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BANKING AND CURRENCY.

NOVEMBER 22, 1913.—Ordered to be printed, with the individual views of members of the committee.

Mr. HITCHCOCK (for himself, Messrs. NELSON, BRISTOW, CRAWFORD, McLEAN, and WEEKS), from the Committee on Banking and Currency, submitted the following

VIEWS.

[To accompany H. R. 7837.]

The undersigned members of the Banking and Currency Committee, constituting one-half of its membership, regret their inability to present to the Senate the majority report, which until lately appeared to be probable, on H. R. 7837, known as the Federal Reserve Act.

We take leave, however, to present the following statement of our views and to recommend the passage of the bill with the amendments which we incorporate in the print of the bill which we have submitted. We also append hereto and ask to have printed herewith the bill as it would read if so amended.

The House bill was received by the committee September 18 last past. We had commenced to hold hearings upon it prior to that time, and they were continued up to October 25. In these hearings many witnesses from all parts of the country, including bankers of all classes, merchants, business men, publicists, experts, and political economists, were examined. Much valuable information was obtained and many useful suggestions were made which greatly aided the committee in perfecting the bill. The testimony covers over 3,000 pages and has been printed for the use of the Senate.

On October 27, following the close of the hearings, the committee went into executive session and began at once consideration of the vital provisions of the bill. Discussion was followed in each case by a vote in full committee on the vital provisions of the bill and, among others, the following important changes were tentatively decided on:

By a vote of 6 to 4 the committee decided that the reserve board shall do the work of an organization committee.

By a vote of 9 to 1 the Secretary of Agriculture was taken off the reserve board.

By a vote of 8 to 2 the Comptroller of the Currency was taken off the board.

By a vote of 9 to 3 the Secretary of the Treasury was retained upon the board.

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By a vote of 6 to 4 the membership of the reserve board was increased to nine and the term of members fixed at eight years, one retiring each year.

By a vote of 7 to 5 the number of Federal banks was reduced to four, and at one time this vote for four reserve banks stood 8 to 4.

By a vote of 7 to 5 it was decided that the new system should, so far as possible, be owned by the people and that the stock should be offered to the public at par for 60 days, the banks being merely required to underwrite the issue and take what the public did not subscribe for.

By the same vote it was decided that the banking interests shall elect four directors and the Federal board representing the Government shall select five directors of each Federal reserve bank.

By a vote of 10 to 2 it was decided that the capital stock of the regional banks shall be 6 per cent of the capital and surplus of the national banks in the district and, whether taken by the public or the banks, shall be paid for one-third cash, one-third in 30 days, and one-third in 60 days.

By a vote of 8 to 4 it was decided that the Federal reserve notes shall be payable in gold.

By a vote of 4 to 8 the effort to substitute bank notes guaranteed by the Government for United States notes was beaten.

Thus we were going through the bill taking one important provision after another and voting upon it in a nonpartisan spirit, and making such progress that it was hoped the bill could be reported by the 15th of this month. Consideration and decisions had been nonpartisan in character in accordance with the views expressed in the open Senate October 9 by Senators on both sides of the Chamber.

At this juncture, however, in the committee deliberations, a motion to reconsider one of the important questions was made and carried, and the whole subject was thrown open again. After several days of discussion it was found on taking a vote that the committee had become evenly divided and finally six of our colleagues on the committee withdrew from our meetings and proceeded to consider the bill in separate session. We continued with the consideration of the bill, although lacking a quorum, accepting the decisions which had already been tentatively made in full committee as above specified.

Waiving a strong preference which prevailed in committee in favor of a single Government bank with branches, we accepted the regional bank plan as the only hopeful outlook for action by this Congress, but retained the amendment substituting 4 regional banks for 12. While the single Government bank plan would produce the only perfect mobilization of reserves, as has been demonstrated by the experience of other countries, the adoption of four regional banks under a single control will, it is thought, approximate this result and, in a country so large as ours, with so many banks, probably prove efficient. Every addition to this number of reserve banks must inevitably tend to dissipate the reserves and weaken the system. The more reserve banks the less perfect will be the use of reserve funds, which means that asset currency will be issued with greater frequency and in larger volume. It will often happen with a system of 12 reserve banks that a number of them will be calling for currency and charging a high interest rate when other reserve banks will be in their dull season with slack demand for money and large balances. With four

reserve banks, each embracing a large territory served by branches and having a variety of climate and interests, this would rarely occur. Moreover, to cut the country up into many reserve districts means that most of the reserve banks would be comparatively weak and would not inspire confidence. They would not even equal in size some of their member banks supposed to depend on them.

It would probably be difficult to sell to the public the stock in these small reserve banks because they might not be able to earn dividends and would probably be frequently compelled to call upon the stronger ones for assistance.

In our opinion the ownership of the stock by the people is highly important. If \$106,000,000 of stock in these four reserve banks can be sold to the public as a 5 per centum investment there will be thereby added to the banking capital of the United States that great sum of money. We think this very desirable. At present there is a deficiency in the banking capital in many sections of the United States. The tendency of each bank has been to do as large a volume of business on as small an amount of capital as possible for the purpose of maintaining dividends, and the result has been a growing disparity in the proportion of capital to deposits. To compel national banks to subscribe for the capital in the proposed reserve banks simply means the shifting of \$106,000,000 of capital now actively employed with great efficiency and benefit to the public by the various banks to a place where the return is limited to 5 per centum. Such a contraction from the working capital would be to aggravate the evil now existing, and we greatly prefer the plan of bringing this new capital into the banking world and giving to small investors the tax-free, highly desirable 5 per centum investment which they will eagerly take. In this way tens of thousands of our people will be directly interested in this great Government-controlled banking system. This is easily possible with a system of four reserve banks, and it is very doubtful with a larger number.

It has seemed to us, moreover, wise that upon these reserve banks the Government should have a majority of the board of directors. We have, therefore, proposed an amendment giving the Government five and the banking interests four of these directors.

In the division of earnings we have provided that after the payment of 5 per cent dividends and the accumulation of a surplus the net profits, instead of being divided between the stockholders and the Government, shall be disposed of by giving the Government one-half and with the other half creating a depositors' insurance fund, so that when a member bank shall fail in spite of this new system the depositors may be reimbursed out of these accumulated profits. This method levies a tax upon no bank, but it will add immensely to the feeling of confidence and security among depositors and stop bank runs.

We have proposed that the national banks shall decide whether to join this new system or not within six months, as it has seemed to us that a year is an unnecessary length of time.

We have recommended that the size of the Federal reserve board be increased to nine, because of the vast interests which are intrusted to it, the great country which must be covered, and the many questions and complaints which must be considered. We have thought also that every member of the board should give his whole time to

the work, and we have therefore excluded the Secretary of Agriculture and the Comptroller of the Currency, the duties of whose offices already absorb all their time.

We have extended the limit of commercial paper which may be discounted by Federal reserve banks from three months to six months, because we have found that thousands of banks in the West and in the South necessarily take six months' paper because of the longer time required for agricultural processes than for the manufacturing and mercantile processes of the East. We have, however, provided that of the discounted paper of any bank not more than 50 per centum of it shall be for the long-time period, and we have sought to further limit this by providing that in no case can any bank have over \$200,000 of paper discounted exceeding a maturity of 90 days.

We have recommended an amendment by which every member bank is given, as a matter of right, the privilege of discount at its reserve bank to the amount of its capital stock at the lowest current rate of interest, providing it presents eligible paper. This is done to prevent discrimination against a bank and to make every bank feel certain that it will receive the benefits of the system. On the other hand, we have also recommended that a Federal reserve bank shall not discount the paper of any member bank to a greater extent than twice its capital stock. This is to prevent favoritism and undue expansion. We design, also, to place a check upon undue expansion of bank credits by providing that when a bank is allowed to discount paper to a greater amount than its capital stock it shall pay a higher rate of discount.

We have raised the reserve against notes in Federal reserve banks from 33½ to 45 per cent because the experience of the great countries of the world and because our own experience with greenbacks has indicated that this limit is the safe one. We have provided, however, that in case of emergency the reserve board may authorize a reserve bank to fall below its limit of 45 per cent when it is necessary to give relief to member banks, but in such case it shall pay a tax for each 2½ per cent of deficiency. We have provided that the reserve against notes must be gold or gold certificates, and we have therefore recommended that the words "or lawful money" in the House bill be stricken out. We feel that no argument upon this is necessary, as it is obviously unsafe to provide that one Government obligation may be redeemed by another Government obligation.

We have recommended that the reserve against deposits in reserve banks be raised from 33½ per centum to 35 per centum, but that the reserve board may permit a bank in emergency to run its reserve down to 25 per centum, paying, however, a tax for each deficiency of 2½ per centum. This is thought to be desirable so as to make the reserve less rigid.

We think it would be undesirable to permit the Federal reserve board to have discretionary power in issuing currency to a Federal reserve bank which in all respects complies with the provisions of this act. We therefore recommend that the Federal reserve board shall issue reserve notes to any reserve bank which complies with the requirements as to gold reserve, as to the deposit of security, and conforms to the other provisions of this act. This is a necessary change because if we give the member banks the right to secure discounts of the Federal reserve bank it is necessary for the Federal

reserve bank to count on getting currency to meet the needs of business, provided, of course, the reserve bank can comply with the requirements as to gold reserve and security. By placing a limit to the amount of discounts that can be made by a reserve bank to any member bank we have placed a limit on excess. It should be noted also that the Federal reserve board has the power to check excessive loans and discounts by requiring reserve banks to raise their discount rates at any time.

We have recommended a change in the section relating to the handling of individual checks by reserve banks under which banks collecting checks will still be permitted to make reasonable charges under regulations provided by the Federal reserve board. We have recommended changes in the refunding provisions of the bill, so that the reserve banks may utilize about \$50,000,000 a year of their funds for the purchase of 2 per centum Government bonds at par with interest. This will afford employment for funds which may otherwise be idle in the reserve banks; it will make a market for 2 per centum bonds at par and thus preserve the Government credit, and it will enable the retirement of that national-bank currency which national banks for any reason may desire to retire. We have then recommended that the 2 per centum bonds so acquired by the Federal reserve banks may be presented at the Treasury and exchanged for 3 per centum one-year gold Treasury notes. Ordinarily these notes will be retained in the reserve banks and held as an investment. While the Government will be paying 1 per centum more interest than it pays on 2 per centum bonds it will also be receiving the surplus profits from the operations of the bank which will be an offset. These 3 per centum one-year gold Treasury notes will be an investment in ordinary times, but they will also afford a means to the reserve banks by which they can be useful in protecting the gold supply of this country. When gold exports are threatened or when a larger supply of gold is desired in this country, the reserve banks can sell these notes at home or abroad and bring the proceeds to the United States in gold, so as to maintain gold reserves. While the notes are one-year notes they are only such for the purpose of making them marketable, and the reserve banks will be under contract with the Treasury to renew them year by year for 20 years if desired.

We have sought to mitigate the severity of the shock that might result from the rapid transfer of reserve when this bill is placed in operation by providing that the transfer shall be gradual over a period of 30 months.

We have also felt justified in reducing the reserve which city banks are required to keep to 15 per centum, and in the case of country banks, while the reserve remains at 12 per centum, we have provided that only 4 per centum of this need be in Federal reserve banks, for the reason that country banks in the immediate future are likely to use the facilities of reserve banks to a less extent than the city banks. We recommend that national banks located outside of central reserve cities be permitted to use a portion of their time deposits for making five-year farm mortgages. This is done because the making of a farm mortgage for one year is an impracticable and useless privilege and because in practice it has been found entirely safe for banks in agricultural neighborhoods to invest a part of their time loans in this way.

We have recommended that the savings-bank provision be stricken from the bill, as it disrupts a practice now in safe and successful operation.

We have recommended that the Aldrich-Vreeland Act be extended for one year, so that it shall expire in June, 1915. This we have done so as to bridge over the period of organization which will be required to establish this new system.

Respectfully submitted.

GILBERT M. HITCHCOCK.
KNUTE NELSON.
JOSEPH L. BRISTOW.
COE I. CRAWFORD.
GEO. P. McLEAN.
JOHN W. WEEKS.

The bill, if amended as suggested by our proposed amendment, will read as follows:

H. R. 7837.

AN ACT To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this act shall be the "Federal reserve act."

The terms "national bank" and "national banking association" used in this act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or trust company which has become a member of one of the reserve banks created by this act. The term "board" shall be held to mean Federal reserve board; the term "district" shall be held to mean Federal reserve district; the term "reserve bank" shall be held to mean Federal reserve bank.

FEDERAL RESERVE DISTRICTS.

SEC. 2. That the Federal reserve board, hereinafter provided for, shall, as soon as practicable after their appointment and confirmation, designate from among the reserve and central reserve cities now established a number of such cities to be termed Federal reserve cities, and shall divide the continental United States into districts, each district to embrace one of such Federal reserve cities: *Provided*, That the districts shall be formed with due regard to the convenience and customary course of financial and commercial business in each district, and need not necessarily coincide with State or county boundaries. The districts thus established shall be known as Federal reserve districts, and each of them shall be designated by the name of the Federal reserve city located therein. The Federal reserve board shall, as soon as practicable after the said districts have been established, proceed to organize, conformable to the provisions of this act, in each Federal reserve city designated as aforesaid, a Federal reserve bank, which shall be known by the name of the city in which

it is established, as, for example, "Federal reserve bank of Chicago." Four Federal reserve cities, and appurtenant to them four Federal reserve districts, and no more, shall in the first instance be designated and established as such by the Federal reserve board: *Provided*, That after Federal reserve banks have been organized and in operation for a period of two years in said four Federal reserve cities, the Federal reserve board may, in its discretion, from time to time, designate not to exceed in all eight additional Federal reserve cities, with the requisite Federal reserve districts appurtenant thereto, and for that purpose may alter and change the limits and areas of existing Federal reserve districts. There shall be allotted to every national bank within a Federal reserve district, of the capital stock of the Federal reserve bank of such district, a sum equal to six per centum of the fully paid-up capital stock and surplus of such national bank, which stock so allotted shall be underwritten by said bank and for a period of sixty days after allotment be offered for subscription at par to the public at large, but no more than one hundred shares shall be allowed to be subscribed for or held by any person, firm, or corporation, and all of the allotted stock not subscribed for and taken by the public shall immediately be subscribed for and taken by the national bank to which the same was in the first instance allotted. The preparation, allotment, subscription to, and sale of stock shall be under the control of the board, which in case of oversubscription shall give preference to the smaller subscriptions. The national banks shall in the first instance act as agents of the Federal reserve board to take subscriptions from the general public and receive payment therefor which shall be held subject to the order of the board. That said stock subscription shall be paid for in gold coin or gold certificates as follows: One-third at the time of subscription, one-third within thirty days, and one-third within sixty days thereafter. The board is hereby empowered to appoint such assistants, to subpoena, swear, and examine witnesses, to employ counsel and experts, and to incur such expenses as may be necessary for establishing, organizing, and putting in operation the Federal reserve banks and designating the Federal reserve cities and reserve districts provided for in this act, and such expenses shall be paid by the Treasurer of the United States upon vouchers approved by the Secretary of the Treasury, and the sum of \$100,000, or so much thereof as may be necessary, is hereby appropriated, out of any money in the Treasury not otherwise appropriated, for the payment of such expenses. Five members of the reserve board shall constitute a quorum with power to do business.

STOCK ISSUES.

SEC. 3. The capital stock of each Federal reserve bank shall be divided into shares of \$100 each, and shall be without voting power. The Federal reserve board shall have power to prescribe regulations for the transfer of said stock. With the consent and approval of the board, reserve banks may establish such branch offices, within their respective districts, as they deem necessary to conform to the convenience and established course of business.

FEDERAL RESERVE BANKS.

SEC. 4. When the Federal reserve board has established Federal reserve districts, as prescribed in section two of this act, the governor or vice governor of such board shall, under his hand and seal, execute a certificate designating the territorial limits of such districts and the Federal reserve city in each district, and shall file such certificate with the Secretary of the Treasury. When such certificate has been executed and filed, as aforesaid, the board shall allot to each and every national bank stock in the reserve banks as prescribed in section two of this act, and when, conformable to section two of this act, an amount of such stock has been subscribed for in any Federal reserve district equal to \$6,000,000, and one-third of such subscription has been paid in, the board shall, by its governor or vice governor, under his hand and seal, issue a certificate in writing specifying the name and location of the reserve bank in such district, the territorial limits of the district, the amount of the capital stock subscribed, and the amount paid in on such subscription, and the name and amount of stock taken by each subscriber. Such certificate shall be acknowledged before the clerk of a court of record, or a notary public, and shall be filed with the Secretary of the Treasury.

Upon the filing of such certificate with the Secretary of the Treasury as aforesaid, the said reserve bank so formed shall become a body corporate and as such, and in the name designated in such organization certificate, shall have power—

First. To adopt and use a corporate seal.

Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an act of Congress, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law and equity as fully as natural persons.

Fifth. To appoint by its board of directors, elected as hereinafter provided, such officers as are not otherwise provided for in this act, to define their duties, require bonds of them and fix the penalty thereof, to dismiss such officers or any of them as may be appointed by them at pleasure, and to appoint others to fill their places.

Sixth. To prescribe by its board of directors by-laws not inconsistent with law regulating the manner in which its general business may be conducted and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this act.

No Federal reserve bank shall transact any banking business, except such as pertains to the perfection of its organization and management, until two-thirds of its stock subscribed for has been paid in as prescribed in section two of this act.

Every Federal reserve bank shall be conducted, managed, and controlled by a board of nine directors, five of whom shall be appointed by the Federal reserve board, and shall be known as directors "A," and four of whom shall be known as directors "B," and who shall be selected and appointed by the member banks as follows:

As soon as practicable after a reserve bank has been incorporated as above provided, the board shall notify the member banks in said Federal reserve district to elect four directors within a certain date to be named in the notification. Said board shall supply to each member bank a blank for the purpose of recording the vote of said member bank. Each member bank shall vote for four "B" directors upon the blank so forwarded, shall certify that they are the choice of the board of directors of said member bank, which certificate shall be signed by the officers of said bank and forwarded to the board within the time which said board shall limit. Said board shall canvass the ballots so received from said member banks and forward a certificate of the result to each of said member banks. The candidate for director receiving the largest number of votes shall be elected for four years; the candidate for director receiving the second largest number of votes shall hold office for three years; the candidate for director receiving the third largest number of votes shall hold office for two years; the candidate for director receiving the fourth largest number of votes shall hold office for one year. During each subsequent year, the election shall be held in the same manner except that each bank shall vote for only one director unless in case of vacancies, when the number to be elected shall be certified by the board to each member bank, and in such cases a plurality vote shall elect.

No person shall be qualified to hold the office of director "A" or director "B" while he is an officer, director, stockholder, or employee of any other bank or of any trust company, and no person shall be appointed or elected director who is not at the time of his appointment or election an actual and bona fide resident of the Federal reserve district for which he is appointed or elected. The Federal reserve board shall designate and appoint one of said directors "A" as chairman of the board of directors, who shall be known as "Federal reserve agent." Directors "A" shall hold their offices for four years, except the Federal reserve agent, who shall hold his office at the pleasure of the board. Of the directors "A" first selected one shall hold office for one year, one for two years, one for three years, and one for the full term of four years, as designated by the board. Directors "B" shall hold their offices for four years, except that as to the first election one shall be elected for one year, one for two years, one for three years, and one for four years.

The salaries of the directors shall be fixed by the board and shall be payable from the revenues of the Federal reserve bank of which they are directors. The board of directors shall have authority to fix the salaries and wages of all the employees of their bank.

Vacancies that occur in either class of directors of reserve banks may be filled in the manner provided for the original selection of such directors, the men so selected to hold office for the unexpired terms of their predecessors.

Upon its own initiative, for cause, or upon written complaint under oath presented by ten or more member banks charging any director of a reserve bank with incompetency, dishonesty, or other matter affecting his efficiency as a director, the board shall have the power, after hearing and proof and pursuant to a written notice specifying the grounds thereof, to remove such director. The accused director shall be allowed thirty days in which to make defense

thereto. Pending the hearing the board may within its discretion suspend the accused director.

INCREASE OF CAPITAL.

SEC. 5. That the capital stock in the reserve banks shall be maintained as nearly as practicable in an amount equal to six per centum of the capital and surplus of the member banks in said district, and the board is authorized from time to time to sell to the public such additional stock in any reserve bank as may be required to maintain this proportion. The price at which said stock shall be offered to the public shall be at its fair market value, but in no case below par. Any bank applying for membership in a reserve bank shall be required by the board to underwrite, at the price fixed by the board, such an amount of capital stock in said reserve bank equal to six per centum of the capital and surplus of such applying bank, as may be allotted to it by the board, and to purchase and pay for such portion of said allotment as may not be purchased by the public, as provided for in this act.

When the capital stock of any reserve bank has been increased, the board shall certify the same to the Secretary of the Treasury.

SEC. 6. That in case the Federal reserve board shall decide, after two years' operation of the reserve banks first established, that one or more additional banks herein authorized should be established it shall make the necessary change in lines of existing districts, designate the new reserve city or cities, and notify the member banks affected by such change to associate themselves with the new reserve bank or banks and change the deposit of their reserves accordingly. Stockholders in previously established reserve banks affected by the change shall be invited to exchange a portion of their stock certificates as indicated by the reserve board, and for all stock so exchanged the reserve board shall direct the transfer to the new reserve bank or banks from the old reserve bank or banks of the corresponding amount of cash capital in gold.

If sufficient stock certificates are not thus exchanged the reserve board may offer to the general public at par stock in the newly created district or districts to an amount necessary to make up the difference.

As an inducement to make the exchange of stock the reserve board may direct that the stock of the old reserve bank or banks so exchanged shall be entitled to payment in cash of its share of the accumulated surplus.

DIVISION OF EARNINGS.

SEC. 7. That after the payment of all necessary expenses and taxes, including its share of the expenses of the Federal reserve board, the stockholders of each Federal reserve bank shall be entitled to receive an annual dividend of five per centum on the paid-in capital stock, which dividend shall be cumulative. Net earnings over and above expenses and the aforesaid dividend shall be applied as follows: Twenty-five per centum of such net earnings to be carried to a surplus fund until such fund shall amount to twenty per centum of the paid-in capital stock of such reserve bank, and thirty-seven and one-half per centum of said net earnings shall be set aside in a trust

fund to be known as the depositors' insurance fund and shall be used for the payment of the depositors of insolvent member banks under rules and regulations made by the board. When, in the judgment of the board, there has been accumulated in such depositors' insurance fund a sufficient sum fully to insure the payment of the depositors of insolvent member banks, the board shall have power to suspend the setting aside and accumulation of the said thirty-seven and one-half per centum of such earnings, and thereafter such thirty-seven and one-half per centum of such earnings shall be paid to the United States, except that in the event the depositors' insurance fund is depleted by the payment of depositors of insolvent member banks such fund shall be replenished by again setting aside such thirty-seven and one-half per centum of the earnings or so much thereof as, in the judgment of the board, may be necessary. The remaining net earnings shall be paid to the United States: *Provided*, That the amount so paid shall be applied to the purchase, at par, with accrued interest, of the two per centum bonds of the United States, said bonds then to be retired; or if such bonds can not be so purchased said amount shall be applied to the purchase of other interest-bearing obligations of the United States, which obligations shall thereupon be retired.

Every Federal reserve bank incorporated under the terms of this act and the capital stock therein and the income derived therefrom shall be exempt from Federal, State, and local taxation, except in respect to taxes upon real estate.

SEC. 8. That within six months after a national bank shall have been notified by the Federal reserve board of its allotment of stock under section two of this act, said national bank shall hold a meeting of its stockholders and decide by a majority vote whether it will become a member bank under the terms of this act or whether it will give up its charter as a national bank. In case the stockholders of said national bank shall decide that said national bank shall become a member bank, the officers of said bank, upon a blank provided by the board, shall forward the formal acceptance by said national bank of the terms of this act to the board, properly attested before a notary public. In case any national bank shall fail to forward its acceptance to the board within six months from the time said board makes the allotment of stock to said bank, it shall be deemed to have declined to become a member bank and shall thereupon have six months within which to surrender its charter and abandon its existence as a national bank. In any case, however, every national bank shall be and is required to accept the allotment of stock as provided in section two, which stock may be freely sold and disposed of as other assets of the bank: *Provided, however*, That any national bank acting as a reserve agent in a reserve or central reserve city shall be required to accept the terms of this act within six months from the date of notification of its allotment of stock, or, upon failure to do so, shall cease to be a reserve agent for national banks.

SEC. 9. That any bank or banking association incorporated by special law of any State or of the United States, or organized under the general laws of any State or the United States, and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of existing laws, may,

by the consent in writing of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, and with the approval of the Comptroller of the Currency, become a national banking association under its former name or by any name approved by the comptroller. The directors thereof may continue to be the directors of the association so organized until others are elected or appointed in accordance with the provisions of the law. When the comptroller has given to such bank or banking association a certificate that the provisions of this act have been complied with, such bank or banking association and all its stockholders, officers, and employees shall have the same powers and privileges and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by this act or by the national banking act for associations originally organized as national banking associations.

STATE BANKS AS MEMBERS.

SEC. 10. That from and after the passage of this act any bank or banking association or trust company incorporated by special law of any State, or organized under the general laws of any State or the United States, may make application to the Federal reserve board to become a member of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The Federal reserve board, under such rules and regulations as it may prescribe, subject to the provisions of this act, shall permit such applying bank to become a member of the Federal reserve bank of the district in which such applying bank is located, in which case stock shall be allotted to it as provided in this act.

No such applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the national banking act, and it shall thereafter be required to make the same reports and be subject to the same examination and supervision as national banking associations and subject also to the reserve requirements of this act.

If at any time it shall appear to the Federal reserve board that a member bank has failed to comply with the provisions of this act or the regulations of the Federal reserve board, it shall be within the power of the said board, after due hearing, to suspend or expel the said bank from membership. The Federal reserve board may restore membership upon due proof of compliance with the conditions imposed by this act.

FEDERAL RESERVE BOARD.

SEC. 11. That the President of the United States shall appoint, by and with the advice and consent of the Senate, a Federal reserve board consisting of eight members, in addition to whom the Secretary of the Treasury shall be an ex officio member. Of the eight members appointed in the first instance, the President shall appoint one for a term of one year, one for a term of two years, one for a term of three years, one for a term of four years, one for a term of five years,

one for a term of six years, one for a term of seven years, and one for a term of eight years, and thereafter all appointments shall be made for a term of eight years. Not less than one nor more than three of said members shall be appointed from any one Federal reserve district. Appointments to fill vacancies in the board shall be for the unexpired term and may be made by the President when the Senate is not in session, which appointments shall expire at the end of the next session. In selecting members of the reserve board consideration shall be given to experience in commerce and banking. The eight members of the Federal reserve board thus appointed by the President shall devote their entire time to the work and duties of the board and shall not while in office be officers, directors, or employees of any bank or trust company, nor hold stock in any such institution, and they shall each receive a salary of \$12,000 per year, payable monthly out of the Treasury of the United States upon the order or warrant of the Secretary of the Treasury. The President shall designate, other than the Secretary of the Treasury, one member of said board as governor thereof, and one member as vice governor thereof who shall act in place of the governor during his disability or absence. The governor shall be the active executive and presiding officer of the board. The Secretary of the Treasury shall provide the necessary office rooms for said board in the Treasury Department Building, or the board may select quarters elsewhere in the city of Washington if sufficient office room can not be found in said building. The said board shall hold its office in the city of Washington, District of Columbia. The first meeting of the board shall be held as soon as may be, upon the call of the Secretary of the Treasury, at a time and place designated by him.

The Federal reserve board shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and salaries for the half year succeeding the levying of such assessment, together with any deficiency carried forward from the preceding half year.

The Federal reserve board shall annually make a full report of its operations to the Congress.

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: "There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by United States bonds and, under the general supervision of the Federal reserve board, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency, and shall perform his duties under the general direction of the Secretary of the Treasury." Nothing in this act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and the bureaus under such department.

Sec. 12. That the Federal reserve board hereinbefore established shall be authorized and empowered:

(a) To examine at its discretion the accounts, books, and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The

said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of such Federal reserve banks, single and combined, and shall furnish full information regarding the amount and character of the money held as reserve and the amount, nature, and maturities of the paper and other investments owned or held by Federal reserve banks.

(b) To permit or require, in time of emergency, Federal reserve banks to rediscount the discounted prime commercial paper of other Federal reserve banks, at least six members of the Federal reserve board being present when such action is taken and all present consenting to the requirement. In such case the Federal board shall fix a special rediscount rate of not more than three per centum in excess of the discount rate of the accommodated reserve bank.

(c) To supervise and regulate the issue and retirement of Federal reserve notes and to prescribe the form and tenor of such notes.

(b) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in this act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

(e) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(f) To require bonds of Federal reserve agents for the faithful performance of the duties of their office.

FEDERAL ADVISORY COUNCIL.

SEC. 13. There is hereby created a Federal advisory council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank, by its board of directors, shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by the board of directors, subject to the approval of the Federal reserve board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal reserve board. The council may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term.

The Federal advisory council shall have power by itself or through its officers (1) to meet and confer directly with the Federal reserve board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for complete information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

REDISCOUNTS.

SEC. 14. That any Federal reserve bank may receive from any member bank and from the United States deposits of current funds in lawful money, national-bank notes, Federal reserve notes, and checks and drafts upon solvent member banks of the Federal reserve system, payable upon presentation; and, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, and checks and drafts upon solvent member or other Federal reserve banks, payable upon presentation. Reserve banks shall not pay interest on deposits.

Upon the indorsement of any member bank with a waiver of demand notice and protest any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or may be used, for such purposes, the Federal reserve board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this act; nothing herein contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds or other investment securities, except bonds and notes of the Government of the United States and interest-bearing obligations of its dependencies the principal and interest of which have been guaranteed by the United States. Notes and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than one hundred and eighty days: *Provided, however,* That not more than fifty per centum of the paper discounted for any member bank shall have a maturity exceeding ninety days and in no case shall any member bank have more than \$200,000 of rediscounts having a maturity longer than ninety days.

Any Federal reserve bank may discount acceptances of member banks which are based on the exportation or importation of goods and which have a maturity at time of discount of not more than six months and of acceptances based on domestic shipments of goods and which have a maturity at time of discount of not more than four months and bear the signature of at least one member bank in addition to that of the acceptor. The amount so discounted shall at no time exceed one-half the capital stock of the bank for which the rediscounts are made.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any national bank may, at its discretion, accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six

months to run or growing out of the domestic shipment of goods and having not more than four months to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than the par value of its paid-up and unimpaired capital.

The Federal reserve board may authorize the reserve bank of the district to discount the direct obligations of member banks, secured by the pledge and deposit of satisfactory securities; but in no case shall the amount so loaned by a reserve bank exceed three-fourths of the actual market value of the securities so pledged or one-half the amount of the paid-up and unimpaired capital of the member bank.

The rediscount by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange shall be subject to such regulations as may be imposed by the board. The discount provisions of this act shall be equitably extended to all of its member banks by each reserve bank upon equal terms, and each member bank shall be entitled as a matter of right to the rediscount of eligible paper to the full amount of its capital stock upon the lowest current rate of discount, and no member bank shall be permitted to discount an amount of paper exceeding the amount of its capital stock except upon payment of a higher rate of discount, the increase in rate of discount to be one per centum for an additional fifty per centum of discounts or part thereof and two per centum for all in excess. In no case shall a Federal reserve bank discount paper for a member bank in excess of twice the amount of its capital stock without special authority by the board.

OPEN-MARKET OPERATIONS.

SEC. 15. Any Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open market, either from or to domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills, and bills of exchange of the kinds and maturities by this act made eligible for rediscount, and cable transfers.

Every Federal reserve bank shall have power (a) to deal in gold coin and bullion both at home and abroad, to make loans thereon, and to contract for loans of gold or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of interest-bearing obligations of the United States; (b) to buy and sell interest-bearing obligations of the United States and of its dependencies when payment of principal and interest is guaranteed by the United States, and bonds or warrants of any State, county, or municipality, or short-time interest-bearing obligations issued by foreign governments, with a maturity from date of purchase of not exceeding one year, such purchases to be made in accordance with rules and regulations prescribed by the Federal reserve board; (c) to purchase from a member bank and to sell, with or without its own indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined; (d) to establish publicly from time to time, subject to review and determination of the Federal reserve board, a rate of discount to be charged by such bank for each class of paper, which shall be fixed with a view of accommodating the commerce of the country and promoting stability in business; and (e) establish

accounts with other reserve banks, and with the consent of the Federal reserve board, to open and maintain banking accounts in foreign countries and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, letters of credit, and travelers' checks, and to buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of commercial transactions which have not exceeding ninety days to run and which bear the signature of two or more responsible parties.

GOVERNMENT DEPOSITS.

SEC. 16. That all moneys now held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national-bank notes and the funds provided in this act for the redemption of Federal reserve notes, shall, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks shall act as fiscal agents of the United States; and thereafter the revenues of the Government shall be regularly deposited in such banks and disbursements shall be made by checks drawn against such deposits.

The Secretary of the Treasury shall, subject to the approval of the Federal reserve board, from time to time apportion the Government deposits among the said Federal reserve banks, in proportion to their capital stock as far as practicable: *Provided*, That for the purposes of collection and transfer only the Secretary of the Treasury may designate national banks as Government depositories.

NOTE ISSUES.

SEC. 17. That Federal reserve notes, to be issued under authority of the Federal reserve board for the purpose of making advances to Federal reserve banks as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable for all taxes, customs, and other public dues but shall not be held as reserves by member banks or by a reserve bank. They shall be redeemed in gold on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal reserve bank.

Any Federal reserve bank may, upon vote of its directors, make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral security in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes and bills accepted for rediscount under the provisions of this act, and the Federal reserve agent shall each day notify the Federal reserve board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal reserve board shall be authorized at any time to call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

Whenever any reserve bank shall pay out or disburse Federal reserve notes issued to it as hereinbefore provided, it shall segregate and turn over to its reserve agent gold coin or gold bullion or United States gold certificates to the amount of the face value of the notes so outstanding, or, at its option, shall segregate and turn over to the reserve agent gold coin or gold bullion or United States gold certificates to the amount of forty-five per centum of such face value and in addition thereto collaterals consisting of promissory notes and bills accepted for rediscount under the provisions of this act, or refunding notes of the United States hereinafter provided for, or both such collaterals and refunding notes equal at their face value to one hundred per centum of the face value of the notes so outstanding. Such collaterals may be exchanged from time to time for other collaterals of like quality and of equal face value or refunding notes within the limitations aforesaid: *Provided*, That whenever and so long as such reserve shall fall and remain below forty-five per centum the reserve bank shall pay a special tax upon the deficiency of reserve at a rate increasing in proportion to such deficiency, as follows: For each two and one-half per centum or fraction thereof that the reserve falls below forty-five per centum a tax shall be levied at the rate of one per centum per annum: *Provided further*, That no additional circulating notes shall be issued whenever and so long as the amount of such reserve falls below thirty per centum of its outstanding notes: *Provided*, That the amount of such tax paid by the bank during a fiscal year shall be charged to the member banks in its district in proportion to their average discounts during that year. Notes so paid out shall bear upon their faces a distinctive letter and serial number, which shall be assigned by the Federal reserve board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be returned promptly for redemption to the Federal reserve bank through which they were originally issued. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and shall not be reissued except upon compliance with the conditions of an original issue.

Federal reserve banks shall maintain on deposit in the Treasury of the United States a sum in gold equal to five per centum of such amount of Federal reserve notes as may be issued to them and outstanding under the provisions of this act, and such additional sums as the Secretary of the Treasury may from time to time decide to be necessary, not exceeding in the aggregate ten per centum, but such deposit of gold, which shall be segregated and maintained as a trust fund, shall be counted and included as part of the reserve against said notes. The said board shall grant the application of any Federal reserve bank for Federal reserve notes, provided said reserve bank complies with the requirements of this act as to gold reserve and collateral security and otherwise conforms to its provisions. The bank shall be charged with the amount of such notes, which, upon delivery, shall become a first and paramount lien on all the assets of such bank.

Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by redeeming the same and depositing them with its Federal reserve agent, who shall forward them to the Treasury for retirement.

In order to furnish suitable Federal reserve notes the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes in blank of the denominations of \$5, \$10, \$20, \$50, \$100, \$500, \$1,000, as may be required to supply the reserve banks entitled to receive the same. Such notes shall be in form and tenor provided for in this act.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury of the United States nearest the place of business of each reserve bank, and shall be held for the use of such bank, subject to the order of the Federal reserve board for their delivery, as provided by this act.

The plates and dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the reserve banks, and the Federal reserve board shall include in its estimate of expenses levied against the reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, and so forth, and regulations relating to such examination of plates, dies, and so forth, of national-bank notes provided for in section fifty-one hundred and seventy-four, Revised Statutes, is hereby extended to include Federal reserve notes herein provided for.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this act may be used, in the discretion of the Secretary, for the purposes of this act; and should the appropriations heretofore made be insufficient to meet the requirements of this act, in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much as may be necessary of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: *Provided, however,* That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

Every Federal reserve bank shall receive on deposit from member banks or from reserve banks checks and drafts drawn upon any of its depositors and, when remitted by a reserve bank, checks and drafts drawn by any depositor in any other reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or

member bank. Nothing herein contained shall be construed as prohibiting a member bank from making reasonable charges for checks and drafts so debited to its account, or for collecting and remitting funds, or for exchange sold to its patrons. The Federal reserve board may, by rule, fix reasonable charges to be collected by the member banks from patrons whose checks are cleared through the reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank. The Federal reserve board shall make and promulgate from time to time regulations governing the transfer of funds among Federal reserve banks and their branches.

SEC. 18. That so much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the act of June twentieth, eighteen hundred and seventy-four, and section eight of the act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes, as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds be, and the same is hereby, repealed.

REFUNDING BONDS.

SEC. 19. That as soon after the organization of the reserve banks as practicable and under authority from the Federal reserve board each Federal reserve bank shall purchase at par and accrued interest two per centum bonds of the United States. The amount purchased by each reserve bank shall not be more than fifty per centum of its capital in any one year. The bonds so purchased may be held by such reserve bank and used for deposit with its reserve agent as security for the Federal reserve notes issued, or they may be exchanged at the Treasury for one-year Treasury gold notes bearing three per centum interest. In case of such exchange the reserve bank shall be bound at the option of the United States to renew year by year for twenty years the three per centum gold notes so issued. Said one-year three per centum United States gold notes may be used to deposit with the reserve agent as security for the United States reserve notes, or be freely purchased by reserve banks from time to time to employ idle funds, or sold to protect the gold supply.

National banks which sell two per centum bonds to a reserve bank under this provision shall retire such portion of their outstanding national-bank notes as are secured by the bonds so sold. The Secretary of the Treasury is hereby directed to issue three per centum one-year gold Treasury notes year by year to exchange for two per centum bonds as above provided or to take the place of three per centum one-year gold notes that have been redeemed. During the period between the first and last purchases of bonds any national bank may continue to apply for and receive circulating notes based upon the deposit of two per centum bonds as now provided for by law. The one-year three per centum gold Treasury notes above provided for shall be exempt from Federal, State, and municipal taxation both as to income and principal.

BANK RESERVES.

SEC. 20. That when a Federal reserve bank has been duly organized and established as provided in this act in any Federal reserve district every member bank of that district shall establish and maintain reserves as follows:

(a) A bank not in a reserve or central reserve city as now or hereafter defined shall hold and maintain reserves equal to twelve per centum of the aggregate amount of its net deposits, as follows:

In its vaults, four-twelfths thereof.

In the Federal reserve bank of its district, for a period of six months after said date, one-twelfth, and for each succeeding six months an additional one-twelfth, until four-twelfths have been so deposited, which shall be the amount permanently required.

After said period said reserves, other than those hereinbefore required to be held in the reserve bank, may be held in the vaults of the member bank or in the Federal reserve bank, or in both, at the option of the member bank.

(b) A bank in a reserve or a central reserve city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its net deposits, as follows:

In its vaults, five-fifteenths thereof.

In the Federal reserve bank of its district, for a period of six months after the date aforesaid, at least one-fifteenth, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

After said period all of said reserves, except those hereinbefore required to be held permanently in the Federal reserve bank, may be held in its own vaults or in the Federal reserve bank, or in both, at the option of the member bank.

If a State bank or trust company is required by the laws of its State to keep its reserves either in its own vaults or with another State bank or trust company, such reserve deposits so kept in such State bank or trust company shall be construed, within the meaning of this section, as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the establishment of a Federal reserve bank in the district in which such State bank or trust company is situate.

SEC. 21. That so much of sections two and three of the act of June twentieth, eighteen hundred and seventy-four, entitled "An act fixing the amount of United States notes, providing for a redistribution of the national bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the act aforesaid, be, and the same is hereby, repealed. And from and after the passage of this act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

SEC. 22. That every Federal reserve bank shall at all times have on hand in its own vaults, in gold, gold certificates, or lawful money, a sum equal to not less than thirty-five per centum of its net deposits, in addition to the reserve required against the Federal reserve notes

emitted by such bank. The term "net deposits" wherever used in this act shall mean net deposits as from time to time defined by the Comptroller of the Currency, subject to the approval of the Federal reserve board.

The Federal reserve board may notify any Federal reserve bank whose lawful reserve shall be below the amount required to be kept on hand to make good such reserve; and in the meantime may prohibit such Federal reserve bank from making additional loans or discounts: *Provided, however,* That the Federal reserve board may in case of emergency permit the reserve against deposits to be reduced below the said limit, but the reserve bank shall in such case pay a tax at the rate of one per centum per annum for every two and one-half per centum or fraction thereof that the reserve falls below said thirty-five per centum, but in no case shall it be allowed to fall below twenty-five per centum of its net deposits: *Provided further,* That the amount of such tax paid by the bank during a fiscal year shall be charged to the member banks in the district in proportion to their average discounts during that year.

BANK EXAMINATIONS.

SEC. 23. That the examination of the affairs of every member bank shall take place at least twice in each calendar year and as much oftener as the Federal reserve board shall consider necessary in order to furnish a full and complete knowledge of its condition. The Federal reserve board may authorize examinations by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination. The person assigned to the making of such examination of the affairs of any member bank shall have power to call together a quorum of the directors of such bank, who shall, under oath, state to such examiner the character and circumstances of such of its loans or discounts as he may designate; and from and after the passage of this act all bank examiners shall receive fixed salaries, the amount whereof shall be not less than \$2,000 nor more than \$7,000 per annum and be determined by the Federal reserve board and annually reported to Congress. But the expense of the examinations herein provided for shall be assessed by authority of the Federal reserve board upon the member banks examined in proportion to assets or resources held by such member banks upon the dates when the various banks are examined.

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or of the Federal reserve board, arrange for special or periodical examination of the member banks within its district. Such examination shall be so conducted as to inform the Federal reserve bank under whose auspices it is carried on of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal reserve board such information as may be demanded by the latter concerning the condition of any member bank located within the district of the said Federal reserve bank.

The Federal reserve board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal reserve board shall order a

special examination and report of the condition of any Federal reserve bank.

Sec. 24. That no member bank, or any officer, director, or employee thereof, shall hereafter make any loan or grant any gratuity to any examiner of such bank. Any bank officer, director, or employee thereof violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both. Any examiner accepting such a loan or gratuity shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or be fined not more than \$5,000, or both. No such examiner shall perform any other service for compensation for a bank within his jurisdiction while holding such office.

Other than the usual salary or director's fee paid to any officer, director, or employee of a member bank, and other than a reasonable fee paid to such officer, director, or employee acting as an attorney at law for legal services rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank. Any person violating any provision of this section shall be deemed guilty of a misdemeanor and punished by a fine not exceeding \$5,000 or by imprisonment not exceeding one year, or both.

Except so far as already provided in existing laws this provision shall not take effect until six months after the passage of this act.

Sec. 25. That from and after the passage of this act the stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations shall be liable to the same extent as if they had made no such transfer; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure. Section fifty-one hundred and fifty-one, Revised Statutes of the United States, is hereby reenacted except in so far as modified by this section.

LOANS ON FARM LANDS.

Sec. 26. That deposits in national banks, payable more than thirty days after they are made, shall be known as time deposits, and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same. All national banks not located in central reserve cities may make loans, secured by improved, occupied, and unencumbered farm land situated within the Federal reserve district where the loaning bank is located to the extent of one-half of its value, but no such loan shall be made for a longer period than five years, nor shall the aggregate of such loans by any bank exceed one-third of its time deposits.

After becoming member banks of any reserve bank, national banks are hereby authorized to act as administrators, executors, or trustees.

FOREIGN BRANCHES.

SEC. 28. That any Federal reserve bank or national banking association possessing a capital of \$5,000,000 or more may file application with the Federal reserve board, upon such conditions and under such circumstances as may be prescribed by the said board, for the purpose of securing authority to establish branches in foreign countries or dependencies of the United States for the furtherance of the foreign commerce of the United States, and to act, if required to do so, as fiscal agents of the United States. Such applications shall specify, in addition to the name and capital of the banking association filing it, the place or places where the banking operations proposed are to be carried on and the amount of capital set aside by the said banking association, filing such application for the conduct of its foreign business at the branches proposed by it to be established in foreign countries. The Federal reserve board shall have power to approve or to reject such application if in its judgment the amount of capital proposed to be set aside for the conduct of foreign business is inadequate or if for other reasons the granting of such application is deemed inexpedient.

Every national banking association which shall receive authority to establish branches in foreign countries shall be required at all times to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and the Federal reserve board may order special examinations of the said foreign branches at such time or times as it may deem best. Every Federal reserve bank and every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each such branch as a separate item.

SEC. 29. All provisions of law inconsistent with or superseded by any of the provisions of this act are to that extent and to that extent only hereby repealed: *Provided*, That nothing in this act contained shall be construed to repeal the parity provision or provisions contained in an act approved March fourteenth, nineteen hundred, entitled "An act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes."

SEC. 29a. That the provisions of the act of May thirtieth, nineteen hundred and eight, authorizing national currency associations, the issue of additional national-bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen.

SEC. 30. That the right to amend, alter, or repeal this act is hereby expressly reserved.

Passed the House of Representatives September 18, 1913.

Attest:

SOUTH TRIMBLE, *Clerk.*

