

# ANNUAL REPORT 1951



FEDERAL RESERVE BANK  
OF DALLAS

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DALLAS, TEXAS

R. R. GILBERT  
PRESIDENT

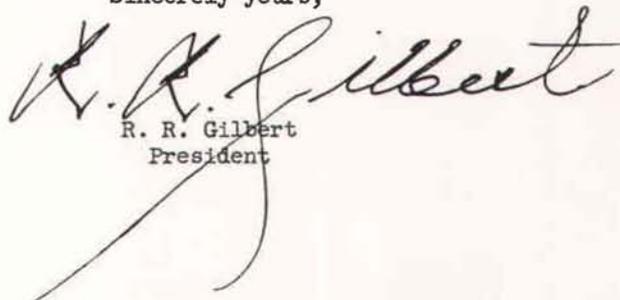
To the Stockholders of the  
Federal Reserve Bank of Dallas:

It is a pleasure to submit to you the Annual Report of the Federal Reserve Bank of Dallas for the year 1951. During the past year the Nation moved forward in the effort to strengthen its economic and military defenses. The economy of the Southwest naturally reflected the effect of those efforts.

This Annual Report presents a brief summary of economic developments in the Eleventh Federal Reserve District in 1951, a review of important central banking and related actions, and a summary of the internal operations of this bank.

Your cooperation with the directors and officers of the bank throughout 1951 is deeply appreciated. It has made our responsibility of serving the economy of the District a pleasant one.

Sincerely yours,



R. R. Gilbert  
President

# HIGH LIGHTS OF 1951



◆ Eleventh Federal Reserve District

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

## *Review of Economic Developments*

The year 1951 opened amidst strong indications of inflation as the upward pressures that had predominated during most of the last half of 1950 continued actively into January. During the year, however, a number of developments occurred which dampened the inflationary forces and contributed to the achievement of a much greater degree of economic stability than had been anticipated in appraising the outlook for 1951. The threat of inflation persisted throughout the year, but the prevalence of such factors as more judicious buying by businesses and individuals, larger personal savings, slower-than-anticipated expansion of defense expenditures, and more effective anti-inflationary measures brought about an economic situation that has been referred to as "the inflationary lull of 1951."

As early as February 1951, consumers began to check their frantic efforts to obtain goods, being influenced perhaps by the ready availability of goods, the introduction of price controls, and the necessity of liquidating substantial indebtedness. As consumer spending leveled off and then declined slightly, businesses were quickly confronted with the problem of excessive inventories and undertook such corrective measures as "hand-to-mouth" buying from their sources of supply and more aggressive sales promotions. Full employment continued, however, as defense expenditures and production tended to offset the moderate decline in private spending. Rising wage rates paid to a growing labor force contributed to larger personal incomes, a larger proportion of which was saved.

In addition to the inauguration of price

controls, the Government set up a program of wage stabilization, strengthened its program of materials controls, raised income taxes of individuals and corporations, and avoided deficit financing until the latter part of the year. At the same time, the Federal Reserve System, as a result of developments growing out of the Federal Reserve-Treasury accord early in March, was able to exercise much more effective control over the availability of bank reserves. The money market firmed noticeably, and interest rates rose slightly. Within this framework of moderately restrictive credit policy, the Voluntary Credit Restraint Program—which was initiated by the Federal Reserve System and developed in conjunction with representatives of commercial banks, insurance companies, investment bankers, and savings and loan associations—was effective in helping to check the growth of inflationary lending.

In the Eleventh Federal Reserve District the strong growth pattern of the past decade was stimulated further during 1951 by gradually increasing defense production, employment, and expenditures, although gains reported in economic activity were less than those of 1950. New records were established in the District in department store sales; crude oil production and refining; production of cement, sulphur, and carbon black; nonfarm and manufacturing employment; oil and gas wells drilled; construction contract awards; cash receipts from farm marketings; and bank debits, deposits, loans, and resources. Production of agricultural crops and livestock and livestock products was slightly larger than in 1950 but less than record output.

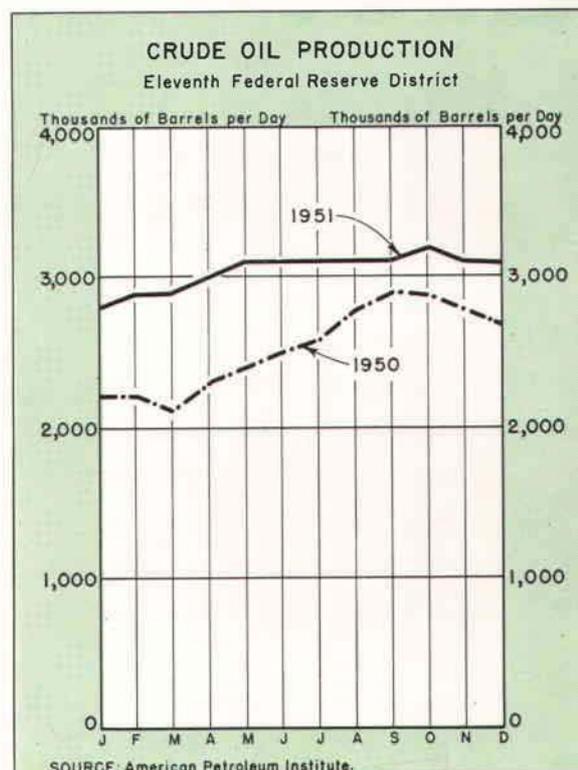
Although figures reflecting economic activity in the District for 1951 as a whole indicate considerable stability at very high levels, the trends of different types of economic activity varied notably. In some fields, e. g., construction, substantial gains were made during the first 6 months, followed by a decline during the last half of the year; in others, e. g., petroleum production and manufacturing employment, strength was persistent throughout most of the year; while in still others, e. g., banking activity and consumer spending, strength was more pronounced during the first and fourth quarters.

Preliminary personal income estimates for the five states lying wholly or partly within the District indicate an increase of about 12 percent above the \$16,766,000,000 reported in 1950.

## PETROLEUM

Rising civilian demand, expanding military requirements, and a tighter world oil situation resulting from the withdrawal of Iranian supplies at midyear combined to bring about a steady increase in the production of crude petroleum in the District during the first 10 months of 1951. During the last 2 months of the year, when stocks of crude oil and refined products were considered adequate to meet demand, production declined moderately.

Production of crude reached a record of 3,168,000 barrels daily in October 1951 and then declined by about 100,000 barrels daily in December. During each month of 1951, production in the District substantially exceeded that of the comparable month in 1950, to rise to a record total for the year of 1,108,000,000 barrels, or 19 percent above 1950 output.



The importance of the District as the Nation's major source of petroleum is emphasized by production figures which show that this area accounted for about 49 percent of the country's oil output in December—a percentage that remained comparatively stable throughout the year.

Refinery activity as indicated by runs to stills averaged 1,944,000 barrels daily in December and totaled 694,000,000 barrels during 1951, a yearly gain of about 19 percent. This increase was due partly to the strength of demand and partly to the increase in refining capacity that has resulted from the industry's expansion program. About 28 percent of the Nation's refining capacity was located in the District on January 1, 1952, or about the same proportion as a year earlier.

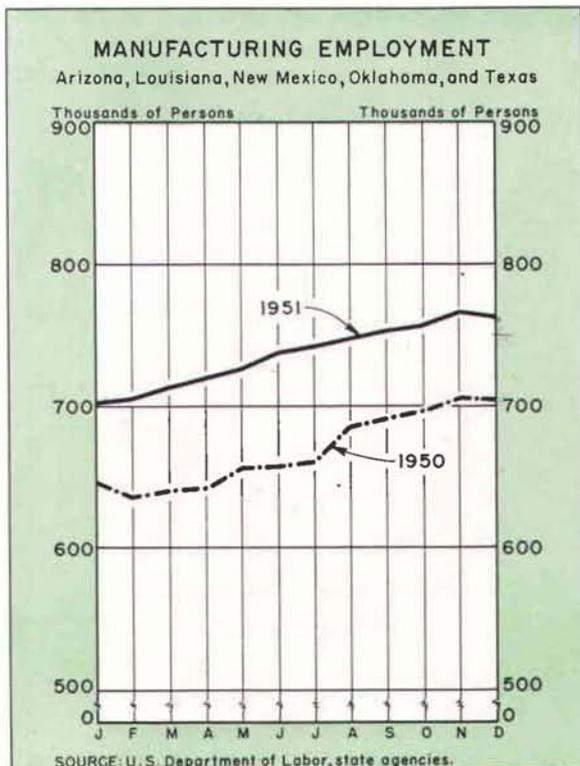
Oil and gas wells completed in the District during 1951 totaled 19,768, or almost 1,200 more than a year earlier. Wildcat drilling also

rose to a new high, as the persistent demand for crude stimulated the search for new sources of supply.

## MANUFACTURING

Manufacturing employment in the five states lying wholly or partly in the District rose steadily during 1951 in response to the high level of civilian activity, plus the stimulative effects of gradually expanding defense expenditures. At the end of 1951, workers employed in manufacturing in the area totaled 764,000, a gain of 60,000, or 8 percent, over the figure reported at the end of 1950.

Largest gains in manufacturing activity and employment occurred in the defense and defense-supporting industries, such as aircraft (up 31 percent), chemicals (up 8 percent), and metal and metal products (up 12 percent). Appreciable gains, however, also were reported for petroleum refining, food products, and a miscellany of other industries.



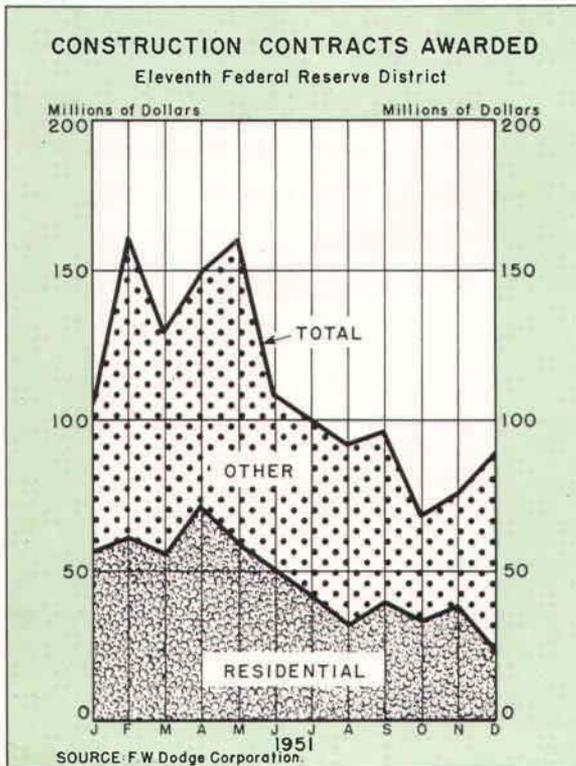
Although comprehensive indexes of manufacturing output are not compiled for the area, these figures showing the growth of employment tend to measure roughly the change in manufacturing activity. With a reasonable allowance for increased productivity as a result of technological progress, it is probable that manufacturing output in the southwestern states exceeded the 1950 total by 10 percent or more.

Partly reflecting the increase in manufacturing employment but also a substantial expansion in employment in trade and services, the number of employees engaged in nonfarm activity rose to a record of more than 4,279,000 in December 1951, or about 4 percent above December 1950.

## CONSTRUCTION

Construction contract awards in the District reached a record total of \$1,331,000,000 in 1951, or 12 percent more than in 1950. Whereas in 1950 the largest gain in construction was in the residential field, in 1951 this type of construction showed an increase over 1950 of only 1 percent, while nonresidential awards of \$768,000,000 were 21 percent higher than a year earlier.

The trend of construction awards shifted notably during the last 7 months of the year, reflecting largely the steady and substantial decline in residential construction that began in May and continued through the remaining months of the year—a decline from \$72,000,000 in April to \$23,000,000 in December. Nonresidential awards fluctuated sharply from month to month but showed a less pronounced downward trend during the latter half of the year.



Factors influencing the trend of construction in the District most importantly during 1951 were the firmness that developed in the mortgage market during the last 8 months of the year, the growing effectiveness of Regulation X, and allocations and shortages of materials. The first two factors were most significant in their effect on residential construction, while the third factor had its greatest significance in the nonresidential field.

## AGRICULTURE

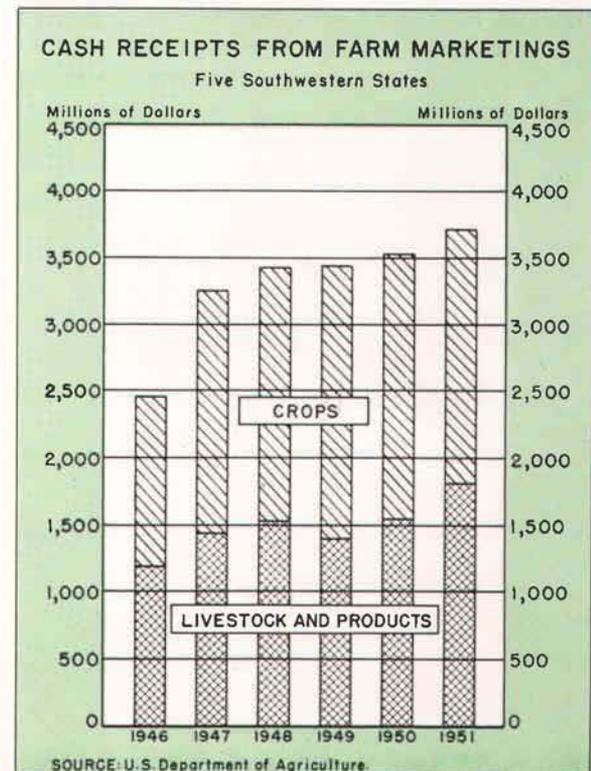
Agricultural production, farm prices, and cash receipts from farm marketings in the District rose in 1951, with prices and cash receipts reaching record levels but production falling below the 1949 record.

At the beginning of the year, with acreage restrictions on rice and cotton having been removed, district farmers expected to produce a record volume of agricultural commodities. Crop prospects were very favorable until about

midyear, when drought conditions began to spread over a wide area of the District. The serious moisture shortages, combined with extremely high temperatures, caused substantial reductions in crop yield estimates. As the drought continued during the fourth quarter of the year, estimates were lowered steadily.

While crop production in the 5-state area during 1951 was about 4 percent above 1950, it fell approximately 28 percent short of the 1949 record. Of the major crops, only cotton and rice showed significant increases in production. Other district crops showed from slight to substantial declines.

The output of livestock and livestock products in the District increased during 1951 for the third consecutive year but was 8 percent below the record production of 1943. Farmers and ranchers produced more beef, veal, lamb, pork, and poultry but less eggs, milk, wool, and mohair.



Farm commodity prices in the District continued to move upward through the first 4 months of the year but then declined rather sharply, with only a part of the loss being regained during the last quarter. At the end of the year prices of commodities averaged about the same as a year earlier. During the peak marketing season for the District's most important crops, however, prices were at their lowest level of the year and, in most cases, below prices of the comparable months of the preceding year. Consequently, the increase in cash receipts from farm marketings from about \$3,514,000,000 in 1950 to \$3,735,000,000 in 1951 was due more to the 4-percent increase in production than to price influences.

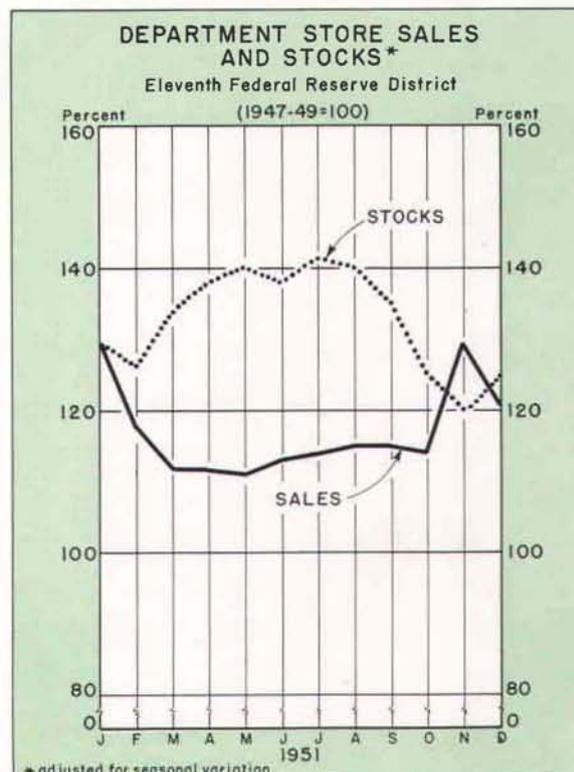
During 1951 the district farmers added substantially to their inventory of farm machinery and equipment, as they turned toward more mechanization and more efficient farm operation to offset at least partially the high cost and scarcity of farm labor. Except in some of the drought-stricken areas, farm indebtedness generally was reduced, and the financial position of farmers showed further improvement.

### TRADE

The dollar volume of retail sales in the District rose about 2 percent during 1951 to establish a new record. Nevertheless, sales generally failed to meet merchants' expectations. The especially strong consumer demand in the latter half of 1950 and the first month of 1951 apparently led merchants to anticipate a substantially higher sales volume than actually materialized. Moreover, as prices averaged substantially higher than in 1950, sales on a physical volume basis were lower.

Larger sales of durable goods had been the dominant factor in the steadily rising trend of retail sales during most of the postwar period, but in 1951 sales of these items declined from the very high level of the previous year, while offsetting increases were reported in sales of various types of soft goods.

Several factors appear to have restricted demand for durable goods. Among the more important were: (a) the heavy buying in the last half of 1950, which borrowed sales from 1951; (b) the satisfaction of most of the deferred demand for durable goods; (c) the necessity for individuals to reduce indebtedness and the desire to rebuild savings that had been reduced during the preceding period of war-scare buying; (d) some degree of consumer resistance to high prices; (e) a decrease in the number of new households established; and (f) the restrictive influences of Regulation W.



As retail sales tapered off and declined moderately between February and June, inventories rose sharply, for merchants had bought heavily in the latter part of 1950 and in early 1951 on the assumption that sales and prices would continue to rise. Soon after the lull in consumer buying became apparent, merchants began to attempt to reduce inventories by limiting their purchases from suppliers and increasing the frequency of markdown and clearance sales.

Sales at department stores in the District in 1951 were about 5 percent higher than in 1950, as compared with an 11-percent increase in the previous year. Department store sales, seasonally adjusted, made the most favorable showing in the first 2 months and the closing 2 months of the year, with sales between March and October relatively stable. Department store stocks at the end of the year were about 11 percent below the peak reached on July 31 but about 2 percent above stocks at the end of 1950.

Instalment accounts outstanding at district department stores declined during the first 8 months of 1951, but with the relaxation of Regulation W on August 1, these accounts began to rise slightly. On August 31, instalment accounts outstanding were 24 percent less than the amount outstanding at the beginning of the year; during the remaining months of 1951 an increase of about 7 percent occurred.

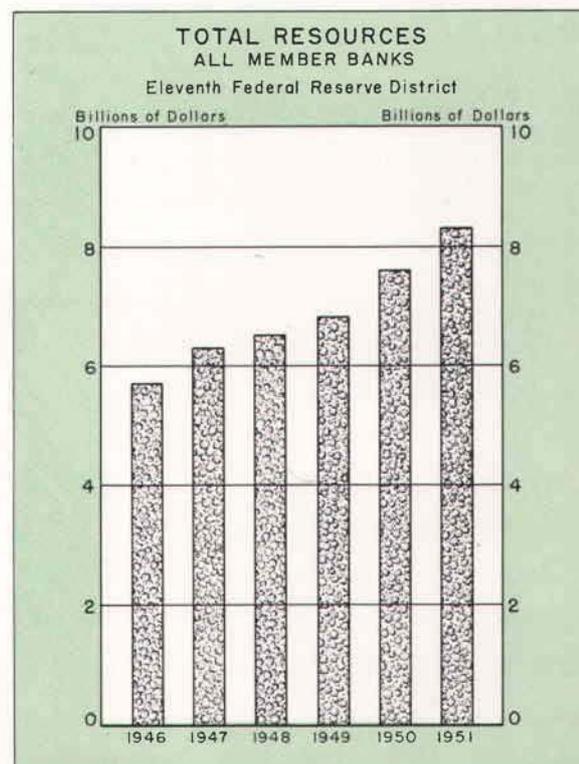
The collection period on instalment receivables at department stores in the District showed a reduction from about 13 months to approximately 10 months. This improvement in collections is at least partly a result of Regulation W. The liberalization of the terms of

Regulation W in August 1951, however, may tend to check this trend in instalment collections, although the period will continue to be shorter under Regulation W at present terms than was typical of precontrol years.

## BANKING

*All Member Banks* — On December 31, 1951, total resources of the 633 member banks in the District amounted to \$8,267,661,000, an increase of \$610,805,000 during the year. Loans and investments of these banks increased \$289,762,000, while cash, reserves, and balances due from banks rose \$292,390,000. Principal increases in liabilities were \$544,418,000 in total deposits and \$45,625,000 in capital accounts. These increases in 1951 in major asset and liability accounts were somewhat smaller than those reported in the preceding year.

One of the most significant banking developments in the District in 1951 was the sub-



stantially smaller increase in total loans. The sustained high level of economic activity, unusually large agricultural production, and a rising demand for products for defense combined to create a strong loan demand throughout the year; nevertheless, the increase in loans was held down to \$163,108,000, as compared with \$375,350,000 in 1950.

Although country banks hold somewhat less than half of the District's member bank loans, these banks accounted for more than \$148,000,000, or 91 percent, of the total loan increase. During the year, loans at country banks increased approximately 15 percent, while reserve city banks showed an increase of only slightly more than 1 percent. Commercial and industrial loans increased about \$88,000,000 during the year; loans to other individuals—including consumer-type transactions—were up about \$50,000,000; and loans to farmers were \$36,000,000 larger. Other classes of loans showed no appreciable change.

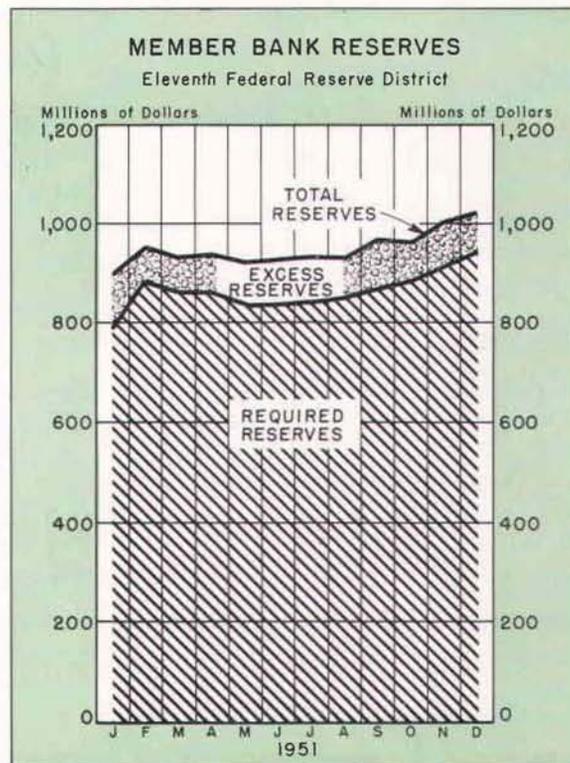
The trend of loans in the District was mixed during the year, as loans of country banks showed a gradual increase from month to month, while loans of reserve city banks declined gradually through July and then rose somewhat more sharply in response to the seasonal demand during the last 5 months of the year.

Member bank holdings of Government securities increased by \$90,741,000 during the year and on December 31 totaled \$2,365,676,000, while holdings of municipals and other state and local government issues increased by \$30,725,000 to \$324,387,000. The proportion of total earning assets represented by Government securities was approximately

the same—44 percent—in 1951 as a year earlier.

The growth of \$544,418,000 in total deposits of the District's member banks was distributed principally between demand deposits of individuals, which increased \$356,835,000, and interbank deposits, which increased \$143,591,000 during 1951. The substantial increase in interbank deposits, however, was largely a year-end development and probably represents a considerable amount of "deposit-inflation." This type of deposit increased \$195,000,000 in the 5-day period between December 26-31, 1951. Time deposits of individuals, reflecting the increase in savings that occurred during 1951, increased \$42,852,000, as compared with an increase of \$18,223,000 in 1950.

Average reserve balances of member banks in the District were relatively stable during the first 8 months of the year, fluctuating be-



tween about \$900,000,000 and \$940,000,000, but then rose steadily and during the last 15 days of December averaged about \$1,030,000,000, or \$146,000,000 more than a year earlier.

Excess reserves as a percentage of required reserves averaged considerably less during 1951 than in 1950, the percentage being well under 10 percent during most of the past year, as compared with a percentage averaging over 11 percent a year earlier. Higher reserve requirements which became effective early in 1951, the larger volume of deposits resulting from the expansion of loans and investments, firmer central bank control over the availability of reserves, and higher interest rates, all contributed to the somewhat less easy reserve positions.

Banks of the District continued to strengthen capital accounts through the sale of new stock, conservative dividend policies, and the transfer of a substantial part of earnings to surplus. On December 31, total capital accounts were \$464,180,000, an increase of \$45,625,000, or approximately the same as in 1950. At the end of 1951 the capital accounts-risk assets ratio was 15.0 percent, as compared with 14.6 percent at the end of 1950, while the ratio of total capital accounts to total deposits increased from 5.8 percent to 6.0 percent.

Profits before income taxes totaled \$65,455,000, or almost 6 percent more than in 1950. The substantial increase in income taxes from \$19,921,000 in 1950 to \$26,027,000 in 1951 more than offset this increase in profits, with the consequence that net profits for 1951 were about 6 percent lower than a year ear-

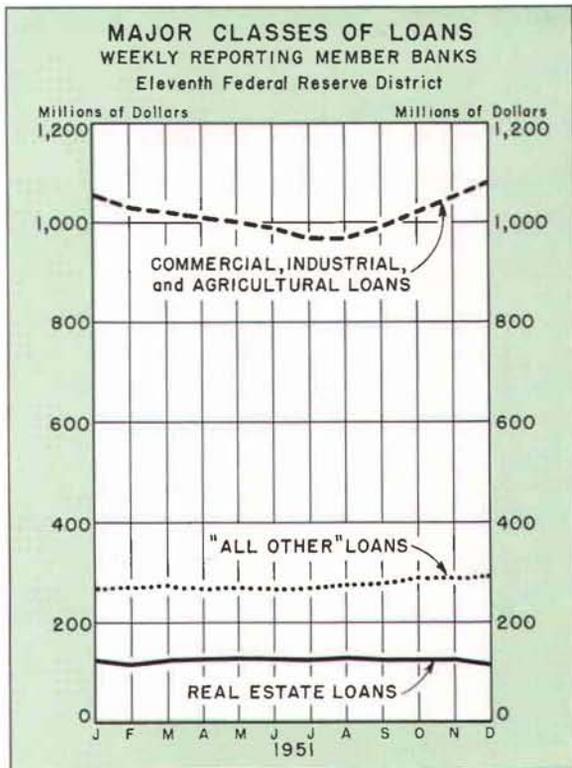
lier. Cash dividends represented 44 percent of net profits after taxes.

#### *Weekly Reporting Member Banks—*

In common with the trend for all member banks, resources, earning assets, and deposits of the 40 weekly reporting banks in nine larger cities in the District increased during 1951 but at a notably smaller rate than in 1950. In 1951, banking developments in the District were influenced by a moderately restrictive central banking credit policy, a coordinated voluntary effort on the part of private financial institutions to limit credit expansion, a tempering of inflationary attitudes, and a noticeable leveling off in the trend of business activity. Each of these influencing factors was quite different from 1950, when—especially during the last half of the year—an accelerating inflationary boom prevailed.

Loans of the weekly reporting member banks rose \$92,370,000 during 1951, or approximately 6 percent, in contrast with an expansion of \$286,830,000, or 24 percent, in 1950. Moreover, all major categories of loans showed an appreciably smaller rate of growth.

Commercial, industrial, and agricultural loans declined \$86,397,000 between late January and early August. This decrease reflects not only the influence of the factors mentioned in the preceding paragraph but also seasonal developments and the efforts of businesses to work off excessive inventories and reduce bank indebtedness which had been incurred during the period of heavy inventory accumulation. Beginning early in August, however, and extending to the end of the year, loans to businesses and for the marketing of agricultural



products rose steadily. Most important in the increase were loans to cotton and other commodity dealers, although food and liquor manufacturers, grain and milling concerns, and sales finance companies increased their bank borrowings. Partially offsetting declines were reported by wholesale and retail trade establishments, construction firms, and textile and apparel manufacturers. During the year, commercial, industrial, and agricultural loans increased \$50,484,000, as compared with \$190,687,000 in 1950.

Real estate loans increased only \$2,125,000, or less than 2 percent in 1951, as compared with an increase of \$24,879,000, or 27 percent, in 1950. "All other" loans, including largely consumer credit transactions, increased \$27,254,000, or 10 percent, whereas the increase in 1950 was \$59,938,000, or 29 percent. The growth of loans in these categories undoubtedly was restricted by the effect of

Regulations W and X; in addition, particularly with respect to consumer durables, the unusually large purchases during the last 6 months of 1950 probably lessened demand somewhat in 1951.

Weekly reporting member bank holdings of Government securities rose \$76,269,000 in 1951, in contrast with a decline of \$62,375,000 in 1950. Principal changes in portfolios were a substantial increase in holdings of Treasury bills and certificates of indebtedness and a large decline in holdings of Treasury notes. The higher yield on bills and the opportunity to purchase two issues of Treasury Tax Anticipation bills through credit to the Treasury tax and loan accounts largely accounted for the increase in bill holdings. Treasury refunding offerings were primarily responsible for the increase in certificates of indebtedness and the decrease in Treasury notes. Investments in Treasury bonds showed much less change than in 1950—a decline of \$13,843,000 in 1951, as compared with a decline of \$71,582,000 in the preceding year.

Total deposits of these larger banks in the District rose \$228,573,000, or 6 percent, to a total of \$4,022,717,000; by way of contrast, in 1950 the deposit growth was about 11 percent. Demand deposits of individuals, partnerships, and corporations accounted for about two-thirds of the increase, with interbank deposits and time deposits of individuals and businesses also showing notable increases. The trend of deposits was seasonally downward from January through May, comparatively stable during June and July, and substantially upward from August to the end of the year.

## VOLUNTARY CREDIT RESTRAINT PROGRAM

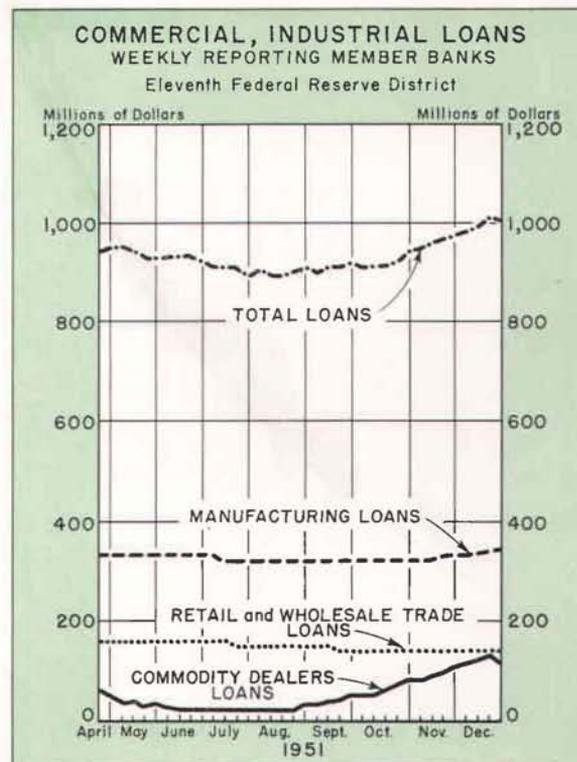
The Voluntary Credit Restraint Program, under which commercial banks, investment banks, insurance companies, and savings and loan associations have agreed to extend credit in such a way as to help maintain and increase the strength of the economy through the restraint of inflationary lending and, at the same time, to help finance defense and essential civilian requirements, was well supported in the Southwest during 1951.

When the Program was initiated in March 1951, much publicity was obtained through the press, radio, and public addresses in numerous cities in the District. Efforts were made not only to inform lenders regarding the principles and objectives of the Program but also to inform the general public, so that potential borrowers might adapt their financial planning, in so far as loans were involved, to the stated objectives of the Program.

It is always difficult, if not impossible, to measure statistically the full effect of a particular credit control program, but reports received from various sources in the District strongly indicate a considerable measure of success in achieving the Voluntary Credit Restraint objectives. There is no doubt that the Program provides private lenders with a standard of measurement by which they might appraise loan applications during the period of defense and inflationary pressure. Moreover, it tends to create and emphasize a consciousness in the minds of private lenders of the importance of eliminating to the greatest extent possible loans not directly related to

defense, defense-supporting, and essential civilian requirements.

The trend of loans of the weekly reporting member banks in the District indicates a notable reduction in the amount of speculative and nonessential lending following the introduction of the Program. A steady loan decline occurred between late March and early August and was followed during the last 5 months of the year by a moderate increase that appeared to be largely seasonal in character. Moreover, the increase in loans during 1951 was 7 percent, as contrasted with an increase of almost 20 percent during 1950. In addition, the increase in commercial and industrial loans between August 8, 1951, and January 2, 1952, was only about \$112,000,000, with loans to dealers in agricultural commodities accounting for about 80 percent of the increase. Obviously, these developments cannot be attributed solely, or perhaps even



largely, to the Voluntary Credit Restraint Program, but it is a part of the over-all program of moderate credit restrictions and undoubtedly contributed to more stable economic conditions during 1951.

Numerous referrals of municipal financing proposals were carefully screened by the Voluntary Credit Restraint investment banking committee during the year. About 9 percent of the applications were disapproved, and reports indicate that a much larger volume of financing was abandoned without formal action being taken by the committee. Disapprovals and abandonments are estimated to have exceeded \$75,000,000.

### CREDIT POLICY

Credit policy developments in 1951 include increases in member bank reserve requirements early in the year, an increase in margin requirements with respect to the financing of security purchases, a change in the administration of policy with respect to central bank support of Government security prices, the institution of the Voluntary Credit Restraint Program, and the liberalization of consumer instalment credit and real estate credit controls.

In January and February 1951, inflationary pressures and the strong demand for bank credit which developed in the preceding 6 months continued. Under these circumstances, the necessity of a more restrictive credit policy was clearly evident. Increases in reserve requirements to the legal maximums for country banks and reserve city banks and within 2 percentage points of the maximum for central reserve city banks were

announced late in 1950, becoming effective by the end of January 1951. This restrictive action absorbed approximately \$2,400,000,000 of reserve funds, but banks were able to meet the higher requirements, at least in substantial part, by selling Government securities at par or a premium to the System under the policy of par support which prevailed at the time. Consequently, the restrictive effect of the increase in reserve requirements was offset partly. Between the time that the higher reserve requirements were announced and the final effective date, the System increased its holdings of Government securities by more than \$1,100,000,000. A seasonal return flow of currency also supplied reserves.

As a means of forestalling an excessive use of bank credit to finance security purchases by individuals and others, on January 17 the Board of Governors of the Federal Reserve System announced changes in margin requirements. As a result, the margin requirements for purchasing or carrying listed securities were increased from 50 to 75 percent.

The most important credit development during 1951 was the change in System policy with respect to par support of the prices of Government securities. Following a series of discussions and events during January and February, a joint announcement of the Chairman of the Board of Governors of the Federal Reserve System and of the Federal Open Market Committee and the Secretary of the Treasury stated that full accord had been reached between the Treasury and the Federal Reserve System "with respect to debt management and monetary policies to be pursued

in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt."

Also, on March 4 the Secretary of the Treasury announced that holders of 2½-percent Treasury bonds of June 15 and December 15, 1967-72, would be permitted to exchange such securities for a nonmarketable 2¾-percent bond of April 1, 1975-80. This bond is not redeemable prior to maturity or call, but holders have the option of conversion into marketable 5-year 1½-percent Treasury notes.

Exchanges under the offering totaled \$13,500,000,000, with \$5,600,000,000 of that amount representing exchanges of Federal Reserve and Treasury holdings. As a consequence, a substantial amount of securities which were potentially convertible into bank reserves were removed from the market. This development was significant, especially since there had been a tendency by nonbanking investors to monetize these 2½-percent bonds as attractive alternative investment opportunities appeared.

The policy of supporting prices of Government securities at par, especially under conditions of strong inflationary pressure such as prevailed during the last half of 1950, resulted in a loss of control over bank reserves by the Federal Reserve System and tended to shift the exercise of that basic central banking function to private banking and nonbanking investors. As other loan and investment opportunities became more attractive than Government securities to private lenders,

they sold Governments to obtain funds for other uses; and the System was obligated under the par support policy to purchase these securities in very large amounts—in fact, in whatever amount was necessary to prevent their prices from declining below par. In other words, the System, through this process, was compelled to participate in the monetization of Government securities.

During January and February 1951, when inflationary pressures were very strong and active, the System purchased about \$1,500,000,000 of Governments and, thus, injected a very substantial amount of central bank credit into the market at a time when, by all standards except that of par support of Government security prices, the availability of bank reserves should have been restricted.

With the abandonment of the policy of par support and its replacement by a policy of influencing the volume of bank reserves in accordance with the requirements of business, industry, and agriculture, yet consistent with the maintenance of orderly conditions in the Government securities market, the System was able to exercise much more effective anti-inflationary control over bank reserves.

Following the accord, System operations in Governments varied from periods of net purchases to periods of net sales, with the bulk of the purchases occurring, first, between March 5 and April 11, when the transition from par support to orderly market conditions was being worked out; again, during June and the first 2 weeks of July, when Treasury refunding was facilitated; and, later, during the Treasury refunding which

occurred in the last half of September and the first 2 weeks of October. At other times during the last three quarters of the year the System was able to make partially offsetting reductions in its Government securities portfolio. Between March 7 and December 26, required reserves of member banks increased about \$1,300,000,000, approximately the same as the increase in System holdings of Governments during the period.

The result of more effective System control over bank reserves was quickly apparent in higher rates of interest, as well as in the more restrictive availability of bank credit. As yields on Government securities rose, other market rates also moved upward. The following table reflects the trend of security yields and market rates between February and December 1951:

Security	February	December
Treasury bills—3 months . . . . .	1.391%	1.731%
Treasury issues—3-5 years . . . . .	1.67%	2.09%
Treasury issues—15 years and over . . . . .	2.40%	2.70%
Corporate bonds—Aaa . . . . .	2.66%	3.01%
High-grade municipals . . . . .	1.61%	2.10%
Prime commercial paper— 4-6 months . . . . .	1 <sup>7</sup> / <sub>8</sub> %-2%	2 <sup>1</sup> / <sub>4</sub> %-2 <sup>3</sup> / <sub>8</sub> %

As banking and nonbanking investors found the prices of Government securities declining below par, they became more reluctant to convert such securities into funds for alternative investments. In other words, various types of Government securities which, under the par support policy, had been the virtual equivalent of cash reserves tended to lose a considerable part of that characteristic as prices moved below par. The effect of this develop-

ment was to bring about an appreciable tightening of bank credit, although not to an extent that restricted financing either the requirements of the defense program or the requirements of defense-supporting and essential civilian activities.

Another development growing out of the general firming in the market and the change in System policy was a greater tendency for member banks to make use of the loan and discount privilege at the central bank to tide them over short periods of credit stringency. This tendency became especially noticeable during the closing weeks of the year. On December 5, discounts and advances of the Federal Reserve banks reached a total of \$959,000,000, a level that had not been reached for many years.

Although there was naturally some concern and uncertainty regarding the possible market consequences of such a fundamental change in policy as abandonment of par support, actual market conditions were generally very orderly throughout the last three quarters of the year and required comparatively little System intervention. With the removal of the "pegs," prices of Governments moved lower. As the market moved lower, however, considerable support was obtained from purchases in the market by nonbanking investors.

On March 5 the longest term restricted bond was quoted at 100 22/32, and this issue fluctuated around 99 2/32 during the next few weeks, being supported partly by System purchases during this transition period and partly by private investor purchases. As System support was gradually withdrawn, the

price of this issue declined to 96 26/32 by mid-May but then recovered on the basis of market strength by early September to 98 26/32. Late in the year, as money market conditions tightened appreciably, a new low of 95 28/32 was reached but under orderly market conditions. The trend as reflected by this longest term restricted issue was generally typical of market conditions during the period.

Under authority granted in the Defense Production Act of 1950, the Board of Governors announced on March 12 the institution of a program of voluntary credit restraint in cooperation with commercial banks, insurance companies, investment banks, and savings and loan associations. National and regional committees were set up for the purpose of applying a uniform set of principles in determining the advisability of extending credit for specific purposes.

Within the framework of a more restrictive general credit policy, this program has achieved a considerable measure of success in channeling funds from nonessential or speculative uses to more desirable uses. In addition, the program contributed to holding down the over-all expansion of credit and the money supply.

In accordance with the mandatory provisions of the Defense Production Act of 1951, the Board of Governors of the Federal Reserve System liberalized consumer instalment credit terms, effective July 31. The new terms, as outlined under the discussion of Regulations W and X elsewhere in this report, involve a lengthening of maturities and, with

respect to some durable goods, a reduction in the minimum down payment.

Acting under the provisions of the Defense Housing and Community Facilities and Services Act of 1951, certain relaxation of terms was permitted on 1- to 4-unit housing not priced in excess of \$12,000.

## TREASURY FINANCING

Marketable Government securities maturing or callable during 1951 totaled \$30,408,000,000, of which \$29,079,000,000 was refunded by the Treasury and \$1,329,000,000 redeemed by cash. In addition to these debt operations, investors exchanged \$13,574,000,000 of the 2½-percent bonds of June 15 and December 15, 1967-72, for the new investment series of nonmarketable 2¾-percent bonds of 1975-80, which was offered as a special issue during March and April.

The refunding of maturing or called securities in 1951 was concentrated heavily on June 15 and October 15. The six issues of Treasury notes and bonds which were exchanged or redeemed on these dates accounted for about 70 percent of the total amount of the called or maturing issues outstanding. All called or maturing securities, other than Treasury bills, were refunded into 1⅞-percent certificates of indebtedness. The maturities of these certificates ranged from 9½ months for the June 15 issue to 11½ months for the October 15 and December 15 issues. Certificates offered on the intervening refunding dates had maturities of 11 months.

Cash borrowing by the Treasury in 1951 through the sale of marketable securities amounted to approximately \$4,502,000,000.

Between July 5 and August 16, inclusive, offerings of Treasury bills exceeded maturities by about \$200,000,000 weekly. Similarly, between September 13 and September 27, inclusive, weekly offerings exceeded maturities by the same amount. In order to strengthen its cash position and finance the rising volume of current expenditures for defense and related purposes, on October 23 the Treasury borrowed \$1,251,000,000 through the sale of a special issue of 144-day Tax Anticipation Series bills. On November 27 an approximately equal amount of 201-day bills was sold for cash. Payment for these securities, which are redeemable in payment of taxes or for cash on March 15 and June 15, respectively, was permitted by credit to Treasury tax and loan accounts of commercial banks. Consequently, the average rates of discount upon issue were somewhat lower than the prevailing market rates, resulting in an appreciable saving in interest cost to the Treasury. Moreover, although a large part of these sums was borrowed initially through the banking system, the inflationary effects were reduced to the extent that the new securities ultimately absorbed nonbank funds.

Sales of savings bonds in the Nation amounted to \$3,960,798,000 in 1951, while redemptions were \$5,651,593,000. The net redemptions of \$1,690,795,000 compare with net sales of \$234,000,000 in 1950. Although there was a marked increase in the rate of personal saving after the first 3 months of the year, there was a tendency for investors to choose other investment media. Promotional activities in connection with the Defense

Bond Drive, which began on Labor Day, however, increased the number of persons purchasing Series E bonds through the payroll savings plan.

Holders of Series E savings bonds, which began maturing in May 1951, were given the option of holding these securities for an additional 10 years, with interest accruing during the first 7½ years at 2½ percent, simple interest per annum, and during the remaining maturity at a rate sufficient to yield 2.9 percent, compounded semiannually. Alternative options of redemption for cash or exchange for Series G bonds also were provided. These privileges, which were provided by statutory authority in anticipation of the substantial volume of maturities, will extend to all outstanding Series E bonds as they mature and will apply to all savings bonds of this series issued in the future.

In view of the generally higher level of interest rates that prevailed after the Treasury-Federal Reserve "accord" of March, the Treasury offered for continuous subscription, beginning on May 15, a new series of savings notes. The new Series A notes, which yield a return of 1.88 percent if held 3 years to maturity, replaced the Series D notes, which carried a maximum yield of 1.40 percent.

The total interest-bearing debt of the Government increased from \$254,304,000,000 on December 31, 1950, to \$257,111,000,000 on December 31, 1951. Marketable debt accounted for approximately 55 percent of the total debt outstanding at the end of the year. The average interest rate on the total interest-bearing debt rose slightly—from 2.209 to 2.308 percent.

# FEDERAL RESERVE

## STATEMENT OF CONDITION

ASSETS	December 31	
	1951	1950
Gold certificates . . . . .	\$ 553,765,136.95	\$ 622,614,603.47
Redemption fund for Federal Reserve notes . . . . .	28,151,827.64	25,463,505.11
Total gold certificate reserves . . . . .	581,916,964.59	648,078,108.58
Other cash . . . . .	19,218,307.62	11,513,022.86
Discounts and advances . . . . .	0	0
Industrial loans . . . . .	38,647.36	0
U. S. Government securities		
Bills . . . . .	22,388,000.00	56,470,000.00
Certificates . . . . .	608,897,000.00	105,961,000.00
Notes . . . . .	242,518,000.00	568,628,000.00
Bonds . . . . .	255,727,000.00	209,728,000.00
Total U. S. Government securities . . . . .	1,129,530,000.00	940,787,000.00
Total loans and securities . . . . .	1,129,568,647.36	940,787,000.00
Due from foreign banks . . . . .	1,043.21	825.33
Federal Reserve notes of other banks . . . . .	12,527,750.00	8,362,750.00
Uncollected items . . . . .	168,648,435.72	192,457,628.86
Bank premises . . . . .	650,519.15	677,208.03
Other assets . . . . .	6,259,703.44	5,375,736.47
Total assets . . . . .	<u>\$1,918,791,371.09</u>	<u>\$1,807,252,280.13</u>
<b>LIABILITIES</b>		
Federal Reserve notes in actual circulation . . . . .	\$ 702,161,810.00	\$ 639,322,205.00
Deposits		
Member bank—reserve account . . . . .	1,011,045,268.68	891,214,754.83
U. S. Treasurer—general account . . . . .	548,487.15	24,310,579.41
Foreign . . . . .	19,258,500.00	31,069,500.00
Other deposits . . . . .	4,559,164.80	43,542,904.16
Total deposits . . . . .	1,035,411,420.63	990,137,738.40
Deferred availability items . . . . .	145,137,970.09	144,545,627.42
Other liabilities . . . . .	474,603.03	125,835.40
Total liabilities . . . . .	<u>\$1,883,185,803.75</u>	<u>\$1,774,131,406.22</u>
<b>CAPITAL ACCOUNTS</b>		
Capital paid in . . . . .	\$ 10,711,550.00	\$ 9,610,450.00
Surplus (Section 7) . . . . .	18,210,140.46	16,852,179.58
Surplus (Section 13b) . . . . .	1,307,124.72	1,307,124.72
Other capital accounts . . . . .	5,376,752.16	5,351,119.61
Total capital accounts . . . . .	<u>\$ 35,605,567.34</u>	<u>\$ 33,120,873.91</u>
Total liabilities and capital accounts . . . . .	<u>\$1,918,791,371.09</u>	<u>\$1,807,252,280.13</u>

# BANK OF DALLAS

## EARNINGS AND EXPENSES

EARNINGS	1951	1950
Discounts and advances . . . . .	\$ 47,396.60	\$ 33,489.03
Industrial loans . . . . .	1,265.16	0
U. S. Government securities . . . . .	18,583,474.46	12,381,678.35
All other . . . . .	9,823.46	10,943.34
Total current earnings . . . . .	<u>\$18,641,959.68</u>	<u>\$12,426,110.72</u>
 <b>EXPENSES</b>		
Current operating expenses . . . . .	4,638,398.71	4,344,770.26
Less reimbursement for certain fiscal agency and other expenses . . . . .	809,009.00	976,120.18
Net operating expenses . . . . .	<u>\$ 3,829,389.71</u>	<u>\$ 3,368,650.08</u>
Assessment for expenses of Board of Governors . . . . .	150,700.00	122,300.00
Federal Reserve currency		
Original cost, including shipping charges . . . . .	326,408.00	194,707.94
Cost of redemption, including shipping charges . . . . .	41,523.00	38,563.80
Total net expenses . . . . .	<u>\$ 4,348,020.71</u>	<u>\$ 3,724,221.82</u>
 <b>CURRENT NET EARNINGS</b> . . . . .	 <u>\$14,293,938.97</u>	 <u>\$ 8,701,888.90</u>
 <b>ADDITIONS TO CURRENT NET EARNINGS</b>		
Profit on U. S. Government securities . . . . .	0	1,654,006.82
All other . . . . .	336.99	386.18
Total additions . . . . .	<u>\$ 336.99</u>	<u>\$ 1,654,393.00</u>
 <b>DEDUCTIONS FROM CURRENT NET EARNINGS</b>		
Loss on U. S. Government securities . . . . .	70,894.04	0
All other . . . . .	330.96	522.63
Total deductions . . . . .	<u>\$ 71,225.00</u>	<u>\$ 522.63</u>
 <b>NET ADDITIONS OR DEDUCTIONS</b> . . . . .	 <u>\$ -70,888.01</u>	 <u>\$ 1,653,870.37</u>
 <b>DISTRIBUTION OF NET EARNINGS</b>		
Transferred to reserve for contingencies . . . . .	\$ 24,159.94	\$ 19,904.37
Paid U. S. Treasury (Interest on outstanding F. R. notes) . . . . .	12,220,821.22	8,808,321.14
Net earnings after reserves and payments to U. S. Treasury . . . . .	1,978,069.80	1,527,533.76
Dividends paid to member banks . . . . .	620,108.92	548,793.31
Transferred to Surplus (Section 7) . . . . .	<u>\$ 1,357,960.88</u>	<u>\$ 978,740.45</u>

# VOLUME OF PRINCIPAL TRANSACTIONS

	1951		1950	
	Number of pieces	Dollar amount	Number of pieces	Dollar amount
Discounts for member banks				
Secured by U. S. Government obligations . . . . .	113	\$ 209,946,000	96	\$ 158,830,000
Others . . . . .	36	62,000	15	20,000
Industrial loans . . . . .	1	152,000	—	—
Currency received . . . . .	140,081,000	796,644,000	133,317,000	733,473,000
Coin received . . . . .	234,974,000	19,020,000	219,967,000	17,322,000
Currency paid out . . . . .	—	785,941,000	—	684,771,000
Coin paid out . . . . .	—	24,296,000	—	20,854,000
Checks handled . . . . .	109,886,000	43,216,444,000	101,387,000	36,791,997,000
Checks returned unpaid . . . . .	1,639,000	155,418,000	1,536,000	136,173,000
Collections handled . . . . .	746,000	536,673,000	653,000	626,062,000
U. S. Government interest coupons paid . . . . .	319,000	31,422,000	335,000	29,826,000
Coupons of governmental agencies paid . . . . .	6,000	224,000	7,000	211,000
U. S. post office money orders . . . . .	8,983,000	153,354,000	—	—
U. S. Government checks and warrants paid . . . . .	22,236,000	4,014,448,000	20,446,000	3,764,814,000
Transfers of funds for member banks . . . . .	100,000	28,714,326,000	90,000	24,921,935,000
U. S. Government securities issued, exchanged, and redeemed . . . . .	4,994,000	6,738,301,000	5,185,000	6,057,839,000
Securities of governmental agencies issued, exchanged, and redeemed	392	2,679,000	383	1,382,000
Purchases and sales of securities for investors . . . . .	4,000	1,744,753,000	4,000	1,657,899,000

# Review of Internal Operations

## STATEMENT OF CONDITION

Total assets of the bank increased \$111,539,000 during 1951 and on December 31 amounted to \$1,918,791,000. Principal changes in assets were an increase of \$188,743,000 in holdings of Government securities and decreases of \$66,162,000 in gold certificate reserves and \$23,809,000 in items in process of collection. The major changes in liabilities were increases of \$62,840,000 in Federal Reserve notes of the bank in actual circulation and \$119,831,000 in member bank reserve accounts and decreases of \$23,762,000 in the general account of the United States Treasurer, \$11,811,000 in foreign deposits, and \$38,984,000 in other deposits.

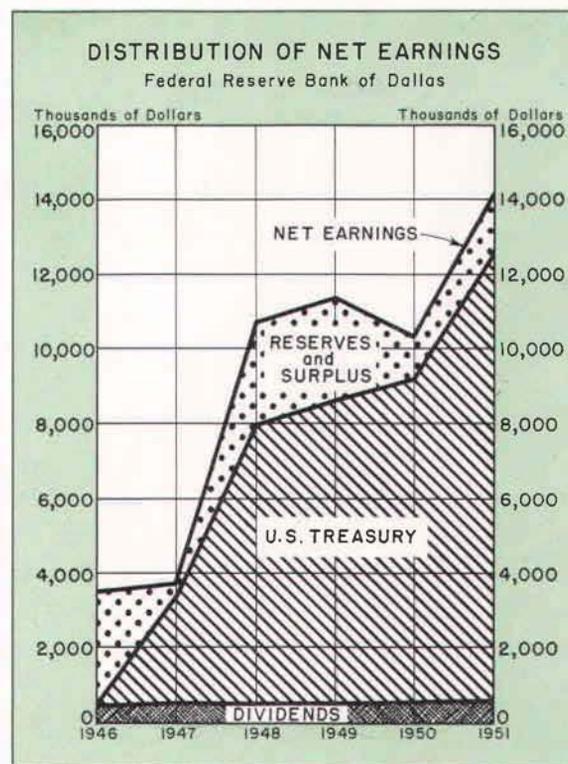
Total capital accounts of the bank increased \$2,485,000 during the year. The increase of \$1,101,000 in paid-in capital is accounted for by additional purchases of the bank's stock by 322 member banks which increased their capital and surplus and the addition of three new banks in the Eleventh District to membership in the Federal Reserve System, together with a small offset arising from a reduction of the capital structure of two member banks. The increase in other capital accounts, amounting to \$1,384,000, reflected additions from earnings after payment of dividends to member banks and payments to the United States Treasury.

## EARNINGS AND EXPENSES

Reflecting a substantial increase in earnings on United States Government securities, total current earnings of the bank amounted to \$18,642,000 in 1951, as compared with \$12,426,-

000 in 1950. Total net expenses, including current operating expenses (less reimbursement for certain fiscal agency and other expenses), assessment for pro rata share of expenses of the Board of Governors of the Federal Reserve System, and the cost of Federal Reserve currency, amounted to \$4,348,000, or \$624,000 more than in 1950. As a result of these developments, current net earnings of the bank in 1951 amounted to \$14,294,000—an increase of \$5,592,000. Net deductions in 1951 of almost \$71,000 resulted largely from losses on the sale of Government securities and contrasted with net additions of \$1,654,000 in 1950, when profits were obtained from the sale of Governments.

In 1951 the bank paid \$12,221,000 to the United States Treasury as a tax on its Federal Reserve note issue not covered by gold cer-

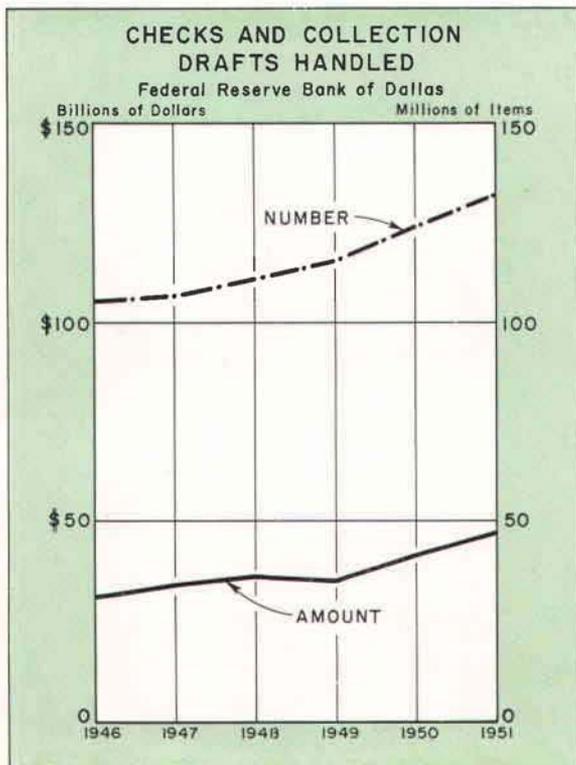


tificates and \$620,000 as a statutory dividend on its stock owned by member banks. The remainder of net earnings was distributed by transferring \$24,000 to reserves for contingencies and \$1,358,000 to Surplus.

### COLLECTIONS

The volume and amount of checks, drafts, and other transactions processed by the Transit Department of the bank increased substantially during 1951, reflecting such factors in the District as the record level of economic activity and the large increase in government payments, including payments to a growing personnel at military establishments.

The number of checks handled, including checks drawn on the Treasurer of the United States, totaled 132,122,000, with an aggregate value of \$47,231,000,000, representing increases of 8 percent and 16 percent, respectively, over 1950.



During 1951, 1,639,000 checks totaling \$155,418,000 were returned unpaid for various reasons. This represents a 7-percent increase in number over 1950 and a 14-percent increase in dollar amount. There was some slight improvement with respect to this activity in 1951, inasmuch as these increases are somewhat less than the percentage increases in the number and amount of all checks handled.

The bank and its branches handled 746,000 noncash collections valued at \$536,673,000 in 1951. These figures represent an increase of about 14 percent in number of items but a decrease in aggregate dollar amount of about the same percent. The increase in the number of collections reflects, in some measure, the activity of local security dealers and the greater number of corporations and municipalities being served by Dallas banks as paying agents for coupons and securities. The amount of collections handled for the Production and Marketing Administration of the United States Department of Agriculture was much smaller in 1951 than in 1950 and accounts for most of the decrease that occurred in dollar value.

On July 1, 1951, United States post offices began the issuance of postal money orders in punch-card form. This new form of postal money order, which has replaced the old style paper order, is cashable at its face value at any bank or post office and is payable through any Federal Reserve bank. Member and non-member clearing banks in this District may send these orders to the Head Office or appropriate branch as cash items and receive immediate credit. During the last 6 months of 1951 the bank and its branches received 8,983,000

punch-card money orders, involving a dollar amount of \$153,354,000.

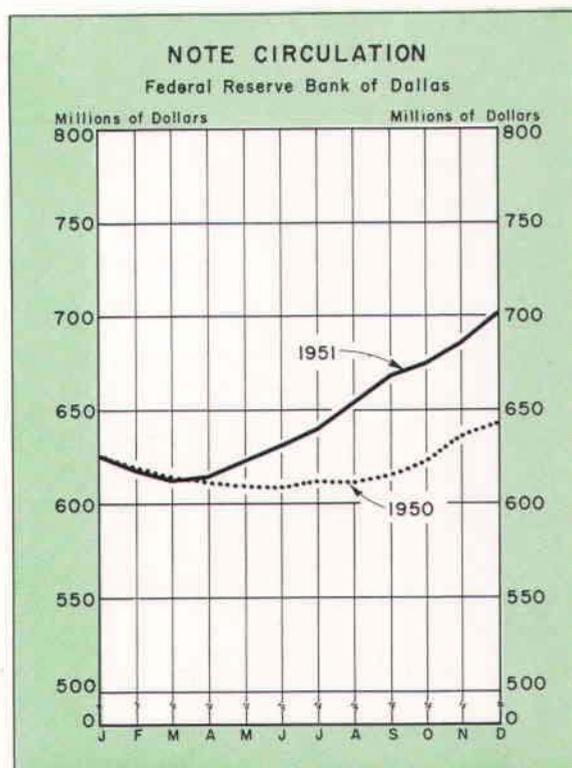
The check-routing symbol program showed further progress during the year. A survey conducted by the bank on December 1, 1951, revealed that 82 percent of the checks examined showed the routing symbol in the proper position on the check—a proportion not substantially different from the 85 percent reported for the System as a whole.

### CASH DEPARTMENT

During 1951 the Cash Department received 30,974 shipments of currency and coin valued at \$795,000,000 from member and nonmember banks; in addition, the bank received \$20,000,000 of its Federal Reserve notes from other Federal Reserve banks, which had been deposited with them and which were fit for further circulation. Currency and coin forwarded by the bank to member and nonmember banks involved 81,853 shipments, aggregating \$810,000,000. As compared with 1950, receipts of currency and coin increased about \$67,000,000, while payments were about \$105,000,000 larger.

Included in the currency received from member and nonmember banks in this District was \$121,000,000 in notes issued by other Reserve banks and fit for further circulation. These notes were returned to the issuing banks. In addition, the bank shipped to the Treasury Department for redemption \$209,000,000 of unfit currency.

Prior to 1951 the peak circulation of Federal Reserve notes of this bank had been \$651,000,000 on December 6, 1949, but that total



was surpassed by August 3, 1951, as the trend of notes in circulation moved steadily upward. As a result of further increases during the last 5 months of the year, circulation of notes of this bank reached a new record high of \$707,000,000 on December 27, 1951.

In the closing days of the year the increase was reversed, as the result of the beginning of the seasonal return flow. Average circulation in 1951 was \$645,000,000, or about \$26,000,000 more than in 1950.

Operations involved in the performance of other functions by the Cash Department also were in larger volume during 1951. On December 31, the bank held in safekeeping for member banks and others securities valued at \$1,157,000,000, an increase of about \$152,000,000 over the total held a year earlier. The number of coupons of the United States Government and of government agencies paid

totalled 326,000, a decrease of about 16,000 from the total of the preceding year, but the number clipped from other bonds held in custody for member banks was almost 18,000 in excess of 1950.

During 1951 the bank engaged in more than 4,000 transactions involving the purchase and sale of securities for member and nonmember banks and the settlement for and receipt and delivery of securities purchased and sold by member banks in their direct transactions with brokers. Services of these types were performed for 347 member and nonmember banks and totaled \$1,744,000,000, or 5 percent more than in 1950.

Telegraphic transfers of funds, which were made at the request or received for the account of member banks, numbered about 100,000 and were valued at \$28,714,000,000 — increases of 11 percent and 15 percent, respectively, over 1950.

### FISCAL AGENCY

The value of United States Government securities issued, exchanged, and redeemed through the bank increased more than 11 percent during 1951 and totaled \$6,738,300,000, although the number of pieces handled declined by almost 200,000.

The increased demand for Treasury bills that has accompanied the higher yield has been reflected in a steadily rising number of weekly tenders for such securities. Weekly tenders averaged 74 in 1949 but rose in 1950 to 128 and in 1951 to 151, with allotments in the last year totaling \$1,648,800,000 and accounting for almost 25 percent of the bank's activity in Government securities.

Other allotments of Government securities through the bank in 1951 included \$71,000,000 and \$98,000,000 of Tax Anticipation bills payable March 15, 1951, and June 15, 1951, respectively; \$534,000,000 of certificates of indebtedness and Treasury notes on exchange subscriptions; and \$172,000,000 of the 2<sup>3</sup>/<sub>4</sub>-percent Treasury bonds—Investment Series B—1975-80, offered in exchange for two issues of 2<sup>1</sup>/<sub>2</sub>-percent Treasury bonds of 1967-72.

Redemptions of marketable Government securities by the bank amounted to \$1,971,000,000 and consisted principally of securities exchanged for new offerings and maturing Treasury bills.

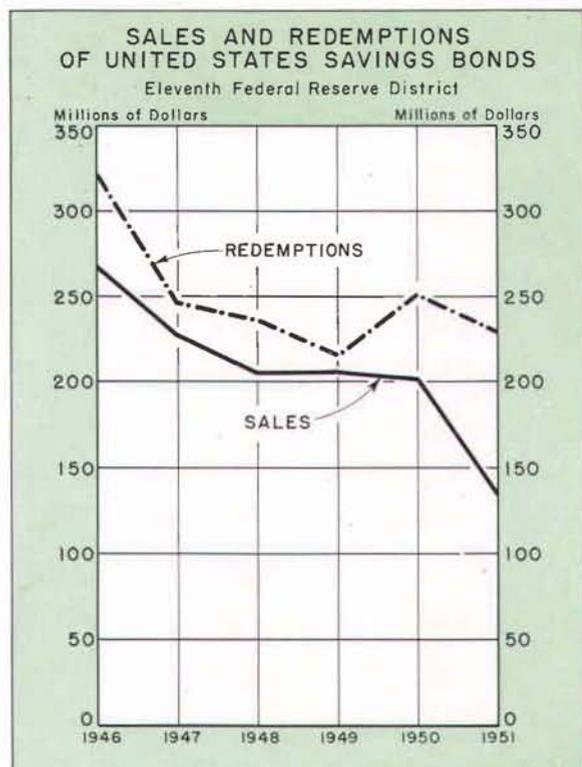
Reflecting the effect of the higher level of interest rates, Treasury savings notes of Series D, which offered investors a yield of 1.40 percent if held to maturity of 3 years, were discontinued on May 10, and Series A Treasury savings notes yielding 1.88 percent if held to maturity (3 years) were offered. The increased yield undoubtedly contributed to the increase in sales of these notes through the bank from \$47,680,000 in 1950 to \$107,544,000 in 1951. Redemptions also were higher, however, as many investors redeemed the Series D issue prior to maturity to reinvest the funds in Series A notes.

Sales of savings bonds in the District during the year declined by \$65,000,000 to \$135,241,000, while redemptions of \$229,082,000 were about \$23,300,000 less than in 1950. In an effort to improve response to the payroll savings plan, the Treasury introduced the "Flag City" Program. Las Cruces, New Mex-

ico, earned the distinction of becoming the first "Flag City" in the Nation, qualifying in February 1951; other cities in the District which qualified under the Program by inducing 80 percent or more of their eligible employers to set up payroll savings plans for their employees included Dallas, Fort Worth, El Paso, Paris, Pasadena, Sherman, Vernon (Texas), and Hugo, Oklahoma.

During 1951 the number of marketable United States Government securities involved in wire transfers decreased by 6,800 to 30,600, but the value of such securities transferred by this bank rose from \$1,343,000,000 in 1950 to \$1,873,400,000 in 1951.

The amount of withheld taxes received from Collectors of Internal Revenue and from depository banks for credit to the Treasury increased by 47 percent during the year to \$377,000,000.



Custodian activities performed for the Commodity Credit Corporation by the bank during 1951 included the processing of 62,844 producers' notes amounting to \$28,741,000, secured by 183,000 bales of cotton placed in the 1950-51 government loan program, and the release of 28,000 notes totaling \$13,505,000, secured by 85,000 bales of cotton. In connection with cotton placed in the government loan program, the bank disbursed for the Commodity Credit Corporation \$16,800,000 and issued certificates of interest valued at \$11,940,000. In connection with other government loan programs—chiefly grain and peanut loans—the bank disbursed \$143,478,000 to lending agencies.

## LOANS AND SECURITIES

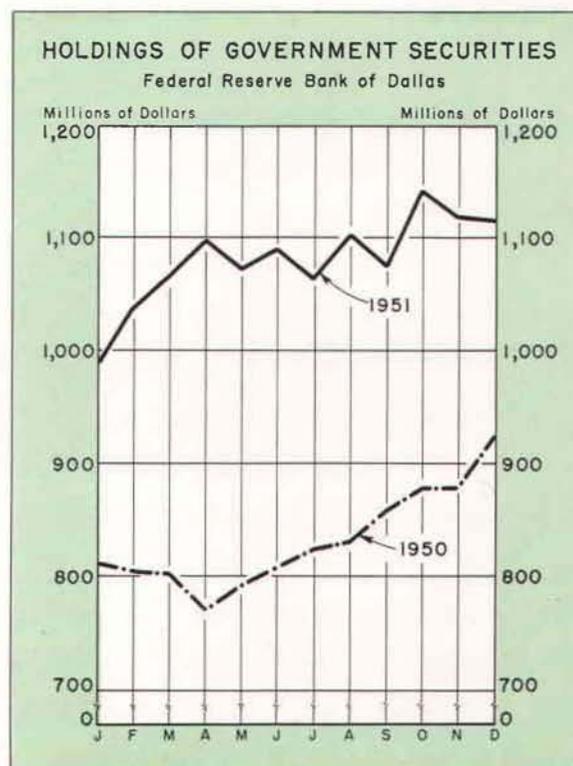
During 1951, 30 member banks borrowed an aggregate of \$210,008,000 from the bank, as compared with borrowings of \$158,850,000 by 17 member banks in 1950. The larger volume of member bank borrowings at a higher average discount rate in 1951 resulted in somewhat larger earnings from discounts and advances, although this source of income continued to represent less than 1 percent of the bank's total current earnings. Member bank borrowing, largely on their own notes secured by Government securities, was for the purpose of meeting temporary reserve deficiencies and was not excessive—in fact, the maximum amount outstanding at any time during the year was \$23,350,000.

Acting as Fiscal Agent for the United States, the bank received and processed applications for guarantees under the provisions

of the Defense Act of 1950 and Regulation V of the Board of Governors of the System. The "V-loan" program, under which certain agencies and departments of the Government are authorized to guarantee loans to expedite performance under government contracts awarded to advance the defense effort, materially aided in financing a sizable volume of government defense contracts in the Eleventh District during the year.

The bank's holdings of Government securities rose sharply during 1951, with the larger increases occurring in the first 4 months and during late September and early October. Most of the increase during the first of these periods occurred when the System was supporting prices of Government securities, while the September-October increase developed in connection with a substantial Treasury refunding operation. At other times during the year, when System policy was reflected in the maintenance of "orderly market conditions" in contrast with "fixed price support," the bank's holdings of Governments fluctuated within comparatively narrow ranges. Monthly average holdings ranged between a low of \$988,570,000 in January and a high of \$1,140,499,000 in October. For the year as a whole, average holdings were \$1,087,000,000, an increase of \$255,000,000 over the average of \$832,000,000 in 1950.

Major changes in the bank's portfolio of Governments were declines in holdings of Treasury bills and notes and a more-than-offsetting increase in certificates. Treasury refunding operations which replaced maturing notes with certificates, together with a strong



demand at times for bills, largely accounted for the changes. The average earning rate on the bank's portfolio of Governments rose as a result of higher short-term rates and the increase in holdings of short-term issues.

### REGULATIONS W AND X

The Defense Production Act amendments of 1951 extended the authority of the Board of Governors of the System with respect to consumer instalment credit (Regulation W), but with certain relaxing modifications.

By congressional amendment on July 31, 1951, the maximum maturity of consumer instalment credits on listed articles and of consumer instalment loans was extended from 15 months to 18 months and for home repairs and improvements, from 30 months to 36 months. Likewise, the minimum down payment on instalment credits for the purchase of household appliances and radio and television

sets was reduced from 25 percent to 15 percent; the 10-percent down payment on home repairs and improvements is no longer required prior to completion of the work; and the use of trade-ins as part or all of the down payment is permitted on all listed articles, whereas prior to the amendment the privilege applied only in the case of automobiles. Regulation W was promptly modified by the Board of Governors to reflect these amendments.

Regulation X, originally issued by the Board of Governors on October 12, 1950, and applicable only to residential real estate construction credit, was amended during 1951 to include multi-unit residences and non-residential property. Also, to conform to the provisions of the Defense Housing and Community Facilities and Services Act of 1951, a higher maximum loan value was permitted on 1- to 4-unit housing not priced in excess of \$12,000.

Registrations with the bank of persons and businesses in the Eleventh District subject to the provisions of Regulation W totaled 16,012 at the end of 1951, while registrants subject to Regulation X numbered 4,168. The bank has endeavored to improve the understanding of the provisions of these regulations among registrants through such media as interpretative bulletins, correspondence, personal contacts, and discussions with trade association groups. An advisory committee composed of realtors and mortgage lenders has continued to render valuable aid to the staff in the administration of Regulation X.

In view of the bank's responsibility for securing the compliance of registrants in the

District, a small, carefully trained staff of investigators was assigned to field operations. On the basis of their investigations, reports received from other cooperating supervisory banking authorities, and other information available, it is evident that compliance of registrants in this District is generally very satisfactory.

### BANK EXAMINATION

All state member banks in the District were examined during 1951. These examinations, with only a few exceptions, were made jointly with the appropriate state banking departments. Field investigations also were made in connection with applications for national bank charters, fiduciary powers, and other banking functions. The examination staff participated in 184 examinations and investigations.

Examinations	Independent		With state or federal agencies	
	1951	1950	1951	1950
State member banks . . . .	5	4	156	149
State bank applications for membership . . . .	1	2	1	2
Trust departments . . . .	0	0	12	12
Applications to organize national banks . . . .	0	0	5	1
Applications of national banks for trust powers . . . .	4	4	0	0
Examinations of holding company affiliates . . . .	0	0	0	2
	<u>10</u>	<u>10</u>	<u>174</u>	<u>166</u>

Supervisory effort continued to be directed toward influencing state member bank managements to maintain balanced asset structures and adequate capitalization. Analyses were made of reports of examination of national and state member banks. Conferences

in conjunction with bank supervisory authorities were held with the officers and directors of member banks when it was considered that such discussions would prove constructive.

The sound condition of the member banks of the District is confirmed by the findings of the examining staff during the year.

### MEMBERSHIP

Membership in the Federal Reserve System in the Eleventh District increased to 633 banks during 1951 as the Conroe (Texas) National Bank, the Sunray (Texas) State Bank, and the Anthony (Texas) State Bank—all primary organizations—were admitted to membership. On December 31, membership in the System in the District included 481 national banks and 152 state banks.

State	December 31, 1951			December 31, 1950		
	National	State	Total	National	State	Total
Arizona	0	1	1	0	1	1
Louisiana	11	3	14	11	3	14
New Mexico	18	6	24	18	6	24
Oklahoma	9	4	13	9	4	13
Texas	443	138	581	442	136	578
	<u>481</u>	<u>152</u>	<u>633</u>	<u>480</u>	<u>150</u>	<u>630</u>

On December 31, 390 members banks were located in the Dallas Head Office territory; 108, in the Houston Branch territory; 91, in the San Antonio Branch territory; and 44, in the El Paso Branch territory.

During the year three nonpar nonmember state banks were added to the par list, leaving 104 nonpar banks in the District—approximately 10 percent of the District's commercial banks.

### LEGAL

Legal proceedings in 1951 involving the bank included a suit by the bank to recover a

loss sustained in connection with a shipment of money to a member bank in 1950, action by a member bank in connection with a forged endorsement, and a suit undertaken by a private party to clear title to certain property in Oklahoma. The first two cases were still pending at the end of the year; in the third case, it was found that the bank had no interest in the property involved.

Demand for the services of the Counsel's office was unusually heavy during the year as a result of the increasing number of interpretations required in connection with the administration of Regulations V, W, and X and personnel actions arising out of the regulations of the Wage Stabilization Board. In addition, the bank's Counsel provided the usual advisory and consultative legal services in connection with many administrative and operating banking problems.

An Assistant Counsel was added to the bank's legal staff in April, as a consequence of the increasing work load.

### AUDITING

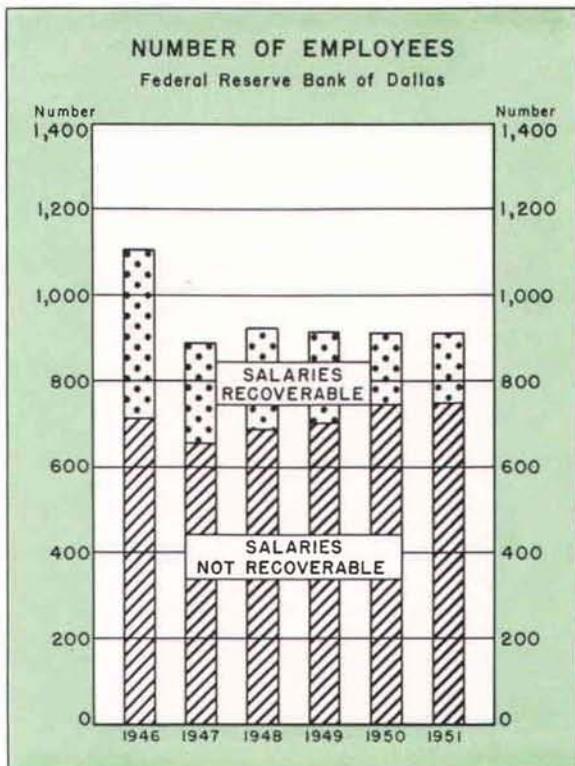
The audit frequencies approved by the Audit Review Committee of the Board of Directors of the bank were maintained during the year. The Audit Review Committee met four times to review monthly reports of the General Auditor covering audits and examinations at the Head Office and branches and to discuss other pertinent matters.

An examination of the bank and its branches was made by the examining staff of the Board of Governors of the System in January 1951.

## PERSONNEL

The personnel of the Head Office and branches, including officers and temporary employees, totaled 951 on December 31, 1951, as compared with 935 a year earlier. Average employment during 1951, however, was lower than in 1950. A decline of 87 in the average number of employees whose salaries were recoverable from the United States Treasury and other government agencies was only partially offset by an increase of 43 in the average number of employees performing work directly for the bank. As a consequence, the working force of the bank during 1951—comprising 153 employees performing work for the Treasury and government agencies and 752 performing service directly for the bank—averaged 905, or 44 less than in 1950.

The annual rate of employee turnover at



the Head Office was 10 percent less than in 1950, while the situation at the branches reflected increases during 1951 of about 11 percent at El Paso, approximately 9 percent at Houston, and almost 14 percent at San Antonio. During the year, 44 employees of the bank resigned to enter military service.

On January 1, 1951, the bank's employees became eligible for Social Security benefits. These benefits were integrated with those provided by the Retirement System of the Federal Reserve banks. Approximately 91 percent of the employees elected not to reduce their contributions to the Retirement System by the amount of the Social Security tax. Instead, they chose to pay their regular Retirement System contribution, in addition to the Social Security tax.

On November 1, 1951, the Federal Reserve banks entered into a group life insurance contract which provides insurance to each employee equal to his basic salary earned during the 12 months of service prior to death. This group insurance, the full cost of which is borne by the bank, is in addition to the death benefit provisions of the Retirement System.

During 1951 the bank continued such established personnel policies as its executive training program; financial support of and participation in the activities of the American Institute of Banking; low-cost hospitalization, medical, and surgical benefits; low-cost meal service; periodic medical examinations; and employee counseling.

## BANK AND PUBLIC RELATIONS

Among the major bank and public relations activities during 1951 were visits to member and nonmember banks by officers, accompanied by senior staff members; conducted tours of the bank for student groups; the availability to member banks of the bank's paper currency display; the presentation of "Your Southwest Business Review," the bank's weekly radio program over Station WFAA-570, Dallas; circulation of business, agricultural, and banking publications; attendance at meetings of bankers and businessmen; sponsoring bankers' forums, farm clinics, and other meetings for bankers and businessmen; and providing speakers from the bank's staff in response to numerous requests.

Over two-thirds of the District's member banks and many nonmember banks were visited during the year. More than 1,900 students, bankers, and businessmen visited the bank and its branches; 40 member banks and the State Fair of Texas exhibited the bank's paper currency display to several hundred thousand persons; the bank was represented at more than 200 meetings of banking, business, agricultural, civic, and other groups, with an estimated total attendance in excess of 60,000 persons. Officers and senior staff members addressed almost 90 meetings, with attendance totaling about 13,000. Bankers' forums were held in Waco, Temple, and Corsicana (Texas), and farm clinics, in Louisiana and Texas.

In addition to these more or less formal aspects of the bank and public relations program, the management has continued to em-

phasize to the bank's staff the importance of cordial, efficient service to member banks and others, in the belief that such service represents the most effective bank and public relations.

## RESEARCH

Through the collection and analysis of data, regular and periodic economic publications, and personal contacts and discussions, the research staff of the bank supplied an increasing demand for banking, business, agricultural, and industrial facts, figures, and interpretations.

The bank's regular economic publications—the *Monthly Business Review*, the *Agricultural News Letter*, and the *Agricultural News of the Week*—are circulated to a steadily expanding mailing list throughout the District and Nation. A new feature in the *Monthly Business Review*—a series of economic articles on "Cities of the Southwest"—has been especially well received. Broader use of the bank's economic studies and publications by educational institutions in the District also is significant.

The services of the Research Department are provided as a basic responsibility of the department to the officers and directors of the bank and to the Board of Governors; they are also made available freely to member banks, businessmen, educators, agriculturists, and the general public, in the belief that access to such information will tend toward developing a better understanding of economic problems.

During 1951 the number of calls made upon the Research Department by business-

men, bankers, and others in the District seeking information pertaining to their fields of operation increased notably. In addition, the research library served a growing demand for information of a specialized type. Students and college and university faculty members also availed themselves more frequently of the library's facilities.

### OFFICIAL APPOINTMENTS

The Board of Governors of the System redesignated J. R. Parten, Houston, Texas, Chairman of the Board of Directors and Federal Reserve Agent for the year 1952 and reappointed R. B. Anderson, Vernon, Texas, a Class C Director for a 3-year term beginning January 1, 1952, and redesignated him Deputy Chairman for the year 1952. The Board also appointed for a 3-year term beginning January 1, 1952, James A. Dick, Jr., El Paso, Texas, a director of the El Paso Branch and reappointed for 3-year terms Ross Stewart, Houston, Texas, a director of the Houston Branch and H. P. Drought, San Antonio, Texas, a director of the San Antonio Branch.

At a special election held in April 1951 the Group II member banks elected George H. Zimmerman, Waco, Texas, a Class B Director to serve during the unexpired portion of the 3-year term ending December 31, 1951, created by the death of J. R. Milam on February 12, 1951. At an election in November 1951 these banks re-elected Mr. Zimmerman for a 3-year term beginning January 1, 1952, and the Group I member banks re-elected P. P. Butler, Houston, Texas, a Class A Di-

rector for a 3-year term beginning January 1, 1952.

The Board of Directors of the bank appointed for 3-year terms beginning January 1, 1952, John W. Cordts, El Paso, Texas, and J. M. Sakrison, Tucson, Arizona, directors of the El Paso Branch and V. S. Marett, Gonzales, Texas, a director of the San Antonio Branch. The Board also announced the reappointment for 3-year terms of P. R. Hamill, Bay City, Texas, and O. R. Weyrich, Houston, Texas, directors of the Houston Branch and E. A. Baetz, San Antonio, Texas, a director of the San Antonio Branch.

The Board of Directors reappointed DeWitt T. Ray, Dallas, Texas, to the Federal Advisory Council for the year 1952 to represent the Eleventh Federal Reserve District and appointed W. K. Stripling, Sr., Fort Worth, Texas, to the Industrial Advisory Committee for the Eleventh District to fill the vacancy created by the death of E. P. Simmons, Dallas, Texas, on February 18, 1951.

In January 1951 R. R. Gilbert was re-elected President and W. D. Gentry, First Vice President, each for a 5-year term beginning March 1, 1951. R. R. Gilbert also was elected to the Federal Open Market Committee for the year beginning March 1, 1951.

During 1951 L. G. Pondrom, Vice President and Cashier, was designated Vice President, succeeding H. R. DeMoss, Vice President, resigned; J. L. Cook, Assistant Cashier, was elected Vice President and Cashier; E. H. Berg, Assistant General Auditor, was elected Assistant Cashier; and George F. Rudy was elected Assistant Counsel of the bank.

# DIRECTORS

## FEDERAL RESERVE BANK OF DALLAS

### DIRECTORS

J. R. PARTEN (*Chairman and Federal Reserve Agent*)  
*President, Woodley Petroleum Company*  
*Houston, Texas*

R. B. ANDERSON  
*(Deputy Chairman)*  
*General Manager, W. T. Waggoner Estate*  
*Vernon, Texas*

W. F. BEALL  
*President and General Manager*  
*3 Beall Brothers 3, Department Stores*  
*Jacksonville, Texas*

P. P. BUTLER  
*President, First National Bank in Houston*  
*Houston, Texas*

G. A. FRIERSON  
*G. A. Frierson & Son, Merchants & Planters*  
*Shreveport, Louisiana*

GEORGE L. MACGREGOR  
*Chairman of the Board*  
*President and General Manager*  
*Dallas Power & Light Company*  
*Dallas, Texas*

J. EDD McLAUGHLIN  
*Vice President, Security State Bank*  
*and Trust Company, Ralls, Texas*

W. L. PETERSON  
*President, The State National Bank*  
*Denison, Texas*

GEORGE H. ZIMMERMAN  
*Chairman of the Board and President*  
*Wm. Cameron & Co., Waco, Texas*

### OFFICERS

R. R. GILBERT, *President*

W. D. GENTRY, *First Vice President*

R. B. COLEMAN, *Vice President*

E. B. AUSTIN, *Vice President*

L. G. PONDROM, *Vice President*

W. H. IRONS, *Vice President*

MAC C. SMYTH, *Vice President*

W. H. HOLLOWAY, *Vice President*  
*(In charge of Houston Branch)*

W. E. EAGLE, *Vice President*  
*(In charge of San Antonio Branch)*

C. M. ROWLAND, *Vice President*  
*(In charge of El Paso Branch)*

J. L. COOK, *Vice President and Cashier*

HARRY A. SHUFORD, *Counsel*<sup>1</sup>

HOWARD CARRITHERS, *Assistant Cashier*

W. D. WALLER, *Assistant Cashier*

T. W. PLANT, *Assistant Cashier*

HERMAN W. KILMAN, *Assistant Cashier*

E. H. BERG, *Assistant Cashier*

LEON DANIELS, *General Auditor*

N. B. HARWELL, *Chief Examiner*<sup>3</sup>

GEORGE F. RUDY, *Assistant Counsel*

MORGAN H. RICE, *Assistant Vice President and*  
*Secretary of the Board*<sup>2</sup>

<sup>1</sup>Acting Secretary of the Board.

<sup>2</sup>Absent on leave—1952 (on loan to State Bank of Pakistan).

<sup>3</sup>Elected, effective January 10, 1952.

### FEDERAL ADVISORY COUNCIL MEMBER

DEWITT T. RAY  
*President, National City Bank of Dallas*  
*Dallas, Texas*

# AND OFFICERS

## EL PASO BRANCH

### DIRECTORS

HIRAM S. CORBETT (*Chairman*)  
*President, J. Knox Corbett Lumber Company*  
*Tucson, Arizona*

HAL BOGLE  
*Livestock feeding, farming, and ranching*  
*Dexter, New Mexico*

JOHN W. CORDTS  
*President, Southwest National Bank*  
*El Paso, Texas*

JAMES A. DICK, JR.  
*President, James A. Dick Company*  
*El Paso, Texas*

W. H. HOLCOMBE  
*Executive Vice President*  
*Security State Bank*  
*Pecos, Texas*

GEORGE G. MATKIN  
*President, State National Bank*  
*El Paso, Texas*

J. M. SAKRISON  
*President, Southern Arizona Bank &*  
*Trust Company, Tucson, Arizona*

### OFFICERS

C. M. ROWLAND, *Vice President in Charge*

ALVIN E. RUSSELL, *Cashier*

T. C. ARNOLD, *Assistant Cashier*

## HOUSTON BRANCH

### DIRECTORS

ROSS STEWART (*Chairman*)  
*President, C. Jim Stewart & Stevenson, Inc.*  
*Houston, Texas*

P. R. HAMILL  
*President, Bay City Bank & Trust Company*  
*Bay City, Texas*

R. LEE KEMPNER  
*President, United States National Bank*  
*Galveston, Texas*

MELVIN ROUFF  
*President, Houston National Bank*  
*Houston, Texas*

CHARLES N. SHEPARDSON  
*Dean of Agriculture*  
*A. & M. College of Texas*  
*College Station, Texas*

HERBERT G. SUTTON  
*T. O. Sutton and Sons*  
*Colmesneil, Texas*

O. R. WEYRICH  
*President, Houston Bank & Trust Company*  
*Houston, Texas*

### OFFICERS

W. H. HOLLOWAY, *Vice President in Charge*

H. K. DAVIS, *Cashier*

B. J. TROY, *Assistant Cashier*

## SAN ANTONIO BRANCH

### DIRECTORS

HENRY P. DROUGHT (*Chairman*)  
*Attorney at Law*  
*San Antonio, Texas*

E. A. BAETZ  
*President, Bexar County National Bank*  
*San Antonio, Texas*

EDWARD E. HALE  
*Chairman of the Department and*  
*Professor of Economics*  
*The University of Texas, Austin, Texas*

V. S. MARETT  
*President, Gonzales State Bank*  
*Gonzales, Texas*

D. HAYDEN PERRY  
*Livestock farming*  
*Robstown, Texas*

RILEY PETERS  
*President, First State Bank*  
*Kerrville, Texas*

E. R. L. WROE  
*President, American National Bank*  
*Austin, Texas*

### OFFICERS

W. E. EAGLE, *Vice President in Charge*

ALFRED E. MUNDT, *Cashier*

F. C. MAGEE, *Assistant Cashier*

