its stocks. As a result of large Treasury sales, the price hovered around 90.5 cents for the next six years. By November 1961, the Treasury's stock of "free" silver was virtually exhausted and sales were suspended by Presidential order. The market price quickly responded by moving up to \$1.293 per ounce, beyond which it would become profitable to melt silver dollars and sell them for bullion on commercial markets.

Anticipating this possibility, Congress in 1963 repealed the Silver Purchase Act and authorized replacement of silver certificates with Federal Reserve notes. To prevent a further price increase, the Treasury resumed selling from its stocks the amounts "freed" by the retirement of silver certificates.

Proposed Solution The coinage problem generated by recent developments in the silver market has attracted widespread attention and a number of solutions have been proposed. To some observers, the solution lies in the total elimination of silver from all United States coins. This would protect coins completely from the danger of being hoarded or melted down into bullion. Numerous metals are possible candidates for the replacement of silver in coins, but the two being promoted for the role most actively are nickel and columbium. Producers of these metals claim that nickel or columbium coins would possess most of the desirable characteristics of silver coins plus others not found in the latter. One nickel producer recently pointed out in large ads in national magazines and newspapers that 45 nations now use nickel to produce 150 different coins. A columbium producer has circulated a folder which purports to show that this metal "is as plentiful as nickel and fills the bill in every way as a coinage material." Producers of both metals say that coins made from their products could be easily minted, would wear well,



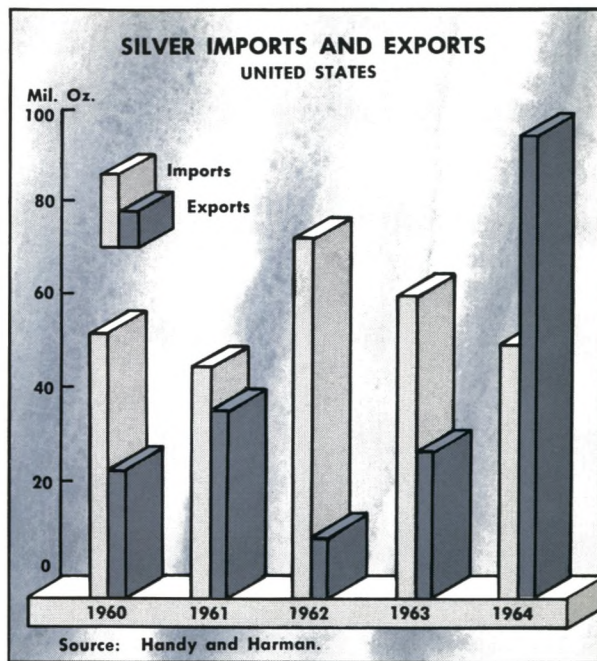
would be difficult to counterfeit, would operate vending machines as effectively as silver coins, and would in general provide an altogether satisfactory coinage. In addition they argue that a reduction in the silver content of coins to as little as 30% would solve the problem only for a few years. Silver certificates are already being replaced with Federal Reserve notes, and nickels and one-cent pieces contain no silver. If silver in other coins were replaced with another metal, silver would no longer play a role in the nation's monetary system.

Another possible solution would be a reduction in the percentage of silver in new coins. A substantial reduction in silver content would make available silver reserves go much farther. But the possibility of such a move has already led to some hoarding, and further moves in this direction would probably accentuate the problem.

Conclusions Within the next few weeks or months, Congress will take further action to deal with the silver problem. In their deliberations, Congressmen will be subjected to pressures from several directions, and will be concerned with a variety of possible reactions. Silver mining interests are strongly opposed to the removal of all silver from coins. More silver is currently being used for United States coinage than for domestic and industrial purposes, and the elimination of silver coins could cause a drop in silver prices. A reduction in the silver content to 25% or 30% would make some silver producers unhappy, but it would probably be accepted as a necessary and reasonable compromise.

Silver users in electronics, photographic film, silverware and other industries favor coins with less silver or none at all. The relatively small amount of silver used in some of these products and the strong demand for others has kept manufacturers from being caught in a cost-price squeeze, but some have become concerned about the future availability of silver in sufficient quantities. The film industry is already engaged in extensive research to find a substitute for silver.

The American Mining Congress has recently been joined in its opposition to nonsilver coins by the National Automatic Merchandising Association representing the nation's vending machine industry. There are now about four million vending machines in use in which the public spends some \$3.5 billion a year. By 1970, the amount is expected to be twice as great. The vending machine industry claims that the removal of all or most of the silver from coins would necessitate the conversion of millions of machines at great expense. The mechanical adjust-

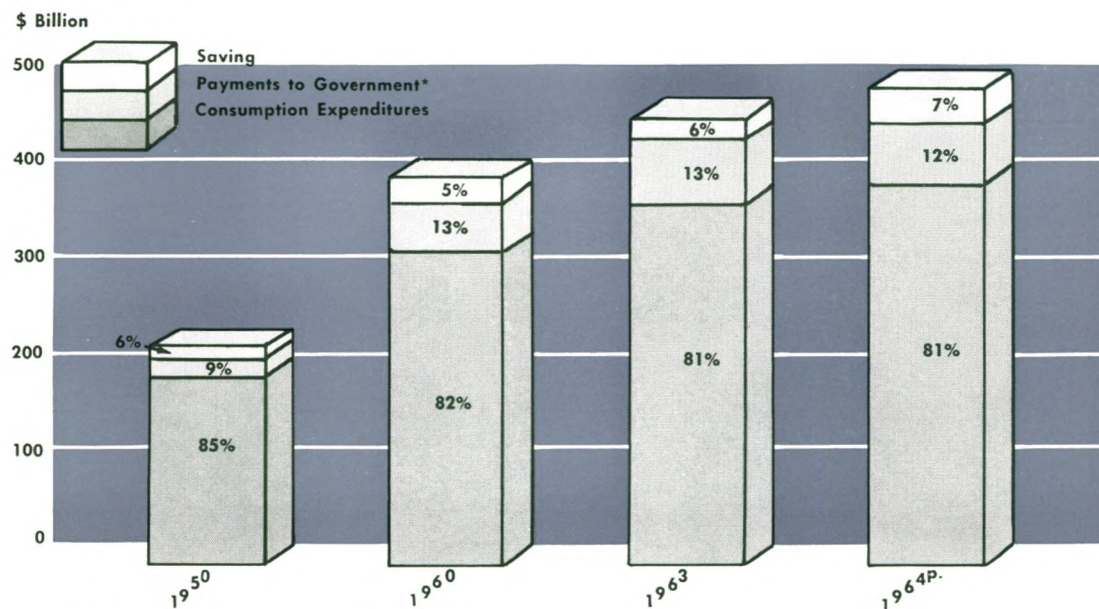


ments of the machines to accept nonsilver coins presents no real difficulty. Most machines now accept nickels which contain no silver. The big problem is how to get machines to accept United States dimes and quarters made of nickel or some other base metal alloy and reject foreign coins made of the same materials. Also, slugs could be made of nickel or copper, and machines would be unable to distinguish them from genuine coins. And so the vending machine industry has a vested interest in silver coins.

The reaction of the general public to a change in the silver content of coins is impossible to predict with any great degree of confidence. The transition from silver certificates has been relatively smooth, but it would appear that the transition in coinage may be more difficult. Ultimate acceptance of the new coins is inevitable, but during the transition period, which some think has already begun, coins will be hoarded, there will be upward pressures on the price of silver, and there will be complaints from the public including editors, columnists, and other spokesmen for those who feel that the value of a coin is related to its metallic content. But the evolving relationship between supply and demand means that some adjustment must be made soon. And since silver is essential for many industrial purposes including those involving national defense and space exploration, and is not essential in coins, a change in the silver content of coins seems inevitable.

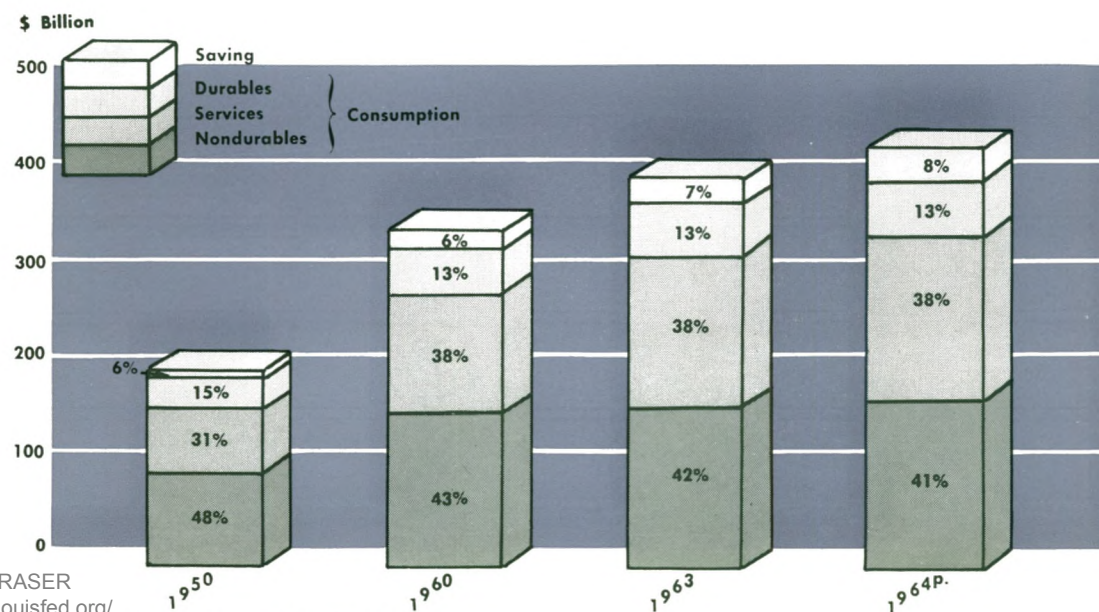


PERSONAL INCOME AND ITS DISPOSITION



*Includes tax and nontax payments.

DISPOSITION OF DISPOSABLE PERSONAL INCOME



Personal income in the United States nearly reached the billion dollar mark last year. Preliminary data for 1964 indicate a level of over \$491 billion, more than double the figure for 1960. From 1960 through 1964, personal income grew at an annual rate of about 5%.

In recent years, approximately four fifths of personal income has been spent for consumption. This fraction has drifted downward gradually since 1950, when it amounted to 85%. On the other hand, the proportion going into tax and nontax payments to Federal, state, and local governments moved up from 6% in the early 1950's to 13% in the early 1960's. Preliminary data indicate that it fell back to 12% last year, reflecting the reduction in Federal income tax rates. The fraction of income saved hovered between 5% and 6% over most of the period, then moved to an indicated 7% last year, again probably as a result of tax cut.

Disposable personal income, or total personal income minus tax and nontax payments, has also more than doubled since 1950. According to the preliminary figures, the increase last year of which was directly attributable to the tax cut, was the steepest since World War II. In most recent years, approximately 94% of after-tax income has been spent for consumption, with the balance going into personal savings. The fraction of disposable income, consumption spending on nondurable goods has drifted slowly downward since 1950. The fraction spent for durable consumer goods has been highly stable since 1960, although it, too, is below its 1950 level. The proportion spent for consumer services rose from 31% in 1950 to 38% in 1960 and has maintained the higher level.

According to preliminary figures, consumers spent \$57 billion on durable goods in 1964, with 43% of this going for automobiles and parts. Furniture and other household durables accounted for the bulk of the remainder. Spending on consumer nondurables totaled \$177 billion. More than two thirds of this total went for food, beverages, clothing, and shoes. Of the estimated \$165 billion spent for consumer services last year, nearly half was accounted for by "other" services—principally medical care, death expenses, and personal business—which have grown significantly in recent years. Expenditures for housing and household operations absorbed most of the remainder.

PERSONAL CONSUMPTION EXPENDITURES BY MAJOR CATEGORIES—1964*

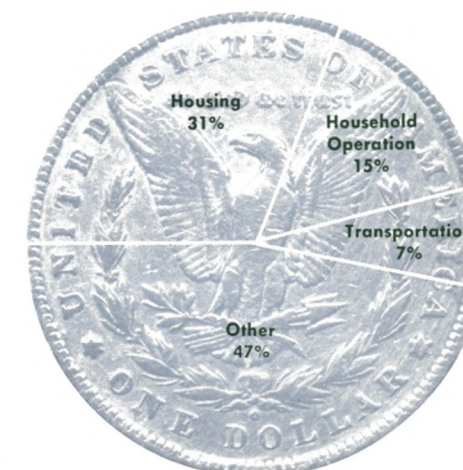
DURABLE GOODS



NONDURABLE GOODS



SERVICES



*Preliminary figures.

Source: U. S. Department of Commerce.

THE DISCOUNT WINDOW

For bankers, the money market is important primarily as a focal center through which adjustments in their reserve and money positions are worked out. Member banks can make the same adjustments by borrowing at the discount window of their Federal Reserve Banks. Thus a bank suffering an unexpected reserve loss can bring its reserve position back to the desired level by arranging a discount or advance at the Federal Reserve. Similarly, a bank experiencing a temporary build-up of reserves beyond desired levels might, instead of placing this surplus in the money market, pay off any borrowings it may owe at the Federal Reserve. In any event, the essential point here is that the Federal Reserve discount window affords to member banks an additional recourse in working out reserve adjustments and, from the standpoint of these banks, may be properly viewed as an operational part of the money market.

Reserve adjustments via the discount window differ in one important respect from adjustments effected in the money market proper. Trading in such instruments as Treasury bills, bankers' acceptances, Federal funds, and the like, among commercial banks or between commercial banks and their customers involves no net creation of new bank reserves. Rather, existing reserves are simply shifted about within the banking system. On the other hand, when changes in borrowings at the discount window result in a net change in Federal Reserve credit outstanding, the volume of bank reserves is affected. Thus the choice by individual banks between the discount window and alternative means of reserve adjustment may have an important impact on the availability of credit and money in the economy at large.

Bankers' decisions as to whether to use the discount window or other segments of the money market for making reserve adjustments depend in an important way on the level of the Federal Reserve's discount rate relative to yields on money market investments. But they depend also on institutional peculiarities in the several parts of the money market and on legal and administrative arrangements regarding use of the discount window. Previous articles in this series have considered the relevant characteristics of the markets for Treasury bills, Federal funds, bankers' acceptances, and commercial paper. This article provides a similar treatment of the practice of borrowing from the Federal Reserve.

Early Discounting Principles Originally, the most important single function of the Federal Reserve System was to provide a pool of funds which could be drawn on by banks experiencing reserve difficulties. The ability of banks to draw on this pool, however, was not envisaged as an absolute right. Rather, it was linked to a widely held theory of commercial banking which is known to monetary students as the commercial loan, or "real bills," principle. According to this doctrine, commercial banks should be allowed to borrow only against short-term, "self-liquidating" paper arising from the normal conduct of legitimate business. To insure adherence to this principle, member banks were initially permitted to borrow only by rediscounting customer loans which met certain closely specified conditions based on the commercial loan theory. Promissory notes and other credit instruments meeting these specifications were defined as "eligible paper"—eligible, that is, for rediscount at the Federal Reserve.

By and large, the commercial loan principle dominated member bank use of the discount window until the banking crisis of 1933. In this period, trading in such money market instruments as short-term Government debt and Federal funds was not nearly so well developed as at present. It is true that banks made extensive use of bankers' acceptances, commercial paper, and call loans against stock exchange collateral for reserve adjustment purposes. But they also relied heavily on the discount window. Many bankers made it a regular practice to hold a supply of eligible paper which would be readily available for reserve adjustment through the discount window. Throughout the 1920's, for example, average daily borrowings at the discount window regularly exceeded \$500 million and at times amounted to more than twice that figure.

From the 1930's to the Accord The banking reforms of the 1930's incorporated features designed to encourage use of the discount window by banks. In some measure, these features were related to a growing conviction that the commercial loan principle and the eligibility requirements unduly restricted banks in their efforts to secure central bank assistance in times of stress. In any event, the effect of these reforms was to sweep away the "real bills" basis for discounting, although the concept of eligible paper

was retained in the language of discount regulations.

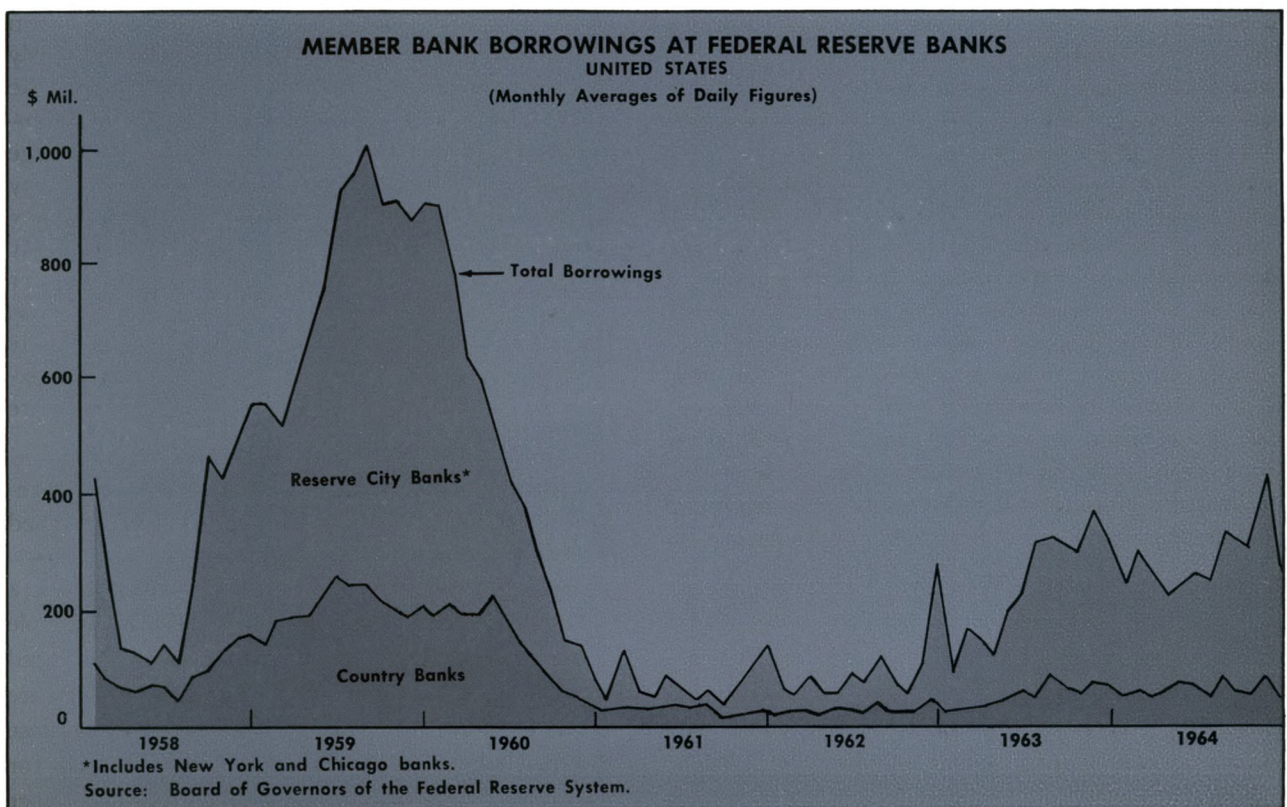
At an early stage in Federal Reserve history, member banks were allowed to borrow on their own notes, secured by eligible paper or Government securities, instead of through rediscounting customer paper. Since 1933, direct advances against Government securities have accounted for most Federal Reserve lending. In addition, banking legislation of the 1930's incorporated a new section, 10(b), into the provisions of the Federal Reserve Act, authorizing Federal Reserve loans to member banks against any collateral satisfactory to the lending Reserve Bank.

Despite the encouragement of these changes and of low discount rates, banks used the discount window sparingly between 1933 and 1951. From 1934 to 1940, for example, daily borrowings generally averaged below \$10 million. For the most part, banks held large excess reserves in this period and were under little pressure to borrow. Even after the business recovery of the early 1940's, borrowing remained at low levels. By that time, banks held large quantities of Government securities and the Federal Reserve's practice of pegging the market for these securities, instituted in 1942, made it convenient for banks to adjust reserve positions through sales of Governments. The Treasury-Federal Reserve Accord in the spring of 1951, however, ended the pegged

market for Government securities and began a new chapter in the history of the discount window.

Discounting since the Accord Prices of Government securities fluctuated over a broader range after the Accord and it became riskier for banks to rely on these securities as a source of reserves when adjustments were necessary. Consequently, banks began to reassess the relative attractiveness of the discount window. Partly for this reason, borrowings jumped sharply. In 1952 they passed the \$1 billion level for the first time in a generation and for most of the 1950's were at levels comparable in absolute (though not in relative) terms with those of the 1920's.

The renewed importance of the discount window, coming in an overall economic and credit environment quite different from that prevailing in the 1920's, suggested the need for a general review of the principles on which the discount privilege was based. In 1955, after an extended inquiry, the Board of Governors promulgated a major revision in its Regulation A, which sets forth the ground rules under which member banks use the discount window today. As embodied in Regulation A, administrative restrictions on use of the discount window relate to the broader aspects of the Federal Reserve's operations rather than to any particular banking theory. For



example, Regulation A recognizes that borrowing by member banks creates new reserves and, unless subject to some restraint, could conflict with broader programs to achieve such national goals as price stability and high employment. It also recognizes the necessity for insuring that the public resources administered by the Federal Reserve are not used to support questionable banking practices but rather to guarantee continuity of effective banking services to the public.

Generally, Regulation A envisages use of the discount window as a temporary expedient open to member banks facing reserve adjustments necessitated by developments more or less normal to a dynamic economy. Thus, reserve needs occasioned by extraordinary seasonal swings in credit demand or in deposits may give rise to "appropriate" borrowing. Similarly, reserve problems associated with emergency situations affecting a community or a region, or with local or regional secular change, provide "appropriate" reasons for borrowing.

Continuous borrowing at the discount window is considered "inappropriate," whatever its purpose. Continuous discounting by an individual bank suggests use of central bank funds as a supplement to the borrowing bank's capital resources. It also implies that the borrowing bank is confronting permanent reserve difficulties that should be corrected through basic portfolio adjustments. Regulation A enumerates other specific purposes for which use of the discount window is "inappropriate." These include borrowing to finance speculation in securities, real estate, or commodities, to obtain tax advantages, or to profit from interest rate differentials.

Within the constraints embodied in Regulation A, the discount window is open to member banks in a variety of situations that may be considered more or less normal to commercial bank operations. For example, resort to the discount window for temporary aid in working out portfolio adjustments to meet especially meritorious local credit demands is also viewed as appropriate. More generally, as long as a bank demonstrates in its overall performance its intention to operate within the limits of its own resources, it can usually arrange temporary accommodation to cover a variety of problems.

Administration of the Window Currently, most Federal Reserve loans to member banks are made under the provisions of Section 13 of the Federal Reserve Act and are in the form of direct advances secured by Government obligations. Section 13 advances can also be made against eligible paper, which includes a variety of commercial, agricultural, and

industrial paper, bankers' acceptances and other bills of exchange, construction loans, and factors' paper. The use of eligible paper as collateral has been negligible in the past, but this possibility is currently attracting more interest due to the diminished availability of Government securities collateral at banks.

Loans under Section 10(b), which may be secured by any collateral satisfactory to the lending Reserve Bank, are relatively unimportant in current discount activity. In part, this is because the rate charged on 10(b) loans is $\frac{1}{2}$ percentage point higher than on Section 13 loans. Moreover, depending on the collateral offered, 10(b) loans may involve some delay. Banks borrowing under this Section usually have done so as a last resort and have offered chiefly municipal securities as collateral.

Maturities of up to 90 days are authorized on Section 13 loans, while the statutory limit on 10(b) maturities is four months. In practice, however, borrowings under either Section are almost always for a maximum of 15 days. Notes may, of course, be anticipated, or partial payment made at any time, in which case unearned discount is rebated.

Loan applications by borrowing banks are made to the appropriate Federal Reserve Bank and are processed by the Reserve Bank's discount department. Processing is simplest and most prompt when the collateral offered is Government securities. These involve no credit-rating problems. Applications for advances against eligible paper take more time, since the Reserve Bank must verify the eligibility of the collateral, then analyze and value it. Because of this, member banks often submit eligible paper collateral in advance of the date of the borrowing. In 10(b) applications processing is prompt when municipal securities are offered as collateral, but delays may result when customer notes are offered.

Borrowing Levels The level of borrowings at the discount window fluctuates over a wide range, as shown in the chart on page 9. Generally, borrowings are greatest when money is tight, and their level is often taken as an index of the degree of tightness in credit markets. Tight money also means high money market rates, including the discount rate, and this explains why borrowings usually increase with the discount rate, contrary to the relationship between quantity and price in other markets.

Small and large banks use the discount window. In recent years, however, reserve city banks have accounted for the greater dollar volume of borrowings. Country banks have regularly accounted for a substantial number of borrowings and for a sizable fraction of the dollar volume.

THE FIFTH DISTRICT



BANKING SUMMARY 1964

Fifth District member banks experienced another good year in 1964. Data for the year as a whole show a continuation of the recent upward trend in net earnings and in both demand and time deposits. As in other recent years, the banking structure of individual states in the District also continued to undergo change.

Operating Income and Expenses Total operating income at Fifth District member banks rose to \$604.7 million in 1964, up 14.0% from the 1963 total. Total operating expenses expanded even more rapidly, rising 14.8% to approximately \$419 million. Nevertheless, net income before taxes as a percentage of capital rose from 16.5% in 1963 to 17.1% in 1964.

The greatest portion of the expansion in operating income was provided by an increase in interest and

discount on loans, which rose 16.8% to \$394.2 million, compared with a rise of 14.0% in 1963. Loans continued to gain importance as a source of income, primarily as a result of growth in the volume of loans relative to other earning assets. The average rate of return on loans also rose.

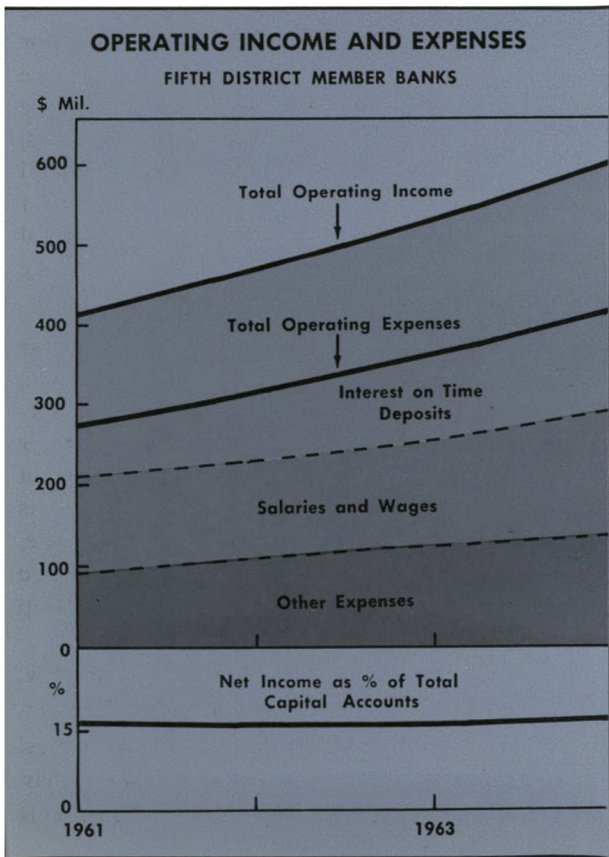
The expense items showing the greatest change in 1964 were interest and discount on borrowed money, which increased 72.2%, and interest on time and savings deposits, which rose 21.5%. The hike in the discount rate and in Regulation Q ceilings in November contributed to these increases, but expanded borrowings and rapid growth in time deposits were chiefly responsible.

Current operating expenses continued their steady rise in 1964. The number of bank officers in the District rose from 5,138 to 5,396 during the year, and salaries paid officers rose 10.8% to \$55.4 million. Employment of other personnel climbed from 24,957 to 25,498, and their compensation rose 9.5% to \$96.4 million. Nonsalary fringe benefits for officers and employees increased 12.2% to \$18.4 million.

Net income before taxes rose 14.9% to \$169.2 million in 1964. The increase compares with 3.4% in 1963. After-tax net income advanced 21.0% to \$105.0 million, compared with a 6.8% gain in 1963. Net income after dividends and taxes rose to \$59.4 million, up 27.4% from the 1963 level.

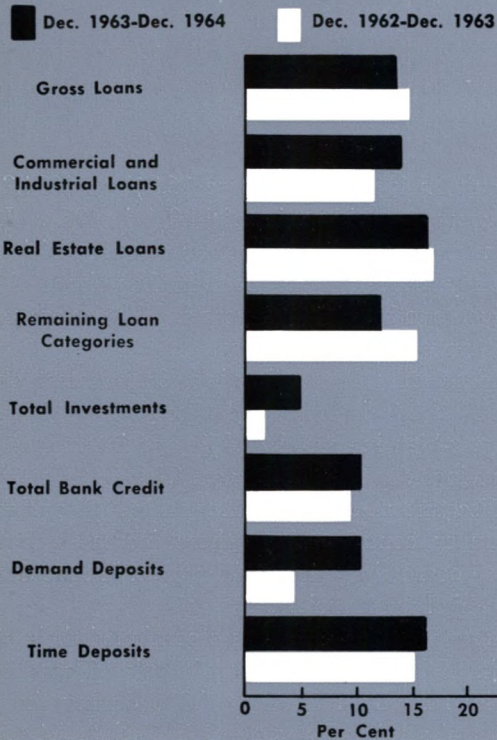
Bank Credit and Deposits Loans and investments of Fifth District member banks expanded 10.4% last year, and at the end of December totaled more than \$11 billion. This compares with a gain of 9.6% in 1963. Investment activity turned up sharply, but loans rose more in dollar volume. Demand deposit growth continued to lag behind time deposit gains, but by a smaller proportion than in recent years. The chart on page 12 compares loan, investment, and deposit activity for the last two years.

Gross loans at District member banks rose to \$7.1 billion in 1964. The increase amounted to 13.6%, somewhat less than the 14.7% gain in 1963. Commercial and industrial loan expansion of 14.0% was well above 1963's 11.9% rate, but real estate loans grew slightly less rapidly last year than in 1963.



CHANGES IN LOANS, INVESTMENTS AND DEPOSITS

FIFTH DISTRICT MEMBER BANKS



Growth in the total of all remaining loan categories was 12.1% in 1964, down from 15.4% in 1963.

Total investments of District member banks amounted to \$3.9 billion at the end of 1964. During the year they rose 5.0%, considerably more than the 1.9% gain in the preceding year. Most of the 1964 expansion occurred in municipal and corporate securities, which advanced 13.6%, compared with an increase of 1.3% in U. S. Government securities. In 1963, holdings of municipals and corporates rose 20.2%, while holdings of U. S. Government securities declined 4.5%.

Demand deposits at Fifth District banks climbed 10.2% in 1964 and totaled \$7.9 billion at the end of the year. Time deposits grew 16.3% to \$4.3 billion over the same period.

Changes in Banking Structure The banking structure of the Fifth District continued to change substantially in 1964. At the end of 1963, there were 888 banks in the District. During 1964, 20 new banks were organized and 24 were eliminated through merger or absorption. One bank was liquidated. The net result was a reduction to 883 banks at the end of 1964. The number of banking offices increased substantially, however. District banks opened 143

new branches and discontinued only seven. In addition, 24 banks were converted into branches as the result of mergers. The net increase of 160 branches brought total banking offices to 1,841 at the end of the year.

Alterations in Virginia's banking structure were again, as in 1963, the most numerous in the District. Banks in Virginia are still adjusting to the 1962 legislation which permits branching through merger on a statewide basis. There were 14 mergers in Virginia in 1964, and 48 new branches were opened. Twelve of the 20 new banks organized in the District during the year were in Virginia. One of the new banks was established by the Federal Deposit Insurance Corporation to replace the insured non-member state bank which was liquidated. The FDIC bank is a national member bank, established on a temporary basis.

Maryland was second in terms of net increase in banking offices with four new banks, one eliminated through merger, and a net addition of 33 branches. North Carolina showed a net increase of 36 branches with four mergers and no new banks.

The number of banking offices in South Carolina increased by 19 during the year, while in the District of Columbia one new bank and seven new branches were opened. West Virginia law does not permit branching, but three new banks were opened in the state in 1964 to bring the state's total to 185.

CHANGES IN NUMBER OF BANKS AND BRANCHES

FIFTH DISTRICT*

December 31, 1963 to December 31, 1964

Commercial Banks

| | |
|--------------------------------------|-----|
| Number of banks, beginning of period | 888 |
| New banks organized | 20 |
| Mergers and absorptions | 24 |
| Liquidations | 1 |
| Number of banks, end of period | 883 |
| Net change | - 5 |

Branches

| | |
|---|-------|
| Number of branches, beginning of period | 1,681 |
| New branches established | 143 |
| Banks converted into branches | 24 |
| Branches discontinued | 7 |
| Number of branches, end of period | 1,841 |
| Net change | + 160 |

Net Change in Banking Offices

+ 155

*Including six West Virginia counties which fall outside the Fifth District.