ANNUAL REPORT 1950

FEDERAL RESERVE BANK
OF DALLAS

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS

R. R. GILBERT
PRESIDENT

To the Stockholders of the
Federal Reserve Bank of Dallas:

I am pleased to submit to you the Annual Report of the Federal Reserve Bank of Dallas for the year 1950. This report presents, in addition to a statement summarizing the internal operations of the bank, a review of economic activity in the Eleventh Federal Reserve District, some of the more important central banking actions taken during the year, and a brief summary of developments affecting Government securities.

I should like to take this opportunity to express my appreciation for the cooperation which you have so generously given the management of the bank. If any stockholder should desire further information on matters within the sphere of this bank's responsibility, I hope you will feel free to write me.

Sincerely yours,

R. R. Gilbert

R. R. Gilbert
President

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* *Deceased February 12, 1951.*

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Business at a Glance

	1950	1949	Percentage change
◆ ***Department Store Sales*** *(1935-39 = 100)* .	417	385	+8.3
◆ ***Bank Debits*** *(24 Cities)*	$55,010,232,000	$46,208,892,000	+19.0
● ***Manufacturing Employment***	706,000	655,000	+7.8
◆ ***Crude Petroleum Production*** *(Barrels)* .	926,799,000	831,128,000	+11.5
◆ ***New Wells Drilled***	18,585	15,489	+20.0
◆ ***Construction Contracts Awarded*** . .	$ 1,190,343,000	$ 756,814,000	+57.3
◆ ***Residential Contract Awards***	$ 554,681,000	$ 299,132,000	+85.4
◆ ***Nonresidential Contract Awards*** . .	$ 635,662,000	$ 457,682,000	+38.9
● ***Cash Receipts from Farm Marketings*** *(Est.)*	$ 3,300,000,000	$ 3,437,218,000	–4.0
● ***Crop Production*** *(1935-39 = 100)* . . .	112	155	–27.7
● ***Livestock and Products*** *(1935-39 = 100)*	126	120	+5.0
◆ ***Member Bank Deposits*** *(December 31)* . .	$ 7,198,697,000	$ 6,438,675,000	+11.8
◆ ***Member Bank Loans*** *(December 31)* . .	$ 2,406,140,000	$ 2,030,838,000	+18.5
◆ ***Member Bank Resources*** *(December 31)* .	$ 7,657,094,000	$ 6,839,209,000	+12.0

◆ *Eleventh Federal Reserve District*

● *Arizona, Louisiana, New Mexico, Oklahoma, and Texas*

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FEDERAL RESERVE BANK OF DALLAS

Review of Economic Developments

The indicators of economic activity in the Eleventh Federal Reserve District and the five states lying wholly or partly in the District emphasize the prosperity, full production, and full employment that prevailed in the Southwest during 1950. Such major sources of income as petroleum production and refining, construction, manufacturing, livestock production, and general trade and services showed increases which raised the total income of the area from 5 percent to 10 percent above the $15,700,000,000 of the preceding year. Only crop production and cash receipts from farm marketings — restricted by government edicts, unfavorable weather, and insect infestation — showed declines from 1949 totals.

The picture of economic activity in the Southwest in 1950 was different from that in the Nation only to the extent that, in general, percentage gains in this area were larger. The new decade opened on the same note that was characteristic throughout most of the forties — unusual economic growth, expansion, and prosperity, as measured in such terms as income, profits, and utilization of the area's material and human resources.

It is significant that this first year of the new decade experienced many of the same violent changes, foreboding developments, and stimulants that were present in 1940. Moreover, 1950 foreshadowed many of the same problems that appeared in the outlook in 1940 — problems of shortages, spreading government controls over private enterprise, increasing production to meet a growing government-private demand, and inflation, or a continuing decline in the purchasing power of the dollar. These actual and impending developments must tend to lessen somewhat satisfaction with the accomplishments of 1950.

During the first few months of 1950, although economic activity was maintained at high levels, the threat of surpluses in the products of some of the District's major sources of income, such as agriculture and petroleum, was becoming imminent. It was also generally recognized that expanding credit and more lenient credit terms were helping notably to sustain the unusual demand for major durable goods and housing. Many analysts and businessmen looked forward with some concern to the possibility of a decline in economic activity during the last half of the year. The Korean War and the deterioration of international relations abruptly changed that outlook, and the Nation and the Southwest began to take steps toward converting to the "garrison economy" that the new situation requires.

PETROLEUM

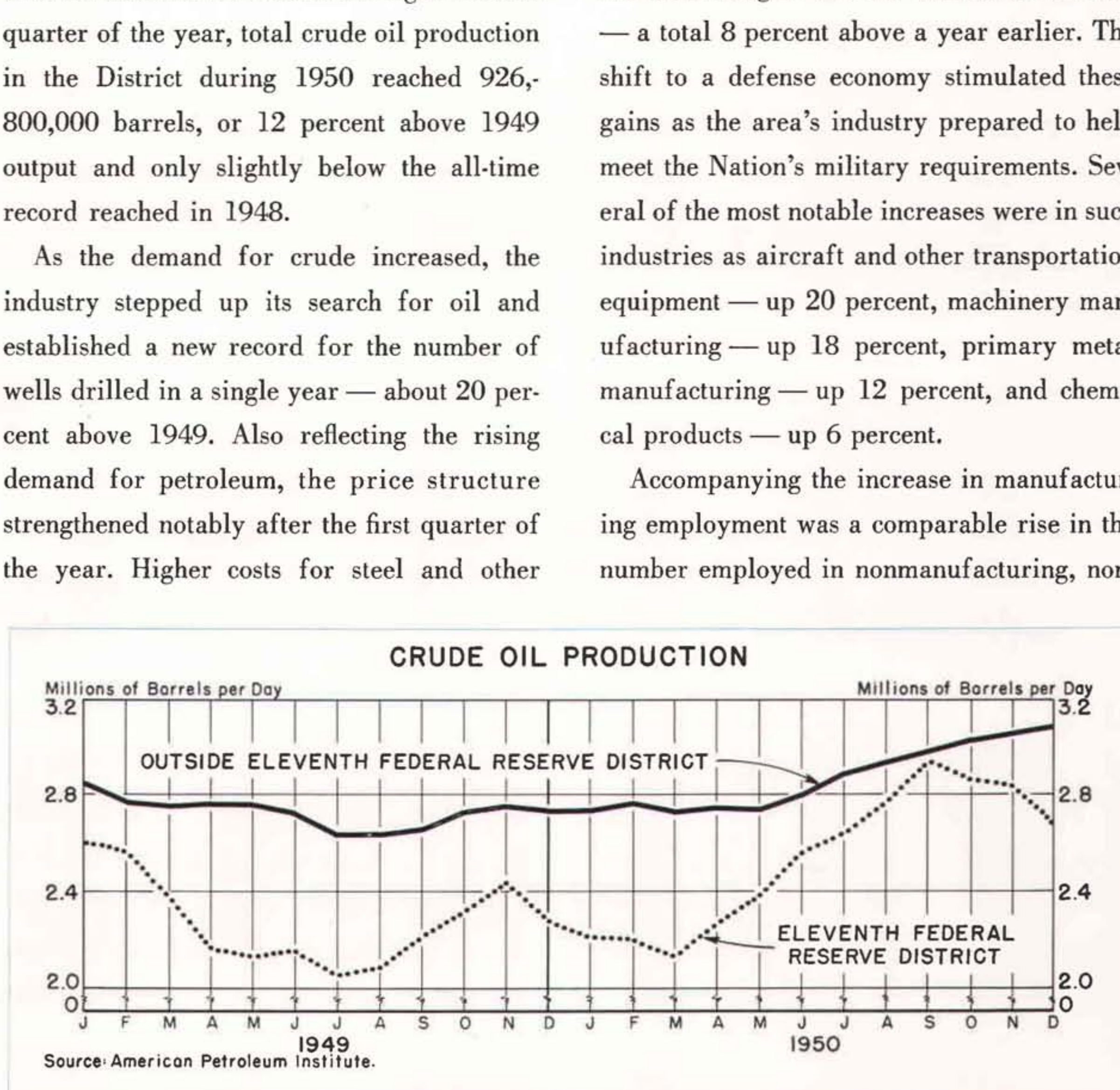
Crude petroleum production in the Eleventh District decreased during the first quarter of 1950, in response to somewhat lower than expected demand. Between March and September, however, output of the District's wells rose steadily to reach a new record of 2,929,210 barrels per day. Despite a moderate contraction in allowables during the fourth quarter of the year, total crude oil production in the District during 1950 reached 926,800,000 barrels, or 12 percent above 1949 output and only slightly below the all-time record reached in 1948.

As the demand for crude increased, the industry stepped up its search for oil and established a new record for the number of wells drilled in a single year — about 20 percent above 1949. Also reflecting the rising demand for petroleum, the price structure strengthened notably after the first quarter of the year. Higher costs for steel and other materials and higher wage rates exerted upward pressure on prices, although the industry was successful in holding a generally stable price line.

MANUFACTURING

Most of the major manufacturing industries showed gains in employment in 1950, indicating a larger volume of output, as hours of work tended to increase and technological progress improved productivity. At the end of the year about 700,000 were employed in manufacturing in the five southwestern states — a total 8 percent above a year earlier. The shift to a defense economy stimulated these gains as the area's industry prepared to help meet the Nation's military requirements. Several of the most notable increases were in such industries as aircraft and other transportation equipment — up 20 percent, machinery manufacturing — up 18 percent, primary metal manufacturing — up 12 percent, and chemical products — up 6 percent.

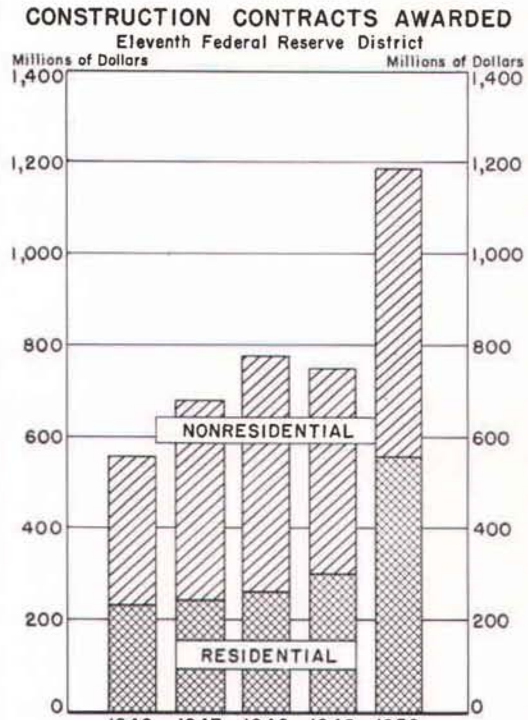
Accompanying the increase in manufacturing employment was a comparable rise in the number employed in nonmanufacturing, non-



agricultural industries, with retail trade contributing a large part of the increase. By mid-December, nonfarm employment in the five southwestern states was at an all-time peak — about 4,000,000 — 5 percent over the total reported at the end of 1949.

CONSTRUCTION ACTIVITY

Led by residential contract awards, the construction boom in the Eleventh Federal Reserve District substantially outpaced the increase for the Nation as a whole. Residential contract awards of $555,000,000 (85 percent above 1949) and nonresidential awards of $636,000,000 (39 percent above 1949) combined to establish a new record for total construction contracts awarded in the District. The abnormally large increase in the volume of construction extended its influence to the building materials industry, the demand for construction labor, and the level of construction wage rates. The output of building materials rose substantially, and full employment prevailed among construction workers at favorable wage rates.



Source: F. W. Dodge Corporation.

AGRICULTURE

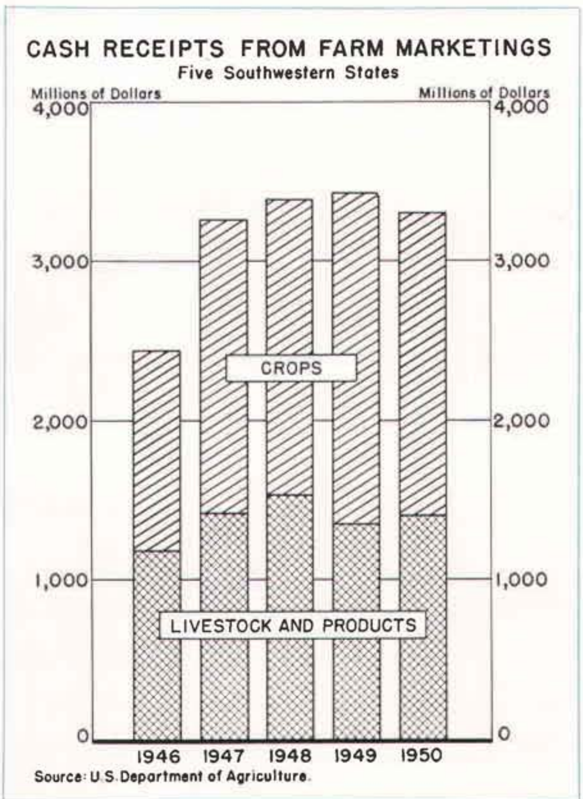
Lower crop production, higher prices, and lower income were characteristics of agriculture in the District in 1950. Year-end results, however, were much more favorable than had been anticipated 12 months earlier. In fact, the year was one of sharp contrasts and changes.

In response to fears of overproduction and surpluses, government restrictions were imposed upon such important crops as cotton, wheat, peanuts, and rice. By the end of the year the fear of shortages caused the Government to remove most restrictions and urge all-out production. Whereas early in the year a downward price movement had been expected, sharp increases during the last 6 months raised the prices of farm products to record or near-record highs. Instead of a decline in the District's cash farm income of as much as 20 to 25 percent from the record 1949 level — forecast early in 1950 — year-end estimates indicate a decline of perhaps less than 5 percent.

Reduction in crop acreage and lower yields resulted in smaller harvests of cotton, wheat, peanuts, citrus fruits, and several other important agricultural commodities, while larger harvests were obtained from such crops as grain sorghums, rice, commercial vegetables, and corn.

In contrast with declining crop production, the output of livestock and livestock products in the District rose about 5 percent in 1950 as farmers and ranchers stepped up their production of beef, veal, lamb, pork, poultry, and milk. Major livestock products showing smaller production were wool and mohair.

Prices of farm commodities in the District advanced about 40 percent during 1950, with most commodities at the year's high in December. Largest price increases were reported for cotton and cottonseed, cattle and calves, hogs, sheep and lambs, rice, wool, and mohair. Higher prices offset to a considerable degree the effect of lower production upon income, with the result that cash receipts from farm marketings in the five southwestern states totaled perhaps $3,300,000,000, as compared with $3,400,000,000, the record reached in 1949.



The District's farm operators added substantially to their capital through large purchases of machinery and equipment, reduced their indebtedness, achieved more efficient farm management practices, made encouraging progress in soil conservation, and enjoyed the advantages of better systems of crop rotation. At the year's end farmers of the District owned a larger equity in the agricultural resources of the area than in many years.

TRADE

Department stores and retail outlets in the District enjoyed a banner year in 1950. Sales volume was very heavy and reflected the high level of consumer incomes resulting from the expansion of petroleum activity, booming construction, rising employment, large government payments (including the veterans' insurance refund), and favorable agricultural marketings. Liberalization of credit terms during the first half of the year and war-scare buying and buying in anticipation of consumer credit controls during the third quarter strongly stimulated the sale of durable goods. Regulation W tended to check the rising volume of durable goods sales during the closing months of 1950, but an unusually heavy Christmas demand for a very wide variety of merchandise raised retail sales to new high levels. The index of department store sales in the District showed an increase of about 8 percent over 1949.

Improvement in the efficiency of sales personnel, success in reducing handling costs of stocks, and fewer markdown and clearance sales improved profit margins of retailers.

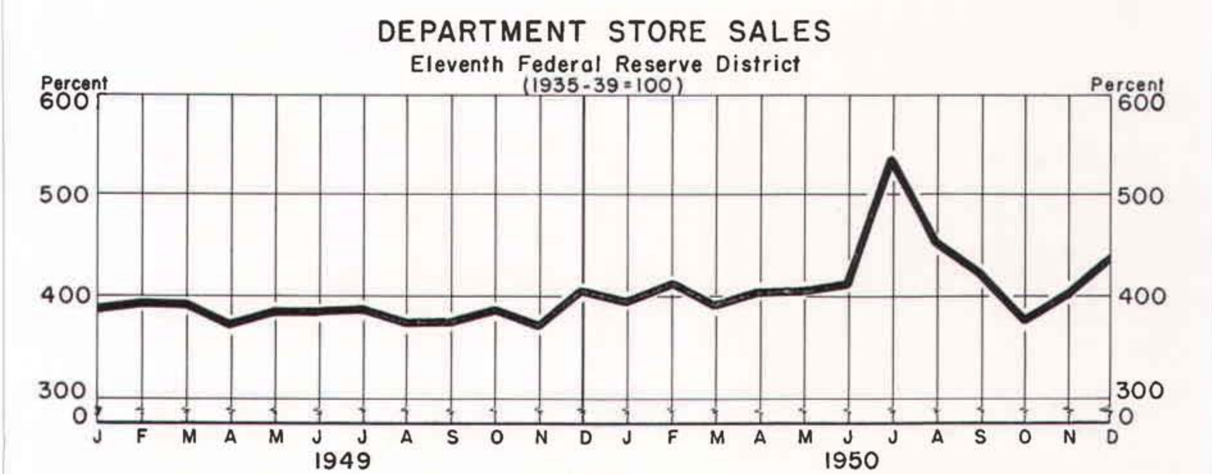
These developments plus the increased volume of business made 1950 a very profitable year for retailers as a group.

A large increase in instalment receivables of department stores in the District indicates the importance of credit as one supporting factor in the 1950 sales volume. By October 1, instalment receivables had increased 57 percent. Collections on instalment accounts were slower during 1950; the collection ratio averaged 12 percent between June and October, the lowest level on record. This trend during the year reflected largely the longer pay-out periods and smaller down payments. A slight improvement occurred during the last 2 months of the year following the tightening of Regulation W.

Retail inventories were generally larger at the end of 1950 than a year earlier, as merchants attempted to obtain stocks of goods as a protection against probable shortages and anticipated price increases in the months ahead. Department store stocks were about 24 percent higher on December 31, 1950, than on the same date of 1949, while retailers of many durable goods, such as major appliances, furniture, used cars, tires and batteries, and television sets, were actively seeking merchandise at the year's end.

The high level of trade and business also is reflected, in a general way, by the increase in bank debits during the year. Banks in 24 cities in the District reported an increase of 19 percent in the amount of checks drawn against deposits during 1950 — the total exceeding $55,000,000,000. Moreover, during each of the last 6 months of the year, debits were about $1,000,000,000 larger than during the comparable months of 1949.

Still another indication of the willingness of individuals and businesses to spend is the increase in the annual rate of turnover of bank deposits. During 1950 bank deposits turned over about 13.8 times a year, as compared with 12.7 times in 1949. Following the Korean development, as the public and businesses became more inflation-minded, the use of bank deposits turned up sharply and in December was running at a rate of about 16.6 times a year.



BANKING

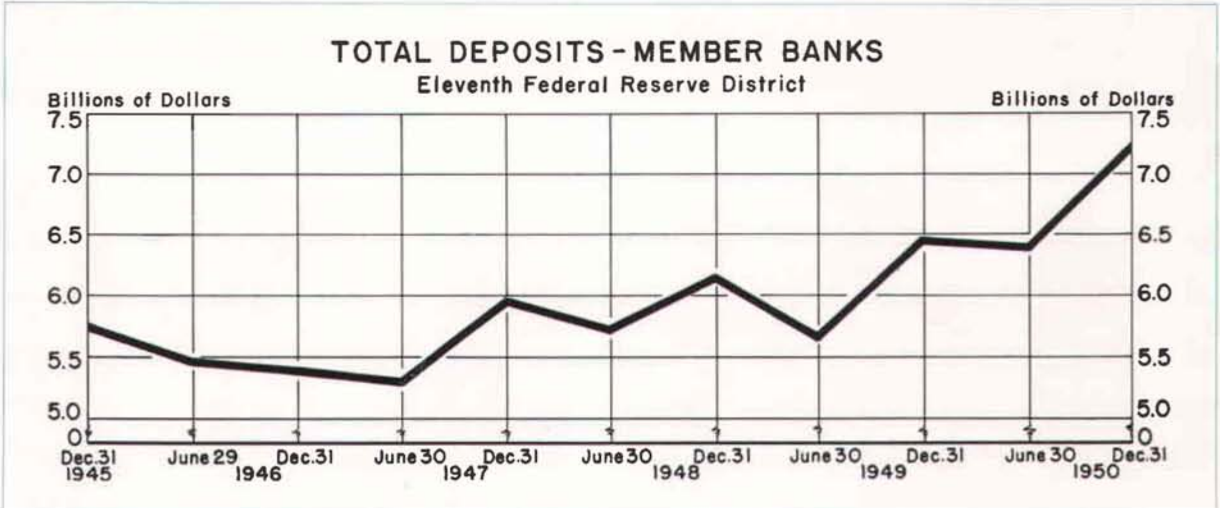
All Member Banks — Inasmuch as banking both reflects and facilitates business, industrial, and agricultural activity in the area which it serves, it is not surprising that the principal asset and liability accounts of the District's member banks showed substantial increases during 1950. As was the case in other types of economic activity, member banks closed the year with most of their major accounts at record levels. Seasonal declines during the first half of 1950 generally were somewhat less than might have been expected, while the boom following the outbreak of war in Korea was clearly reflected in abnormally rapid growth during the last 6 months.

Loans of all member banks in the District rose by $375,000,000 during the year, or more than twice as much as in 1949. The total loan increase was distributed widely throughout the District and occurred in commercial and industrial, agricultural, real estate, and consumer credits.

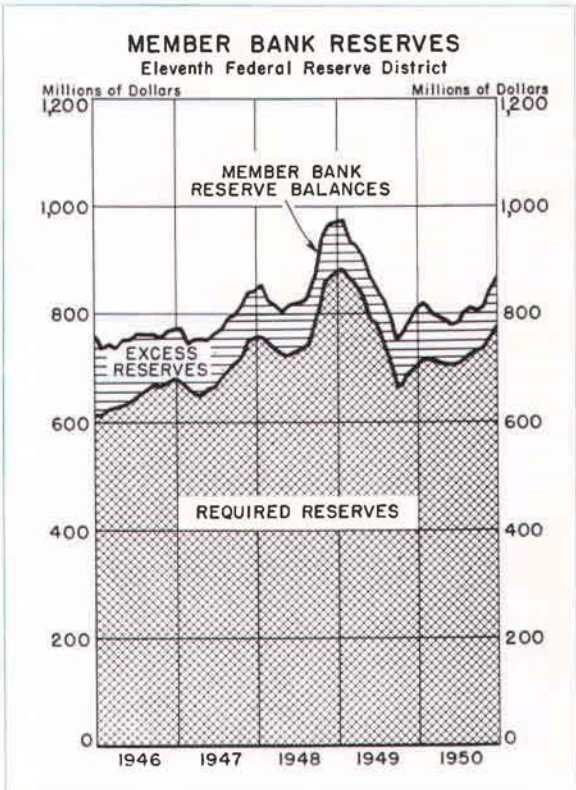
An increase in bank credit also occurred with respect to investments. Member banks added $42,000,000 to their holdings of Government securities and $53,000,000 to their investment in other securities — principally issues of local government units.

The high level of business and industrial activity, the expansion of bank credit, and a net flow of Treasury funds into the District resulted in a notable growth of $760,000,000 in member bank deposits, raising total deposits of these banks to more than $7,198,000,000 at the end of 1950 — an all-time record high. That increase in 1950 compares with an increase of $300,000,000 in 1949. All of the growth in 1950 occurred in demand deposits and took place during the last half of the year. Time deposits showed an increase of $18,000,000 during the second quarter of 1950, resuming the upward trend of the preceding year. Following the Korean outbreak, the growth in time deposits of individuals, partnerships, and corporations was checked, while other forms of time deposits declined. As a result of these changes, time deposits declined about $3,000,000 during the year.

Reserve balances of the District's member



banks declined moderately during the first several months of the year, reaching the low point for 1950 during May. Thereafter, average balances increased each month and during the last half of December totaled $883,536,000, a gain for the year of about $68,263,000. Factors influencing reserve balances included a net outward flow of funds as a result of interdistrict commercial and financial transactions, a more-than-offsetting inward flow of funds from Treasury operations, and a moderate increase in Federal Reserve credit and other Federal Reserve accounts. Thus, banks obtained reserves to meet the rising requirements that were the result of the very large growth in deposits that occurred during the year. There were no changes in legal reserve requirements during 1950.



Although reserve positions of individual banks and, in fact, broad classes of banks naturally varied widely as to ease or tightness, excess reserves of the District's member banks on the whole were generally large enough to permit considerable freedom with respect to loan and investment policies. During most months of the year excess reserves averaged about $80-85,000,000, or approximately 10 percent of total reserve balances.

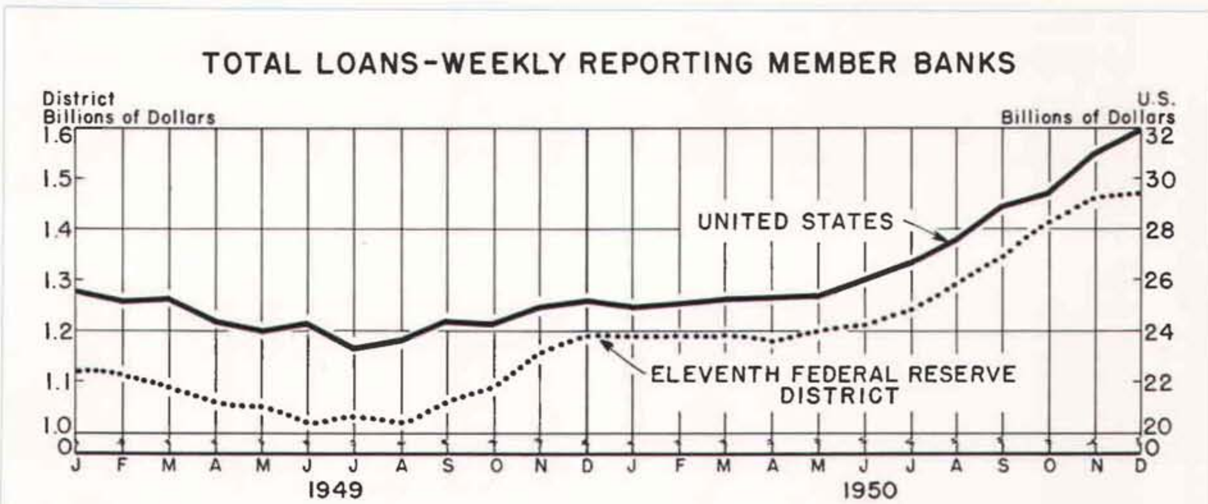
Weekly Reporting Member Banks — Trends reflecting developments at these larger banks in the District generally were similar to those which were characteristic of all member banks. Year-end totals of the weekly reporting member banks showed 1950 to be a record-breaking year in all important respects — resources, earning assets, deposits, and capital structure. Moreover, the growth in resources and capital structure of these banks — not only in 1950 but throughout the past 10 years —has strengthened greatly their ability to provide the banking services that are an essential requirement of a rapidly expanding economic area such as the Southwest.

The most significant development at the weekly reporting member banks was the abnormally strong demand for credit and the very large increase in bank loans during the last 6 months of the year. Even early in 1950 the persistent demand of borrowers for bank credit limited the usual decline, but beginning in late June the demand strengthened to such an extent that an almost unbroken succession of weekly increases was reported throughout the remainder of the year. Total loans of these banks rose to $1,477,000,000 late in December, or an increase of about $287,000,000 for the year and $263,000,000 for the July-December period. The rate of increase — about 22 percent — during the last 6 months of 1950 was about the same as for the Nation's weekly reporting member banks.

The demand for bank credit was not restricted to particular types but was consistently strong from all major classes of borrowers. Between December 28, 1949, and June 28, 1950, commercial, industrial, and agricultural loans showed a very slight seasonal decline amounting to about $11,000,000, or less than 1½ percent. On the other hand, real estate loans and "other" loans — including consumer-type credits — increased steadily, with the former rising almost 10 percent and the latter about 11 percent. During the last 6 months of the year a very substantial increase in commercial, industrial, and agricultural loans occurred, amounting to $202,000,000, or almost 25 percent; real estate loans increased $16,000,000, or about 16 percent; and "other" loans increased $36,000,000, or about 16 percent.

The large loan volume was the result of such factors as the increased demand for business funds as a result of higher prices and higher costs of doing business, the financing required to move a large volume of agricultural commodities to markets, the efforts of businesses to increase inventories to keep pace with sales volume and to protect against price increases and expected shortages of goods and materials, activities stimulated by speculative and inflationary ventures, the extremely active condition in the construction and real estate field, and the abnormally strong demand for consumer durable goods.

Investments of the weekly reporting member banks showed a decline during 1950 as moderate reductions were made in holdings of Governments, partially offset by additional investment in other securities. Principal changes in the U. S. Government security portfolios included declines in investment in certificates and bonds and increases in holdings of Treasury bills and notes. Higher yields on Treasury bills, especially during the last 4



months of the year, induced banks to place additional funds in those issues; while the character of Treasury refunding offerings, which gradually replaced the certificates of indebtedness with Treasury notes, accounts for the shift in holdings of those issues. Net changes in investments during the year showed a decrease in U. S. Governments of about $62,000,000 and an increase in other securities of almost $25,000,000.

Total deposits of the weekly reporting member banks showed an increase of more than $375,000,000 during the year, with all of the increase occurring during the last 6 months. Adjusted demand deposits, reflecting largely the demand deposits of individuals, partnerships, and corporations, were relatively stable until the middle of June, with the range of fluctuation being within a few million dollars. After that date, this class of deposits moved upward and at the end of the year was more than $190,000,000 higher than a year earlier. A substantial increase — about $119,000,000 —also occurred in interbank demand deposits during the year.

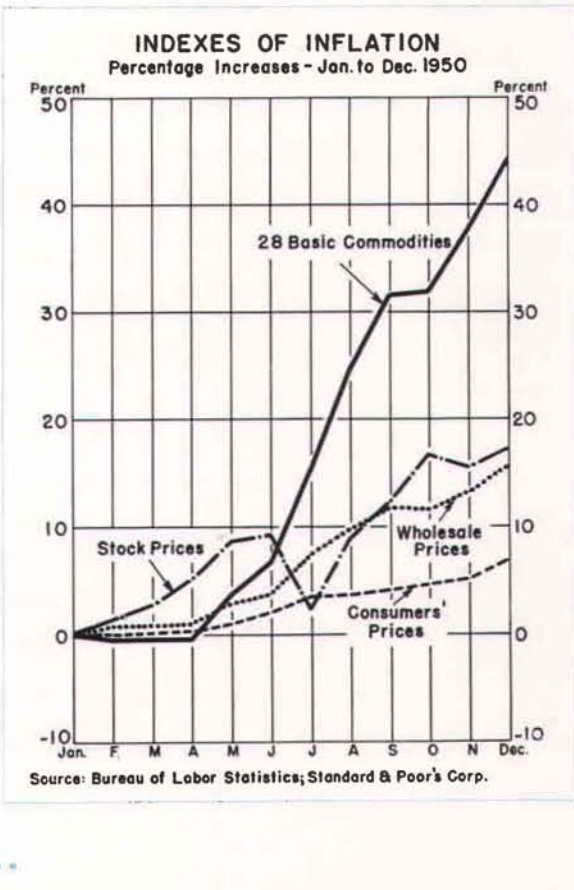
INFLATION

Inflationary forces and trends, which built up rapidly in strength and degree during the last half of 1950, presented the most serious domestic economic problem of the year.

During the preceding postwar years the inflationary potential was known to be dangerously large; it consisted of vast holdings of liquid assets, very large bank holdings of Government securities readily convertible into bank reserves, a relatively low turnover of the huge volume of bank deposits, and the ability of individuals and businesses to expand their use of credit in one form or another.

The actual decline in the purchasing power of the dollar during that period, although substantial, was much less than might have occurred had a strong inflation-consciousness pervaded public and business thinking. Expanding production, prompt satisfaction of backlog demands for goods, anticipations of wholly adequate or even excessive supplies in the foreseeable future, and, at times, moderately restrictive debt management and credit policy tended to restrain somewhat the inflationary growth. Even during the first several months of 1950 measures of inflation such as the major price indexes showed comparative stability.

The outbreak of war in Korea and the sud-



den need for transition to a defense economy caused an abrupt and very dangerous change in the economic situation. Quickly, the outlook changed from one of potential surpluses to probable shortages — especially of many durable goods — and with this change occurred a sharp increase in personal consumption expenditures and business expenditures, a decline in personal savings, greater use of liquid assets, a very sharp increase in bank loans, a sharp increase in the money supply, and a more rapid rate of turnover of bank deposits. These developments were promptly reflected in significant increases in the principal price indexes, prices of equity securities, and land and property values.

It is notable that the inflation that occurred during 1950 — although undoubtedly stimulated by anticipation of the consequences of the defense program — was the result of developments in the private sector of the economy, including a marked expansion of credit. Actual defense expenditures had not exerted an important effect. This fact emphasizes the inflationary dangers that lie ahead as the defense program swings into full force. It also emphasizes the imperative necessity of taking appropriate measures that reach to the roots of the problem — i.e., a supply of goods and services not large enough to balance at stable prices a demand supported by an excessive and growing money supply or volume of purchasing power.

Every practicable effort should be made by business, industry, labor, and Government to expand the production of essential goods and services as rapidly as possible; while this is being done, however, positive steps should be taken to prevent any further growth in the money supply and to restrict as much as possible nonessential private and government demands.

An increase in the money supply via government deficit financing through the banking system must be prevented. This requires elimination of nonessential government expenditures and increased taxes sufficient to bring government receipts into balance with expenditures if possible. If, however, it should prove impossible to balance the budget, the deficit should be financed through nonbanking sources. Equally important is the prevention of an increase in the money supply through private credit expansion. This requires elimination of nonessential, nonproductive expenditures that might be supported by bank credit expansion and the use of firm, effective control measures by the Federal Reserve System over the cost and availability of commercial bank reserves. These are the basic lines of attack if further inflation is to be prevented and the decline in the purchasing power of the dollar checked.

CREDIT POLICY

During the first several months of 1950 Federal Reserve credit policy was pointed toward moderate firmness and restraint upon bank reserves. Open market operations were executed in such a manner as to permit a slight increase in the yields on Government securities to discourage their monetization by banks. When the change in the international situation set off a chain of events which greatly intensified the inflationary dangers, the System undertook more restrictive credit action. Banks were strongly urged to cooperate voluntarily in restraining the growth of bank credit, a further and somewhat more substantial increase in the yield on short-term Government securities was permitted, the discount rate of the Federal Reserve banks was raised, selective credit controls on consumer instalment credit and housing were initiated, and later, in December, an increase in reserve requirements (effective early in 1951) was announced.

Throughout the year, however, the difficulty of coordinating the closely related tasks of management of the huge national debt and effective credit policy was forcefully emphasized. Credit policies which influence the availability of bank reserves affect interest rates, and such changes in rates tend to affect the terms upon which the Treasury is able to obtain new money in the market or carry on refunding operations. Moreover, it is generally recognized that, in view of the very large size of the government debt, orderly conditions must be maintained in the Government securities market; this requirement bears a close relationship to credit policy. Failure to coordinate these two tasks during 1950 greatly complicated the administration of the System's credit policy and reduced its effectiveness in checking the growth of bank reserves and the expansion of bank credit.

Reserve bank credit in the market declined gradually from the beginning of the year to the latter part of May, the decline reflecting principally a reduction in holdings of Government securities by the System Open Market Account. On December 31, 1949, the System's portfolio of Governments totaled $18,885,000,000, as compared with holdings of $17,290,000,000 on May 24, 1950. The major factors in the decline were a "runoff" of more than $830,000,000 in Treasury bills, as higher yields induced banks to increase their investment in these issues, and net sales of about $1,165,000,000 of restricted bonds.

A gradual decline in member bank reserve balances and a slight increase in yields on Government securities accompanied these changes in holdings. By the end of May, member bank reserves had declined by more than $1,000,000,000. Inasmuch as required reserves of these banks were only about $300,000,000 lower by the end of the period, it can be concluded that the System's open market operations exerted some degree of firmness on reserve positions. The average discount rate on weekly offerings of Treasury bills rose from 1.087 percent on the last issue in December 1949 to 1.167 percent on the last issue in May. Yields on certificates of indebtedness moved upward from an average of 1.12 percent in January to 1.18 percent in May, while the average yield on Treasury bonds of 15 years or longer maturity rose from 2.20 percent to 2.31 percent.

Early in May the Treasury announced an offering of 13-month $1\frac{1}{4}$-percent notes in exchange for certificates maturing June 1 and July 1. This announcement tended to freeze the pattern of the short-term rate structure until completion of the July refunding and created an additional support problem for the System. Market offerings of June and July certificates were substantial, and System holdings of short-term securities increased. Between mid-May and the first week in July, holdings of short-term Governments rose by about $1,500,000,000, although holdings of bonds decreased about $350,000,000. Despite the increase in reserve credit in the market, member bank reserves rose only moderately as other market factors influencing reserves had a largely offsetting, contractive effect.

As the danger of serious bank credit expansion became more evident following the Korean outbreak, the Board of Governors joined with other bank and financial supervisory agencies on August 4 in requesting that banks and all other institutions engaged in extending credit exercise special care in their lending and investment activities and decline to make loans to business and consumers which might be used for speculative purposes or otherwise interfere with defense requirements. A second request for voluntary cooperation of banks was made in mid-November in a letter from the Chairman of the Board of Governors to the executive officer of each of the Nation's member banks.

During July and the first half of August, however, loans and holdings of corporate and municipal securities expanded by about $1,500,000,000 at banks in leading cities in the Nation. In view of that development, which clearly represented an excess credit expansion under the circumstances, the Board of Governors and the Federal Open Market Committee announced on August 18 that they were prepared "to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the Government securities market."

In line with the above policy, the Board of Governors approved increases in the rediscount rates of the Reserve banks from $1\frac{1}{2}$ percent to $1\frac{3}{4}$ percent, such increases taking place between August 21 and 25. Also, beginning on August 21, open market operations of the System were modified and the yields on Government securities permitted to rise. The average discount rate on Treasury bills rose from 1.174 percent on August 17 to 1.247 percent on August 24 and then continued to move upward steadily to 1.382 percent at the end of the year. Other yield increases during the period included an advance from 1.24 percent to 1.49 percent on issues of approximately 12 months' maturity, an increase from 2.13 percent to 2.24 percent on the longest-term bank-eligible bond, and from 2.42 percent to 2.44 percent on the longest-term restricted bond.

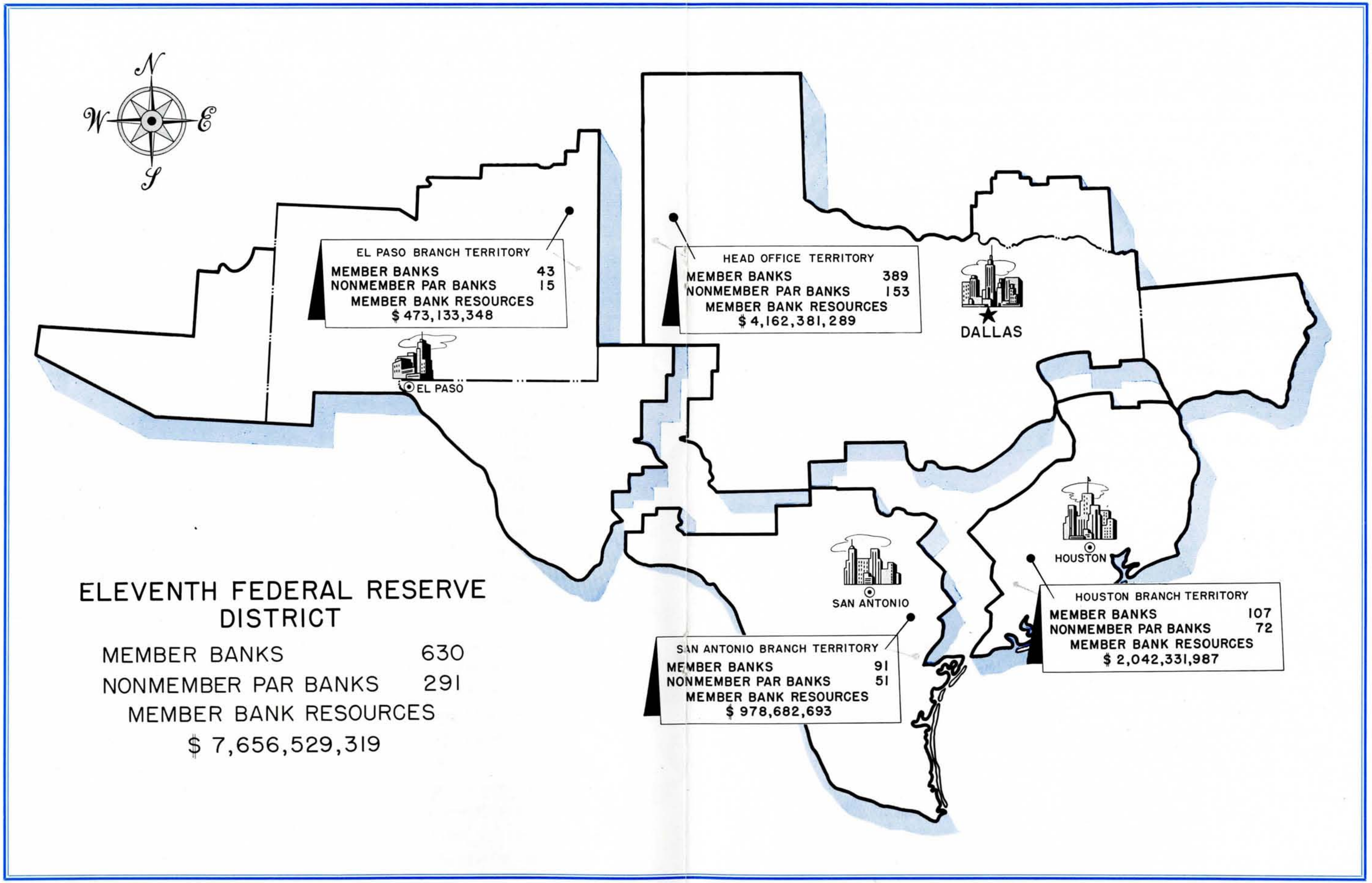
During this period, the firmness of the System's policy was limited by considerations of debt management, because on August 18 the Treasury announced the offering of a $1\frac{1}{4}$-percent 13-month note in exchange for the bonds and certificates called or maturing on September 15 and October 1. Again, the support problem became a major factor, since the market rate for approximately 12-month money was higher than the rate offered by the Treasury. Between August 21 and the end of September, the System was a very heavy buyer of the maturing certificates and the called bonds but a substantial seller of other short-term issues, as banks and others undertook their own refunding in the market. System holdings of Government securities increased by approximately $1,000,000,000 between mid-August and the end of September. In other words, at a time when — from the standpoint of credit control — reserves of banks should have been limited, banks were able to maintain their reserve positions, even in the face of a very substantial outward gold flow, by monetizing government debt through the Reserve System. The support problem again worked to reduce the effectiveness of the System's credit policy.

Later in the year, the System again engaged actively in supporting operations in connection with the Treasury's refunding offer in December and, as a result, supplied additional reserves to the banking system. Between November 22 and the end of the year, System holdings of Government securities increased by more than $1,000,000,000 and member bank reserves rose by about $300,000,000, despite further gold losses and such seasonal developments as an increase in currency circulation.

The more important results of these and other related developments during the last 6 months of the year included an increase in the System's holdings of Government securities from $18,331,000,000 on June 30 to $20,724,000,000 on December 31 and an increase in member bank reserve balances from $15,934,000,000 to $17,681,000,000. This very substantial increase in reserve balances enabled member banks to increase their loans by more than $7,250,000,000, resulting in a very substantial increase in demand deposits. The persistent increase in bank loans, bank deposits, and member bank reserves led to an announcement by the Board of Governors on December 28 of an increase in reserve requirements effective early in 1951.

In addition to these general credit control actions, the Board of Governors took action of a restrictive nature with respect to consumer instalment credit and mortgage credit on new residential construction.

The amount of consumer instalment credit had risen sharply — about $1,270,000,000 — during the first 6 months of the year; moreover, there had been a tendency toward lower down payments and longer maturities as terms of credit were eased to help maintain the flow of an increasing output of automobiles and major durable goods into consumption channels. During July and August the consumer instalment credit increase averaged more than $450,000,000 monthly. Consequently, on September 18 — about a month after the passage of the Defense Production Act of 1950 — the Board of Governors re-established Regulation W. Terms permitted under the Regulation soon proved to be too lenient, and on October 16 more restrictive terms became effective. The amended Regu-


N
W
E
S
EL PASO BRANCH TERRITORY
MEMBER BANKS 43
NONMEMBER PAR BANKS 15
MEMBER BANK RESOURCES
$ 473,133,348
EL PASO
HEAD OFFICE TERRITORY
MEMBER BANKS 389
NONMEMBER PAR BANKS 153
MEMBER BANK RESOURCES
$ 4,162,381,289
DALLAS
HOUSTON
HOUSTON BRANCH TERRITORY
MEMBER BANKS 107
NONMEMBER PAR BANKS 72
MEMBER BANK RESOURCES
$ 2,042,331,987
SAN ANTONIO
SAN ANTONIO BRANCH TERRITORY
MEMBER BANKS 91
NONMEMBER PAR BANKS 51
MEMBER BANK RESOURCES
$ 978,682,693
ELEVENTH FEDERAL RESERVE DISTRICT
MEMBER BANKS 630
NONMEMBER PAR BANKS 291
MEMBER BANK RESOURCES
$ 7,656,529,319

lation seems to have had a salutary effect in reducing credit expansion in this important area. Following an increase of about $330,000,000 in September, reports for October showed an increase of only about $40,000,000, while in November the amount of instalment credit outstanding decreased $60,000,000. Heavy Christmas buying pushed the total up about $180,000,000, as compared with an increase of more than $450,000,000 in December 1949.

Housing credit also had shown a very substantial increase during the first half of the year, as new residential construction moved up to record levels. Therefore, to check the growth of credit in this field and, also, to reduce the number of new residential starts in the months ahead when defense requirements for materials and manpower would be increasing, the Board of Governors, on October 12, instituted Regulation X, applying to private mortgage credits on new residential construction; companion regulations were announced simultaneously by the FHA and VA applying to government-guaranteed credits.

Because of the large backlog of commitments that preceded the effective date of these regulations, it is not possible to appraise their effectiveness as of the end of 1950. Most informed opinion in the housing finance and construction industry, however, seems inclined to the view that the regulations will accomplish their objectives — i.e., to check the growth in the volume of residential mortgage credit outstanding and to reduce the number of residential starts from the 1,400,000 total of 1950 to 850,000 in 1951.

TREASURY FINANCING

Refunding of marketable securities by the Treasury during 1950 — including the certificates which matured January 1, 1951 — amounted to $49,330,000,000. Maturing or called securities totaling $44,498,000,000 were exchanged for refunding offerings, while $4,831,000,000 of securities were turned in for cash. Redemptions in cash were relatively small during the first 7 months of the year — ranging between 2.6 percent and 7.9 percent — but were unusually large in the September-October and the December refundings. Cash redemptions amounted to 17.5 percent in connection with the September-October refunding and to 14.4 percent in the December refunding. Dissatisfaction of the market with the 1¼-percent 13-month rate offered on the exchange notes of September 15 and October 1 and the 5-year maturity of the note offered in December largely account for the high percentage of cash redemptions. With respect to the December offering, a substantial proportion of the maturing securities was owned by nonbanking investors, many of whom preferred to maintain a more liquid position than the 5-year notes offered; consequently, they undertook their own refunding in the market.

All securities, other than Treasury bills, maturing during the year were refunded into Treasury notes, except the issue of certificates maturing on January 1, 1950, which was refunded into a 1⅛-percent 12-month certificate. Inasmuch as that issue, however, matured on January 1, 1951, and was refunded into a 1¾-percent 5-year note, the end of

1950 marked the disappearance of the certificate of indebtedness as a Treasury debt instrument, at least for the moment.

By shortening the maturities of the 1¼-percent notes issued between February and June from 20 months to 13 months, the Treasury recognized the gradual firming of short-term rates that was taking place in the market. In connection with the July, September, and October refundings, however, the Treasury disregarded the trend; strong Federal Reserve support of the short-term rate was necessary to assure success of the July operation, while the Federal Reserve System's unwillingness to create an artificial 1¼-percent rate for 13-month money in the market at the time of the September-October refundings contributed to the large volume of cash redemptions that occurred. The Treasury offered a 1½-percent 5-year note in exchange for the March 15 and April 1 securities and a 1¾-percent 5-year note for the bonds and certificates which matured on December 15, 1950, and January 1, 1951, respectively.

During the year the amount of Treasury bills outstanding increased by approximately $1,300,000,000. Between April 13 and July 6, inclusive, weekly offerings of bills exceeded maturities by about $100,000,000, as the Treasury used this means of obtaining new money to strengthen its cash position.

Sales of savings bonds in the Nation amounted to $6,074,000,000, while redemptions were $5,840,000,000, with the result that net sales amounted only to $234,000,000 as compared with $732,000,000 in 1949. Inflationary developments during the year and the strong desire of the public for goods apparently had a restrictive effect upon the sale of savings bonds, despite a substantial increase in consumer disposable income; moreover, redemptions were larger than in any other year except 1946, but this was due in part to the larger number of savings bonds reaching maturity dates during 1950. Sales of Series E bonds amounted to $3,668,000,000 as compared with redemptions of $3,912,-000,000.

The total interest-bearing debt of the Government declined from $255,019,000,000 on December 31, 1949, to $254,282,000,000 on December 31, 1950. This decline of $737,-000,000 in the interest-bearing debt during the year was the result of a net decline of $548,000,000 in public issues and $189,000,-000 in special issues. The average interest rate on the total interest-bearing debt remained virtually constant — 2.209 percent in 1950 as compared with 2.208 percent in 1949.

SUMMARY OF CHANGES IN OUTSTANDING
INTEREST-BEARING PUBLIC DEBT

(In millions of dollars)

	12-31-50	12-31-49	+ or –
Total marketable obligations	$152,450	$155,123	–$2,673
Total nonmarketable obligations	68,125	66,000	+2,125
Total public issues	220,575	221,123	–548
Total special issues	33,707	33,896	–189
Total interest-bearing debt	$254,282	$255,019	–$737

FEDERAL RESERVE BANK OF DALLAS

Statement of Condition

ASSETS

	December 31 1950	December 31 1949
Gold certificates	$ 622,614,603.47	$ 685,083,031.05
Redemption fund for Federal Reserve notes	25,463,505.11	27,141,914.03
Total gold certificate reserves	648,078,108.58	712,224,945.08
Other cash	11,513,022.86	13,848,783.99
Discounts and advances	0	2,432,500.00
U. S. Government securities		
Bills	56,470,000.00	208,889,000.00
Certificates	105,961,000.00	271,444,000.00
Notes	568,628,000.00	24,318,000.00
Bonds	209,728,000.00	312,202,000.00
Total U. S. Government securities	940,787,000.00	816,853,000.00
Total loans and securities	940,787,000.00	819,285,500.00
Due from foreign banks	825.33	1,317.63
Federal Reserve notes of other banks	8,362,750.00	11,714,608.00
Uncollected items	192,457,628.86	134,637,040.35
Bank premises	677,208.03	716,525.68
Other assets	5,375,736.47	4,207,889.87
Total assets	$1,807,252,280.13	$1,696,636,610.60

LIABILITIES

	1950	1949
Federal Reserve notes in actual circulation	$ 639,322,205.00	$ 640,273,975.00
Deposits		
Member bank — reserve account	891,214,754.83	814,891,411.52
U. S. Treasurer — general account	24,310,579.41	40,242,431.98
Foreign	31,069,500.00	26,621,000.00
Other deposits	43,542,904.16	31,699,868.26
Total deposits	990,137,738.40	913,454,711.76
Deferred availability items	144,545,627.42	111,612,973.10
Other liabilities	125,835.40	324,722.73
Total liabilities	$1,774,131,406.22	$1,665,666,382.59

CAPITAL ACCOUNTS

	1950	1949
Capital paid in	$ 9,610,450.00	$ 8,455,300.00
Surplus (Section 7)	16,852,179.58	15,873,439.13
Surplus (Section 13b)	1,307,124.72	1,307,124.72
Other capital accounts	5,351,119.61	5,334,364.16
Total capital accounts	$ 33,120,873.91	$ 30,970,228.01
Total liabilities and capital accounts	$1,807,252,280.13	$1,696,636,610.60

Earnings and Expenses

	1950	1949
EARNINGS		
Discounts and advances	$ 33,489.03	$ 86,359.89
U. S. Government securities	12,381,678.35	13,506,250.90
All other	10,943.34	12,651.45
Total current earnings	$12,426,110.72	$13,605,262.24
EXPENSES		
Current operating expenses	4,344,770.26	4,015,528.48
Less reimbursement received for certain Fiscal Agency and other expenses	976,120.18	913,088.17
Net operating expenses	$ 3,368,650.08	$ 3,102,440.31
Assessment for expenses of Board of Governors	122,300.00	113,000.00
Federal Reserve currency		
Original cost, including shipping charges	194,707.94	213,288.97
Cost of redemption, including shipping charges	38,563.80	34,145.52
Total net expenses	$ 3,724,221.82	$ 3,462,874.80
CURRENT NET EARNINGS	$ 8,701,888.90	$10,142,387.44
ADDITIONS TO CURRENT NET EARNINGS		
Profit on U. S. Government securities	1,654,006.82	1,395,483.37
All other	386.18	72.20
Total additions	$ 1,654,393.00	$ 1,395,555.57
DEDUCTIONS FROM CURRENT NET EARNINGS	522.63	115,219.80
Total deductions	522.63	115,219.80
NET ADDITIONS	$ 1,653,870.37	$ 1,280,335.77
DISTRIBUTION OF NET EARNINGS		
Transferred to reserve for contingencies	$ 19,904.37	$ 1,738,520.53
Paid U. S. Treasury (Interest on outstanding F. R. notes)	8.808.321.14	8,272,075.61
Net earnings after reserves and payments to U. S. Treasury	1,527,533.76	1,412,127.07
Dividends paid to member banks	548.793.31	492,888.15
Transferred to Surplus (Section 7)	$ 978,740.45	$ 919,238.92

Volume of Principal Transactions

	1950 Number of pieces	1950 Dollar amount	1949 Number of pieces	1949 Dollar amount
Discounts for member banks Secured by U. S. Government obligations	1,000	$ 158,830,000	1,000	$ 153,568,000
Other	1,000	20,000	1,000	194,000
Currency received	133,317,000	733,473,000	128,880,000r	691,173,000
Coin received	219,967,000	17,322,000	214,292,000r	16,652,000
Currency paid out	—	684,771,000	—	665,916,000
Coin paid out	—	20,854,000	—	19,102,000
Checks handled	101,355,000	36,417,648,000	94,386,000	32,464,964,000
Checks returned unpaid	1,536,000	136,173,000	1,428,000	121,403,000
Collections handled	653,000	626,062,000	591,000	447,367,000
U. S. Government interest coupons paid	335,000	29,826,000	373,000	29,490,000
Coupons of governmental agencies paid	7,000	211,000	9,000	240,000
U. S. Government checks and warrants paid	20,446,000	3,764,814,000	19,394,000	3,490,655,000
Transfers of funds for member banks	90,000	24,921,935,000	80,000	20,167,461,000
U. S. Government securities issued, exchanged, and redeemed	5,185,000	6,057,839,000	5,232,000	4,560,489,000
Securities of governmental agencies issued, exchanged, and redeemed	1,000	1,382,000	1,000	4,398,000
Purchases and sales of securities and acceptances for investors	4,000	1,657,899,000	4,000r	1,058,822,000r

r Revised.

Review of Internal Operations

STATEMENT OF CONDITION

The assets of the bank on December 31, 1950, amounted to approximately $1,807,000,000, representing an increase of about $111,000,000 during the year. The gain is attributable chiefly to increases of $124,000,000 in holdings of Government securities and $57,000,000 in the volume of uncollected items, which more than offset the substantial decline of $64,000,000 in gold certificate reserves. Corresponding increases in liabilities occurred chiefly in member bank reserve accounts, which rose by $76,000,000, and in the volume of deferred availability items, which showed a gain of $33,000,000.

The paid-in capital stock of the bank increased sharply during 1950, the total of $9,610,000 at the year-end being $1,155,000 larger than a year earlier. This increase, which was nearly double that which occurred during 1949, resulted chiefly from the fact that 270 member banks raised their capital and surplus by about $35,000,000 and were required to purchase approximately $1,051,000 of additional Federal Reserve bank stock. Seven member banks admitted to membership during 1950 also purchased capital stock, in the amount of $112,000. The stock of two former member banks which entered voluntary liquidation was canceled in the amount of $7,500.

INCOME AND EXPENSES

The bank's earnings from current operations during 1950 aggregated $12,426,000 and current net earnings amounted to $8,702,000, representing decreases of $1,179,000 and $1,440,000, respectively, from 1949. Additions to current net earnings during 1950, consisting chiefly of net profits realized from the sale of United States Government securities, amounted to $1,654,000, or $259,000 more than in 1949. After eliminating $976,000 recovered from government agencies, total net expenses during 1950 were $3,724,000, reflecting an increase of $261,000 over the preceding year. Total net earnings of $10,356,000 were $1,067,000 smaller than the record volume in 1949.

With the approval of the Board of Governors, the bank distributed its net earnings by paying $8,808,000 to the United States Treasury as a tax on Federal Reserve notes not collateraled by gold certificates, by transferring approximately $20,000 to reserves for contingencies, by paying the statutory dividend — totaling $549,000 — on its stock held by member banks, and by transferring $979,000 to Surplus (Section 7).

CHECK COLLECTIONS

In 1950 the bank received 124,000,000 checks and drafts for collection, having a value of $40,945,000,000. These figures represent increases over 1949 of 7 percent in the number of items handled and 12 percent in the dollar value of the items. Included in the total number of items handled were 20,446,000 checks drawn on the Treasury of the United States, an increase of 5 percent over the number handled in 1949. The larger number of Treasury items handled reflects, in major part, the increase in personnel at military establishments throughout the District and the payment by this bank and its branches — as fiscal agents of the Treasury — of veterans' national service life insurance dividend checks during the first half of 1950.

The number of dishonored checks returned by drawee banks to this bank during 1950 showed an increase of 8 percent over the total in 1949, and the amount involved increased by 12 percent. The increase in the number of unpaid items has been common to all sections of the country and is a continuation of a trend which was apparent in 1949.

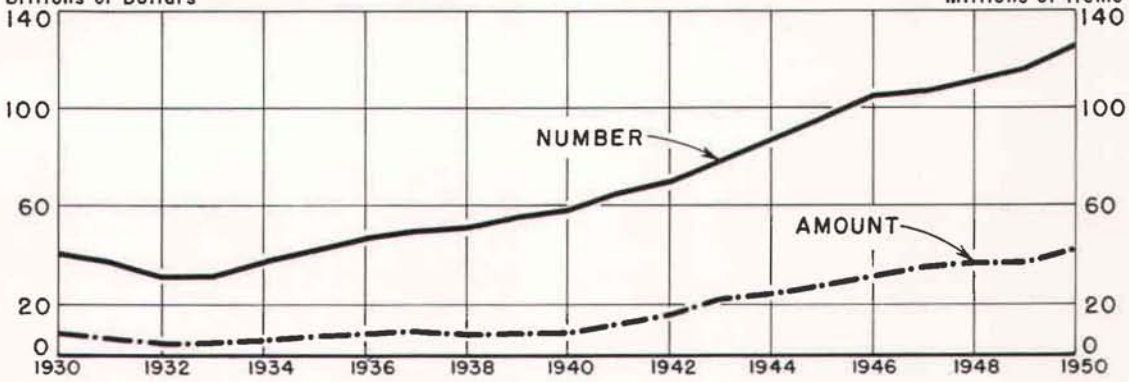
The bank continued to make frequent studies of air and rail mail schedules, with a view toward shortening the collection time for cash items as much as possible. Moreover, the cooperation of this bank with the Post Office Department was helpful in improving mail service to various points in the District and assuring prompt handling of mail in connection with check collections.

CASH DEPARTMENT OPERATIONS

The volume of operations in each of the principal functions performed in the Cash Department increased further during 1950. Currency and coin forwarded to and received from member and nonmember banks involved a total of 106,701 shipments valued at approximately $1,428,000,000. In addition, approximately $28,000,000 in currency was received from other sources. The total value received and shipped was up about $64,000,000 over that in the previous year. As compared with 1949, increases occurred in the value of both incoming and outgoing shipments, but about two-thirds of the total increase represents the return of money from circulation. Total receipts of currency and coin exceeded shipments by about $45,000,000; in 1949 the excess of receipts amounted to about $23,000,000.

CHECKS AND COLLECTION DRAFTS HANDLED, 1930-1950

Federal Reserve Bank of Dallas



Federal Reserve notes of this bank, which constitute the bulk of currency circulation in the District, fluctuated within narrower limits during 1950 than in 1949. While the average circulation of $619,000,000 was about $9,-000,000 higher than a year earlier, the difference between the maximum and minimum circulation on specific days was only $45,-000,000 in 1950 as compared with $62,000,-000 in 1949.

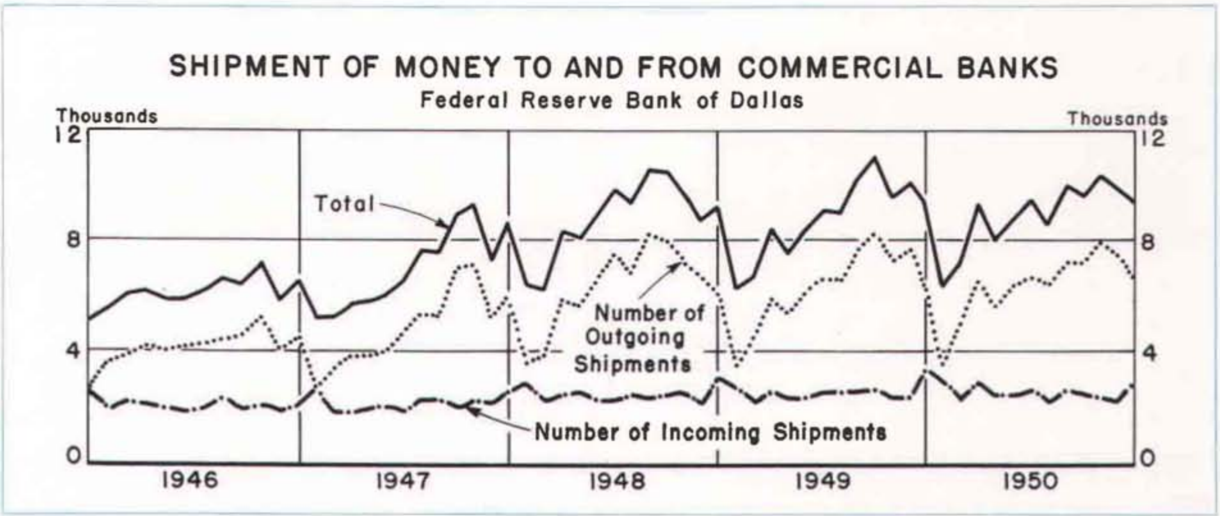
Telegraphic transfers of funds during 1950, which were made at the request or received for the account of member banks, numbered about 90,000 and had a value of $24,922,-000,000. These figures represent increases over 1949 of 13 percent in the number of transfers and 24 percent in their value.

On December 31, 1950, the bank was holding for member banks and others securities valued at $1,005,000,000, an increase of approximately $60,000,000 over the amount held a year earlier. Reflecting the substantial decline in the volume of coupon securities held in custody, the bank clipped 111,100 coupons in 1950, or about 19,800 fewer than in 1949. Coupons of the United States Government and of government agencies paid during 1950 totaled 342,000, a decrease of 40,000 as compared with the previous year.

The bank performs the service of purchasing and selling United States Government securities for member and nonmember banks in accordance with their instructions. During 1950, about 4,000 transactions aggregating $1,658,000,000 were handled for the account of 328 member and nonmember banks in the District. This represents an increase of $599,-000,000, or 57 percent, over the amount handled in 1949.

FISCAL AGENCY

United States Government securities issued, exchanged, and redeemed during 1950 involved approximately the same number of pieces as in 1949, but the dollar value of such securities handled by the bank amounted to $6,058,000,000, or 33 percent larger. The allotment of Treasury bills, which aggregated $1,271,000,000, comprised more than one-fifth of the total volume of activity in Government securities and was sharply higher than



the $690,000,000 allotted in 1949. Moreover, the bank received an average of 128 tenders weekly during 1950 for Treasury bills, as compared with only 74 weekly in the preceding year. Allotments of certificates of indebtedness and Treasury notes on exchange subscriptions totaled $803,000,000, an increase of $50,000,000 over 1949. Redemptions of marketable securities during the year totaled $1,817,000,000, or $467,000,000 more than in 1949.

Sales of Treasury tax and savings notes, which amounted to $47,680,000, were up about $10,500,000 from the previous year, while redemptions of $26,600,000 were only about one-half those in 1949.

Sales of savings bonds in the District during the year amounted to $201,200,000, a decrease of $5,400,000 from 1949. Redemptions of $252,400,000 were up $37,300,000. At the end of 1950 there were 1,222 agents qualified to issue Series E savings bonds and 1,025 agents qualified to redeem Series A to E savings bonds in the District. On December 31, 1950, the bank held for individuals 109,840 savings bonds with a maturity value of $12,650,000, representing decreases from a year earlier of 11,231 in the number of bonds and $634,000 in maturity value.

At the end of 1950, 744 banks in the District were qualified as Treasury loan and tax depositaries and 599 banks were qualified as withheld tax depositaries. During 1950 the bank received and handled for the United States Treasury a total of $257,316,000 in withheld taxes, as compared with $179,817,000 in 1949.

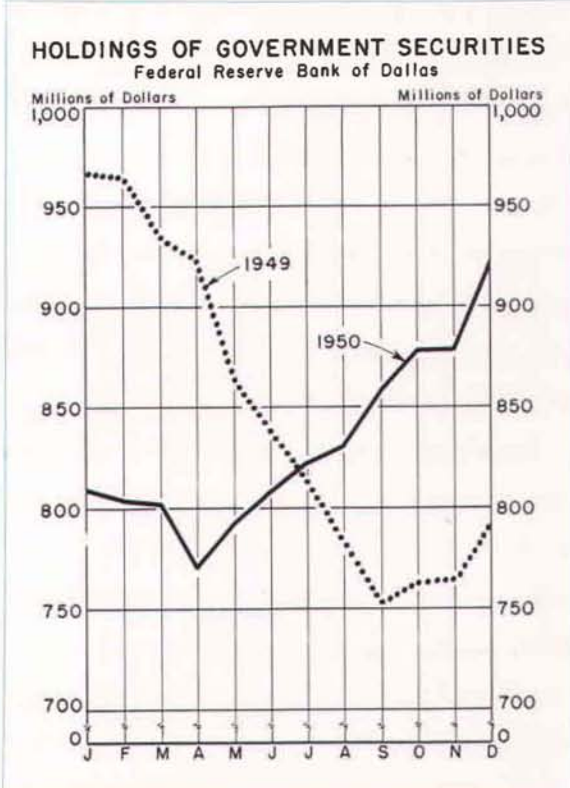
The bank performs for banking institutions the service of transferring by wire marketable issues of United States Government securities when the transfer of such securities is required to complete a sales transaction promptly. During 1950 transfers involving 37,400 pieces valued at $1,343,000,000 were handled.

The principal custodian activities performed during 1950 for the Commodity Credit Corporation included the processing of 324,000 producers' notes in the amount of $93,858,000, secured by 640,000 bales of cotton placed in the government loan programs, and the release to producers or equity purchasers of 684,000 cotton notes aggregating $184,354,000, secured by 1,364,000 bales of cotton. In connection with the cotton placed in the government loan programs, the bank disbursed for the Commodity Credit Corporation $3,708,000 in cash and $90,150,000 in certificates of interest. During the year it was necessary to reconcentrate 547,000 bales of cotton to carry out the loan programs. At the end of the year the bank held only 688 cotton producers' notes in the amount of $624,000, secured by 3,100 bales of cotton. The bank also disbursed $350,000,000 to lending agents in connection with the government loan programs involving other agricultural commodities — chiefly wool, peanuts, and grains. During the year the fiscal agency and custodial functions formerly performed for the Reconstruction Finance Corporation were discontinued.

LOANS AND SECURITIES

During most of 1950 the reserve positions of member banks in the District were generally easy, and readjustments were made chiefly by selling Government securities. Nevertheless, during the year 17 member banks borrowed a total of $158,850,000 to meet temporary reserve deficiencies, as compared with borrowings of $153,762,000 by 16 member banks in 1949. The average borrowing period decreased further during 1950, and earnings from discounts were only about one-third those during 1949, despite the slightly larger volume of loans and the higher discount rates which became effective on August 25. The major portion of borrowings in 1950 again represented advances to member banks on their own notes secured by United States Government obligations.

The bank's participation in holding of Government securities in the System Open Market Account, which had declined steadily during 1949, fluctuated around $800,000,000 during the first half of 1950. In the last half of the year there was a substantial increase in holdings as the System made large net purchases, especially during September and December, in supporting Treasury refunding operations. For the year as a whole, however, average holdings totaled $832,000,000, or about $14,000,000 lower than during 1949. Despite an increase in short-term rates during the last half of the year, the average yield on Government securities in the Account was slightly lower in 1950 than in 1949, reflecting the substantial shift from long-term to short-term securities.



The daily average "float" of the bank during 1950 amounted to $9,862,000, or only about $108,000 more than in the preceding year. This small increase in average "float," coincident with the substantial increase in the dollar value of cash and collection items handled, reflects the improvement in the average collection time during the year. The peak "float" for a particular day amounted to $59,462,000 on December 20, an amount which was about $10,000,000 larger than the peak in 1949, and was largely due to a strike of rail transportation workers.

Under the provisions of the Defense Production Act of 1950 and the Executive Order of the President, the Department of the Army, the Department of the Navy, the Department of the Air Force, the Department of Commerce, the Department of the Interior, the Department of Agriculture, and the General Services Administration were authorized to guarantee loans for the purpose of expediting production and deliveries or services under government contracts for the procurement of materials or the performance of services for the national defense. The Federal Reserve banks, subject to the supervision of the Board of Governors, were designated and authorized to act on behalf of any guaranteeing agency as fiscal agents of the United States in the making of such contracts of guarantee and in otherwise carrying out the purpose of the Act in respect to private financing institutions. Accordingly, the Board of Governors reissued Regulation V in revised form on September 27, 1950. During the fourth quarter of 1950 this bank received six applications for guarantees of defense production loans in the aggregate amount of $6,000,000. As the defense program gains momentum, it is probable that the volume of activity under this authority will increase substantially.

SELECTIVE CREDIT CONTROLS

Acting under the authority granted by the Defense Production Act of 1950, the Board of Governors on September 18 reissued Regulation W, establishing minimum down payments and maximum maturities on most consumer instalment credit transactions, and on October 12 issued Regulation X, establishing maximum loan values and maturities with respect to mortgage credit extended on new residential construction as defined in the Regulation. The Federal Reserve banks were designated to administer the Regulations.

While the provisions of Regulation X cover only new residential mortgage credit of the conventional type, the Federal Housing and Home Finance Administration and the Veterans Bureau issued companion regulations covering new real estate mortgage credit guaranteed by the governmental agencies.

Regulation W is applicable to the extension of instalment credit for the purchase of such durable goods as automobiles, major household appliances, and furniture; residential repairs, alterations, and improvements; and instalment loans for the purchase of listed articles and unclassified instalment loans. Effective October 16, the Board of Governors tightened the terms of Regulation W by increasing the minimum down payment on most articles and reducing the maximum maturity of such credits to 15 months. Individuals and businesses subject to the provisions of the Regulation are required to file a registration statement with their Federal Reserve bank.

The bank's staff has kept in close touch with developments in those lines of trade and finance subject to Regulation W and with developments in the real estate residential field. Frequent consultations have been held with representatives of the covered fields regarding the effects of the Regulations. An Advisory Committee, appointed to confer with the staff with respect to the administration of Regulation X, has been very constructive and helpful in initiating this new form of credit regulation on a sound, practical basis.

BANK EXAMINATION

The examining staff of the bank participated in 176 examinations and investigations, or 10 more than in 1949; most of these examinations and investigations were made with state and federal agencies.

	Independent examinations		Joint examinations with state or federal agencies	
	1950	1949	1950	1949
State member banks . . .	4	5	149	140
State bank applications for membership	2	1	2	2
Separate trust departments	0	0	12	12
Applications to organize national banks	0	0	1	4
Applications of national banks for trust powers .	4	2	0	0
Examinations of holding company affiliates . . .	0	0	2	0
	10	8	166	158

In line with the analysis and review program of the Examination Department, the officers and staff made factual analyses of the reports of examination of both national and state member banks and followed closely important developments with respect to each institution.

MEMBERSHIP

During the year five state banks, two of which were primary organizations, were admitted to membership in the Federal Reserve System, and one state member bank was converted into a national bank. Two nonmember state banks were converted into national banks. Additions to membership during 1950 included the following:

Name of bank	Location	Total deposits December 31, 1950
West Texas State Bank	Snyder, Texas	$5,683,000
First State Bank	Pittsburg, Texas	1,290,000
First National Bank in Wheeler	Wheeler, Texas	1,306,000
First National Bank in Seagraves	Seagraves, Texas	1,590,000
First State Bank	Bellaire, Texas	1,879,000
Victoria Bank & Trust Company	Victoria, Texas	30,488,000
Texas State Bank	Austin, Texas	3,024,000

As a consequence of the above changes, the membership in the District at the end of the year totaled 630 banks, consisting of 480 national banks and 150 state member banks. The accompanying table shows the distribution of member banks in the District by states and classes of banks:

	December 31, 1950			December 31, 1949		
State	National	State	Total	National	State	Total
Arizona	0	1	1	0	1	1
Louisiana	11	3	14	10	4	14
New Mexico	18	6	24	18	6	24
Oklahoma	9	4	13	9	4	13
Texas	442	136	578	440	131	571
Total	480	150	630	477	146	623

AUDITING

During 1950 the Auditing Department maintained the audit frequency schedule recommended by the Conference of Auditors of the Federal Reserve banks and approved by the Audit Review Committee of the Board of Directors of this bank. That Committee held four meetings during the year to review audit reports and to discuss procedures and other pertinent matters with the General Auditor. The General Auditor consulted freely with the officers of the bank regarding changes in accounting procedures and methods, in line with the policy of continuously improving internal controls and operating efficiency. The examining staff of the Board of Governors made a regular examination of this bank and its branches in May 1950.

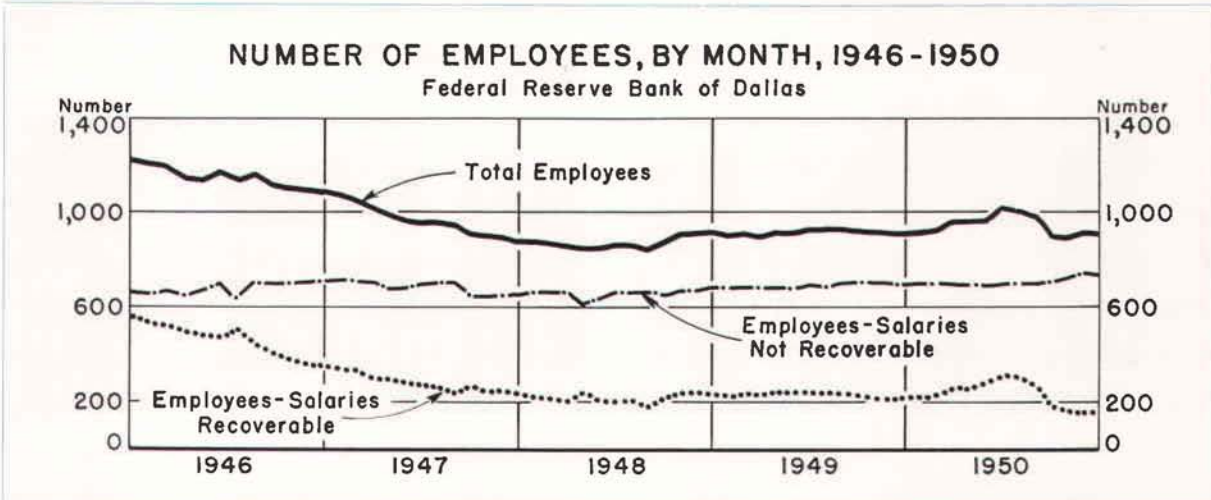
LEGAL AFFAIRS

The bank's Counsel rendered numerous oral and written opinions on such operating and administrative problems as the admission of new banks to membership in the System, amendments to charters of member banks, the granting of trust powers to national banks, the issuance of voting permits to bank affiliates, and other banking questions. The Counsel's office also prepared analyses and summaries of new and proposed legislation and analyzed, prepared, and approved contracts, leases, and insurance policies.

The re-establishment of Regulations V and W in September and the issuance of Regulation X in October greatly increased the demands upon the Counsel's office. Many inquiries have been received at the Head Office and branches requiring legal interpretations and opinions regarding the provisions and applicability of these Regulations, especially W and X. In addition, the Counsel has been called upon to participate with other members of the System's legal staff in such matters as the need for amendments, the character of such amendments, and interpretations of new questions and issues raised by affected parties.

PERSONNEL

Total employment of the bank averaged slightly higher during 1950. The working force averaged 949 employees as compared with 922 employees in 1949. The number of employees whose salaries were recoverable from the United States Treasury Department and other governmental agencies because of work performed for the Government rose to an average of 240 persons from 229 in the preceding year, while the number of employees whose work was performed directly for the bank rose to an average of 709 persons from 693. On December 31, 1950, however, the personnel of the bank and its branches, including officers and temporary



employees, totaled 935 as compared with 951 on the same date in 1949.

Throughout the year a gradual, growing tightness in the labor market was noticeable, becoming much more marked during the fourth quarter. Consequently, it became increasingly difficult to obtain efficient employees, especially for more responsible and technical positions. Due to the wide fluctuation in the volume of certain work performed by the bank for governmental agencies, it was necessary at times to recruit a larger than usual number of temporary employees for relatively short periods. During the year 18 employees resigned to enter military service.

Reflecting these factors, the annual rate of turnover at the bank rose during 1950, with the most pronounced increases occurring at Dallas and El Paso — cities in which the labor supply was very tight most of the year. A slight increase also occurred at San Antonio, but a decline occurred at the Houston Branch.

The management of the bank kept in close touch with salary developments in the labor market through surveys in the four cities in which the bank's offices are located. In conformity with market changes in salaries, appropriate adjustments were made in the salary structure of the bank. Salaries of individual employees were reviewed periodically and appropriate adjustments made on the basis of merit shown in work performed and promotions to more responsible duties.

During 1950 the bank continued its executive training program. Two officers attended the Graduate School of Banking at Rutgers University, three officers and one senior staff member attended the Central States School of Banking at the University of Wisconsin, and eight officers and staff members attended the 9th Annual Bankers Educational Conference sponsored jointly by the Texas Bankers Association and the University of Texas. During the summer months a number of promising college students who expect to enter the banking field after graduation were employed as trainees; the bank's long-range training program for college graduates also was continued.

In accordance with its established policy, the bank shared in the financial support of the local chapters of the American Institute of Banking in the cities in which the bank's offices are located and encouraged its employees to participate in the chapters' educational programs and other activities.

Other established features of the bank's personnel program such as the retirement plan; low-cost hospitalization, medical, and surgical services; periodic medical examination of officers and employees; low-cost meal service in the bank's dining rooms; and employee counseling services were continued.

OFFICIAL STAFF CHANGES

The Board of Governors of the Federal Reserve System redesignated J. R. Parten of Houston, Texas, Chairman of the Board of Directors and Federal Reserve Agent for the year 1951 and R. B. Anderson of Vernon, Texas, Deputy Chairman. G. A. Frierson of Shreveport, Louisiana, was reappointed a

Class C Director for a 3-year term beginning January 1, 1951. The Board also reappointed Hal Bogle of Dexter, New Mexico, a director of the El Paso Branch; Herbert G. Sutton of Colmesneil, Texas, a director of the Houton Branch; and Edward E. Hale of Austin, Texas, a director of the San Antonio Branch; each for a term of 3 years beginning January 1, 1951.

At an election held in November 1950 the member banks in the District re-elected W. L. Peterson of Denison, Texas, a Class A Director of the bank and W. F. Beall of Jacksonville, Texas, a Class B Director, each for a term of 3 years beginning January 1, 1951.

The Board of Directors of this bank reappointed W. H. Holcombe of Pecos, Texas, a director of the El Paso Branch; R. Lee Kempner of Galveston, Texas, a director of the Houston Branch; and E. R. L. Wroe of Austin, Texas, a director of the San Antonio Branch; each for a 3-year term beginning January 1, 1951.

The Board of Directors appointed DeWitt T. Ray of Dallas, Texas, to serve as a member of the Federal Advisory Council for the year 1951 to represent the Eleventh Federal Reserve District and re-elected Charles R. Moore, E. P. Simmons (deceased February 18, 1951), Lawrence S. Pollock, Ira T. Moore, and Jake L. Hamon, all of Dallas, members of the Industrial Advisory Committee for the Eleventh District for a 1-year term beginning March 1, 1951. Following the institution of Regulation X, the Board of Directors appointed E. E. Shelton, Henry S. Miller, Owen M. Murray, and J. Ralph Wood, all of Dallas, as an Advisory Committee to consult with the officers of the bank on the administration of Regulation X.

During 1950 Herman W. Kilman was elected an Assistant Cashier of the bank, and E. H. Berg was elected Assistant General Auditor. On May 9, F. T. Novey, former General Auditor, passed away, and Leon Daniels was elected General Auditor to succeed him.

BANK AND PUBLIC RELATIONS

A full program of bank and public relations activities was carried on during 1950, in accordance with the bank's policy of establishing close relationships with other banking and business concerns and the general public.

Officers and senior staff members visited almost 90 percent of the member banks in the District during the year and made a substantial number of visits to nonmember banks. In the course of these contacts, the officers were able to obtain much valuable information relating to local business and financial conditions and to discuss with member bankers matters pertaining to their relations with this bank.

The bank was privileged to conduct almost 1,800 visitors through the Head Office and branches and to show these students, bankers, and businessmen some of the features of the bank's operations.

The demand for the bank's exhibit of paper currency was very strong throughout the year. The exhibit was displayed by 45 member banks in connection with such occasions as opening of new banking quarters and commemorating anniversary dates. It was displayed, also, in the Hall of State in Dallas during the State Fair of Texas, where it was viewed by an estimated 300,000 persons.

Among the meetings sponsored by this bank during 1950 were the 5th Annual Forum for Bank Supervisory Authorities in the District; bankers' forums, attended by the principal executive officers of the banks in the Lubbock and Midland, Texas, areas; and two farm clinics in northern Louisiana, attended by bankers, farmers, and 4H and FFA boys.

Throughout the year the bank supplied speakers from its official staff for many meetings, conferences, and conventions of banking, business, and agricultural groups. Probably as a result of the increased economic activity, the resurgence of inflationary developments, and the possible effect of the defense program upon business, the demand for information relating to banking, business, and industrial conditions increased greatly. The bank attempted to meet this growing quest for information by extending the circulation of its various publications and releases and by more frequent, direct contact with interested groups and individuals.

RESEARCH

During the year the Research Department continued to provide economic data and analyses to the officers and directors of the bank, the Board of Governors, member banks, businesses, and other groups. Activities included the collection and processing of statistical data relating to banking, credit, agriculture, industry, and trade; the completion of numerous economic studies and technical memoranda; and frequent consultations with officers and directors of the bank, as well as others engaged in banking, business, and agriculture in the District. Several special surveys were conducted to obtain information needed in the administration of credit policies, especially in connection with Regulations W and X.

The demand for the regular publications of the Research Department — the *Monthly Business Review*, the *Agricultural News Letter*, and the *Agricultural News of the Week* — increased substantially during the year. Large numbers of reprints of special articles appearing in the *Monthly Business Review* were distributed to bankers, businessmen, and agriculturalists throughout the country. Special reports and statistical summaries were furnished to cooperating financial and business organizations.

The use of the research library by the officers and employees of the bank and by the general public increased substantially, and a heavy volume of special inquiries was handled.

Senior members of the staff participated in such bank and public relations activities as conferences and meetings, speaking engagements before various tvpes of organizations throughout the District, bankers' forums, agricultural group meetings, and the bank's weekly radio program over Station WFAA-570.