ANNUAL REPORT

featuring the Houston Branch

Federal Reserve Bank of Dallas 1971

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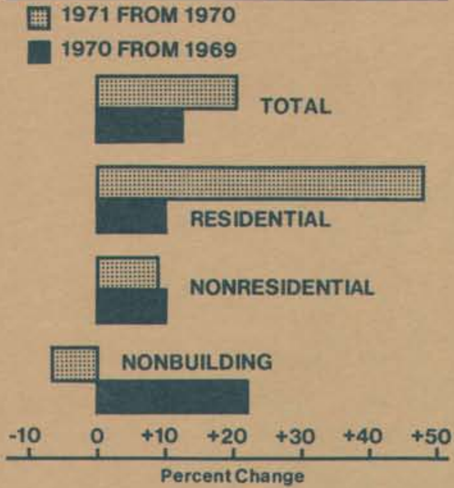
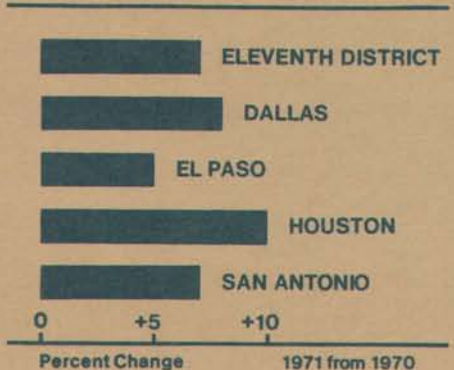
VALUE OF CONSTRUCTION CONTRACTS

Five Southwestern States



SOURCE: F. W. Dodge Division, McGraw-Hill Information Systems Company

DEPARTMENT STORE SALES



SOUTHWESTERN ECONOMY—1971

ECONOMIC DEVELOPMENTS

The year 1971 marked the beginning of recovery for the economy of the Southwest. But in the region, as in the nation, the rebound was gradual and areas of sluggishness persisted.

Within the setting of expansionary monetary and fiscal policies nationally, consumer spending in the region increased sharply, despite continued inflation that helped create an air of uncertainty. The rise in consumer spending was not enough, however, to generate major increases in regional production and investment. Businessmen remained hesitant in their purchases, meeting much of the demand by running down inventories. With production growing slowly, employment gains were also slim, and the region's unemployment rate failed to show a significant decline.

The resurgence in consumer spending in the region last year was most evident in the demand for residential housing. Families that had postponed purchases of new homes in 1970, when mortgage rates were at all-time highs, began entering the market early in the year in response to lower mortgage rates and the greater availability of credit. And with residential construction nearly half again greater than in 1970, overall construction in the five southwestern states remained buoyant, despite a slowing in the growth of nonresidential building and a decline in nonbuilding construction.

Growth of consumer demand in the region was evident in retail trade as well. Auto sales surged upward, aided initially by catch-up buying following the auto strike in late 1970 and later by the price freeze on 1972 models and the proposed removal of the excise tax on new cars. Department store sales also gained momentum as the year progressed and for the year as a whole rose more than twice as fast as in 1970.

But while consumer spending picked up substantially, regional producers were slow to respond. Except for lumber and the furniture and fixture industries—which benefited from the sharp increase in residential construction—production of manufactured goods showed little growth until late summer. Manufacturing production began trending upward in August, however, and by December the volume of goods manufactured in Texas was running more than 4 percent higher than in July. Although almost every industry shared in the rise, the most notable gains were in petroleum refining and the manufacture of primary metals and transportation equipment. The increase in the production of transportation equipment was particularly important in Texas, which had seen the output of its aerospace industry slipping since late 1969.

The upturn in the region's production was also held back by special factors unrelated to the business cycle. Production of crude oil, for example, which had accounted for much of the advance in Texas' industrial production in 1970, trended downward throughout 1971. But this slackening merely reflected a return of world crude supplies to more normal levels, relieving the burden on producers in the Southwest—especially in Texas and Louisiana—of making up the temporary shortage.

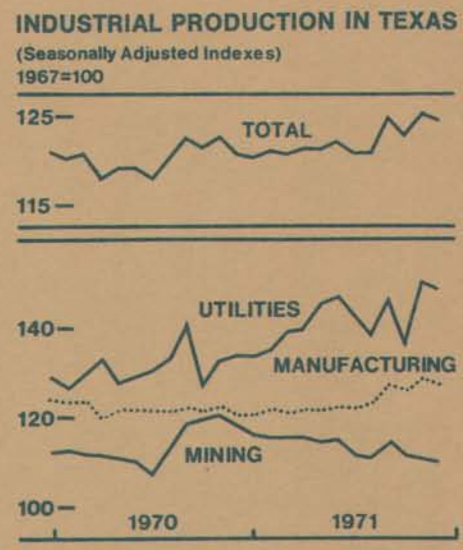
Moreover, the weather was the predominant factor causing the region's agricultural production to slow as a drouth occurred in the first half of the year and unseasonably cold, wet weather prevailed through the fall harvest months. Crop production in the five southwestern states was severely affected as setbacks in the production of cotton, grain sorghum, winter wheat, oats, barley, and rye crops more than offset moderate gains in the output of rice and several other minor crops. As in other recent years, however, livestock production in the Southwest rose with the continued expansion in cattle production, overcoming losses in crop production and leaving total agricultural output for the five states slightly ahead of 1970.

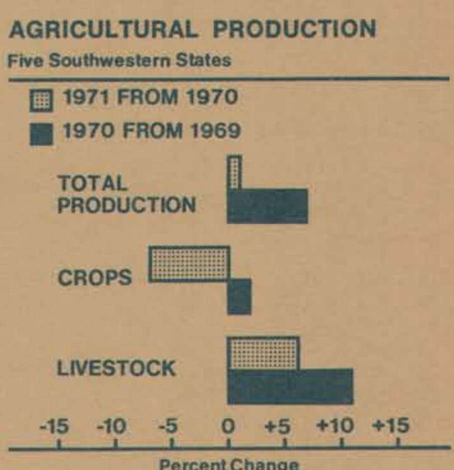
Reflecting strong cotton and beef prices, cash receipts for farmers and ranchers in the region rose moderately in 1971. Rising costs took up most of the gain, however, leaving little change in net income.

With production in the region lagging, labor demand weakened significantly over the first half of the year. By midsummer, total employment (including agricultural workers and the self-employed) in the five southwestern states was off some 80,000 workers from the 7.9 million peak reached in February. In August, however, employment began trending upward again and by year-end had surpassed the February peak to reach a level that, seasonally adjusted, marked an all-time high.

Reflected in this upturn were marked changes in the region's nonfarm wage and salary employment. After showing decided weakness throughout the spring and summer, payroll employment in the five southwestern states turned upward in the last months of the year. Employment in manufacturing, for example, declined steadily in 1970 and most of 1971. But after reaching a low in July, manufacturing employment appeared to be gaining strength toward year-end—although not enough to return to the level recorded for the first months of the year.

Although employment increased substantially after midyear, so did the civilian labor force as workers previously discouraged in trying to find employment reentered the labor market. As a result, the average unemployment rate for the five southwestern states failed to decline, staying just under 5.0 percent all year.

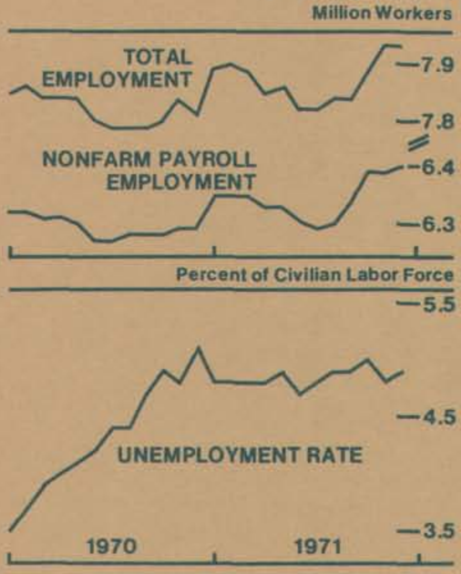




1971 partly estimated
SOURCES: U.S. Department of Agriculture
Federal Reserve Bank of Dallas

EMPLOYMENT AND UNEMPLOYMENT

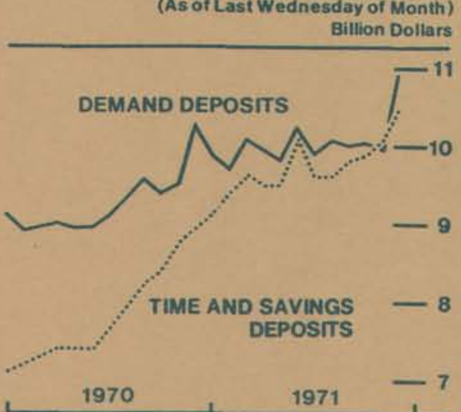
Five Southwestern States
(Seasonally Adjusted)



SOURCES: State employment agencies
Federal Reserve Bank of Dallas

MEMBER BANK DEPOSITS

Eleventh Federal Reserve District
(As of Last Wednesday of Month)



There were wide differences in the rates of unemployment within the region, however. In Texas and Arizona, the jobless rate fluctuated between 4.0 percent and 4.5 percent. In Oklahoma, the rate hovered around 5.0 percent. But in Louisiana and New Mexico, it was 6.5 percent or more most of the year.

FINANCIAL DEVELOPMENTS

Deposits at member banks in the Eleventh Federal Reserve District grew rapidly in 1971, but business loan demand increased only moderately. As a result, these banks added a substantial volume of securities to their investment portfolios, further improving their liquidity positions while reducing their dependence on nondeposit sources of funds. In addition, some banks underwent structural changes that are expected to have a substantial effect on future financial developments in the Southwest.

Deposit growth was especially rapid at banks in the District in 1971 as a generally more expansionary monetary policy stimulated inflows of demand deposits and encouraged a decline in money market rates, making bank rates on time deposits more attractive. Reflecting uncertainties about international monetary developments and continued domestic inflation, interest rates firmed somewhat in the spring, slowing the inflow of deposits into District banks. But after the President's announcement of his new economic program in August, interest rates began to trend back downward, apparently reflecting the renewed hope that inflation would be brought under control. This downtrend was probably further encouraged by sizable purchases of Government securities by foreign central banks and a more accommodative monetary policy. And late in the year, deposit inflows into District banks began to quicken again.

The rise in time deposits over the year reflected heavy inflows into both large CD's and consumer-type time deposits. But with consumer-type time deposits and demand deposits continuing to build up and loan demand remaining fairly weak, banks reduced their holdings of large CD's in early spring and became more aggressive in their issuance again only as loan demand began to pick up toward year-end.

Unlike other recent years, when banks obtained a substantial volume of funds through Eurodollar borrowings and the issuance of commercial paper by their affiliates, banks in the District made little use of these nondeposit sources in 1971. Lower market rates made other sources of funds, such as CD's and Federal funds, more attractive. And although Eurodollar rates also declined, the decline was slower and the resulting difference in rates, together with the requirement that banks hold reserves against all but a small proportion of their Eurodollar borrowings, made the Eurodollar market less attractive. At year-end, liabilities of banks in the District to their foreign branches were less than half their peak in May 1970, while bank-related commercial paper outstanding had fallen to less than 5 percent of its 1970 peak.

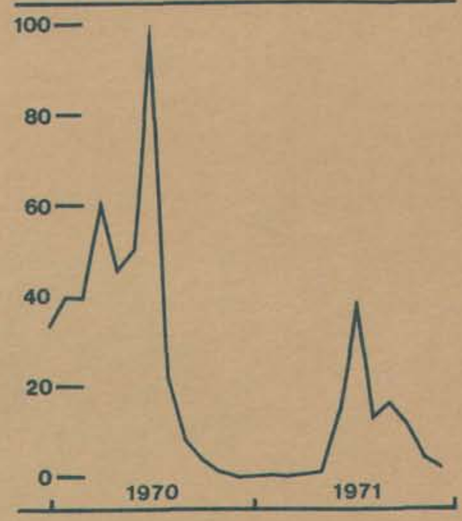
With sizable deposit inflows early in the year, District banks had little need to borrow at the discount window. As a result, daily borrowings from the Federal Reserve Bank in the first five months of the year averaged less than $400,000. And although borrowings at the window increased later in the year, on balance, member banks still borrowed substantially less than in 1970. Banks in the District continued, however, to be fairly heavy purchasers of Federal funds throughout most of 1971.

As deposits in the District rose, so did bank credit. Total loans rose considerably more than in 1970, and holdings of municipal and Government securities advanced as banks took advantage of high yields on longer-term securities and moved to improve their liquidity positions by adding substantial volumes of short-term issues.

Although demand for business loans remained weak —reflecting the lack of expansion in industrial production and the cautiousness of businesses in investing in inventories and new plant and equipment—demand for real estate loans was strong all year as builders and developers sought funds to finance construction of new homes and

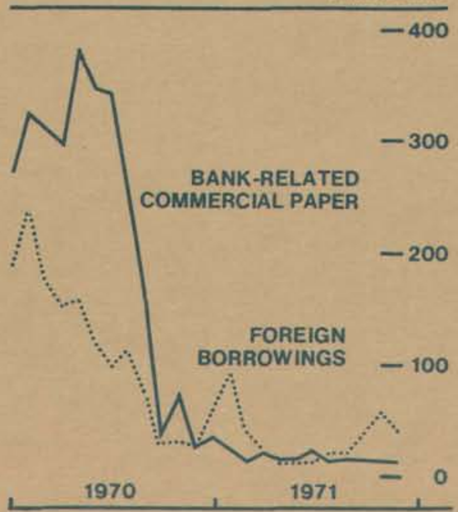
MEMBER BANK BORROWINGS FROM FEDERAL RESERVE BANK

Eleventh Federal Reserve District
(Averages of Daily Figures)
Million Dollars



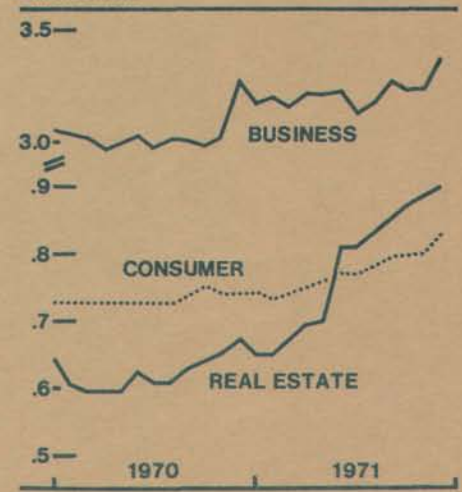
SELECTED NONDEPOSIT SOURCES OF FUNDS

Weekly Reporting Commercial Banks
Eleventh Federal Reserve District
(As of Last Wednesday of Month)
Million Dollars



SELECTED LOANS

Weekly Reporting Commercial Banks
Eleventh Federal Reserve District
(As of Last Wednesday of Month)
Billion Dollars



MEMBER BANK SECURITIES

Eleventh Federal Reserve District
(As of Last Wednesday of Month)
Billion Dollars

apartments. Also, demand for consumer loans picked up significantly in the fall, mainly to finance new car purchases.

With growth in deposits outstripping growth in loan demand, however, banks increased their holdings of securities, especially issues by state and local governments that were available in large volumes and at comparatively attractive rates. But as loan demand picked up in the fall, growth in bank investments slowed, particularly in Government issues.

Structural changes in banking in the District included the chartering of four new national banks and 23 state banks and the liquidation of one bank following a major stock fraud scandal. More basic changes in the underlying structure of District banking, however, came with further expansion into banking operations overseas and a flurry of bank consolidations following recent changes in the law governing bank holding companies.

While no new foreign branches were opened in 1971, representative offices were established in Tokyo and Mexico City. Also, banks of the District increased their investments in foreign banks.

Where there were only four multibank holding companies in Texas at the start of 1971, there were seven by December. And applications were pending for at least twice that number. Moreover, these existing bank holding companies were actively seeking new acquisitions in an effort to expand their markets. Approval of pending applications would place 71 Texas banks under control of multibank holding companies, giving these companies control of 22 percent of the total deposits in the state.

These changes in banking structure will, doubtlessly, affect the future course of financial developments in the Southwest. While credit resources will be more concentrated, the change appears to be part of the continuing effort to meet the financial needs of an expanding economy—by mobilizing existing funds more efficiently and providing additional sources of funds to meet the increasing demands for credit.

HOUSTON—THE STAR OF THE ELEVENTH DISTRICT

While much of the nation struggled through the recession of 1970 and the subsequent modest recovery of 1971, Houston continued to move ahead. The recession of 1970, in fact, hardly caused a ripple in the pattern of rapid economic growth that has brought Houston to number among the nation's leading metropolitan areas.

The key to continued rapid expansion of Houston's economy in the face of a nationwide recession lies, no doubt, in the breadth of its diversification. Houston has distinguished itself successively as headquarters for the petroleum and petrochemical industries, a deepwater port, center for space technology and medical research, an attraction for conventions and sports and amusement events, and a focal point for intercontinental air traffic. These developments have been cumulative, each adding to—and in many cases paving the way for—the continued growth and diversification of the broad-based economy.

Houston now seems to be moving toward still another distinction—as a management headquarters of the Southwest. Increasingly, national companies are moving their corporate or operational headquarters to Houston, and a number of foreign companies have established operations there.

This newest development is reflected in a construction boom in Houston. More new office buildings, apartments, hotels, and other commercial projects were announced there in the first two years of the 1970's than throughout the decade of the 1960's. And during the decade of the 1970's, an estimated 50 million square feet of new office space will be built in Houston, more than half of it downtown.

Houston has long been the center of the nation's petroleum refining and petrochemical industries. But more recently, it has attracted a number of other important industries, including cement, computer and computer-oriented industries, electronics, machinery, steel production and fabrication, plastics, and synthetic rubber. Since 1965, it has had a rate of industrial expansion of well over a million dollars a day—an increase that is expected to double the city's industrial production during the 1970's.

Houston is, of course, also one of the nation's most important shipping centers. The Port of Houston is the third largest port in the nation and its largest inland port. Since the port opened in 1914, an industrial complex valued at $3.5 billion has developed along the Houston Ship Channel that connects the port with the Gulf of Mexico, providing income and employment far in excess of the $3 million a year in revenue generated by the port itself. Planned for completion in 1972 is a $100 million extension of the port at Barbour's Cut. Specially designed for container cargos, the new facility is expected to further increase Houston's competitive edge as a major port.

Location of NASA's Manned Spacecraft Center near Houston has vaulted the city to a position of leadership in space technology and contributed substantially to the growth of the city's computer, data-processing, and electronics industries. These industries—together with the city's two major universities, Rice University and the University of Houston—have brought a large number of research scientists to live in Houston.

Houston has also gained fame as a center of medical research. In fact, the Texas Medical Center of Houston, which includes the world-renowned Methodist and St. Luke's hospitals, is the city's largest employer. And this vast medical complex will soon be expanded to include a new $80 million Baptist Memorial Hospital of the Southwest.

The care and feeding of visitors has become a major industry in Houston, which attracts many out-of-town visitors not only on business trips but also to conventions and sports, amusement, and cultural events at its famous domed stadium and Astrohall Convention Center and its elaborate new Jones Hall for the Performing Arts. The city provides 18,000 first-class hotel rooms and expects to offer more than 20,000 by 1973.

To accommodate the flow of people in and out of Houston, the city completed a new $110 million intercontinental airport in 1969. Serviced by 11 airlines, this airport connects Houston with more than 100 cities, including 15 in foreign countries. Nearly 5 million passengers passed through the airport in 1971, and this number is expected to more than double by 1980.

The rapid industrial and commercial expansion in Houston is reflected in its population growth and perennially low rate of unemployment. The fastest growing of the nation's ten largest cities, Houston saw its population increase by more than 50,000 a year during the decade of the 1960's. By 1970, population in the Houston metropolitan area had reached nearly 2 million, making it the largest metropolitan area in the South and Southwest and the sixth largest in the nation. Despite the rapid influx of people into the Houston area, labor markets have remained tight. In 1971, when the nation's unemployment rate averaged 5.9 percent, the rate of unemployment in Houston averaged only 3.1 percent.

Expansion of the Houston economy has placed a continuing challenge on the city's banking industry to meet the growing demand for financial services. And the banking industry has responded. In 1971 alone, six new banks were chartered in Harris County, bringing the total in the county to 114, compared with 63 a decade earlier. By the end of 1971, deposits held at Harris County banks totaled about $6.9 billion, or more than twice the amount ten years before. Two banks in Houston already have deposits of more than $1 billion, and a third is rapidly approaching that mark.

These three large banks have pioneered the bank holding company movement in Texas and are seeking to acquire banks not only in Houston but also in other major banking markets across the state. And in late 1971, the Board of Governors of the Federal Reserve System issued two preliminary permits to banks outside the Eleventh District to form Edge Act corporations in Houston. These will be the first such corporations in the Houston area.

THE HOUSTON BRANCH

The Houston Branch of the Federal Reserve Bank of Dallas provides central bank services to the southeastern corner of Texas—a territory of 43 counties, including the metropolitan areas of Beaumont-Port Arthur-Orange, Bryan-College Station, Galveston, and Houston. Established in 1919, the Branch has just completed 52 years of service to this area, the last 17 of which have been under the supervision of J. L. Cook, Senior Vice President in Charge. Mr. Cook retired in early 1972 after 48 years of devoted service to the banking industry through the Federal Reserve.

The largest of the branches in the Eleventh District, Houston has an officer complement of five and a permanent staff of 190. Of these, more than 42 percent have at least

Directors and Officers
Left to right:
J. Z. Rowe
W. G. Thornell
R. M. Buckley
M. Steele Wright, Jr.
Geo. T. Morse, Jr. (Chairman)
J. L. Cook
Kline McGee
Rasco R. Story
John E. Whitmore
John N. Ainsworth
R. J. Schoenhoff

five years' employment with the Federal Reserve. As with all branches of Federal Reserve banks, the Houston Branch has its own board of directors, which is made up of prominent businessmen, professional men, and bankers of the territory served. By custom, directors serve only two three-year terms, thus ensuring maximum exposure of Federal Reserve operations to a broad cross section of the territory's business and financial community.

Growth of the Houston territory, and particularly the Houston metropolitan area, has brought parallel—if not even greater—growth in Branch operations in the postwar period. From 1946 to 1971, the number of commercial banks served by this Branch advanced from 172 to 322, and Harris County now has more bank deposits than any other county in the District.

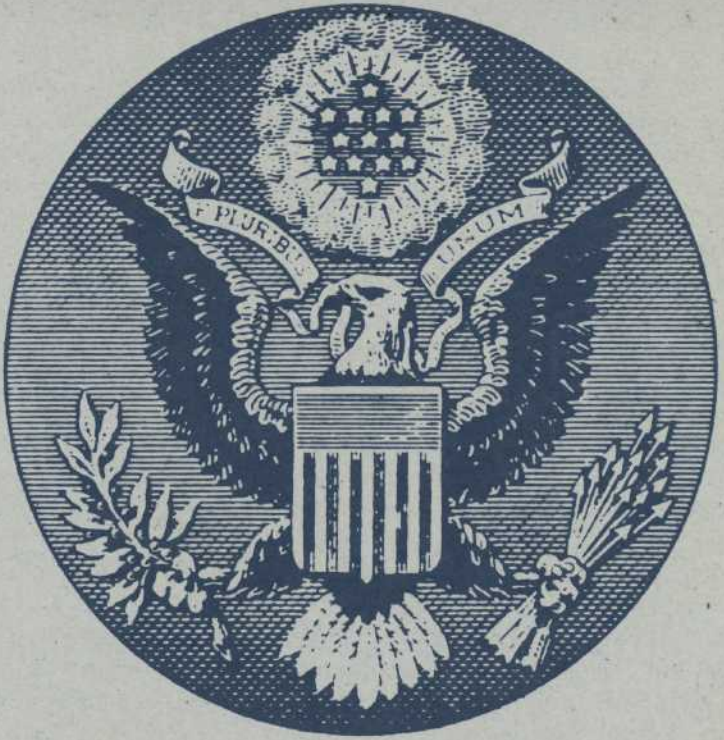
Foremost among the services of the Branch—in terms of both the cost of operations and the personnel involved—is the handling of checks. The steadily increasing volume of checks received from commercial banks and other Federal Reserve offices presents a constant challenge. The record volume of 115 million checks processed at the Branch in 1971 represents a 7-percent increase over 1970 and is more than four times the volume processed 25 years ago. The dollar value of items processed in 1971 was almost seven times the 1946 figure.

Although mechanization through computer processing has facilitated the handling of this massive workload, the volume keeps expanding nearly 9 percent a year. To handle today's volume under the old proof machine method, the staff at the Houston Branch would need to

have been at least tripled. In fact, growth in the volume of checks has been so great that the entire banking system is looking for new ways of handling checks, and Houston will need to be in the forefront of the search for new methods.

Similar problems are evident in the Branch's efforts to supply currency and coin to commercial banks in the Houston territory. During 1971, the Branch received and counted more than 44 million units of currency worth $286 million. An even larger amount—nearly $380 million—was paid out to banks. Part of the Branch responsibility in currency service is the destruction of unfit pieces. About 22 million bills were destroyed at the Houston Branch through cancellation and incineration in 1971.

Coin handling increased sharply over the past year. Nearly 105 million coins were received and counted, and there was a large increase in the value of coin shipments. An important factor contributing to the rise in coin shipments was the release for general circulation of the Eisenhower cupronickel dollar coin in the latter part of the year. Also during late 1971, member banks in Houston were provided with free currency and coin delivery. Previously, transportation costs had been paid by the Federal Reserve only on shipments of currency and coin to and from member banks outside the city where a Federal Reserve bank was located.


E PLURIBUS
UNUM

THIS PAPER IS MADE FROM RECYCLED MONEY

That $5 bill you value so much could eventually wind up in paper such as this. In late 1971, the Federal Reserve Bank of Dallas retired the incinerator it had long used in the destruction of currency judged unfit for further circulation. In its place, the Bank installed a paper disintegrator specially designed to turn old notes into a pulp resembling raw cotton. Consuming 6,000 bills a minute—twice as many as under the Bank's old incinerator method—the machine produces a pulp suitable for use in a variety of products, including roofing felt, plastics filler, and oil well drilling mud. The Bank sends its disintegrated waste to a paper mill producing quality stationery.

The Bank is the first of 37 Federal Reserve offices to adopt the new method of currency destruction. Although the incinerator previously used met the highest standards of pollution control, there were still some emissions. With the new system, there are none. Thoroughly sound in terms of both ecology and economy, the new equipment causes no pollution, helps conserve natural resources, and allows production of useful materials out of what otherwise would have been simple waste.

And the Bank destroys enough unfit currency to make these considerations matters of importance. The Bank destroyed, in addition to a large volume of canceled food stamps, more than 66 million pieces of unfit currency last year. Had all this material—$350 million in currency alone—been handled by the disintegrator, it would have produced almost 50 tons of pulp.

Safekeeping activities at the Branch increased sharply last year, with deposits and withdrawals of securities in both book-entry and tangible form totaling a record $2.8 billion. The bulk of the securities held at the Branch consists of obligations of states and their political subdivisions. Also, on behalf of the U.S. Government and its agencies, the Branch paid almost 65,000 interest coupons totaling over $40.1 million last year—11.5 percent more than in 1970.

Service to the U.S. Government and the general public also takes the form of the issuance, redemption, and exchange of U.S. Government securities. The Branch handled such securities valued at nearly $5.4 billion last year, compared with $3.2 billion in 1970. Here again, modern methods allow steadily larger volumes to be handled, since many of the securities are now in book-entry form. When these U.S. Government securities are issued and removed from Branch safekeeping for delivery outside the Federal Reserve System, they are placed in definitive form for shipment.

In addition to processing securities, the Branch services Treasury Tax and Loan accounts of commercial banks and destroys the sharply growing volume of canceled food stamps. All currency and food-stamp destruction is done in a new incinerator with afterburners that eliminate smoke pollution.

The Branch operations also include credit facilities for member banks, purchases and sales of Government securities, and wire transfers of funds. These services, like others to the banking community, require large internal service and security departments. Records are maintained for all transactions involving member banks, other Federal Reserve offices, and the Treasury. In addition, Branch accounting includes cost accounting and budgeting, disbursements for expenses, review of member bank reserve positions, preparation of certain statistical data, and the transfer of funds. While there has been a noticeable increase over the years in the number of transactions recorded in almost all areas of operation, the increase in the transfer of funds provides the best overview of the sharp expansion at the Houston Branch over the last 25 years. In 1971, the Houston office handled 137,828 transfers to and from member banks involving $248 billion. In 1946, transfers numbered 21,605 and involved $3.3 billion.

Internal security for valuables housed at the Branch is accomplished by guards, electronic surveillance, and continuous television monitors. During 1971, the Branch completed the installation of a new electronic security system. The nerve center of this system is a bulletproof control room where guards working at a console of electronic displays and switches have continuous control of all entrances to the building and instant contact with areas where valuables are handled—including the Branch armored vehicle. Fire alarms are easily accessible to employees throughout the building, and a separate panel on the console shows the location of every fire alarm. Guards at posts throughout the building can be contacted from the control room, individually or collectively, through special phones. Guards can contact the control room by either telephone or tamperproof alarms.

Activities of the Houston Branch are handled by a dedicated staff of officers and employees. While more than half of them are in check and cash operations, others are involved in such diverse tasks as building maintenance, economic analysis, employee services, bank and public relations, and savings bond processing. Over the postwar period, the staff of the Branch has increased only 8.3 percent while operations have more than tripled. With continued growth of the Houston area, further increases in staff and operations are expected.

The present Houston Branch building was constructed in 1958, but space is already tight for the current level of operations. In 1971, another block of land was purchased for parking and future expansion that seem likely to be necessary in a few years.

PLANS FOR 1972

Over the coming year, the Federal Reserve Bank of Dallas will pursue a number of specific programs designed to improve its services to the financial community of the Eleventh District and, through that community, to the public at large. Foremost among these programs will be an improvement in the payments mechanism for handling checks. This program includes not only the overall System arrangements discussed below but also internal upgrading of computer equipment to handle the communications and data-processing needs of the Bank. While the results of these efforts may not be visible immediately to the public, there should be faster handling of checks and more rapid collection and payment. It is our intention over the coming years to bring most banks in the District into an immediate-credit environment and lay the groundwork for ultimate wire transfer of payments to all out-of-District end points.

As part of this overall effort, the Reserve Bank intends to provide early guidance to commercial banks as to the equipment and procedures necessary to tie them to the computer equipment of this Bank. Such ties will be needed to handle the transfer of funds on an automated basis and will eventually be used to obtain routine weekly reports of condition and daily reports of deposits. The deposit reports for reserve purposes will be a prime target for automation, and it is hoped that many of the larger street banks in the reserve cities can be tied to our computer by the end of 1972. Other banks will be contacted as equipment and software capability develops.

An accelerated program for instituting needed improvements in the current check-clearing system was announced on June 17, 1971, when the Board of Governors issued a Statement of Policy calling for changes that would bring significant savings in manpower, eliminate unnecessary handling of checks, and achieve faster, more convenient, and more economical banking services for the public. The Board gave high priority to two programs directly related to check payments:

- In cities where Federal Reserve offices are located, the expansion of present areas for overnight clearance into larger zones of immediate payment
- Establishment—where warranted by the need for more expeditious and economical check handling, or other circumstances—of other regional facilities for overnight check clearance and settlement in immediately available funds

Taking into account the substantial differences in bank structure, population density, and check activity across the nation, guidelines have been developed to aid the Reserve banks in complying with the new policy while, at the same time, providing for equitable and uniform treatment of commercial banks. On the assumption that neither the Federal Reserve nor the commercial banks can separately provide as efficient a check payment system as they can jointly, the new programs will seek methods to complement check-handling activities of commercial banks.

The program for more efficient check handling has been in the planning stage at the Federal Reserve Bank of Dallas for some time. Together with Dallas and Fort Worth area banks, this Bank started a study on regional clearing center possibilities for the area. A Regional Clearing House Steering Committee was appointed in early 1971 to begin a yearlong comprehensive study of the feasibility of establishing a regional check-clearing center to serve the Greater Dallas-Fort Worth Area. The steering committee, composed of representatives from commercial banks and the Federal Reserve Bank, reviewed the study report in late 1971 and recommended that a Regional Check Processing Center be established. Detailed planning is currently under way, directed toward the center becoming operational during the summer of 1972. The center will serve 110 banks generating approximately 600,000 items amounting to $300 million each day. Depending on transportation arrangements, the center may eventually expand to include nearly 200 banks in North Texas.

Our program also includes a review of other areas in the District where improvements in check clearings might be effected through direct Federal Reserve involvement. The Eleventh District program is designed to comply with System policy through the operation of a few regional check-clearing centers and a sizable expansion of zones of immediate availability. Also, in recognition of the immediate float reduction benefits to be obtained by all banks collectively, this District is studying with other Reserve districts the way in which commercial banks could remit for Federal Reserve cash letters by automatic charge on day of receipt and thereby receive earlier credit on items deposited with the Federal Reserve Bank or correspondent banks.

In addition, the Dallas Reserve Bank is studying with local banks the possibilities of enlarging clearing house membership at several key cities. Since our programs rely heavily upon the continued but enlarged efficient clearing arrangements at the larger cities, we expect to build on these local arrangements wherever possible and broaden their scope of coverage.

A second program envisioned for the Bank in 1972 is an improvement in public knowledge of the financial changes under way in the District. Under this program, more information on changes in bank structure will be supplied and publication of bank data increased. Part of this program will include public information releases on bank practices, designed to increase public awareness of the practices and enable the public to select its banking outlets on a more knowledgeable basis. It is recognized that differences in individual banks and their environment often make broad generalizations inaccurate and the generalizations could lead to public distrust of all banking institutions. The questionable practices of a few have already caused some of this reaction, and we believe a well-informed public could be the best protection for the banking industry.

Concurrently, we hope to provide the commercial banks with more detailed and timely information about District-wide banking changes and about their own reserve and payments positions. During 1971, we made one small move in this direction by providing individual bank data on reserve account maintenance. In 1972, we expect to automate all our accounting data and be in a better position to give even more detailed reports to the banks.

Finally, we hope to develop the initial phases of a longer-range program of technical assistance to member banks that will provide expertise in several areas of banking to those unable to develop their own internal programs. Part of this overall effort will be to encourage greater participation in the Functional Cost Analysis Program, but, in addition, certain statistical and information programs in personnel, data processing, and banking services will be developed.

It is hoped that the District commercial banks will find these programs of interest and will be willing to participate in their development. We recognize the statistical burden some will require but believe that the ultimate results will warrant the efforts of all. We welcome any comments or suggestions from the member banks about the programs outlined above or any other new or improved services this Bank might render.

DIRECTORS

FEDERAL RESERVE BANK OF DALLAS

Chas. F. Jones	(Chairman and Federal Reserve Agent), Vice Chairman of the Board, Humble Oil & Refining Company, Houston, Texas
Philip G. Hoffman	(Deputy Chairman), President, University of Houston, Houston, Texas
J. V. Kelly	President, The Peoples National Bank of Belton, Belton, Texas
Murray Kyger	Chairman of the Executive Committee, The First National Bank of Fort Worth, Fort Worth, Texas
John Lawrence	Chairman of the Board, Dresser Industries, Inc., Dallas, Texas
Carl D. Newton	Chairman of the Board, Fox-Stanley Photo Products, Inc., San Antonio, Texas
A. W. Riter, Jr.	President, The Peoples National Bank of Tyler, Tyler, Texas
Hugh F. Steen	President, El Paso Natural Gas Company, El Paso, Texas
C. A. Tatum, Jr.	President and Chief Executive Officer, Texas Utilities Company, Dallas, Texas

EL PASO BRANCH

Allan B. Bowman	(Chairman), President and General Manager, Banner Mining Company, Tucson, Arizona
Gage Holland	Owner, Gage Holland Ranch, Marathon, Texas
C. J. Kelly	President, The First National Bank of Midland, Midland, Texas
Herbert M. Schwartz	President, Popular Dry Goods Co., Inc., El Paso, Texas
Archie B. Scott	President, The Security State Bank of Pecos, Texas
Wayne Stewart	President, First National Bank in Alamogordo, Alamorgordo, New Mexico
Sam D. Young, Jr.	President, El Paso National Bank, El Paso, Texas

HOUSTON BRANCH

Geo. T. Morse, Jr.	(Chairman), Vice Chairman of the Board and Chief Operating Officer, Peden Industries, Inc., Houston, Texas
R. M. Buckley	President and Director, Eastex Incorporated, Silsbee, Texas
Seth W. Dorbandt	Chairman of the Board and President, First National Bank in Conroe, Conroe, Texas
Kline McGee	Chairman of the Board, Southern National Bank of Houston, Houston, Texas
W. G. Thornell	Chairman of the Board and President, The First National Bank of Port Arthur, Port Arthur, Texas
John E. Whitmore	Chairman of the Board and Chief Executive Officer, Texas Commerce Bank National Association, Houston, Texas
M. Steele Wright, Jr.	Chairman of the Board, Texas Farm Products Company, Nacogdoches, Texas

SAN ANTONIO BRANCH

Irving A. Mathews	(Chairman), Chairman of the Board and Chief Executive Officer, Frost Bros., Inc., San Antonio, Texas
W. A. Belcher	Veterinarian and Rancher, Brackettville, Texas
Marshall Boykin III	Partner, Wood, Boykin & Wolter, Lawyers, Corpus Christi, Texas
Tom C. Frost, Jr.	Chairman of the Board, The Frost National Bank of San Antonio, San Antonio, Texas
Ray M. Keck, Jr.	Chairman of the Board and President, Union National Bank of Laredo, Laredo, Texas
W. O. Roberson	President, First National Bank at Brownsville, Brownsville, Texas
Leon Stone	President, The Austin National Bank, Austin, Texas

FEDERAL ADVISORY COUNCIL MEMBER

Lewis H. Bond	Chairman of the Board and Chief Executive Officer, The Fort Worth National Bank, Fort Worth, Texas

OFFICERS

FEDERAL RESERVE BANK OF DALLAS

P. E. Coldwell	President
T. W. Plant	First Vice President
Robert H. Boykin	Senior Vice President and Secretary
James L. Cauthen	Senior Vice President
J. L. Cook	Senior Vice President
Tony J. Salvaggio	Senior Vice President
Leon W. Cowan	Vice President
Ralph T. Green	Vice President
Larry D. Higgins	Vice President
Carl H. Moore	Vice President
James A. Parker	Vice President
W. M. Pritchett	Vice President
Fredric W. Reed	Vice President
Rasco R. Story	Vice President
Thomas R. Sullivan	Vice President
E. W. Vorlop, Jr.	Vice President and Controller
Robert A. Brown	General Auditor
George F. Rudy	General Counsel
Sidney J. Alexander, Jr.	Assistant Vice President
George C. Cochran, III	Assistant Vice President, Assistant Counsel, and Assistant Secretary
Richard D. Ingram	Assistant Vice President
Harry E. Robinson, Jr.	Assistant Vice President
Jesse D. Sanders	Assistant Vice President
T. E. Spreng	Assistant Vice President
E. A. Thaxton, Jr.	Assistant Vice President
J. W. Harlow, Jr.	Data Processing Officer
William H. Kelly	Director of Research
James O. Russell	Chief Examiner
Carroll D. Blake	Bank Relations Officer
Robert Smith, III	Public Information Officer and Assistant Secretary
C. L. Vick	Operations Officer

EL PASO BRANCH

Fredric W. Reed	Vice President in Charge
Forrest E. Coleman	Assistant Vice President
Thomas H. Robertson	Operations Officer

HOUSTON BRANCH

J. L. Cook	Senior Vice President in Charge
Rasco R. Story	Vice President
J. Z. Rowe	Assistant Vice President
John N. Ainsworth	Operations Officer
R. J. Schoenhoff	Operations Officer

SAN ANTONIO BRANCH

Carl H. Moore	Vice President in Charge
Frederick J. Schmid	Assistant Vice President
Thomas C. Cole	Operations Officer
Robert W. Schultz	Operations Officer

EARNINGS AND EXPENSES

	1971	1970
CURRENT EARNINGS		
Discounts and advances	$ 398,420	$ 2,263,362
U.S. Government securities	169,726,271	163,444,145
Foreign currencies	148,319	2,732,476
All other	44,792	57,764
TOTAL CURRENT EARNINGS	170,317,802	168,497,747
CURRENT EXPENSES		
Current operating expenses	17,257,092	15,630,521
Assessment for expenses of Board of Governors	1,820,000	1,186,300
Federal Reserve currency:		
Original cost, including shipping charges	1,409,893	1,138,809
Cost of redemption, including shipping charges	27,307	26,771
Total	20,514,292	17,982,401
Less reimbursement for certain fiscal agency and other expenses	953,324	1,024,945
NET EXPENSES	19,560,968	16,957,456
PROFIT AND LOSS		
Current net earnings	150,756,834	151,540,291
Additions to current net earnings:		
Profit on sales of U.S. Government securities (net)	4,646,106	363,538
All other	73,594	213,433
Total additions	4,719,700	576,971
Deductions from current net earnings:		
Loss on sales of U.S. Government securities (net)	—	—
All other	530,319	27,496
Total deductions	530,319	27,496
Net additions	4,189,381	549,475
Net earnings before dividends and payments to U.S. Treasury	154,946,215	152,089,766
Dividends paid	2,418,835	2,304,631
Payments to U.S. Treasury (interest on F.R. notes)	150,657,530	147,989,985
Transferred to surplus	1,869,850	1,795,150
Surplus, January 1	39,144,850	37,349,700
Surplus, December 31	$ 41,014,700	$ 39,144,850

STATEMENT OF CONDITION

Dec. 31, 1970	Dec. 31, 1971	
		ASSETS
$ 198,627,816	$ 98,118,858	Gold certificate account
14,000,000	14,000,000	Special drawing rights certificate account
40,393,552	47,844,180	Federal Reserve notes of other Banks
14,152,818	14,144,257	Other cash
		Loans and securities:
—	575,000	Loans
—	22,354,000	Federal agency obligations
2,814,576,000	3,180,010,000	U.S. Government securities
2,814,576,000	3,202,939,000	Total loans and securities
874,364,484	1,102,233,436	Cash items in process of collection
7,912,871	9,172,934	Bank premises
39,082,005	33,541,129	Other assets
$4,003,109,546	$4,521,993,794	TOTAL ASSETS
		LIABILITIES
$1,945,564,401	$2,132,944,915	Federal Reserve notes in actual circulation
		Deposits:
1,257,292,413	1,437,406,205	Member bank—reserve accounts
56,943,345	83,492,718	U.S. Treasurer—general account
7,000,000	15,680,000	Foreign
14,676,966	19,605,493	Other
1,335,912,724	1,556,184,416	Total deposits
617,487,202	715,542,660	Deferred availability cash items
25,855,519	35,292,403	Other liabilities
3,924,819,846	4,439,964,394	TOTAL LIABILITIES
		CAPITAL ACCOUNTS
39,144,850	41,014,700	Capital paid in
39,144,850	41,014,700	Surplus
78,289,700	82,029,400	TOTAL CAPITAL ACCOUNTS
$4,003,109,546	$4,521,993,794	TOTAL LIABILITIES AND CAPITAL ACCOUNTS

VOLUME OF OPERATIONS

Federal Reserve Bank of Dallas
Head Office and Branches Combined

	Number of Pieces Handled[1]		Amount Handled	
	1971	1970	1971	1970
Discounts and advances	125	452	$ 1,153,607,500	$ 2,861,657,412
Currency received and counted	240,132,500	225,566,981	1,736,850,350	1,637,600,100
Coin received and counted	566,806,350	[2]522,455,921	64,804,984	[2]57,946,178
Checks handled:				
U.S. Government checks	39,575,323	39,335,538	12,105,582,485	11,403,777,595
Postal money orders	11,917,679	12,611,075	333,549,874	348,999,806
All other[3]	473,030,313	448,174,773	154,587,150,177	185,117,568,750
Collection items handled:				
U.S. Government coupons paid	350,862	359,388	145,832,314	140,904,670
All other	826,091	757,422	1,442,053,865	295,057,995
Issues, redemptions, and exchanges of U.S. Government securities	11,302,964	11,485,780	19,600,910,542	14,984,476,388
Transfers of funds	484,435	447,665	815,005,043,000	629,512,772,594
Food stamps redeemed	60,928,327	46,134,152	113,863,573	70,077,516

[1] Packaged items handled as a single item are counted as one piece.
[2] Excludes coins handled in separating operation.
[3] Exclusive of checks drawn on the F.R. Banks.