Federal Reserve Act, 1913
McFadden Act, 1927
Banking Act of 1933
Banking Act of 1935
Bank Holding Company Act, 1956

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES
EIGHTY-FIFTH CONGRESS

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FEDERAL RESERVE ACT, 1913

63D CONGRESS, 1st Session. | HOUSE OF REPRESENTATIVES. | REPORT No. 69.

CHANGES IN THE BANKING AND CURRENCY SYSTEM OF THE UNITED STATES.

SEPTEMBER 9, 1913.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed.

Mr. GLASS, from the Committee on Banking and Currency, submitted the following

REPORT.

TOGETHER WITH VIEWS OF THE MINORITY AND MINORITY VIEWS.

[To accompany H. R. 7837.]

The Committee on Banking and Currency, to which was referred the bill (H. R. 7837) 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, having had the same under consideration, report it back to the House with certain amendments and recommend that the bill as amended do pass.

AMENDMENTS.

The amendments to the bill are almost without exception mere alterations of phraseology, made for the purpose of consistency or with a view to clarifying the meaning of certain provisions. Thus, in section 2, page 3, line 19, the word "subscriber" is stricken out and the words "member bank" substituted in order to conform the language to other provisions of the bill; and so in section 3, page 4, lines 14, 16, and 17, and in section 5, page 11, lines 15 and 21, and on page 12, lines 6, 7, 10, 13, and 16, and in section 6, page 12, lines 20 and 21, and on page 13, lines 2 and 3; in section 7, page 13, lines 9, 10, and 22; in section 14, page 24, line 19.

Section 2, page 3, lines 24 and 25, is so amended by the committee as to require that no Federal reserve bank shall "commence business" with a paid-up and unimpaired capital less in amount than $5,000,000, the original provision being that no Federal reserve bank should "be organized" with a paid-up and unimpaired capital less than $5,000,000. This alteration is considered desirable by reason of the fact that member banks are permitted to pay their stock subscrip-

tions in two installments, covering a period of 60 days, and it is not deemed advisable to permit the Federal reserve banks to begin business until the total required subscriptions are paid, albeit they should be permitted to organize.

In section 3, page 4, line 12, the word "each" is inserted after "$100," and in lines 14 and 16 the word "stock" is inserted, to make it clear that the surplus of a bank is not comprehended in the use of the term "capital."

Section 4, page 4, beginning with line 24 and continuing to the word "Act," in line 9, page 5, is stricken out and the words in italics substituted in order to make plainer the method of organization prescribed for Federal reserve banks. The change in phraseology simply embodies the language of the statute relating to the organization of national banks and applies it to the organization of Federal reserve banks, whereas the provision originally simply made reference to the statute. In the same section, page 8, line 14, an amendment is inserted making provision for the contingency of a tie vote in balloting for Federal reserve bank directors of class A.

In section 5, page 12, line 17, an amendment is inserted requiring the Federal reserve board to prescribe regulations under which Federal reserve banks shall be required to make payment for surrendered shares of member banks which either reduce their capital stock or go into voluntary liquidation.

In section 10, page 17, line 22, and on page 18, line 1, and also in section 11, page 19, lines 15 and 16, and likewise in section 12, page 21, line 19, and on page 22, line 2, where the word "board" occurs the committee has altered the expression to "Federal reserve board" to make it more explicit.

In section 14, page 25, line 7, the semicolon after the word "Act" is stricken out and a comma substituted, and in line 9, after the word "securities," the comma is stricken out and a semicolon substituted, in order to make clearer the meaning of the provision.

In section 17, page 30, lines 9 and 10, an erroneous reference is corrected by striking out the words "and 15."

In section 20, page 37, line 16, and in the same section, page 38, line 16, the reserve requirement of 25 per cent within the 60-day period is dropped to 20 per cent in order to enable the reserve city and central reserve city banks the better to respond to the immediate demand upon them from the country banks in the first stage of shifting reserves. In short, instead of reducing the reserve requirement of the reserve city and central reserve city banks at the end of 60 days from the establishment of the Federal reserve bank, the reduction is made immediately after the Secretary of the Treasury shall have officially announced the organization of such bank. In the same section, page 38, lines 24 and 25, and on page 39, lines 1, 2, and 3, an alteration in phraseology is made so as to make the reserve requirement of central reserve city banks correspond exactly with the requirement of reserve city banks.

In section 26, page 44, lines 14 and 15, having reference to loans by national banks on farm lands, the words "or fifty per centum of its time deposits" are stricken out, for the reason that the committee thinks that the aggregate of such loans should be based on a bank's capital and surplus rather than on the constantly fluctuating per cent of time deposits.

NATURE AND PURPOSE OF H. R. 7837.

H. R. 7837 is intended to bring about necessary changes in the present banking and currency system of the United States and to correct long-standing evils that have had a slow and deep-rooting growth. It aims at the rectification of the essential defects of the present system, although it does not seek to make all the innovations that might, from an ideal standpoint, be deemed desirable.

DEMAND FOR ACTION.

There has for a great while been strong public demand for remedial legislation on banking and currency. This demand was partly obscured during the controversy regarding the adoption of a monetary standard. Yet even before the adoption of the act of March 14, 1900, there had been a vigorous popular movement directed to the amendment of the national banking act. This took form in various voluntary organizations and in actions by bankers' associations as well as by organizations of business and commercial interests. It was practically universally admitted from 1898 onward that one of the basic commercial evils of the day was the lack of a suitable banking system.

This view has been frequently reiterated and restated ever since the earlier days of the banking discussion to which reference has been made. Of late it has taken form in renewed agitation following the panic of 1907 and promises of action have been made in nearly every political platform, by whatever party adopted, within recent years. The call is loud and comes from many sources of widely divergent character.

It is probable that not a single scientific student of currency and banking could be found who would approve the conditions which now exist in the United States or the banking system under which they have sprung up. Nowhere in the world to-day can there be found a banking system similar or analogous to that of the United States, or a situation as to credit which could be compared to that prevailing in this country at the present moment.

REASONS FOR ACTION.

The considerations which thus dictate action upon the banking and currency question at the present time have often been stated and from many different points of view. In the opinion of the committee there can be no doubt whatever with regard to the essential elements of the case. The general background of the situation which calls for banking reform is this: Half a century ago Congress, in the midst of a civil war, established a new system subsequently developed into the national banking system. The essential elements in this system were three in number: (1) The maintenance of the principle of free banking through the unrestricted organization of banking institutions; (2) the refusal to allow the extension of systems of banking throughout the country by the organization of branch banks; and (3) the adoption of a peculiar system of note issue

whereby the banks were required to buy a minimum of national bonds when chartered and subsequently to deposit with the Treasury bonds to protect all currency received by them for circulation. The different elements in this system will be fully considered at other points in the present report. It is enough now to suggest the general bearings of the case. This system has continued substantially unamended to the present time, and to-day includes some 7,473 banking institutions within its range. These banking institutions vary in size from $25,000 capital to $25,000,000. They are entirely local. The only bond between them is found either in mutual stock ownership or in the redepositing of reserves as they are permitted to do under the national-bank act. In view of the lack of any factor of unity the national banks have failed to furnish to the Nation as a whole a single and powerful system of credit. The strength of the credit situation in each community has depended upon the strength of the banks there situated, and, except in times of stress, has even in these communities been measured by the strength not of the strongest, but of the weakest institution there located. In times of stress the banks of such independent communities have at times in self-defense united to place their combined resources temporarily at the service of the public and of one another, but they have taken such action only under stern pressure. As a rule, they have been individualistic in the highest degree, and the country has lacked the capacity either to prevent credit disorders from breaking out locally and spreading to the centers, or to defend its own resources against the monetary demands of foreign nations or against the infection due to bad financial conditions in countries with which we stood in close relations.

The evidence that this system has not done its duty is not found in dishonesty or failure. While at times failures have been numerous among the national banks, as must necessarily be the case in any system of numerous and highly individualized banks, the average record of failure or irregularity has been small. No noteholder has ever lost a dollar, and the losses of depositors constitute in the aggregate a very small percentage of the total deposits held by the banks. The country has been enabled to do an expanding business, to its own great profit. But the evil of the situation has been perceived upon all those occasions when unusual pressure was brought to bear upon the banks of the country. In 1873, 1884, 1890, 1893, 1896, and 1907, to mention the most familiar occasions, it has been necessary for large groups of banks practically to suspend specie payments. They have done so as the result of concerted action, and one feature of the situation upon each of these occasions has been a genuine effort to relieve conditions by resorting to an issue of obligations for which the banks became jointly liable, and which in some measure helped to overcome shortage of currency and the stringency that was associated with it. In spite of all that could be done, however, the public has been put to great inconvenience and loss upon such occasions, the relations of the United States with foreign countries have been embarrassed, if not brought into jeopardy, the failure of firms, corporations, and individuals has been necessitated, and the loss of wealth has been tremendous. We think it is axiomatic that

these conditions should not be allowed to repeat themselves, but that they should in some manner be relieved or prevented, if possible.

On the other hand, the national banking system, with its many merits, has not proved responsive to the seasonal needs of the community. At periods of exceptional demand for credit the movement of currency between various points, with attendant expense and delay, has been enormous, while the expansion of this currency has been slow and halting, local necessities being met by withdrawing circulating media from other regions. In consequence, the marketing of the country's annual crops has been slow, difficult, and expensive, and it has frequently happened that various sections of the Nation have been obliged to depend too largely upon the limited extension of credit to them by banks located elsewhere.

Conversely, it has been found that whenever the seasonal needs of credit in agricultural regions throughout the United States had been met and when the crops there produced had been fully disposed of there was an accumulation of currency, partly borrowed from other portions of the country, partly of local origin, which could not be used to advantage upon safe or sound security throughout the less active portions of the business year, and which was therefore shipped to banks in distant cities, that it might be there put to some employment that would yield its owners an income. It has not always turned out that the employment thus found for it was desirable or, on the whole, conducive to the good of the country.

NATURE OF EXISTING CONDITIONS.

Turning from the general considerations which tend to prevent the acceptance of existing banking conditions as satisfactory, there is need of a recognition of the immediate status of the financial and business world at the present day. There can be no doubt that for some time past the national banks of the United States have been in a difficult situation. The committee has been amply warned and advised of this state of things, and a general knowledge of it is common to the country at large, certainly to all close or careful observers of existing conditions. In the reserve centers to-day banks are unable to extend the credit that they would under normal circumstances be disposed to grant, while merchants are frequently unable to get the accommodation to which they are entitled. A general tendency toward stringency evidently exists, and while this is not peculiar to-day to the United States it should not be felt here in anything like its present severity, inasmuch as this country has not had to bear the burden of warfare and destruction of capital that has been thrown upon the European countries. All over the western world there is now a distinct shortage of capital, both fixed and floating, while our banking and reserve situation is anything but reassuring. Under such circumstances it is highly desirable that the utmost efficiency should be given to the reserve resources in the hands of the banks and that they should be enabled to do all that circumstances will permit in extending to the business world the volume of loans that it needs, so long as they maintain themselves in position to protect the accommodation thus granted. Legislation which will relieve this pending condition of pressure and possible panic, which will place

the banks in position to employ their resources to the best advantage, which will obviate the necessity of expensive transfers of funds between different parts of the country, and which will furnish loans upon an inexpensive but absolutely safe basis was never more urgently demanded than it is to-day. It is this condition of affairs that has most strongly moved the Committee on Banking and Currency in its effort to press a measure of relief upon the attention of the House.

LACK OF PROTECTION AGAINST PANICS.

Reference has just been made to the fact that the national banking system, among other defects, fails to afford any safeguard against panics and commercial stringencies or any means of alleviating them. This fact has received more attention than has thus far been given to any other in the whole range of the banking and currency discussion, and there has been more effort to apply some legislative remedy to this than to any other condition.

In practice, when commercial credit had hopelessly broken down and the banks of the country found themselves seriously threatened by danger of failure, they have united for mutual protection, and clearing-house associations in the chief cities of the country have joined in the issue of certificates good in liquidating obligations between banks. Sporadic and temporary as this remedy has been, it nevertheless has proven effective while in use, and after the panic of 1907 an attempt was made to provide for a permanent resort to this so-called clearing-house currency by passing the act of May 30, 1908, ordinarily known as the Aldrich-Vreeland law. This law will expire automatically on June 30, 1914, inasmuch as the act itself carries a provision limiting its own life to six years. The fact that this legislation will thus expire is regarded by many persons as an additional argument for action at the present time, inasmuch as the measure in question constitutes the only emergency protection against conditions of sudden difficulty in the money market that the country now has. The Aldrich-Vreeland law provides for the establishment of organizations of banks, to be known as National Currency Associations, which are to be allowed to take out notes under certain conditions.

It is worth observing that up to date the Aldrich-Vreeland associations have been an entire dead letter. The situation regarding them was clearly sketched by the Comptroller of the Currency in his last annual report, in which he said:

> Under authority of the act of May 30, 1908, providing for the issue of "additional currency" secured otherwise than by United States bonds, 18 national currency associations have been formed, all of which, with the exception of the Los Angeles association, were formed prior to the current year. Each association has an aggregate capital and surplus of at least $5,000,000, and is composed of at least 10 national banks having an unimpaired capital and an unimpaired surplus of not less than 20 per cent of the capital, and having United States bonds on deposit to secure circulation to the extent of at least 40 per cent of its capital. There are 286 national banks forming these 18 national currency associations, their capital aggregating $321,105,710 and surplus $281,544,722. The capital represented is slightly in excess of 30 per cent of the paid-in capital stock of all national banks, as shown by the reports for September 4 last.

The title, membership, capital, and surplus of each of the associations are shown in the following table:

National currency associations.

Associations.	Number of banks.	Capital.	Surplus.
National Currency Association of Washington, D. C.	10	$5,702,000	$4,792,512
National Currency Association of the city of New York, N. Y.	33	117,052,000	127,175,000
National Currency Association of Philadelphia, Pa.	27	20,975,000	36,665,000
National Currency Association of the State of Louisiana	10	6,100,000	4,030,000
National Currency Association of Boston, Mass.	14	26,700,000	18,950,000
National Currency Association of Georgia	28	8,206,000	6,434,000
National Currency Association of Chicago	10	42,750,000	25,950,000
National Currency Association of St. Louis, Mo.	10	19,510,000	9,095,000
National Currency Association of St. Paul and Minneapolis	14	10,750,000	9,545,000
National Currency Association of Detroit	15	6,325,000	3,101,200
National Currency Association of Albany, etc.	11	3,560,000	3,385,000
National Currency Association of Kansas City, etc.	10	6,659,000	3,800,000
National Currency Association of Baltimore	18	12,340,710	7,752,010
National Currency Association of Cincinnati	10	14,300,000	6,450,000
National Currency Association of Dallas	14	3,760,000	3,100,000
National Currency Association of Alabama	25	5,700,000	3,497,500
National Currency Association of Denver, etc.	15	4,700,000	4,991,500
National Currency Association of Los Angeles	12	6,025,000	2,831,000
Total	286	321,105,710	281,544,722

In accordance with the terms of the Aldrich-Vreeland Act, $500,000,000 in currency has been printed and is now ready, in blank, for issue in case of a call from any of the banks or currency associations authorized to issue notes by the terms of the law. Individual banks may issue such notes by depositing at the Treasury State or municipal bonds of approved kinds, receiving in exchange 90 per cent of the par value of such bonds, provided they are worth at least par. The currency associations may obtain notes equal to 75 per cent of the face value of commercial paper left with them by the constituent banks of the association.

One reason why the Aldrich-Vreeland law has never been availed of is that the issue of the currency was made very expensive, owing to the imposition of a heavy tax on such notes as might be taken out, while the banks were for a long time reluctant to go into the currency associations because of the onerous conditions under which they were at first required to be authorized by the terms of the regulations laid down by the Secretary of the Treasury. The law is thus not likely to be resorted to except in cases of very severe necessity for notes; but, even if such were not the case, it would remain a temporary expedient and a mere extension of its life would be only the renewal of such an expedient.

No statement could make clearer the inadequate character of the Aldrich-Vreeland Act or its purely temporary character. It is a weak makeshift, soon to expire.

RECOGNITION OF SITUATION.

That under the conditions just sketched there is a responsibility resting upon those in charge of the Government of the United States no one can deny. No more serious obligation to-day exists in the whole range of national problems. This duty has been amply recognized by the Democratic Party. In platform after platform it has stood firmly for the adoption of sound and courageous legislation, and at Baltimore in 1912 it adopted without dissent the following plank:

We oppose the so-called Aldrich bill for the establishment of a central bank; and we believe our country will be largely freed from panics, and consequent unemployment and business depression, by such a systematic revision of our banking laws as will render temporary relief in localities where such relief is needed, with protection from control or domination by what is known as the Money Trust.

Banks exist for the accommodation of the public and not for the control of business. All legislation on the subject of banking and currency should have for its purpose the securing of these accommodations on terms of absolute security to the public and of complete protection from the misuse of the power that wealth gives to those who possess it.

That this plank constitutes a direct claim upon the party, challenging its immediate attention, is the opinion of the Banking and Currency Committee. The claim is the more urgent because there has been a most lamentable failure to face the banking situation fairly in past legislation.

PREPARATIONS FOR WORK.

Believing that there would be a Democratic victory at the polls and fully appreciating the obligations to follow therefrom, the Banking and Currency Committee of the Sixty-second Congress had already begun preparations looking to the redemption of party pledges, past and present. In that Congress a subcommittee of the Banking and Currency Committee was directed to begin a study of the question of reform legislation. This subcommittee conducted preliminary inquiries during the summer and autumn of 1912, and having thus marked out the lines of necessary work undertook hearings during January and February, 1913, for the purpose of obtaining the views of qualified members of the community with regard to what ought to be done. The subcommittee extended invitations at that time to representatives of labor organizations, to agricultural associations, to the bankers of the country, to voluntary associations of citizens interested in questions of banking, money, and credit, and to individuals recognized as being expert students of monetary and credit conditions. While some of those who received invitations to appear before the subcommittee failed to accept, the majority did so, and practically all the essential phases of the situation were thoroughly canvassed. Besides holding these hearings, the committee sent to many economists, bankers, and expert persons questions bearing upon the currency and banking problem and received responses giving the views of those who were thus appealed to. H. R. 7837 was drafted as the result of these investigations and thus represents, all told, the results of approximately 16 months' work.

The Banking and Currency Committee as at present organized held its first meeting on June 6, 1913, and since that date the committee has devoted almost continuous work to the discussion of the bill. The outcome of its deliberations has been to approve the essential features of the bill H. R. 7837, with some modifications which are embodied in the measure as now reported.

WORK OF MONETARY COMMISSION.

The committee, in undertaking to prepare for banking and currency legislation, has first of all endeavored to take into account all existing data and to examine such preliminary work as had been made available. The most recent collection of such material available is that prepared under the auspices of the National Monetary Commission. While the Republican Party refused to take any affirmative action, except the act of May 30, 1908, it did undertake what was called an investigation of monetary and banking conditions. The act of

May 30, 1908, known as the Aldrich-Vreeland Act, already referred to, provided for the appointment of a body known as the National Monetary Commission, in the following language:

APPOINTMENT OF MONETARY COMMISSION.

SEC. 17. That a commission is hereby created, to be called the "National Monetary Commission," to be composed of nine members of the Senate, to be appointed by the Presiding Officer thereof, and nine Members of the House of Representatives, to be appointed by the Speaker thereof; and any vacancy on the commission shall be filled in the same manner as the original appointment.

POWERS OF COMMISSION—COMMISSION TO REPORT TO CONGRESS.

SEC. 18. That it shall be the duty of this commission to inquire into and report to Congress at the earliest date practicable what changes are necessary or desirable in the monetary system of the United States or in the laws relating to banking and currency, and for this purpose they are authorized to sit during the sessions or recess of Congress, at such times and places as they may deem desirable, to send for persons and papers, to administer oaths, to summons and compel the attendance of witnesses, and to employ a disbursing officer and such secretaries, experts, stenographers, messengers, and other assistants as shall be necessary to carry out the purposes for which said commission was created. The commission shall have the power, through subcommittee or otherwise, to examine witnesses and to make such investigations and examinations in this or other countries of the subjects committed to their charge as they shall deem necessary.

EXPENSES OF COMMISSION.

SEC. 19. That a sum sufficient to carry out the purposes of sections seventeen and eighteen of this act, and to pay the necessary expenses of the commission and its members, is hereby appropriated, out of any money in the Treasury not otherwise appropriated. Said appropriation shall be immediately available and shall be paid out on the audit and order of the chairman or acting chairman of said commission, which audit and order shall be conclusive and binding upon all departments as to the correctness of the accounts of such commission.

WHEN ACT EXPIRES BY LIMITATION.

SEC. 20. That this act shall expire by limitation on the thirtieth day of June, nineteen hundred and fourteen.

This commission was immediately organized and continued to do sporadic work until March, 1912, when it was dissolved by virtue of an act of Congress passed in the preceding August, just before the close of the special session of Congress summoned by President Taft for the discussion of the reciprocity question. Persons employed by the National Monetary Commission prepared a large series of books on various historical and current phases of the banking question, but the only significant feature of its work is found in a bill drafted under the auspices of the commission and finally laid before Congress with a brief accompanying report giving the reasons for the measure. This measure was at once introduced into Congress by Senator Theodore E. Burton, himself a member of the commission, and was referred to the Senate Finance Committee, but never received official consideration.

The monetary commission provided for as just described spent a large sum of money in costly travels, including journeys to Europe and outlays for printing. In answer to a request for information made by the Senate in 1911, Secretary MacVeagh, then in charge of the Treasury Department, sent to the House a letter in which he fixed the cost of the commission to May 12, 1911, at $207,130.

VALUE OF COMMISSION'S WORK.

The work done at such great cost should not, indeed can not, be ignored, but, having examined the extensive literature published by the commission, the Banking and Currency Committee finds little bearing upon the present state of things in the credit market of the United States. Most of the matter published by the commission is a revision or recasting of books and documents having only historical value or brought down to modern times by their authors or others. There is practically nothing of original value or of direct aid bearing upon the details of remedial legislation.

The bill favored by the commission and popularly known as the Aldrich bill, from the name of the chairman of the monetary commission, ex-Senator Nelson W. Aldrich, of Rhode Island, remains as the chief distinct trace of the commission's existence. It has not commended itself to the Banking and Currency Committee. The Aldrich bill is a lengthy and elaborate statute and no sufficient account of its contents or of the reasons for refusing to accept it can be given in brief space. Something, however, may be said of it. This bill has often been spoken of as a poisonous theoretical novelty and at other times as an ingenious scheme to create a central bank which would absorb all banking functions to itself. In fact it was neither of these things. Little of novel character is found in the ideas underlying the Aldrich bill. To mention only two of the many proposals embodying the same general ideas as those held by the framers of the Aldrich bill, the plans for banking and currency legislation suggested by Hon. Charles N. Fowler in his "A financial and banking system for the United States" (H. R. 23707, 60th Cong., 1st Sess.), and by Hon. Maurice L. Muhleman, in his "Plan for a central bank," reprinted from the Banking Law Journal, have the same purpose in view. They differ in several important details, none of which, however, is absolutely fundamental to the scheme presented.

The objects technically aimed at in all these measures were desirable and the criticism to be made of the Aldrich bill does not, in the opinion of the committee, reside in its confessed purposes, but in the methods by which it undertook to carry them out and the disregard of public welfare by which it was characterized.

The Aldrich bill was not a plan for a central bank as that term is properly used. It called for the creation of a national reserve association which was to do business only with banks, while the Government had but little power over the institution and the public neither business nor other relations with it. Without going further into the detailed analysis of the Aldrich bill it may be stated that the committee objects to the plan fundamentally on the following points:

1. Its entire lack of adequate governmental or public control of the banking mechanism it sets up.

2. Its tendency to throw voting control into the hands of the larger banks of the system.

3. The lack of adequate provision for protecting the interests of small banks and the tendency to make the proposed institution subserve the purposes of large interests only.

4. The intricate system by which the reserve institution it created was prevented from doing any business that might compete with that of existing banks.

5. The extreme danger of inflation of currency inherent in the scheme.

6. The clumsiness of the whole mechanism provided by the measure.

7. The insincerity of the bond-refunding plan provided for by it, there being a barefaced pretense that this system was to cost the Government nothing.

8. The dangerous monopolistic aspects of the bill.

ESSENTIAL FEATURES OF REFORM.

The other plans before the committee or examined by it have likewise been found unsatisfactory some for reasons analogous to those which made the Aldrich bill unacceptable, others because of defective detail, erroneous principle, or faulty construction. An effort was, however, made to ascertain the constituent elements of these measures and of the Aldrich bill, common to all, which should be recognized and provided for in any new plan because representing the fundamentals of legislation. It is believed that these are as follows:

1. Establishment of a more nearly uniform rate of discount throughout the United States, and thereby the furnishing of a certain kind of preventive against overexpansion of credit which should be similar in all parts of the country.

2. General economy of reserves in order that such reserves might be held ready for use in protecting the banks of any section of the country and for enabling them to go on meeting their obligations instead of suspending payments, as so often in the past.

3. Furnishing of an elastic currency by the abolition of the existing bond-secured note issue in whole or in part, and the substitution of a freely issued and adequately protected system of bank notes which should be available to all institutions which had the proper class of paper for presentation.

4. Management and commercial use of the funds of the Government which are now isolated in the Treasury and subtreasuries in large amounts.

5. General supervision of the banking business and furnishing of stringent and careful oversight.

6. Creation of market for commercial paper.

Other objects are sought, incidentally, in these plans, but they are not as basic as the chief purposes thus enumerated.

The first problem in developing a measure was, of course, the consideration of various alternative courses which might be pursued.

CENTRAL BANK QUESTION.

At the outset of the committee's work it was met by a well-defined sentiment in favor of a central bank. This idea appeared to have become rooted with a large section of the banking community, and was the manifest outgrowth of the work that had been done by the National Monetary Commission, and those who believed that the recommendations of that body were well founded. While the institution which would have been created by the National Monetary Commission bill was not a central bank in the technical sense of the term, inasmuch as it did not do a general banking business, it was a central bank in many of the aspects that are usually regarded as

characteristic of that term. The idea of the monetary commission bill had been accepted with great fervor by those who believed that the use of a centralization principle was necessary, as well as by others who deemed that their own objects would be served by the particular form that had been given to the proposal of the monetary commission in its bill.

Without allowing itself to entertain any prepossessions either for or against the central bank idea, the committee carefully examined this notion both at hearings and through private study. It reached in general the following conclusions:

1. The idea of centralization or cooperation, or combined use of banking resources, is the basic idea at the root of central banking argument.

2. It is not necessary in order to obtain the benefits of the application of this idea that there should be one single central bank whose activities should be coterminous with the limits of a nation's territory.

3. Equally good results can be obtained by the federating of existing banks and banking institutions in groups sufficiently large to afford the strength or cooperating power which is the chief advantage of the centralization.

4. In the United States, with its immense area, numerous natural divisions, still more numerous competing divisions, and abundant outlets to foreign countries, there is no argument either of banking theory or of expediency which dictates the creation of a single central banking institution, no matter how skillfully managed, how carefully controlled, or how patriotically conducted.

5. It is therefore necessary to abandon the idea of a single central banking mechanism for the United States unless it shall be found that there are considerations of expediency which would dictate a resort to this policy.

6. For reasons which will be stated at a later point the conviction was formed not only that there are no such reasons of expediency, but that every consideration of that character would lead to action of an opposite nature.

It was therefore decided that throughout its efforts to formulate a banking measure there should be no necessary attempt to base the result of the bill upon the central banking idea. Only in so far as that idea indicated an easy and natural adjustment to existing institutions and conditions was it to be given a place in the ultimate findings.

BRANCH BANKING SYSTEM.

Many bills have been introduced into Congress from time to time for the establishment of branches of existing national banks, and the system has so widespread and respectable a support as to make it apparent from the outset that this aspect of banking theory and practice should be considered. The eminent success of the Canadian banking system and of others similar to it enforces upon the most indifferent student of the subject the significance of branch banking as a means of securing cooperation and the junction of resources in support of any weak element in a banking system that may have been subjected to attack at a given moment. It is clear that Canada,

for example, with her 27 banks and thousands of branch banks, represents a distinctly different type of banking from that which is exemplified by the national banking system with its 7,473 independent banks, none of which possesses a single branch formed under the national banking act. The question was thus clearly to be considered whether the bestowal of the branch power would in fact meet the difficulties of the present situation in the United States. Careful study of the applicability of the Canadian banking system to American conditions convinced the committee that an adaptation of it would not be feasible to-day. The successful introduction of the branch system would almost necessarily have meant the abandonment of the idea of free banking. While it would not necessarily have been requisite to abandon free banking in theory in order to introduce the Canadian principle, it would have been practically true that the power of establishing branch banks, if widely exercised by large national institutions, would have entailed the contracting of the number of independent banks in the United States and a corresponding limitation of the perfect freedom of competition which exists to-day. Certainly it would not have been possible to introduce the principles of the Canadian system into American banking without a very extensive and vital modification of banking legislation and conditions in the United States. That the country was prepared for so profound a modification, not to say transformation, of the basic ideas upon which the national banking system has been developed the committee did not believe and it was therefore led to the abandonment of all thought of attempting a plan of banking reform based upon the conception of large privately managed institutions operating unrestrictedly and with great numbers of branches. This conclusion did not, of course, imply any belief that the adoption of other features of the Canadian system which seemed applicable and could be easily grafted upon our own system was undesirable. It was a conclusion relating simply to one of the general ideas underlying the structure of Canadian banking.

QUESTION OF NOTE ISSUES.

Very early in its inquiries the committee was necessarily confronted with the question whether a mere reconstruction of the note-issue system of the United States would suffice to furnish the basis for banking reform. Ten years ago and earlier, the dominant note in banking reform literature seemed to be that of elasticity in currency, and it was frequently urged by men of widely different political beliefs and of totally varying views as to the theory of money and banking that the whole problem was essentially a matter of currency issue. The bankers who urged the creation of an asset currency and the public men who recommended the issuance of additional United States notes or Treasury notes, whether protected or unprotected, were fundamentally alike in their belief that the whole trouble with existing banking lay in a difficulty in securing proper supplies of currency when needed and of withdrawing them when not needed.

A careful study of this phase of banking discussion convinced the committee most unmistakably that those who would regard the banking and credit problem as soluble through the proper treatment of the paper currency question solely were accepting a superficial

view of the real elements of the difficulty. As is well known, the bank extends its credit in two forms, either (1) by the granting of a book credit or "deposit" or (2) by the issuing of notes. There is no essential difference between these two forms of credit, if they are protected by similar reserve funds, except that they are likely to have a different term of existence, the deposit credit being ordinarily redeemed much more rapidly and efficiently than even the most elastic note issues. To provide therefore for a free issue of note currency, whether by the Government or by the banks, would not meet the need for a more effective supply of deposit credits. In times of stress the difficulty under which banks labor is not usually that of lack of assets, but is that of inability to convert good assets into a medium that can be used in making payments. However desirable it might be to be able to turn sound and liquid commercial assets into a note currency payable to anyone willing to receive it, and however desirable it might be to obtain a free issue of Government legal-tender notes obtainable by any individual who might possess property of specified classes, such notes would plainly not meet the needs of those who desired the book form of credit. While they might indeed be converted into book credit by depositing them with the banks, such a course would have entailed many incidental consequences that should not have been made prerequisite to the obtaining of means of payment. It was felt therefore that a return to the older conception of banking reform as being primarily a problem of securing easily expansible supplies of notes would not meet the needs of the situation to-day, and even though it should prove to be of some temporary value in times of special stress would not constitute that permanent and reliable support to business credit that was sought. It was therefore concluded that while a proper issue of note currency should necessarily be included as a feature in any measure to be recommended it could not be taken as the sole or even the primary purpose of such legislation.

CLEARING-HOUSE ORGANIZATION.

Another type of plan that has been frequently urged by students of banking conditions in the United States is that of clearing-house organization. It has been suggested that inasmuch as the clearing-house associations of the country represent a kind of voluntary association among bankers — one, too, that has already been frequently and successfully availed of in time of stress — it would be well worth while to endeavor to base such new organization as might be favored upon the clearing houses of the country. Various plans for this purpose have been worked out with more or less success. The Aldrich-Vreeland law, already frequently referred to, was a partial application of this idea although before the act was finally adopted it had become necessary to modify in very great degree the original clearing-house principles upon which the plan was in the first instance founded. Most such plans have proceeded upon the theory that it was entirely feasible to compel banks to join national clearing-house associations which should be incorporated and over which the Government should exercise a measure of control. To these incorporated clearing houses, it has been suggested, could be committed the function of issuing "emergency currency" based upon the joint assets

of the banks, thus providing for regular and authorized employment of the method of credit extension which has been made use of in times past when stringent conditions had developed themselves in the banking community. It has not been deemed wise upon examination to attempt any device of this sort. If the clearing houses as thus recognized and authorized perform their functions of credit extension only occasionally and sporadically they remain an emergency expedient. The committee is convinced that what is needed is not a means of remedying emergencies after they have arisen but a plan for guarding against the development of such emergencies and for so protecting the community that it will not be under the necessity of calling for the use of abnormal devices in its interest. If the clearing-house associations referred to should be organized upon a permanent basis with a view to making such extensions of credit as a regular and normal incident of business, they would not in any material respect differ from banking institutions. The retention of the name "clearing houses" would then be misleading and could not be defended. From no point of view, therefore, has the plan suggested commended itself. This does not signify that the idea of cooperative effort embodied in the clearing-house plan is unsatisfactory, but, as will be seen later, quite the contrary. It does mean that the use of existing clearing-house machinery for the purpose of granting accommodation under exceptional conditions does not seem to the committee to be a wise method of providing the credit resources that are needed in affecting a thorough reform of the banking and currency system of the country.

OTHER PLANS INADEQUATE.

Of the multitude of other plans, some beyond the confines of reasonableness, others more or less conforming to actual necessities and to legitimate principles of banking and currency legislation, nothing needs be said except that none has been found which, in the opinion of the committee, is at the same time feasible, available, trustworthy, and sufficiently inclusive to afford a thorough basis of reform of the present conditions. The committee does not feel that the legislation now to be adopted should seek to include within its scope all the possible features upon which action is required, but rather that it should attempt to lay a foundation for future development by selecting those elements in the situation that are most in need of attention and seeking to deal thoroughly with the problems offered in this more restricted field of action. It has therefore put aside many schemes of reform which, however desirable they might abstractly be, do not conform to the standards already outlined. It has limited itself to the fundamental necessities of the present situation as it views them and has sought to keep its recommendations within narrow scope in order that no extraneous issues might become involved with the general problem which lies at the base of further improvement. It has deferred the thorough reform of the national-bank act on its administrative side, and it has determined to postpone, in like manner, the question of long-term agricultural credit, firmly believing that neither of these subjects can be adequately dealt with until the substructure of banking organization has been remodeled.

FUNDAMENTAL FEATURES OF REFORM.

After looking over the whole ground, and after examining the various suggestions for legislation, some of which have just been outlined, the Committee on Banking and Currency is firmly of the opinion that any effective legislation on banking must include the following fundamental elements, which it considers indispensable in any measure likely to prove satisfactory to the country:

1. Creation of a joint mechanism for the extension of credit to banks which possess sound assets and which desire to liquidate them for the purpose of meeting legitimate commercial, agricultural, and industrial demands on the part of their clientele.

2. Ultimate retirement of the present bond-secured currency, with suitable provision for the fulfillment of Government obligations to bondholders, coupled with the creation of a satisfactory flexible currency to take its place.

3. Provision for better extension of American banking facilities in foreign countries to the end that our trade abroad may be enlarged and that American business men in foreign countries may obtain the accommodations they require in the conduct of their operations.

Beyond these cardinal and simple propositions the committee has not deemed it wise at this time to make any recommendations, save that in a few particulars it has suggested the amendment of existing provisions in the national-bank act, with a view to strengthening that measure at points where experience has shown the necessity of alteration.

PROPOSED PLAN.

In order to meet the requirements thus sketched, the committee proposes a plan for the organization of reserve or rediscount institutions to which it assigns the name "Federal reserve banks." It recommends that these be established in suitable places throughout the country to the number of 12 as a beginning, and that they be assigned the function of bankers' banks. Under the committee's plan these banks would be organized by existing banks, both National and State, as stockholders. It believes that banking institutions which desire to be known by the name "national" should be required, and can well afford, to take upon themselves the responsibilities involved in joint or federated organization. It recommends that these bankers' banks shall be given a definite capital, to be subscribed and paid by their constituent member banks which hold their shares, and that they shall do business only with the banks aforesaid, and with the Government. Public funds, it recommends, shall be deposited in these new banks which shall thus acquire an essentially public character, and shall be subject to the control and oversight which is a necessary concomitant of such a character. In order that these banks may be effectively inspected, and in order that they may pursue a banking policy which shall be uniform and harmonious for the country as a whole, the committee proposes a general board of management intrusted with the power to overlook and direct the general functions of the banks referred to. To this it assigns the title of "The Federal reserve board." It further recommends that the the present national banks shall have their bonds now held as security

for circulation paid at the end of 20 years, and that in the meantime they may turn in these bonds by a gradual process, receiving in exchange 3 percent bonds without the circulation privilege.

In lieu of the notes, now secured by national bonds and issued by the national banks, and, so far as necessary in addition to them, the committee recommends that there shall be an issue of "Federal reserve Treasury notes," to be the obligations of the United States, but to be paid out solely through Federal reserve banks upon the application of the latter, protected by commercial paper, and with redemption assured through the holding of a reserve of gold amounting to 33⅓ per cent of the notes outstanding at any one time. In order to meet the requirements of foreign trade, the committee recommends that the power to establish foreign branch banks shall be bestowed upon existing national banks under carefully prescribed conditions and that Federal reserve banks shall also be authorized to establish offices abroad for the conduct of their own business and for the purpose of facilitating the fiscal operations of the United States Government. Finally and lastly, the committee suggests the amendment of the national-bank act in respect to two or three essential particulars, the chief of which are bank examinations, the present conditions under which loans are made to farming interests, and the liability of stockholders of failed banks. It believes that these recommendations, if carried out, will afford the basis for the complete reconstruction and the very great strengthening and improvement of the present banking and credit system of the United States. The chief evils of which complaint has been made will be rectified, while others will at least be palliated and put in the way of later elimination.

FEDERAL RESERVE BANKS.

The Federal reserve banks suggested by the committee as just indicated would be in effect cooperative institutions, carried on for the benefit of the community and of the banks themselves by the banks acting as stockholders therein. It is proposed that they shall have an active capital equal to 10 per cent of the capital of existing banks which may take stock in the new enterprise. This would result in a capital of something over $100,000,000 for the reserve banks taken together if practically all existing national banks should enter the system. It is supposed, for a number of reasons, that the banks would so enter the system. More will be said on this point later in the discussion. How many State banks would apply for and be granted admission to the new system as stockholders in the reserve banks can not be confidently predicted. It may, however, be fair to assume at this point that the total capital of the reserve banks will be in the neighborhood of $100,000,000. The bill recommended by the committee provides for the transfer of the present funds of the Government included in what is known as the general fund to the new Federal reserve banks, which are thereafter to act as fiscal agents of the Government. The total amount of funds which would thus be transferred can not now be predicted with absolute accuracy, but the released balance in the general fund of the Treasury is not far from $135,000,000. Certain other funds now held in the department would in the course of time be transferred

to the banks in this same way, and that would result in placing, according to the estimates of good authorities, an ultimate sum of from $200,000,000 to $250,000,000 in the hands of the reserve banks. If the former amount be assumed to be correct, it is seen that the reserve banks would start shortly after their organization with a cash resource of at least $300,000,000. As will presently be seen in greater detail, it is proposed to give to the reserve banks reserves now held by individual banks as reserve holders under the national banking act for other banks. Confining attention to the national system, it is probable that the transfer of funds thus to be made by the end of a year from the date at which the new system would be organized would be in the neighborhood of $350,000,000. If State banks entered the system and conformed to the same reserve requirements they would proportionately increase this amount, but for the sake of conservatism the discussion may be properly confined to the national banks. For reasons which will be stated at a later point, it seems likely that at least $250,000,000 of the reserves just referred to would be transferred to the reserve banks in cash; and if this were done the total amount of funds which they would have in hand would be at least $550,000,000. This would create a reservoir of liquid funds far surpassing anything of similar kind ever available in this country heretofore. It would compare favorably with the resources possessed by Government banking institutions abroad.

It will be observed that in what has just been said the reserve banks have been spoken of as if they were a unit. The committee, however, recommends that they shall be individually organized and individually controlled, each holding the fluid funds of the region in which it is organized and each ordinarily dependent upon no other part of the country for assistance. The only factor of centralization which has been provided in the committee's plan is found in the Federal reserve board, which is to be a strictly Government organization created for the purpose of inspecting existing banking institutions and of regulating relationships between Federal reserve banks and between them and the Government itself. Careful study of the elements of the problem has convinced the committee that every element of advantage found to exist in cooperative or central banks abroad can be realized by the degree of cooperation which will be secured through the reserve-bank plan recommended, while many dangers and possibilities of undue control of the resources of one section by another will be avoided. Local control of banking, local application of resources to necessities, combined with Federal supervision, and limited by Federal authority to compel the joint application of bank resources to the relief of dangerous or stringent conditions in any locality are the characteristic features of the plan as now put forward. The limitation of business which is proposed in the sections governing rediscounts, and the maintenance of all operations upon a footing of relatively short time will keep the assets of the proposed institutions in a strictly fluid and available condition, and will insure the presence of the means of accommodation when banks apply for loans to enable them to extend to their clients larger degrees of assistance in business. It is proposed that the Government shall retain a sufficient power over the reserve banks to enable it to exercise a directing authority when necessary to do so, but that it shall in no way attempt to carry on through its own mechanism the routine opera-

tions of banking which require detailed knowledge of local and individual credit and which determine the actual use of the funds of the community in any given instance. In other words, the reserve-bank plan retains to the Government power over the exercise of the broader banking functions, while it leaves to individuals and privately owned institutions the actual direction of routine.

TRANSFER OF RESERVES.

Reference has been briefly made to the fact that the committee's proposals provide for the transfer of bank reserves from existing banks which hold them for others to the proposed reserve banks. At present the national banking act recognizes three systems of reserves:

(1) Those in central reserve cities, where banks are required to hold 25 per cent of their deposit liabilities in actual cash in the vaults, while banks situated outside of such cities are allowed to make certain deposits with them which shall count as a part of the reserves of such outside banks.

(2) Those in reserve cities, 47 in number, which are required to keep a nominal reserve of 25 per cent, 12½ per cent of this being in cash in their own vaults, while 12½ per cent may consist of deposits with banks in central reserve cities.

(3) Those in the "country," by which is meant all places outside of central reserve and reserve cities, it being required that such banks shall nominally keep 15 per cent of their deposit liabilities, of which 6 per cent is held in cash in their vaults and 9 per cent may be held in the form of balances with other banks in reserve and central reserve cities.

The original reason for creating this so-called "pyramidal" system of reserves was that inasmuch as central banking institutions were absent, and inasmuch as banks outside of centers were obliged to keep exchange funds on deposit with other banks in such centers, it was fair to allow exchange balances with such centrally located banks to count as reserves inasmuch as they were presumably at all times available in cash. This is an absolutely anomalous and unique system, found nowhere outside of the United States, and dangerous in proportion as the number of the reserve centers thus recognized increases beyond a prudent number. The law has almost necessarily been liberal in recognizing the power to increase the number of such centers, with the result that whereas but few existed just after the organization of the national bank act, there being then 3 central reserve and 13 reserve cities, there are to-day 3 central reserve and 47 reserve cities. Even had this extension of the number of centers not occurred, the system established under the national banking act would still have been unsatisfactory. As matters have developed, it has been vicious in the extreme. Coupled with the inelasticity of the bank currency, the system has tended to create periodical stringencies and periodical plethoras of funds. Banks in the country districts unable to withdraw notes and contract credit when they have seen fit to do so, because of the rigidity of the bond-secured currency, have redeposited such funds with other banks in reserve and central reserve cities and have thus built up the balances which they were entitled to keep there as a part of their reserves.

Moreover, the practice of thus redepositing funds having been once established, it has been carried to extreme lengths, and at times has been decidedly injurious in its influence. The payment of interest on deposits by banks in the centers has been used for the purpose of attracting to such banks funds which otherwise would have gone to other centers or to other banks in the same centers or which would have been retained at home. The funds thus redeposited, even when not attracted by any artificial means, have of course constituted a demand liability, and have been so regarded by the banks to which they were intrusted.

In consequence, such banks have sought to find the most profitable means of employment for their resources and at the same time to have them in such condition as would permit their prompt realization when demanded by the depositing banks which put them there. The result has been an effort on the part of the national banks, particularly in central reserve cities, to dispose of a substantial portion of their funds in call loans protected by stock-exchange collateral as a rule. This was on the theory that, inasmuch as listed stock-exchange securities could be readily sold, call loans of this type were for practical purposes equivalent to cash in hand. The theory is of course close enough to the facts when an effort to realize is made by only one or few banks, but is entirely erroneous whenever the attempt to withdraw deposits is made by a number of banks simultaneously. At such times, the banks in central reserve and reserve cities are wholly unable to meet the demands that are brought to bear on them by country banks; and the latter, realizing the difficulties of the case, seek to protect themselves by an unnecessary accumulation of cash which they draw from their correspondents, thereby weakening the latter and frequently strengthening themselves to an undue degree. Under such circumstances the reserves of the country, which ought to constitute a readily available homogeneous fund, ready for use in any direction where sudden necessities may develop, are in fact scattered and entirely lose their efficiency and strength owing to their being diffused through a great number of institutions in relatively small amount and thereby rendered nearly unavailable. This evil has been met in times past by the suspension of specie payments by banks and by the substitution of unauthorized and extra-legal substitutes for currency in the form of cashiers' checks, clearing-house certificates and other methods of furnishing a medium of exchange. Needless to say such a method of meeting the evil is the worst kind of makeshift and is only somewhat better than actual disaster.

HOLDING OF FUNDS.

The committee believes that the only way to correct this condition of affairs is to provide for the holding of reserves by duly qualified institutions which shall act primarily in the public interest and whose motives and conduct shall be so absolutely well known and above suspicion as to inspire unquestioning confidence on the part of the community. It believes that the reserve banks which it proposes to provide for will afford such a type of institutions and that they may be made the effective means for the holding of the liquid reserve funds of the country to the extent that the latter are not needed in the vaults of the banks themselves. To meet this end it proposes

that every bank which shall become a stockholder in the new reserve banks shall place with the Federal reserve bank of its district a portion of its own reserve equal ultimately to 5 per cent of its demand deposits. Country banks would be required to keep 5 per cent in their own vaults, while the remaining 2 of a required total of 12 per cent might be at home or in the reserve bank of the district. In the case of reserve and central reserve cities the committee has felt that the change in their position as reserve-holding banks acting for other banks called for a corresponding change in the cash to be held by these banks. It has therefore reduced the gross reserve requirements from 25 to 18 per cent of deposits and the cash in vault requirement from 25 per cent in the central reserve cities to 9 per cent and from 12½ per cent in the reserve cities to 9. This places the two classes of reserve cities on an equal basis, leaves each ultimately with 9 per cent cash, requires each to keep 5 per cent in the reserve bank of the district, and permits each to keep a final 2 or 4 per cent either there or in its own vaults.

A period of three years is granted during which the deposits of country banks may be kept with the present correspondent banks in order that the latter may not be unduly embarrassed by sudden withdrawals while the new reserve banks will not be as suddenly compelled to provide for using a very large quantity of funds. The committee is aware that the step thus recommended is of fundamental importance and will produce an extensive transformation in present methods of national banking. It, however, believes that the effects of this transformation will be altogether beneficial and is confident that the conditions under which the change is to take place as provided in the new bill are such as to make the transfer not only without suffering to the banks but under conditions that will actually enable them to extend further loans to the community. The actual effects of the operation proposed have been worked out in some detail by the committee and are presented as a series of computations in connection with the section of the proposed bill which provides for the revision of reserve requirements. Final analysis of these figures may be deferred until that point. It is enough to say at this point that a sufficient amount of reserve has been released, as compared with present requirements, amply to provide for the actual transfer of funds called for by the bill at the outset of the new system. Subsequent transfers will amount only to about enough to place the new system upon the same basis as the old in the matter of reserve requirements, when a margin has been allowed for contributions of capital and for possible accessions of State banks to the system. Or, to sum up, the new system will require less cash than the present one in order to fulfill its reserve requirements and provide for the payment of capital subscriptions. The margin between present and proposed requirements which it is thought should be left in order that State banks may come into the system without causing any strain upon the cash resources of the country will probably be from $100,000,000 to $150,000,000, a sum which is believed to be ample. Needless to say the new reserve requirements will not fall upon all banks in precisely the same way or with precisely the same degree of severity. In the case of some it may be that a transfer of cash to the new system will be undesirable. In such an event it is, of course, always open to the banks to establish their required reserve credit with

the new Federal reserve banks by rediscounting paper with them. With the enormous resources that will belong to these reserve banks at the outset they will be amply able to take care of many times the amount of any such applications that are likely to be made to them.

RETIREMENT OF BOND-SECURED CURRENCY.

There are several important reasons for the retirement of bond-secured currency. The most obvious is that bond-secured notes are not "elastic." By this is meant that the necessity of purchasing bonds to be deposited with a trustee for the protection of note issues prevents banks from issuing these notes as freely and promptly as they otherwise would, while it also prevents them from retiring or contracting the notes as freely and promptly as would otherwise be the case. There is little or no disagreement at present among students of the banking and currency problem in the United States that the retirement of the bond-secured notes is essentially necessary if success is to be had in restoring elasticity to the circulation and in making the national banking system really responsive to the needs of business. For that reason every plan of currency or banking reform that has been put forward during the past 15 years has contained as an important factor some provision for getting rid of the bond-secured notes. The basic criticism on the present system of notes already indicated is reenforced by the fact that the supply of United States bonds available for use in protecting note issues is likely to be limited, as was the case in the panic of 1907. Then the national banks were not able to enlarge their issues because of their inability to obtain further bonds, until they had been aided by the action of the Government in issuing additional bonds for the very purpose of furnishing a backing for currency, notwithstanding that at that moment there was a very large surplus in the Treasury. Over and above this consideration has been the fact that the formalities and technicalities connected with the issue of bank notes based upon bonds have been so great and troublesome as to preclude the easy and prompt supplying of currency, even when there were enough bonds in the market to furnish all the backing for notes that might be desired. This shows why, apart from the special and peculiar difficulties that attend anything of the sort, the substitution of bonds other than national for the national bonds now used will not help the situation. The only way to relieve the bad conditions that have developed in connection with national-bank currency is, therefore, generally admitted to be the abandonment of the bond-security plan and the introduction of something else in its place.

DIFFICULTY OF BOND HOLDINGS.

The first difficulty in passing from the bond-secured system of note issues to anything that might be devised to take its place is the fact that even if all had been satisfactorily arranged with reference to the new system, its soundness, etc., the difficulty of dealing with the bonds would remain. The act of March 14, 1900, provided for refunding the outstanding bonds into the 2 per cent consolidated debt and these 2 per cent bonds were subsequently sold at premiums

which once ran as high as 8 or 9 per cent and have regularly been 2 or 3 per cent or more. Primarily as a result of general depreciation in the values of bonds due to rising prices and higher interest for capital, the national bond quotations have sunk until the 2 per cents are now below par. The ownership of bonds has thus inflicted a severe loss upon holders already, and something like $30,000,000 has, according to the Comptroller of the Currency, been "written off" by the banks and must be regarded as one of the costs of carrying the note system at present in use. There is general agreement that if the circulation privilege were to be taken from t' e 2 per cent bonds or, what is the same thing, if a new system of note issue were to be established which would practically displace the present system, the twos would deteriorate to a price not higher than 80. This would mean a shrinkage of one-fifth of the par value of the bonds and would inflict upon the banks an aggregate loss of nearly $150,000,000. Alternative to this is the idea of providing for a refunding of the bonds. Experience, as well as computations made in the Treasury, indicate that 3 per cent is now about the level of the Government's present borrowing power. The $50,000,000 Panama bonds last sold brought a premium of between 2 and 3 per cent, but 3 per cent interest without the circulation privilege represents the minimum interest that must be paid (in round numbers) upon any future issue which is to be floated upon an investment basis. In order to safeguard the banks against loss, therefore, a plan of refunding into 3 per cent bonds would have to be followed. The banks might be offered cash payment for their bonds at par, and the new securities might be sold for what they would bring, or an exchange of 3 per cents for the old twos might be ordered. The latter would be simpler, and the former would probably cost a little more. Either plan would entail an increase in the present interest burden nearly amounting to 1 per cent annually on at least $740,000,000, or $7,400,000 a year.

Temporary alternatives for the retirement of the bonds are, however, proposed here and there. The most familiar and perhaps the most available plan of the sort is that which proposes to require banks to have outstanding a certain percentage of notes based on bonds before they become eligible to take out notes without bond security. This would mean that an inflexible volume of bank notes was kept outstanding, or at all events that an inflexible volume of bonds was held by the banks to protect such outstanding notes in case they should be issued, and that whatever new form of currency might be provided for would come out in excess of or in addition to the basic volume of notes and bonds already referred to. The plan would partially destroy the possibilities of elasticity in the note currency system, but at the same time it would operate to keep up the value of the existing bonds for the time being. The question would then be whether the effort to sustain the value of the bonds in this manner during the remainder of their life was not too great to be compensated for by the saving in interest thereby effected. The general opinion of students of the subject undoubtedly is that this temporary method of sustaining the value of the bonds is undesirable, and that it is far better to recognize the facts in the case and take up the securities in such a way as to relieve the banks from any danger of further loss, the Government bearing the increased interest charge and leaving the banks to turn in their securities at will.

What has been thus far said has been founded upon the assumption that agreement had been reached with reference to the method of note issue to be followed when once a plan for retiring the old notes and disposing of the bonds had been agreed upon. While no such agreement has ever been arrived at, it is true that substantial agreement has been reached with reference to the basis on which the notes which are to supersede national-bank issues shall be put out.

Another phase of the note-issue question is seen in connection with the problem by whom the notes should be issued. The current assumption is that in the event of the creation of any central or cooperative institution the note-issue power now exercised by the several banks should be transferred to and vested in this new organization. There has been a tendency to overestimate the importance of the note-issue function and to treat it as if it were the chief object to be attained in banking legislation. This idea may be attributable to the belief that "emergency currency" is what is needed in order to relieve panics and stringencies, whereas what is actually needed is fluid resources of some kind, whether notes or not. The belief that the notes are very important has also been stimulated by the experience in this country with clearing-house certificates, which are often spoken of as if they were notes. The fact is that they are merely evidences that the banks that have gone into the clearing-house arrangement are willing to accept a credit substitute for money in settling their balances with one another. It remains true that the provision of a satisfactory note currency would be a long step in advance, as compared with existing conditions. With proper control and restriction it would, however, supply a means of obtaining additional circulating media in time of panic or stringency when there was a tendency to hoard money, and would to that extent relieve the danger of collapse due to inability to convert assets into fluid resources. It is therefore a cardinal element in currency and banking reform and should be provided for.

COMMITTEE'S NOTE PLAN.

After reviewing all of the different factors in the situation, the Banking and Currency Committee has reached the conclusion that the issue of national-bank notes now current should, for the reasons already surveyed, be retired despite the serious difficulties that have been sketched, and that in their place a new issue of notes put out by the Government of the United States and closely controlled by it should be authorized. This issue of notes it is proposed to entitle "Federal reserve Treasury notes." In its essence the plan now recommended by the committee for a new note issue contains the following points:

1. Ultimate withdrawal of the circulation privilege from the Government bonds of all classes.
2. Issue of notes by the Government through Federal reserve banks upon business paper held by such banks.
3. Redemption of such notes and regulation of their amount outstanding at any moment through Federal reserve banks.

The ultimate withdrawal of the circulation privilege means that some provision of proper character must be made for the existing bonds. It is suggested that, first of all, this should mean the payment of the bonds at maturity and a definite statement to that effect.

This the committee has included in its bill. The bonds now have no due date, and while the Government may redeem them after 1930, they are not necessarily payable at that period. If the bonds are to be continued outstanding, it would seem to be an essential feature of their composition that they shall be allowed to retain the circulation privilege. To get rid of this, it is only necessary to declare them due and payable as soon as the Government has the right to apply that principle. But, in the second place, it would appear that the reform of the currency along the lines proposed, if it is ever to make a fair start, should proceed from the abolition of the circulation requirement in the case of banks either organized or to be organized. The committee has, therefore, proposed to repeal that provision of the existing law which requires the deposit of bonds by every bank in stated amounts. This means that banks may, if they choose, entirely free themselves from circulation. In order to enable them to do this, and at the same time to supply the place of the small but steady demand for bonds which was afforded by the purchases made by newly organized banks, the committee proposes to allow a voluntary refunding process to be carried out over a period of 20 years at the rate of not to exceed one-twentieth of the circulation outstanding at the time of the passage of the act. It is probable that if this provision were fully availed of it would mean an annual refunding of 2 per cent bonds amounting to about $37,500,000. In consideration of the action of the banks in surrendering the circulation privilege on the bonds which they thus voluntarily present for refunding, it is proposed to give the banks a 3 per cent bond without the circulation privilege. This is believed to be an excellent business policy for the Government, as it could scarcely borrow at a lower rate than 3 per cent to-day. What it will be able to do at the end of 20 years is entirely problematical, but it is a fact that the circulation privilege is worth at least 1 per cent, and in surrendering it the banks get no undue consideration from the Government. They do, however, materially facilitate the process of converting the old national-bank notes into the proposed new issue of Federal reserve Treasury notes.

COST TO THE GOVERNMENT.

That the cost to the Government of this conversion will be 1 per cent on the amount converted, or in the last analysis very near $7,500,000, if all the bonds should thus be surrendered is obvious; but it is also clear that the change would, for reasons stated, be an excellent investment for the Government. The committee has arranged to give the proposed Federal reserve board power to tax the new currency at such rate as it might deem best, and should it impose a tax of 1 per cent the Government would be reimbursed for any excess interest payments which it might be required to make on the new bonds. Over and above this plan of recouping itself for any losses is the fact that the Government is to receive a substantial share of the earnings of the proposed institutions of rediscount. If the plan of the committee should be accepted and carried through in complete form, the result would be a profitable one for the Government.

Whatever may be the ultimate earnings of the banks, however, the committee is convinced that the conversion of the bonds and the

retirement of the present notes, followed by the issue of new notes, ought to be effected at all hazards and at any cost, as a fundamentally desirable public reform. It believes that the change should be carried through upon a frank, open, and direct basis, and that no effort should be made to mask, as was done in the Aldrich bill, proposed by the Monetary Commission, the real nature of the process or the burden and distribution of its cost.

The committee is of the opinion that in order to have the new currency at once satisfactory and effective, it must be (*a*) sound and (*b*) elastic. The soundness of the new notes will, in its judgment, be amply secured by the fact that they are made obligations of the Government and a first lien on the assets of the Federal reserve banks issuing them, while they have also been immediately protected by the hypothecation of first-class commercial paper in the hands of an agent of the Federal reserve board at each of the banks. Their elasticity depends entirely upon two fundamental elements – (1) the provision of an adequate money fund for their redemption and (2) provision for the prompt presentation of the notes. The money fund is provided by the requirement that no notes shall be issued by a Federal reserve bank unless 33⅓ per cent of money shall have been segregated in the vaults of the issuing institution for the purpose of paying such notes upon presentation by any holders. The banks are left to provide this fund, and are both vested with the duty and equipped with the power to obtain it and hold it, either by withdrawing it from domestic channels or importing it. They are required to redeem the Federal reserve Treasury notes, both of their own issue and those issued by other Federal reserve banks, whenever the notes may be presented to them from any source; while, as a central point of redemption, it is provided that the Treasury Department shall pay the notes out of a fund of money (constituting part of the 33⅓ per cent referred to) which shall be placed in their hands by the several banks. This means that the Federal reserve Treasury notes will be redeemable in money at each of the 12 banks and at the Treasury, while the requirement that the notes shall be payable to the Government and to any bank for deposit purposes will be tantamount to a quasi-redemption at every point where banking is carried on. In order to insure the prompt presentation of the notes for redemption, thereby avoiding danger that they may accumulate in the bank vaults, the bill refuses to authorize their use as reserve money by member banks, while of course they will be excluded from the reserves of Federal reserve banks.

Provision is also made whereby they will be prevented from accumulating in the Treasury or any of its subtreasuries even in small quantities. It is believed that these provisions will insure the prompt return of the notes, thereby producing genuine flexibility in the currency. The notes will be taken out whenever business paper eligible for presentation to Federal reserve banks for rediscount is created; and as such paper matures, is paid off, and shrinks in volume the basis for the notes will correspondingly shrink, and either the notes themselves or an equivalent amount of lawful money will be withdrawn from circulation. It is an undoubted feature of the measure as now drafted that it will furnish an ample mechanism for insuring the cancellation of the notes as well as for their issuance. While this process is going on, there will have been an active re-

demption of the notes, owing to the operation of the provisions for exchanging them for money already sketched.

USE OF GOVERNMENT FUNDS.

One feature of the proposals for legislation contained in the committee's bill is the recommendation that the funds of the Government of the United States received by it as a result of current business transactions and heretofore held in the Treasury shall thenceforward be deposited with the Federal reserve banks, the latter institutions to act as fiscal agents for the Government in all of its transactions thenceforward. This recommendation is of fundamental importance. The Independent Treasury system of the United States under which the Treasury Department now carries on its operations dates from 1846 and is the result of the legislation then urged and adopted for the purpose of putting the country upon a so-called hard-money basis. Whatever may be thought of the idea of actual specie payments and of segregation of Government cash, both when it comes into and when it goes out of the Department of the Treasury, experience has shown that the system is not feasible. It was necessary to suspend the Independent Treasury system, practically speaking, when the Civil War broke out; and upon every subsequent occasion of stress or difficulty in the market a repetition of this suspension has become practically unavoidable. It has been necessary on those occasions to redeposit the funds of the Government in banks in order that the commercial community need not be deprived of the use of them even for a short time. At times it has been found expedient, if not absolutely necessary, to temporize with the law and with the technical requirements of the Treasury system, and practically to abandon the plan of requiring cash payments even when that was theoretically lived up to—this again in order to avoid any withdrawal of urgently needed funds from the business community.

In normal times the withdrawal of these funds has, of course, been far less noticeable in its influence upon the business world, although at all times it has been a fact that the withdrawals did disturb in a measure the natural balance and distribution of funds between different parts of the country and did thereby tend to embarrass some parts of the country much more than others, owing to the fact that withdrawals of cash due to the payment of taxes were neither identical in amount nor proportionate in importance in these several sections. The inadequacy of the Independent Treasury system and of the present method of making public deposits has indeed been fully recognized by Congress when it provided that all such deposits in banks should be made only upon security of United States bonds, a requirement which means, if it means anything, that the banks called national and under congressional supervision, although deemed safe enough for the use of the public, are not safe enough to serve as depositaries of public funds—a situation which, if actually what it seems to be, is both ridiculous and disgraceful. This condition of affairs would, however, be greatly aggravated and would become even more anomalous if Congress were to authorize the creation of a new set of banks intrusted with the power of holding reserves and acting as the intermediaries through which a new currency is issued, yet unable to be trusted as custodians of Gov-

ernment funds. Both for economic reasons and because of considerations of the logic and dignity of the situation, it is desirable to have the current receipts of the Government deposited in the new banks and its disbursements made by drawing upon these institutions. The Treasury is in no way interfered with by this process save in so far as it is relieved of some routine duty. It is left to manage the fiscal affairs of the Government in precisely the way that is now practiced, but the actual funds are placed with the Federal reserve banks, where they will continue to be available for the banking needs of the community which created them and which is responsible for the solvency and activity of the business processes that afford the basis of taxation and thereby supply the fundamental resources of the public Treasury.

BENEFIT FROM DEPOSITS.

Too much can not be said of the benefit that will be derived from the continuous depositing and withdrawing of public moneys through the Federal reserve banks, as compared with the present artificial system of periodically contracting currency through heavy withdrawals due to large payments for customs and internal revenue and of periodically expanding the currency through deposits in the banks, which, however wisely selected, can never restore the funds to exactly the same channels from which they were drawn. A very large share of responsibility for the past panics and crises of the United States must undoubtedly be assigned to the Treasury system which has been responsible for this sporadic and spasmodic movement of funds. In unskilled or selfish hands, the power thus bestowed upon the executive branch of the Government may be, as it has at times become, most dangerous to the public welfare, while it is always a source of grave responsibility and danger scarcely to be overestimated in its importance. The usual consideration against placing Government funds in the banks has been that by so doing certain banks were favored at the expense of others while the Government was deprived of its legitimate return upon the moneys that it furnished. Under the proposed plan, no such danger exists. Power is given to the Federal reserve board and to the Secretary of the Treasury, jointly, to establish a rate of interest upon public deposits, thereby rendering it possible for the Government, if it chooses, to assure itself a fair adequate return for its funds from the very time that they are placed in the banks. Under the section of the proposed bill which provides for a distribution of earnings the Government of the United States is given 60 per cent of all net income after the banks have received 5 per cent upon their invested capital. The Government is therefore in position to get its full and due return for every dollar that it places in the hands of the banks, while the community has the use of the money thus left subject to the disposal of trade and commerce according to their necessities. This is as it should be, since it amply protects the Government, safeguards the public interest, and assures the returns of the profits from the use of the funds to the Government after the banks have received the fair going rate of return for carrying on their business and performing the routine operations connected with their duties as fiscal agents of the Treasury.

There is another aspect of this Treasury deposit system that deserves mention in this connection. The bill provides for the depositing of funds not in any one bank, and not in accordance with any system that would place the moneys in any particular group of banks, but for the depositing of the funds in such banks as from time to time may be deemed wise, having due regard to an equitable distribution of these moneys among the different sections of the country. The power is, however, retained to make redistribution whenever deemed best, and this means that the provision is important as an adjunct to the power of the Federal reserve board over rediscounts and rates of interest as well as over reserves.

EQUALIZING RESERVE FUNDS.

It is evident that the Federal reserve board and the Secretary of the Treasury could, by shifting the deposits of the Government from place to place as occasion demanded, meet conditions of stringency and difficulty in the market, or furnish exchange funds as occasion appeared to require. The power would naturally be exerted before any resort was had to any method of interfering with the loans of the banks or with their reserves, and would of course be far more satisfactory as a means of equalizing resources than the exercise of the compulsory rediscount power. What has been done by various Secretaries of the Treasury in times past, and has been successfully done, toward the readjustment of banking accommodation, by the making and withdrawal of public deposits in different parts of the country, with comparatively meager funds, under the present Treasury system, gives a faint suggestion of what might be accomplished in the way just indicated. We have stated that in our judgment the use of the Treasury funds for deposit purposes in the manner referred to has never been desirable and has frequently resulted in leading, through long-continued employment, to panic or to artificial and injurious conditions of various kinds. What has just been said does not in the least weaken the force of the general observation thus restated. The harm resulting from past efforts of this kind has arisen primarily from the fact that they were necessarily carried out without intimate knowledge of or close association with the banking mechanism of the country.

The evil which came from these efforts was due to the lack of adaptation to existing conditions. Under the proposed plan the funds of the Government will never be removed from the uses of the commercial community, but they will continue in the general regions of the country where they originated, while those who are to be charged with the duty of overseeing the management of Government funds will have at their disposal the information that is needed to enable them to readjust deposits or to grant temporary relief through the shifting of Government resources should conditions suddenly require action of that kind. The situation will not only be such as will put an end to the vicious and wholly artificial state of things existing under the present type of Treasury organization, but will substitute for it a helpful system whereby definite governmental authority, closely informed concerning banking conditions and constantly in touch with the development of credit in all parts of the

country will be in control of an enormous mass of fluid resources which it can transfer by normal methods through the ordinary channels of trade from one part of the country to another, as conditions warrant; or, better still, can direct the flow of this mass of resources now here and now there, as circumstances call for it. The process will be conducted with knowledge of the highest order and will be free of the difficulties which have heretofore beset the making of Treasury deposits. It will be similar in operation to the function that is performed by the central banking institutions of foreign countries and will be carried out by exactly similar methods save that, because the authorities in charge of it are not hampered by commercial motives and are not interested more in one part of the country than in another, they will be able to do the work without any of the interfering considerations of private profit which frequently prevent the operations of a central banking institution from being carried on solely in the public interest. In the best sense of the word, the Government will be completely "out of the banking business" and in the best and proper sense of the word it will be in that business, neither under the necessity of interfering with normal trade operations nor of artificially interposing to bolster up weak banks in any part of the country.

BANKING FACILITIES FOR FOREIGN TRADE.

It has long been a ground of complaint that the national banking system provided no adequate means for the establishment of American banks in foreign countries. This criticism has had some warrant, and in view of the rapidly expanding foreign trade of the United States it is deemed wise to make proper provision for banking machinery in foreign countries which shall be closely controlled by home institutions. The bill proposed by the National Monetary Commission sought to accomplish this end by providing for the creation of a special type of institutions to be organized by national banks as stockholders and to engage in operations abroad. The committee is of the opinion that no such elaborate mechanism is necessary, but that every good purpose of the monetary commission plan can be attained by the adoption of the plan it has proposed, which consists essentially of provision for the establishment of foreign branches by existing national banks when such banks have an adequate capital for the kind of work in which they propose to engage and are found by the Federal reserve board to be in proper condition for undertaking such an enterprise. The proposed plan is simple and, it is believed, sufficiently effective for the purpose. Under it national banking institutions will be in position to create branch offices at such foreign points as they may deem best, assigning to them a due share of capital and conducting their affairs separate from those of the home office in order that there may be no difficulty in ascertaining at any moment the distribution of the business of the institution. It is believed that with the extension of national-bank powers which is provided for in the present act, such branches of national banks would be amply able to meet the requirements of their clientele wherever it might be necessary for them to operate.

EXAMINATIONS OF NATIONAL BANKS.

For some years the national banking act has been found to be seriously defective in its provisions for examinations. In attempting the organization of a more closely woven system of banking the committee therefore feels impelled to urge the necessity of stiffening existing examination requirements, while it also feels the imperative character of the demand for careful examinations of Federal reserve banks. In order to fulfill all the requirements of the case it therefore has included in the proposed measure a considerable extension of the examination function, dividing this between the Comptroller of the Currency, the proposed Federal reserve board, and the Federal reserve banks themselves. The committee is of the opinion that the authority to institute bank examination should be lodged with every part of the banking organization competent and trustworthy enough to exercise it, not because, as some have asserted, it is desired to have bank examinations constantly in progress, and not because of any belief that such examinations would be in fact much more frequent than they now are, but because it is believed that the exercise of the power to examine whenever necessary is essentially a fundamental and desirable power, and one whose exercise, if judiciously carried out, will result in the early detecting of dangerous conditions and their correction before they have reached a desperate stage. It is believed, moreover, that the provisions with reference to bank examinations, if properly carried out, will largely if not wholly obviate any necessity for the clearing-house examinations, which are carried on at the present time in behalf of associations of banks and of which there has been more or less complaint on the ground, however unjustified, that such examinations were unfairly carried on or were in some way used for the benefit of individual banks or bankers. That such charges have frequently been unjustified is undoubtedly true, but it is believed that the new system of placing all such examinations under authorized control and supervision will eliminate many possibilities of criticism or attack that lurk in the present system and may at times give rise to prejudice and specious assertions of favoritism.

DETAILED REVIEW OF BILL.

Having thus examined in outline the principal considerations which have led to the formulation of the proposed bill and the chief ideas that have dictated the form that has actually been given to it, it is now desirable to examine the terms of the proposed measure in detail.

SECTION 1.

Section 1 creates a short title which may be used for convenience, sake in the future in referring to the act. It needs no further discussion.

SECTION 2.

Section 2 provides for the districting of the country and for the organization of a reserve bank in each such district. These two topics may be discussed separately, it being prefaced that the purpose of the proposed bill is to substitute for the national currency

associations of the Aldrich-Vreeland law a series of reserve banks to be organized in independent districts and to do in a better and more continuous way the services which had been expected of the currency associations themselves.

It has been explained at an earlier point that the purpose of any thorough banking legislation must necessarily be the creation of a means for rediscounting existing paper and for furnishing either a bank credit or an elastic and reliable bank-note issue as the medium by which such discounts may be afforded. Without going more into the theory of this proposition, already thoroughly well covered, it may be stated that the medium through which the present bill proposes to attain these ends is the organization of a reserve bank to be entitled a "Federal reserve bank" in each one of the Federal reserve districts to be established as provided in section 2. In briefest terms, then the reserve bank in each district will do for existing banks what an ordinary bank does for its customers; that is to say, it will hold their surplus funds, furnish them loans, offset their payments and receipts, and supply them with the means of making remittances. In broad theory there will be no difference between the services performed by the reserve banks or bank and those performed by the existing banks for individual customers. Unless it be true that the reserve banks are granted some special privilege or relationship to the Government there will be no reason why they should not be organized upon the same basis and for same general purposes as existing banks. Indeed, with one or two minor modifications of existing law they could be so organized under the present national bank act. It is to be noted that some national banks now organized and doing business in the larger cities perform in a measure very much the same functions for smaller banks which do business with them that it is now proposed to have the reserve banks to be organized under this act do for the banks that are to be their constituent stockholders. The existing banks which perform this function do it for profit, and when opportunity offers make exorbitant returns for themselves on the transactions they enter into. The proposed reserve banks are to be cooperative institutions, rendering their service for the good of all the banks that are stockholders in them, as well as for that of the public, while the Government is to get the excess profits of the institutions. The detailed functions of the reserve banks can be best brought out in connection with subsequent sections, where they are dealt with more elaborately.

It is evident that before the different banks can be organized and placed it must be decided where they are to be placed and how large are to be the districts in which they shall operate. For reasons which are already partly apparent and will be made more so as the discussion goes on, one such bank in a district is all that is needed or could profitably or properly be organized there. This necessitates care in choosing the locations and fixing the size of the districts. Two fundamental considerations are sought in performing this work.

1. To provide each section of the country that constitutes a geographical and business unit with a reserve bank to serve its local banks and hold their reserves, making the districts sufficiently numerous to enable each such section to feel that its wants are met by its own local reserve institution under its own control. At the same time it is recognized that the districts should not be made so small

as to cut the capital of the reserve institutions to a figure that would make them weak.

2. To see to it that reserve banks are given a capitalization that will enable them to do what they are designed to do and are so situated as to avoid any shock to business enterprise resulting from the shifting of bank reserves from existing banks to the new reserve banks in the way outlined in the present bill.

It is believed that the fixing of the exact number of banks and the delimination of the districts are points that can only be exactly met after careful investigation by a properly qualified body appointed for that purpose. It has, however, been thought wise to fix the minimum number of such banks to be established in order that in passing the law the community may be assured of adequate provision for its needs. It is proper to say frankly that much difference of opinion as to the number of such banks has been expressed, some placing the desired number as high as 50, others as low as 3. Those who advocate the larger number think that there should be one such bank in practically every reserve city, on the ground that the reserve cities of the present day owe their existence to a definite need which has resulted in their establishment, and that this need ought to be recognized under such legislation as may be passed. Those who advocate the smaller number think that the banks should be created in central reserve cities only. They say that these central reserve cities are now the ultimate holders of reserves and that if they alone had the reserve banks proposed to be organized under this act there would be very little friction or difficulty in passing from the existing régime to the proposed plan.

The Committee on Banking and Currency finds itself unable to side with either of these groups of thinkers. It believes that the number of reserve banks to be created ought to be large enough to meet the reasonable needs of the country and should not be so small as to play into the hands of those who want to establish a very high degree of centralization. It also thinks that the reserve banks should be few enough in number to make them really independent institutions, likely to look to one another for aid only under emergency conditions, and hence not in danger of being controlled by other reserve banks. It has therefore fixed the minimum number of reserve banks at 12. This number has however not been arrived at from theoretical considerations solely, but also as a result of the following data:

1. The committee has asked a considerable number of bankers their views as to the proper number of such institutions. Many of these bankers were questioned during the hearings of last winter. Among them were Messrs. A. B. Hepburn, who thought that if such a plan were adopted the number should be one in each clearing-house district (hearings, p. 10); Sol. Wexler, who thought that the number should be about 15 (hearings, p. 623); Victor Morawetz, who fixed the number at 1 in each clearing-house district (hearings, p. 48); Sir Edmund Walker, who thought the number might run as high as 20 (hearings, p. 666); and others. Mr. J. V. Farwell, a well-known merchant of Chicago, suggested 5 to 7 as the number (hearings, p. 452).

2. Experience under the Aldrich-Vreeland law has resulted in the organization of 18 currency associations.

3. The Aldrich bill, so called, or National Monetary Commission bill, provided for a central reserve association with 15 branches or 16 banking institutions, open to the banking public, in all.

4. Examination of the present bank capital of the country shows that the number of banks on the basis of capital contribution could not well be in excess of 12 or 15 if the capitalization of the reserve banks themselves was to be sufficiently strong to make them effective. Assuming that the total capital of the national banks to-day is somewhat over $1,000,000,000, and assuming further that State banks possessing a capitalization of one-half that amount were admitted to the proposed institutions, it might be estimated that these Federal reserve banks would be owned by banks with an aggregate capitalization of $1,500,000,000. It will be shown later in the present discussion that the capitalization contribution to be exacted of each bank is 10 per cent of its present capital. That would make a total capitalization for the proposed reserve institutions of $150,000,000. Assuming that this amount was contributed and that there were 12 such institutions, their average capitalization would be $12,500,000, which is believed to be ample to meet the needs of the communities represented. If it should be roughly assumed that one-third of the proposed banks would be near the lower limit of $5,000,000 capitalization, this might mean five reserve banks with a gross capitalization of $25,000,000; five reserve banks with an average capitalization of, say, $7,500,000 and a gross of about $37,500,000, so that there would be left five with a gross capitalization of $87,500,000, or an average of $17,500,000. It is probable that as New York City already possesses two banks of $25,000,000 capital each, while her banking resources are very large otherwise, the bank of the New York district might be given a capitalization of $30,000,000 or $35,000,000, in which case the other four banks belonging to the group of large institutions might have an average capitalization of $13,000,000 apiece. These figures are all purely tentative and are merely intended to represent the way in which the districting might operate. Further attention can be given to the subject of districting and its effect upon the banks in connection with the study of the reserve section of the bill, which will be taken up somewhat later in this discussion. It is undoubtedly true that the proposal to create as many as 12 reserve banks will receive very sharp criticism from banking interests which are desirous that there shall be as high a degree of centralization as possible in the new system, while it is also thought probable that the proposed number will be sharply attacked by others who think that the 12 is by no means enough to give all portions of the country a chance to be fairly represented and adequately heard in connection with the rediscounting of paper. The figure fixed has, however, been the result of careful study and the committee feels entire confidence in its approximate correctness. It recognizes that in the future as the country grows there will be need of an increasing number of reserve banks, and therefore the power is given to create more such banks in the future as occasion requires.

Inasmuch as no machinery is in existence for the creation of such banks, and inasmuch as the process of districting the country can not be described in any hard and fast manner, it has been deemed best to

leave this analysis of business conditions for which there are at present no adequate statistics within reach, to a committee including the Secretary of the Treasury, the Attorney General, and the Comptroller of the Currency. In order that they may do their work correctly and successfully it will be necessary for them to ascertain with care the business connections of each of the principal cities of the country in order that the districts in which such cities are located may be properly shaped in a way that will not alter the present course of exchange and interbank remittances. The task thus prescribed may be one of some considerable length, and therefore it has been deemed best to leave the establishment of the details and the fixing of dates for organization to the judgment of the committee in question, subject only to the provision that in general it shall be completed within a reasonable time. Inasmuch as the work of making the distribution and apportionment of banks by districts will involve some expense, it is proposed to assign a moderate sum to cover the cost of travel, employment of expert assistance, etc.

SECTION 3.

Section 3 relates to stock issues, and divides the share capital into shares of $100. This unit is adopted because it corresponds to the unit of share capital in the national banking system, and is therefore an easy basis for computation of the share capital which a given bank will be required under the act to take out. The fact that it has been determined to have the share capital of the Federal reserve banks bear a fixed relationship to and be subscribed by the existing banks of the country make it necessary to provide some means of recognizing the growth of the system or its shrinkage, as the case may be. The second clause of section 3, therefore, calls for the increase of the capital stock of the Federal reserve bank according as the amount of capital in the system increases and is decreased by a converse process. This means that no Federal reserve bank would ever have a fixed capital, since that capital might easily change almost from day to day. The fact remains that the capital would be a fixed percentage of that held by the member banks, while in view of the later provisions of the act it is believed that the amount of this capital could be easily ascertained at any moment and the payments to withdrawing banks be made without any serious difficulty.

A second feature of section 3 is the provision that each Federal reserve bank may establish branch offices subject to the regulations of the Federal reserve board not to exceed one for each $500,000 capital of the stock of each Federal reserve bank. After due study it has been required that such branches should be established only in the district in which the Federal reserve bank is located. Branches of different Federal reserve banks will, therefore, not compete with one another, but will be simply offices established for the convenience of the member banks, facilitating their relations with the Federal reserve bank in which they are stockholders. The question may fairly be raised whether a Federal reserve bank should be allowed to establish one office in each of the other Federal reserve districts should it so desire, but after due consideration it has not been deemed desirable to permit such an extension of the power to create branches.

SECTION 4.

Section 4 provides for the incorporation and organization of the Federal reserve banks under the conditions already outlined in the preceding section. Fundamentally the purpose of the section is to authorize the incorporation of such a reserve bank in each district with powers precisely analogous to those of national banks except in so far as altered by the act itself. The organization, officers, and the like of the reserve banks will under the terms of this section be the same as those of the national institutions. There is no reason why any important distinction as to type of organization should be drawn or exist between the typical reserve bank and the typical national bank. This is worthy of special note because of the claim that Federal reserve agents, whose functions will presently be described, would practically be the active managers of the reserve banks. They would in fact be chairmen of the boards of directors, but as in the case of national banks such a chairmanship might be more or less active, according as the bank itself chose to determine.

The first clause of section 4 provides that a "sufficient number" of banks having made and filed with the comptroller a certificate, etc., shall thereupon be organized. As was provided in section 2, the minimum capital of a reserve bank is to be $5,000,000, so that the sufficient number referred to would mean in practice banks having a joint capitalization of at least $50,000,000. The sections of the national banking act referred to as defining the powers of the banks in question are those which state generally the limitations upon the functions of national banks and the rights and authority vested in them. The final provision of the first paragraph of the section giving to the Federal reserve bank a charter life of 20 years is the same as the corresponding provision of the national bank act. The power of Congress to dissolve the bank at an earlier date if desired is likewise identical with the power reserved to Congress in the case of national banks.

In dealing with the organization of the reserve banks the bill proposed by the committee has sought in section 4 to furnish a democratic representation of the several institutions which are members and stockholders of a reserve bank. To this end, the directorate is divided into three classes, each consisting of three members, while the stockholder banks are similarly divided into three groups or classes. The bill provides that the election of one member of class A and one member of class B shall be intrusted to each one of the groups into which the stockholding banks are subdivided. As it is required that each of the banking groups thus created shall contain approximately one-third of the number of banks in the district, it is clear that the banks comprising one-third of such capitalization would have a representative of their own in class A and also in class B. It might well be that the one-third in any given district would include a very small number of banks and that the director in question would thus be the representative of but few institutions. This, however, is deemed far better than to permit of the general choice of directors by all banks voting indiscriminately, it being the belief of the committee that by the method proposed each group of banks will preserve its autonomy and secure due hearing on the board of directors.

SECTION 5.

Section 5 deals entirely with the method of increasing and decreasing the capital stock of Federal reserve banks and the effect thereon of corresponding changes in the stock of member banks. The general purpose is to require member banks to pay additional pro rata subscriptions as they increase their capital stock and to permit them to withdraw capital subscriptions in the same manner as they reduce their capital; or, in case they go out of business entirely through failure or liquidation to permit them to withdraw the cash paid in, assuming, of course, that there has been no loss sufficient to impair the capital of the reserve bank. Should such a loss occur the reserve bank would presumably have called sufficient of the unpaid subscriptions to restore its capital to the original amount, in which case the withdrawal of a sum equal to the original cash paid subscription would simply give the bank what it put in in the first place, the loss meanwhile having been borne by its contribution made on call. The prohibition upon the transfer or hypothecation of shares in a Federal reserve bank is, of course, necessary in order to prevent the reserve bank from ceasing to be a democratic organization composed of members contributing in a like pro rata proportion of their actual available cash resources. Any other plan might result in the concentration of share ownership in a few hands. The intent of the bill is to have all banks vote alike at elections and as a preliminary requirement to enforce the retention of equal percentage of capital by each in the business of Federal reserve banks.

SECTION 6.

Section 6 is complementary to section 5 and merely provides for the treatment of the stock of Federal reserve banks belonging to member banks which become insolvent. The fundamental idea in it is that of intrusting the Federal reserve bank with the function in the case of a failure of deducting from the original amount of the failed bank's subscriptions any debts or claims due from said insolvent bank to the reserve bank and paying the rest to the receiver of the failed bank. This, in effect, gives the reserve bank a prior lien upon the assets of a failed member bank up to the amount of its cash-paid subscription which of course is a carrying out of the principle involved in requiring the member banks to subscribe 20 per cent, although they pay up but 10 per cent of their cash capital as a contribution to the stock of the Federal reserve bank of which they are members.

SECTION 7.

In section 7 it is provided that the division of earnings of Federal reserve banks shall be such as to give to the Government a due share of the proceeds of the banking operation after what is considered a fair remuneration for Federal reserve banks themselves has been provided. It is also sought to devote the share of earnings going to the Government to the reduction of the public debt. In general, the process of dividing the earnings is divisible into three stages under this section:

(*a*) The first step in the process of dividing the proceeds of the banking operation is that of giving to the subscribing banks which

own the stock of the Federal reserve banks a due return for the use of their funds. This, after due consideration, has been fixed at 5 per cent—a rate of dividend which, however, is to be cumulative. This should not be confused, as has been done by some critics of the proposed bill, with a rate of 5 per cent from the capital of the banks. The banks, of course, will not set aside a part of their capital for this subscription but will devote a part of their current funds to it. The real question then is whether the rate of 5 per cent represents about the normal rate of return from current bank investments. Considering the high character of the security offered we are of the opinion that it does do so.

(*b*) The second step in disposing of the earnings is that of the accumulation of the surplus. While it is not supposed that the Federal reserve banks will incur severe losses, on account of their conservative nature and the auspices under which they are to be carried on, it is believed that the accumulation of a surplus to furnish an increased source of banking capital for the reserve banks, and so far as practicable to obviate any necessity of calling for any of the unpaid balances of the original capital subscriptions is highly desirable. One half of all net earnings after attending to the claims of the 5 per cent cumulative dividend is therefore to be devoted to the surplus until the said surplus amounts to 20 per cent of the capital of the bank. The remaining one-half is to be divided in the proportion of three-fifths to the Government and two-fifths to the bank's stockholders in the ratio of their average balances with the Federal reserve bank for the preceding year. It will be observed that this introduces a new principle of distribution of earnings not based upon relative ownership of capital stock. More will be said of this point very shortly.

(*c*) The third and final step in disposing of the earnings relates to the distribution after surplus has been fully provided for. Section 7 would give three-fifths of all earnings after the surplus is taken care of to the Government and two-fifths to the member banks in proportion to their annual average balances as before.

It is worth while to consider with some care what this plan of distribution would signify. Assume for the sake of argument that the rate of earning of the Federal reserve banks is about identical with that reported by the comptroller for the national banks of the country, or, roughly, 9 per cent. Taking 9 per cent as the figure, this would mean that with a total capital of $100,000,000 the earnings for the first year would be $9,000,000. Of this sum, $5,000,000 would be required for the dividend requirements. This would leave $4,000,000, of which $2,000,000 would be carried to surplus and the remaining $2,000,000 would be divided as aforesaid in the proportion of $1,200,000 for the Government and $800,000 for the stockholding banks. It is, of course, impossible to state exactly how the division between the stockholding banks would finally turn out, since it can not be definitely stated what balances they would carry with the reserve banks.

THE GOVERNMENT'S SHARE.

It has frequently been asked why the Government should be allowed to share in the earnings of Federal reserve banks at all. There are two reasons of conspicuous and obvious character why it should

do so: (1) It vests the Federal reserve banks with the sole and exclusive function of note lending, from which all other banks are debarred; (2) it places the public funds with the Federal reserve banks to an amount certainly vastly larger than that of any other depositor and equal to the combined deposits of large groups of banks. The distribution of earnings upon the basis of deposit balances would give to the Government a large share of the profits in any case and when the present national-bank notes shall have been replaced by Federal reserve notes it is obvious that the function of note issue will result in a large volume of earnings which the Federal reserve banks could not enjoy were they to share this power with other banking institutions. To a substantial share in this earning, leaving for the reserve banks only a fair compensation for their services in taking out the notes, the public is evidently entitled.

The provision that the earnings of Federal reserve banks in so far as paid to the Government shall be regularly devoted to the reduction of the bonded indebtedness of the United States is manifestly a proper use of the income in view of the fact that the Government has incurred an additional interest charge upon its outstanding bonds for the purpose of persuading the banks to surrender their twos from time to time or at the end of 20 years for the purpose of converting the twos. By gradually applying the earnings received by the Government to the reduction of the outstanding bonds, selecting those that are available for circulation, it will be possible to maintain a moderate market demand for the bonds and at the same time to effect a gradual reduction of the outstanding indebtedness as well as, of course, a corresponding reduction of interest charges thereon.

Attention should also be given to the provision exempting Federal reserve banks and the stock held therein by member banks from all classes of taxation, save such taxation as may be imposed upon the real estate held by these banks. In view of the increasing burden of taxation and of the Federal income-tax law, which now furnishes an additional draft upon net earnings, this exemption is likely to prove of material importance, since it amounts to an exemption of a corresponding proportion of the funds of member banks from the payment of taxes to which they would otherwise be subjected.

SECTION 8.

The essential features of section 8 are:

1. The grant of a year's time within which existing national banks may make up their minds whether or not to take out stock in Federal reserve banks under the provisions of the proposed bill; and

2. The provision that in the event of an adverse decision on this subject such national banks as may reach a decision of that character shall be dissolved the remedies now provided by law against such a dissolved bank shall not be impaired.

This in effect means that every national bank now in existence must within a year either (*a*) take out stock in a Federal reserve bank, (*b*) become a State bank under State laws, or (*c*) leave the business entirely. It is evident that any measure of legislation which imposes substantial responsibilities and burdens upon banks will be opposed by some of them, and that unless they are required to assume their duties to the community, they will if they are permitted to make

a voluntary choice between their present condition and that proposed for them, elect to continue as at present. No matter how advantageous a plan proposed by Congress might be, many banks would refuse to go into it out of sheer inertia. This was the condition of affairs found by experience to exist at the time when the national banking act was first adopted, and it will be repeated to-day if the whole matter of assuming the new responsibilities prescribed by law is left optional with the banks. In view of the fact that the banks have their own remedy in their own hands, in that they may recharter under State laws if they desire, the measure recommended in section 8 is deemed entirely proper, not to say indispensable. The committee does not believe that it is the province of Congress to bribe or induce the banks to enter the new system, but rather to lay down equitable conditions and then to require their acceptance.

QUESTION OF "COMPULSION."

Much has been said by opponents of the proposed bill with reference to the question of what they call "compulsion." By this is meant the requirement of the bill that national banks shall subscribe to the stock of the Federal reserve banks of the districts in which they are situated, or if they do not choose to do so shall leave the national banking system by surrendering their charters. A few persons have been disposed to contend that there was some illegality or "unconstitutionality" in this section of the measure—a claim which is readily dispelled by referring to existing legislation bearing upon the power of Congress regarding the amendment or repeal of corporate charters. Those who complain of this provision, however, need not be dealt with simply upon technical legal grounds, as the subject has a very much broader bearing, and we believe that there is no one who would wish to visit any hardship or injustice to the banks simply because Congress was within its legal rights in so doing. The general considerations which make it entirely warrantable for Congress to impose certain burdens upon banking institutions as conditions precedent to the grant of national charters to such institutions are quite evident. They appear in all of the various more or less stringent and onerous conditions laid down in the national-bank act for the guidance of the conduct of banking associations. They are also seen in the restrictions imposed by practically all foreign Governments upon the conduct of the banking institutions under their jurisdiction.

The Government, in granting to such banks the power and privilege to operate under the protection and with the prestige of charters emanating from itself, naturally is authorized to make these privileges contingent upon the acceptance of such conditions as it may deem best. Nor is the argument solely to be rested upon these considerations. The proposed bill will ultimately place the banks of the country upon a far more liberal basis than that accorded to them by existing law. This may be demonstrated, among other methods, in the following way: By the terms of the national banking act banks must, in order to become national banks, purchase and deposit with the Treasurer of the United States Government bonds as security for circulation. This requirement is nominally 25 per cent of capitalization for banks up to $150,000 capital and $50,000 for all above that level. In reality

the requirement is much stronger than this, inasmuch as no notes can be taken out without a deposit of Government bonds behind them. Inasmuch as the supplying of notes is absolutely necessary if the banks are to meet the needs of their customers even in a moderate degree, the proper measure of the burden imposed on them by this requirement is the volume of the bonds that they have purchased. As is shown elsewhere in the present report, this volume of bonds is now something like $750,000,000, or very nearly three-quarters of the capital stock of the banks. The proposed bill arranges for releasing the banks from this required investment and substitutes in lieu of it a required investment equal to 10 per cent of their capital (paid up), or not to exceed $105,000,000. This is one-seventh of the amount now invested in bonds. Inasmuch as the proposed bill allows the conversion of existing 2 per cent bonds into threes at the rate of 5 per cent per annum, while it gives the banks a year within which to enter the proposed reserve banks as stockholders, it is evident that within one year from the latest date set for the subscriptions to the capital stock a bank owning bonds equal to capital would have been able to obtain through conversion and sale of its securities an amount equal to the required investment in capital.

The answer may be made to this statement that the earnings upon the investment in bank stock are unreasonably and unnecessarily small. How much they will be is of course a matter of opinion, since no one can predict the actual profits of the Federal reserve banks. It is, however, worthy of note that even if the earnings were only 5 per cent they would be in excess of the estimated earnings derived from national bank-note issues, which have been notoriously unprofitable for a good while. The banks receive the 2 per cent on their bond investment and the current rate of interest on their notes (provided they can keep them in circulation), but they are obliged to bear the expenses of engraving and printing, redemption, etc., so that it has long been axiomatic that the profits on bank-note circulation were very small—so small that many banks have taken out few notes, some even holding their required minimum of bonds without taking out any currency. From this showing it is evident that the idea of "compulsion," instead of being a novelty is a very old one, as well as one that is widely accepted among civilized countries to-day, while the severity and degree of the compulsion as to the use of the bank's current funds entailed by the proposed bill is very much less than that involved in the provisions of the present national bank act. There is in fact no reasonable basis for the complaint with regard to compulsion. National banks after the passage of the proposed bill will be freer, more able to dispose of their funds as they choose, and far less subject to serious interference with their legitimate use of resources than they are to-day.

SECTION 9.

Section 9 is a general permission to any State bank to become a national bank and thereby to become eligible upon the same terms as national banks for membership in a Federal reserve bank as a stockholder. The provisions follow substantially the lines now laid down in the national banking act with reference to the conversion of State banks into national institutions and need no considerable

comment, being repeated here for the sake of making plain the conditions under which such conversion may occur subsequent to the passage of this act, that there may be no reasonable doubt in regard to the matter, and that it may be certain under precisely what terms and conditions State banks may make the transfer required.

SECTION 10.

After much examination of the subject, it has been deemed best by the committee to permit State banks to become members, i. e., stockholders in Federal reserve banks, without themselves becoming national banks. This concession has been determined upon partly from the standpoint of the banks themselves and partly from that of the new system. The success of the new system would be very largely influenced by its extent and scope. If it becomes practically inclusive of all the banks of the country that are in strong condition, its opportunity for service will be much greater than it could otherwise be. On the other hand, the committee has doubted whether, from the standpoint of the banks themselves, it would be acting fairly were it to debar them from membership in the new concerns.

It has been plain, however, that inasmuch as State banks are organized under different codes of legislation it would be unfair to permit banks to become stockholders in the reserve banks and to enjoy the advantages open to national banks which are stockholders unless such banks were subject to practically as high a standard of banking requirement as the national banks with which they compete. It has been felt that the particulars in which greatest care should be exercised on this score are (*a*) capital and (*b*) reserves. The fundamental idea of section 10 is to require compliance with the terms of the bill and of the national banking act as a condition antecedent to the holding stock in a reserve bank by any State bank. This does not altogether place the State banks upon the same basis as the national, inasmuch as they are not thus subjected to the same regulations with respect to investments and general business. It is believed, however, that the principal requirements will thus be met and that the provisions of the section are about as far as the measure can reasonably go with certainty of being held legal and at the same time of proving feasible and available in practice. As a necessary power in connection with this question of membership section 10 confers upon the Federal reserve board the power to establish by-laws for the general government of its conduct in acting upon applications made by State institutions, while it intrusts to the board the power to approve applications when proper or to suspend banking associations from membership when the provisions of the act are violated, and to secure the cancellation and retirement of their stock, returning the value thereof to the banks so suspended.

SECTION 11.

In this section provision has been made for the creation of a general board of control acting on behalf of the National Government for the purpose of overseeing the reserve banks and of adjusting the banking transactions of one portion of the country, as well as the

Government deposits therein, to those of other portions. The number of members of this board has been fixed at seven, after careful consideration of other possible memberships, and it has been determined that the board as thus made up should consist of two distinct elements, the one including three regular officers of the National Government, the other four specially appointed officers whose duty it should be to devote their whole time to the management of the affairs of the reserve banks and the performance of the duties assigned them under the present bill. The three officers chosen from the existing staff of the Federal Government are to be the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency. It is evident that the Treasury Department not only is, but will continue to be, a fundamentally important factor in the financial organization of the country, while the Comptroller of the Currency, in charge as he is of the national banking system, will be a necessary adjunct in the management of the reserve bank system proposed in this bill. The causes for the selection of the two officers thus named are therefore self-evident. The Secretary of Agriculture has been added because of the belief that conditions in the producing regions of the country would deserve special consideration at the hands of the Federal reserve board, the Secretary of Agriculture being the natural representative of the interests of these sections, while it is further thought that the presence of a member on this board whose direct concerns are not primarily those of technical business or banking will be beneficial and will give the deliberations of the board a broader character than they would otherwise possess.

The four members chosen by the President for special service on the Federal reserve board will necessarily be intrusted with the heavier and routine duties pertaining to this board, the regular officers of the Government being naturally engaged in large degree in the discharge of their ordinary functions. It is therefore important to provide for the proper choice of the four officers thus called for. The committee has thought it wise that they should be assigned a tolerably long tenure, and has accordingly fixed that tenure at eight years, providing, however, that the first appointees shall be so distributed with respect to tenure of office as to bring about a rotation, so that all members of the board shall not change at any one time. In the second place, it has been deemed wise to provide that not more than two of these four members shall belong to the same political party. It can not be too emphatically stated that the committee regards the Federal reserve board as a distinctly nonpartisan organization whose functions are to be wholly divorced from politics. In order, however, to guard absolutely against any suspicion of political bias or one-sidedness, it has been deemed expedient to provide in the law against a preponderance of members of one party.

The provision that the President in making his selections shall so far as possible select them in order to represent the different geographical regions of the country has been inserted in very general language in order that, while it might not be minutely mandatory, it should be the expressed wish of the Congress that no undue preponderance should be allowed to any one portion of the Nation at the expense of other portions. The provision, however, does not bind the President to any slavish recognition of given geographical sections.

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Finally, it has been thought wise to insert a provision that at least one of the four persons so chosen by the President shall be an experienced banker. This, of course, does not mean that other members of the board would be inexperienced in or ignorant of banking. On the contrary, the assumption is that they would not be chosen unless at least tolerably informed in the banking field, and that in all probability they would be not only experienced in banking but men of broad business knowledge and culture. This, however, is a matter that must necessarily be left to the appointive power, which not only should but must, in order to give good results, be vested with discretionary authority sufficient to enable it to make careful choice from among all of the best material available for such a board. It might easily be that a man of high business caliber, thoroughly desirable as a member of the board, would not have had a technical banking experience, notwithstanding that he might be well equipped for the work. The Comptrollers of the Currency in times past have not always been bankers in the technical sense, and some of the most efficient among them have had least technical experience in banking at the time when they assumed office. It is therefore believed safe to vest this whole matter in the hands of the President with large authority, believing that he will be able to use the same care and discrimination that he employs in choosing the Supreme Court of the United States. For obvious reasons it is considered wise that every member of the Federal reserve board designated by the President shall surrender any banking connections he may have had at the time of his nomination, and for equally obvious reasons it is deemed best that the board shall annually report to the House of Representatives, thereby establishing a direct relationship between the board and the Congress. The President is authorized to designate one of the four appointees as manager of the Federal reserve board and one as vice manager, this being deemed wiser than to throw upon so small a board the duty of selecting executive officers from among its own membership. In designating the Secretary of the Treasury as ex officio chairman of the Federal reserve board the bill aims to preserve the general concept of official responsibility and duty which is fundamental to the conception of this board. In ordinary times the Secretary of the Treasury's relation to the board would be largely formal. In times of stress or sudden danger he might become an active and effective working member of the board.

The final paragraph of section 11 is intended to make the Comptroller of the Currency in all respects answerable to the Federal reserve board, thereby giving this board the practical connection it needs with the national banks of the country which are under the direct supervision of the Comptroller of the Currency. This is believed to be desirable, inasmuch as the Comptroller of the Currency, although a member of the Federal reserve board by virtue of the earlier provisions of this section, might otherwise not be held to be answerable to the board in his official capacity as the chief of the national banking system. The paragraph referred to now makes him responsible to the "Secretary of the Treasury acting as the chairman of the Federal reserve board," which implies that the board would have power to instruct the comptroller upon all necessary matters, preferably through the chairman, whenever action affecting the national banks in those respects in which they are subject to the

oversight of the comptroller was called for. The proviso at the end of the paragraph in question, however, makes it evident that there is nothing in this grant of authority or in this imposition of responsibility to reduce the functions of the comptroller as at present understood or to render him less amenable than he now is to the Secretary of the Treasury, who is his chief under existing circumstances.

SECTION 12.

"In this section are set forth the basic functions bestowed upon the Federal reserve board." These are not all the powers given to the board, it having been necessary to distribute various other minor grants of authority throughout the bill in the connections to which such grants of authority specifically relate. The provisions of section 12, however, cover sufficiently the fundamental authorities bestowed upon the reserve board. These may now be taken up in order:

(*a*) In paragraph (*a*) is given the authority to examine the affairs of each Federal reserve bank, to require statements and reports, and to publish a weekly showing of condition. This is substantially the same kind of authority which is to-day exercised by the Comptroller of the Currency with respect to national banks, except that it is more constant, close, and intimate as the different nature of the case requires. The powers thus bestowed are identical with those granted to the supervising boards in control of the central banks of Europe.

(*b*) In paragraph (*b*) is given to the board the authority (1) to permit or (2) to require one Federal reserve bank to rediscount the discounted prime paper of other reserve banks. Much has been said of this grant of authority and it therefore deserves careful analysis. In the first place, it is evident that this power is not different in nature from that which is exerted by the head office of a central bank possessing several branches. Such an office can transfer funds from one to another, and withdraw the service of one for the service of the others. It can, moreover, employ the resources of one portion of the country for the advantage of other portions or for the purpose of safeguarding them at critical times if its managers deem such actions to be wisest. Those, therefore, who favor the idea of a central bank with a single head office, favor it because it grants just this power to dispose of the resources of the one section for the benefit of another, and must in consequence find themselves logically driven to a recognition of the view that such authority to transfer funds and to mass them at points where weakness has been indicated is properly to be exerted in the interest of the public. In the proposed bill, the exercise of such a power is subjected to restrictions which would manifestly and unquestionably make its use sporadic and exceptional, in so far as it resulted from the exercise of a power to compel the rediscounting of paper by one Federal reserve bank for another. Section 12, in specific terms, explains that the power is to be exerted only "in time of emergency" and by a unanimous vote of the reserve board. It, moreover, imposes a penalty charge of from 1 to 3 per cent upon the grant of such an accommodation. The power is clearly much less than that which has been advocated by friends of the central bank idea, inasmuch as it suggests an exceptional or occasional resort to an expedient which would be the staple of everyday

business under a central banking plan, such as that proposed by the National Monetary Commission. The other side of the function—that of permitting Federal reserve banks to rediscount for one another—has also been objected to on the ground that such banks should be allowed to deal with one another freely if they choose. The committee does not concede this view, but believes that the banks should not thus be allowed to deal with one another except under oversight, in view of their distinct character as reserve holders.

(*c*) Paragraph (*c*) grants the Federal reserve board the power to suspend the reserve requirements of the act for designated periods if in its judgment such action may be deemed wise. There is nothing unusual or revolutionary in this requirement, it being in practice somewhat akin to the power granted the Comptroller of the Currency in section 5191, Revised Statutes, where he is practically able to permit national banks to go below their reserve for 30 days. In practice this power is constantly exercised by him subject to his judgment. The power is suggested by the process of "suspending the bank act" in England, and is a desirable administrative function in every case where a fixed reserve requirement is employed.

(*d*) The power to supervise and regulate the retirement of Federal reserve notes granted in this paragraph is of course a necessary concomitant to Government control of note issues, a matter to be discussed in detail in connection with the provisions for note issue.

(*e*) In paragraphs (*e*), (*f*), (*g*), (*h*), and (*i*) are conveyed powers which are largely self-explanatory and about which there can be little or no question, granting the general idea of effective Government oversight through a Federal reserve board or some similar organization.

In view of the fact that the Federal reserve board is vested with functions other than those formally enumerated in section 12, it may be worth while to list the chief powers conferred upon the board by the act as follows:

POWERS OF THE FEDERAL RESERVE BOARD.

To readjust districts created by the organization committee and create new ones, acting upon a joint application made by 10 of the national banks within an existing district.

To regulate the establishment of branches of Federal reserve banks within Federal reserve district in which bank is located.

To designate three (class C) of the nine members of the board of directors of each Federal reserve bank, one of these to be chairman of the board with the title of "Federal reserve agent."

The Federal reserve agent to maintain a local office of the Federal reserve board on the premises of the Federal reserve bank. He shall make regular reports to Federal reserve board and be its official representative.

To remove any director of class B (business men) if it should appear that he does not fairly represent the commercial, agricultural, or industrial interests of his district.

To remove chairman of Federal reserve bank without notice.

To establish by-laws governing applications from State banks and trust companies.

"Of the four persons * * * appointed (by the President), one shall be designated manager and one vice manager of the Federal reserve board." The manager, subject to supervision of the Secretary of the Treasury and board, shall be the active managing officer of the Federal reserve board.

To levy a semiannual assessment upon the Federal reserve banks for estimated expenses for succeeding six months, together with deficit carried forward.

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

To require, or on application to permit, a Federal reserve bank to rediscount the paper of any other Federal reserve bank.

To suspend, for a period not exceeding 30 days (and to renew such suspension for periods not to exceed 15 days), any and every reserve requirement specified in this act.

To supervise and regulate the issue and retirement of Treasury notes to Federal reserve banks.

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 section 21 of this act, or to reclassify existing reserve or central reserve cities and to designate the banks therein situated as country banks, at its discretion.

To require the removal of officials of Federal reserve banks for incompetency, dereliction of duty, fraud, or deceit.

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

To suspend the further operations of any Federal reserve bank and appoint a receiver therefor.

To perform the duties, functions, or services specified or implied in this act.

To determine or define (subject to stipulations) the character of paper eligible for discount for member banks.

To prescribe regulations for purchase and sale by Federal reserve banks of bankers' bills, etc.

To review and determine the minimum rate of discount established by Federal reserve banks.

To authorize establishment of branches of Federal reserve banks in foreign countries.

To authorize the issue of Federal reserve Treasury notes.

To receive, through the local Federal reserve agent, applications from Federal reserve banks for notes, such applications to be accompanied by rediscounted notes for deposit as collateral security.

To require Federal reserve bank to maintain deposit in money of 5 per cent of notes issued.

To grant in whole or in part or to reject entirely the application from Federal reserve bank for notes.

To establish rate of interest on notes issued.

To prescribe regulations for substitution of collateral.

To make and promulgate regulations governing the transfer of funds at par among Federal reserve banks.

To act, if desired, as clearing house for Federal reserve banks.

To require, in its discretion, Federal reserve banks to act as clearing houses for shareholding banks.

To prescribe regulations for the recall and redemption of all national-bank notes outstanding after 20 years.

To require extra examinations of national banks when deemed necessary.

To determine and report annually to Congress fixed salaries of all bank examiners.

To assess upon banks in proportion to assets or resources the expenses of examinations.

To fix a date for such assessment.

To arrange for special or periodical examinations of member banks for account of Federal reserve banks.

To receive from Federal reserve banks information concerning the condition of any national bank in its district.

To order examinations of national banks in reserve cities as often as necessary, not less than four times a year.

To add to the list of cities in which national banks shall not be permitted to loan on real estate as described.

To receive applications from national banks having $1,000,000 or more capital for the establishment of branches in foreign countries, to reject or accept such applications, and to prescribe conditions under which such branches may be opened.

To require examinations of foreign branches as it may deem best.

To regulate savings departments of national banks and to prescribe their investments.

SECTION 13.

Section 13 provides for the creation of a Federal advisory council which is to consist of as many members as there are Federal reserve districts, each such district electing through the board of directors of its Federal reserve bank a representative of that bank. The functions of this board are wholly advisory and it would amount merely

to a means of expressing banking opinion, informing the reserve board of conditions of credit in the several districts, and serving as a source of information upon which the board may draw in case of necessity. The desirability of such a body as a source of information and counsel is obvious, and it is believed that it gives to the banking interests of the several districts ample power to make their views known, and, so far as they deserve acceptance, to secure such acceptance.

SECTION 14.

In section 14 is set forth the fundamental business purpose of the bill in providing for rediscount operations. The Federal reserve banks are at the outset authorized to receive current deposits from their stockholders or from the Government or from other Federal reserve banks in so far as the latter may need to keep funds with them for exchange purposes.

The fundamental requirement throughout all of the discount section of the proposed bill is that antecedent to the performance of a service by a Federal reserve bank for a member bank which applies therefor the member bank shall indorse or guarantee the obligations which it offers for rediscount. Subject to this requirement, the proposed bill first of all provides that notes and bills having a maturity of not over 90 days and drawn for agricultural, industrial, or commercial purposes or the proceeds of which have been used for such purposes shall be admitted to rediscount. The meaning of this provision is briefly that any paper drawn for a legitimate business purpose of any kind may be rediscounted when within 90 days of maturity. It does not mean that the paper thus rediscounted shall have been originally made for 90 days, but that it shall have at the time of being rediscounted 90 days more to run. Thus a paper drawn for 120 days originally could be rediscounted when it was 30 days old. In view of the great difficulty of defining "commercial paper," the actual definition of the same has been left to the Federal reserve board in order that it may adjust the definition to the practices prevailing in different parts of the country in regard to the transaction of business and the making of paper. For obvious reasons it is forbidden that any such paper shall be admitted to rediscount if made for the purpose of carrying stocks or bonds.

It was felt that in some parts of the country the permission to rediscount paper having a maturity of 90 days might not fulfill all of the requirements imposed by the business practice of those regions, and therefore it is provided in the third paragraph of section 14 that, whenever the reserve of any Federal reserve bank is reasonably above its required minimum (such excess margin to be determined by the Federal reserve board), the reserve bank may rediscount commercial paper having a maturity of not more than 120 days, provided that not more than one-half of it shall have a maturity exceeding 90 days. This is intended to fulfill the requirements of portions of the country with an extremely long term of credit, but it is clear that no reserve banks should be allowed to put its funds into a form in which they will be "tied up" to such an extent, unless such a bank has a reserve perfectly adequate to take care of any necessities that are likely to present themselves in the meantime.

The fourth paragraph of section 14 grants permission to reserve banks to rediscount acceptances of member banks which are based on the exportation or importation of goods, run not more than six months, and bear the signature of one member bank in addition to that of the acceptor, the total of such rediscounts not to exceed one-half the capital of the bank for which the rediscounts are made. In the sixth paragaph, national banks are authorized to accept drafts or bills of exchange drawn upon it to an amount not exceeding one-half its capital. The acceptance business, which it is thus proposed to authorize, is a new form of business heretofore forbidden to national banks, by reason of the provisions and interpretations of the national-banking act, which have forbidden them to lend their credit or to incur contingent liabilities thereby. The acceptance form of loan is, however, very common in Europe, and has been found exceedingly serviceable. It is the opinion of expert bankers that it could be applied in the United States to excellent advantage. The following extract from a discussion of acceptances by Lawrence Merton Jacobs explains the method and purpose of the acceptance business:

"The fundamental difference between European and American banking has its origin in the dissimilarity between the evidences of indebtedness which lie behind the item of loans and discounts. It is most strikingly evidenced in the fact that time bills of exchange form a considerable proportion of the resources of the great banks of London, Paris, and Berlin, whereas the assets of leading New York banks are largely based on stocks and bonds.

"Of the bills of exchange in which are employed, either through loans or discounts, the funds of European banks, an essential part consists of what are known as bankers' bills—that is, bills drawn on bankers and accepted by them on behalf of customers in accordance with arrangements previously made. They are bills in exchange for which, by sale to a broker or by discounting at a bank, bankers' customers or those to whom they are indebted may secure immediate credit. In some instances it is arranged that the customers themselves shall draw the bills and in others that the bills shall be drawn by third parties for their account. In granting the accommodation the obligation that the bankers take upon themselves is that they will accept the bills upon presentation. This acceptance consists in the bankers writing across the face of the drafts the word "Accepted," adding their signature and the date. It is in the nature of a certification that the bills will be paid at maturity—that is, a specified number of days or months from the date appearing in the acceptance, or three days later if grace is allowed, as in England. When a banker grants accommodation to a customer by means of an acceptance he may secure himself in various ways. Ordinarily a banker accepts a customer's draft merely upon his general responsibility, the banker's risk being much the same as if he had discounted the customer's note running a certain length of time. Where the customer is an importer the banker ordinarily accepts the drafts upon the delivery to him of the documents covering the shipment, which documents he then turns over to his customer against a trust receipt. When a credit of this kind is opened the usual practice is for the banker to require the signature of a form containing an agreement to hold him harmless for accepting the bills, to place him in funds sufficient to pay off the bills three days prior to their maturity, and to pay him a commission

on the transaction, this commission varying according to the length of time the bills are to run and the financial standing of the customer. The cost of the accommodation to the customer in this commission plus the prevailing rate of discount for bankers' bills.

"In the United States the national-bank act does not permit banks to accept time bills drawn on them. Although the act does not specifically prohibit such acceptances, the courts have decided that national banks have no power to make them. This restriction has had a very considerable influence upon the development of banking in this country. For some time after the passage of the national-bank act, merchants and manufacturers provided themselves with funds by discounting their promissory notes with their local banker. Gradually, however, many concerns, finding that their needs were outstripping the banking accommodation which they could secure in their immediate vicinity, came to place their notes in the hands of brokers who in turn disposed of them to such bankers as possessed greater surpluses than they could satisfactorily invest at home. It is this method of borrowing which is now largely employed. In other words, the prohibition of bank acceptances has led to the creation of a vast amount of promissory notes instead of time bills of exchange. The difference between these two classes of instruments accounts to a great extent for the difference between European and American banking. In the case of time bills of exchange drawn on and accepted by prime banks and bankers there is practical uniformity of security. In the case of our promissory notes or commercial paper there is no such uniformity, the strength of the paper depending on the standing of miscellaneous mercantile and industrial concerns.

"It is this uniformity of security on the one hand which makes possible a public discount market; it is the lack of it in single-name paper which makes such a market impossible. As a result, we have great discount markets in London, Paris, and Berlin, and none in New York. In European centers the discount rate is the rate upon which the eyes of the financial community are fixed. In New York it is the rate for day-to-day loans on the stock exchange. The advantage in character of the one rate over the other clearly indicates an important advantage of European banking systems over our own. In the first place, the European discount rate bears a very direct relation to trade conditions. Its fluctuations depend primarily on the demand for and supply of bills which owe their origin to trade transactions, as balanced against the demand for and supply of money. If trade is active, the supply of bills becomes large, rapidly absorbing the loanable funds of the banks. As these surplus funds become less and less banks are unwilling to discout except at advanced rates. If trade is slack, less accommodation from bankers in the way of acceptances is required, bills become fewer in number, the competition for them in the discount market more keen, and the rate of discount declines. Low rates are an incentive to business and advancing rates act as a natural check. The New York call-loan rate, on the other hand, bears only an indirect relation to trade conditions. Its day-to-day fluctuations register mainly the speculative and investment demand for stocks. Low rates, instead of being an incentive to the revival of trade, are rather made the basis for speculative operations in securities.

"The striking difference, however, between European discount rates and the New York call-loan rates is that the former are comparatively stable and the latter subject to most violent oscillations. Foreign discount rates as bank reserves become depleted advance by fractions of 1 per cent. In New York the money rate advances on occasion 10 per cent at a time, mounting by leaps and bounds from 20 per cent to 100 per cent in times of stress."

AMOUNT OF REDISCOUNTS.

There has been extensive conjecture as to the probable amount of business which could be done by the Federal reserve banks under the foregoing provisions and regarding the amount of paper likely to be presented by the banks for rediscount. Such conjecture is more or less profitless, for two reasons:

1. The rediscount business done in the United States heretofore has been small, partly because of the limitations of the national-bank act and partly because of the prejudice against borrowing by banks, which has more or less artificially sprung up.

2. The purpose of the new act is to develop a commercial paper market, and if successful in this endeavor the legislation will entirely transform the conditions under which paper is bought and sold, loans contracted between banks, and funds transferred from one part of the country to another.

While it is thus true that the facts as to existing conditions do not throw much light upon what is to be expected and that conjectures based upon them are futile, it is worth while to call attention to the following table, taken from the last annual report of the Comptroller of the Currency, which gives a compact survey of the classes of paper which might theoretically be available for rediscount under the provisions of the act as already explained:

1	2	3	4	5	6	7	8
Date.	Number of banks.	On demand, paper with one or more individual or firm names.	On demand, secured by stocks, bonds, and other personal securities.	On time, paper with two or more individual or firm names.	On time, single-name paper (one person or firm) without other security.	On time, secured by stocks, bonds, and other personal securities, or on mortgages or other real estate security.	Total.
		Millions.	*Millions.*	*Millions.*	*Millions.*	*Millions.*	*Millions.*
Sept. 15, 1902	4,601	$237.3	$706.9	$1,176.4	$517.1	$642.4	$3,280.1
Sept. 9, 1903	5,042	283.1	717.3	1,267.5	558.1	655.4	3,481.4
Sept. 6, 1904	5,412	279.8	818.9	1,316.7	611.0	699.7	3,726.2
Aug. 25, 1905	5,757	320.1	854.1	1,382.2	689.1	753.0	3,998.5
Sept. 4, 1906	6,137	374.7	828.0	1,502.0	776.1	818.1	4,299.0
Aug. 22, 1907	6,544	428.2	832.9	1,648.7	899.5	869.2	4,678.5
Sept. 23, 1908	6,853	395.9	922.7	1,582.4	852.1	997.5	4,750.6
Sept. 1, 1909	6,977	441.5	957.3	1,698.4	971.5	1,060.1	5,128.8
Sept. 1, 1910	7,173	524.3	939.1	1,842.5	1,008.3	1,093.0	5,467.2
June 7, 1911	7,277	529.7	953.8	1,885.1	1,124.7	1,117.5	5,610.8
June 14, 1912	7,372	571.3	985.4	1,973.4	1,198.5	1,225.3	5,953.9

The columns numbered 3, 5, and 6 are those which represent paper potentially available under the act.

The fifth paragraph of section 14 forbids the rediscounting for any one bank of an aggregate of notes and bills bearing the signature or

indorsement of any one person or concern, this being a repetition of the prohibition of similar kind which is contained in the national banking act. A new feature is, however, found in the last sentence of the paragraph in question which reads as follows: "But this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values." This exception or exemption has long been asked for in the interest of legitimate business transactions. Obviously when a bill of exchange is secured by bills of lading and other documents accompanying it, it is primarily dependent for liquidation upon this unquestionably marketable wealth. There is therefore no reason for limiting the amount of the discount to be granted by any reference to the resources of the person applying for the accommodation or by the capital and surplus of the bank granting the discount, that being merely a question of banking judgment, while the bill itself is salable and will presumably be protected at the point where it is presented.

Summing up the terms of section 14, therefore, it may be said that the section simply applies to the Federal reserve banks the same general grants of authority and limitations thereon carried in the national-bank act with respect to the national banks, except that it more carefully limits the length of the paper to be rediscounted and the purpose for which it is drawn, while it opens the acceptance business to national banks and permits the rediscount of acceptance paper. The latter class of paper is limited to export and import operations in order to prevent any possibility of undue use of the provision at first by banks not thoroughly conversant with the working of the idea owing to lack of experience with this type of credit.

SECTION 15.

It will have been observed that the transactions authorized in section 14 were entirely of a nature originating with member banks and involving a rediscount operation. It is clearly necessary to extend the permitted transactions of the Federal reserve banks beyond this very narrow scope for two reasons:

1. The desirability of enabling Federal reserve banks to make their rate of discount effective in the general market at those times and under those conditions when rediscounts were slack and when therefore there might have been accumulation of funds in the reserve banks without any motive on the part of member banks to apply for rediscounts or perhaps with a strong motive on their part not to do so.

2. The desirability of opening an outlet through which the funds of Federal reserve banks might be profitably used at times when it was sought to facilitate transactions in foreign exchange or to regulate gold movements.

In order to attain these ends it is deemed wise to allow a reserve bank, first of all, to buy and sell from anyone whom it chooses the classes of bills which it is authorized to rediscount. The reserve bank evidently would not do this unless it should be in a position which, as already stated, furnished a strong motive for so doing. Outright purchases in the open market would of course require the payment of the face of the paper less discount, whereas rediscount operations would require simply the holding of a reserve of 33⅓ per cent behind the notes issued or deposit accounts created in the course

of the rediscount operation. Apart from this fundamental permission, it was deemed wise to allow the banks to buy coin and bullion and borrow or loan thereon and to deal in Government bonds. The power granted in subsection (d) to fix a rate of discount is an obvious incident to the existence of the reserve banks, but the power has been vested in the Federal reserve board to review this rate of discount when fixed by the local reserve bank at its discretion. This is intended to provide against the possibility that the local bank might be establishing a dangerously low rate of interest, which the reserve board, familiar as it would be with credit conditions throughout the country, would deem best to raise.

The final power to open and maintaining banking accounts in foreign countries for the purpose of dealing in exchange and of buying foreign bills is necessary in order to enable a reserve bank to exercise its full power in controlling gold movements and in facilitating payments and collections abroad.

SECTION 16.

Section 16 provides for the transfer of all moneys now held in the general fund of the Treasury to the reserve banks, disbursements to be thereafter made by check upon such banks. The general philosophy of this proposed change and the conditions which imperatively demand it have been sufficiently sketched at an earlier point in this report, and it is only necessary here to examine the actual working of the provision. Twelve months are allowed to effect the transfer, this being deemed a sufficient time in view of the comparatively low state of the Government's deposits in banks to-day. The apportionment of the funds between banks is required to be made as equitably as possible between the different sections of the country, this proviso being practically a repetition of the language found in the national-bank act to-day. The Federal reserve board and the Secretary of the Treasury are left with full power to fix a rate of interest from month to month on the deposits, this to be not less than one-half of 1 per cent.

How large a transfer of funds would be effected under the terms of this provision, and how such a transfer would affect the Treasury itself, will depend upon the condition of the Treasury at the time of the passage of the act, but an approximate idea may be formed from the daily Treasury statement, a copy of which is hereto appended.

SECTION 17.

The subject of note issue has occasioned the committee no little concern, but after due and full consideration it has determined that the proper mode of note issue to be provided for in the proposed act is that of an issue of government Treasury notes, obligations of the United States and receivable for all taxes, customs, and other public dues. Recognizing that the country is now definitely committed to the immediate redemption of all existing paper currency in lawfu money, upon demand, the proposed measure requires the redemption of such notes both at the Treasury and at each of the Federal reserve banks at par when requested.

Recognizing, moreover, that the regulation of the volume of currency in circulation—as distinct from the underlying money of ultimate redemption—is a delicate function requiring to be adjusted in accordance with the commercial, agricultural, and industrial needs of the country, the power of getting out the notes by making application for them is by the bill given to Federal reserve banks, they being required to furnish the local Federal reserve agent with collateral security consisting of rediscounted notes and bills to a sum equal to the amount of the notes issued to the Federal reserve bank in question. These operations, connected with the issue and retirement of reserve notes, are to be carried on through the local Federal reserve agent, who is daily to notify the reserve board of issues and withdrawals. Such reserve notes are required to be protected by a specially segregated reserve fund of 33⅓ per cent in lawful money.

The mode of protecting the notes is an essential and fundamental element in this section of the bill. A first lien on all assets and a Government guaranty of the goodness of the notes obtained by making them liabilities of the United States render the security behind the issue absolute, both as to immediate and as to ultimate conditions. It may thus be fairly said that the protection of the notes as distinct from their redemption is as follows: (1) Government promise to receive them and to be ultimately responsible for them; (2) first lien on all the assets of the bank issuing them; (3) direct lien on 100 per cent of prime paper specially selected and segregated for their protection; (4) claim on 33⅓ per cent of money drawn from the general funds of the bank and re-created as fast as notes are redeemed, that there may always be a special fund for the immediate protection of the issues.

While the notes are, under the new section, allowed to carry on their faces a letter and serial number distinguishing them from others, they are not suffered to bear the name of the bank through which they are issued, and the fundamental feature of this peculiar "Government" character is that they are required to be redeemed at the counter of every Federal reserve bank, no matter whether such bank has issued any notes, and no matter how many notes it may have issued. This signifies that every Federal reserve bank is a redemption agency for the whole of the issue, and the question at once arises, Out of what will such reserve bank redeem the notes should a great quantity be thrown in upon it? The section provides that such a bank may, if it chooses, (1) pay the notes out of the 33⅓ per cent fund of lawful money or gold held by it for the redemption of its own notes, re-creating such fund at once from any other funds held by it for its other liabilities, (2) charge the notes off against Government deposits held by it (and against which, of course, there is a reserve of 33⅓ per cent of lawful money), which would mean that such bank would at once send the redeemed notes to the Treasury and get back an equal amount of fresh Government deposits, or (3) present the notes presented to it for redemption, although issued by some other Federal reserve bank, to the Treasury for redemption. In either of these latter cases, of course, the result would be to throw on the Treasury the work of getting back the amount of the redeemed notes by sending them to the bank, through which they were originally issued. In addition to these provisions, of course, it is required

in other sections of the bill that every bank in the system shall receive the notes on deposit at par, and that they shall be payable to the Government for taxes, dues, and other public requirements.

All this shows how the notes are protected and how they can easily be redeemed by a man who is desirous of getting lawful money for his notes without any cost to himself. There is little doubt that his interests under the provisions of the measure are quite thoroughly safeguarded. But there remains the general question whether the public requirement of elasticity has been met and provided for. Elasticity must be considered from two standpoints—that of expansion and that of contraction. As to expansion, the regulatory mechanism is the Federal reserve board, which is given the power to veto applications for notes. The board, however, can not issue notes unless they are applied for and accompanied by a tender of proper commercial paper. This at least seems to assure that they will not be hastily or rashly overissued. The contraction feature is more difficult. In attempting to guard against the danger that the notes might remain in circulation after the need for them had passed, the bill makes the following provisions: (1) The notes can not be used in bank reserves; (2) the notes are not to be legal tender; (3) the notes can not be paid out by any Federal reserve bank (when not at first issued by it) under penalty of a tax of 10 per cent on their face value; (4) every Federal reserve bank is directed, upon receiving the note of another reserve bank, to (*a*) either send it direct to the bank that issued it, (*b*) to send it to the Treasury, charging it off against deposits, or (*c*) to present it to the Treasury for redemption in lawful money. On the other hand the Treasury is directed when it gets such notes in ordinary receipts to have them redeemed out of a 5 per cent fund kept with the department for that purpose, and then to send them home for ultimate redemption. The belief is freely expressed that these provisions will maintain the notes at par everywhere and will also prevent them from expanding or remaining out after the need for them has gone by.

There is a final paragraph in section 17 relating to the collection at par and without charge for exchange of certain classes of checks. The provision is that every Federal reserve bank shall receive on deposit at par the following classes of items:

1. Checks and drafts drawn upon any of its depositors.
2. Checks and drafts drawn by any of its depositors upon any other depositor.
3. Checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to its credit in such reserve bank.

The object of these provisions is twofold:

1. To establish par transfers of funds among the banks in each Federal reserve district.
2. To establish par transfers of funds between Federal reserve districts.

Precisely how much difficulty and cost will be incurred by the Federal reserve banks in carrying out the provisions of this section can not be precisely calculated. It can, however, be positively stated that such expenditures will be very much less than those incurred by banks at the present day in carrying through their exchanges. The proposed provision will eliminate the numerous

and well-founded complaints of unjust charges for exchange; and, while it will prevent certain banks from profiting as they now do by exchange transactions, it will correspondingly benefit the community. The committee is well aware that the operation of this section will undoubtedly relieve some members of the community of greater burdens than others. It does not, however, consider the fact that some persons have been suffering an unnecessary burden under existing circumstances, a good reason for refusing or failing to provide for an important public function.

That this function of exchange may be effectively carried out, and that other duties connected with relations between the several banks of the system may be wisely, promptly, and effectively carried through, the proposed bill confers upon the Federal reserve board the power to require each Federal reserve bank to perform the functions of a clearing house, and at its discretion to require some one of them to act as a clearing house for all the others or at its own discretion to act as a clearing house in this way itself.

SECTIONS 18 AND 19.

Sections 18 and 19 may best be treated together, as they jointly provide for the disposal of existing national-bank notes and for the refunding of the bonds now held by the banks behind these notes. The general views entertained by the committee with respect to bank-note issue in general and the treatment of existing national-bank notes in particular have been sufficiently set forth at an earlier point in this report. It remains here to outline the exact steps that have been recommended to attain the desired end, and to indicate the probable cost and incidental problems connected with each step in the process. What has been done in the bill is as follows:

1. Provision has been made for paying at the end of 20 years the existing outstanding 2 per cent bonds. This is a manifest matter of justice.

2. Meantime banks have been permitted at their discretion to present one-twentieth of their bond holdings each year for conversion into 3 per cent bonds, and in the event they do not so present them the Secretary of the Treasury is authorized to reassign the quotas of bonds not taken up to other banks which are authorized to in that case secure a corresponding amount of additional conversions.

3. During the 20-year period any bank may increase or decrease its circulation at pleasure, subject to the maximum limitation prescribed by law.

4. However, from the date of the passage of the act no national bank is to be required to hold any United States bonds as security for circulation if it chooses to retire such circulation— in other words, the compulsory bond-purchase requirement of existing law is repealed.

It will be seen that the only interference with the existing demand for bonds provided under these sections is the withdrawal of the compulsory bond purchase now required. Precisely how great a limitation of the bond demand this would furnish can not be precisely stated. For the last year for which full report was made by the Comptroller of the Currency (1912) the net amount of bonds purchased by national banks to protect circulation was about $16,000,000. This,

however, was far in excess of the amount of bonds necessarily to be purchased under the compulsory-purchase requirement, inasmuch as many banks bought more bonds than they were obliged to secure under the terms of the national-bank act. There is no reason why this demand for bonds should not continue, as in fact it undoubtedly will. The capitalization of banks organized in the year in question was $16,080,000, while the amount of bonds purchased was about the same. If the amount of bonds required to be purchased be assumed to have been 25 per cent of the face of the capital of the newly organized banks it would have been $4,000,000, and this may be taken as considerably above the amount of compulsory demand for bonds for which there will no longer be legal basis should the present bill be enacted into law. As against this the Government stands ready to redeem in the form of 3 per cent bonds, roughly speaking, $37,000,000 per annum, and it is only reasonable to suppose that under the most unfavorable conditions the quantity of 2 per cent bonds which wi l be converted into threes in this way will be far in excess of the amount of the compulsory demand for twos which is now cut off.

The future of the 3 per cent bonds, should the conversions go on at the rate of 5 per cent per annum, may be open to some question. The committee has, however, consulted able expert opinion upon this subject and has found a practical unanimity of view to the effect that at least $50,000,000 per annum in 3 per cent bonds can and will be absorbed in the United States at par. Should such prove not to be the case, the banks have only to retain their present bonds and continue the issue of circulation thereon, but it is confidently believed that no such situation will occur. The committee looks forward with assurance to the conversion of a very considerable percentage, if not all, of the permitted 5 per cent in each successive year during the earlier part at least of the 20-year period. As the 20-year period draws toward a close it is quite likely that some bondholders will prefer to hold their bonds for redemption, but in the meantime there will have been a sufficient retirement of national-bank notes to impart to the new currency to be put out through the Federal reserve banks the desired quality of elasticity. In order to improve the market for the 3 per cent bonds, section 19 provides that they are to be free from all taxation both as to income and principal. It will be remembered that the status of the bonds is further helped in some measure by the provision made in the earning section (sec. 7) for devoting the Government share of reserve bank earnings to the redemption of bonds. As a corollary of the bond-refunding plan and of the note section the committee has deemed it wise to insert in section 19 a prohibition upon the further use of the extra-legal substitutes for circulating notes which have heretofore done duty in times of panic under the form of clearing-house certificates, cashiers' checks, and various substitutes for actual money which have been illegally paid out by banks to their creditors in lieu of the payment in the usual forms of currency employed by them during normal times. No such expedients would have been permitted save under severe stress, and with a suitable provision for an elastic note issue based upon commercial paper they should not longer be suffered to continue in use.

The amount of 2 per cent and other bonds now held behind circulation and affected by the provisions of sections 18 and 19 may be recapitulated as follows:

Bonds held in trust for national banks, Sept. 2, 1913.

	Kind of bonds.	Rate of interest.	Total amount outstanding.	Bonds held for national banks.			
				Total.	To secure circulation.	To secure deposits of public moneys.	
						Value at par.	Value at rate approved by department.
	GOVERNMENT.						
I.	U. S. loan of 1925..at par..	4	$118,489,900	$37,669,400	$34,181,700	$3,487,700	$3,487,700
I.	U. S. loan of 1908-1918, at par	3	63,945,460	25,828,900	22,182,200	3,646,700	3,646,700
I.	U. S. Panama of 1961, at par	3	50,000,000	17,110,200	.....	17,110,200	17,110,200
I.	U. S. consol of 1930 .at par..	2	646,250,150	615,921,100	603,773,900	12,147,200	12,147,200
I.	U. S. Panama of 1936, at par	2	54,631,980	54,342,360	52,962,860	1,279,500	1,279,500
I.	U. S. Panama of 1938, at par	2	30,000,000	29,444,140	28,897,140	547,000	547,000
I.	Philippine loans...at par..	4	16,000,000	5,967,000	.....	5,967,000	5,967,000
I.	Porto Rico loans....do....	4	5,225,000	1,821,000	.....	1,821,000	1,821,000
I.	District of Columbia..do....	3.65	6,970,650	933,000	.....	933,000	933,000
II.	Territory of Hawaii, 3½ per cent bonds at 90 per cent of par; all other Hawaiian bonds at market value, not exceeding par.	(1)	6,515,000	1,978,000	.....	1,978,000	1,930,900
	MISCELLANEOUS.						
III.	Philippine Railway Co....	4	8,551,000	898,000	.....	898,000	588,571
III.	Manila Railroad Co.....	4	6,735,000	10,000	.....	10,000	6,750
III.	At 90 per cent of market value, not exceeding 90 per cent par.						
IV.	State, county, city, and other securities [2].....	(1)	.....	17,951,137	.....	17,951,137	11,747,904
	Total.....	.....	.....	809,774,237	741,997,800	67,776,437	61,213,425

[1] Various.

[2] As security for deposits made in connection with crop movement Government bonds are accepted at par, other bonds at 75 per cent of market value, and commercial paper at 65 per cent of face value.

When banks have occasion to withdraw bonds held by the Treasurer to secure deposits of public moneys, the following shall be the order of withdrawal: Group IV, Group III, Group II, and Group I.

Bonds within a group may be interchanged by banks if desired, but bonds in a lower group may not be substituted for those in a higher group, except that an initial substitution of bonds of a lower group for those of a higher group may be made to an amount not to exceed 30 per cent of the total security value of bonds held for a particular bank. National-bank depositaries which have not as yet taken out the full amount of circulation authorized by law may withdraw United States 2s and substitute for them bonds in Group II, provided the 2s as withdrawn shall be used as security for additional circulation.

SECTION 20.

Section 20 seeks to readjust the reserve requirements now provided by the national banking act in such a way as to make them conform to the dictates of scientific banking, and to adjust them to the provisions of the proposed bill. The following main objects have been had in mind:

1. To abolish entirely the present system of redeposited or "pyramided" reserves.

2. To establish a moderate required reserve actually to be held in cash in the vaults of the banks.

3. To prescribe a secondary reserve to take the form of a credit with the Federal reserve banks.

Several serious problems at once suggest themselves as the result of any effort to attain these objects. In the first place, the present conditions have grown up over a period of 50 years, and it is not desirable, even if it were safe, to disturb them roughly. Secondly, it is considered that existing reserve requirements, being based upon the state of affairs in which many independent banks were working without coordination it is possible to reduce the actual amount of reserves to be held. Finally, it is noted that in making the change suggested careful account must be taken of the total sums in cash as distinct from those in balances required to be held by existing law, and that they should be contrasted with the sums in cash and balances prescribed under the proposed bill. In surveying the situation a beginning may be made by considering with care the reserve requirements of the national bank act. These are as follows:

RESERVE CITIES AND RESERVE REQUIREMENTS.

120. SEC. 5191. Every national banking association in either of the following cities, Albany, Baltimore, Boston, Cincinnati, Chicago, Cleveland, Detroit, Louisville, Milwaukee, New Orleans, New York, Philadelphia, Pittsburg, St. Louis, San Francisco, and Washington, shall at all times have on hand, in lawful money of the United States, an amount equal to at least twenty-five per centum of the aggregate amount of [*its notes in circulation and*] its deposits; and every other association shall at all times have on hand, in lawful money of the United States, an amount equal to at least fifteen per centum of the aggregate amount [*of its notes in circulation and*] of its deposits. Whenever the lawful money of any association in any of the cities named shall be below the amount of twenty-five per centum of its [*circulation and*] deposits, and whenever the lawful money of any other association shall be below fifteen per centum of its [*circulation and*] deposits, such association shall not increase its liabilities by making any new loans or discounts otherwise than by discounting or purchasing bills of exchange payable at sight, nor make any dividends of its profits until the required proportion, between the aggregate amount of its [*outstanding notes of circulation and*] deposits and its lawful money of the United States, has been restored. And the Comptroller of the Currency may notify any association whose lawful money reserve shall be below the amount above required to be kept on hand to make good such reserve; and if such association shall fail for thirty days thereafter so to make good its reserve of lawful money, the comptroller may, with the concurrence of the Secretary of the Treasury, appoint a receiver to wind up the business of the association, as provided in section fifty-two hundred and thirty-four.

NOTE.—This section is amended by the act of June 20, 1874, section 2, which provides that no reserve need be held against circulation. Said act follows section 5192. Act of March 3, 1903, amending act of March 3, 1887, providing for additional reserve cities, follows section 5192. Provisions relating to redemption of circulating notes, acts June 20, 1874, March 3, 1875, and July 14, 1890, follow Revised Statutes, 5192. Provisions relating to redemption of old notes of banks extending their corporate

existence, act July 12, 1882, follows Revised Statutes, 5136. Leavenworth, Kansas, was included as a reserve city in the original act, but was struck out March 1, 1872. Words "lawful money" construed by Attorney General as including all that is legal tender. (Opin. Atty. Gen., 17; 123.)

WHAT MAY BE COUNTED AS RESERVE.

121. SEC. 5192. Three-fifths of the reserve of fifteen per centum required by the preceding section to be kept may consist of balances due to an association, available for the redemption of its circulating notes, from associations approved by the Comptroller of the Currency, organized under the act of June three, eighteen hundred and sixty-four, or under this title, and doing business in the cities of Albany, Baltimore, Boston, Charleston, Chicago, Cincinnati, Cleveland, Detroit, Louisville, Milwaukee, New Orleans, New York, Philadelphia, Pittsburg, Richmond, Saint Louis, San Francisco, and Washington. Clearing-house certificates, representing specie or lawful money specially deposited for the purpose, of any clearing-house association, shall also be deemed to be lawful money in the possession of any association belonging to such clearing house, holding and owning such certificate, within the preceding section.

NOTE.—Leavenworth, Kansas, was included as a reserve city in the original act but was struck out March 1, 1872. Charleston and Richmond not being included in the list of reserve cities enumerated in section 5191, the banks of which are required to hold a reserve of twenty-five per centum of their net deposits, the Comptroller of the Currency has never approved any banks in said cities as reserve agents.

LAWFUL MONEY RESERVE TO BE DETERMINED BY DEPOSITS. ACT JUNE 20, 1874.

122. SEC. 2. That section thirty-one of "the national-bank act" be so amended that the several associations therein provided for shall not hereafter be required to keep on hand any amount of money whatever, by reason of the amount of their respective circulations; but the moneys required by said section to be kept at all times on hand shall be determined by the amount of deposits in all respects, as provided for in the said section.

NOTE.—Section 31 of "the national-bank act" is incorporated in sections 5191, 5192, Revised Statutes. Section 1 of act June 20, 1874, precedes section 5133, Revised Statutes.

NO RESERVE NEED BE HELD AGAINST DEPOSITS OF PUBLIC MONEY. ACT MAY 30, 1908.

123. SEC. 14. That the provisions of section fifty-one hundred and ninety-one of the Revised Statutes, with reference to the reserves of national banking associations, shall not apply to deposits of public moneys by the United States in designated depositaries.

PROVISIONS FOR REDEEMING CIRCULATION—FIVE PER CENT REDEMPTION FUND. ACT JUNE 20, 1874.

124. SEC. 3. That every association organized or to be organized under the provisions of the said act and of the several acts amendatory thereof shall at all times keep and have on deposit in the Treasury of the United States, in lawful money of the United States, a sum equal to five per centum of its circulation, to be held and used for the redemption of such circulation; which sum shall be counted as a part of its lawful reserve, as provided in section two of this act; and when the circulating notes of any such associations, assorted or unassorted, shall be presented for redemption, in sums of one thousand dollars, or any multiple thereof, to the Treasurer of the United States, the same shall be redeemed in [*United States notes*]. All notes so redeemed shall be charged by the Treasurer of the United States to the respective associations issuing the same, and he shall notify them severally on the first day of each month, or oftener, at his discretion, of the amount of such redemptions; and whenever such redemptions for any association shall amount to the sum of five hundred dollars, such association so notified shall forthwith deposit with the Treasurer of the United States a sum in United States notes equal to the amount of its circulating notes so redeemed. And all notes of national banks worn, defaced, mutilated, or otherwise unfit for circulation shall, when received by any assistant treasurer, or at any designated depository of the United States to be forwarded to the Treasurer of the United States for redemption as provided herein. And when such redemptions have been so reimbursed, the circulating notes so redeemed shall be forwarded to the respective associations by which they were issued; but if any of such notes are worn, mutilated, defaced, or rendered otherwise unfit for use, they shall be forwarded

to the Comptroller of the Currency and destroyed and replaced as now provided by law: *Provided*, That each of said associations shall reimburse to the Treasury the charges for transportation and the costs for assorting such notes; and the associations hereafter organized shall also severally reimburse to the Treasury the cost of engraving such plates as shall be ordered by each association respectively; and the amount assessed upon each association shall be in proportion to the circulation redeemed, and be charged to the fund on deposit with the Treasurer: *And provided further*, That so much of section thirty-two of said national-bank act requiring or permitting the redemption of its circulating notes elsewhere than at its own counter, except as provided for in this section, is hereby repealed.

NOTE.—Section 12 of act of May 30, 1908, provides that notes of national banking associations shall be redeemed in lawful money of the United States. (See said section 12, page 49, ante.)
Section 32 of national-bank act is section 5195, Revised Statutes.

We may now contrast with the requirements which are thus laid down by existing national-bank legislation those which are established in the proposed legislation. In the following tabular view is given for each class of national banks—central reserve city, reserve city, and country—the provisions which it is proposed to create under the new legislation:

Reserve requirements.

COUNTRY BANKS.

	Up to 14 months.	14 months to 36 months.	After 36 months.
Total reserve required	*Per cent.* 12	*Per cent.* 12	*Per cent.* 12
Cash in own vaults	5	5	5
On deposit with Federal reserve bank, required	3	5	5
On deposit in reserve or central reserve city or in Federal reserve bank or in cash, optional with bank	4	2	.....
In cash or on deposit in Federal reserve bank, optional with bank	.....	.....	2
Total reserve	12	12	12

Date.—"From and after the date set by the Secretary of the Treasury and officially announced by him as hereinbefore provided."
Refers to.—"That within 60 days from and after the date when the Secretary of the Treasury shall have officially announced, * * * the fact that a Federal reserve bank has been established."

RESERVE CITY BANKS.

	60 days.	60 days to 14 months.	After 36 months.
Total reserve required	*Per cent.* 20	*Per cent.* 18	*Per cent.* 18
Cash in own vaults	10	9	9
On deposit with Federal reserve bank, required	.....	3	5
On deposit in central reserve city, optional with bank. May be cash or on deposit with Federal reserve bank	10	6	.....
On deposit with Federal reserve bank or in cash, optional with bank (see note)	.....	.....	4
Total reserve	20	18	18

Date.—"From and after the date set by the Secretary of the Treasury for the incorporation of the Federal reserve bank."
Again.—"For 60 days from the date set by the Secretary for the organization of the reserve bank."

BANKS IN CENTRAL RESERVE CITIES.

	60 days.	60 days to 14 months.	After 14 months.
Total reserve required	20	18	18
Cash in own vault	10	9	9
On deposit with Federal reserve bank:			
Optional			
Required		3	5
On deposit with Federal reserve bank or in cash, optional with banks	10	6	4
Total reserve	20	18	18

Two questions present themselves in connection with these reserve requirements—the first, How far would the banks be able to comply with them without sacrifice; and the second, How far would this change seem to be desirable? These may be dealt with in the reverse order.

In outlining the general philosophy of the proposed banking bill it was pointed out that the existing system of redeposited reserves gives rise to cheap money for stock-exchange speculation in the centers while it fails to provide in times of panic a reserve upon which the country can draw with assurance, because at such times stock-exchange securities can not be easily liquidated, so that call loans are unavailable as a resource, and the city banks in self-defense have deemed themselves warranted in suspending specie payments. It is contended, however, that these difficulties and irregularities of the existing system are mere blemishes upon the surface of an otherwise desirable state of affairs, and that there is good and sufficient economic reason for maintaining the present system of redeposited reserves at least in part. This claim may be reduced to a series of propositions, as follows:

1. The redeposited reserves are placed with the city banks not for stock speculation, but in large measure at least to supply exchange funds upon which the depositing banks may draw.

2. The redeposited balances must be kept with the banks which now hold them, because the country banks look to these city banks for accommodation and the latter gauge the amount of accommodation to be granted them by the size of the balances.

3. The country banks, and in general all banks making the redeposits get a rate of interest thereon. They are thus able to make use of a reserve which would otherwise be "dead," and which when held in cash or in the Federal reserve banks will yield them no revenue, the latter banks being forbidden by the terms of the bill to pay interest on deposits.

These contentions are worthy of careful study, because they are widely urged.

Regarding the first point—the question of exchange funds—it will be noted that the proposed bill has met the requirement for such funds by specifically directing Federal reserve banks to receive specified classes of checks at par. It has thus largely wiped out the necessity for any such balance as now held. It may be noted, however, that there is in the bill nothing whatever to prevent the

banks from maintaining any amount of such balances with city banks as they desire. Clearly if the balances with the city banks are exchange balances they are not reserves and there is no reason for regarding them as such.

The second point already noted has even less force than the first. Not only does the proposed bill provide more extensive facilities for rediscount than have ever been known, but even it if did not do so, and even if, as alleged, there are many kinds and classes of security not eligible for rediscount under the bill which country banks can use as a basis for accommodation only with city banks, it would still remain true that this does not afford any warrant for demanding the maintenance of the existing situation. The refusal to grant accommodation except in proportion to the amount of balance held by the would-be borrower is purely a matter of business practice. If a condition should be created under the proposed bill such that banks could not maintain the present reserve city deposits, it is hardly to be expected that the reserve city banks would immediately injure themselves and destroy their own source of business profits by refusing to buy good marketable paper or to extend loans upon sound security merely because conditions had altered and the large balances of former days were no longer kept with them.

As for the third contention—the loss of interest to depositing banks due to the sacrifice of their 2 per cent on reserve balances—the argument against the proposed change almost degenerates into absurdity. The measure so greatly broadens the scope of banking business as to open many new avenues of profitable investment, while the sacrifice of the 2 per cent now customarily paid is not only no loss to the community but represents the abolition of a long-standing evil which has drawn funds to places where they were not needed and away from those where they were.

In the ultimate analysis, the whole question simmers down to an issue whether the amount of reserve prescribed under the proposed bill is or is not excessive, and whether it can or can not be readily furnished by banks under the terms of the suggested legislation. The existing system is not backed either by the custom of other countries, by abstract logic, by the dictates of past experience, or by any other considerations. The only problem in the case is that of determining the correct amount of reserves to be required by the banks, and then of making the transition to the new basis under proper conditions.

The next step in the study of the proposed requirements is therefore an analysis of the ability of the banks to make the transition. The following computations may first be examined:

1. The bill provides in section 20 for a revision of the existing reserves of national banking associations.

2. The present reserve system recognizes three classes of banks: (*a*) Country banks, (*b*) reserve city banks, (*c*) central reserve city banks. Country banks are required to hold 6 per cent of their deposit liabilities in lawful money and may hold 9 per cent in balances with other banks. Reserve city banks are required to hold 12½ per cent of their deposits in lawful money and may hold 12½ per cent in balances with other banks in central reserve cities. Central reserve city banks are required to hold 25 per cent of their deposits (including those of other banks with them) in lawful money in their own vaults.

3. The bill aims to transfer these reserves away from banks other than those to which they belong, so that ultimately bank reserves will be held partly (*a*) in the vaults of the banks to which they belong and (*b*) partly in the reserve banks to be created under it, the reserve banks thus created taking the place of existing reserve city and central reserve city banks in their relation to others.

4. In carrying out this plan, the bill contemplates that ultimately reserves shall be as follows: (*a*) Five per cent of the outstanding deposits of all banks to be carried in the new reserve banks; (*b*) 5 per cent of the deposits of present country banks to be carried in cash in their own vaults; (*c*) 2 per cent of the deposits of present country banks to be carried either in cash in their own vaults or as a balance with new reserve banks; (*d*) 9 per cent of the deposits of present reserve city and central reserve city banks to be carried in cash in their own vaults; (*e*) 4 per cent of the deposits of present reserve city and central reserve city banks to be carried either in cash in their own vaults or as balances with the new reserve banks.

5. It is of course evident that the "balances" spoken of can be obtained by rediscounting paper with the new reserve banks.

6. From the foregoing it is clear that as some discretion is left to the banks about their reserves, the exact position of those reserves at any given time can not be predicted. Maximum and minimum limits can, however, be fixed. This is done as follows:

7. At the date of June 4, 1913 (comptroller's last report), the present bank reserve in central reserve cities was $409,601,424, held in cash.

At the same date the reserve which would have been required under the new plan as above sketched would have been 9 per cent of net deposits then subject to reserve requirements in cash and 9 per cent as a maximum in balances with the new reserve banks, as follows:

To be held in cash	$141,127,835
To be held as balances	141,127,835
Total	282,255,670

From this it is clear that if the balances under the new plan were established by taking actual money and putting it in the reserve banks the actual release of cash as compared with the present plan would be the difference between the total new reserve and the present reserve, while if the reserve balances were created by rediscounting the cash released under the new plan would be the difference between the cash required to be held under the new plan and the cash now actually held. That would signify:

Maximum release of cash	$268,473,589
Minimum release of cash	127,345,754

8. At the same date mentioned above the banking reserve in reserve cities as held by the banks was:

Held in cash	$250,383,926
Held in balances	232,799,679
Total	483,183,605

Under the new plan these banks would have to hold in cash 9 per cent of their net deposits subject to reserve requirements and a

like amount in balances (maximum), which would be for the reserve cities as a group:

To be held in cash	$175, 128, 701
To be held in balances	175, 128, 701
Total	350, 257, 402

Comparing these figures with the present requirements, as already given, it is seen that the new plan might mean either a

Maximum release of cash	$75, 255, 225
Or a maximum contraction of cash	99, 873, 476

9. At the same date mentioned above the banking reserve in country banks was held as follows:

Held in cash	$289, 392, 177
Held in balances	310, 689, 129
Total	600, 081, 306

Under the new plan the cash required would be 5 per cent of their net deposits subject to reserve requirements and 7 per cent in balances (2 of this at the bank's discretion). This would mean:

To be held in cash	$180, 533, 642
To be held in balances	252, 747, 100
Total	433, 280, 742

On the same principles as before this would mean a maximum release or contraction as follows:

Maximum release	$108, 858, 535
Maximum contraction	143, 888, 565

10. Thus it appears that there would be a possible maximum contraction as follows:

Reserve city banks	$99, 973, 476
Country banks	143, 888, 565
Total	243, 862, 041
Deduct central reserve city release	127, 345, 754
Net contraction	116, 514, 287

It is also evident that the result might work out as follows:

Released by central reserve city banks	$268, 473, 589
Released by reserve city banks	75, 255, 225
Released by country banks	108, 858, 535
Total	452, 587, 349

11. Which of these results would probably be reached? Assume that the first (contraction) was the net result owing to banks fulfilling their reserve requirements by depositing cash in every instance. The Government balances which are now to be poured into trade channels through the new reserve banks will run from $200,000,000 to $250,000,000. Bearing in mind the fact that the capital of the new banks has to be raised in cash, it will be seen that allowing for $100,000,000 of this capital the monetary situation would be left about the same as it is to-day except that the new reserve banks would be in position to add their loaning power to that of the older

banks. If we now assume that the transfer of reserves resulted in the extreme limit of expansion already referred to, it would be noted that the cash is released only on the assumption that the new reserve banks have to hold one-third in lawful money in order to make these discounts, it is clear that only two-thirds of $452,587,349, or about $300,000,000, will be released. Of this sum a certain part would be needed in bringing the reserves of State banks which may become members of the new associations up to the level which is required of them. How much this would be can not be positively asserted.

12. If it be asserted that this process will lead to inflation, the answer to be made is that whether it will or not is a matter in the hands of the reserve banks which have it in their power by fixing their rate of discount suitably to prevent the banks from creating with them by rediscounting reserve balances in excess of the required 5 per cent. If the reserve banks should do this, it would be found that the required 5 per cent referred to would be about $356,000,000 while the amount which the banks at their option might or might not obtain in this way would be about $213,000,000, the actual cash required to be held by them under the new plan as already sketched, being as follows:

Central reserve city banks	$141,127,835
Reserve city banks	175,128,701
Country banks	180,533,642
Total	496,790,178

Add to this the amount which the reserve banks can at their option make it worth while for the other banks to hold in cash or to deposit with them in cash, and we have a total of about $710,000,000. The actual cash held to-day by the banks at home and in the redemption fund is about $950,000,000. Something like $240,000,000 would thus be released under the probable working out of the system, and this would be drawn upon for the other purposes already referred to.

IMMEDIATE SHIFTING OF FUNDS.

This review of the reserve requirements of the proposed bill is, however, based entirely upon a comparison of the situation as to reserves at the present time contrasted with the situation which will exist at the end of three years after the measure has gone completely into operation. It was deemed wise to allow this length of time, as has already been elsewhere noted, for the reason that there will necessarily be some readjustment of loans, and if the change were to be suddenly made it might result in temporary embarrassment for some banks. The committee has made very careful inquiry into the length of time that should be allowed for shifting reserve requirements in the way indicated, and the maximum period that has been asserted to be necessary was found to be three years. It is probable that the change could be effected in a very much shorter time than this, if it were necessary to bring it about more quickly, but the committee has deemed it best to allow the full period that was thought desirable by the most conservative reasoners whom it consulted. This three-year period was the maximum mentioned either in the public hearings or in communications sent to the committee by experts with reference to the subject.

There is, however, another phase of the question of transfer which has not yet been dealt with. A review of the reserve section will make it clear that a period of 60 days after the creation of the reserve banks is fixed, during which conditions are allowed to remain as they are if desired by city banks, but by the end of which it is required that a certain transfer of reserves shall have been made to the reserve banks. Inasmuch as it was thought that this transfer might be difficult for the banks unless they were granted relief to a corresponding extent, the bill provides for the reduction of the reserve requirements in reserve and central reserve cities from 25 to 18 per cent at the end of the 60-day period in question. An examination of the latest returns for banking condition made public by the comptroller as of June 4, 1913, and reproduced in the appendix of this report shows that the total net deposits subject to reserve requirements may be taken for purposes of discussion at $7,200,000,000. Three per cent of this amount is $216,000,000. This might be supplied either through actual transfer of cash from the banks which now hold it, or through the obtaining of rediscounts, or partly in one way or partly in the other. The committee, however, has endeavored to adjust the requirements of the bill so that the transfer could be made, as already stated, in actual cash without any inconvenience. The reserve banks of the central reserve cities have normally on hand about $400,000,000 of reserve money. Of this seven twenty-fifths would be released under the provision for reduction of reserves from 25 per cent to 18 per cent. Banks in reserve cities have normally about $250,000,000 in cash, and about an equal amount in balances with central reserve cities. The reduction of reserve requirements from 25 to 18 per cent would release seven twenty-fifths out of this amount, or 3½ per cent in balances and 3½ per cent in cash—roughly speaking, $70,000,000 in each form.

Now, let it be assumed that the banks undertake to comply with the requirement of a transfer of 3 per cent of their liabilities from existing reserve city and central reserve city banks to the new reserve banks. As an extreme illustration we may suppose that the country banks will draw for the amount in question on the reserve city banks. As the deposit liabilities of the country banks are about $3,600,000,000, it may be supposed that the call will require about $108,000,000. How would the reserve city banks supply this amount—assuming that the call was made upon them and not directly upon central reserve city banks? Presumably they would draw upon their New York correspondents, and upon other central reserve cities, unless by so doing they cut down the balances there below the figure necessary for them to hold in order to comply with reserve requirements. We have seen that they could spare only about 3½ per cent of their own outstanding deposits. It must be remembered, however, that they will themselves find it necessary to shift 3 per cent of their outstanding deposits to the reserve banks. In addition, then, to the total draft of $108,000,000 made upon them by the country banks, they will have to provide in order to meet their own requirements 3 per cent of about $2,000,000,000 or roughly speaking $60,000,000—a total requirement therefore of $168,000,000. Of this it is fair to suppose that 3½ per cent of their present deposits or fully $70,000,000 can be directly transferred in cash without damaging their position. Another $70,000,000

can be clipped from their balances with central reserve cities without unduly reducing the latter. There would thus be needed $28,000,000 to meet all demands in cash.

In connection with the foregoing computation, it should, however, be borne in mind that 1 per cent of cash has been released in the country banks by the reduction of the vault cash requirements from 6 to 5 per cent. Inasmuch as the total reserve requirements of country banks is cut to 12 per cent, it may perhaps be fair to suppose that this margin of cash could be drawn upon at the very outset in order to supply cash requirements. It would certainly before long furnish a means of extending discounts and would be available as a cash resource for the combined banks obviating the necessity of applying to the new reserve banks for rediscount accommodation.

It must, moreover, be borne in mind in the foregoing computations that by the process of withdrawing funds already referred to there has been a corresponding reduction of deposit liabilities, with a corresponding reduction of reserve requirements against them. For example, if the assumption that country banks draw upon reserve city banks for the full amount of their transfers to the new Federal reserve banks be correct, the effect would be to eliminate about $100,000,000 of deposits formerly held by reserve city banks against which reserves had to be carried but which having been paid off are no longer subject to reserve requirements. This would be a release under the new reserve provisions of $20,000,000 of reserve money in the reserve cities. The reserve thus released might be either in cash or balances and it is fair to assume would be about evenly divided between the two. In central reserve cities if a draft for $70,000,000 were made by reserve city banks the result would be a release of reserve against deposits to a corresponding extent, thereby enabling banks to reduce their necessary cash holdings by one-fifth of that amount, $14,000,000, at the outset and by a further 2 per cent additional later on.

Summing up these compensating or offsetting factors of the situation it is a fair conclusion that the draft upon the banks during the first 60 days' life of the new undertaking would be much less, so far as reserve requirements are concerned, than the demands made by present reserve requirements.

What has been said applies entirely to the first year under the new measure. At the end of that time an additional transfer of 2 per cent of deposit liabilities must be made by the member banks. Assuming that their deposits remain stationary during the year on the basis of the report of June 4, last, the amount needed to be transferred would be 2 per cent of about $6,900,000,000, or about $138,000,000. If the banks had not accumulated cash during the year or retained the surplus cash set free at the outset, this requirement might, so far as it consisted of an actual draft upon reserve and central reserve cities, have to be met by rediscounting. There is, however, no probability that any such situation would develop. On the contrary, the year's operations would have been marked by a far greater ease in the loan transactions of the banks than any previously experienced, due to the fact that the new reserve system was in operation. It is fair to suppose that the amount of deposits would have increased considerably and that the amount of reserve to be transferred would have correspondingly increased.

That in the meantime the habit of resorting to the reserve banks for rediscounts would have grown up can not be questioned. At the end of the year, therefore, the banks would simply be obliged to strengthen their balances with the reserve banks to the extent of $138,000,000, and they would do this through ordinary commercial processes involving no inconvenience or sacrifice whatever. If the extreme supposition that the banks did not enlarge their deposits during the year, and that the cash originally held against them remained stationary, should be accepted, the fact would remain that the reserve banks would during that period have received some $200,000,000 from the Government in cash deposits and would have paid out more or less of it, into circulation, inevitably resulting in increasing the flow of cash into the vaults of the member banks while they would still have a comfortable margin left from the first release. If the volume of loans were the same at the end of the year as at the beginning it would be practically inevitable that they should be very much stronger in cash than they are at present.

In closing this discussion of the relative strength of the banks before and after the transfer of reserves, it is well to emphasize once more the fact that the new requirements, far from causing constriction will cause relaxation and that the danger of the situation from the banking standpoint will not be in the limitation of loans but rather in the inflating of them—a process which, however, will remain well under the control of the reserve banks to be organized, by reason of their regulation of the rate of rediscount.

Throughout the foregoing computations, it should be understood, reference has been had to the most unfavorable conditions that could be supposed to exist and no effort has been made to put the situation in a light that would present the transition to the new system as unduly easy. There are two broad classes of considerations which, however, should be taken into account in studying the situation which would exist after the adoption of the proposed bill. These are as follows:

1. Many banks do not keep their permitted balances with banks in reserve cities, but with banks in central reserve cities. The result is that the total amount of drafts to be made upon reserve city banks will, in fact, be less than that which has already been computed and there will be less necessary shifting of balances under the operation of the bill in question.

2. It is not true that all banks would as assumed come into the new system within 60 days. The act is founded upon the provision that (*a*) within 90 days after the adoption of the act the organization committee shall designate places for the organization of reserve banks, and that (*b*) within 60 days after the date when the organization of a bank has been announced, there shall be a shift of a certain per cent in the reserves required. This would be a total of 150 days after the passage of the act which would be likely to elapse before the new reserve requirements would become effective. More important still, the new reserve banks can be organized in any district as soon as a capital of $5,000,000 each is assured. This would be $60,000,000 in all, so that even if reserve banks were simultaneously organized in all districts it would not be necessary for more than three-fifths of the banks to have signified an intention to enter the system. The banks are

given a year within which to settle for themselves whether they will enter the system or not. It is thus entirely possible, although we think not probable, that the organization of some of the reserve banks might be deferred until several months after the adoption of the act. If this should be the case the call for new reserves would be even slower and it is fair to assume that the movement of banks into the system will practically be distributed throughout the year so that the draft on reserve funds will not fall suddenly as has been assumed in the computations made above, but will be diffused over a very considerable period. This would give ample opportunity for the acquiring of reserve money through any one of the channels through which it is ordinarily obtained—importation, production of gold, the gathering in of cash in circulation, or as a substitute the gradual extension of rediscounts by Federal reserve banks which count for reserve purposes the same as actual cash, up to the specified limit permitted by the act. There need therefore be no anxiety whatever with reference to a sudden stringency due to an excessive demand for currency consequent upon a rush of banks into the new system immediately after the enactment of the proposed legislation. On the contrary, the reasonable expectation would point in the opposite direction—toward a somewhat extensive relaxation of cash requirements due to the fact that banks will see a profit in getting rediscounts from the Federal reserve banks instead of fulfilling their reserve requirements by transferring actual reserve money to such banks. This is quite opposed, we are aware, to the current view on this subject, but it is far more in harmony with the facts of the case.

SECTION 21.

In this section provision is made for the repeal of portions of existing law which require that the 5 per cent fund deposited with the Treasurer of the United States by national banking associations for the purpose of note redemption shall be counted as part of the lawful reserve. There is no good reason for treating the 5 per cent fund in this way and there never has been any. The existing requirements of legislation practically withdraw the amount kept with the Treasury for the purpose of current redemption of national bank notes from the actual uses of the bank and put them out of reach. It is believed that if the national banks are to continue to issue notes, and so long as they do, they should be required to provide for the redemption of their notes on an independent basis, and that the fiction of counting as reserve something which is not reserve and never can serve that purpose ought not to be maintained. As the national-bank notes are retired, through the presentation of 2 per cent bonds for conversion into threes, the amount of the fund kept on deposit with the Treasury for the current redemption of national-bank notes will be of less and less importance, so that such burden as is thrown upon the banks by the provisions of section 21 will disappear as the banks at their own option convert their bonds. The section is therefore a further working out of the ideas carried by section 20, which are in substance that reserve should be either actual cash at home or a balance with a cooperative institution which is organized for the purpose of maintaining and safeguarding the solvency of the country and which can be relied upon to hold its balances subject to call in case of necessity.

SECTION 22.

Section 22 establishes a reserve of 33⅓ per cent of the outstanding demand liabilities of each Federal reserve bank, such reserve to be held in gold or lawful money. In a general way the committee believes that requirement of a fixed reserve is not a wise or desirable thing as viewed in the light of scientific banking principle. It believes, however, that in a country accustomed to fixed reserve requirements the prescription of a minimum reserve may have a beneficial effect, and it therefore has determined upon 33⅓ per cent. This it regards as a minimum requirement and it firmly believes that the reserve banks will of their own accord keep as a usual practice considerably more than the amount required. It will be remembered that in an earlier section (sec. 12) the Federal reserve board was given power to suspend reserve requirements for 30 days if it saw fit. And in the present section, with that in mind, it is provided that if, upon notice of 30 days after being directed by the Federal reserve board to make good its required reserve so as to bring it up to 33⅓ per cent, any Federal reserve bank fails to comply with directions, the Federal reserve board shall have power to close the bank and appoint a receiver therefor.

SECTION 23.

In section 23 it is sought to improve upon and strengthen existing bank examination requirements, in the belief that the latter are not now sufficiently effective and that existing authorities have not the power to carry through such examinations either with the thoroughness or the frequency that the circumstances demand. Section 23 therefore provides for a change in the method of compensating bank examiners and alters in various details the methods now employed in carrying out the examinations.

In view of the close and intimate relationships which are to be maintained between Federal reserve banks and their member banks, and in view of the fact that the Federal reserve banks are authorized to act as clearing houses for such member banks, the power is bestowed upon the Federal reserve banks subject to the oversight of the Federal reserve board to carry on examinations of member banks as it may deem best. These examinations would be similar to those now conducted by clearing-house associations.

Paragraph 3 of the section authorizes the Federal reserve board to make an examination not less frequently than four times a year of national banks in reserve cities. This is in view of the fact that the reserve cities, if they continue to be such, will have the power of holding bank funds and of conducting all of the functions they now perform. It has been found in the past that the condition of city banks changed much more rapidly than did that of country banks, and it is therefore thought to be desirable that specially close oversight should be maintained with regard to this class of banks.

It has been complained that under this section national banks in reserve cities would be under examination nearly all the time. No charge of the sort can be sustained. The Federal reserve board's examinations of banks in reserve cities, which are to be made four

times a year, are not additional to the two examinations of every national banking association described in the first paragraph, but include them. In other words, banks ranked as country banks are to be examined at least twice and all others at least four times a year by the Federal reserve board, while, if desired, the reserve bank of each district may have a system of its own for keeping advised of the affairs of member banks—a plan employed by clearing-house associations to-day. The specifications with reference to the items to be shown in the reports of examination of national banks in reserve cities cover items that have been, it is thought, neglected under past legislation.

In general the purpose of this section is to convey all reasonable and necessary power of bank examination, to place it where it can be most effectively used, and to assume that the power is to be used for the purpose of strengthening, protecting, but certainly not of annoying or crippling the banks to which it is applied.

SECTION 24.

In this section it is sought to correct a bad practice, all too prevalent, of paying fees to bank examiners in order that they may make a favorable report upon the condition of a bank; and further to end the illegitimate practice whereby officers of national banks have heretofore profited at the expense of borrowers by charging a commission or brokerage for the obtaining of loans. The extent of these practices can not be stated, but that they prevail is certain; and it is equally clear that they are opposed to public welfare and to sound banking, besides being wholly at variance with fundamental principles of honorable personal conduct.

SECTION 25.

In this section it is endeavored to overcome the practice which has sprung up on the part of dishonest or cowardly national bank stockholders of evading the double liability provision when they have been informed of the failure of a bank in which they hold shares, by transferring such shares to some "dummy" who is immune from recovery under the double-liability provision. It is believed that by making stockholders who have transferred their shares 60 days before a bank failure equally as liable as if they had not made such transfer, the needs of the situation will be met. Some have alleged that the requirements should be that stockholders be liable whenever and so long as it could be proven that they had knowledge of the impending bank failure, but that they should not be liable if in good faith they transferred their shares within 60 days before a failure. This sounds plausible but is at variance with the facts of experience. The process of proving that a stockholder had knowledge is difficult and expensive, if not impossible in many cases, and it is believed that the 60-day provision is entirely equitable and far more workable.

SECTION 26.

Loans on improved farm lands are provided for in this section under strict limitations as to the value of the security and the amount of the loan as compared with the face of the bank's capital. The loans

are limited to a period of twelve months, and are permitted only in the case of country banks. This provision has not been made, as seems to be supposed in some quarters, for the purpose of furnishing a means of supplying farmers with working capital. It has been made upon the advice of practical bankers, in recognition of the fact that in many parts of the country the principal or almost the sole business of national banks is found in making loans to farmers, and that while these loans are in every sense commercial in that they are to be paid back out of the proceeds of a business process then going on—the raising and marketing of a crop—the only actual security the farmer can offer is a lien upon his land and its products. To allow the bank to take this lien enables it to do frankly and truthfully, with due protection to itself, business that it will probably do in some way, even if not thus authorized, inasmuch as the well-being of the community and the transaction of its business calls for the extension of loans to farmers who are engaged in the process of growing and marketing consumable articles and who need working capital in order to facilitate their operations. The total amount of such loans which could be made under the provisions of this section might run as high as $150,000,000, but is not likely to approximate that sum.

SECTION 27.

Permission to national banks to open departments specifically designed for the reception of savings deposits and conducted with a view to the separate investment and protection of such savings deposits is granted in section 27. For a long time national banks have found their business encroached upon by the growth of savings banks and trust companies, and in several hundred instances they are now found evading the law by the organization of allied concerns which are carried on as trust companies or savings banks under technically separate organization, but really under an identical control. The committee, while strongly believing in the principle of a corps of commercial closely restricted banks as the basic element in the country's credit system, believes that with the added strength afforded by the new Federal reserve banks, Congress may reasonably relax some of the restrictions now surrounding the business of national banks and allow to national institutions the savings bank and limited trustee functions recognized in this section without unduly straining the essential structure of the national banking system, provided that savings departments if organized shall be conducted upon an entirely separate basis from the commercial departments of the national banks creating them, with segregated reserves and strictly segregated assets. Some further restrictions have been laid down in the section which are largely self-explanatory.

SECTION 28.

There has long been a demand for an extension of the powers of national banks which would permit them to facilitate foreign trade and do business abroad. The plan upon which the committee has determined after much consideration and comparison of various competing propositions calls for permission to national banks having

a capital of $1,000,000 or over to establish branch banks in foreign countries whenever they may deem best, subject to regulations to be prescribed by the Federal reserve board. It is, however, required that due application shall be made to the reserve board for permission to establish such branches and that in establishing them the bank in question shall set aside a specified amount of its capital for use at the said branches and shall submit to suitable examination of the affairs of the branches. A separate accounting system is ordered to be maintained at each branch in order that it may be known exactly how successfully each such independent institution is being carried on, and in order to prevent unsuccessful operations engaged in at one point from being covered up in the affairs of the institution as a whole. Inasmuch as the requirements concerning the creation of these branches are necessarily general in terms, section 28 naturally specifies that a power of further regulation from the administrative standpoint shall be lodged with the Federal reserve board in order that the said board may exercise a suitable control over the doings of the banks which apply for such permission, and of their branches.

SECTION 29.

Section 29 is merely the usual provision for repeal of inconsistent statutory requirements, whatever they may be, that might conflict with the terms of the legislation now proposed for adoption.

SECTION 30.

Section 30 specifies that Congress retains the right to amend, alter, or repeal the act—a power reserved, no doubt, in any event, but which it has been deemed best to express in specific language.

APPENDIX A.

Daily statement of the United States Treasury at close of business Aug. 5, 1913.

CASH ASSETS AND LIABILITIES.

General fund.

ASSETS.		LIABILITIES.	
Cash:		Current liabilities:	
In Treasury offices—		In Treasury offices—	
Gold coin	$26,227,243.44	Disbursing officers' balances	$99,432,075.81
Gold certificates	91,276,790.00	Outstanding warrants	3,754,564.40
Standard silver dollars	8,565,931.00	Outstanding Treasurer's checks	9,440,773.90
Silver certificates	14,136,624.00	Post Office Department balances	10,135,920.79
United States notes	7,944,142.00	Postal savings balances	1,504,100.63
Treasury notes of 1890	4,538.00	Judicial officers' balances, etc	8,394,014.25
Certified checks on banks	524,892.95	National-bank notes: Redemption fund [1]	20,741,483.50
National-bank notes	48,810,159.97	National-bank 5 per cent fund	26,871,679.38
NOTE. — This includes $44,468,406.97 which the Treasury has redeemed and for which it will receive payment from national banks.		Assets of failed national banks	5,441,625.28
		Coupons and interest checks	1,499,769.47
		Miscellaneous (exchanges, etc.)	5,075,981.15
		Total	162,291,988.56
		Subtract: Checks not cleared	17,944,501.58
	197,490,321.36		144,347,486.98
In national-bank depositaries—		In national-bank depositaries—	
To credit of Treasurer United States	54,574,542.20	Judicial officers' balances, etc	6,525,838.30
To credit of postmasters, judicial officers, etc	6,525,838.30	Outstanding warrants	794,842.16
Available cash in Treasury and banks	258,590,701.86	Current liabilities in Treasury and banks	151,668,167.44
Free and available balance in Treasury and banks:			
Available cash. $258,590,701.86			
Current liabilities 151,668,167.44			
Free balance	106,922,534.42		
In treasury, Philippines—		In treasury, Philippines—	
To credit of Treasurer, United States	1,829,953.09	Disbursing officers' balances	1,654,548.97
To credit of disbursing officers	1,654,548.97	Outstanding warrants	2,105,704.09
Balances in Treasury offices limited tender or unavailable—		Total liabilities against cash	155,428,420.50
Silver bullion	2,185,039.91		
Subsidiary silver coin	20,148,879.76	Net balance in general fund	130,952,552.95
Fractional currency	339.19		
Minor coin	1,971,510.07		
Total cash assets in the general fund	286,380,973.45	Total liabilities and net balance	286,380,973.45

[1] The act of July 14, 1890, provides that deposits made by national banks to redeem circulating notes shall be covered into the Treasury as miscellaneous receipts and that the Treasury shall redeem from the general cash the circulating notes which come into its possession subject to redemption.

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The currency trust funds, the general fund, and the gold reserve fund.

ASSETS.		LIABILITIES.	
Currency trust funds:		Outstanding certificates:	
Gold coin	$890,041,529.00	Gold certificates outstanding	$1,092,820,169.00
Gold bullion	202,778,640.00	Silver certificates outstanding	485,008,000.00
Total gold	1,092,820,169.00	Treasury notes outstanding	2,645,000.00
Silver dollars	485,008,000.00		
Silver dollars of 1890	2,645,000.00		
Total currency trust funds	1,580,473,169.00	Total outstanding certificates	1,580,473,169.00
General fund:		General fund liabilities and balance:	
Total cash assets, as above	286,380,973.45	Total liabilities, as above	155,428,420.50
		Balance in general fund, as above	$130,952,552.95
Gold reserve fund:		Gold reserve [1]	150,000,000.00
Gold coin	100,000,000.00		
Gold bullion	50,000,000.00	Total net balances	280,952,552.95
Grand total cash assets in Treasury	2,016,854,142.45		2,016,854,142.45

[1] Reserved against $346,681,016 of United States notes and $2,645,000 of Treasury notes of 1890.

Cash receipts and payments, Aug. 5, 1913.

GENERAL FUND.

RECEIPTS.		PAYMENTS.	
Current receipts:		Currency payments:	
Customs	$1,321,619.83	By Treasury and Subtreasuries	$2,693,228.31
Internal revenue—		By national banks	3,827,706.54
Ordinary	879,369.21		
Corporation tax	3,284.53		
Miscellaneous	82,682.90		
Total	2,286,956.47	Total	6,520,934.85
Agency receipts:		Agency payments:	
National-bank redemptions, postmasters' receipts, etc	5,506,450.65	National-bank redemptions, postmasters' payments, etc	3,259,302.77
Total current and agency receipts	7,793,407.12	Total current and agency payments	9,780,237.62
Public-debt receipts:		Public-debt payments:	
Lawful money deposited to retire national-bank notes (act July 14, 1890)	104,650.00	Lawful money paid for national-bank notes retired (act July 14, 1890)	125,250.00
Proceeds of postal savings bonds		United States bonds, certificates, and notes paid	
Panama Canal—		Panama Canal payments:	
Proceeds of bonds		Disbursements for the canal (included above in current payments)	
Total receipts for the day	7,898,057.12	Total payments for the day	9,905,487.62
Excess of payments for the day	2,007,430.50	Excess of receipts for the day	
	9,905,487.62		9,905,487.62

NOTE.—Both receipts and payments represent transactions which have reached the Treasury this day. Distant points are, necessarily, a number of days behind.

RECAPITULATION, GENERAL FUND.		TRANSACTIONS IN NATIONAL-BANK NOTES.	
Total cash assets in the general fund, previous day	$288,388,403.95	Notes received for redemption this day	$1,241,909.80
Receipts this day	7,898,057.12		
	296,286,461.07	Month to date:	
Payments this day	9,905,487.62	This fiscal year	8,550,875.70
		Last fiscal year	9,836,666.60
Total cash assets in the general fund at end of this day	286,380,973.45	Year to date:	
		This fiscal year	69,801,606.20
		Last fiscal year	69,503,127.50

Bonds held in trust for national banks, Aug. 5, 1913.

	Kind of bonds.	Rate of interest.	Total amount outstanding.	Bonds held for national banks.			
				Total.	To secure circulation.	To secure deposits of public moneys.	
						Value at par.	Value at rate approved by department.
	GOVERNMENT.						
I.	U. S. loan of 1925...at par	4	$118,489,900	$36,821,700	$33,357,500	$3,464,200	$3,464,200
I.	U. S. loan of 1908-1918...do	3	63,945,400	25,963,300	22,023,200	3,640,100	3,640,100
I.	U. S. Panama of 1961...do	3	50,000,000	17,580,700	.....	17,580,700	17,580,700
I.	U.S. consol of 1930.....do	2	646,250,150	616,225,750	604,591,550	11,634,200	11,634,200
I.	U.S. Panama of 1936...do	2	54,631,980	54,128,360	52,854,360	1,274,000	1,274,000
I.	U.S. Panama of 1938...do	2	30,000,000	29,472,640	28,945,640	527,000	527,000
I.	Philippine loans.....do	4	16,000,000	5,927,000	.....	5,927,000	5,927,000
I.	Porto Rico loans.....do	4	5,225,000	1,801,000	.....	1,801,000	1,801,000
I.	District of Columbia...do	3.65	6,970,650	933,000	.....	933,000	933,000
II.	Territory of Hawaii, 3½ per cent bonds at 90 per cent of par; all other Hawaiian bonds at market value, not exceeding par	(1)	6,515,000	1,943,000	.....	1,943,000	1,895,900
	MISCELLANEOUS.						
III.	Philippine Railway Co.	4	8,543,000	898,000	.....	898,000	588,571
III.	Manila Railroad Co.	4	6,735,000	10,000	.....	10,000	6,750
III.	At 90 per cent of market value, not exceeding 90 per cent par.						
IV.	State, county, and city at 75 per cent [2] of market value, not exceeding par	(1)	.....	14,831,600	.....	14,831,600	9,693,102
	Total	.....	.....	806,236,050	741,772,250	64,463,800	58,965,523

[1] Various.

[2] For the District of Columbia temporary tax deposits, certain other classes of securities are also acceptable at this rate and State bonds are acceptable at 85 per cent of market value, not exceeding par.

When banks have occasion to withdraw bonds held by the Treasurer to secure deposits of public moneys, the following shall be the order of withdrawal: Group IV, Group III, Group II, and Group I.

Bonds within a group may be interchanged by banks if desired, but bonds in a lower group may not be substituted for those in a higher group, except that an initial substitution of bonds of a lower group for those of a higher group may be made to an amount not to exceed 30 per cent of the total security value of bonds held for a particular bank. National bank depositaries which have not as yet taken out the full amount of circulation authorized by law may withdraw United States 2's and substitute for them bonds in Group II, provided the 2's as withdrawn shall be used as security for additional circulation.

Current receipts contrasted with pay warrants drawn (exclusive of postal service payable from postal revenues)—Aug. 5, 1913.

	Month to date.		Year to date.	
	This fiscal year.	Last fiscal year.	This fiscal year.	Last fiscal year.
Current receipts:				
Customs	$3,845,597.68	$3,859,556.50	$31,652,252.22	$31,996,058.77
Internal revenue—				
Ordinary	3,616,306.62	3,635,497.81	29,337,154.75	28,368,034.10
Corporation tax	44,124.16	86,112.59	1,897,423.04	1,440,105.21
Miscellaneous	895,970.32	677,412.55	5,746,692.89	5,990,714.87
Total cash receipts	8,401,998.78	8,258,579.45	68,633,522.90	67,794,912.95
Pay warrants drawn:				
Legislative establishment	102,627.35	130,904.06	1,343,143.83	1,214,593.19
Executive Office	468.97	9,000.00	46,186.66	68,355.00
State Department	24,123.44	35,617.48	588,885.90	382,498.58
Treasury Department—				
Excluding public buildings	61,422.60	109,753.09	4,316,767.05	3,832,832.69
Public buildings [1]	221,245.01	55,431.12	1,921,198.23	1,700,813.68
War Department—				
Military	1,907,407.11	1,014,557.46	16,776,280.11	12,199,639.90
Civilian			230,088.02	184,814.53
Rivers and harbors	346,063.75	426,436.85	4,975,390.48	4,026,133.75
Department of Justice	29,616.04	31,588.99	1,380,599.44	596,761.37
Post Office Department—				
Not including postal service	132,406.49	25,347.94	326,780.40	165,422.37
Postal deficiencies				401,947.60
Navy Department—Naval	1,988,566.71	1,798,159.50	14,311,720.37	12,688,142.26
Civilian	14,900.00	7,233.86	87,208.33	75,837.12
Interior Department—Excluding "Pensions" and "Indians"	120,432.03	380,588.49	4,834,369.19	4,877,134.34
Pensions	3,225,894.38	3,005,264.59	17,674,638.28	15,774,255.46
Indians	530,760.23	197,125.88	1,537,434.72	1,020,043.64
Department of Agriculture	1,997.07	21,500.00	2,860,966.54	1,972,362.62
Department of Commerce	48,625.62	3,745.10	937,162.08	1,061,585.91
Department of Labor			349,816.37	
Independent offices and commissions	69,017.12	583.33	383,986.95	339,331.10
District of Columbia	61,639.01	577,333.33	2,574,110.30	2,807,444.19
Interest on the public debt	111,194.75	77,705.67	3,332,241.54	3,406,007.40
Total pay warrants drawn	8,998,407.68	7,907,882.74	80,788,974.79	68,795,956.79
Less unexpended balances repaid	405,595.70	444,805.69	2,281,956.65	1,061,662.55
Total pay warrants (net)	8,592,811.98	7,463,077.05	78,507,018.14	67,734,294.24
Excess of current receipts (surplus)		795,502.40		60,618.71
Excess of pay warrants (deficit)	190,813.20		9,873,495.24	
Public debt receipts:				
Lawful money deposited to retire national-bank notes (act July 14, 1890)	334,650.00	50,000.00	1,791,690.00	1,502,060.00
Proceeds of postal savings bonds			1,116,880.00	854,860.00
Proceeds of Panama Canal bonds				
Total public debt receipts	334,650.00	50,000.00	2,908,570.00	2,356,920.00
Public debt payments:				
National-bank notes retired	383,900.00	375,950.00	3,143,012.50	3,256,038.00
United States bonds, certificates, and notes paid			5,280.00	29,765.00
Total retirements	383,900.00	375,950.00	3,148,292.50	3,285,803.00
Panama Canal payments:				
Pay warrants for construction, etc.	1,049,846.50	28,073.06	4,263,207.65	4,185,587.45
Total public debt and Panama Canal pay warrants	1,433,746.50	404,023.06	7,411,500.15	7,471,390.45
Excess of public debt receipts				
Excess of public debt and Panama Canal pay warrants	1,099,096.50	353,963.06	4,502,930.15	5,114,470.45
Net excess of all receipts		441,539.34		
Net excess of all pay warrants	1,289,909.70		14,376,425.39	5,053,851.74

[1] Sites, construction, equipment, operation, and maintenance.

Panama Canal (Aug. 5, 1913):	
Total amount expended on purchase and construction of canal to this date	$322,491,900.66
Amount expended to this date from proceeds of sales of bonds, including premiums	138,600,869.02
Balance expended out of general fund of Treasury, reimbursable from proceeds of bonds not yet sold	183,891,031.64
Total bonds authorized by existing laws for Panama Canal	375,200,980.00
Total bonds issued to this date	134,631,980.00
Balance of bonds authorized but not yet issued	240,569,000.00

APPENDIX B.

Abstract of reports of condition of national banks in the United States on Sept. 4 and Nov. 26, 1912, and Feb. 4, Apr. 4, and June 4, 1913.

	Sept. 4, 1912—7,397 banks.	Nov. 26, 1912—7,420 banks.	Feb. 4, 1913—7,425 banks.	Apr. 4, 1913—7,440 banks.	June 4, 1913—7,473 banks.
RESOURCES.					
Loans and discounts	$6,040,841,270.81	$6,058,982,029.40	$6,125,029,165.96	$6,178,096,379.33	$6,143,028,132.94
Overdrafts	20,168,074.45	26,493,061.24	22,307,066.94	20,077,156.00	19,006,152.02
United States bonds to secure circulation	724,085,520.00	728,482,810.00	730,754,970.00	730,424,030.00	735,226,870.00
United States bonds to secure United States deposits	46,228,460.00	46,165,400.00	47,406,310.00	47,598,470.00	47,051,690.00
Other bonds to secure United States deposits	32,479,536.18	33,029,494.25	34,742,462.12	37,524,380.29	43,597,929.58
United States bonds on hand	7,804,070.00	7,737,060.00	6,135,370.00	7,898,870.00	6,388,000.00
Premiums on United States bonds	7,092,456.00	7,059,551.81	6,722,651.98	7,014,837.88	6,876,636.89
Bonds, securities, etc	1,039,986,552.37	1,036,942,064.36	1,043,943,884.13	1,051,481,767.28	1,050,587,655.55
Banking house, furniture, and fixtures	240,046,311.47	245,796,890.28	246,629,609.78	248,570,244.17	248,888,953.95
Other real estate owned	28,459,029.88	29,078,950.21	32,070,676.15	31,934,222.55	31,332,948.16
Due from national banks (not reserve agents)	452,087,610.48	477,181,532.05	473,496,114.13	451,758,116.35	439,021,200.04
Due from State banks and bankers	188,829,543.88	218,289,353.55	209,294,468.18	194,311,338.05	194,990,066.54
Due from approved reserve agents	812,152,402.19	786,190,905.24	850,478,400.05	808,364,504.79	762,176,994.73
Checks and other cash items	37,342,814.74	34,100,567.74	36,722,041.76	32,680,725.17	37,092,245.76
Exchanges for clearing house	296,016,908.75	278,672,040.53	288,820,252.73	249,893,991.16	257,560,492.67
Bills of other national banks	48,592,300.00	46,118,234.00	49,747,626.00	47,751,533.00	51,538,808.00
Fractional currency, nickels, and cents	3,300,352.26	3,300,300.97	3,782,668.19	3,895,212.41	3,580,482.66
Specie	713,460,600.23	682,320,721.71	749,731,848.13	712,906,899.95	724,074,627.77
Legal-tender notes	182,490,494.00	176,778,016.00	183,685,383.00	175,377,336.00	189,908,013.00
Five per cent redemption fund	35,028,032.99	35,486,273.80	34,988,720.82	35,020,010.39	35,394,885.00
Due from Treasurer United States	6,908,419.67	7,583,460.54	9,109,576.42	9,394,808.69	9,636,971.86
Total	10,963,400,760.35	10,965,788,617.68	11,185,599,266.47	11,081,974,333.46	11,036,919,757.04
LIABILITIES.					
Capital stock paid in	1,046,012,580.00	1,045,092,580.00	1,048,899,055.00	1,052,265,581.53	1,056,919,792.00
Surplus fund	701,021,452.71	701,999,833.53	717,261,016.39	719,673,812.36	720,606,792.54
Undivided profits, less expenses and taxes	242,735,174.37	268,007,265.44	241,828,956.12	255,387,230.68	268,140,962.57
National-bank notes outstanding	713,823,118.00	721,502,185.50	717,467,661.50	718,976,684.00	722,126,024.00
State-bank notes outstanding	27,701.00	27,701.00	27,701.00	27,701.00	22,415.00
Due to other national banks	1,068,683,209.81	1,050,499,032.91	1,140,270,695.02	1,078,165,210.58	1,017,460,873.04
Due to State banks and bankers	539,959,859.28	542,198,410.84	578,390,641.93	562,561,795.33	522,264,904.42
Due to trust companies and savings banks	529,299,679.38	465,308,937.81	547,774,013.99	510,828,398.62	526,940,184.47
Due to approved reserve agents	39,545,913.62	43,799,304.63	44,154,947.07	40,790,134.91	45,885,609.76
Dividends unpaid	1,299,534.51	1,035,738.63	1,908,940.52	2,808,131.27	1,529,195.57
Individual deposits	5,891,670,007.00	5,944,561,069.91	5,985,432,295.62	5,968,787,045.04	5,953,461,551.12
United States deposits	47,259,053.42	33,594,143.22	39,360,041.72	39,886,857.14	43,118,218.05
Postal-savings deposits		15,649,315.87	17,008,709.60	17,687,643.16	18,661,875.47
Deposits of United States disbursing officers	11,968,274.98	12,692,478.24	6,664,962.19	6,316,019.43	6,606,821.08

Bonds borrowed	37,913,129.27	38,774,688.78	39,573,476.06	42,183,544.32	43,215,465.58
Notes and bills rediscounted	15,716,092.06	10,776,272.59	8,001,091.18	8,319,078.73	14,080,980.36
Bills payable	66,658,696.96	61,105,295.55	43,446,507.41	48,213,459.82	58,825,794.92
Reserved for taxes	6,674,012.38	7,447,975.40	4,749,175.46	5,724,293.54	7,030,644.10
Liabilities other than those above stated	3,133,271.60	1,716,397.83	3,379,378.69	3,371,712.00	2,022,652.99
Total	10,963,400,760.35	10,965,788,617.68	11,185,599,266.47	11,081,974,333.46	11,036,919,757.00

Changes in the principal items of resources and liabilities of national banks as shown by the returns on June 4, 1913, as compared with the returns on Apr. 4, 1913, and June 14, 1912.

Items.	Since Apr. 4, 1913.		Since June 14, 1912.	
	Increase.	Decrease.	Increase.	Decrease.
Loans and discounts		$35,068,246.39	$189,123,701.09	
United States bonds	$2,705,190.00		12,584,390.00	
Due from national banks, State banks and bankers, and reserve agents		58,245,697.88		$27,903,419.00
Specie	11,168,227.82			32,688,060.36
Legal tenders	14,530,677.00		1,467,806.00	
Capital stock	4,654,210.47		23,349,117.00	
Surplus and other profits	13,686,712.07		37,920,240.46	
Circulation	3,148,340.00		13,434,431.00	
Due to national and State banks and bankers		71,793,967.75		57,611,846.42
Individual deposits		15,325,493.92	128,000,377.76	
United States Government deposits	3,522,162.56			[1] 9,220,941.53
Postal savings deposits	974,232.31			
Bills payable and rediscounts	16,374,236.73		14,300,470.73	
Total resources		45,064,576.42	175,155,879.89	

[1] Postal savings deposits eliminated from United States deposits.

Total number banks reporting June 14, 1912, 7,372; June 4, 1913, 7,473; increase, 101.

THOMAS P. KANE,
Acting Comptroller.

Abstract of reports of the national banking associations of the United States, showing their condition at the close of business on Wednesday, June 4, 1913.

States, Territories, and reserve cities.	Number of banks.	Resources.							
		Loans and discounts.	Overdrafts.	United States bonds to secure circulation.	United States bonds to secure deposits.	Other bonds to secure United States deposits.	United States bonds on hand.	Premium on United States bonds.	Securities, judgments, claims, etc.
Maine	69	$37,232,949.29	$50,678.67	$6,033,250	$308,000	$215,855.05	$13,000	$70,726.59	$14,510,502.63
New Hampshire	56	19,186,295.08	56,523.26	5,056,500	343,000	288,688.44	25,600	43,703.77	6,317,761.42
Vermont	49	18,456,571.80	72,649.18	4,512,500	207,900	117,663.75	.....	34,380.00	5,119,068.74
Massachusetts	163	134,038,075.52	90,968.01	20,009,000	379,100	988,554.31	21,600	102,296.58	28,800,555.44
Boston	17	200,240,665.93	34,800.25	8,557,000	783,000	654,606.25	.....	11,625.00	22,253,252.47
Rhode Island	20	29,765,080.46	8,025.38	4,722,500	291,000	155,477.50	.....	6,950.00	7,174,006.95
Connecticut	79	68,459,304.30	81,729.06	13,533,350	259,000	547,913.44	.....	14,476.36	15,286,687.35
New England States	453	507,378,942.38	395,373.79	62,424,100	2,571,000	2,968,758.74	60,200	284,158.30	99,461,835.00
New York	429	292,538,351.19	303,010.60	37,983,560	1,241,500	1,859,446.15	161,500	247,939.26	96,754,120.27
Albany	3	23,858,319.68	2,190.64	2,100,000	150,000	184,378.51	.....	.....	8,685,690.44
Brooklyn	6	17,439,699.96	903.84	1,037,000	171,000	550,992.35	.....	1,997.30	4,685,162.52
New York City	36	886,966,803.90	169,698.77	49,756,300	1,845,000	2,326,723.69	996,120	630,491.35	177,054,381.65
New Jersey	200	154,899,174.55	85,886.63	18,050,070	674,500	1,047,248.37	239,180	131,031.82	56,934,199.93
Pennsylvania	781	369,195,464.90	576,800.03	57,678,640	847,860	2,328,468.39	168,750	817,550.82	138,976,201.47
Philadelphia	32	223,191,185.64	5,629.28	11,947,000	685,000	724,083.75	1,000	350,718.17	36,545,751.02
Pittsburgh	23	144,855,983.38	32,416.93	17,374,000	847,000	1,840,068.40	66,000	481,846.62	44,422,822.11
Delaware	26	7,291,322.27	6,961.81	1,415,250	81,500	46,075.00	100	23,370.13	2,721,436.87
Maryland	89	30,958,608.22	50,917.44	4,399,740	123,500	69,879.45	25,760	57,767.96	10,993,281.48
Baltimore	16	63,381,488.20	24,371.08	8,249,000	980,500	146,500.00	.....	156,138.56	6,901,981.98
District of Columbia	1	920,822.62	97.66	250,000	1,000	205,380.00	.....	.....	356,501.25
Washington	11	25,341,167.86	29,697.86	5,690,000	317,000	4,321,878.61	51,100	182,967.41	5,543,619.49
Eastern States	1,653	2,240,838,387.37	1,288,582.57	215,930,560	7,965,360	15,651,122.67	1,709,510	3,081,819.40	590,575,150.48
Virginia	133	105,406,039.26	242,791.05	14,838,250	1,485,410	479,857.43	52,110	214,063.20	5,717,813.91
West Virginia	116	53,246,521.82	131,688.63	9,039,150	451,500	180,557.50	182,500	111,166.40	4,502,834.60
North Carolina	73	43,092,241.12	156,284.99	6,904,100	442,000	118,000.00	25,010	112,659.83	796,060.81
South Carolina	48	28,715,267.63	199,438.87	4,969,250	238,000	43,465.98	9,000	44,617.71	1,728,243.87
Georgia	116	61,671,439.62	494,769.12	11,153,000	585,500	112,293.75	10,000	94,165.20	1,018,911.10
Savannah	2	3,384,935.64	4,122.66	800,000	105,000	71,000.00	175,000	.....	26,205.00
Florida	52	35,879,645.10	65,077.65	6,048,750	464,000	140,155.00	49,000	33,768.62	3,402,947.32
Alabama	87	41,694,835.56	83,226.73	8,505,050	302,500	94,360.94	34,000	125,787.11	3,387,777.51
Mississippi	33	12,916,130.27	326,593.03	3,085,300	144,000	108,573.33	.....	15,164.58	2,043,326.33
Louisiana	26	18,028,234.23	286,493.72	2,571,250	34,000	19,777.50	89,000	47,774.56	926,325.04
New Orleans	5	24,101,549.51	279,248.25	3,270,000	403,000	66,152.50	.....	14,588.75	4,038,584.11

Abstract of reports of the national banking associations of the United States, showing their condition at the close of business on Wednesday, June 4, 1913—Continued.

States, Territories, and reserve cities.	Number of banks.	Resources.							
		Loans and discounts.	Overdrafts.	United States bonds to secure circulation.	United States bonds to secure deposits.	Other bonds to secure United States deposits.	United States bonds on hand.	Premium on United States bonds.	Securities, judgments, claims, etc.
Texas	481	$133,807,936.43	$1,466,597.18	$23,052,660	$1,304,000	$263,845.47	$119,270	$166,910.19	$3,907,631.58
Dallas	5	20,810,446.64	146,826.14	2,584,000	181,000	169,640.00	.....	694.80	896,527.90
Fort Worth	8	14,775,672.83	295,692.58	2,282,000	2,000	100,000.00	.....	10,500.00	373,598.13
Galveston	2	3,653,247.53	13,480.32	405,000	100,000	30,000.00	.....	3,493.75	122,624.43
Houston	6	26,467,433.58	460,330.19	4,500,000	110,000	125,000.00	1,000	9,200.98	1,127,264.98
San Antonio	7	10,236,131.84	152,420.63	2,115,000	323,000	55,000.00	9,740	833.06	191,000.00
Waco	5	6,652,497.47	26,827.50	1,500,000	40,000	.....	.....	11,500.00	20,791.90
Arkansas	49	21,128,105.47	315,204.67	2,984,510	217,500	61,442.50	10,410	18,972.37	848,782.85
Kentucky	126	48,330,389.15	335,456.12	11,701,000	766,600	226,408.78	211,670	39,487.50	2,973,251.70
Louisville	8	26,529,401.56	7,666.36	4,955,000	1,152,000	197,540.50	10,000	102,014.91	4,187,692.48
Tennessee	107	65,823,284.83	602,567.61	10,833,000	929,500	280,333.10	134,100	164,672.59	3,380,796.94
Southern States	1,505	806,351,387.09	6,092,806.00	138,096,270	9,780,510	2,943,404.28	1,121,810	1,342,036.11	45,618,992.41
Ohio	357	183,386,621.86	525,956.27	29,796,180	744,500	2,009,124.95	287,680	226,456.42	36,741,865.34
Cincinnati	8	55,135,546.21	4,683.77	7,526,600	1,214,500	730,000.00	97,240	28,455.64	11,720,444.89
Cleveland	7	61,864,003.73	52,607.38	5,702,500	627,000	130,000.00	100,000	12,500.00	5,498,766.78
Columbus	8	17,120,672.48	7,557.35	2,500,000	181,000	589,894.18	4,220	2,172.50	4,464,188.78
Indiana	249	109,303,007.05	452,135.36	19,594,920	1,778,000	948,625.96	337,430	160,110.69	16,572,532.04
Indianapolis	5	28,213,537.90	8,879.25	5,823,140	221,000	230,200.00	33,400	93,043.95	3,154,244.46
Illinois	448	184,472,430.63	1,549,291.14	28,100,010	2,936,500	1,599,886.48	225,650	191,641.16	31,029,172.62
Chicago	9	322,383,521.60	141,432.35	14,549,000	1,229,000	550,593.75	3,000	73,048.50	28,479,997.47
Michigan	96	73,978,881.34	124,436.54	8,609,750	532,820	1,035,467.46	26,580	15,180.91	16,664,621.48
Detroit	3	36,273,099.97	7,415.59	2,154,000	676,000	176,871.60	106,900	.....	4,686,298.11
Wisconsin	124	71,528,996.06	302,272.71	9,124,970	236,000	955,006.78	23,950	51,579.06	19,208,107.79
Milwaukee	5	45,328,969.26	40,698.14	4,117,000	202,000	1,283,940.00	.....	2,257.50	4,084,338.71
Minnesota	261	94,225,311.03	536,445.29	9,009,510	294,500	787,432.84	52,500	79,258.23	6,810,182.45
Minneapolis	6	58,430,471.13	22,447.86	1,995,000	311,000	180,950.00	.....	1,725.00	3,443,149.64
St. Paul	4	34,611,184.11	10,521.78	825,000	1,125,000	669,000.00	.....	1,250.00	5,980,900.63
Iowa	325	114,351,365.26	1,520,013.10	15,321,450	333,000	317,566.00	234,160	149,824.59	5,517,670.85
Cedar Rapids	3	8,545,533.32	7,331.42	525,000	41,000	8,000.00	.....	1,500.00	408,566.90
Des Moines	4	14,370,611.46	47,035.23	1,384,000	165,000	33,000.00	220	5,450.00	537,578.73
Dubuque	3	2,942,033.82	12,690.55	600,000	50,000	12,184.10	.....	1,837.50	484,433.75
Sioux City	5	9,795,311.62	25,959.47	875,000	137,000	22,000.00	500	1,010.00	1,115,985.56
Missouri	111	30,063,745.40	328,022.49	5,854,310	133,000	198,783.36	182,710	49,397.87	2,078,910.07
Kansas City	11	66,314,742.21	65,531.30	4,606,000	634,000	551,330.00	.....	19,532.50	2,908,812.49

St. Joseph	4	11,002,129.34	25,241.77	970,000	119,000	53,500.00			87,902.35
St. Louis	7	106,384,851.17	45,586.05	17,049,790	596,000	189,085.00	1,000	84,234.68	5,276,099.98
Middle Western States	2,063	1,742,026,577.96	5,864,192.16	196,612,130	14,516,820	13,262,442.46	1,717,140	1,251,466.70	216,954,771.87
North Dakota	144	31,449,390.17	184,932.55	3,971,770	280,000	83,035.12	120	24,837.17	1,091,014.33
South Dakota	103	27,246,642.21	230,610.29	3,283,300	360,500	220,864.75	75,400	23,372.30	1,811,102.25
Nebraska	228	55,524,637.04	681,158.85	8,657,760	107,500	207,598.51	56,920	31,421.13	1,224,620.14
Lincoln	4	6,116,458.37	68,216.51	930,500	81,000	87,522.89	1,000	2,250.00	31,944.86
Omaha	7	32,289,290.69	102,079.67	2,517,500	675,000	266,000.00	1,500	29,312.50	1,776,017.05
South Omaha	3	6,992,484.62	68,862.32	680,000	26,000	42,325.00	20,000	406.25	158,001.30
Kansas	205	55,994,817.76	447,409.45	8,899,740	621,000	436,756.86	104,520	34,972.85	3,634,152.34
Kansas City	2	4,136,110.74	2,543.68	399,000	1,000	151,500.00		2,500.00	347,399.94
Topeka	3	2,342,586.08	2,545.69	325,000	388,000	20,000.00	1,000	42,548.96	575,729.14
Wichita	3	5,507,498.74	15,112.48	325,000	3,000	58,000.00	25,780		396,983.58
Montana	57	28,922,026.34	233,703.46	3,305,450	849,500	595,858.35	25,000	27,777.17	1,734,460.24
Wyoming	30	12,206,706.14	190,395.91	1,537,550	294,000	57,542.40	4,000	6,430.45	530,181.46
Colorado	117	30,055,073.49	122,458.64	5,001,010	255,500	618,043.00	131,500	20,065.26	5,530,286.79
Denver	6	29,411,031.26	21,736.14	3,500,000	975,000	461,525.15	1,000	4,200.00	7,867,866.60
Pueblo	3	5,107,095.03	48,132.48	480,000	92,000	82,000.00		1,450.28	1,988,266.28
New Mexico	40	13,106,114.04	49,031.19	1,679,000	306,000	47,030.00		22,299.69	595,587.40
Oklahoma	314	48,850,445.39	555,952.41	8,404,310	415,400	121,458.30	24,640	31,614.06	3,795,941.32
Muskogee	5	4,343,147.86	32,056.06	675,000	150,000	5,000.00		3,334.38	395,196.18
Oklahoma City	6	5,583,081.92	31,312.50	625,000	212,000	60,000.00		12,850.00	1,453,151.21
Western States	1,280	405,184,637.89	3,088,250.23	55,197,890	6,092,400	3,622,060.33	472,380	321,642.45	34,937,902.41
Washington	64	23,781,782.37	102,488.50	2,584,850	365,000	625,325.20	1,500	5,880.00	2,837,163.54
Seattle	6	27,606,940.58	27,109.65	1,589,000	1,200,000	302,000.00	4,600	28,565.58	3,846,631.60
Spokane	5	15,793,244.90	62,544.77	2,800,000	208,500	42,500.00		12,600.61	1,383,248.79
Tacoma	2	5,962,845.71	8,184.55	500,000	200,000	390,000.00			646,208.94
Oregon	78	23,098,138.37	144,613.81	3,520,260	205,500	365,126.65	53,780	24,837.46	3,077,706.49
Portland	5	23,006,217.67	23,368.05	2,900,000	795,000	392,368.80	600,000	31,812.50	4,413,028.05
California	235	105,084,001.23	637,738.91	17,066,800	460,200	1,242,904.80	153,480	137,168.84	21,350,588.43
Los Angeles	8	49,884,164.00	196,044.02	5,070,000	357,000	124,000.00	213,600	17,792.44	4,096,446.66
San Francisco	9	117,454,717.35	246,463.23	21,950,000	841,000	694,110.40	185,000	271,501.51	15,973,938.62
Idaho	54	16,386,392.25	130,459.64	2,772,500	308,000	253,572.84	10,000	20,862.29	1,698,509.50
Utah	17	6,890,501.84	162,373.87	923,250	102,000	94,282.50		400.00	661,575.46
Salt Lake City	6	11,913,019.00	372,322.50	2,400,000	290,000	36,336.05	25,000	20,032.64	1,242,309.98
Nevada	11	5,809,039.64	72,814.05	1,579,000	57,000	188,052.86		13,450.42	762,619.55
Arizona	13	6,363,404.67	55,950.35	941,510	261,000	111,000.00	10,000	9,016.09	833,383.08
Alaska [1]	2	432,709.43	2,996.53	62,500	250,000			1,000.00	54,291.10
Pacific States	515	439,467,119.01	2,245,472.43	66,659,670	5,900,200	4,861,580.10	1,256,960	594,920.38	62,877,649.79
Hawaii	4	1,781,081.24	31,474.84	306,250	235,400	288,561.00		593.55	161,353.59
Total United States	7,473	6,143,028,132.94	19,006,152.02	735,226,870	47,061,690	43,597,929.58	6,338,000	6,876,636.89	1,050,587,655.55

[1] One report for Apr. 4, 1913.

Abstract of reports of the national banking associations of the United States, showing their condition at the close of business on Wednesday, June 4, 1913—Continued.

States, Territories, and reserve cities.	Number of banks.	Resources—Continued.						
		Banking-house furniture and fixtures.	Other real estate and mortgages owned.	Due from other national banks.	Due from State and private banks and bankers.	Due from approved reserve agents.	Checks and other cash items.	Exchanges for clearing house.
Maine	69	$1,091,711.08	$69,365.22	$270,620.26	$170,695.92	$5,167,379.61	$208,455.11	$185,370.79
New Hampshire	56	577,744.95	94,145.93	391,555.44	100,947.77	3,946,833.51	367,139.13	.....
Vermont	49	458,368.72	23,000.00	213,333.48	32,334.36	2,483,563.63	167,432.75	.....
Massachusetts	163	5,354,989.89	249,235.91	1,336,206.58	352,420.33	18,114,067.50	659,672.18	366,833.04
Boston	17	6,451,855.88	18,870.18	17,700,578.80	8,643,918.64	39,524,391.18	916,751.55	12,767,267.92
Rhode Island	20	531,017.44	16,274.39	384,903.25	299,310.03	3,531,367.33	27,502.51	262,701.12
Connecticut	79	4,757,317.17	139,640.02	1,434,633.03	471,916.01	11,666,920.96	541,145.91	515,398.26
New England States	453	19,223,005.13	610,531.65	21,731,830.84	10,071,543.06	84,434,523.72	2,888,099.14	14,097,571.13
New York	429	7,396,430.83	1,023,881.76	5,412,459.37	6,218,080.09	43,977,711.99	1,107,209.71	1,142,319.16
Albany	3	578,000.00	45,935.68	10,560,225.28	2,670,795.54	6,510,868.28	74,049.90	267,498.33
Brooklyn	6	627,053.68	29,052.75	343,991.11	323,597.59	2,891,819.50	296,697.01	1,094,081.65
New York City	36	30,357,838.13	1,141,138.09	58,647,282.69	27,893,343.17	.....	5,988,222.65	148,523,231.21
New Jersey	200	8,852,608.34	1,087,675.11	5,110,880.53	4,143,376.14	24,358,143.00	1,207,468.12	1,417,825.53
Pennsylvania	781	22,132,457.15	2,936,790.04	5,385,591.10	1,916,372.44	58,321,033.11	1,793,203.09	739,661.70
Philadelphia	32	6,688,085.17	616,639.26	35,213,599.55	11,634,100.98	42,439,416.66	2,561,842.25	19,616,174.61
Pittsburgh	23	15,426,718.92	2,851,695.32	11,039,189.69	3,966,253.07	23,680,110.42	346,161.28	5,947,347.52
Delaware	26	538,191.03	83,398.86	162,227.30	74,505.55	1,020,408.36	13,568.26	38,607.84
Maryland	89	1,811,976.53	90,325.74	503,678.00	301,478.26	4,357,085.61	161,761.68	9,973.94
Baltimore	16	2,780,350.88	559,185.41	7,387,745.66	1,589,310.91	8,213,142.29	423,996.72	3,720,390.65
District of Columbia	1	31,500.00	.....	9,951.77	.....	156,206.09	3,908.46	8,248.41
Washington	11	3,181,700.15	7,614.32	2,816,936.01	1,136,435.41	3,365,553.11	349,825.05	1,034,104.94
Eastern States	1,653	100,404,910.81	10,473,332.34	142,593,678.06	61,867,649.15	219,291,497.82	14,328,214.18	183,359,465.49
Virginia	133	4,142,185.68	334,459.83	5,188,110.21	1,738,597.73	9,006,479.99	467,474.82	1,017,233.01
West Virginia	116	3,491,887.97	392,969.69	2,625,513.17	704,686.41	7,268,062.54	286,422.34	145,303.63
North Carolina	73	1,825,046.78	234,101.12	3,421,773.39	1,485,344.70	2,544,024.33	403,050.87	65,138.01
South Carolina	48	951,449.30	131,556.43	1,355,119.07	719,871.31	1,652,787.28	190,279.35	420,579.02
Georgia	116	3,313,967.12	287,123.23	2,430,667.14	2,075,969.91	5,034,482.72	344,097.97	1,313,715.95
Savannah	2	34,673.02	.....	233,579.69	144,050.40	169,206.82	2,208.68	30,146.55
Florida	52	2,070,687.72	188,825.25	4,009,777.03	1,674,702.40	5,101,664.43	248,378.69	576,775.77
Alabama	87	1,980,012.71	290,390.36	2,368,755.70	930,134.46	4,569,868.69	192,501.77	379,076.76
Mississippi	33	893,565.91	120,520.92	456,052.02	764,028.67	2,209,763.16	84,359.57	33,888.72
Louisiana	26	985,523.24	150,152.36	857,566.62	516,387.15	1,826,487.53	115,527.63	109,774.48
New Orleans	5	2,430,604.25	36,304.62	1,255,665.06	2,254,193.82	3,429,254.66	81,023.59	2,184,356.09

Texas	481	6,462,045.37	1,708,391.37	7,386,390.85	4,350,451.92	22,835,688.53	1,623,515.03	600,864.90
Dallas	5	876,505.89	49,706.00	3,077,750.38	527,291.55	2,464,311.25	398,043.39	336,353.10
Fort Worth	8	1,052,372.58	113,453.71	2,799,793.03	357,400.87	2,011,136.09	240,066.16	765,387.11
Galveston	2	244,688.50	58,765.66	433,701.12	154,085.65	638,839.40	34,120.54	32,254.81
Houston	6	2,514,235.47	507,214.99	3,064,896.25	1,143,434.71	3,868,900.58	219,428.51	421,811.58
San Antonio	7	358,671.10	137,305.29	1,123,427.79	580,091.77	1,723,606.66	147,130.11	343,712.12
Waco	5	82,077.54	.....	747,265.74	168,945.12	585,077.80	26,829.89	61,356.96
Arkansas	49	611,498.34	230,396.85	1,374,192.92	941,726.06	3,088,554.11	142,113.12	338,833.43
Kentucky	136	2,340,548.29	280,543.01	694,881.69	348,623.52	5,609,022.38	329,818.78	116,867.42
Louisville	8	315,807.80	114,811.46	2,528,621.64	950,815.52	4,306,349.32	88,315.25	889,319.56
Tennessee	107	3,239,374.26	474,716.25	5,718,809.65	1,668,101.79	7,097,474.81	743,776.65	1,169,150.44
Southern States	1,505	40,217,428.84	5,841,708.40	53,152,310.16	24,198,935.44	97,101,133.08	6,408,482.71	11,351,899.42
Ohio	357	7,542,836.22	1,147,671.56	4,010,366.60	2,000,913.18	28,732,658.12	758,448.77	743,732.43
Cincinnati	8	3,295,366.52	112,483.52	6,455,704.89	1,375,219.10	7,753,162.90	81,716.72	906,774.00
Cleveland	7	1,273,956.84	34,980.50	8,673,003.44	3,481,327.46	8,793,777.24	163,165.66	1,034,550.43
Columbus	8	950,553.93	56,246.02	2,219,729.97	318,677.63	2,748,037.57	67,883.26	442,155.20
Indiana	249	3,972,319.11	524,757.32	2,718,845.61	973,136.96	19,719,441.90	586,193.31	331,197.30
Indianapolis	5	1,257,765.61	.....	4,665,042.58	1,937,821.14	5,636,517.94	1,049,632.40	1,140,991.73
Illinois	448	7,256,323.91	1,155,187.65	4,207,219.31	2,715,511.87	30,984,590.63	925,158.26	730,537.59
Chicago	9	2,008,276.75	43,847.00	58,354,766.19	15,034,601.81	.....	649,430.47	16,455,721.50
Michigan	96	3,330,808.71	290,946.37	1,246,258.24	1,510,154.79	8,919,268.93	199,828.18	352,856.51
Detroit	3	170,000.00	70,000.00	5,070,993.60	2,801,328.32	7,351,915.94	71,473.55	816,974.12
Wisconsin	124	2,733,147.86	147,786.77	826,946.23	995,565.35	12,617,724.98	379,967.25	82,418.28
Milwaukee	5	544,831.40	45,915.90	2,904,344.16	1,873,744.23	6,840,216.47	168,564.49	940,975.00
Minnesota	261	3,688,944.98	1,293,391.32	3,903,575.60	1,220,697.30	15,209,093.23	474,613.15	202,113.05
Minneapolis	6	1,198,934.45	.....	6,924,823.53	3,131,974.47	6,329,513.27	86,774.70	2,488,852.19
St. Paul	4	347,894.00	.....	1,924,189.22	1,607,122.50	4,974,393.17	231,476.47	963,061.60
Iowa	325	4,245,999.16	937,066.18	3,522,976.01	1,450,649.15	17,324,646.55	697,268.66	283,214.85
Cedar Rapids	3	174,634.03	.....	707,681.06	315,079.84	1,245,604.96	62,017.18	133,138.50
Des Moines	4	192,000.00	62,130.04	1,439,678.47	257,083.96	2,174,212.36	15,042.90	233,559.97
Dubuque	3	82,761.69	18,444.41	150,676.72	82,279.55	541,177.57	37,378.97	33,722.17
Sioux City	5	271,933.33	900.00	1,053,555.91	718,414.78	1,729,223.57	88,456.04	195,482.86
Missouri	111	1,437,417.84	303,291.34	888,412.98	856,907.72	5,856,899.31	262,712.84	90,126.90
Kansas City	11	1,398,940.79	21,000.00	7,976,726.89	5,558,415.63	12,467,122.07	899,092.10	2,504,900.67
St. Joseph	4	185,116.00	.....	1,946,118.14	524,825.22	2,262,155.91	92,990.33	675,606.53
St. Louis	7	5,565,128.16	358,607.43	27,609,664.62	7,380,372.17	.....	177,544.24	3,250,878.90
Middle Western States	2,063	52,725,891.29	6,624,653.33	159,401,299.97	58,121,824.13	210,211,354.59	8,226,829.90	35,033,542.28
North Dakota	144	1,632,313.64	732,809.86	1,481,447.10	515,508.08	4,832,598.88	167,616.71	73,952.16
South Dakota	103	1,418,133.00	235,014.01	1,360,422.94	390,414.24	5,341,512.03	175,721.56	88,958.25
Nebraska	228	2,366,173.25	410,180.72	1,377,881.82	394,170.76	9,805,630.19	282,586.26	111,644.63
Lincoln	4	459,310.30	29,089.39	1,034,154.88	165,401.55	572,693.81	67,218.31	191,819.02
Omaha	7	1,411,423.67	13,013.35	3,997,502.29	1,877,605.06	5,301,112.46	423,528.70	1,064,361.26
South Omaha	3	89,500.00	13,351.49	1,311,900.89	531,197.72	2,049,528.00	618,832.59	872,939.22
Kansas	205	2,190,006.48	400,133.66	1,791,996.01	920,527.56	13,045,599.23	245,575.53	113,137.44
Kansas City	2	146,000.00	15,155.81	1,136,134.56	380,950.49	565,833.19	8,223.13	50,186.83
Topeka	3	28,051.87	11,907.75	755,095.28	32,209.67	471,374.83	14,761.00	59,429.55
Wichita	3	152,485.56	.....	1,734,460.92	108,181.01	974,784.71	12,025.14	142,713.45
Montana	57	1,070,779.15	333,154.69	1,908,054.89	1,076,298.30	7,398,751.84	93,471.94	211,604.70

Abstract of reports of the national banking associations of the United States, showing their condition at the close of business on Wednesday, June 4, 1913—Continued.

States, Territories, and reserve cities.	Number of banks.	Resources—Continued.						
		Banking-house furniture and fixtures.	Other real estate and mortgages owned.	Due from other national banks.	Due from State and private banks and bankers.	Due from approved reserve agents.	Checks and other cash items.	Exchanges for clearing house.
Wyoming	30	$492,904.84	$95,632.53	$581,306.87	$205,282.65	$1,877,514.95	$46,777.32	$28,627.18
Colorado	117	1,232,256.58	585,400.33	1,122,233.60	578,155.83	8,487,813.89	145,764.39	116,000.42
Denver	6	303,132.76	293,849.62	4,309,537.10	1,655,524.58	4,933,629.06	171,776.99	1,218,263.12
Pueblo	3	54,756.98	107,804.42	1,570,561.12	68,732.46	1,015,559.02	38,838.29	51,116.62
New Mexico	40	668,931.45	185,430.97	1,354,284.96	253,997.96	2,356,893.79	107,992.87	95,586.65
Oklahoma	314	2,893,192.27	523,967.81	3,962,013.22	588,141.02	12,277,466.64	295,819.69	195,285.12
Muskogee	5	78,200.00	58,659.64	572,882.40	35,259.96	544,044.78	11,337.09	86,728.92
Oklahoma City	6	165,815.53	78,184.89	1,635,174.24	186,731.08	1,228,710.28	114,995.61	85,488.10
Western States	1,280	16,853,367.31	4,122,740.94	32,997,045.09	9,964,289.88	83,081,051.58	3,042,773.72	4,857,842.65
Washington	64	1,242,145.08	439,901.25	365,348.58	682,657.62	5,958,983.40	135,028.87	100,784.61
Seattle	6	232,001.00	169,297.44	2,709,567.76	2,091,370.28	4,595,029.89	130,877.74	794,424.93
Spokane	5	1,212,648.68	204,829.61	1,174,445.26	1,005,551.34	2,066,643.87	25,793.76	267,731.72
Tacoma	2	256,000.00	171,857.39	496,226.58	178,791.08	909,944.47	7,052.02	136,847.09
Oregon	78	1,941,614.61	294,106.58	492,838.47	529,646.63	5,263,195.94	153,855.33	40,274.05
Portland	5	333,956.97	26,904.57	2,940,207.95	989,746.67	2,850,657.19	161,300.16	1,187,730.86
California	235	6,276,703.85	690,486.04	2,726,560.21	1,806,132.31	18,021,544.76	494,873.81	777,323.15
Los Angeles	8	745,863.45	95,722.07	5,315,616.80	2,649,785.74	5,223,311.13	426,252.62	1,824,743.58
San Francisco	9	4,685,944.19	891,943.66	9,760,472.38	18,725,416.88	14,043,172.73	276,708.63	2,952,992.26
Idaho	54	1,024,485.21	330,921.14	657,872.63	508,876.23	2,978,189.09	127,699.44	81,002.97
Utah	17	424,252.19	112,322.48	270,355.83	277,974.77	965,668.34	10,709.62	78,482.91
Salt Lake City	6	407,824.04	19,078.97	1,451,279.07	736,497.53	1,201,749.11	70,875.90	346,410.77
Nevada	11	131,592.46	126,517.79	183,643.26	54,507.92	1,221,485.30	13,041.17	7,980.73
Arizona	13	486,269.64	72,568.06	588,421.79	386,533.16	2,440,067.80	121,277.50	59,441.97
Alaska [1]	2	13,000.00	5,074.45	8,862.90	14,784.02	169,219.60	6,334.86	
Pacific States	515	19,414,303.57	3,651,531.50	29,141,719.47	30,638,272.78	67,908,862.62	2,163,681.43	8,660,171.60
Hawaii	4	50,047.00	8,450.00	3,316.45	127,552.10	148,571.32	34,164.68	
Total United States	7,473	248,888,953.95	31,332,948.16	439,021,200.04	194,990,066.54	762,176,994.73	37,092,245.76	257,560,492.57

[1] One report for Apr. 4, 1913.

Abstract of reports of the national banking associations of the United States, showing their condition at the close of business on Wednesday, June 4, 1913—Continued.

States, Territories, and reserve cities.	Number of banks.	Resources—Continued.						
		Bills of other national banks.	Fractional paper currency, nickels, and cents.	Specie.	Legal-tender notes.	Five per cent redemption fund.	Due from United States Treasurer.	Aggregate.
Maine	69	$401,467	$18,382.00	$2,707,203.14	$523,821	$293,212.50	$3,002.50	$69,545,648.36
New Hampshire	56	390,291	17,483.63	1,203,184.82	494,699	241,175.00	3,200.00	39,056,472.15
Vermont	49	112,823	11,129.69	936,698.29	397,258	208,375.00	10,700.00	33,575,750.39
Massachusetts	163	1,595,227	112,442.45	6,889,509.86	3,814,364	978,500.00	70,400.00	224,324,018.60
Boston	17	1,628,531	87,163.35	26,634,789.70	4,790,952	427,900.00	899,000.00	353,026,920.10
Rhode Island	20	279,306	20,024.26	1,498,255.47	506,956	228,125.00	127,500.00	49,836,283.07
Connecticut	79	987,121	46,382.10	4,081,227.41	1,500,282	663,692.50	154,555.00	125,142,691.88
New England States	453	5,304,766	313,007.48	43,950,868.69	12,028,332	3,040,980.00	1,268,357.50	894,507,784.55
New York	429	2,302,465	184,328.66	19,356,594.96	6,479,357	1,822,403.00	209,999.00	527,724,668.00
Albany	3	237,656	7,137.53	2,555,290.16	1,782,316	105,000.00	.....	60,375,351.97
Brooklyn	6	124,007	25,741.67	2,914,784.75	708,296	51,850.00	65,000.00	33,382,728.68
New York City	36	2,340,064	142,299.12	242,056,036.02	50,461,912	2,477,065.00	3,170,693.46	1,692,944,644.90
New Jersey	200	1,078,283	131,949.24	9,606,742.35	4,299,547	894,353.50	104,907.50	294,354,970.66
Pennsylvania	781	4,108,722	300,369.47	25,493,408.19	8,607,441	2,719,687.50	143,737.44	705,188,200.84
Philadelphia	32	970,810	105,546.41	31,496,161.60	3,074,667	595,350.00	610,800.00	429,074,560.75
Pittsburgh	23	1,678,301	90,179.39	18,553,115.55	4,581,749	831,547.50	522,000.00	299,434,506.10
Delaware	26	58,439	11,310.43	496,074.75	172,844	63,512.00	12,800.00	14,332,203.46
Maryland	89	166,263	26,365.18	1,822,971.08	707,996	207,511.10	6,032.50	56,852,868.17
Baltimore	16	455,495	39,980.46	4,798,924.65	616,505	412,450.00	45,000.00	110,882,457.45
District of Columbia	1	1,200	198.51	74,710.00	12,640	12,500.00	.....	2,044,864.77
Washington	11	82,565	9,230.49	2,467,826.22	365,847	284,500.00	.....	56,579,568.93
Eastern States	1,653	13,604,270	1,074,627.56	361,692,640.28	81,871,117	10,478,729.60	4,890,969.90	4,283,171,594.68
Virginia	133	606,400	65,895.11	4,336,892.86	1,784,290	676,614.95	103,701.50	157,904,730.54
West Virginia	116	670,385	44,891.34	3,254,723.37	845,649	436,385.00	24,911.00	88,037,709.41
North Carolina	73	197,341	30,069.26	1,444,257.36	622,285	317,895.00	17,933.28	64,254,616.85
South Carolina	48	205,140	29,456.63	818,543.95	342,667	237,692.50	23,248.70	43,025,674.60
Georgia	116	718,375	73,747.14	2,433,230.70	1,004,150	530,711.00	110,284.80	94,810,601.47
Savannah	2	36,900	2,178.23	164,097.00	8,334	40,000.00	4,002.50	5,435,730.19
Florida	52	529,217	25,343.98	2,008,966.84	803,460	284,145.00	1,600.00	63,606,887.80
Alabama	87	1,021,182	41,129.29	2,840,797.90	351,107	393,942.50	29,251.00	69,615,687.99
Mississippi	33	100,549	15,924.39	851,332.90	211,230	144,613.80	6,303.00	24,591,219.60
Louisiana	26	132,096	17,585.82	1,038,305.50	62,939	127,662.50	30.00	27,942,892.88
New Orleans	5	101,169	11,328.79	2,404,338.65	357,721	163,500.00	15,000.00	46,597,582.65

Abstract of reports of the national banking associations of the United States, showing their condition at the close of business on Wednesday, June 4, 1913—Continued.

States, Territories, and reserve cities.	Number of banks.	Resources—Continued.						
		Bills of other national banks.	Fractional paper currency, nickels, and cents.	Specie.	Legal-tender notes.	Five per cent redemption fund.	Due from United States Treasurer.	Aggregate.
Texas	481	$1,613,677	$143,089.49	$8,167,572.69	$1,878,146	$1,107,767.50	$27,249.50	$221,993,701.00
Dallas	5	245,788	8,298.68	1,892,234.00	382,658	129,200.00	16,002.50	35,193,278.22
Fort Worth	8	130,520	19,906.45	1,286,698.25	658,780	109,100.00	.....	27,384,077.79
Galveston	2	63,880	1,998.08	904,168.55	115,920	20,250.00	7,000.00	7,037,518.34
Houston	6	597,440	40,378.63	2,493,811.25	783,555	225,000.00	9,300.00	48,689,636.62
San Antonio	7	237,156	14,027.82	1,627,292.95	318,795	80,750.00	.....	19,775,092.14
Waco	5	76,895	6,815.56	752,606.88	130,640	62,900.00	3,255.00	10,956,282.36
Arkansas	49	176,359	21,012.33	1,138,083.40	289,394	146,445.50	.....	34,083,536.92
Kentucky	136	524,931	29,666.24	2,664,819.55	591,007	506,117.50	13,506.00	78,634,615.63
Louisville	8	337,926	10,227.84	2,520,543.00	794,477	247,750.00	57,852.00	50,304,134.20
Tennessee	107	1,093,287	49,194.67	3,881,762.25	1,740,062	508,850.00	31,050.40	109,563,865.24
Southern States	1,505	9,416,673	702,165.77	48,925,079.80	14,077,266	6,497,292.75	501,481.18	1,329,739,072.44
Ohio	357	2,791,309	120,918.77	11,855,381.70	4,361,617	1,401,516.55	84,453.28	319,270,208.02
Cincinnati	8	301,725	11,866.66	6,045,256.80	1,995,295	373,025.00	11,300.00	105,176,366.62
Cleveland	7	857,449	17,500.75	7,533,008.95	2,156,250	285,125.00	215,500.00	108,506,973.16
Columbus	8	222,520	13,148.26	2,315,052.05	832,214	119,750.00	45,509.00	35,221,182.18
Indiana	249	1,431,045	85,130.50	8,015,040.07	2,248,950	935,145.40	29,313.83	190,317,277.41
Indianapolis	5	775,510	14,519.36	3,450,033.05	1,519,575	290,107.00	15,400.00	59,530,361.37
Illinois	448	1,663,064	138,937.76	12,699,435.76	3,445,501	1,292,975.00	34,005.00	317,353,029.77
Chicago	9	1,291,480	95,637.54	55,424,322.60	32,144,176	727,450.00	1,464,000.00	551,103,303.53
Michican	36	789,342	47,512.95	5,204,449.85	1,847,991	416,135.00	33,007.50	125,176,297.76
Detroit	3	377,829	20,425.66	3,104,755.00	2,962,202	107,650.00	188,500.00	67,194,632.46
Wisconsin	124	684,722	48,851.35	4,972,972.85	1,165,149	440,698.50	6,229.50	126,533,062.32
Milwaukee	5	110,834	18,387.55	4,480,274.40	1,185,025	205,850.00	69,300.00	74,447,466.21
Minnesota	261	664,456	58,142.43	5,831,883.38	995,488	440,923.00	33,312.50	145,811,773.78
Minneapolis	6	401,490	14,848.98	5,862,567.95	1,378,277	99,750.00	221,616.00	92,524,166.17
St. Paul	4	254,635	12,855.72	3,995,373.10	1,192,933	41,250.00	116,670.00	58,884,710.30
Iowa	325	793,996	69,754.10	6,382,245.20	1,690,602	737,727.71	11,205.00	175,892,400.37
Cedar Rapids	3	38,043	8,508.85	629,888.30	226,145	26,250.00	.....	13,103,922.36
Des Moines	4	94,020	4,234.62	1,491,798.40	345,705	65,447.50	5,000.00	22,922,808.64
Dubuque	3	27,479	1,630.08	304,046.05	139,511	25,450.00	.....	5,547,736.93
Sioux City	5	68,635	5,465.80	1,112,821.90	343,175	43,750.00	.....	17,603,980.84
Missouri	111	256,656	31,494.08	1,673,079.04	614,446	282,312.75	107.50	51,442,743.49
Kansas City	11	538,475	65,303.69	7,233,941.95	1,799,859	222,850.00	58,500.00	117,844,076.29

St. Joseph	4	56,153	5,304.61	1,313,012.90	194,388	45,897.50	5,000.00	19,564,341.60
St. Louis	7	707,591	24,163.50	17,342,171.90	8,199,971	768,319.50	117,000.00	201,128,059.30
Middle Western States	2,063	15,197,858	934,543.57	178,272,813.15	72,984,445	9,395,355.41	2,764,929.11	3,002,100,880.88
North Dakota	144	141,212	25,660.06	1,795,198.05	371,247	196,238.35	12,511.08	49,063,412.31
South Dakota	103	215,276	24,917.96	1,971,587.85	345,655	157,015.00	1,775.90	44,978,195.54
Nebraska	228	394,213	32,762.83	3,318,115.30	500,178	418,238.00	2,550.00	85,905,940.43
Lincoln	4	42,458	4,869.24	555,309.80	282,388	46,525.00		10,770,129.93
Omaha	7	213,328	7,101.84	3,972,877.60	1,089,280	125,872.50	21,502.50	57,175,209.14
South Omaha	3	65,905	2,388.17	624,156.10	300,223	30,650.00		14,498,651.67
Kansas	205	654,234	47,461.42	3,945,511.70	803,354	435,496.89	765.99	94,767,169.17
Kansas City	2	48,060	1,491.87	563,533.35	50,510	19,950.00		8,026,083.54
Topeka	3	47,990	2,759.31	407,627.85	73,980	15,000.00		5,617,596.98
Wichita	3	104,670	3,258.41	645,730.85	65,580	11,047.50	22,000.00	10,308,312.35
Montana	57	375,451	21,347.16	3,183,374.62	362,759	161,572.50	3,240.25	51,894,635.60
Wyoming	30	116,596	6,233.22	966,903.18	88,861	71,425.00	5.00	19,404,876.10
Colorado	117	356,728	27,073.22	2,821,813.40	508,763	246,248.00	9,100.00	57,971,287.85
Denver	6	678,204	16,907.00	5,746,566.05	1,322,640	175,000.00	61,000.00	63,128,389.43
Pueblo	3	67,665	1,372.64	985,487.40	73,442	23,300.00		11,857,580.00
New Mexico	40	89,929	7,433.14	1,029,974.65	162,032	83,200.00	3,450.00	22,204,109.76
Oklahoma	314	537,174	67,778.74	3,350,215.85	593,440	394,095.00	55,914.98	87,934,265.82
Muskogee	5	78,802	4,050.63	551,343.55	85,500	33,750.00		7,744,293.95
Oklahoma City	6	168,378	8,924.34	882,587.00	241,405	29,500.00		12,803,289.70
Western States	1,250	4,396,273	313,791.20	37,317,914.15	7,321,237	2,674,123.74	193,815.70	716,053,429.27
Washington	64	133,297	22,491.40	2,168,610.55	99,405	129,242.50	424.00	41,782,309.47
Seattle	6	167,250	32,609.55	4,463,463.35	75,909	79,450.00	2.50	50,146,100.85
Spokane	5	177,557	11,612.30	2,405,014.25	61,400	140,000.00		29,055,866.86
Tacoma	2	23,742	4,271.64	1,195,806.75	19,012	25,000.00		11,131,790.82
Oregon	78	143,525	17,666.91	2,758,554.78	39,308	174,783.00	1,339.47	42,340,671.55
Portland	5	130,465	17,476.39	4,751,021.05	34,175	145,000.00		45,730,438.88
California	235	769,561	60,236.02	9,915,420.76	344,911	836,840.00	10,652.50	188,864,127.62
Los Angeles	8	1,064,051	25,362.84	6,253,137.15	493,030	253,500.00		84,333,423.50
San Francisco	9	484,747	27,726.29	14,009,510.62	146,239	1,097,500.00		224,719,104.75
Idaho	54	104,404	9,914.17	1,560,811.60	71,939	138,262.50		29,174,674.50
Utah	17	16,910	2,527.08	514,134.35	44,489	46,162.50		11,59 ,372.74
Salt Lake City	6	101,258	3,355.29	1,721,015.30	65,000	98,500.00		22,521,864.15
Nevada	11	147,766	2,300.86	614,037.40	15,710	78,950.00		11,079,509.41
Arizona	13	131,750	3,872.77	741,023.45	97,999	47,075.50	5,000.00	13,766,565.03
Alaska[1]	2	22,410	388.45	304,801.29	17,060	3,125.00		1,370,557.63
Pacific States	515	3,618,693	241,811.96	53,376,362.65	1,625,586	3,293,391.00	17,418.47	807,615,377.76
Hawaii	4	275	535.14	538,949.05	30	15,012.50		3,731,617.46
Total United States	7,473	51,538,808	3,580,482.68	724,074,627.77	189,908,013	35,394,885.00	9,636,971.86	11,036,919,757.04

One report for Apr. 4 1913.

Abstract of reports of the national banking associations of the United States, showing their condition at the close of business on Wednesday, June 4, 1913—Continued.

States, Territories, and reserve cities.	Liabilities.								
	Capital stock paid in.	Surplus fund.	Undivided profits, less expenses.	National-bank notes outstanding.	Due to other national banks.	Due to State and private banks and bankers.	Due to trust companies and savings banks.	Due to approved reserve agents.	Dividends unpaid.
Maine	$7,740,500.00	$3,756,000.00	$2,696,093.79	$5,900,757.50	$239,018.78	$5,989.35	$1,224,598.11	$181,979.96	$10,907.49
New Hampshire	5,285,000.00	3,369,400.00	1,364,041.96	4,966,927.50	390,883.13	7,667.49	2,008,806.09	505,147.55	10,541.82
Vermont	4,985,000.00	2,077,101.95	1,911,809.96	4,449,937.50	86,338.61	878.44	1,048,094.52	15,225.95	3,812.33
Massachusetts	29,842,500.00	18,014,225.00	10,062,634.05	19,643,032.50	726,440.85	425,821.04	6,653,065.89	1,605,222.41	32,170.68
Boston	28,200,000.00	19,881,000.00	13,924,928.08	8,410,702.50	35,499,978.26	4,561,868.08	36,841,135.53	7,527,474.12	6,897.08
Rhode Island	6,320,000.00	4,393,100.00	2,464,252.10	4,625,202.50	351,145.69	93,628.10	1,660,965.64	432,861.71	4,091.03
Connecticut	19,314,200.00	12,111,800.00	5,889,916.37	13,169,135.00	937,731.45	329,811.93	3,590,163.70	754,886.80	20,058.10
New England States	101,686,700.00	63,602,626.95	38,313,676.31	61,165,695.00	38,231,536.77	5,425,664.43	53,026,829.48	11,022,798.50	88,478.53
New York	48,742,600.00	35,114,550.00	14,380,673.92	37,384,430.00	5,351,908.58	4,679,537.20	10,894,040.99	3,582,718.64	328,303.70
Albany	2,100,000.00	2,200,000.00	660,588.92	2,070,497.50	21,527,413.79	3,078,428.89	8,503,764.68	2,622,408.62	1,533.50
Brooklyn	2,252,000.00	2,700,000.00	994,300.25	1,023,050.00	254,234.42	183,053.79	5,595,567.52	127,103.01	656.00
New York City	119,700,000.00	129,105,000.00	47,336,789.37	48,013,312.50	320,991,594.73	103,117,052.40	205,246,651.64		121,151.72
New Jersey	22,292,000.00	22,930,923.34	11,244,265.05	17,641,197.50	4,506,184.30	1,351,042.33	10,139,910.97	3,440,623.27	31,909.00
Pennsylvania	67,624,040.00	73,064,949.80	17,094,001.19	56,599,586.50	2,896,004.26	1,317,101.44	3,065,686.88	943,014.20	142,273.88
Philadelphia	22,055,000.00	39,760,000.00	5,318,163.14	11,823,682.50	75,108,056.56	15,609,826.72	50,265,626.24	13,814,442.42	26,019.25
Pittsburgh	29,300,000.00	24,314,000.00	5,452,703.37	17,102,087.50	46,900,484.19	8,844,125.67	30,123,604.08	2,765,568.61	17,726.33
Delaware	1,723,975.00	1,559,600.00	540,879.48	1,396,655.00	181,305.28	23,817.08	332,048.88	66,676.77	827.88
Maryland	5,192,000.00	3,834,301.78	1,367,567.06	4,326,437.50	529,920.25	83,273.13	120,346.75	93,070.55	11,693.63
Baltimore	11,790,710.00	7,970,010.00	2,280,431.71	8,149,085.00	17,450,902.92	4,091,103.05	8,571,323.05	1,617,334.16	9,539.20
District of Columbia	252,000.00	252,000.00	175,411.53	243,650.00	15,181.56	1,329.57	22,542.93		8,208.00
Washington	6,350,000.00	4,815,000.00	617,429.25	5,567,040.00	3,026,570.12	314,432.07	2,457,621.18	82,947.94	2,037.00
Eastern States	339,374,325.00	347,620,334.92	107,472,204.24	211,340,711.50	498,739,760.96	142,694,123.34	335,340,735.79	29,125,908.19	701,879.09
Virginia	17,668,500.00	11,596,995.93	3,911,711.67	14,661,825.00	5,594,273.85	6,816,833.78	1,201,069.97	431,845.69	12,656.97
West Virginia	10,158,132.00	6,237,600.00	1,565,642.10	8,911,685.00	1,346,311.71	2,163,245.46	396,125.76	84,603.26	3,545.25
North Carolina	8,610,000.00	2,880,925.00	2,099,590.72	6,890,345.00	1,918,133.69	3,468,184.69	159,470.93	102,469.56	9,186.17
South Carolina	6,365,000.00	2,129,917.76	1,564,241.11	4,928,287.50	679,072.29	1,804,183.19	361,265.91	85,380.24	17,208.56
Georgia	14,318,500.00	8,432,482.06	3,474,313.16	11,075,722.50	1,570,592.95	2,113,774.24	451,831.87	399,575.78	6,228.00
Savannah	900,000.00	700,000.00	208,762.52	800,000.00	489,542.94	153,981.88	63,977.14		76.00
Florida	7,475,800.00	2,967,300.00	1,577,141.49	6,010,075.00	2,463,052.67	4,134,771.52	407,576.38	9,865.23	3,138.50
Alabama	9,964,500.00	5,703,100.00	1,675,271.02	8,197,197.50	1,250,831.86	1,132,706.62	167,949.71	60,458.39	3,550.00
Mississippi	3,585,000.00	1,640,653.89	647,324.48	3,066,387.50	111,808.74	427,923.69	416,270.85	10,741.33	2,532.00
Louisiana	3,020,000.00	2,294,615.83	656,897.34	2,549,640.00	1,090,949.21	1,625,123.49	633,710.20	62,027.88	15,805.74
New Orleans	5,200,000.00	3,030,000.00	1,005,216.93	3,247,595.00	3,930,294.83	2,779,597.05	2,108,249.82	276,424.67	2,511.50

Texas	33,660,000.00	17,449,794.05	8,172,691.22	22,855,597.50	6,405,918.56	4,703,197.23	1,200,125.74	441,379.44	11,988.37
Dallas	3,400,000.00	2,500,000.00	577,742.70	2,563,200.00	3,616,863.93	1,606,976.41			3,564.00
Fort Worth	3,175,000.00	1,760,000.00	909,653.58	2,268,145.00	4,967,921.81	1,856,759.77	162,291.55		258.00
Galveston	500,000.00	260,000.00	120,636.24	405,000.00	629,684.64	708,943.70			410.00
Houston	5,300,000.00	1,725,000.00	842,495.37	4,483,000.00	6,683,270.09	3,307,792.28	926,750.86		473.50
San Antonio	2,350,000.00	1,312,500.00	277,937.92	2,046,892.50	1,376,626.16	910,140.58	678,597.65		28,490.00
Waco	1,750,000.00	400,000.00	200,445.07	1,500,000.00	790,463.69	401,706.91	77,550.58		106.00
Arkansas	8,065,000.00	2,108,000.00	847,547.60	2,969,980.00	803,400.76	1,970,471.90	587,464.99	16,275.08	8,568.88
Kentucky	12,270,900.00	5,054,412.05	1,393,121.15	11,613,272.50	402,542.40	885,860.91	442,646.26	72,593.29	11,779.52
Louisville	5,495,000.00	2,725,000.00	1,154,259.65	4,952,500.00	5,549,176.77	6,235,256.58	1,332,276.80	1,922.32	11,265.32
Tennessee	13,015,000.00	5,474,647.82	2,277,990.94	10,692,447.50	3,946,401.81	5,703,149.65	820,075.72	35,029.68	16,672.00
Southern States	173,066,332.00	88,372,934.39	35,070,633.98	136,688,795.00	55,637,135.36	54,910,581.53	12,595,278.69	2,090,591.84	170,014.28
Ohio	35,469,100.00	18,816,625.91	7,201,732.03	29,452,120.00	1,979,280.27	3,327,149.55	4,658,613.61	101,267.24	44,723.66
Cincinnati	13,900,000.00	6,450,000.00	2,574,620.41	7,463,095.00	16,012,418.42	8,178,815.98	6,263,758.03	412,671.91	11,760.00
Cleveland	9,600,000.00	4,800,000.00	2,354,273.44	5,619,000.00	12,055,872.09	8,832,317.73	15,273,305.09	691,048.40	4,486.00
Columbus	3,000,000.00	1,668,000.00	393,784.71	2,487,200.00	1,967,541.92	2,109,795.54	1,132,590.66	106,118.64	2,173.35
Indiana	21,458,000.00	9,677,700.18	3,401,804.65	19,406,002.50	1,918,487.83	4,362,070.09	3,311,641.62	48,351.44	7,766.05
Indianapolis	6,400,000.00	3,000,000.00	763,085.57	5,801,237.50	8,456,224.03	4,925,272.63	1,940,444.97	7,050.34	10,643.00
Illinois	32,657,935.00	18,124,335.05	7,602,541.88	26,819,122.50	2,486,700.48	9,092,814.69	1,635,011.11	45,622.54	22,974.87
Chicago	42,750,000.00	26,200,000.00	7,369,425.25	14,451,047.50	157,469,434.27	74,071,142.88	15,682,305.27		6,309.50
Michigan	10,260,000.00	5,627,900.00	2,642,291.66	8,501,085.00	525,885.39	2,327,621.80	1,349,253.63	54,845.42	7,168.05
Detroit	4,750,000.00	1,750,000.00	1,428,212.56	2,102,400.00	5,033,930.08	5,226,350.79	4,657,571.80	36,559.40	1,174.04
Wisconsin	11,470,000.00	4,752,250.00	2,656,362.57	9,031,250.00	416,612.00	3,415,403.36	390,445.67	8,286.17	53,599.25
Milwaukee	6,300,000.00	3,200,000.00	1,520,620.08	4,081,595.00	5,849,980.72	7,901,808.45	808,701.01	638,078.87	157.50
Minnesota	11,956,000.00	6,449,350.00	2,295,665.42	8,913,922.50	2,910,231.50	4,743,388.15	94,970.77		16,772.75
Minneapolis	7,500,000.00	6,210,000.00	1,435,246.72	1,987,695.00	14,190,624.96	14,067,627.34	2,485,921.53		4,506.50
St. Paul	5,900,000.00	3,700,000.00	1,100,156.17	800,500.00	8,824,127.29	5,631,792.36	1,351,223.31		1,422.00
Iowa	18,565,000.00	7,645,877.74	3,468,072.91	15,197,182.50	3,213,993.04	5,052,466.76	8,276,682.79	144,637.45	15,703.41
Cedar Rapids	600,000.00	410,000.00	63,531.11	515,450.00	8,151,514.97	2,437,164.87	2,702,914.78	259.27	60.00
Des Moines	2,350,000.00	700,000.00	242,545.71	1,325,697.50	4,054,868.92	3,457,497.14	2,869,284.94		1,240.00
Dubuque	600,000.00	130,000.00	250,642.92	596,700.00	412,433.08	638,966.03	408,387.09		152.00
Sioux City	950,000.00	510,000.00	99,656.66	864,497.50	2,890,926.32	4,100,397.18	1,001,644.36		
Missouri	6,685,000.00	2,779,408.34	966,906.35	5,783,547.50	263,011.52	2,747,469.86	55,182.13	101,439.49	36,179.50
Kansas City	3,050,000.00	2,315,000.00	2,669,104.45	4,397,595.00	30,706,093.12	22,583,794.47	4,243,662.06	387,520.19	1,912.50
St. Joseph	1,100,000.00	700,000.00	128,664.68	957,095.00	3,247,655.21	5,978,886.12	490,615.39		138.00
St. Louis	20,200,000.00	8,940,000.00	1,415,641.71	16,668,465.00	56,329,310.03	27,821,808.96	3,766,033.73		128,567.75
Middle Western States	282,411,035.00	145,556,447.22	54,049,589.62	193,223,502.50	344,309,157.46	234,031,817.72	84,850,255.35	2,783,756.77	374,559.68
North Dakota	5,210,000.00	2,076,665.33	810,763.16	3,952,715.00	1,087,192.63	2,713,958.41	106,672.03	1,992.44	5,507.00
South Dakota	4,185,000.00	1,325,960.07	841,835.85	3,266,010.00	935,892.66	3,504,360.36	112,797.68		17,592.00
Nebraska	10,486,200.00	4,498,643.00	1,531,233.24	8,593,212.50	663,243.72	8,567,731.58	269,521.53	1,985.85	5,795.00
Lincoln	1,000,000.00	330,000.00	309,396.05	910,650.00	1,287,742.20	1,908,490.66	127,953.11		43.00
Omaha	3,700,000.00	2,850,000.00	915,382.73	2,517,497.50	11,267,249.39	7,817,105.05	188,355.18		1,326.00
South Omaha	1,100,000.00	505,000.00	192,557.12	663,750.00	2,466,866.41	2,391,439.02	122,715.24		
Kansas	10,892,500.00	4,890,183.33	2,501,494.14	8,838,642.50	1,200,503.34	5,192,809.98	188,907.60	12,369.89	17,515.33
Kansas City	500,000.00	300,000.00	77,988.78	399,000.00	1,210,722.96	2,043,915.77	147,406.67		1,014.00
Topeka	400,000.00	190,000.00	45,930.17	300,000.00	558,003.98	411,924.55	5,289.59		
Wichita	500,000.00	555,000.00	91,569.83	320,197.50	1,661,276.21	2,573,078.48	56,583.59		7.00
Montana	5,135,000.00	2,698,700.00	1,366,856.40	3,186,620.00	1,441,779.59	1,246,847.44	192,693.06	1,002.16	11,002.14

Abstract of reports of the national banking associations of the United States, showing their condition at the close of business on Wednesday, June 4, 1913—Continued.

States, Territories, and reserve cities.	Liabilities.								
	Capital stock paid in.	Surplus fund.	Undivided profits, less expenses.	National-bank notes outstanding.	Due to other national banks.	Due to State and private banks and bankers.	Due to trust companies and savings banks.	Due to approved reserve agents.	Dividends unpaid.
Wyoming	$1,710,000.00	$1,182,000.00	$538,418.18	$1,515,145.00	$442,732.44	$593,202.04	$85,096.82		
Colorado	6,740,000.00	3,151,986.45	1,445,604.54	4,954,902.50	603,578.41	503,908.74	846,896.60	$926.00	$4,291.00
Denver	3,600,000.00	3,935,000.00	375,618.63	3,480,395.00	8,268 465.90	2,187,681.54	3,086,063.33		75.00
Pueblo	600,000.00	470,000.00	50,148.17	476,500.00	1,641,409.30	933,582.06	536,144.63		7,910.40
New Mexico	2,215,000.00	973,830.00	236,288.60	1,657,480.00	436,216.11	609,130.50	338,188.02	2,121.43	
Oklahoma	12,088,200.00	3,125,336.53	1,923,522.30	8,217,187.50	2,295,442.02	2,604,778.77		95,032.23	14,371.66
Muskogee	900,000.00	272,000.00	91,621.07	674,997.50	614,020.77	282,688.73	4,835.23		72.50
Oklahoma City	1,300,000.00	383,000.00	111,762.92	614,250.00	1,918,134.58	922,239.39	8,246.08		100.00
Western States	72,261,900.00	33,708,304.71	13,477,991.88	54,538,152.50	40,000,472.62	42,008,873.07	6,414,455.99	115,430.00	86,712.03
Washington	4,110,000.00	2,050,704.20	721,793.36	2,506,265.00	227,152.35	636,977.21	288,140.30	11,278.15	603.33
Seattle	4,200,000.00	1,370,000.00	735,782.44	1,577,595.00	3,093,431.88	3,683,285.15	2,482,301.98		1,215.00
Spokane	3,400,000.00	771,465.77	418,796.63	2,715,400.00	2,215,177.41	1,731,936.77	517,264.06		451.00
Tacoma	500,000.00	850,000.00	120,269.32	480,650.00	514,364.14	565,908.64	5.70		
Oregon	4,936,000.00	2,236,329.96	877,771.98	3,388,790.00	148,830.40	375,458.95	294,664.94	3,188.88	64,755.00
Portland	4,500,000.00	2,065,000.00	615,659.13	2,321,392.50	4,429,747.82	3,432,959.10	1,328,596.57		762.25
California	21,423,500.00	8,643,863.96	4,869,161.23	16,627,430.00	2,633,319.25	2,981,673.06	4,941,003.33	378,809.02	10,228.33
Los Angeles	6,000,000.00	2,900,000.00	4,029,252.44	4,970,397.50	6,239,962.75	4,535,792.57	8,323,840.79		2,098.55
San Francisco	28,500,000.00	16,375,000.00	5,564,501.89	21,742,465.00	18,154,581.83	27,315,307.98	16,421,146.63	342,686.94	9,391.50
Idaho	3,370,000.00	1,512,111.93	606,759.69	2,740,910.00	539,418.43	818,149.54	105,118.45	3,309.63	300.00
Utah	1,155,000.00	453,686.45	287,988.09	914,542.50	467,206.36	606,777.11	144,016.35	1,145.33	330.00
Salt Lake City	2,400,000.00	1,030,000.00	359,574.84	2,324,595.00	1,739,011.81	1,669,972.91	1,000,593.73	4,209.07	15,625.00
Nevada	1,760,000.00	526,900.00	86,297.97	1,557,540.00	27,777.07	414,747.52	525,102.51	1,218.29	746.00
Arizona	1,155,000.00	642,000.00	369,718.32	932,107.50	46,786.71	260,745.34	310,466.36		236.00
Alaska[1]	[1] 100,000.00	60,000.00	29,662.05	61,900.00	4,141.21	933.11		1,215.49	
Pacific States	87,509,500.00	41,487,062.27	19,692,989.38	64,861,920.00	40,480,909.42	49,030,624.96	36,682,261.70	747,120.80	106,741.96
Hawaii	610,000.00	259,062.08	63,877.16	306,247.50	1,900.45	163,219.37	30,367.47	3.66	810.00
United States	1,056,919,792.00	720,606,792.54	268,140,962.57	722,125,024.00	1,017,460,873.04	528,264,904.42	528,940,184.47	45,885,609.76	1,529,195.57

[1] One report for Apr. 4, 1913.

Abstract of reports of the national banking associations of the United States, showing their condition at the close of business on Wednesday, June 4, 1913—Continued.

States, Territories, and reserve cities.	Liabilities—Continued.								
	Individual deposits.	United States deposits.	Postal savings deposits.	Deposits of United States disbursing officers.	Bonds borrowed.	Notes and bills rediscounted.	Bills payable.	Reserved for taxes.	Other liabilities.
Maine	$46,267,315.06	$154,614.10	$75,889.31	$106,578.02	$85,000.00	$39,047.01	$295,500.00	$260.07	$98,103.92
New Hampshire	20,141,718.12	260,550.33	186,115.15	7,940.75	5,000.00	141,518.44	208,082.81	12,100.00	81.00
Vermont	18,433,067.03	58,907.70	25,922.28	162,720.45	9,000.00	14,500.00	265,000.00	5,413.67	20,609.00
Massachusetts	135,000,108.05	250,795.08	591,300.61	511.61	60,000.00	108,455.41	1,108,500.00	145,357.00	44,223.23
Boston	193,139,390.48	750,822.12	419,663.17	177,712.70	3,047,000.00	.....	160,000.00	475,000.92	2,347.60
Rhode Island	28,726,038.86	275,961.90	73,329.60	26,501.09	.....	.....	345,000.00	15,121.45	27,088.23
Connecticut	67,752,671.84	237,038.18	272,905.57	8,404.80	.....	13,500.00	663,000.00	49,142.81	26,235.28
New England States	509,462,325.44	1,988,689.41	1,645,125.70	490,369.42	3,215,000.00	317,020.86	3,923,082.81	702,386.44	199,888.89
New York	360,642,422.94	998,071.74	814,823.70	97,403.66	1,159,000.00	336,220.99	2,696,554.46	298,104.22	218,204.76
Albany	17,296,578.93	261,462.15	12,224.99	.....	.....	.....	.....	11,450.00	5,000.00
Brooklyn	19,626,388.41	258,532.37	270,129.90	72,644.47	.....	.....	.....	25,668.54	.....
New York City	704,994,318.24	2,506,145.26	786,102.14	298,657.97	8,433,750.00	65,000.00	335,000.00	1,759,602.98	139,516.00
New Jersey	194,960,116.57	513,197.40	429,194.27	104,178.65	23,000.00	302,350.04	4,108,500.00	26,916.10	209,461.87
Pennsylvania	479,401,739.43	578,618.42	857,995.26	47,062.96	39,613.01	193,447.43	1,215,500.00	44,196.53	61,269.00
Philadelphia	192,993,880.59	1,003,429.38	215,100.15	170,714.50	75,000.00	157,354.41	620,000.00	24,294.29	4,000.00
Pittsburgh	130,618,008.68	713,505.69	83,189.40	93,308.49	925,000.00	1,883,460.71	100,000.00	187,733.26	.....
Delaware	8,255,006.78	81,359.83	3,612.53	20,927.98	.....	.....	142,000.00	.....	2,510.97
Maryland	40,703,229.44	112,770.34	10,872.44	.....	.....	18,768.75	445,000.00	3,073.36	543.10
Baltimore	43,704,232.56	1,121,898.51	32,863.62	8,853.51	949,000.00	77,000.00	3,016,000.00	36,702.16	498.60
District of Columbia	1,603,541.18	71,000.00	.....	.....	.....	.....	.....	.....	.....
Washington	27,784,451.20	2,663,303.97	71,032.96	125,062.93	2,455,725.00	.....	280,000.00	26,915.31	.....
Eastern States	2,221,985,884.95	10,828,295.06	3,587,140.36	1,033,834.52	14,060,087.01	3,163,602.33	12,903,554.46	2,558,057.52	641,155.44
Virginia	88,317,172.61	1,342,222.25	104,502.44	306,579.35	1,885,000.00	1,641,703.99	2,126,513.27	126,078.92	159,244.85
West Virginia	56,337,416.69	323,370.60	58,188.20	41,699.50	163,000.00	33,800.00	201,654.76	11,689.12	.....
North Carolina	32,495,822.74	474,663.42	13,619.89	23,109.89	266,000.00	1,179,516.75	3,751,263.33	.....	2,315.07
South Carolina	19,978,246.22	229,542.14	9,549.25	10,900.98	.....	1,106,852.21	3,707,000.00	21,597.09	27,430.15
Georgia	44,654,693.63	522,222.77	30,578.97	236,330.32	56,000.00	1,606,204.36	5,857,000.00	750.00	1,899.85
Savannah	1,598,824.96	138,993.54	4,941.07	12,580.12	66,000.00	.....	298,050.00	.....	.....
Florida	36,692,315.87	376,326.52	92,298.46	45,784.28	284,500.00	148,458.04	889,500.00	26,592.26	491.56
Alabama	38,655,704.83	226,688.01	42,859.33	34,760.88	36,800.00	579,709.58	1,863,400.00	13,503.94	7,697.02
Mississippi	14,025,319.27	50,090.52	80,522.32	71,017.99	152,600.00	99,365.72	403,263.81	22,514.55	7,892.94
Louisiana	14,832,407.07	6,000.00	18,141.26	.....	41,000.00	250,476.81	765,000.00	21,098.06	.....
New Orleans	21,930,855.05	370,720.48	40,963.77	82,851.96	1,131,400.00	.....	1,701,901.60	89,000.00	.....

Abstract of reports of the national banking associations of the United States, showing their condition at the close of business on Wednesday, June 4, 1913—Continued.

States, Territories, and reserve cities.	Liabilities—Continued.								
	Individual deposits.	United States deposits.	Postal savings deposits.	Deposits of United States disbursing officers.	Bonds borrowed.	Notes and bills rediscounted.	Bills payable.	Reserved for taxes.	Other liabilities.
Texas	$121,992,525.16	$556,499.26	$156,478.98	$409,247.03	$33,651.11	$550,255.36	$3,243,500.00	$41,960.93	$88,891.06
Dallas	20,606,291.43	149,258.37	105,409.73	28,148.96					26,832.60
Fort Worth	12,027,117.39	2,000.00	32,372.36				200,000.00	2,558.33	
Galveston	4,112,057.29	76,259.93	13,026.63	21,499.91	200,000.00				
Houston	23,961,558.71	150,000.00	43,375.29		365,000.00	342,483.33	500,000.00	58,437.19	
San Antonio	10,343,009.53	14,479.12	49,477.79	288,174.76			75,000.00	13,005.26	10,760.87
Waco	5,576,231.70	39,114.61				98,163.80	120,000.00	2,500.00	
Arkansas	18,517,333.92	44,296.86	104,380.03		10,000.00	244,011.85	775,165.00	11,366.75	183.30
Kentucky	43,348,401.42	652,863.89	91,992.98	87,754.20	995,700.00	224,477.93	976,367.65	106,778.76	3,150.72
Louisville	21,172,364.93	1,112,987.47	132,098.02	89,843.66	327,000.00			13,182.68	
Tennessee	63,878,623.83	618,324.75	182,455.09	203,580.84	25,000.00	471,868.66	2,007,400.00	66,525.36	128,671.59
Southern States	715,053,294.27	7,475,924.51	1,407,231.86	1,963,864.62	6,038,651.11	8,549,348.39	29,461,979.42	711,138.51	475,342.68
Ohio	211,234,297.40	638,155.32	893,541.45	56,208.95	3,986,441.65	117,313.02	1,215,050.00	61,065.19	17,522.77
Cincinnati	38,359,928.39	1,353,978.91	433,340.41	5,736.83	3,674,000.00			82,242.33	
Cleveland	46,034,766.02	601,754.50	70,822.39	31,512.04	2,376,000.00	100,000.00		55,515.46	6,300.00
Columbus	21,569,385.41	223,085.59	336,486.75	21,020.91	180,000.00			23,998.70	
Indiana	123,635,112.02	1,591,585.21	412,835.53	62,972.61	503,100.00	64,000.00	305,392.40	124,086.66	26,368.62
Indianapolis	25,110,720.47	79,538.27	87,187.71	428,207.86	2,483,700.00			32,049.02	
Illinois	213,207,817.39	2,779,238.82	692,485.46	36,223.52	170,000.00	132,804.80	1,584,700.00	56,202.19	208,499.47
Chicago	208,391,727.56	1,384,115.14	232,028.16	164,778.57	2,259,000.00			671,899.43	
Michigan	91,984,937.56	454,159.10	437,071.57	24,856.69	15,600.00	493,500.07	350,000.00	96,306.75	23,815.07
Detroit	40,214,635.57	228,313.20	296,476.82	222,102.71	200,000.00			46,905.49	
Wisconsin	93,362,170.30	194,486.44	368,077.08	89,387.64	19,000.00	61,294.37	130,000.00	86,955.19	27,512.28
Milwaukee	42,292,119.33	484,217.07	305,032.62	183,015.10			800,000.00	82,140.46	
Minnesota	107,292,299.25	176,322.53	380,934.37	16,878.13	11,000.00	18,727.48	348,000.00	88,203.36	99,107.57
Minneapolis	43,784,579.94	158,111.31	165,657.68	64,788.65	395,000.00			74,406.54	
St. Paul	29,930,256.02	879,673.99	637,718.92					127,840.24	
Iowa	112,451,468.89	230,129.32	107,068.74	4,603.15	1,400.00	122,000.00	1,345,000.00	76,158.84	34,954.83
Cedar Rapids	3,195,803.58	25,383.27	974.39	866.12					
Des Moines	7,689,589.56	179,659.88	23,446.49	2,445.65				26,532.85	
Dubuque	2,452,894.77	44,469.91	5,974.39					7,116.74	
Sioux City	7,039,628.19	119,429.42	20,230.63	7,570.58					
Missouri	31,464,229.40	17,000.00	146,539.65		13,000.00	5,000.00	347,750.00	30,763.94	315.81
Kansas City	40,278,975.25	629,448.45	282,439.44	68,174.68	33,536.25		150,000.00	44,820.43	

St. Joseph	6,825,604.61	104,880.56	30,799.57					2.46	
St. Louis	62,195,253.78	639,008.71	84,504.98	28,570.29	2,756,290.00			159,609.37	
Middle Western States	1,609,998,200.66	13,216,144.92	6,451,675.20	1,519,920.68	19,077,067.90	1,114,639.74	6,575,892.40	2,054,821.64	442,396.42
North Dakota	32,465,297.44	143,846.74	30,795.72	62,813.59		37,792.45	325,500.00	981.75	30,828.62
South Dakota	30,010,746.51	338,177.89	122,803.76	4,772.80	1,000.00		229,000.00	66,841.96	15,404.00
Nebraska	55,266,962.09	77,409.46	98,483.59	2,417.56	19,000.00	202,509.15	597,323.99	29,218.17	5,050.00
Lincoln	4,765,703.59	105,901.36	18,863.37	3,315.40				2,081.19	
Omaha	27,028,641.69	645,207.55	149,337.52	33,471.39				61,635.14	
South Omaha	6,990,527.93	26,000.00	15,000.27					24,795.68	
Kansas	59,858,594.77	441,312.88	213,236.18	46,819.72	87,500.00	113,854.93	233,872.16	32,820.77	4,141.65
Kansas City	3,145,144.28	1,000.00	111,863.10				85,000.00	3,000.00	27.98
Topeka	3,308,644.58	140,321.54	20,629.43	234,353.14				2,500.00	
Wichita	4,513,249.92	3,000.00	28,316.26					6,033.56	
Montana	35,148,490.96	686,137.48	437,050.43	35,079.80	2,000.00	4,500.00	267,500.00	17,145.59	2,220.55
Wyoming	12,946,684.41	247,135.10	41,016.85	227.09		37,000.00	63,000.00	1,500.00	1,718.17
Colorado	38,953,187.61	147,194.19	411,148.85	1,207.25	26,000.00	20,000.00	95,000.00	64,861.86	593.85
Denver	37,111,306.78	525,375.72	236,008.37	286,199.14				36,200.02	
Pueblo	6,994,267.91	72,069.79	50,025.50	1,967.21				23,555.03	
New Mexico	15,271,583.45	245,905.97	41,222.29	6,468.92	7,000.00		148,000.00	15,617.36	57.11
Oklahoma	55,597,272.15	254,503.69	174,512.97	367,512.82	61,380.41	112,015.92	867,060.85	93,564.72	42,571.28
Muskogee	4,716,498.20	144,504.83	3,486.62				25,000.00	14,568.50	
Oklahoma City	7,110,223.46	202,000.00	50,542.97		150,000.00			32,703.25	87.05
Western States	441,203,027.73	4,447,004.19	2,254,344.05	1,086,625.83	353,880.41	527,672.45	2,936,257.00	529,624.55	102,700.26
Washington	30,353,777.72	261,072.97	403,843.96	4,053.08	17,000.00	20,000.00	148,578.83	21,129.01	
Seattle	31,700,739.42	1,040,490.02	191,692.87	54,734.24				14,832.85	
Spokane	17,046,436.34	143,679.98	42,800.95	9,077.43				43,380.52	
Tacoma	7,609,533.44	156,739.12	284,544.09	43,260.88				6,515.49	
Oregon	29,448,069.65	87,271.66	222,692.61	26,747.40	37,800.00	5,074.45	129,000.00	2,015.67	56,210.00
Portland	25,962,891.00	715,710.94	231,560.89	59,180.01				46,978.67	
California	122,449,952.57	275,693.07	785,171.54	5,734.80	317,979.15	127,464.76	2,257,500.00	17,547.03	118,096.52
Los Angeles	46,436,001.62	262,984.43	175,251.53	90,474.08	77,000.00		200,000.00	90,220.66	146.58
San Francisco	88,736,533.51	852,354.12	534,134.89	8,181.35				162,819.11	
Idaho	18,728,112.94	175,859.97	227,931.55	15,887.78	14,000.00	49,571.20	235,000.00	32,233.39	
Utah	7,323,844.34	139,796.19	18,927.17		7,000.00		55,000.00	21,916.77	1,196.08
Salt Lake City	11,482,746.50	255,021.34	13,343.49	17,229.85		200,000.00		9,880.61	
Nevada	6,012,025.13	62,551.47	93,169.01	565.18		6,586.18		173.66	4,109.42
Arizona	9,716,618.63	235,844.53	91,293.75	200.00				4,972.00	575.89
Alaska[1]	875,090.20	215,212.42		19,092.95					3,310.20
Pacific States	453,882,373.01	4,900,282.23	3,316,358.30	354,419.03	470,779.15	408,696.59	3,025,078.83	474,615.44	183,644.69
Hawaii	1,876,445.06	261,877.73		157,786.98					
United States	5,953,461,551.12	43,118,218.05	18,661,875.47	6,606,821.08	43,215,465.58	14,080,980.36	58,825,794.92	7,030,644.10	[2] 2,045,067.99

[1] One report for Apr. 4, 1913.

[2] Includes $21,947 State bank notes outstanding.

Abstract of reports of the national banking associations of the United States, showing their condition at the close of business on Wednesday, June 4, 1913—Continued.

States, Territories, and reserve cities.	Classification of deposits.					
	Individual deposits subject to check.	Demand certificates of deposit.	Time certificates of deposit.	Certified checks.	Cashier's checks outstanding.	Total.
Maine	$43,376,590.32	$2,237,765.77	$471,507.98	$16,932.35	$164,519.64	$46,267,316.06
New Hampshire	18,043,903.23	1,747,789.37	82,783.66	28,518.47	238,723.19	20,141,718.12
Vermont	16,846,033.86	893,148.88	600,931.38	21,977.22	70,995.69	18,433,087.03
Massachusetts	120,463,685.71	3,409,708.23	331,759.92	418,560.35	316,388.84	135,000,103.05
Boston	186,847,606.24	2,589,973.53	.....	1,931,349.92	1,770,460.79	193,139,390.48
Rhode Island	24,922,304.49	3,575,209.12	4,970.00	55,298.32	170,256.93	28,728,038.86
Connecticut	65,437,586.08	1,546,166.53	149,495.00	421,629.76	197,794.47	67,752,671.84
New England States	485,937,709.93	16,059,761.43	1,641,448.14	2,894,266.39	2,929,139.55	509,462,325.44
New York	307,625,148.38	50,047,274.43	1,785,370.97	760,710.16	423,919.00	360,642,422.94
Albany	17,151,208.36	12,087.18	.....	120,218.82	15,064.57	17,298,578.93
Brooklyn	18,929,641.83	56,736.20	.....	267,868.20	372,142.18	19,626,388.41
New York City	611,288,726.67	7,688,543.41	791,382.27	63,669,438.50	21,556,227.39	704,994,318.27
New Jersey	185,560,237.48	5,171,933.59	2,259,283.91	1,240,644.97	728,016.62	194,960,116.54
Pennsylvania	365,897,071.58	53,893,557.22	58,098,440.38	537,871.09	974,799.16	479,401,739.43
Philadelphia	186,211,385.15	1,284,985.79	291,520.61	448,490.58	4,757,468.46	192,993,850.59
Pittsburgh	125,219,584.24	1,482,913.14	1,437,577.71	787,263.92	1,690,669.67	130,618,008.68
Delaware	7,428,165.35	457,119.26	355,171.97	11,982.87	2,567.33	8,255,006.78
Maryland	33,615,701.15	5,024,694.61	2,008,780.35	35,432.55	18,620.78	40,703,229.44
Baltimore	41,245,557.31	418,370.85	841,000.00	720,835.32	478,469.08	43,704,232.56
District of Columbia	1,002,546.67	.....	.....	994.51	.....	1,003,541.18
Washington	27,262,185.07	335,639.15	19,195.86	113,532.80	53,898.32	27,784,451.20
Eastern States	1,928,437,159.24	125,873,854.83	67,887,724.03	68,715,284.29	31,071,862.56	2,221,985,884.95
Virginia	73,161,827.87	9,095,763.87	5,533,331.72	292,086.71	234,162.44	88,317,172.61
West Virginia	37,258,785.19	2,721,027.60	16,139,055.69	24,708.05	193,840.16	56,337,416.69
North Carolina	23,896,619.14	3,246,102.54	5,103,757.25	26,576.38	222,767.43	32,495,822.74
South Carolina	18,075,844.03	795,136.51	1,016,401.80	25,611.83	65,252.05	19,978,246.22
Georgia	39,350,195.10	1,455,693.03	3,417,755.12	101,694.13	329,446.25	44,654,693.63
Savannah	1,484,144.61	24,163.02	88,656.47	1,795.58	65.30	1,598,824.98
Florida	33,180,773.00	1,044,503.43	2,196,794.66	61,244.10	209,000.68	36,692,315.87
Alabama	34,745,817.69	1,202,881.45	2,578,315.33	43,921.32	84,769.04	38,655,704.83
Mississippi	10,876,734.03	268,745.41	2,809,308.00	9,439.37	61,092.46	14,025,319.27
Louisiana	12,427,945.70	1,103,879.51	1,202,616.26	28,664.78	69,300.82	14,832,407.07
New Orleans	20,793,077.81	467,771.98	346,676.86	177,781.29	145,547.11	21,930,855.05

Texas	109,859,259.90	4,006,508.37	7,008,860.90	98,531.28	1,019,364.71	121,992,525.16
Dallas	19,603,375.78	62,215.87	394,076.18	96,744.58	448,879.02	20,605,291.43
Fort Worth	11,426,557.22	408,085.70	56,193.49	18,657.18	117,623.80	12,027,117.39
Galveston	3,798,236.66	252,194.28	53,557.71	2,378.10	5,690.54	4,112,057.29
Houston	21,446,315.74	955,439.90	1,132,657.63	99,510.29	327,635.15	23,961,558.71
San Antonio	9,680,465.00	60,249.27	454,381.07	11,331.95	136,582.24	10,343,009.53
Waco	5,357,692.43	8,102.77	195,406.15	6,039.05	8,991.30	5,576,231.70
Arkansas	14,738,326.42	2,174,315.31	1,485,551.34	26,057.57	93,083.28	18,517,333.92
Kentucky	36,541,842.52	1,439,730.99	5,305,905.31	27,693.89	33,228.71	43,348,401.42
Louisville	15,353,743.57	1,078,569.11	4,446,570.88	86,988.58	206,492.79	21,172,364.93
Tennessee	49,192,557.81	7,104,230.59	7,090,301.19	192,251.80	299,282.44	63,878,623.83
Southern States	602,250,137.22	38,975,310.51	68,056,131.01	1,459,617.81	4,312,097.72	715,053,294.27
Ohio	148,461,311.51	39,580,722.57	22,676,658.92	264,934.15	250,670.25	211,234,297.40
Cincinnati	36,805,376.63	1,017,022.23		145,261.64	392,267.89	38,359,928.39
Cleveland	45,011,086.55	510,525.18	26,320.00	208,856.12	277,978.17	46,034,766.02
Columbus	16,155,776.26	1,204,520.68	4,104,316.58	78,634.24	26,137.65	21,569,385.41
Indiana	81,017,674.63	34,378,814.54	7,895,353.12	145,830.55	197,439.18	123,635,112.02
Indianapolis	23,198,137.06	1,533,485.37		56,761.52	322,336.52	25,110,720.47
Illinois	144,231,183.01	28,541,180.03	39,704,099.95	219,619.39	511,735.01	213,207,817.39
Chicago	194,990,676.26	2,965,271.43	3,707,157.93	2,281,161.99	4,447,459.95	208,391,727.56
Michigan	67,037,362.50	20,315,851.14	4,502,066.37	85,661.90	43,995.65	91,984,937.56
Detroit	35,386,076.16	4,502,459.12		52,793.30	273,306.99	40,214,635.57
Wisconsin	50,998,010.70	12,952,398.90	29,238,406.38	73,719.60	99,634.72	93,362,170.30
Milwaukee	33,632,910.70	6,889,823.00	1,168,030.67	231,967.38	369,387.58	42,292,119.33
Minnesota	51,047,620.90	1,526,285.79	53,323,489.00	126,179.22	1,268,724.34	107,292,299.25
Minneapolis	38,527,186.12	2,746,681.03	1,303,675.62	226,454.21	980,582.96	43,784,579.94
St. Paul	25,281,596.09	3,881,914.97	295,155.95	157,348.52	314,240.49	29,930,256.02
Iowa	55,287,333.76	19,264,249.72	37,520,647.70	123,361.87	255,875.84	112,451,468.89
Cedar Rapids	2,052,434.53	76,873.23	1,036,585.37	8,815.42	21,095.03	3,195,803.58
Des Moines	6,917,977.07	737,672.56		27,799.06	6,140.87	7,689,589.56
Dubuque	1,534,452.85	19,014.92	880,175.07	2,140.35	17,111.58	2,452,894.77
Sioux City	4,913,936.91	49,820.16	2,003,292.20	17,580.31	54,998.61	7,039,628.19
Missouri	24,202,697.34	572,781.02	6,523,662.00	5,654.57	159,434.47	31,464,229.40
Kansas City	31,628,825.26	3,213,198.39	4,332,826.44	84,326.10	1,019,799.06	40,278,975.25
St. Joseph	5,261,231.62	616,845.29	782,455.40	3,538.70	161,533.60	6,825,604.61
St. Louis	50,807,638.91	16,167.24	9,565,812.44	5,092.94	1,800,542.25	62,195,253.78
Middle Western States	1,174,388,513.33	187,113,578.51	230,590,187.11	4,633,493.05	13,272,428.66	1,609,998,200.66
North Dakota	15,105,008.42	1,150,866.35	15,955,592.80	44,880.97	208,948.90	32,465,297.44
South Dakota	13,436,907.77	1,168,722.09	15,213,602.91	42,221.59	149,292.15	30,010,746.51
Nebraska	28,343,873.98	6,520,860.73	20,187,522.82	52,459.17	162,245.39	55,266,962.09
Lincoln	4,099,640.57	127,976.91	414,993.83	19,447.94	103,644.34	4,765,703.59
Omaha	20,967,259.89	144,151.91	5,127,943.29	192,398.57	596,888.03	27,028,641.69
South Omaha	4,333,540.87	166.18	1,645,420.95	3,771.59	1,007,628.34	6,990,527.93
Kansas	39,838,100.76	6,351,804.02	13,464,661.92	37,770.13	166,257.94	59,858,594.77
Kansas City	2,563,473.29	490,448.82	44,796.93	2,301.86	44,123.38	3,145,144.28
Topeka	3,022,915.78	259,049.70	1,240.00	10,050.63	15,388.47	3,308,644.58
Wichita	3,718,000.94	473,871.42	266,876.84	8,161.98	46,338.74	4,513,249.92
Montana	22,711,291.62	2,929,153.23	9,294,272.14	39,063.81	174,710.16	35,148,490.96

bstract of reports of the national banking associations of the United States, showing their condition at the close of business on Wednesday, June 4, 1913—Continued.

States, Territories, and reserve cities.	Classification of deposits.					
	Individual deposits subject to check.	Demand certificates of deposit.	Time certificates of deposit.	Certified checks.	Cashier's checks outstanding.	Total.
Wyoming	$7,847,029.09	$97,880.24	$4,936,833.04	$9,951.37	$54,900.67	$12,946,694.41
Colorado	25,412,501.44	4,113,260.16	9,235,081.99	18,090.51	174,253.51	38,953,187.61
Denver	27,014,319.20	377,351.82	9,194,057.20	98,337.01	427,241.55	37,111,306.78
Pueblo	4,103,020.15	1,145,095.69	1,645,064.11	2,135.47	98,952.49	6,994,267.91
New Mexico	10,133,296.42	184,545.02	4,767,982.04	6,251.03	179,508.94	15,271,583.45
Oklahoma	45,959,825.02	2,661,258.78	6,289,885.91	114,489.43	571,533.61	55,597,272.15
Muskogee	3,385,716.86	.....	1,192,750.81	71,963.74	66,046.79	4,716,498.20
Oklahoma City	6,450,679.85	166,448.78	385,776.07	6,970.39	100,348.37	7,110,223.46
Western States	288,446,401.92	28,362,911.85	119,264,355.60	780,717.19	4,348,641.17	441,203,027.73
Washington	24,906,859.28	1,222,616.36	4,120,698.48	45,508.56	56,095.04	30,353,777.72
Seattle	25,986,052.14	390,616.19	4,661,921.81	247,850.86	414,304.42	31,700,739.42
Spokane	14,897,363.31	1,936,155.47	48,752.19	48,931.67	115,233.70	17,046,436.34
Tacoma	6,909,508.49	84,075.62	518,805.72	76,203.67	20,939.94	7,609,533.44
Oregon	23,436,986.24	1,792,966.93	4,090,585.17	21,269.31	106,262.00	29,448,069.65
Portland	23,652,322.48	1,254,752.45	435,462.07	216,587.81	403,766.19	26,962,891.00
California	100,943,500.69	7,969,714.54	10,905,544.33	269,044.37	2,462,148.64	122,449,952.57
Los Angeles	40,398,544.77	2,517,806.30	1,796,393.30	457,075.51	1,268,181.74	46,436,001.62
San Francisco	31,400,257.21	2,260,416.77	3,321,609.13	876,684.18	855,566.22	38,736,533.51
Idaho	13,789,116.00	1,709,809.28	2,994,602.37	26,711.95	207,873.34	18,728,112.94
Utah	6,360,285.87	60,631.11	1,722,035.61	15,576.27	165,315.48	7,323,844.34
Salt Lake City	9,631,763.09	35,814.27	1,653,272.68	16,830.45	145,066.01	11,482,746.50
Nevada	4,280,059.28	809,163.28	874,602.06	627.36	47,573.15	6,012,025.13
Arizona	8,607,650.18	209,851.03	812,964.68	14,546.46	71,606.28	9,716,618.63
Alaska	786,328.86	20,256.90	58,643.85	241.56	9,619.03	875,090.20
Pacific States	384,984,597.89	22,194,640.50	38,015,893.45	2,335,689.99	6,351,551.18	453,882,373.01
Hawaii	1,736,879.10	81,620.16	53,125.22	4,766.28	54.30	1,876,445.06
United States	4,866,181,398.63	418,661,677.79	525,508,864.56	80,823,835.00	62,285,775.14	5,953,461,551.12

Specie and circulation of national banks on June 4, 1913.

Cities, States, and Territories.	Number of banks.	Specie.							Circulating notes.		
		Gold coin.	Gold Treasury certificates.	Gold Treasury certificates to order (act of Mar. 14, 1900).	Clearing-house certificates (sec. 5192, R. S.).	Silver dollars.	Silver Treasury certificates.	Fractional silver coin.	Total.	Received from comptroller.	On hand.	Outstanding.
New York City	36	$4,332,011.24	$114,855,720	$22,050,000	$55,450,000	$48,577	$44,016,186	$1,303,541.78	$242,056,036.02	$49,756,300	$1,742,987.50	$48,013,312.50
Chicago	9	4,023,595.00	20,731,880	1,715,000	9,445,000	220,599	18,716,187	572,061.60	55,424,322.60	14,549,000	97,952.50	14,451,047.50
St. Louis	7	1,611,515.00	10,587,580	450,000	.....	109,877	4,475,944	107,255.90	17,342,171.90	17,049,790	381,325.00	16,668,465.00
Central reserve cities.	52	9,967,121.24	146,175,180	24,215,000	64,895,000	379,053	67,208,317	1,982,859.28	314,822,530.52	$1,355,090	2,222,265.00	79,132,825.00
Boston	17	800,941.00	12,145,510	45,000	5,415,000	6,991	7,865,985	355,362.70	26,634,789.70	8,551,800	141,097.50	8,410,702.50
Albany	3	571,845.00	1,810,830	60,000	.....	4,296	65,385	42,934.16	2,555,290.16	2,100,000	29,502.50	2,070,497.50
Brooklyn	6	171,680.00	1,217,320	.....	320,000	3,651	1,065,036	137,097.75	2,914,784.75	1,037,000	13,950.00	1,023,050.00
Philadelphia	32	1,758,310.00	8,935,450	7,170,000	6,865,000	162,860	5,908,339	696,197.60	31,496,161.60	11,947,000	123,317.50	11,823,682.50
Pittsburgh	23	2,769,713.00	8,098,720	.....	2,920,000	260,369	4,035,554	468,750.55	18,553,115.55	17,374,000	271,912.50	17,102,087.50
Baltimore	16	339,341.50	1,546,160	460,000	.....	38,354	2,282,460	132,609.15	4,798,924.65	8,249,000	99,915.00	8,149,085.00
Washington	11	47,817.50	1,631,550	100,000	.....	9,063	618,636	60,759.72	2,467,826.22	5,690,000	122,960.00	5,567,040.00
Savannah	2	4,960.00	39,500	.....	.....	24,350	56,100	39,187.00	164,097.00	800,000	.....	800,000.00
New Orleans	5	39,477.50	1,123,750	.....	500,000	28,685	678,248	34,178.15	2,404,338.65	3,270,000	22,405.00	3,247,595.00
Dallas	5	243,082.50	1,119,550	.....	.....	109,944	318,820	100,837.50	1,892,234.00	2,584,000	20,800.00	2,563,200.00
Fort Worth	8	591,412.50	296,130	.....	.....	136,340	109,863	152,952.75	1,286,698.25	2,282,000	13,855.00	2,268,145.00
Galveston	2	141,105.00	573,850	.....	.....	40,670	65,056	83,587.55	904,168.55	405,000	.....	405,000.00
Houston	6	258,557.50	1,545,170	.....	.....	212,887	308,024	169,172.75	2,493,811.25	4,500,000	17,000.00	4,483,000.00
San Antonio	7	286,502.50	782,220	.....	.....	194,801	229,243	134,526.45	1,627,292.95	2,115,000	68,107.50	2,046,892.50
Waco	5	152,162.50	268,000	.....	.....	100,726	100,208	131,510.38	752,606.88	1,500,000	.....	1,500,000.00
Louisville	8	602,445.00	877,000	560,000	.....	71,331	360,833	48,934.00	2,520,543.00	4,955,000	2,500.00	4,952,500.00
Cincinnati	8	543,490.00	3,028,240	1,050,000	.....	74,024	1,270,307	79,195.80	6,045,256.80	7,528,600	63,505.00	7,463,095.00
Cleveland	7	1,940,037.50	3,957,350	.....	740,000	65,375	736,844	93,402.45	7,533,008.95	5,702,500	83,500.00	5,619,000.00
Columbus	8	1,045,274.50	699,240	60,000	.....	115,586	331,563	63,388.55	2,315,052.05	2,500,000	12,800.00	2,487,200.00
Indianapolis	5	1,045,785.00	1,704,660	.....	.....	120,298	509,989	69,301.05	3,450,033.05	5,823,140	21,902.50	5,801,237.50
Detroit	3	1,196,485.00	836,990	.....	745,000	70,840	169,211	86,229.00	3,104,755.00	2,154,000	51,600.00	2,102,400.00
Milwaukee	5	940,532.50	1,476,220	.....	.....	52,207	1,959,562	51,752.90	4,480,274.40	4,117,000	35,405.00	4,081,595.00
Minneapolis	6	3,056,942.50	1,218,780	1,160,000	.....	226,803	37,995	162,047.45	5,862,567.95	1,995,000	7,305.00	1,987,695.00
St. Paul	4	1,608,752.50	339,380	300,000	1,090,000	103,175	473,407	80,658.60	3,995,373.10	825,000	24,500.00	800,000.00
Cedar Rapids	3	95,080.00	342,550	120,000	.....	25,558	24,410	22,290.30	629,888.30	525,000	9,550.00	515,450.00
Des Moines	4	530,264.90	661,010	110,000	.....	61,240	76,551	52,732.50	1,491,798.40	1,384,000	58,302.50	1,325,697.50
Dubuque	3	141,170.00	85,000	.....	.....	7,452	62,116	8,308.05	304,046.05	596,700	.....	596,700.00
Sioux City	5	201,635.00	323,600	500,000	.....	28,521	31,069	27,996.90	1,112,821.90	875,000	10,502.50	864,497.50
Kansas City, Mo	11	1,122,369.00	3,319,500	.....	1,130,000	118,358	1,366,205	177,509.95	7,233,941.95	4,605,000	207,405.00	4,397,595.00
St. Joseph	4	447,400.00	589,500	.....	.....	46,647	201,961	27,504.90	1,313,012.90	970,000	12,905.00	957,095.00

Specie and circulation of national banks on June 4, 1915—Continued.

Cities, States, and Territories.	Number of banks.	Specie.							Circulating notes.		
		Gold coin.	Gold Treasury certificates.	Gold Treasury certificates to order (act of Mar. 14, 1900).	Clearing-house certificates (sec. 5192, R. S.).	Silver dollars.	Silver Treasury certificates.	Fractional silver coin.	Total.	Received from comptroller.	On hand.	Outstanding.
Lincoln	4	$278,236.00	$162,800			$29,154	$42,714	$42,405.80	$555,309.80	$930,500	$19,850.00	$910,650.00
Omaha	7	1,011,435.00	1,657,360	$10,000		121,477	1,065,587	107,018.60	3,972,877.60	2,517,500	2.50	2,517,497.50
South Omaha	3	332,650.00	46,400	100,000		79,296	46,528	19,282.10	624,156.10	680,000	16,250.00	663,750.00
Kansas City, Kans	2	141,282.50	161,600	200,000		20,958	30,265	9,427.85	563,533.35	399,000		399,000.00
Topeka	3	125,865.00	94,570	120,000		19,112	19,571	28,509.85	407,627.85	300,000		300,000.00
Wichita	3	131,500.00	192,670	180,000		21,319	98,308	21,933.85	645,730.85	325,000	4,802.50	320,197.50
Denver	6	3,265,055.00	2,219,460			161,381	53,084	47,586.05	5,746,566.05	3,500,000	19,605.00	3,480,395.00
Pueblo	3	452,460.00	470,210			15,405	29,972	17,440.40	985,487.40	480,000	3,500.00	476,500.00
Muskogee	5	106,585.00	274,040			41,038	93,501	36,179.55	551,343.55	675,000	2.50	674,997.50
Oklahoma City	6	199,597.50	388,320			119,960	120,817	53,892.50	882,587.00	625,000	10,750.00	614,250.00
Seattle	6	2,915,410.00	470,850		$802,000	81,650	17,892	175,661.35	4,463,463.35	1,589,000	11,405.00	1,577,595.00
Spokane	5	879,137.50	205,700	1,011,000		89,063	63,377	156,736.75	2,405,014.25	2,800,000	84,600.00	2,715,400.00
Tacoma	2	757,867.50	46,010		324,000	16,627	21,248	30,054.25	1,195,806.75	500,000	19,350.00	480,650.00
Portland	5	2,728,040.00	107,230		717,000	67,132	9,770	121,849.05	4,751,021.05	2,900,000	578,607.50	2,321,392.50
Los Angeles	8	4,733,365.00	174,780		1,000,000	82,562	33,697	228,733.15	6,253,137.15	5,070,000	99,602.50	4,970,397.50
San Francisco	9	9,677,542.50	672,190	2,260,000	838,000	150,960	58,286	352,532.12	14,009,510.62	21,950,000	207,535.00	21,742,465.00
Salt Lake City	6	1,164,499.75	413,100			68,546	12,801	62,068.55	1,721,015.30	2,400,000	75,405.00	2,324,595.00
Other reserve cities	315	52,595,104.65	68,350,020	15,576,000	23,406,000	3,706,942	33,136,398	5,302,237.33	202,072,701.98	164,599,740	2,697,772.50	161,901,967.50
All reserve cities	367	62,562,225.89	214,525,000	39,791,000	88,301,000	4,085,995	106,344,715	7,285,096.61	516,895,232.50	245,954,830	4,920,037.50	241,034,792.50
Maine	69	1,128,882.59	971,660			26,813	449,074	130,773.55	2,707,203.14	6,016,650	115,892.50	5,900,757.50
New Hampshire	56	503,921.32	255,700			24,019	302,675	116,869.50	1,203,184.82	5,056,500	89,572.50	4,966,927.50
Vermont	49	388,572.94	298,790			31,774	130,825	86,736.35	936,698.29	4,512,500	62,562.50	4,449,937.50
Massachusetts	163	2,263,958.55	1,718,890		3,000	114,624	2,145,767	643,270.31	6,889,509.86	20,009,000	365,967.50	19,643,032.50
Rhode Island	20	428,053.40	605,660			3,599	373,843	87,100.07	1,498,255.47	4,717,000	91,797.50	4,625,202.50
Connecticut	79	1,690,910.30	880,220	20,000		65,845	1,094,577	329,675.11	4,081,227.41	13,533,350	364,215.00	13,169,135.00
New England States	436	6,404,299.10	4,730,920	20,000	3,000	266,674	4,496,761	1,394,424.89	17,316,078.99	53,845,000	1,090,007.50	52,754,992.50
New York	429	5,449,538.58	6,271,030	925,000	695,000	342,384	4,678,535	995,107.38	19,356,594.96	37,971,060	586,630.00	37,384,430.00
New Jersey	200	1,770,269.43	3,733,570	60,000		116,560	3,332,025	594,317.92	9,606,742.35	18,043,070	401,872.50	17,641,197.50
Pennsylvania	781	9,807,566.82	8,677,550	360,000	15,000	754,497	4,564,442	1,314,352.37	25,493,408.19	57,618,040	1,018,453.50	56,599,586.50
Delaware	26	105,663.00	106,570			21,549	216,299	45,993.75	496,074.75	1,415,250	18,595.00	1,396,655.00

Maryland	89	486,426.94	746,970	30,000	.....	24,794	412,180	122,600.14	1,822,971.08	4,399,740	73,302.50	4,326,437.50
District of Columbia	1	8,960.00	55,550	.....	.....	490	8,360	1,350.00	74,710.00	250,000	6,350.00	243,650.00
Eastern States	1,526	17,628,424.77	19,591,240	1,375,000	710,000	1,260,274	13,211,841	3,073,721.56	56,850,501.33	119,697,160	2,105,203.50	117,591,956.50
Virginia	133	1,400,936.95	1,626,600	.....	14,000	193,915	771,309	330,131.91	4,336,892.86	14,838,250	176,425.00	14,661,825.00
West Virginia	116	1,343,031.39	1,020,030	.....	.....	119,912	601,619	170,130.98	3,254,723.37	9,013,400	101,715.00	8,911,685.00
North Carolina	73	439,730.35	409,080	.....	.....	130,131	329,766	135,550.01	1,444,257.36	6,904,100	13,755.00	6,890,345.00
South Carolina	48	220,952.50	157,020	.....	.....	79,370	160,726	200,475.45	818,543.95	4,969,250	40,962.50	4,928,287.50
Georgia	116	517,790.93	634,350	.....	40,000	233,523	630,101	377,465.77	2,433,230.70	11,153,000	77,277.50	11,075,722.50
Florida	52	597,453.33	617,280	.....	.....	220,106	369,093	205,024.51	2,008,966.84	6,035,000	24,925.00	6,010,075.00
Alabama	87	685,841.21	1,096,730	.....	.....	305,145	516,008	237,073.69	2,840,797.90	8,480,050	282,852.50	8,197,197.50
Mississippi	33	155,587.35	376,840	90,000	.....	70,933	93,089	64,885.55	851,332.90	3,085,300	18,912.50	3,066,387.50
Louisiana	26	247,613.15	347,620	50,000	.....	116,640	156,964	129,468.35	1,038,305.50	2,571,250	21,610.00	2,549,640.00
Texas	481	2,397,048.23	3,040,440	.....	.....	890,347	993,495	846,242.46	8,167,572.69	23,046,410	190,812.50	22,855,597.50
Arkansas	49	409,387.00	537,420	20,000	.....	112,561	138,320	120,395.40	1,138,083.40	2,984,510	14,530.00	2,969,980.00
Kentucky	136	799,721.85	818,650	450,000	.....	139,265	326,952	130,230.70	2,664,819.55	11,699,350	86,077.50	11,613,272.50
Tennessee	107	1,067,004.50	1,432,190	40,000	.....	330,301	781,846	230,420.75	3,881,762.25	10,783,000	90,552.50	10,692,447.50
Southern States	1,457	10,272,098.74	11,914,260	650,000	54,000	2,942,149	5,869,288	3,177,493.53	34,879,289.27	115,562,870	1,140,407.50	114,422,462.50
Ohio	357	4,469,350.27	3,786,100	635,000	206,000	645,326	1,565,631	547,974.43	11,855,381.70	29,796,180	344,060.00	29,452,120.00
Indiana	249	3,194,143.50	2,708,510	80,000	.....	446,036	1,235,694	350,656.57	8,015,040.07	19,594,920	188,917.50	19,406,002.50
Illinois	448	4,592,180.36	4,179,520	885,000	.....	562,191	1,805,090	675,454.40	12,699,435.76	27,081,140	262,017.50	26,819,122.50
Michigan	96	2,393,066.34	1,715,800	50,000	.....	201,887	625,459	218,237.51	5,204,449.85	8,609,750	108,665.00	8,501,085.00
Wisconsin	124	1,960,427.25	1,289,620	770,000	.....	210,835	495,961	226,129.60	4,972,972.85	9,124,970	93,720.00	9,031,250.00
Minnesota	261	3,035,899.80	1,274,280	340,600	.....	287,359	593,709	300,635.58	5,831,883.38	8,988,260	74,337.50	8,913,922.50
Iowa	325	2,597,026.07	1,948,000	525,000	.....	391,484	609,966	310,769.13	6,382,245.20	15,308,200	111,017.50	15,197,182.50
Missouri	111	783,279.30	364,260	60,000	.....	150,026	195,512	120,001.74	1,673,079.04	5,844,310	60,762.50	5,783,547.50
Middle States	1,971	23,045,372.89	17,266,090	3,345,000	206,000	2,895,144	7,127,022	2,749,858.96	56,634,487.85	124,347,730	1,243,497.50	123,104,232.50
North Dakota	144	628,059.70	682,550	.....	.....	128,858	188,851	166,879.35	1,795,198.05	3,971,770	19,055.00	3,952,715.00
South Dakota	103	785,264.10	742,850	40,000	.....	105,670	195,052	112,751.75	1,971,587.85	3,283,300	17,290.00	3,266,010.00
Nebraska	228	1,486,472.80	939,230	275,000	.....	197,208	250,442	169,762.50	3,318,115.30	8,639,760	46,547.50	8,593,212.50
Kansas	205	1,715,635.75	1,219,310	60,000	.....	303,387	422,688	224,490.95	3,945,511.70	8,899,740	61,097.50	8,838,642.50
Montana	57	1,603,351.40	1,197,500	.....	.....	91,205	126,649	164,669.22	3,183,374.62	3,306,450	120,830.00	3,185,620.00
Wyoming	30	473,793.80	343,010	.....	.....	44,790	55,721	49,588.38	966,903.18	1,537,550	22,405.00	1,515,145.00
Colorado	117	1,435,879.75	922,990	.....	.....	139,041	203,102	120,800.65	2,821,813.40	5,001,010	46,107.50	4,954,902.50
New Mexico	40	427,062.50	400,860	.....	.....	53,619	94,280	54,153.15	1,029,974.65	1,679,000	21,520.00	1,657,480.00
Oklahoma	314	893,659.11	1,325,100	80,000	.....	348,869	381,134	321,453.74	3,350,215.85	8,338,030	120,842.50	8,217,187.50
Western States	1,238	9,449,178.91	7,773,400	455,000	.....	1,412,647	1,907,919	1,384,549.69	22,382,694.60	44,656,610	475,695.00	44,180,915.00
Washington	64	1,567,403.00	285,610	.....	.....	124,964	46,320	144,313.55	2,168,610.55	2,584,850	78,645.00	2,506,205.00
Oregon	78	2,258,351.66	216,500	.....	.....	102,694	31,882	149,127.12	2,753,554.78	3,517,460	128,670.00	3,388,790.00
California	235	7,645,433.50	870,890	170,000	20,000	423,346	181,917	603,834.26	9,915,420.76	16,941,300	313,870.00	16,627,430.00
Idaho	54	919,717.50	271,560	.....	149,500	69,647	49,725	100,662.10	1,560,811.60	2,772,500	31,590.00	2,740,910.00
Utah	17	425,562.50	20,770	.....	.....	23,297	15,655	28,849.85	514,134.35	923,250	8,707.50	914,542.50
Nevada	11	456,227.50	111,550	.....	.....	15,983	3,654	26,622.90	614,037.40	1,579,000	21,460.00	1,557,540.00

Specie and circulation of national banks on June 4, 1913—Continued.

Cities, States, and Territories.	Number of banks.	Specie.								Circulating notes.		
		Gold coin.	Gold Treasury certificates.	Gold Treasury certificates to order (act of Mar. 14, 1900).	Clearing-house certificates (sec. 5192, R. S.).	Silver dollars.	Silver Treasury certificates.	Fractional silver coin.	Total.	Received from comptroller.	On hand.	Outstanding.
Arizona	13	$415,232.00	$181,160	.....	.....	$59,242	$46,991	$38,398.45	$741,023.45	$941,510	$9,402.50	$932,107.50
Alaska [1]	2	228,469.54	53,900	.....	.....	4,520	6,031	11,880.75	304,801.29	62,500	600.00	61,900.00
Pacific States	474	13,916,397.20	2,[illegible],940	$170,000	$169,500	823,603	382,175	1,103,688.98	18,577,394.18	29,322,370	592,945.00	28,729,425.00
Island possessions (Hawaii)	4	484,661.00	260	.....	.....	34,297	104	19,627.05	538,949.05	306,250	2.50	306,247.50
Total States, etc	7,106	81,200,432.61	63,288,110	6,015,000	1,142,500	9,634,878	32,995,110	12,903,364.66	207,179,395.27	487,737,990	6,647,758.50	481,090,231.50
Total United States.	7,473	143,762,658.50	277,813,310	45,806,000	89,443,500	13,720,873	133,339,825	20,188,461.27	724,074,627.77	733,692,820	11,567,796.00	722,125,024.00

[1] One report for Apr. 4, 1913.

Deposits and reserve of national banks on June 4, 1913.

Cities, States, and Territories.	Net deposits subject to reserve requirements.	Reserve required, and the amount and per cent held.							Cash on hand, due from reserve agents, and in the redemption fund.	
		Required.	Held.						Amount.	Per cent.
			Specie.	Legal tenders.	Redemption fund.	Available with reserve agents, not exceeding 50 per cent of net reserve required.	Total amount.	Per cent.		
New York City	$1,093,896,154.20	$273,474,038.55	$242,056,036.02	$50,461,912	$2,477,065.00	.....	$294,995,013.02	26.97	$294,995,013.02	26.97
Chicago	363,020,419.98	90,755,109.99	55,424,322.60	32,144,176	727,450.00	.....	88,295,948.60	24.32	88,295,948.60	24.32
St. Louis	111,170,462.55	27,792,615.64	17,342,171.90	8,199,971	768,319.50	.....	26,310,462.40	23.66	26,310,462.40	23.66
Central reserve cities	1,568,087,056.73	392,021,764.18	314,822,530.52	90,806,059	3,972,834.50	.....	409,601,424.02	26.12	409,601,424.02	26.12
Boston	235,937,447.19	58,984,361.80	26,634,789.70	4,790,952	427,900.00	$29,278,230.89	61,131,872.59	25.91	71,378,032.88	30.25
Albany	39,297,953.26	9,824,488.32	2,555,290.16	1,782,316	105,000.00	4,859,744.15	9,302,350.31	23.67	10,953,474.44	27.87
Brooklyn	23,836,325.80	5,959,081.45	2,914,784.75	708,296	51,850.00	2,891,819.50	6,566,750.25	27.55	6,566,750.25	27.55
Philadelphia	279,772,336.64	69,943,084.16	31,496,161.60	3,074,667	596,350.00	34,673,367.08	69,840,545.68	24.96	77,606,594.66	27.74
Pittsburgh	196,116,426.28	49,029,106.57	18,553,115.55	4,581,749	831,547.50	23,680,110.42	47,646,522.47	23.98	47,646,522.47	23.98
Baltimore	62,246,492.72	15,561,623.18	4,798,924.65	616,505	412,450.00	7,574,586.59	13,402,466.24	21.53	14,041,021.94	22.57
Washington	28,568,018.15	7,142,004.54	2,467,826.22	365,847	284,500.00	3,365,553.11	6,483,726.33	22.70	6,483,726.33	22.70
Savannah	1,857,723.80	464,430.95	164,097.00	8,334	40,000.00	169,296.82	381,727.82	20.54	381,727.82	20.54
New Orleans	25,217,548.95	6,304,387.24	2,404,338.65	357,721	163,500.00	3,070,443.61	5,996,003.26	23.78	6,354,814.31	25.20
Dallas	21,629,510.24	5,407,377.56	1,892,234.00	382,658	129,200.00	2,464,311.25	4,868,403.25	22.50	4,868,403.25	22.50
Fort Worth	14,981,247.51	3,745,311.88	1,286,698.25	658,780	109,100.00	1,818,105.93	3,872,684.18	25.85	4,065,714.34	27.14
Galveston	4,760,174.05	1,190,043.51	904,168.55	115,920	20,250.00	584,896.76	1,625,235.31	34.14	1,679,177.95	35.28
Houston	29,642,962.90	7,410,740.73	2,493,811.25	783,555	225,000.00	3,592,870.36	7,095,236.61	23.93	7,371,266.83	24.87
San Antonio	11,052,476.24	2,763,119.06	1,627,292.95	318,795	80,750.00	1,341,184.53	3,368,022.48	30.48	3,750,444.61	33.93
Waco	5,788,341.06	1,447,085.27	752,606.88	130,640	62,900.00	585,077.80	1,531,224.68	26.45	1,531,224.68	26.45
Louisville	29,537,728.00	7,384,432.00	2,520,543.00	794,477	247,750.00	3,568,341.00	7,131,111.00	24.14	7,869,119.32	26.64
Cincinnati	60,188,629.74	15,047,157.43	6,045,256.80	1,995,295	373,025.00	7,337,066.21	15,750,643.01	26.17	16,166,739.70	26.86
Cleveland	68,629,965.00	17,157,491.25	7,533,008.95	2,156,250	285,125.00	8,436,183.12	18,410,567.07	26.83	18,768,161.19	27.35
Columbus	23,639,013.72	5,909,753.43	2,315,052.05	832,214	119,750.00	2,748,037.57	6,015,053.62	25.45	6,015,053.62	25.45
Indianapolis	31,915,589.99	7,978,897.50	3,450,033.05	1,519,575	290,107.00	3,844,395.24	9,104,110.29	28.53	10,896,232.99	34.14
Detroit	46,914,596.64	11,728,649.16	3,104,755.00	2,962,202	107,650.00	5,810,499.58	11,985,106.58	25.55	13,526,522.94	28.83
Milwaukee	51,591,648.49	12,897,912.12	4,480,274.40	1,185,025	205,850.00	6,346,031.06	12,217,180.46	23.68	12,711,365.87	24.64
Minneapolis	61,364,504.08	15,341,126.02	5,862,567.95	1,378,277	99,750.00	6,329,513.27	13,670,108.22	22.27	13,670,108.22	22.27
St. Paul	40,873,142.66	10,218,285.67	3,995,373.10	1,192,933	41,250.00	4,974,393.17	10,203,949.27	24.96	10,203,949.27	24.96
Cedar Rapids	10,293,775.07	2,573,443.77	629,888.30	226,145	26,250.00	1,245,604.96	2,127,888.26	20.67	2,127,888.26	20.67
Des Moines	16,043,138.16	4,010,784.54	1,491,798.40	345,705	65,447.50	1,972,668.52	3,875,619.42	24.16	4,077,163.26	25.41
Dubuque	3,618,675.53	904,668.88	304,046.05	139,511	25,450.00	439,609.44	908,616.49	25.11	1,010,184.62	27.92

Deposits and reserve of national banks on June 4, 1913—Continued.

Cities, States, and Territories.	Net deposits subject to reserve requirements.	Reserve required, and the amount and per cent held.							Cash on hand, due from reserve agents, and in the redemption fund.	
		Required.	Held.							
			Specie.	Legal tenders.	Redemption fund.	Available with reserve agents, not exceeding 50 per cent of net reserve required.	Total amount.	Per cent.	Amount.	Per cent.
Sioux City	$12,997,107.50	$3,249,276.87	$1,112,821.90	$343,175	$43,750.00	$1,602,763.43	$3,102,510.33	23.87	$3,228,970.47	24.84
Kansas City, Mo	81,566,939.40	20,391,734.85	7,233,941.95	1,799,859	222,850.00	10,084,442.42	19,341,093.37	23.71	21,723,773.02	26.63
St. Joseph	13,335,196.44	3,333,799.11	1,313,012.90	194,388	45,897.50	1,643,950.80	3,197,249.20	23.98	3,815,454.31	28.61
Lincoln	6,656,099.11	1,664,024.78	555,309.80	282,388	46,525.00	572,693.81	1,456,916.61	21.88	1,456,916.61	21.88
Omaha	39,128,378.20	9,782,094.55	3,972,877.60	1,089,280	125,872.50	4,828,111.02	10,016,141.12	25.60	10,489,142.56	26.81
South Omaha	9,189,605.77	2,297,401.44	624,156.10	300,223	30,650.00	1,133,375.72	2,088,404.82	22.73	3,004,557.10	32.69
Kansas City, Kans	4,932,871.80	1,233,217.95	563,533.35	50,510	19,950.00	565,833.19	1,199,826.54	24.32	1,199,826.54	24.32
Topeka	3,389,138.20	847,284.55	407,627.85	73,980	15,000.00	416,142.27	912,750.12	26.93	967,982.68	28.56
Wichita	6,692,169.82	1,673,042.45	645,730.85	65,580	11,047.50	830,997.47	1,553,355.82	23.21	1,697,143.06	25.36
Denver	42,731,063.75	10,682,765.94	5,746,566.05	1,322,640	175,000.00	4,933,629.06	12,177,835.11	28.50	12,177,835.11	28.50
Pueblo	8,355,239.10	2,088,809.77	985,487.40	73,442	23,300.00	1,015,559.02	2,097,788.42	25.11	2,097,788.42	25.11
Muskogee	4,844,442.25	1,211,110.56	551,343.55	85,500	33,750.00	544,044.78	1,214,638.33	25.07	1,214,638.33	25.07
Oklahoma City	7,883,172.09	1,970,793.02	882,587.00	241,405	29,500.00	970,646.51	2,124,138.51	26.95	2,382,202.28	30.22
Seattle	35,198,357.96	8,799,589.49	4,463,463.35	75,909	79,450.00	4,360,069.74	8,978,892.09	25.50	9,213,852.24	26.18
Spokane	18,885,980.26	4,721,495.06	2,405,014.25	61,400	140,000.00	2,066,643.87	4,673,058.12	24.74	4,673,058.12	24.74
Tacoma	7,854,204.57	1,963,551.14	1,195,806.75	19,012	25,000.00	909,944.47	2,149,763.22	27.37	2,149,763.22	27.37
Portland	29,906,806.26	7,476,701.57	4,751,021.05	34,175	145,000.00	2,850,657.19	7,780,853.24	26.02	7,780,853.24	26.02
Los Angeles	54,679,499.16	13,669,874.79	6,253,137.15	493,030	253,500.00	5,223,311.13	12,222,978.28	22.36	12,222,978.28	22.36
San Francisco	119,056,019.87	29,764,004.97	14,009,510.62	146,239	1,097,500.00	14,043,172.73	29,296,422.35	24.60	29,296,422.35	24.60
Salt Lake City	13,276,773.65	3,319,193.41	1,721,015.30	65,000	98,500.00	1,201,749.11	3,086,264.41	23.25	3,086,264.41	23.25
Other reserve cities	1,945,874,457.03	486,468,614.26	202,072,701.98	40,221,479	8,089,744.50	232,799,679.68	483,183,605.16	24.83	515,600,808.37	26.50
All reserve cities	3,513,961,513.76	878,490,378.44	516,895,232.50	131,027,538	12,062,579.00	232,799,679.68	892,785,029.18	25.41	926,202,232.39	26.33
Maine	46,898,653.28	7,034,797.99	2,707,203.14	523,821	293,212.50	4,044,951.29	7,569,187.93	16.14	8,691,616.25	18.53
New Hampshire	22,268,769.99	3,340,315.50	1,203,184.82	494,699	241,175.00	1,859,484.29	3,798,543.11	17.06	5,895,892.33	26.43
Vermont	19,218,246.04	2,882,736.90	936,698.29	397,258	208,375.00	1,031,617.14	3,146,948.43	16.37	4,025,894.92	20.94
Massachusetts	140,721,736.97	21,108,260.55	6,889,509.86	3,814,364	978,500.00	12,077,856.32	23,760,230.18	16.88	29,796,441.36	21.17
Rhode Island	29,917,010.63	4,487,551.59	1,498,255.47	506,956	228,125.00	2,555,055.95	4,788,992.42	16.01	5,764,703.80	19.27
Connecticut	69,821,700.52	10,473,255.08	4,081,227.41	1,500,282	663,692.50	5,885,737.54	12,130,939.45	17.37	17,912,122.87	25.65
New England States	328,846,117.43	49,326,917.61	17,316,078.99	7,237,380	2,613,080.00	28,028,302.53	55,194,841.52	16.78	72,076,671.53	21.92

New York	370,193,609.43	55,529,041.41	19,356,594.96	6,479,357	1,822,403.00	32,223,983.04	59,882,338.00	16.18	71,636,066.95	19.35
New Jersey	202,574,593.74	30,386,189.06	9,606,742.35	4,299,547	894,353.50	17,695,101.33	32,495,744.18	16.04	39,158,785.85	19.33
Pennsylvania	475,471,735.41	71,320,760.31	25,493,408.19	8,607,441	2,719,687.50	41,160,643.68	77,981,180.37	16.40	95,141,569.80	20.01
Delaware	8,513,102.98	1,276,965.45	496,074.75	172,844	63,512.00	728,072.06	1,460,502.81	17.16	1,752,839.11	20.59
Maryland	40,554,108.05	6,083,116.21	1,822,971.08	707,996	207,511.10	3,525,363.06	6,263,841.24	15.44	7,095,563.79	17.49
District of Columbia	1,031,403.06	154,710.46	74,710.00	12,640	12,500.00	85,326.27	185,176.27	17.95	256,056.09	24.83
Eastern States	1,098,338,552.67	164,750,782.90	56,850,501.33	20,279,825	5,719,967.10	95,418,489.44	178,268,782.87	16.23	215,040,881.59	19.58
Virginia	93,719,750.42	14,057,962.56	4,336,892.86	1,784,290	676,614.95	8,028,808.56	14,826,606.37	15.80	15,804,277.80	16.86
West Virginia	56,160,448.92	8,424,067.34	3,254,723.37	845,649	436,385.00	4,792,609.40	9,329,366.77	16.61	11,804,819.91	21.02
North Carolina	32,965,737.40	4,944,860.61	1,444,257.36	622,285	317,895.00	2,544,024.33	4,928,461.69	14.95	4,928,461.69	14.95
South Carolina	20,201,398.31	3,030,209.75	818,543.95	342,667	237,092.50	1,652,787.28	8,051,690.73	15.11	3,051,690.73	15.11
Georgia	42,547,683.67	6,382,152.55	2,433,230.70	1,004,150	530,711.00	3,510,864.93	7,478,956.63	17.58	9,002,574.42	21.16
Florida	36,918,647.97	5,537,797.20	2,008,966.84	803,460	284,145.00	3,152,191.31	6,248,763.15	16.93	8,198,236.27	22.21
Alabama	37,229,745.07	5,584,461.76	2,840,797.90	351,107	393,942.50	3,114,311.55	6,700,159.95	18.00	8,155,716.09	21.91
Mississippi	13,887,110.55	2,083,066.58	851,332.90	211,230	144,613.80	1,163,071.66	2,370,248.36	17.07	3,476,939.86	25.04
Louisiana	16,644,169.34	2,496,625.40	1,038,305.50	62,939	127,662.50	1,421,377.74	2,650,284.74	15.92	3,055,394.53	18.36
Texas	120,776,500.33	18,116,475.05	8,167,572.69	1,878,146	1,107,767.50	10,205,224.52	21,358,710.71	17.68	33,989,174.72	28.14
Arkansas	19,072,404.12	2,860,860.62	1,138,083.40	289,394	146,445.50	1,628,649.07	3,202,571.97	16.78	4,662,477.01	24.45
Kentucky	43,465,014.17	6,519,752.12	2,664,819.55	591,007	506,117.50	3,608,180.77	7,370,124.82	16.96	9,370,966.43	21.56
Tennessee	64,719,553.41	9,707,933.01	3,881,762.25	1,740,062	508,850.00	5,519,449.80	11,650,124.05	18.00	13,228,149.06	20.44
Southern States	598,308,163.68	89,746,224.55	34,879,289.27	10,526,386	5,418,842.75	50,341,550.92	101,166,068.94	16.91	128,728,878.52	21.52
Ohio	211,714,557.24	31,757,183.58	11,855,381.70	4,361,617	1,401,516.55	18,213,400.22	35,831,915.47	16.92	46,351,173.37	21.89
Indiana	127,799,890.35	19,169,983.55	8,015,040.07	2,248,950	935,145.40	10,940,902.89	22,140,038.36	17.32	30,918,577.37	24.19
Illinois	217,140,603.31	32,571,090.50	12,699,435.76	3,445,501	1,292,975.00	18,766,869.29	36,204,781.05	16.67	49,422,502.39	22.30
Michigan	92,318,092.81	13,847,713.92	5,204,449.85	1,847,991	416,135.00	8,058,947.35	15,527,523.20	16.82	16,387,844.78	17.75
Wisconsin	95,050,605.39	14,257,590.81	4,972,972.85	1,165,149	440,698.50	8,290,135.38	14,868,955.73	15.64	19,196,545.33	20.20
Minnesota	109,033,507.97	16,355,026.20	5,831,883.38	995,488	440,923.00	9,548,461.91	16,816,756.29	15.42	22,477,387.61	20.61
Iowa	123,092,911.33	18,463,936.70	6,382,245.20	1,690,602	737,727.71	10,635,725.39	19,446,300.30	15.79	26,135,221.46	21.23
Missouri	32,575,300.80	4,886,295.12	1,673,079.04	614,446	282,312.75	2,762,389.42	5,332,227.21	16.37	8,426,737.10	25.87
Middle States	1,008,725,469.20	151,308,820.38	56,634,487.85	16,369,744	5,947,433.91	87,216,831.85	166,168,497.61	16.47	218,315,989.41	21.64
North Dakota	34,156,079.53	5,123,411.93	1,795,198.05	371,247	196,238.35	2,956,304.14	5,318,987.54	15.57	7,195,282.28	21.07
South Dakota	32,524,541.88	4,878,681.28	1,971,587.85	345,655	157,015.00	2,832,999.76	5,307,257.61	16.32	7,815,769.88	24.03
Nebraska	57,484,779.56	8,622,716.93	3,318,115.30	500,178	418,238.00	4,922,687.36	9,159,218.66	15.93	14,042,161.49	24.43
Kansas	62,990,129.91	9,448,519.49	3,945,511.70	803,354	435,496.89	5,407,813.55	10,592,176.14	16.82	18,229,961.82	28.94
Montana	34,569,197.15	5,185,379.57	3,183,374.62	362,759	161,572.50	3,014,284.24	6,721,990.36	19.45	11,106,457.96	32.13
Wyoming	13,135,898.01	1,970,384.70	966,903.18	88,861	71,425.00	1,139,375.82	2,266,565.00	17.25	3,004,704.13	22.87
Colorado	38,730,570.50	5,809,585.58	2,821,813.40	508,763	246,248.00	3,338,002.54	6,914,826.94	17.86	12,064,638.29	31.15
New Mexico	15,082,617.80	2,262,392.67	1,029,974.65	162,032	83,200.00	1,307,515.60	2,582,722.25	17.12	3,632,100.44	24.08
Oklahoma	55,268,368.49	8,290,255.27	3,350,215.85	593,440	394,095.00	4,737,696.16	9,075,447.01	16.42	16,615,217.49	30.06
Western States	343,942,182.63	51,591,327.42	22,382,694.60	3,736,289	2,163,528.74	29,656,679.17	57,939,191.51	16.85	93,706,293.78	27.24
Washington	30,235,417.25	4,535,312.59	2,168,610.55	99,405	129,242.50	2,643,642.05	5,040,900.10	16.67	8,356,241.45	27.64
Oregon	29,327,686.13	4,399,152.92	2,758,554.78	39,308	174,783.00	2,534,621.95	5,507,267.73	18.78	8,235,841.72	28.08
California	127,304,756.39	19,095,713.46	9,915,420.76	344,911	836,840.00	10,955,324.07	22,052,495.83	17.31	29,118,716.52	22.87
Idaho	18,842,253.16	2,826,337.97	1,560,811.60	71,939	138,262.50	1,612,845.28	3,383,858.38	17.96	4,749,202.19	25.21

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Deposits and reserve of national banks on June 4, 1913—Continued.

Cities, States, and Territories.	Net deposits subject to reserve requirements.	Reserve required, and the amount and per cent held.							Cash on hand, due from reserve agents, and in the redemption fund.	
		Required.	Held.							
			Specie.	Legal tenders.	Redemption fund.	Available with reserve agents, not exceeding 50 per cent of net reserve required.	Total amount.	Per cent.	Amount.	Per cent.
Utah	$7,899,595.98	$1,184,939.40	$514,134.35	$44,499	$46,162.50	$683,266.13	$1,288,051.98	16.31	$1,570,454.19	19.88
Nevada	6,587,718.61	988,157.79	614,037.40	15,710	78,950.00	545,524.67	1,254,222.07	19.04	1,930,182.70	29.30
Arizona	9,520,662.66	1,428,099.40	741,023.45	97,999	47,075.50	828,614.33	1,714,712.28	18.01	3,326,165.75	34.94
Alaska [1]	852,680.20	127,902.03	304,801.29	17,060	3,125.00	74,866.21	399,852.50	46.89	494,205.89	57.96
Pacific States	230,570,770.38	34,585,615.56	18,577,394.18	730,821	1,454,441.00	19,878,704.69	40,641,360.87	17.63	57,781,010.41	25.06
Island possessions (Hawaii)	1,941,602.46	291,240.37	538,949.05	30	15,012.50	148,571.32	702,562.87	36.18	702,562.87	36.18
Total States, etc	3,610,672,858.65	541,600,928.79	207,179,395.27	58,880,475	23,332,306.00	310,689,129.92	600,061,306.19	16.62	786,352,288.11	21.78
Total United States.	7,124,634,372.41	1,420,091,307.23	724,074,627.77	189,908,013	35,394,885.00	543,488,809.60	1,492,866,335.37	20.95	1,711,554,520.50	24.02

[1] One report for Apr. 4, 1913.

Abstract of the reports of condition of national banks in the United States on June 4, 1913, arranged by classes.

	Central reserve city banks (52).	Other reserve city banks (315).	Country banks (6,806).	Total (7,173).
RESOURCES.				
Loans and discounts	$1,315,735,176.67	$1,640,317,608.33	$3,186,975,347.94	$6,143,028,132.94
Overdrafts	356,717.17	3,183,861.62	15,465,573.23	19,006,152.02
United States bonds to secure circulation	81,355,090.00	164,633,240.00	489,238,540.00	735,226,870.00
United States bonds to secure United States deposits	3,670,000.00	18,547,500.00	24,844,190.00	47,061,690.00
Other bonds to secure United States deposits	3,066,402.44	17,122,899.04	23,408,628.10	43,597,929.58
United States bonds on hand	1,000,120.00	1,734,800.00	3,603,080.00	6,338,000.00
Premiums on United States bonds	787,774.53	1,990,011.55	4,098,850.81	6,876,636.89
Bonds, securities, etc	210,810,479.10	235,190,549.44	604,586,627.01	1,050,587,655.55
Banking house, furniture and fixtures	37,931,243.04	65,751,006.40	145,206,704.51	248,888,953.95
Other real estate owned	1,543,592.52	7,769,305.11	22,020,050.53	31,332,948.16
Due from national banks (not reserve agents)	144,611,713.50	194,344,454.86	100,065,031.68	439,021,200.04
Due from State banks and bankers, trust companies, etc	50,308,317.15	91,646,988.98	53,034,760.41	194,990,066.54
Due from approved reserve agents		265,216,882.89	496,960,111.84	762,176,994.73
Checks and other cash items	6,815,197.36	11,902,552.93	18,374,495.47	37,092,245.76
Exchanges for clearing house	168,229,831.61	73,360,235.77	15,970,425.19	257,560,492.57
Bills of other national banks	4,339,135.00	14,793,766.00	32,405,907.00	51,538,808.00
Fractional currency, nickels, and cents	262,100.16	869,677.72	2,448,704.80	3,580,482.68
Specie	314,822,550.52	202,072,701.98	207,179,395.27	724,074,627.77
Legal-tender notes	90,806,059.00	40,221,479.00	58,880,475.00	189,908,013.00
Five per cent redemption fund	3,972,834.50	8,089,744.50	23,332,306.00	35,394,885.00
Due from Treasurer of United States other than 5 per cent fund	4,751,693.46	3,311,012.00	1,574,266.40	9,636,971.86
Total	2,445,176,007.73	3,062,070,278.12	5,529,673,471.19	11,036,919,757.04
LIABILITIES.				
Capital stock paid in	182,650,000.00	264,217,710.00	610,052,082.00	1,056,919,792.00
Surplus fund	164,245,000.00	187,736,975.77	368,624,816.77	720,606,792.54
Undivided profits, less expenses and taxes	56,121,856.33	63,689,642.05	148,329,464.19	268,140,962.57
National-bank notes outstanding	79,132,825.00	161,901,967.50	481,090,231.50	722,125,024.00
State-bank notes outstanding	16,516.00	468.00	5,431.00	22,415.00
Due to national banks (not reserve agents)	534,790,339.03	411,957,865.59	70,712,668.42	1,017,460,873.04
Due to State banks and bankers	205,009,999.23	216,121,788.43	107,133,116.76	528,264,904.42
Due to trust companies and savings banks	224,695,080.64	227,697,703.81	76,547,400.02	528,940,184.47
Due to approved reserve agents		31,431,888.90	14,453,720.86	45,885,609.76
Dividends unpaid	251,028.97	191,478.77	1,086,687.83	1,529,195.57
Individual deposits	975,581,299.58	1,435,930,189.14	3,541,950,062.40	5,953,461,551.12
United States deposits	4,529,269.11	19,291,072.78	19,297,876.16	43,118,218.05
Postal savings deposits	1,102,635.28	6,379,859.18	11,179,381.01	18,661,875.47
Deposits of United States disbursing officers	487,006.83	3,018,281.21	3,101,533.04	6,606,821.08
Bonds borrowed	13,449,040.00	19,110,361.25	10,656,064.33	43,215,465.58
Notes and bills rediscounted	65,000.00	2,898,462.25	11,117,518.11	14,080,980.36
Bills payable	335,000.00	8,274,951.60	50,215,843.32	58,825,794.92
Reserved for taxes	2,591,111.73	2,153,119.72	2,286,412.65	7,030,644.10
Liabilities other than those above stated	123,000.00	66,492.17	1,833,160.82	2,022,652.99
Total	2,445,176,007.73	3,062,070,278.12	5,529,673,471.19	11,036,919,757.04

Number of national banks showing savings deposits and amount of savings deposits as shown by call of June 4, 1913.

States.	Total number of banks.	Number showing savings deposits.	Amount of savings deposits.
Maine	69	43	$24,120,447.31
New Hampshire	56	15	1,925,537.66
Vermont	49	31	9,011,843.60
Massachusetts	180	35	15,910,306.46
Rhode Island	20	5	5,220,718.71
Connecticut	79	14	3,497,610.78
New England States	453	143	59,686,464.52
New York	474	240	84,851,995.17
New Jersey	200	152	60,029,284.94
Pennsylvania	836	624	201,406,779.21
Delaware	26	15	2,055,525.60
Maryland	105	80	22,090,404.98
District of Columbia	12	4	1,398,971.49
Eastern States	1,653	1,115	371,832,961.39
Virginia	133	90	28,653,611.43
West Virginia	116	70	9,756,259.37
North Carolina	73	42	5,637,634.71
South Carolina	48	39	8,844,239.58
Georgia	118	48	8,729,484.06
Florida	52	42	11,141,955.83
Alabama	87	41	7,860,936.63
Mississippi	33	11	1,252,132.90
Louisiana	31	15	1,978,255.16
Texas	514	62	8,728,699.08
Arkansas	49	15	981,235.96
Kentucky	144	27	4,156,304.70
Tennessee	107	41	9,144,145.65
Southern States	1,505	543	106,864,895.06
Ohio	380	167	42,656,146.38
Indiana	254	71	9,617,374.55
Illinois	457	240	$44,713,556.04
Michigan	99	88	45,215,105.75
Wisconsin	129	110	35,418,313.93
Minnesota	271	154	18,877,599.59
Iowa	340	132	10,403,195.75
Missouri	133	30	3,428,705.39
Middle States	2,063	992	210,329,997.38
North Dakota	144	47	1,149,111.28
South Dakota	103	50	1,457,928.30
Nebraska	242	47	3,891,978.05
Kansas	213	54	1,905,777.18
Montana	57	21	1,924,229.75
Wyoming	30	12	557,548.42
Colorado	126	39	8,008,174.28
New Mexico	40	8	207,661.67
Oklahoma	325	57	1,373,050.27
Western States	1,280	335	20,475,459.20
Washington	77	59	17,159,427.25
Oregon	83	35	3,716,939.06
California	252	106	23,051,411.53
Idaho	54	30	1,395,799.92
Utah	23	17	3,460,969.16
Nevada	11	4	614,240.56
Arizona	13	2	44,762.47
Alaska	2	1	81,674.33
Pacific States	515	254	49,525,224.28
Island possessions (Hawaii)	4	3	354,964.73
United States	7,473	3,385	$829,070,166.56

APPENDIX C.

The bill as reported to the House is as follows:

A BILL 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."

FEDERAL RESERVE DISTRICTS.

SEC. 2. That within ninety days after the passage of this act, or as soon thereafter as practicable, the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate from among the reserve and central reserve cities now authorized by law a number of such cities to be known as Federal reserve cities, and shall divide the continental United States into districts, each district to contain one of such Federal reserve cities: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business of the community and shall not necessarily coincide with the area of such State or States as may be wholly or in part included in any given district. The districts thus created may be readjusted and new districts may from time to time be created by the Federal reserve board hereinafter established, acting upon a joint application made by not less than ten member banks desiring to be organized into a new district. The districts thus constituted shall be known as Federal reserve districts and shall be designated by number according to the pleasure of the organization committee, and no Federal reserve district shall be abolished, nor the location of a Federal reserve bank changed, except upon the application of three-fourths of the member banks of such district.

The organization committee shall, in accordance with regulations to be established by itself, proceed to organize in each of the reserve cities designated as hereinbefore specified a Federal reserve bank. Each such Federal reserve bank shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago," and so forth. The total number of reserve cities designated by the organization committee shall be not less than twelve, and the organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigations as may be deemed necessary by the said committee for the purpose of determining the reserve cities to be designated and organizing the reserve districts hereinbefore provided.

Every national bank located within a given district shall be required to subscribe to the capital stock of the Federal reserve bank of that district a sum equal to twenty per centum of the capital stock of such national bank, fully paid in and unimpaired, one-fourth of such subscription to be paid in cash and one-fourth within sixty days after said subscription is made. The remainder of the subscription or any part thereof shall become a liability of the member bank, subject to call and payment thereof whenever necessary to meet the

obligations of the Federal reserve bank, under such terms and in accordance with such regulations as the board of directors of said Federal reserve bank may prescribe: *Provided*, That no Federal reserve bank shall commence business with a paid-up and unimpaired capital less in amount than $5,000,000. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher 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 moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

STOCK ISSUES.

SEC. 3. That the capital stock of each Federal reserve bank shall be divided into shares of $100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock or as additional banks become subscribers, and shall be decreased as member banks reduce their capital stock or cease to be members. Each Federal reserve bank may establish branch offices under regulations of the Federal reserve board at points within the Federal reserve district in which it is located: *Provided*, That the total number of such branches shall not exceed one for each $500,000 of the capital stock of said Federal reserve bank.

FEDERAL RESERVE BANKS.

SEC. 4. The national banks in each Federal reserve district uniting to form the Federal reserve bank therein, hereinbefore provided for, shall under their seals make an organization certificate, which shall specifically state the name of such Federal reserve bank so organized, the territorial extent of the district over which the operations of said Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the names and places of doing business of each of the makers of said certificates and the number of shares held by each of them, and the fact that the certificate is made to enable such banks to avail themselves of the advantages of this act. The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record, and carefully preserve the same in his office. Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank so formed shall become a body corporate, and as such, and in the name designated in such organization certificate, shall have power to perform all these acts and to enjoy all those privileges and to exercise all those powers described in section fifty-one hundred and thirty-six, Revised Statutes, save in so far as the same shall be limited by the provisions of this act. The Federal reserve bank so incorporated shall have succession for a period of twenty years from its organization, unless sooner dissolved by act of Congress.

Every Federal reserve bank shall be conducted under the oversight and control of a board of directors, whose powers shall be the same as those conferred upon the boards of directors of national banking associations under existing law, not inconsistent with the provisions of this act. Such board of directors shall be constituted and elected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who shall be representative of the general public interests of the reserve district.

Class C shall consist of three members, who shall be designated by the Federal reserve board.

Directors of class A shall be chosen in the following manner:

It shall be the duty of the chairman of the board of directors of the Federal reserve bank of the district in which each such bank is situated to classify the member banks of the said district into three general groups or divisions. Each such group shall contain as nearly as may be one-third of the aggregate number of said member banks of the said district and shall consist, as nearly as may be, of banks of similar capitalization. The said groups shall be designated by number at the pleasure of the chairman of the board of directors of the Federal reserve bank.

At a regularly called directors' meeting of each member bank in the Federal reserve district aforesaid, the board of directors of such member bank shall elect by ballot one of its own members as a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The said chairman shall establish lists of the district reserve electors, class A, thus named by banks in each of the aforesaid three groups, and shall transmit one list to each such elector in each group. Every elector shall, within fifteen days of the receipt of the said list, select and certify to the said chairman from among the names on the list pertaining to his group, transmitted to him by the chairman, one name, not his own, as representing his choice for Federal reserve director, class A. The name receiving the greatest number of votes, not less than a majority, shall be designated by said chairman as Federal reserve director for the group to which he belongs. In case no candidate shall receive a majority of all votes cast in any district, the chairman aforesaid shall establish an eligible list, consisting of the three names receiving the greatest number of votes on the first ballot, and shall transmit said list to the electors in each of the groups of banks established by him. Each elector shall at once select and certify to the said chairman from among the three persons submitted to him his choice for Federal reserve director, class A, and the name receiving the greatest number of such votes shall be declared by the chairman as Federal reserve director, class A. In case of a tie vote the balloting shall continue in the manner hereinbefore prescribed until one candidate receives more votes than either of the others.

Directors of class B shall be chosen by the electors of the respective groups at the same time and in the same manner prescribed for directors of class A, except that they must be selected from a list of names furnished, one by each member bank, and such names shall in no case be those of officers or directors of any bank or banking

association. They shall not accept office as such during the term of their service as directors of the Federal reserve bank. They shall be fairly representative of the commercial, argicultural, or industrial interests of their respective districts. The Federal reserve board shall have power at its discretion to remove any director of class B in any Federal reserve bank if it should appear at any time that such director does not fairly represent the commercial, agricultural, or industrial interests of his district.

Three directors belonging to class C shall be chosen directly by the Federal reserve board, who shall be residents of the district for which they are selected, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed and shall be designated as "Federal reserve agent." He shall be a person of tested banking experience; and in addition to his duties as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed he shall be required to maintain under regulations to be established by the Federal reserve board a local office of said board, which shall be situated on the premises of the Federal reserve bank of the district. He shall make regular reports to the Federal reserve board, and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal reserve board and paid monthly by the Federal reserve bank to which he is designated.

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for members of such boards shall be subject to review by the Federal reserve board.

The reserve bank organization committee may, in organizing Federal reserve banks for the first time, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this act and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank after organization it shall be the duty of the directors of classes A and B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years; but the chairman of the board of directors of each Federal reserve bank designated by the Federal reserve board, as hereinbefore described, shall be removable at the pleasure of the said board without notice, and his successor shall hold office during the unexpired term of the director in whose place he was appointed. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

INCREASE AND DECREASE OF CAPITAL.

SEC. 5. That shares of the capital stock of Federal reserve banks shall not be transferable, nor be hypothecated. In case a member bank increases its capital, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to twenty per centum of the bank's own increase of capital, ten per centum of said subscription to be paid in cash in the manner hereinbefore provided for original subscription, and ten per centum to become a liability of the member bank according to the terms of the original subscription. A bank applying for stock in a Federal reserve bank at any time after the formation of the latter must subscribe for an amount of the capital of said Federal reserve bank equal to twenty per centum of the capital stock of said subscribing bank, paying therefor its par value in accordance with the terms prescribed by section two of this act. When the capital stock of any Federal reserve bank has been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall make and execute a certificate to the Comptroller of the Currency showing said increase in capital, the amount paid in, and by whom paid. In case a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and in case a member bank goes into voluntary liquidation it shall surrender all of its holdings of the capital stock of said Federal reserve bank. In either case the shares surrendered shall be canceled and such member bank shall receive in payment therefor, under regulations to be prescribed by the Federal reserve board, a sum equal to its cash paid subscriptions on the shares surrendered.

SEC. 6. That if any member bank shall become insolvent and a receiver be appointed the stock held by it in said Federal reserve bank shall be canceled and the balance, after deducting from the amount of its cash-paid subscriptions all debts due by such insolvent bank to said Federal reserve bank, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of any such member bank, the board of directors shall make and execute a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS.

SEC. 7. That after the payment of all necessary expenses and taxes of a Federal reserve bank, the member banks shall be entitled to receive an annual dividend of five per centum on the paid-in capital stock, which dividend shall be cumulative. One-half of the net earnings, after the aforesaid dividend claims have been fully met, shall be paid into a surplus fund until such fund shall amount to twenty per centum of the paid-in capital stock of such bank, and of the remaining one-half sixty per centum shall be paid to the United States and forty per centum to the member banks in the ratio of their average balances with the Federal reserve bank for the preceding

year. Whenever and so long as the surplus fund of a Federal reserve bank amounts to twenty per centum of the paid-in capital stock and the member banks shall have received the dividends at the rate of five per centum per annum hereinbefore provided for, sixty per centum of all excess earnings shall be paid to the United States and forty per centum to the member banks in proportion to their annual average balances with such Federal reserve bank; all earnings derived by the United States from Federal reserve banks shall constitute a sinking fund to be held for the reduction of the outstanding bonded indebtedness of the United States, said reduction to be accomplished under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, the surplus fund of said bank, after the payment of all debts and dividend requirements as hereinbefore provided for, shall be paid to and become the property of the United States.

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

SEC. 8. That any national banking association heretofore organized may upon application at any time within one year after the passage of this act, and with the approval of the Comptroller of the Currency, be granted, as herein provided, all the rights, and be subject to all the liabilities, of national banking associations organized subsequent to the passage of this act: *Provided*, That such application on the part of such associations shall be authorized by the consent in writing of stockholders owning not less than a majority of the capital stock of the association. Any national banking association now organized which shall not, within one year after the passage of this act, become a national banking association under the provisions hereinbefore stated, or which shall fail to comply with any of the provisions of this act applicable thereto, shall be dissolved; but such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have previously been incurred.

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 hereinafter created for the right to subscribe to the stock 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 section, shall permit such applying bank to become a stockholder in the Federal reserve bank of the district in which such applying bank is located. Whenever the Federal reserve board shall permit such an applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located, stock shall be issued and paid for under the rules and regulations in this act provided for national banks which become stockholders in Federal reserve banks.

It shall be the duty of the Federal reserve board to establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies hereinbefore referred to for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve requirements and submit to the inspection and regulation provided for in this and other laws relating to national banks. No such applying bank shall be admitted to stock ownership 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 conforms to the provisions herein prescribed for national banking associations of similar capitalization and to the regulations of the Federal reserve board.

If at any time it shall appear to the Federal reserve board that a banking association or trust company organized under the laws of any State or of the United States has failed to comply with the provisions of this section or the regulations of the Federal reserve board, it shall be within the power of the said board to require such banking association or trust company to surrender its stock in the Federal reserve bank in which it holds stock upon receiving from such Federal reserve bank the cash-paid subscriptions to the said stock in current funds, and said Federal reserve bank shall, upon notice from the Federal reserve board, be required to suspend said banking association or trust company from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and make payment therefor in the manner herein provided.

FEDERAL RESERVE BOARD.

SEC. 11. That there shall be created a Federal reserve board, which shall consist of seven members, including the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, who shall be members ex officio, and four members chosen by the President of the United States, by and with the advice and

consent of the Senate. In selecting the four appointive members of the Federal reserve board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of different geographical divisions of the country. The four members of the Federal reserve board chosen by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal reserve board and shall each receive an annual salary of $10,000, together with an allowance for actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of said Federal reserve board, shall, in addition to the salary now paid him as comptroller, receive the sum of $5,000 annually for his services as a member of said board. Of the members thus appointed by the President not more than two shall be of the same political party, and at least one shall be a person experienced in banking. One shall be designated by the President to serve for two, one for four, one for six, and one for eight years, respectively, and thereafter each member so appointed shall serve for a term of eight years unless sooner removed for cause by the President. Of the four persons thus appointed, one shall be designated by the President as manager and one as vice manager of the Federal reserve board. The manager of the Federal reserve board, subject to the supervision of the Secretary of the Treasury and Federal reserve board, shall be the active executive officer of the Federal reserve board.

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

The first meeting of the Federal reserve board shall be held in Washington, District of Columbia, as soon as may be after the passage of this act, at a date to be fixed by the reserve bank organization committee. The Secretary of the Treasury shall be ex officio chairman of the Federal reserve board. No member of the Federal oeserve board shall be an officer or director of any bank or banking institution or Federal reserve bank nor hold stock in any bank or banking institution; and before entering upon his duties as a member of the Federal reserve board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the four members of the Federal reserve board chosen by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when chosen shall hold office for the unexpired term of the member whose place he is selected to fill.

The Federal reserve board shall annually make a report of its fiscal operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of 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, except as in this act otherwise provided, with the execution of all laws passed by Congress relating to the issue and regulation of currency issued by or through banking associations, 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, acting as the chairman of the Federal reserve board:" *Provided, however*, That nothing herein contained shall be construed to affect any power now vested by law in the Comptroller of the Currency or the Secretary of the Treasury.

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 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 character of the lawful money held as reserve and the amount, nature, and maturities of the paper owned by Federal reserve banks.

(b) To permit or require, in time of emergency, Federal reserve banks to rediscount the discounted prime paper of other Federal reserve banks, at least five members of the Federal reserve board being present when such action is taken and all present consenting to the requirement. The exercise of this compulsory rediscount power by the Federal reserve board shall be subject to an interest charge to the accommodated bank of not less than one nor greater than three per centum above the higher of the rates prevailing in the districts immediately affected.

(c) To suspend for a period not exceeding thirty days (and to renew such suspension for periods not to exceed fifteen days) any and every reserve requirement specified in this act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this act may be permitted to fall below the level hereinafter specified, such tax to be uniform in its application to all banks; but said board shall not suspend the reserve requirements with reference to Federal reserve notes.

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

(e) 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 section twenty of this act; or to reclassify existing reserve and central reserve cities and to designate the banks therein situated as country banks at its discretion.

(f) To suspend the officials of Federal reserve banks and, for cause stated in writing with opportunity of hearing, require the removal of said officials for incompetency, dereliction of duty, fraud, or deceit, such removal to be subject to approval by the President of the United States.

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

(h) To suspend, for cause relating to violation of any of the provisions of this act, the operations of any Federal reserve bank and appoint a receiver therefor.

(i) To perform the duties, functions, or services specified or implied in this act.

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 no compensation for his services, but may be reimbursed for actual necessary expenses. 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 (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 or, solely for exchange purposes, from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent banks, payable upon presentation.

Upon the indorsement of any member bank any Federal reserve bank may discount notes and bills of exchange arising out of commercial transactions; that is, notes 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, but such definition shall not include notes or bills issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities; nor shall anything herein contained be construed to prohibit such notes and bills of exchange, secured by staple agricultural products or other goods, wares, or merchandise from being eligible for such discount. Notes and bills admitted to discount under the terms of this paragraph must have a maturity of not more than ninety days.

Upon the indorsement of any member bank any Federal reserve bank may discount the paper of the classes hereinbefore described having a maturity of more than sixty and not more than one hundred and twenty days when its own cash reserve exceeds thirty-three and one-third per centum of its total outstanding demand liabilities exclusive of its outstanding Federal reserve notes by an amount to be

fixed by the Federal reserve board; but not more than fifty per centum of the total paper so discounted for any member bank shall have a maturity of more than ninety days.

Upon the indorsement of any member bank any Federal reserve bank may discount acceptances of such banks which are based on the exportation or importation of goods and which mature in not more than six 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 having not more than six months' sight to run and growing out of transactions involving the importation or exportation of goods; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half the face value of its paid-up and unimpaired capital.

OPEN-MARKET OPERATIONS.

SEC. 15. That 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 coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds; (b) to invest in United States bonds, and bonds issued by any State, county, district, or municipality; (c) to purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined, payable in foreign countries; but such bills of exchange must have not exceeding ninety days to run and must bear the signature of two or more responsible parties, of which the last shall be that of a member bank; (d) to establish each week, or as much oftener as required, 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 (e) 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 foreign bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, prime foreign 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 shall, upon the direction of the Secretary of the Treasury, within twelve months after the passage of this act, 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 funds of the Government among the said Federal reserve banks, distributing them, as far as practicable, equitably between different sections, and may, at their joint discretion, charge interest thereon and fix, from month to month, a rate which shall be regularly paid by the banks holding such deposits: *Provided*, That no Federal reserve bank shall pay interest upon any deposits except those of the United States.

No Federal reserve bank shall receive or credit deposits except from the Government of the United States, its own member banks, and, to the extent permitted by this act, from other Federal reserve banks. All domestic transactions of the Federal reserve banks involving a rediscount operation or the creation of deposit accounts shall be confined to the Government and the depositing and Federal reserve banks, with the exception of the purchase or sale of Government or State securities or of gold coin or bullion.

NOTE ISSUES.

SEC. 17. That Federal reserve notes, to be issued at the discretion 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. They shall be redeemed in gold or lawful money 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 Treasury notes hereinbefore provided for as it may deem best. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral security to protect the notes for which application is made equal in amount to the sum of the notes thus applied for. The collateral security thus offered shall be notes and bills accepted for rediscount under the provisions of section fourteen of this act, and the Federal reserve agent shall each day notify the Federal reserve board of issues and withdrawals of 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 Federal reserve bank shall pay out or disburse Federal reserve notes issued to it as hereinbefore provided, it shall segregate in its own vaults and shall carry to a special reserve account on its books gold or lawful money equal in amount to thirty-three and one-third per centum of the reserve notes so paid out by it, such

reserve to be used for the redemption of said reserve notes as presented; but any Federal reserve bank so using any part of such reserve to redeem notes shall immediately carry to said reserve account an amount of gold or lawful money sufficient to make said reserve equal to thirty-three and one-third per centum of its outstanding Treasury notes. Notes so paid out shall bear upon their faces a distinctive letter and serial number, which shall be assinged 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 for redemption to the Federal reserve bank through which they were originally issued, or shall be charged off against Government deposits and returned to the Treasury of the United States, or shall be presented to the said Treasury for redemption. 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 and returned to the Federal reserve banks through which they were originally issued, and Federal reserve notes received by the Treasury otherwise than for redemption shall be exchanged for lawful money out of the five per centum redemption fund hereinafter provided and returned as hereinbefore provided to the reserve bank through which they were originally issued.

The Federal reserve board shall have power, in its discretion, to require Federal reserve banks to 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 under the provisions of this act, but such five per centum shall be counted and included as part of the thirty-three and one-third per centum reserve hereinbefore required. The said board shall also have the right to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent and in the amount that such application may be granted the Federal reserve board shall, through its local Federal reserve agent, deposit Federal reserve notes with the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal reserve board, which rate shall not be less than one-half of one per centum per annum, and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, 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 the deposit of Federal reserve notes, whether issued to such bank or to some other reserve bank, or lawful money of the United States, or gold bullion, with any Federal reserve agent or with the Treasurer of the United States, and such reduction shall be accompanied by a corresponding reduction in the required reserve fund of lawful money set apart for the redemption of said notes and by the release of a corresponding amount of the collateral security deposited with the local Federal reserve agent.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of Federal reserve notes deposited with it and shall at the same time substitute other collateral of equal value approved by the Federal

reserve agent under regulations to be prescribed by the Federal reserve board.

It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors or by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to the credit of said depositor in said reserve bank last mentioned, nothing herein contained to be construed as prohibiting member banks from making reasonable charges to cover actual expenses incurred in collecting and remitting funds for their patrons. The Federal reserve board shall make and promulgate from time to time regulations governing the transfer of funds at par among Federal reserve banks, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

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 upon application the Secretary of the Treasury shall exchange the two per centum bonds of the United States bearing the circulation privilege deposited by any national banking association with the Treasurer of the United States as security for circulating notes for three per centum bonds of the United States without the circulation privilege, payable after twenty years from date of issue, and exempt from Federal, State, and municipal taxation both as to income and principal. No national bank shall, in any one year, present two per centum bonds for exchange in the manner hereinbefore provided to an amount exceeding five per centum of the total amount of bonds on deposit with the Treasurer by said bank for circulation purposes. Should any national bank fail in any one year to so exchange its full quota of two per centum bonds under the terms of this act, the Secretary of the Treasury may permit any other national bank or banks to exchange bonds in excess of the five per centum aforesaid in an amount equal to the deficiency caused by the failure of any one or more banks to make exchange in any one year, allotment to be made to applying banks in proportion to their holdings of bonds. At the expiration of twenty years from the passage of this act every holder of United States two per centum bonds then outstanding shall receive payment at par and accrued interest. After twenty years from the date of the passage of this act national-bank notes still remaining outstanding shall be recalled and redeemed by the national banking associations issuing the same within a period and under regulations to be prescribed by the Federal reserve board, and notes still remaining in circulation at the end of such period shall be secured by an equal amount of lawful money to be deposited in the Treasury of

the United States by the banking associations originally issuing such notes. Meanwhile every national bank may continue to apply for and receive circulating notes from the Comptroller of the Currency based upon the deposit of two per centum bonds or of any other bonds bearing the circulation privilege; but no national bank shall be permitted to issue other circulating notes except such as are secured as in this section provided or to issue or to make use of any substitute for such circulating notes in the form of clearing-house loan certificates, cashier's checks, or other obligation.

BANK RESERVES.

SEC. 20. That from and after the date when the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the fact that a Federal reserve bank has been established in any designated district, every banking association within said district which shall have subscribed for stock in such Federal reserve bank shall be required to establish and maintain reserves as follows:

(a) If a country bank as defined by existing law, it shall hold and maintain a reserve equal to twelve per centum of the aggregate amount of its deposits, not including savings deposits hereinafter provided for. Five-twelfths of such reserve shall consist of money which national banks may under existing law count as legal reserve, held actually in the bank's own vaults; and for a period of fourteen months from the date aforesaid at least three-twelfths and thereafter at least five-twelfths of such reserve shall consist of a credit balance with the Federal reserve bank of its district. The remainder of the twelve per centum reserve hereinbefore required may, for a period of thirty-six months from and after the date fixed by the Secretary of the Treasury, as hereinbefore provided, consist of balances due from national banks in reserve or central reserve cities as now defined by law. From and after a date thirty-six months subsequent to the date fixed by the Secretary of the Treasury, as hereinbefore provided, the said remainder of the twelve per centum reserve required of each country bank shall consist either in whole or in part of reserve money in the bank's own vaults or of credit balance with the Federal reserve bank of its district.

(b) If a reserve city bank as defined by existing law, it shall hold and maintain, for a period of sixty days from the date fixed by the Secretary of the Treasury as hereinbefore provided, a reserve equal to twenty per centum of the aggregate amount of its deposits, not including savings deposits hereinafter provided for, and permanently thereafter eighteen per centum. At least one-half of such reserve shall consist of money which national banks may under existing law count as legal reserve, held actually in the bank's own vaults. After sixty days from the date aforesaid, and for a period of one year, at least three-eighteenths and permanently thereafter at least five-eighteenths of such reserve shall consist of a credit balance with the Federal reserve bank of its district. The remainder of the reserve in this paragraph required may, for a period of thirty-six months from and after the date fixed by the Secretary of the Treasury as hereinbefore provided, consist of balances due from national banks in central reserve cities as now defined by law. From and after a date thirty-six months subsequent to the date fixed by the Secretary of the Treasury as hereinbefore provided, the said remainder of the eighteen per centum reserve required of each reserve city bank shall

consist either in whole or in part of reserve money in the bank's own vaults or of credit balance with the Federal reserve bank of its district.

(c) If a central reserve city bank as defined by existing law, it shall hold and maintain for a period of sixty days from the date fixed by the Secretary of the Treasury as hereinbefore provided a reserve equal to twenty per centum of the aggregate amount of its deposits, not including savings deposits hereinafter provided for, and permanently thereafter eighteen per centum. At least one-half of such reserve shall consist of money which national banks may under existing law count as legal reserve, held actually in the bank's own vaults. After sixty days from the date aforesaid, and thereafter for a period of one year, at least three-eighteenths and permanently thereafter at least five-eighteenths of such reserve shall consist of a credit balance with the Federal reserve bank of its district. The remainder of the eighteen per centum reserve required of each central reserve city bank shall consist either in whole or in part of reserve money actually held in its own vaults or of credit balance with the Federal reserve bank of its district.

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 or lawful money, a sum equal to not less than thirty-three and one-third per centum of its outstanding demand liabilities.

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 if such bank shall fail for thirty days thereafter so to make good its lawful reserve, the Federal reserve board may appoint a receiver to wind up the business of said bank.

BANK EXAMINATIONS.

SEC. 23. That the examination of the affairs of every national banking association authorized by existing law 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 Secretary of the Treasury may, however, at any time direct the holding of a special examination. The person assigned to the making of such examination of the affairs of any national banking association shall have power to call together a quorum of the directors of such association, 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 determined by the Federal reserve board and annually reported to Congress. But the expense of the

examinations herein provided for shall be assessed by the Federal reserve board upon the associations examined in proportion to assets or resources held by such associations upon a date during the year in which such examinations are held to be established by the Federal reserve board. The Comptroller of the Currency shall so arrange the duties of national-bank examiners that no two successive examinations of any association shall be made by the same examiner.

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 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 national banking association located within the district of the said Federal reserve bank.

The Federal reserve board shall as often as it deems best, and in any case not less frequently than four times each year, order an examination of national banking associations in reserve cities. Such examinations shall show in detail the total amount of loans made by each bank on demand, on time, and the different classes of collateral held to protect the various loans, and the lines of credit which are being extended by them. 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 national bank shall hereafter make any loan or grant any gratuity to any examiner of such bank. Any bank offending against this provision shall be deemed guilty of a misdemeanor and shall be fined not more than $5,000 and a further sum equal to the money so loaned or gratuity given; and the officer or officers of a bank making such loan or granting such gratuity shall be likewise deemed guilty of a misdemeanor and shall be fined not to exceed $5,000. Any examiner accepting a loan or gratuity from any bank examined by him shall be deemed guilty of a misdemeanor and shall be fined not more than $5,000 and a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as a national-bank examiner. No national-bank examiner shall perform any other service for compensation while holding such office.

No officer or director of a national bank shall receive or be beneficiary, either directly or indirectly, of any fee (other than a legitimate fee paid an attorney at law for legal services), commission, gift, or other consideration for or on account of any loan, purchase, sale, payment, exchange, or transaction with respect to stocks, bonds, or other investment securities or notes, bills of exchange, acceptances, bankers' bills, cable transfers, or mortgages made by or on behalf of a national bank of which he is such officer or director. Any person violating any provision of this section shall be punished by a fine of not exceeding $5,000 or by imprisonment not exceeding five years, or both such fine and imprisonment, in the discretion of the court having jurisdiction.

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 any national banking association not situated in a reserve city or central reserve city may make loans secured by improved and unencumbered farm land, and so much of section fifty-one hundred and thirty-seven of the Revised Statutes as prohibits the making of such loans by banks so situated shall be, and the same is hereby, repealed; but no such loan shall be made for a longer time than twelve months, nor for an amount exceeding fifty per centum of the actual value of the property offered as security, and such property shall be situated within the Federal reserve district in which the bank is located. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus.

The Federal reserve board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

SAVINGS DEPARTMENT.

SEC. 27. That any national banking association may, subsequent to a date one year after the organization of the Federal reserve board, make application to the Comptroller of the Currency for permission to open a savings department. Such application shall set forth that the directors of said national bank have by a majority vote apportioned a specified percentage of their paid-in capital and surplus to said savings department, and to that end have segregated specified assets for the purposes of said department, or that cash capital for the said savings department has been obtained by subscription to additional issues of the capital stock of said national bank: *Provided,* That the sum in assets or in cash thus set apart for the uses of the proposed savings department aforesaid shall in no case be less than $25,000, or than a sum equal to twenty per centum of the paid-up capital and surplus of the said national bank.

In making the application aforesaid any national banking association may further apply for power to act as trustee for mortgage loans, subject to the conditions and limitations herein prescribed or to be established as hereinafter provided.

Whenever the Comptroller of the Currency shall have approved any such application as hereinbefore provided, he shall so inform the applying bank, and thereafter the organization and business conducted or possessed by said bank at the time of making said application, except such as has been specifically segregated for the savings department, and subsequent expansions thereof shall be known as the commercial department of the said bank. National banks may increase or diminish their capital stock in the manner now provided by law, but whenever such general increase or reduction of the capital stock of any national bank operating upon the provisions of this section shall be made such increase or reduction shall be apportioned between the commercial and savings departments of the said bank as its board of directors shall prescribe, notice of such increase or reduction, and of the apportionment thereof, being forthwith given to the Comptroller of the Currency; and any such national bank may increase or diminish the capital already apportioned to either its savings or commercial department to an extent not inconsistent with the provisions of this section, notifying the Comptroller of the Currency as hereinbefore provided. The savings department for which authority has been solicited and granted shall have control of the cash or assets apportioned to it as hereinbefore provided, and shall be organized under the rules and regulations to be prescribed by the Comptroller of the Currency.

Both the savings and commercial departments so created shall, however, be under the control and direction of a single board of directors and of the general officers of said bank.

All business transacted by the commercial department of any such national bank shall be in every respect subject to the limitations and requirements provided in the national banking act as modified by this act, and such business shall henceforward be known as commercial business.

The savings department of each such national bank shall be authorized to accumulate and loan the funds of its depositors, to receive deposits of current funds, to loan any funds in its possession upon personal or real estate security, and to collect the same with interest, and to declare and pay dividends or interest both upon demand and time deposits. The Federal reserve board is hereby authorized to exempt the savings departments of national banking associations from any and every restriction upon classes or kinds of business laid down in the national banking act, and it shall be the duty of the said board within one year after its organization to prepare and publish rules and regulations for the conduct of business by such savings departments. The said regulations shall require every national bank which shall conduct a savings department and a commercial department to segregate in its own vaults the cash and assets belonging to such departments respectively and shall prescribe the general forms of separate books of account to be used by each such department for its exclusive and individual use. The regulations aforesaid shall further specify the period of notice for the withdrawal of deposits made in the said savings department and shall forbid the acceptance of deposits by one department of such national bank from the other department of such bank. The Federal reserve board shall make and publish at its discretion lists of securities, paper, bonds, and other forms of investment, which the savings departments of national banks

shall be authorized to buy; and said lists need not be uniform throughout the United States, but shall be adapted to the conditions of business in different sections of the country.

It shall be the duty of every national bank to maintain, with respect to all deposit liabilities of its savings department, a reserve in money which may under existing law be counted as reserve, equal to not less than five per centum of its total deposit liabilities, and every national bank authorized to maintain a savings department is hereby exempted from the reserve requirements of the national banking act and of this act in respect to the said deposit liabilities of its savings department, except as in this section provided. Every regulation made in pursuance of this section shall be duly published, and also posted in every member bank having a savings department.

Every officer, director, or employee of any national bank who shall knowingly or willfully violate any of the provisions of this section, or any of the regulations of the Federal reserve board, or of the Comptroller of the Currency, made under and by virtue of the provisions of this section shall be guilty of a felony, and on conviction thereof shall be punished by a fine not exceeding $5,000 or by imprisonment not exceeding two years.

FOREIGN BRANCHES.

SEC. 28. That any national banking association possessing a capital of $1,000,000 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 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 application shall specify, in addition to the name and capital of the banking association filing it, the foreign country or countries or the dependencies of the United States 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 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. That all provisions of law inconsistent with or superseded by any of the provisions of this act be, and the same are hereby, repealed.

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

APPENDIX D.

Reserve required under H. R. 7837, based on deposits reported June 4, 1913.

Cities, States, and Territories.	Net deposits subject to reserve requirements.	Cash requirement under H. R. 7837.	Balance in reserve banks under H. R. 7837.	Optional under H. R. 7837 (per cent cash or balances).
New York City	$1,093,896,154.20	$98,450,654.00	$54,694,807.00	$43,755,845.00
Chicago	363,020,439.98	32,671,840.00	18,151,022.00	14,520,819.00
St. Louis	111,170,462.55	10,005,341.00	5,558,523.00	4,446,818.00
Central reserve cities	1,568,087,056.73	141,127,835.00	78,404,352.00	62,723,482.00
Boston	235,937,447.19	21,234,370.00	11,796,872.00	9,437,497.00
Albany	39,297,953.26	3,536,816.00	1,964,897.00	1,571,918.00
Brooklyn	23,836,325.80	2,145,270.00	1,191,816.00	953,453.00
Philadelphia	279,772,336.64	25,179,512.00	13,988,617.00	11,190,894.00
Pittsburgh	196,116,426.28	17,650,439.00	9,805,821.00	7,844,657.00
Baltimore	62,246,492.72	5,602,184.00	3,112,324.00	2,489,859.00
Washington	28,568,018.15	2,571,123.00	1,428,401.00	1,142,722.00
Savannah	1,857,723.80	167,195.00	92,886.00	74,309.00
New Orleans	25,217,548.95	2,269,581.00	1,260,878.00	1,008,703.00
Dallas	21,629,510.24	1,946,658.00	1,081,476.00	865,181.00
Fort Worth	14,981,247.51	1,348,314.00	749,062.00	599,249.00
Galveston	4,760,174.05	428,415.00	238,008.00	190,406.00
Houston	29,642,962.90	2,667,868.00	1,482,148.00	1,185,719.00
San Antonio	11,052,476.24	994,724.00	552,624.00	442,099.00
Waco	5,788,341.06	520,952.00	289,417.00	231,534.00
Louisville	29,537,728.00	2,658,396.00	1,476,887.00	1,181,510.00
Cincinnati	60,188,629.74	5,416,977.00	3,009,431.00	2,407,545.00
Cleveland	68,629,965.00	6,176,698.00	3,431,498.00	2,745,199.00
Columbus	23,639,013.72	2,127,512.00	1,181,950.00	945,560.00
Indianapolis	31,915,589.99	2,872,404.00	1,595,779.00	1,276,623.00
Detroit	46,914,596.64	4,222,313.00	2,345,729.00	1,876,583.00
Milwaukee	51,591,648.49	4,643,249.00	2,579,582.00	2,063,666.00
Minneapolis	61,364,504.08	5,522,805.00	3,068,225.00	2,454,580.00
St. Paul	40,873,142.66	3,678,584.00	2,043,657.00	1,634,927.00
Cedar Rapids	10,293,775.07	926,442.00	514,688.00	411,750.00
Des Moines	16,043,138.16	1,443,884.00	802,157.00	641,726.00
Dubuque	3,618,675.53	325,683.00	180,934.00	144,748.00
Sioux City	12,997,107.50	1,169,740.00	649,856.00	519,885.00
Kansas City, Mo	81,566,939.40	7,341,026.00	4,078,347.00	3,262,678.00
St. Joseph	13,335,196.44	1,200,169.00	666,759.00	533,407.00
Lincoln	6,656,099.11	599,048.00	332,804.00	266,243.00
Omaha	39,128,378.20	3,521,555.00	1,956,419.00	1,565,135.00
South Omaha	9,189,605.77	827,065.00	459,480.00	367,584.00
Kansas City, Kans	4,932,871.80	443,959.00	246,643.00	197,315.00
Topeka	3,389,138.20	305,024.00	169,457.00	135,566.00
Wichita	6,692,169.82	602,295.00	334,608.00	267,686.00
Denver	42,731,083.75	3,845,797.00	2,136,553.00	1,709,242.00
Pueblo	8,355,239.10	751,973.00	417,762.00	334,210.00
Muskogee	4,844,442.25	436,000.00	242,222.00	193,778.00
Oklahoma City	7,883,172.09	709,486.00	394,158.00	315,326.00
Seattle	35,198,357.96	3,167,854.00	1,759,918.00	1,407,934.00
Spokane	18,885,980.26	1,699,739.00	944,299.00	755,440.00
Tacoma	7,854,204.57	706,878.00	392,710.00	314,168.00
Portland	29,906,806.26	2,691,614.00	1,495,340.00	1,196,272.00
Los Angeles	54,679,499.16	4,921,156.00	2,733,975.00	2,187,180.00
San Francisco	119,056,019.87	10,715,044.00	5,952,801.00	4,762,242.00
Salt Lake City	13,276,773.65	1,194,912.00	663,818.00	531,071.00
Other reserve cities	1,945,874,457.03	175,128,702.00	97,293,723.00	77,834,979.00
All reserve cities	3,513,961,513.76	316,256,536.00	175,698,075.00	140,558,460.00
Maine	46,898,653.28	2,344,932.00	2,344,932.00	937,972.00
New Hampshire	22,268,769.99	1,113,438.00	1,113,438.00	445,377.00
Vermont	19,218,246.04	960,913.00	960,913.00	384,364.00
Massachusetts	140,721,736.97	7,036,087.00	7,036,087.00	2,814,435.00
Rhode Island	29,917,010.63	1,495,851.00	1,495,851.00	598,340.00
Connecticut	69,821,700.52	3,491,085.00	3,491,085.00	1,396,434.00
New England States	328,846,117.43	16,442,306.00	16,442,306.00	6,576,922.00

Reserve required under H. R. 7837, based on deposits reported June 4, 1913 Contd.

Cities, States, and Territories.	Net deposits subject to reserve requirements.	Cash requirement under H. R. 7837.	Balance in reserve banks under H. R. 7837.	Optional under H. R. 7837 (per cent cash or balances).
New York	$370,193,609.43	$18,509,681.00	$18,509,681.00	$7,403,872.00
New Jersey	202,574,593.74	10,128,729.00	10,128,729.00	4,051,492.00
Pennsylvania	475,471,735.41	23,773,587.00	23,773,587.00	9,509,434.00
Delaware	8,513,102.98	425,655.00	425,655.00	170,262.00
Maryland	40,554,108.05	2,027,705.00	2,027,705.00	811,082.00
District of Columbia	1,031,403.06	51,570.00	51,570.00	20,628.00
Eastern States	1,098,338,552.67	54,916,927.00	54,916,927.00	21,966,770.00
Virginia	93,719,750.42	4,685,987.00	4,685,987.00	1,874,395.00
West Virginia	56,100,448.92	2,808,023.00	2,808,023.00	1,123,209.00
North Carolina	32,965,737.40	1,648,288.00	1,648,288.00	659,314.00
South Carolina	20,201,398.31	1,010,069.00	1,010,069.00	404,027.00
Georgia	42,547,683.67	2,127,385.00	2,127,385.00	850,954.00
Florida	36,918,647.97	1,845,932.00	1,845,932.00	738,373.00
Alabama	37,229,745.07	1,861,487.00	1,861,487.00	744,594.00
Mississippi	13,887,110.55	694,356.00	694,356.00	277,743.00
Louisiana	16,644,169.34	832,208.00	832,208.00	332,884.00
Texas	120,776,500.33	6,038,825.00	6,038,825.00	2,415,531.00
Arkansas	19,072,404.12	953,621.00	953,621.00	381,449.00
Kentucky	43,465,014.17	2,173,250.00	2,173,250.00	869,301.00
Tennessee	64,719,553.41	3,235,977.00	3,235,977.00	1,294,390.00
Southern States	598,308,163.68	29,915,408.00	29,915,408.00	11,966,164.00
Ohio	211,714,557.24	10,585,728.00	10,585,728.00	4,234,292.00
Indiana	127,799,890.35	6,389,995.00	6,389,995.00	2,555,998.00
Illinois	217,140,603.31	10,857,030.00	10,857,030.00	4,342,812.00
Michigan	92,318,092.81	4,615,905.00	4,615,905.00	1,846,362.00
Wisconsin	95,050,605.39	4,752,530.00	4,752,530.00	1,901,011.00
Minnesota	109,033,507.97	5,451,675.00	5,451,675.00	2,180,670.00
Iowa	123,092,911.33	6,154,645.00	6,154,645.00	2,461,857.00
Missouri	32,575,300.80	1,628,765.00	1,628,765.00	651,506.00
Middle States	1,008,725,469.20	50,436,273.00	50,436,273.00	20,174,508.00
North Dakota	34,156,079.53	1,707,804.00	1,707,804.00	683,122.00
South Dakota	32,524,541.88	1,626,227.00	1,626,227.00	650,490.00
Nebraska	57,484,779.56	2,874,239.00	2,874,239.00	1,149,695.00
Kansas	62,990,129.91	3,149,507.00	3,149,507.00	1,259,803.00
Montana	34,569,197.15	1,728,459.00	1,728,459.00	691,383.00
Wyoming	13,135,898.01	656,795.00	656,795.00	262,717.00
Colorado	38,730,570.50	1,936,528.00	1,936,528.00	774,613.00
New Mexico	15,082,617.80	754,132.00	754,132.00	301,652.00
Oklahoma	55,268,368.49	2,763,418.00	2,763,418.00	1,105,369.00
Western States	343,942,182.83	17,197,109.00	17,197,109.00	6,878,844.00
Washington	30,235,417.25	1,511,771.00	1,511,771.00	604,708.00
Oregon	29,327,686.13	1,466,384.00	1,466,384.00	586,554.00
California	127,304,756.39	6,365,238.00	6,365,238.00	2,546,096.00
Idaho	18,842,253.16	942,113.00	942,113.00	376,846.00
Utah	7,899,595.98	394,979.00	394,979.00	157,990.00
Nevada	6,587,718.61	329,386.00	329,386.00	131,754.00
Arizona	9,520,662.66	476,033.00	476,033.00	190,414.00
Alaska	852,680.20	42,634.00	42,634.00	17,064.00
Pacific States	230,570,770.38	11,528,538.00	11,528,538.00	4,611,416.00
Island possessions (Hawaii)	1,941,602.46	97,080.00	97,080.00	38,832.00
Total States	3,610,672,858.00	180,533,642.00	180,533,642.00	72,213,457.00
Total United States	7,124,634,372.00	496,790,179.00	356,231,717.00	212,771,917.00

VIEWS OF THE MINORITY.

The undersigned regret that when the Committee on Banking and Currency met finally to consider H. R. 7837 they found the majority members of the committee so bound by their caucus action that they could not consider amendments to the bill which, if adopted, would have eliminated its unsound and questionable provisions.

Such changes, while comparatively few in number, in our opinion are fundamental and vital. The majority members of the committee refused to favorably consider them on the ground that they involved matters of Democratic party policy settled by the caucus.

COMPULSORY PURCHASE OF STOCK.

One objection to the proposed law goes to the provision which compels national banks to subscribe for the capital stock of the Federal reserve banks on pain of forfeiture of their charters. We believe this forfeiture provision is of doubtful constitutionality and wholly unnecessary and inexpedient. If the plan proposed by the bill proves to be a good one, the mercantile, manufacturing, and agricultural interests of the country, which control the banks, can be depended upon to appreciate its advantages, and the banks will naturally and voluntarily join in trying to make it a success. At least time enough should be allowed for a gradual and natural development to fully demonstrate that the new system is a success before force should be applied, by way of quasi penal or forfeiture provisions, to compel reluctant banks to come into it.

If, on the other hand, the plan proposed by the bill should prove to be too cumbersome or not workable, the tying up of so vast a quantity of the reserves as the bill proposes to compel would cause the borrowing public great hardship, and the vast business interests of the country would be imperiled. Should the national banks of the country, or a large majority of them, elect to forfeit their present charters rather than come into the new system, our currency supply would be greatly curtailed, all business would be disastrously affected, and our national banking system would be destroyed.

FEDERAL RESERVE NOTES.

Another fundamental objection is to the provision (p. 28, line 19) that the notes to be issued to or through the Federal reserve banks "shall be obligations of the United States." Section 17, in which this provision is found, practically creates a Government central bank or board of issue, which may issue notes on application without limit at its discretion for the sole accommodation of the banks and

not to meet the necessities of the Government. In times of serious crises the Government obligation to pay these notes might, and probably would, lead to very serious complications involving the credit of the Government, as the history of all such experiments amply proves.

FEDERAL RESERVE BOARD.

The powers of the Federal reserve board are, in our judgment, too great. This board should be given supervision, but not actual management of the banking business of the country. We also believe that while an effort has been made to make the board somewhat nonpartisan, there is still great danger as the bill is now drawn that the banking business of the country may be used for partisan political advantage. Every possible provision should be incorporated to prevent a result which every right thinking man would greatly deplore. Those who will most suffer from political management of this board will be the small merchant and the borrowing public. There is also a clear impropriety in allowing the Comptroller of the Currency, who is charged with the supervision and administration of the whole national banking system, to serve on this board.

There are other imperfections in the bill which will be pointed out during its consideration on the floor of the House.

E. A. HAYES.
FRANK E. GUERNSEY.
JAMES F. BURKE.
FRANK P. WOODS.
EDMUND PLATT.

Mr. LINDBERGH submitted the following

MINORITY VIEWS.

THE GLASS BILL, H. R. 7837.

The Glass bill, as drafted, is merely a new form for the administration of a false old system. It leaves the worst of all features in the present financial scheme unchanged; that is, the burden of excessive interest. It provides upon its face for a financial stringency and possible panic in its inception as a result of the forced shifting of cash and resultant transfer, and therefore a disturbance of credit. After the shift would be made and the adjustment was finally completed, with the exception of a provision for the issue of asset currency, it would be an improvement over the present method of finances. The disadvantage that would arise by shifting of cash balances and early disturbance of credits may be remedied by simple amendments.

The most disappointing thing about the bill is that it provides no relief from existing economic evils. That relief is due to begin with an improved money system. The Glass bill proposes to incorporate, canonize, and sanctify a private monopoly of the money and credit of the Nation—to remove all the people's money from the United States Treasury and place it in the vaults of the banks to be used by them for private gain. It violates every principle of popular, democratic, representative Government and every declaration of the Democratic Party and platform pledges from Thomas Jefferson down to the beginning of this Congress.

Those of the committee who favor the bill have worked diligently with earnestness and ability to modify the details in dealing with finances, but have done nothing to correct the grossly false basis on which finance is now operated; that is, the fact that financing in the present way is a burden instead of an assistance to trade and commerce. Severe as my criticism of the bill may seem, still I believe that with some few amendments the system that the Glass bill would put into operation would be less severe on the people than our present system. I do not object to it because of unfavorable comparison with that now practiced, but base my objections on the ground that now, while we are at it, we should instead pass a good bill.

In submitting a minority report I have two purposes in view: (*a*) To offer suggestions for amendments in the Glass bill that would make it simple, more responsive, and less expensive to operate; (*b*) to offer a new bill to form the basis for an American financial policy to place public and private enterprise, industry, and exchanges upon a sound economic basis and destroy the power of private operators to monopolize the mediums of exchange.

Those who are responsible for the draft of the Glass bill undoubtedly hope through its enactment to remove from finance the frequent

stringencies and occasional panics that develop. The plan they offer, once it became operative and adjusted to, would probably remove some of the danger elements that in the past have driven the country into frequent money stringencies and occasional panics; but as an effective remedy it is inadequate. The very basis of the system that is sought to be patched is false.

The Glass bill would make a change in the administration of the present system, but no change in the money basis. The design of the bill is to lessen the immoderate and violent fluctuations that result from the present method of financing. For that reason a Member who does not consider the bill satisfactory may vote for it nevertheless. We should first do all we can to secure the enactment of a good bill. This is not a good bill, but with a few amendments it may be better than no bill.

Business is now operated under a highly technical credit system based on a small amount of lawful money. Twenty-five and possibly more dollars of credit exchanges, on the average, for each dollar of actual cash paid, but credit as a rule is directly related to the location of actual money. It is through the banks that most of the credit extensions occur. The cash is in reserve for the final balances. Comparatively little of the cash in the banks moves at all. It lies in the vaults year after year without going out on any mission of business.

This bill proposes to shift a very considerable part of the bank cash. It would require several months at the very least to adjust credits to the shift. The volume of credit would be disturbed to a very much greater extent than the shift of cash. Business would be disturbed by the change unless provision were made to keep credit from being interfered with.

The general public gets no direct connection with the Glass bill for purposes of securing either credit or cash. The public will still be forced to go to the banks. Therefore if the bill is to become operative, the banks will have to come under it. The national banks would only be compelled to do so, but if they alone do, it will hardly be satisfactory, because they do only about one-third of the banking business.

SOME ACTUAL CONDITIONS TO BE MET.

On April 4, 1913, the deposits held by national banks required them to hold a reserve of $891,794,905. They were $15,691,784 short—below the reserve requirements. If they had been compelled to subscribe for Federal reserve bank stock under those conditions, what would have happened? Their capital stock was approximately $1,050,000,000, which would have required them to pay $105,000,000 for stock within 60 days. This sum would be transferred to an entirely new field of financial development. In addition to that, under the law they would have been required to make good the $15,691,784 shortage in reserve within 30 days; an old provision which is carried into this bill. The State banks were practically in the same condition, and if they, too, came in, as the bill contemplates, the demand for ready money would have exceeded $200,000,000 for Federal reserve bank stock alone, and a much greater shift of deposits would be required. All things considered, it is not improbable that a shift of near half a billion dollars would have to be made.

The contraction which would come about in making such a change—that is, in the shifting of cash from its old moorings and the still greater credit disturbance—would result seriously and bring about a great loss to the people. A statement of some actual facts will illustrate sufficiently. In a general way the results would be the same from an analysis of any bank report made in the last 10 years, but to be specific I take the banks' reports to the Comptroller of the Currency September 4, 1912. I call attention merely to a single bank in each of the States having a representative on the Banking and Currency Committee. I show the capital stock, the amount it would have to pay under this bill, and the actual lawful money contained in its vaults, as follows:

	Capital.	Assessment.	Money in bank.
Barnesville National Bank, Minnesota	$25,000	$2,500	$2,514
Peoples' National Bank, Virginia	50,000	5,000	3,931
Whitland National Bank, Indiana	25,000	2,500	1,287
People's National Bank, Rollesburg, W. Va	25,000	2,500	1,536
First National Bank, Hudson, Ohio	50,000	5,000	3,657
First National Bank, Almena, Kans	50,000	5,000	2,856
Irving National Bank, Irving Park, Ill	100,000	10,000	7,798
Athol National Bank, Athol, Mass	100,000	10,000	6,582
Commanche National Bank, Commanche, Tex	100,000	10,000	6,637
First National Bank, Perry, Ark	25,000	2,500	1,688
First National Bank, Wellington, Colo	25,000	2,500	1,203
Heard National Bank, Jacksonville, Fla	1,000,000	100,000	80,826
First National Bank, Alex, Okla	25,000	2,500	1,503
Gaffney National Bank, South Carolina	150,000	15,000	9,725
First National Bank, Vacaville, Cal	50,000	5,000	3,501
Union National Bank, Brunswick, Me	50,000	5,000	4,288
Grange National Bank, Chester, Pa	100,000	10,000	9,112
Farmers & Mechanics' National Bank, Jefferson, Iowa	40,000	4,000	1,877
First National Bank, Baldwinsville, N. Y	100,000	10,000	8,225

These responsible banks, on the date named, did not have sufficient lawful money in their vaults to meet the requirements of the Glass bill. Many of the banks have more cash than is necessary, but the banks listed above are not isolated cases. Substantially the same condition exists in all the States. Hundreds and hundreds of banks would be required to pay out, within 60 days after the organization commenced, all the cash in their vaults, and many more of them would have barely enough. In the aggregate they would not have enough.

Instancing this condition, in South Carolina there were 46 national banks on September 4, 1912. On that date 6 of them did not have enough lawful money in their vaults to pay for the stock they would be compelled to take. What would happen under such conditions? These banks would, of course, draw on their reserve banks for the money due from them. Simultaneously the reserve banks would be called on to return to the other banks their reserves and pay for Federal reserve bank stock.

Let us take the National City Bank of New York as an example. It is a central reserve bank, required by law to keep 25 per cent lawful money reserve. On September 4, 1912, its deposits were $239,669,430. It required a legal reserve of $59,917,357, but it had only $48,364,892 lawful money in its vaults. It was owing to other

banks, included in the $239,669,430, approximately $100,000,000. These banks, under the operation of the bill, would be compelled to draw on the National City Bank for money to pay subscriptions for Federal reserve bank stock, and also to cover in these banks within 60 days a 3 per cent reserve. The country banks do not, as a rule, carry more reserve cash in their vaults than the law requires and could not draw directly from their vaults. In addition to that, the National City Bank would be required to pay $2,500,000 for capital stock. The statement of September 4 shows that the National City Bank had not sufficient lawful money to meet any such demand. It may be suggested that it had $38,296,647 checks and exchanges outstanding; but, admitting that, and that these come in rapidly, as many more are put out in the regular course of business. The commerce of the country demands transmission through the mails, express, and in clearance agencies enormous sums. Under the terms of the bill this one bank would probably be compelled to transfer more than $100,000,000. I do not plead for that bank. Its stockholders have fleeced the people of this country, but what applies to the demands that are to be made on that bank applies to the demands that would be made on banks generally in the proportion of their business. A scramble would take place among the banks to get in shape to meet their obligations. Naturally they would demand payment of the borrowers. A stringency would result, and possibly a panic. In such an emergency the borrowing people would suffer, because they are absolutely tied to the banks, and the Glass bill would make no change in that respect. If everybody would remain perfectly calm and make no demand for impossible things, the shift could be made under the stress without an actual panic.

COMPENSATING PROVISIONS TO THE BANKS.

There are some compensating provisions in the Glass bill that would aid the banks in changing from the present system to the proposed system, provided that no excitement would arise until they were made effective. The Federal reserve board may suspend for 30 days, and renew the suspension for periods of 15 days, any and every reserve requirement contained in the bill. Aid would also be given to the banks by a deposit of all the funds in the Government Treasury. Still further aid might be provided by a loan of United States currency. But the organization would have to be complete before that could be loaned. Much loss might occur in the meantime.

It is claimed by this bill to give considerable control and management of the banks to the Government, but it reserves no power in the Government to aid those who need money to do business with. Those who actually use the money to carry on business are compelled to go to those who use money simply for the purpose of charging a profit out of handling it. That is, the banks and money loaners make a profit out of those who use money. The latter have no other purpose whatever. This bill makes the bankers the "go-between" between the Government and those who use money only as a means to deal in the material and social exchanges that are essential to civilization, the only true purpose of money. This bill provides for

the continuation of an actual extortion fostered by the Government against the freedom of business intercourse among the people. It recognizes the superior sovereignty of the embodied institutions of money over any power of government, so that neither the Government in its sovereign capacity nor the people, or their representatives, can initiate the placement of one dollar of monetary function into actual exchanges among the people, except through the agency of organized money loaners with purely selfish interests. The Glass bill positively abolishes the United States Treasury and the public money of the people, and substitutes the so-called Federal reserve banks, which by the terms of the bill are to be the exclusive stock of the bankers. It reduces the people's Treasury Department and the Bureau of Printing and Engraving to the position of a job printing house for the private use of the bankers.

It is an advantage to the banks to have the Government print and engrave the money, so long as the banks may have a monopoly of its distribution. This bill continues and affirmatively gives them that monopoly They have held it for a long time in the past, and now Congress is about to bow its subserviency in more positive express terms of a statute than heretofore. Ask, Where will the people go to borrow money after this bill goes into effect? Congress has been slipped into the halter by the money lenders, and they seem to have supplied themselves with a double hold—a chain in addition to the strap.

Those who wish to use money for the purpose of its service to a freedom of trade by the people among themselves find no Government-supported source of supply except the exclusive monopoly granted to the banks. These banks have the means and do compel the people to pay for the use of money a rate of interest that forces the majority of mankind into needy circumstances, and deprives all but a few of a proper compensation for their lives' efforts. No one should assume because of all this, and because the bankers get the lion's share of profits, that bankers are disposed to be vicious. We should change the system and not blame the bankers. In the process of changing the system the people should address themselves first to a subservient Congress.

The Glass bill, being distinctively a banker's bill, and all who are not bankers being compelled to go to the banks for accommodations, we should at least make it easy for the banker to help borrowers whenever he is willing. If this bill is passed without some minor amendments, to make the transfer from the old to the new system easy, the bankers will be compelled to retrench until they can adjust to this new system. They will not only be compelled to withhold further credit during that period, but many borrowers will be called on to pay notes while the adjustment is going on. For that reason, if the general plan of the bill is to be adopted, some amendments can and should be made to obviate the tendency to create a stringency. The banks will not wait for help, but will help themselves by calling on borrowers to pay. It evidently is the opinion of those who favor the bill that the Federal Reserve Board will waive the affirmative requirements to enable bankers to shift from the old to the new system without disturbance. Admitting that the board would do so is not sufficient to the business world. Bankers are cautious

business men and will resolve all doubts in favor of safety and therefore call in loans until they are prepared to meet the most difficult provisions of the bill. The bill should be made right to start with so far as human foresight can make it and still have the saving clauses to meet any oversight.

FEDERAL RESERVE BANK STOCK ASSESSMENT.

Instead of making a call for 5 per cent instanter and 5 per cent within 60 days, it should be made in several smaller calls distributed over a period of a year. There is, however, no need of so much centralized capital as would occur in these banks. The security of the depositors in a bank depends on the good management more than on the amount of its capital stock. The funds in the control of a good management in a bank are usually several times greater than its capital. A 5 per cent assessment on the capital and surplus for the establishment of the Federal reserve banks would serve the country better than a larger assessment upon the capital alone. I believe that 3 per cent on the combined capital and surplus would be still better, because that would leave more money for use in the proximity of its origin, where it belongs.

ASSESS COMBINED CAPITAL AND SURPLUS.

Assessments should be made both on the capital and surplus. The surplus of a bank is as much a part of its capital as the capital itself is. It would be an injustice to the smaller banks unless the assessment is made on both capital and surplus. The 37 national banks in New York City, for example, had September 4, 1912, a capital of $120,200,000 and a surplus of $128,255,000, while taking, for instance, the first 37 banks listed in Minnesota, which is a fair average for country banks generally, their aggregate capital on the same date was $1,425,000 and their surplus $458,615. Now, if this new system is to be a protection to the banks or if it is to be a burden to them, in either case, let them pay for the one or the other in a proper proportion The bill should be amended to have the assessment made on the capital and surplus both.

BANK RESERVES.

The reserve requirements should be reduced immediately to 20 per cent for all reserve banks. That would help the banks to meet the demands of the country banks for a return of their funds. As the bill is, the reserve banks would simultaneously be compelled to press collections—first, in order to meet the demands from the country banks for their reserves; second, to subscribe for stock in Federal reserve banks; and, third, to transfer a part of their own reserves to the latter. The period of adjustment should be more graduated and the reserve requirements reduced. Since the banks have absolute control of the distribution of money to borrowers, they should not be prevented from loaning at times and in places when and where the money is needed. The formative period of adjustment to the requirements of this bill would prevent that unless amendments are made.

CAPITAL CAN NOT BE SIMULTANEOUSLY PROVIDED FOR 12 FEDERAL RESERVE BANKS, WHICH MIGHT RESULT IN THERE BECOMING ONE CENTRAL BANK.

On page 3 the Glass bill provides for not less than 12 Federal reserve banks with capital equal to 20 per cent of the capital stock of the banks subscribing, and for one-fourth to be paid in cash, and also that no Federal reserve bank shall begin business until $5,000,000 has been paid in. Since the Federal reserve banks would be started by the national banks alone, as they alone would be forced to join, they, with an aggregate capital stock of less than $1,100,000,000, even if they should all join, could not start 12 Federal reserve banks on a 5 per cent assessment with each a paid-in capital of $5,000,000, as the bill requires. Furthermore, it would be impossible to equalize to approximately equal the capital in all districts. It is necessary, therefore, to amend on page 3. The bill would serve the country better by making the stock of the Federal reserve banks equal to 3 per cent of the unimpaired combined capital stock and surplus of the subscribing banks and permit them to begin business when $1,000,000 is paid in. Under the provisions of the bill the Federal reserve board may name the 12 Federal reserve districts, and the cities for their banks. The city of New York should and of course would be named as one of the 12. Chicago would be another. The influence of the moneyed interests could easily prevent all of the districts except New York City from completing the organization unless the provision forcing banks to become members is held constitutional, which is somewhat questionable. The larger banks would have to join in order to have capital enough for 12 reserve banks. The larger banks are controlled by stockholders who support the Wall Street system. Anyone who has investigated the influence of that system knows that its influence in a case of this kind would be all powerful. The New York district under that condition might complete its organization and the rest drop out by default. Then there would be one central bank controlled by Wall Street stockholders. The Federal reserve board would have some influence, but not sufficient to help the general public out of the difficulty that would arise from such a condition. It is not within the power of the Federal reserve board to complete a single organization if the banks do not affirmatively act.

INCREASE AND DECREASE OF CAPITAL STOCK.

Sections 5 and 6 provide that when banks reduce their capital, or dissolve, or become insolvent, the Federal reserve bank shall pay therefor a sum equal to their cash paid subscriptions on shares surrendered. In times of panic or financial stress this provision would weaken the Federal reserve banks. The banks holding the stock could dissolve, reduce their capital stock, or go into insolvency, thus not only avoiding the whole or a part of the responsibility to carry the Federal reserve banks through financial storms, but actually thereby reenforce their individual holdings by reducing those of the Federal reserve banks. This should be so amended that payment for shares surrendered would be made at such time as the Federal reserve

board from time to time provides. No solvent bank should be permitted to surrender its stock at a period when in the opinion of the Federal reserve board the general public interests, on account of financial stringency, require the Federal reserve banks to have all their resources available to meet the more general demand.

SMALL BANKS SHOULD BE ADMITTED.

The second paragraph of section 10 should be amended so as to provide that no bank should be excluded from becoming a member bank of a Federal reserve bank because of the amount of its capital stock, so long as its capital stock and surplus remained unimpaired, if in every other respect such bank was qualified. The welfare of the whole people requires the thrift of every community. The small communities are as essential as the large ones, and their banks should receive the same treatment as those of the larger cities.

FOREIGN AGENCIES.

The last paragraph of section 15 should be amended so as to prevent instead of permit Federal reserve banks opening accounts or establishing agencies in foreign countries. Since it is proposed by this bill to turn over to the Federal reserve banks the Nation's funds, we should not entangle them further by permitting the Federal reserve banks to establish agencies in foreign countries for speculation. The foreign banks authorized by section 28 of the Glass bill would attend to foreign business.

GOVERNMENT DEPOSITS.

It may be questionable whether it is constitutional to deposit Government funds in the banks, except in consequence of appropriations made by law. Funds that have not been appropriated must remain in the Treasury. Subdivision 7 of section 9, article 1, reads:

> No money shall be drawn from the Treasury but in consequence of appropriations made by law; and a regular statement and account of the receipts and expenditures of all public money shall be published from time to time.

It may be that any funds that have actually been appropriated can legally be deposited in the banks. However, passing that question, the adoption of a policy to continually keep on deposit all the public funds in the banks is at least doubtful. The bankers claim that the money is being taken out of business to pay the Government demands and should be deposited in the banks in order to pass back into business. If its doing so were confined to legitimate business, and did not enter into speculating and gambling, there would be more virtue in the claim.

A concrete illustration exists at the present time to show the effect of the use of the public funds. The first $10,000,000 that the present Secretary of the Treasury deposited in the summer (1913) in the banks on 2 per cent interest basis, probably did no good, because it was immediately absorbed by Wall Street and used to exploit the people. The bank statements show that it quickly gravitated to Wall Street. I do not make the statement in criticism of the Secretary. It did not happen to be a good time to make the deposit. On the other hand,

the later and larger deposits being made by the Secretary of the Treasury in the banks in the South and West come at an opportune time. It will help to move the crops and to steady conditions and prevent financial stringency.

The undesirability of keeping all the public funds on deposit in the banks all the time is, I think, manifest. At certain periods there is a great demand for money to move crops. When crops have been moved the demand for money weakens and it piles up in the banks. The banks loan it out then at lower rates of interest. The speculators have taken advantage of those conditions in the past years to reduce the price of farm products when the farmers sell their crops. They hold the money tight then, but when the farmers buy what they require the speculators would have the money market easy so as to make the farmers pay high prices. In that way the speculators have practically fixed prices. When the farmer sells he is compelled to take the price the speculator offers; when the farmer buys he gives the price the speculator demands. That is one of the troubles with the present system and this Glass bill does not furnish a sufficient remedy.

If the banks are given all the public funds at all times, as the Glass bill provides, there will be times when they will not be in demand for legitimate commercial business. They will then be loaned to the speculators, who will exploit the people. Then when the demands of legitimate trade come again the money market will become tight. The farmer, the merchant, the manufacturer, and others will be compelled to compete with the speculators to borrow money. The interest rates will be raised. There will be no place then to give relief like that at the present time being extended to some sections of the country by the Secretary of the Treasury. The discovery that such relief can be given has come too late, for we will hardly have more than a sample of its effect until the Glass bill will become a law and will take the public funds and place them where they will be available to speculators in competition with legitimate commerce. It may be contended by those favoring the bill, that the banks can secure Government note issues at any time they wish. That is true if the Federal reserve board would approve, as very likely it would if the public interest required, but that is a protection available to the banks alone. They may apply if they wish, but neither the Federal reserve board nor the public at large could force such an application to be made. The banks are in the business solely for profit. It is for their interest to keep the rates of interest as high as they can, and it will make no difference how much the public may be in need of more money, the banks will make no application for Government note issues till such time as the public is willing to pay a larger profit than the banks can make without. The banks can bring out the note issues if they wish but no one else can.

NOTE ISSUES MADE ASSET CURRENCY.

For more than a half century the money loaners have ridiculed the issue of United States currency based on the credit of all the people. Now they ask the United States to issue notes on the credit of the people, but not for the people, nor in their interest. Instead it is proposed to organize the private banks into 12 or more special cor-

porations and issue this currency on the security of notes, bills of exchange, acceptances, Government, State, and municipal bonds. In other words, it is to be a form of asset currency supported by the Government but given to special interests to be vested by Congress with full and complete authority to scalp from the people and generally exploit them.

By section 7 in this bill the Government is to divide the profits that the Federal reserve banks get out of the people; that is, the Government is to print and engrave currency for these private corporations and give them the monopoly of loaning it, and whatever they are able to force the people to pay for the use of it such proceeds, after the corporations have first taken out the expenses and 5 per cent profit for themselves, the excess will be divided between these coporations and the Government. Considering section 7 in connection with the note issues which the Government is supposed to charge for, and also in connection with the charge to be made upon Government deposits, this section 7 establishes a vicious principle. Upon the note issue as well as the Government deposits, the policy of making a reasonable charge, can not be reasonably questioned. That is clearly within the Government right as well as a fair policy, but this section goes further, and provides that after the special private corporations to which Government note issues and Government deposits have been furnished and a proper charge made, that after these corporations have gotten out of the people a reasonable return, that is 5 per cent as fixed by the bill, then whatever in addition to that that can be extorted from the people the Government will divide with the banks.

No one other consideration in connection with the business dealings of the people with each other is so important as the money and credit system. The authority for the money, as well as the support of credit, depends for its stability on the Government. In the extension of the advantages sought to be derived from the use of money and a practical use of credit the power of the Government is absolutely essential. Any proper considerations by Congress of this subject are necessarily national in their scope.

It is the acme of absurdity for Congress to place between the people and the Government itself an agency in the absolute control of the distribution of money and the use of credit that would be valueless without the guaranty of the Government, and yet that is the identical thing that has been done by Congress, and the Glass bill emphasizes the absurdity.

Why should Congress place a controlling agency, employed for private gain, between the people and the Government of the United States? That is what has been done by giving to the banks the exclusive privilege of the use of the Government credit. Why is it proposed that the banker should take the merchants', the manufacturers', and others' notes, as well as the bonds of towns, villages, cities, States, and even the Nation's bonds, to the Government and get currency, and at the same time refuse the producers themselves, the makers of those notes and obligations, an equal privilege? The absurdity of the Government giving away its own credit to corporations to exploit the people is incomprehensible. The bankers are not to blame. Congress is to blame for giving away the people's rights and bestowing them upon the banks.

It is true that Congress possesses the authority and has the power to strip the banks of their exclusive monopoly, but the most of us have not the courage, and therefore we have the absurdity of the Congress of the United States giving to special interests the Government credit—the credit of the people—thereby forcing the people to borrow at exorbitant rates of interest the very money that their own Government issues on their own credit. The fiat of the Government is stamped upon the coins and the currency and then given to special interests and used as a means to pauperize the people. If the exclusive privilege were not given to the banks, then they would become the people's natural agents, but with the exclusive monopoly they become the people's masters.

The notes, bills of exchange, acceptances, bonds, etc., are the limited currency of those giving them—limited in its circulation by the credit that one or more persons are willing to give to it. By this Glass bill it is proposed to give the credit of the Government to these and create an endless chain by means of which the Government is to manufacture asset currency for the banks.

GOVERNMENT FURNISHES CAPITAL.

The Glass bill proposes to deposit all the Government funds in the banks. In the past the funds have been approximately $250,000,000 and the sum increases with the growth of Government business. Of this first sum of the people's own money to be taken from the United States Treasury the banks may loan to the people two-thirds and keep one-third on reserve. They will get the people's notes, bonds, etc., for approximately $165,000,000. Then, under section 17 of the Glass bill, they will be allowed to take these notes and bonds to the United States and deposit them and get United States currency. This currency they will take out and loan to the people and get an additional supply of notes and bonds. In the meantime they will have collected a lot of interest on the first installment, and, with that reloaned to the people, they take all the notes and bonds they get and come back to the United States Treasury for another supply of United States currency, and, as previously, they run out again and reloan that currency to the people, and now again they have still more interest collected from the people which they will have reloaned, so they add that and come back to the United States for still another supply of currency. If it were only the Treasury funds they were to have it would be hampered some by the reserve required to be back of the note issues, but they also get the deposits from member banks and can do the same with those.

Thus we see that the specially created interests which the Glass bill proposes to make will get the funds in the United States Treasury and a large part of the individual deposits of the people, loan them out to their owners, the people, get the people's notes and bonds drawing interest, and keep returning over and over, again and again, for United States currency to loan. Thus it is to continue "world without end," the people encumbered without end. It is to be a never-ending pulley, with boxes attached, leading from the banks into the Treasury of the United States, taking into the boxes the people's money, bringing it out from the Treasury of the people and into the banks, to be

loaned to the people themselves at a price to be in the exclusive control of the banks. The Glass bill proposes to protect the individual bank that rediscounts with the Federal reserve from exorbitant interest rates, but none but member banks can apply and the bill gives no individual borrower any protection as against an unreasonable charge of interest by the bank.

In accordance with the legislative and executive policy, and upheld by judicial decrees, running through their official acts, to be found in statutes, department orders, and judicial decrees, the people have been given into bondage. In less than 100 years the expense of administering the investment of the money that this Glass bill alone authorizes to be taken by the banks out of the United States Treasury, plus the compounding of interest, at the rates that banks charge and collect from the people, would absorb the equal of every dollar's worth of property now in existence and still leave a deficiency on which to declare the people bankrupt. I challenge any honest person to compute the cost to the people. If he does, he must admit the truth of the statement. A somewhat similar process to that which this bill makes possible for the pyramiding of loans from the use of currency authorized to be given to the banks has existed for a long time by the use of deposits and credits for loans based on bank accounts, and we are paying now in the high cost of living partly because of that practice. A vast majority of the people have no property, but live from hand to mouth on the little part they get from the results of their daily toil. The rest is absorbed to pay the toll that the Government practically provides for the banking and other special interests.

THE ABSORBING POWER OF INDIVIDUAL FORTUNES.

By reason of the policy followed by the legislative and executive departments, and supported by the judicial, there are several individuals in these United States, each of whose fortunes are now large enough so that 6 per cent annual interest compounded as is the custom, computed for 100 years, would furnish the owners with all the luxuries and extravagances of life, such as the families of the wealthy usually indulge, and in addition enable them and their successors to their fortunes to absorb the equal of the whole wealth now existing in this country. There are more than a thousand others who in twos, threes, fours, fives, and sixes could do the same thing. They are all levying a tax, burden, or whatever you wish to call it on us every day of our lives.

It is a fact that any and all the legislation that has been advocated by the political leaders will have mighty little influence in solving the cost of living. It is not in the tariff bill, nor is it in the currency bill. It will not come out of a bill that comes out of secret meetings and closed caucuses. There can be only one purpose for doors being closed to the public, and that is to whip subservient Members into supporting something that does not give the people that to which they are really entitled. This Glass bill is an example of that. Those who provide us with bread and butter and with the clothes that we put on our backs and the shelter for our bodies are the last to be served. These, who are the source and very basis for the supply of life's necessities, are deferred to a future period, while the Glass bill that we are called on to enact continues the system which gives to

special interests a monopoly control of the distribution of money. Those who toil must support it, and must appeal to these special interests and pay them the toll for its use, with not one word in the entire bill placing a limit on that toll.

It is generally pretended that the reason the money supply is out of proper commercial adjustment at certain periods is because of the extra demand for the movement of the crops. It is true that there is a farmer's demand, but the trouble with the reformers is that they do not intend to give the farmers the remedy. The farmer is put off till the last. His rural credit system can wait. The speculating interests are to be first supplied with funds to speculate on the farmers' products. This bill, in one of its sections, is expressly against the farmer. It offers a sop in section 26 by permitting the national banks to loan on improved farms for nine months, which would be of little if any value to a farmer. The farmer, unless in desperate straits, would be foolish to mortgage his farm for so short a period, but section 17 of the bill discredits the farmer's note by refusing to permit it to be used as security for United States currency, but allows most other kinds of paper to be taken. There is nothing better than a note secured by a farm mortgage. Farm-mortgage notes should be accepted the same as merchants' notes and others when they have the same period to run before maturity. A large amount of farm-mortgage notes are coming due within 60 and 120 days all the time; that is, a farm mortgage, after it has run to within a period of 60 or 120 days of maturity, it makes no difference how long it was made for originally, even if 10 years, is as good as any other short-time note, and the bill should be amended to take such notes.

While I regret it, I am not surprised that the President might advocate a bill that he could not possibly have had time to study, for his multifarious duties make it impossible for him to give detail study to these matters, but Members of Congress have time and are not excusable for submitting a bill so weak in its value to the public. It may be better than what we have now in practice, but the people are entitled to a bill worth 100 cents on the dollar.

Various other amendments of lesser importance could be made to the Glass bill, improving it, to which I shall not call attention in this report, rather leaving them to be considered on the floor of the House. In suggesting the amendments that I have, it is not with the intention of approving the bill even if the amendments are adopted. The amendments would improve the bill, and with them in I could vote for the bill when all things possible had first been done to adopt a good bill.

The Glass bill is unfitted to an adjustment of the greatest financial problems that now confront the people for solution. If it were to be amended so as to meet the necessities of the present times, even the title would have to be stricken out, another substituted, all the sections rewritten, and there would be nothing left to resemble the original.

NEW LEGISLATION AND NOT PATCHWORK IS NEEDED.

Congress was called into extra session to legislate with a view to reduce the cost of living. All honest people must commend the purpose. Earnest efforts have been and still are being made to accom-

plish that result, but on account of peculiar partisan practices and false rules for the government of Congress, for which men and not parties are at fault, Congress does not have presented to it in form to vote on measures suited to the people's most urgent needs. Secret committee meetings and secret caucuses frame bills, bind and gag the attending members, and by a system of evading record votes on separate important provisions, prevent the passage of legislation that would result in a substantial reduction of the cost of living.

Unless some sudden change takes place in the government of Congress, that is not apparent at this time, nothing that is here being done will reduce materially the cost of living to those who earn it by their daily work. The reason why may be easily understood by anyone who will carefully study the conditions. Such a study will reveal to anyone the leading cause for the high cost of living. When one understands those, he will know that the two bills which by the rules governing Congress are permitted to be acted upon, will not accomplish the result demanded.

In the hopes that the people, as well as their representatives in Congress, may give this most serious matter attention early enough to change the course of things here to give them a better turn, I have labored to point out a few things that must be done if we would give the people any material relief. I am not given sufficient time to state all the facts that I wish to in this report. I have no greater capacity than other Members, but I have put in the time to investigate carefully the conditions. I have gone out among the people and seen the rich and poor in actual operation in business and work and have studied them there as well as in their homes. I have had enough experience in various ways to enable me to understand quite well why it is that a few people are now getting all the wealth that results from the labor of people generally, and what is more important, I know that the power of the few to outrageously extort from the people generally can be prevented. For the information of any Member who has not had time to make the investigation for himself and who wishes to study the subject further from my viewpoint and so informs me, I will furnish a book which I have just published on Banking and Currency and the Money Trust, and also a speech which I delivered in the House August 2, 1912.

THE LOWER COST OF LIVING AND ITS RELATION TO MONEY AND CREDIT AND TO INTEREST, DIVIDENDS, RENTS, AND PROFITS.

We must have food, clothes, and shelter, and require the instruments with which to ply our daily work. These are the prime necessities, and are made available only as the product of labor. They determine the initial cost in living. When the means of the individual units in our social order—that is, of the people—are safeguarded and kept unencumbered while they provide their prime necessities, their securing benefits from the social order in excess of such prime requirements will be assured as a consequence. A few concrete illustrations will make that clear.

It must be kept in mind that the Government of the United States and of the several States has established a policy supported by general practice, by statutes, and the decrees of courts, that the owners of property are legally entitled to a rate of interest or divi-

dends or profit return, that in and of itself encumbers all people. The people must have the use of the property or the products from its use and therefore are compelled to pay the interest. The power of its enormous burden I show in the following interest table compiled by a former Librarian of Congress. This table shows the growth of $1 by compounding interest in the manner of the banks. One dollar loaned for 100 years would grow as follows:

Interest at—	
6 per cent per annum would amount to	$340
8 per cent per annum would amount to	2,203
10 per cent per annum would amount to	13,808
12 per cent per annum would amount to	84,075
18 per cent per annum would amount to	15,145,007
24 per cent per annum would amount to	2,551,798,404

I shall cite a few individual cases from which Members of Congress can easily determine that not only on paper and in theory is the Government supporting a policy of pauperizing the people, but it is actually pauperizing them by its support of this practice. Use the table above, and from it the tremendous power of interest and dividends to oppress the plain producers may be seen. The individual fortunes are stacked up against the people's daily energy, so that from the products of their toil the interest, dividends, and rents must be paid. It means that dead capital is stacked up against human life so as to make humanity subservient to so-called "vested rights," by law privileged to take an extortionate toll for the use of substance which has been produced by the people's own toil. That is the incumbrance to which I referred as being directly and indirectly responsible for the high cost of living. No bill that would properly deal with this problem has been permitted by the so-called "leaders" in this Congress to get a fair hearing. On the contrary the "leaders" have appropriated the public committee rooms and the Halls of Congress as well, corralled subservient Members, locked the doors to keep the other Members and the public out, and produced bills that Members have been coerced to support under the guise of harmony in a party.

The following cases to which the table of interest may be applied is illuminating:

From the testimony given by George F. Baker (president of the First National Bank of New York City) before the committee appointed to investigate the Money Trust we learn that the operations of a single bank produced in 50 years profits equal to $86,000,000, or 172 times its original capital. If that bank continues to do business and is allowed to pile up profits in that geometrical progression it alone, on an original investment of $500,000, in less than 100 years would have the power to extort from the people more than the equal value of all the existing property in the United States, and that bank is but one of the 30,000 banks operating on an uneconomic system.

The capital stock of the national banks alone, in 1912, was $1,046,012,580. The dividends paid for the year ending June 30, 1912, averaged 11.66 per cent, which was in addition to the accumulation of a large surplus. Going at that rate, compounded as the banks do, they would have the equal of the entire present valuation of the country absorbed in less than 50 years and would have the

surplus from year to year to do anything they wish with. These dividends are over and above all the expenses which include pay for the clerks and high salaries for the officers connected with the banks. That is not all; the bank officials have unusual opportunities, and most of them do speculate in various ways, and in the aggregate they get greater profits from deals that make no return to the banks than the actual dividends declared. What I have named includes the national banks alone. There are more than twice as many other banks, loan and trust companies of the different kinds. These do about twice as much business as the national banks. That is just one great interest, the banking and financial.

There are the railways, the steel and iron companies, the oil companies, the coal companies, the telegraph and telephone and numerous other companies, besides a thousand or more great individual fortunes, that concentrate into very limited control the principal part of the active capital in the country. This is held on one side by the so-called capitalists, protected by the "vested rights doctrine," which means law, that enables them to extort from the people in what are called dividends, interest, rents, and profits, an amount that, as shown by the interest table given before, is absolutely sure to keep the cost of living high and to keep the people working to support that system. By that system any person who can get a few thousand dollars can live in idleness or as a spendthrift on the interest that the working people of this country are forced to pay.

Members of Congress are intelligent. What I have already stated is sufficient to show any intelligent person that our present system is a fraud on the people. No intelligent, self-respecting people can long tolerate a governmental system which by its established and expressed policy places an unnecessary burden on the citizenship. I shall not multiply the examples showing the injustices created by the policy of Government. A word to the wise is sufficient. To others it would be hopeless to pile up examples.

WE REQUIRE TO LIBERATE THE PEOPLE FROM EXCESSIVE INTEREST.

Under the Glass bill the amount of money that would be exclusively within the control of the banks within a few months after its becoming a law would be increased. The bankers' powers to collect interest would be considerably augmented. It is on that account that the Glass bill does not provide a remedy to meet the people's greatest necessity.

There is but one way to meet the financial necessities of the people, and that is to have the Government support all the people in whatever useful industry they may be engaged. The Government must withdraw from the banks the exclusive monopoly control of financing the people and give to every legitimate and necessary enterprise impartial governmental support. It is absolutely necessary to an independent people that the Government should stand ready to do that. Then the bankers, seeing that they no longer have an exclusive monopoly, would exercise the office of an agency instead of holding the hand of mastery. With that purpose in view, and to pave the way for very early permanent relief to the people, I offer the following amendments to the Glass bill:

Strike out the title of the Glass bill and substitute the following for its title:

A BILL To amend the national banking laws, to provide a revenue system by which the Government taxing powers shall be represented by United States currency drawn on the people of the United States to be disbursed through the governmental agencies on appropriations by Congress for services rendered or to be rendered the Government, to inaugurate, develop, and maintain an American financial policy and currency system which will liquidate and eventually abolish debt, National, State, and municipal, and put the public and private enterprises, industries, and exchanges upon a sound economic basis, and remove the power of private interests to monopolize the mediums of exchange, and for other purposes.

Also strike out all of the Glass bill following the enacting clause, except sections 26, 28, and 29, and renumber said sections so as to be numbered sections 18, 19, and 20, respectively, and in lieu of the part thus struck out insert after the enacting clause the following:

FISCAL DEPARTMENT.

SECTION 1. That there is hereby established a new fiscal department of the United States as an adjunct to and within the jurisdiction of the Treasury Department of the United States. The board of said fiscal department shall consist of eight members. This number shall include the Secretary of the Treasury, who shall be member ex officio, but without voting power except as specifically in this act provided, and seven others, nonpartisan, to be selected by the President, by and with the advice and consent of the Senate, and whose term of office shall be for ten years: *Provided*, That in naming the first board one shall be named for two years, one for four years, one for six years, one for eight years, and three for ten years, and always subject to removal by and with the consent of the Senate. The salaries of the seven members thus appointed shall be fixed by Congress annually in the appropriation bills. The Secretary of the Treasury shall be the chairman of said board and shall select a first and second vice chairman, who shall, in the order named, preside at meetings in the absence of the Secretary of the Treasury. The Secretary of the Treasury shall have no vote except in case of a tie vote, when he may vote to break the tie. Five members shall constitute a quorum. The seven members on the board appointed by the President and confirmed by the Senate shall devote their entire time to the business of the fiscal department and do the principal part of the work in order to establish in practical working order a new fiscal department; that said board shall have authority to employ such assistance and incur such expenses as may be necessary in the performance of their duties, and for such purpose there is hereby appropriated $100,000, or so much thereof as may be necessary, to be paid out of the moneys in the Treasury not otherwise appropriated upon vouchers approved by the Secretary of the Treasury.

UNITED STATES CURRENCY.

SEC. 2. That in aid of Congress in pursuance of the power conferred by the Constitution upon Congress to coin money and regulate the value thereof the fiscal department is hereby authorized to issue a new United States currency, which shall be in the form of public-service certificates, and these shall state upon their face in substance that the bearer has performed a public service of the value stated in the certificate, that each separately is issued and circulated for value received under the provisions of this act, and the same shall be the lawful money of the United States and shall be receivable at par for all debts, dues, and demands, public and private, within the jurisdiction of the United States, created after the passage of this act; that the same shall be printed and engraved by the Bureau of Printing and Engraving from plates and dies devised by the fiscal department, and shall be issued from time to time in such quantities and in such denominations as the public interests require, and in all cases, except where otherwise provided in this act, shall first be placed in circulation by being earned in public service of the Government or in the supply of some material needed for Government use, and then for its full par value, and shall not after returning to the Government be again reissued or circulated except for a like purpose.

DISTRIBUTION OF UNITED STATES CURRENCY.

SEC. 3. That to carry out the appropriations made by Congress, the fiscal department shall issue the United States currency authorized by this act to the various departments of Government for all public purposes that require or may require the expendi-

ture of public funds. That when funds have been appropriated by Congress and the United States currency is issued to cover such appropriations, the fiscal department, for the convenience in the transaction of business through the Government disbursing agencies, may deposit such currency, as well as checks, drafts, and other receipts of the Government, in national and other banks, or in postal savings banks, for checking accounts, but banks shall not be required to pay interest on such accounts. Deposits of checks, drafts, and other evidences of dues to the Government may be made in the banks, but otherwise the United States currency only shall be deposited in the banks by the Government, which currency when so deposited shall be held as a specific fund to special deposit, but checks and drafts and other evidences of dues to the Government deposited by the Government shall not be distinguished from or have any privileges or preference over other deposits of individuals, whether private or otherwise, in the same banks. No deposits shall be made in banks for the purpose of creating surplus therein but merely to facilitate the transaction of public business. The banks shall, so long as there remains a credit to the Government's general account, pay checks drawn by the Government agencies out of the general account, and the use of the special deposits of United States currency in payment of such checks is hereby prohibited until the general account shall have been exhausted, in which case payment may be made out of the special deposit.

CANCELLATION OF EXISTING CURRENCY.

SEC. 4. That from and after the passage of this act all United States notes, currency, gold and silver certificates, and national-bank notes shall be full legal tender for all debts and dues, public and private, in the United States, its Territories, and possessions, except debts or contracts existing at the time of the passage of this act, which by their terms are payable in some other form of money or material, but while in circulation the present money and currency aforesaid, as well as all existing coins, shall not be deprived of its present qualifications, and the outstanding United States notes, currency, gold and silver certificates, and bank notes shall be redeemed on demand in such other form of money as now provided by law; and as soon as practicable after any United States notes, currency, gold and silver certificates, and bank notes come into the possession of the Secretary of the Treasury for redemption the same shall be canceled and destroyed: *Provided*, That when such redemption is of national-bank notes the amount canceled shall operate in liquidation of an equal amount of United States bonds securing the same, except that any national bank may, by giving the fiscal department such notice as the said department may require, have the national-bank notes redeemed, reissued by complying with the laws as to the maintenance of security, and no such notes, currency, or other certificates shall be reissued except as in this act provided. All existing laws for reissuing or recirculating any such notes, currency, or certificates are hereby repealed. That when gold or silver becomes the property of the United States their legal-tender quality, except as to subsidiary coin required for circulatory purposes for small change, shall cease and the gold be reserved for use in the redemption of outstanding obligations and for use and in aid of interstate exchanges when the Government shall in any way be interested. That the fiscal department may purchase gold from time to time at the marketable value, if necessary, for either of said purposes, and also when, in its judgment, the national debt can thereby the better and the sooner be extinguished, and except as authorized by this act, the United States shall receive gold for coinage only, the purpose being solely to affix the governmental stamp of weight and fineness to such coins, but all coins so made after the passage of this act shall have no legal-tender quality. A charge equal to the cost of coining the same shall be made, which coin shall forthwith be removed by whoever it may have been coined for, and no department of Government shall hereafter give storage facilities to any gold bullion or coins not belonging to the United States and shall issue no more gold or silver certificates.

SEC. 5. That on and after three years from the passage of this act a storage charge equal to the cost of maintaining the same shall be charged and collected on all gold and silver held against outstanding certificates, it being the ultimate purpose and policy of this act to remove the Government fiat from all metals and reduce metals to their commercial commodity value.

AID TO THE STATES.

SEC. 6. That all States of the Union whose laws now or hereafter confer upon them, or their executive or other State functionary, the power to borrow money on the credit of the State or to guarantee the obligations and debts of their counties, towns, boroughs,

villages, cities, municipalities, school districts, or political divisions for any just and recognized public use, may apply to the Secretary of the Treasury to secure loans of United States currency for the purpose of defraying the current expenses of the State or any of its political subdivisions aforesaid for which the people of the State or political division aforesaid are taxed. The Secretary of the Treasury shall certify to Congress as often as practical, not less than once annually at the beginning of each session and oftener when practical, an abstract of such applications and the details so far as practicable in regard thereto, to the end that Congress may in its discretion appropriate United States currency in such sums as it deems best for the use of such State or States applying therefor, and to be loaned by the Federal Government to the States only. Before any such loans shall be made the fiscal department shall recommend uniform rules and regulations, so that Congress may not discriminate or allow discriminations by the fiscal department in making such loans, and shall prevent the States, in the use of the funds secured, from allowing any discrimination in the administration of the system. Such proposed rules and regulations shall provide for a uniform expenditure by the States, so that the issue of United States currency and the volume shall conform to the demands of business, public and private, avoiding alike redundancy and insufficiency, and shall provide that no State shall pay out said currency secured from the Federal Government except for the full face value of the same in service to the public for public purposes for which the people are annually taxed, so that the currency may be returned in the payment of such taxes through the usual methods; and before any State shall be extended a loan it shall establish and submit to the fiscal department the rules by which it would be governed in the expenditure, which rules must be satisfactory to the fiscal department. All rules and regulations thus proposed shall be referred to Congress for such action as Congress may adopt.

SEC. 7. That the charge for loans to the States and the manner of guaranty by the States and the form of guaranty to insure the proper expenditure of the same shall be adopted by the fiscal department and shall in every respect be uniform to the States and subject to review and confirmation by the Senate.

NATIONAL PUBLIC WORKS AND IMPROVEMENTS.

SEC. 8. That the fiscal department shall devise a plan whereby Congress may be guided in the enacting of legislation to authorize the fiscal department to establish a system of national public works and improvements adapted at all times to give immediate relief to all congested labor conditions within the territorial jurisdiction of the United States and render available all surplus labor and insure against enforced idleness and the ills incident thereto by means of the inherent powers of the Government to establish justice and promote the general welfare, and shall report such plans and the outlines of a policy to Congress with recommendations.

AID TO THE AGRICULTURAL AND HORTICULTURAL INTERESTS.

SEC. 9. That the fiscal department shall proceed with all reasonable expedition to communicate and cooperate with the authorized representatives, organized and unorganized, of the agricultural and horticultural interests of the Nation, with a view to the adoption of a plan and policy of systematizing the production, storage, transportation, and distribution of agricultural and horticultural products, to the end that both the producers and consumers of such products may have complete emancipation from the present extortions of speculators and manipulators in these products and of organized and trustified storage, elevator, and transportation combinations now monopolizing the same and controlling and manipulating the prices of such products both to the producers and consumers, and shall, if practical, propose such an extension and enlargement of the postal savings system, and if need be, increased issue of United States currency in aid thereof as will provide for a system of Government loans to owners and operators of improved agricultural and horticultural lands, upon such terms as will amply insure the repayment of such loans, at a rate of interest not to exceed four per centum, payable semiannually. Such interest shall be reduced to a nominal interest barely sufficient to reimburse the Treasury as soon as the national debt can be extinguished, and such plan shall be reported to Congress with recommendations.

GOVERNMENT LOANS TO WAGE EARNERS.

SEC. 10. That the fiscal department shall proceed with all reasonable expedition to communicate and cooperate with the organized and unorganized wage earners to consider and devise a plan and policy for a system of Government loans to wage

earners at the lowest rate of interest consistent with the cost and integrity of the service, which loans will enable them to provide homes independent of real-estate speculators with an adjunct and department of wage and salary advances to further protect wage and salary workers from the overcharge made by loan agencies. These plans shall be submitted to Congress with recommendations.

AID TO MANUFACTURING INDUSTRIES.

SEC. 11. That the fiscal department shall proceed with all reasonable expedition to an inquiry into the conditions of the manufacturing industries of staple products in the United States and Territories with a view to ascertain the state of such industries and devise plans for the inauguration of a policy to aid and assist such of those manufacturing interests as are not involved in monopolistic combinations, or are able and disposed to extricate themselves from existing monopolies, which plans shall involve a system of Government loans and advances to such manufacturing interests as are able to insure the repayment with the lowest rate of interest consistent with the cost and the integrity of the service, which plans shall also be reported to Congress with recommendations.

IN GENERAL.

SEC. 12. That it shall be the duty of the fiscal department to investigate into the financial conditions of all legitimate industry, work, and enterprise of whatsoever character, the pursuits and results of which, under proper conditions, promote the general welfare, and ascertain what plan or plans, if any, can be contrived for their aid by extending Government loans to them or such of them as require aid. The fiscal department shall report to Congress from time to time thereon with recommendations.

SEC. 13. That the fiscal department in its administration shall take notice of the economic fact that payment by the Government for a service to the Government involves a collection from the people of an equal amount plus the expense of collection, and that the issue of United States currency in payment of Government expenses creates a demand on the part of the people equal to the currency required to be returned to the Government in cancellation of taxes or dues; and further, that economic private enterprise (eliminating speculation) for the production of commodities or the rendering of services for the use of others legitimately involves the return of commodities or services of equal value, whether the same is accomplished by direction or indirection, and that whenever actual commodities or services are not immediately or directly exchanged in a cancellation of the respective obligations, then a credit representative is necessary, and so far as possible, in a practical sense, when applied to the affairs of the people as they exist, the obligations of credit should be liquidated without the burden of a greater charge than is consistent with the cost and integrity of an honest and just system. Therefore in the supply of United States currency guaranteed by the credit of the people as a medium of exchange, the volume to be placed in circulation should conform to the needs of commerce, avoiding alike both redundancy and insufficiency, and with that as the purpose the fiscal department shall make estimates and report to Congress, for under the Constitution no money shall be drawn from the Treasury but in consequence of appropriations made by law.

AUTHORIZING NATIONAL BANKS TO BORROW RESERVES.

SEC. 14. That the national-bank act is hereby amended so as to permit national banks to borrow from their own reserves by complying with the provisions of this section. That any national bank having its capital and surplus unimpaired may apply to the fiscal department to borrow from its cash reserves maintained in its own vaults. The bank so applying shall set forth in detailed description the securities it proposes to deposit with the fiscal department for the loan, which securities shall be of the same character as is by law and practice now required or as may be hereafter required for the deposit of Government funds in banks. If in the opinion of the fiscal department the public interests require the extension of any such loan or loans, the same shall be authorized by said department to the extent it deems wise; but before a bank authorized to borrow from its reserves shall be allowed to do so its securities shall be approved and deposited with the fiscal department in such amounts as the fiscal department shall demand, and the bank or banks having complied with all the rules and regulations of the fiscal department, on order from said department, there shall be transmitted from the nearest subtreasury to the bank or banks to which such authority is extended United States currency to the extent of the amount authorized to be borrowed from the reserves, and the bank shall specifically retain the United States

currency thus received in its vaults, and then may loan or pay to its depositors or pay its other obligations from its other cash reserves held in its vaults to the extent authorized, and shall substitute the United States currency thus paid out to be kept as reserves and for the benefit of the bank's creditors to the extent of the actual amount of the reserves that have been borrowed and paid out by the bank, as herein authorized. Any bank thus borrowing shall pay interest to the fiscal department on the amount of United States currency loaned to it under the provisions of this section at a rate which shall not be in excess of four per centum per annum for the first three months, which rate shall be increased thereafter monthly at the rate of one per centum per annum for each additional month until paid, but subject to the fiscal department requiring the payment when in its opinion the public interests require it. For the special purpose of carrying out the provisions of this section and the following section there is hereby appropriated, in addition to all other sums appropriated by this act, the sum of $1,500,000,000 of United States currency, authorized by this act to be specifically retained by the fiscal department for said purpose, and to be specifically retained by the fiscal department for said purpose, and to be printed and engraved in advance in such amounts only as are necessary to insure a sufficiency immediately when required.

STATE BANKS.

SEC. 15. That from and after the passage of this act any bank or banking association or trust company organized or incorporated by special law of any State, or organized under the general laws of any State, or of the United States, and whose capital and surplus is unimpaired, may make application to the fiscal department for the right to borrow from its cash reserves maintained in its own vaults on complying with this act and the rules and regulations of the fiscal department: *Provided*, That the same shall be consistent with the laws of the State under which such bank or trust company is organized: *And provided further*, That a majority of the stockholders in the bank or trust company of such applicants shall sign in writing their consent with the fiscal department to bring the banks so applying within the laws, rules, and regulations that govern national banks in securing such loans, except that no bank shall be refused the privileges and advantages in regard to such loans on account of the amount of its capital and surplus so long as the same remains unimpaired. All such banks having complied with the provisions named shall be entitled to like privileges accorded to national banks.

The substance of what I offer in amendment above is embodied in a bill that I introduced August 8, 1913. Sections 14 and 15 provide for an emergency currency that would absolutely relieve the banks of difficulty to furnish funds to move the crops, and would save the Nation from the burden of establishing another retinue of officials for 12 or more central banks, such as the Glass bill provides. With these amendments that I offer enacted into law, the many economic evils now existing in our social conditions would directly cease. Furthermore, the bankers would then be instrumental in carrying out the great reform. Once their exclusive privilege and monopoly is taken from them, we shall have the benefit without the burden of their practical dealings.

The bill that I have offered as a substitute for the Glass bill has all the elements of a complete system, and would reach its perfection through the work of the board of the fiscal department, which board would give all its time to that purpose. It would not discard the present system, but would require it to stand on its own merits. If the old system would respond to the demands of freedom in trade, that system would continue in use, but if it failed, the new system would respond. The issue of currency would be scientifically regulated to meet the demands of trade. It would be controlled by the Government instead of by the banks. While this is not a party question the following plank in the Progressive Party platform states the correct principle:

The issue of currency is fundamentally a Government function and the system should have as basic principles soundness and elasticity. The control should be

lodged with the Government and should be protected from the domination of manipulation by Wall Street or any special interest.

GOLD STANDARD RESPONSIBLE FOR MANY OF THE SOCIAL EVILS.

It will be objected to my bill that it discredits the gold standard. It is difficult to remove a prejudice such as that existing in favor of the gold standard.

On March 14, 1910, after an adroit campaign carried on by the special interests covering a considerable period, Congress passed an act which called for the permanent establishment of the so-called "gold basis" for all of our money. Since then there have been new inventions made for mining gold which make the available amount more plentiful, with the result that the "gold basis" is puzzling the Money Trust. But there is a still further complication and that is that the people are becoming familiar with the fallacy of the "gold standard" and they are becoming dissatisfied in proportion to their understanding of its bad effects.

The dollar is worth less now than it was in 1900; that is, it will buy less. That fact, particularly, does not satisfy the creditor class. They have had enormous interest returns, but they have lost a part of that advantage because of the depreciation of the purchasing power of the dollar. To a greater or less extent all of the people are dissatisfied with it; many for selfish reasons; and they only desire a remedy to be adopted which will help them alone, but there are fewer of these than there are of those who seek a reform which will better the conditions of all.

We have seen many comments in the press lately in regard to a plan devised by Prof. Irving Fisher, of Yale University. Mr. Fisher is no doubt an honest and earnest worker who is trying to reform the gold standard. He has arrived at the inevitable conclusion that every capable student must finally adopt, and that is that the present gold standard is not the standard by which we can secure honest money.

Prof. Fisher has given a most thorough analysis of the production and supply of gold and shown quite extensively the effect of its present use as a money standard upon the prices of commodities. I have given below a synopsis of his plan as stated in the Boston News Bureau of December 28, 1912. It is as follows:

Prof. Fisher is one of the most distinguished economists in this country, if not in the world. He is eminently practical and not merely theoretical in all his work and writing.

All who have to do with long-time contracts recognize the desirability of a monetary unit of fixed purchasing power.

The following is Prof. Fisher's plan for converting the gold dollar into such a composite unit, thus standardizing the dollar. Such standardization would be effected by increasing or decreasing the weight of gold bullion constituting the ultimate dollar in such a way that the dollar shall always buy the same average composite of other things.

Every dollar in circulation derives practically its value or purchasing power from the gold bullion with which it is intercontrovertible. Every dollar is now intercontrovertible with 25.8 grains of gold bullion (nine-tenths fine), and is therefore worth whatever this amount of bullion is worth.

The very principle of intercontrovertibility with gold bullion which we now employ could be used to maintain the proposed standardized dollar. The Government would buy and sell gold bullion just as it does at present, but not at an artificially and immutably fixed price.

At present the gold miner sells his gold to the mint, receiving $1 in (say) gold certificates for each 25.8 grains of gold, while on the other hand the jeweler or exporter

buys gold of the Government, paying $1 of certificates for every 25.8 grains of gold. By thus standing ready to either buy or sell gold on these terms ($1 for 25.8 grains), the Government maintains exact parity of value between the dollar and the 25.8 grains of gold. Thus the 25.8 grains of gold bullion is the virtual dollar.

The same mechanism could evidently be employed to keep the dollar equivalent to more or less than 25.8 grains of gold, as decided upon from time to time.

The change in the virtual dollar (bullion weight of gold intercontrovertible with the dollar) would be made periodically, or once a month, not by guesswork or at anybody's discretion, but according to an exact criterion. This exact criterion is found in the now familiar "index number," which tells us whether the general level of price is, at any time, higher or lower than it was. Thus, if in any month the index number was 1 per cent above par, the virtual dollar would be increased 1 per cent. Thus the dollar would be "compensated" for the loss in the purchasing power of each grain of gold by increasing the number of grains which virtually make the dollar.

Prof. Fisher has performed a great service to his country and to the world by discrediting the gold standard so convincingly. When a man of his prominence and ability has the courage to state his beliefs, the more timid of those holding like views, of which there are many, ought to take an active part in supporting the indictment of the gold standard.

While the professor has clearly indicted the gold standard and conclusively shown that it is a false one, I do not agree with the remedy that he proposes. Instead of proposing to abandon gold as a standard and relegating it to its natural place among the articles of commerce, he advocates its reform and would still retain is as a standard by making the weight of the dollar variable and determining its value from time to time according to a commodities index. The professor is surely correct in his assumption that commodities have actual value worth considering in connection with the establishment of a true exchange system based upon the actual value of services and commodities. It is to be regretted that Prof. Fisher has complicated the conclusions he arrives at by continuing to consider the gold standard entitled to any greater recognition than is accredited to commodities in general. After proving its falsity he should have suggested the abandonment of the gold standard.

If we were compelled to change the weight of the dollar monthly, quarterly, or even annually, as we would have to do with a commodity dollar; if we tried to keep it of the same purchasing power all of the time, it would give us more trouble than we now have in changing the tariff schedules; but while Prof. Fisher has performed a world service in being instrumental in giving general publicity to the falsity of the gold standard, that publicity is pushed by the influence of selfish interests, because they are pleased with the remedy he proposes. If he had not proposed to standardize the gold dollar, his proof that it is not an honest measure of value would have received no publicity greater than he himself and his friends and a few others could give to it. It would have been ridiculed if he had not proposed a remedy that suited the interests, for the money sharks demand some measure that is favorable to them and not fair to the people. They have always sought to make the world believe the gold standard to be sacred and, therefore, that the people were bound to support it, no matter how much it wronged them. These selfish interests have simply seized on this proposed remedy, which I believe Prof. Fisher to have erroneously suggested without his having given as much thought to the remedy as he had to the facts which conclusively prove gold to be a false money standard.

It may seem strange to some people that this remedy suggested by Prof. Fisher should be advertised all over the world now, but there is nothing strange about it, for the all-powerful Money Trust interests are quick to observe anything that might be made use of by them, and immediately upon its appearance they seized upon the idea of standardizing the gold dollar and were instrumental in having the plan advertised in order, if possible, to induce the people to accept it as a remedy.

It may not be generally realized by the people that this is a critical period in the establishment of governmental policies, but the interests are especially alert to that fact. Everything is being done to make the people accept some worthless makeshift, and in some cases actually harmful, so-called "remedies," which, if accepted, will delay the adoption of real substantial remedies until another generation shall enter public life. It is because of that fact that I fear the Glass bill may delay a true remedy. Simultaneously, in all countries where they have the gold standard—and that is in most countries, and in the others equally unjust standards are used—articles were published which were substantially the same in substance as the following which was published in a Washington paper on April 12, 1913:

TO ASK INTERNATIONAL GOLD-DOLLAR AGREEMENT.

One of the features of the proposed currency legislation which will be considered by Congress is the initiation of a movement for an international agreement for the purpose of preventing the depreciation of the gold dollar.

Such action has been suggested by eminent economists. It is widely held that the enormous increase in gold supply and the consequent depreciation of the gold dollar is the real cause of the high cost of living and high prices.

Democratic leaders, especially Senator Owen, chairman of Banking and Currency, feel that if the cost of living is to be reduced the gold situation must be taken into account.

Not all of the articles appearing in the press directly discuss the gold standard, but many of them are adroitly written in order to impress the reader and prepare him to receive the information that the gold dollar is not now a good standard, but further designed to make the reader come to a wrong conclusion on the question of a remedy. When the first half of an argument is true, unless the reader is very careful it goes far toward making him believe that the second half is also true, and that is frequently the case even when the conclusions are wholly erroneous, as long as the material is adroitly handled. That is where the danger comes in the discussion of the gold standard from the side of the special interests alone. Innumerable articles are now published, in fact the plan is systematically advertised for that very purpose. But there are other articles which are written and published in good faith, and in these there is no intention to deceive. An article was published in Collier's Weekly, also on the date of April 12, 1913, which I quote:

THE DISCOURAGEMENT OF THRIFT.

The people of the United States have now saved up well over a hundred billions, as measured by current money standards. The aggregate is amazing, and, while the amount per capita is not large, nothing like it was ever known before in any country. This saving takes on many forms the largest, of course, being in the rearing of children, which shows itself in the steady increase in the value of land. The next is ownership of enormous amounts of securities of railway and industrial companies

and the like. Then probably comes life insurance. The savings in banks are relatively small. The increment in land values goes to much less than one-half of the population, even in theory, and a comparatively small number of people get the benefit which is made up of the efforts of all. The larger amount of the securities outstanding represents a more or less fixed value. The eighteen billions of insurance in force is of absolutely fixed value. While these securities and insurance obligations were being created the relative worth of the dollar has been rapidly declining. The forehanded folk who saved and loaned this money get for it an average return of less than 5 per cent, and if they received back the principal now it would buy of land or food one-third less than 12 or 15 years ago. This is a savage penalizing of thrift. We believe that events will soon focus public attention upon this serious problem. The procedure of the insurance companies, which in part is enforced by law, is of special interest. The companies collect above $600,000,000 annually from policyholders, and from this loan largely on long-time notes. They act simply as money brokers, but with this effect, that with the rapid depreciation of the currency in the last 15 years, they are now returning to their policyholders, on death claims or matured policies, relatively far less than the average amount of money which the policyholders have paid in. Roughly speaking, the policyholder has been paying in $1 bills; he will get back 66-cent pieces. Theoretically, the compounding of the interest on premiums ought to pay the companies' expenses and yield the policyholders a profit on the average payment. In point of fact, with the extravagance of the companies and the decline in the purchasing power of the dollar, there is a serious loss. This is not as it should be. A remedy might lie in a radical change of investment. A larger part of the insurance money is loaned directly or indirectly on land. Actual ownership of the land ought to be as safe as loans, and, if gold inflation is to continue, more profitable. It is something to think about.

Surely Colliers states the truth when it says that it is something to think about. We have indeed been buncoed long enough—so long that we ought to think about it seriously. It is up to Congress right now.

I believe that the remedy is necessarily twofold: First, and concurrent with the establishment of a new system, the old system should be so amended that some of its most serious administrative defects will be diminished. It should then serve as a vehicle for carrying out the equitable relations and obligations already existing as a result of the legitimate business based upon it.

Second, an entirely new system should be instituted, which shall be founded upon the natural demands of commerce and trade and divorced from personal favor or property preference. This new system should be the basis for the establishment of a permanently solid and equitable means of exchange.

In order to completely accomplish the latter, we will have to cease monetizing gold. But that prohibition would not prevent, nor should we desire to prevent, the use of gold as a means of exchange. The Government, on being paid the cost of stamping, may properly stamp the weight and quality on any commodity of commerce and let it pass in exchange on a basis of its own intrinsic value. Anyone who demands more than that privilege for the use of a metal or other commodity is intentionally unfair to the rest of us, or ignorant. In most cases it is because the persons accept seeming facts without actually understanding the conditions which surround them. If the owner of gold, silver, or other commodity desires to pay the Government the expense of the operation, there need be no objection. To so stamp gold and make it legal tender is simply to decrease the value of our labor, and of our property—if we have any, unless we also possess gold enough to offset, which most of us do not.

The owners of gold claim that it has an intrinsic value which makes it the most practicable commodity to use as money. Because

of its small bulk it is a convenient commodity to ship and store. But it can be used as a means of exchange without making it legal tender. The Government could still stamp its weight and fineness, and then it could be exchanged in the same way that it now is if it really is intrinsically worth what they say. If it is not, then it should be exchanged for only what it is worth. When the owners of gold ask anything more, they, in effect, admit that it becomes more valuable with the legal-tender privilege than without. They would not demand it if that were not true. It can not be made legal tender except by governmental act. A governmental act is the act of the people, and there is no reason why the people should stamp gold or any other commodity that belongs to individuals with a special privilege. This results in a tax against themselves. Let gold be weighed and tested and given credit only for what it is. Existing coins will retain their legal tender while in circulation, but when the Government acquires any such, their legal-tender character should be removed, and after that bullion should be stamped with its weight and quality and should become an article of commerce standing on its own merits.

If the owners of gold are correct in their statement that gold circulates on its intrinsic value, instead of partly on that and partly on the additional value it acquires by reason of the demand created by the legal-tender stamp, it is useless for them to ask that it be made legal tender, and if gold is not commercially worth what it circulates for as legal tender, then the owners are unjust in asking the public to support the value added to gold by the Government stamp. Let them take whichever side of the proposition they wish. In the one case the legal-tender quality would be useless. In the other it would be a burden placed upon the public and supported for the benefit of the owners of gold.

To cease monetizing gold or metal is to drop a practice long indulged in for the benefit of the money loaners. The people have become accustomed to paying them for the credit supported by themselves. I can not say that it can be entirely stopped. There are many practices that injure the people generally, but are nevertheless followed. I simply call attention to certain facts that can not be successfully disputed. I know, and so does any careful student know, whether he admits it or not, that the fact that the Government stamps legal-tender privileges on gold creates an increased and artificial demand for it, and consequently a merchantable value that is very much in excess of what it would be if the gold did ot have impressed upon it this legal-tender privilege. It now partakes of the character of monopoly. Every additional cent of credit given to it above intrinsic worth as an article of commerce, by reason of the Government's stamping it legal tender, is first extorted from the people's own credit, next accumulated in the form of so-called "capital," and after that becomes the basis for charging them compound interest for generations—perpetually—if they shall not emancipate themselves by an abandonment of this false practice. As far as the principle is concerned, there is no difference between the Government stamping gold as legal tender and giving the owner the advantage of its increased value, and the same stamping process being applied to plain paper.

Under the present practice all value in excess of what gold is actually worth as an ordinary article of commerce is fiat credit added

to it by the people. If the same stamp were affixed to paper, it would all be fiat. It is simply a question of degree, and neither can be extended to the individual as a free privilege without robbing the people of all that is added by their credit.

The whole problem simply reduces itself to a question of how long will the people submit to remaining industrial slaves to the system. The gold owners ridicule fiat greenbackers, yet they themselves are fiatists. If they are not, why do they object to gold circulating on its own commercial merits? Why do they wish to coin it with any other designation than its weight and fineness and why force the people to take it as legal tender? They are inconsistent in claiming a special privilege for gold. If gold is worth all they claim for it, it needs no extra function. If, on the other hand, it is not able to retain its present relative value without being legal tender, then that is positive proof that it should not be made legal tender. In the one case it is unnecessary; in the other case it is unjust. The Government will have to cease monetizing gold or any other metal as soon as the people generally realize its present imposition on them.

You may say that some losses would be suffered in a readjustment. That will of course be admitted, but the losses would not begin to equal those that are continually taking place now. The excessive interest and expense of maintenance resulting from the use of the false system under which we operate is so great that, notwithstanding all of the modern inventions that have immensely increased the people's productive energy, most of us fail to secure the ordinary advantages that are due from this civilization to every honest, industrious person. The interest, dividend, and rent charges alone, compounded as they are now, are absolutely sure to keep the greatest number of people in want and many in misery.

I do not say demonetize gold. I simply say cease to monetize it. Coin no more metal with the legal-tender character attached except that required for small change. Our gold will circulate in foreign markets on its weight and quality equally well without the legal-tender privilege as long as foreigners will use it for their legal tender. Gold will do that as an article of commerce, and foreign nations may convert it into their own legal tender if they like, but any nation that uses gold as legal tender after a great nation like our own ceases to do so will be adding additional burdens to the present burdens of its people. Whatever gold we have in excess of what we need for the sciences and arts we can dispose of for such articles of commerce as we actually require, and it will be that much to our advantage as against the present practice of hoarding it. We have more gold than any other nation, and if we cease to monetize it the other nations will soon do the same. The common intelligence of the people generally has reached a point where they ought to take the lead in forwarding a plan which will prove the use of any commodity as legal tender to be a fallacy and result in the eventual discontinuance of such a practice. America should lead in doing this.

Let us consider in concrete form the effect that the money loaners' dollars (which, by the way, are the dollars that we use) have on the cost of things—and when I say cost I mean the expenditure in human toil necessary to acquire the necessaries, conveniences, advantages, and luxuries appropriate to human life. I shall not burden anyone

with detailed figures, because a mere statement will satisfy those who are sufficiently interested to study the present practices in the light of their own observation and experience. I have examined the table of prices of various staple articles for a period covering 45 years and have come to the conclusion that the money loaners' dollar is not a measure fitted to the requirements of a people desiring equitable relations with each other. It is simply a gambling dollar, and prices are regulated by a manipulation of it instead of by the intrinsic value the commodities possess as articles of necessity. The people who are engaged in useful occupations producing commodities or serving other demands of society are prevented from making the natural interchange of their products and services, because of the injection into their commerce of a fake currency and banking system, by the use of which speculators and financiers, so called, are able to pillage on all the exchanges. The system built up by these pillagers is an unnatural and unjust one.

It often happens that the aggregate value in money of a large quantity of a useful commodity will command less in one year than that of a smaller quantity brought in another year. Who, for instance, will claim that 3,000,000,000 bushels of wheat (supposing that to be the world's crop) is worth less in the aggregate for food and seed than 2,700,000,000 bushels, other things being equal, except money, which seldom is? No one claims that 3,000,000,000 bushels of wheat is actually worth less than 2,700,000,000. It is a fact, however, that the lesser quantity will often sell for as much, and sometimes more, than the larger quantity. A difference of 10 cents a bushel will accomplish that result, if the 3,000,000,000 sold for 90 cents and the 2,700,000,000 sold for $1. Illustrative of that fact, let me quote the following from the Saturday Evening Post of March 15, 1913:

THE VICIOUS CIRCLE.

We harvested bumper crops last year, you remember, May wheat at Chicago is worth 10 cents a bushel less than a year ago; corn and oats about 15 cents less. Yet commodity prices, as a whole, have declined scarcely at all. The index number, which compounds the price of many leading articles, is almost as high as ever, which means the cost of living is still about at the top notch.

The bumper crops stimulated trade in many lines, and that usually brings higher prices; while wheat went down, iron and steel products went up. What you saved on flour you lost on the pan to bake it in. And Wall Street echoes with complaints that investors, spurred on by higher cost of living, are demanding more interest, thereby raising the cost of manufacturing and transportation. This higher cost must be offset by higher prices, to overcome which investors must demand still more interest.

Meanwhile labor, so to speak, chases its own tail, demanding higher wages, which result in higher prices that consume the increased wages—which naturally induces a demand for still higher wages that result in still higher prices.

Every farmer knows that a difference of 10 cents a bushel between the price a commodity brings in one year and the price it brings a different year is not uncommon, but the railways charge full price for shipping every bushel, and the larger the crop the more they get, while the farmer must handle the additional wheat and get less for it. A farmer having the equivalent of 300 bushels of wheat to sell in a year when crops are generally abundant expects to receive a little less per bushel than he would receive per bushel for 270 bushels in a year when crops were not abundant, but he does not expect to give away the 30 bushels difference because he has more wheat than the year before. If that were to be the result, it would pay him, from his own

individual financial standpoint, to burn up a part of his crop when it was abundant. In fact, the cotton farmers of the South started to do that a few years ago when there was a large crop, and the price was very low. If the credit of the people had been coined into their own money instead of into the money-loaner's money, no thought of so destructive a nature would ever have occurred to the cotton growers or to any other producer of commodities.

There should be no legal tender other than that issued by the Government, and no individual ought to be able to obtain it without giving its equivalent in return. If such were the case the problem of interest (as a disturbing factor) would cease, and a new era would dawn upon the world. The present difficult problems created by our arbitrary and ridiculous banking and currency system would then give place to natural selection. I use the term "natural selection" in its scientific sense, because we can not run the Government in the interest of the people unless we follow the supreme laws that will unquestionably govern in the end. When we do there will be no choking up of the system by the arbitrary acts of the financial kings, for they are but a product of the arbitrary and unnatural practices that the people have fallen into the habit of using as a means of conducting their business, nor will the majority of men be paying penalties in the form of overwork, worry, and discouragement.

The bankers have a true system of clearing exchanges. As an example of that, I call attention to the fact that in 1911 there was cleared through the 140 clearing-house associations $92,420,120,092. Their scheme is a good one for taking care of the exchanges of the country, and it helps the country as long as we have not a better one. By its use only $47.80 of actual cash was required in order to handle each $1,000,000 (of checks on the banks) that passes through the clearing houses. But unfortunately for us, the fees the bankers charge for putting our own credit on their books, before we are even enabled to draw checks, is so great that the people generally are overburdened by reason of it.

Of course these exchanges should go on wherever they serve the general welfare, and since we ourselves have not provided a better method we are under obligations to the bankers for having honored and made current and merchantable our own credit. But since these exchanges relate to our business and are used directly by most of us at some time, and indirectly by all of us all of the time, we should establish a system that will give us the least costly service. The main thing for us to do is to eliminate most of the interest charges and make it practicable for the human family to thrive by industry by having industry available to all people who wish to be and are industrious. That does not mean that the banks should be superseded by new exchange agents, but it does mean that the banks should be required to adjust to a new system that will cost the people less. It means also that there would be fewer banks, because under any economic system of exchange there would be no more necessity for several banks in cities of less than ten or twenty thousand people than there would be a need for several post offices in towns of that size.

Let us take up the discussion from still another viewpoint in order that no one shall possibly misunderstand. Money as such is not a thing of prime necessity. It is merely a convenience which enables

us to make such exchanges as we may wish without the cumbersome handling of property.

The banks have taught us to use checks instead of the actual money, and it is true that they cash these, but, as we observed before, we can not draw checks until we have arranged with our banker, and in order to make that arrangement, unless we have the real money, we must pay him interest at a rate that makes the greatest number of men poor and a few enormously rich. The fact that the bankers can make exchanges that represent hundreds of billions of dollars annually, when, as a matter of fact, there never was at any one time as much as $1,700,000,000 in all of the banks combined, and of the money they do actually hold, which is approximately $1,500,000,000, two-thirds of it or more is lying dead in their vaults as reserves and is never used.

We are under obligations to the banks for teaching us this economy in the use of money and credit. But, after all, as we observed before, the credit is supported and maintained by the resources of the people and the daily application of their energy. The banks have simply filled the office of making it current and merchantable. We do not owe that tribute to the bankers, and, thanking them for the good that they have done, but for which they have been overpaid, we are now prepared as a people in our national capacity to pass the necessary laws and to perform the governmental function laid down by the Constitution, "To coin money, regulate the value thereof" (and "of foreign coin" when used in our country) in behalf of all the people of these United States. We should profit by the example of the banks in copying somewhat after some parts of the system they have used for making exchanges, but as a Government we ought to furnish the advantage to all of the people on equality and with the least expense practicable. The Government can do what the banks are doing and save to the people as much as the banks make in excessive dividends, besides the still greater profits that are made on speculation on the side.

The Government shall "coin money and regulate the value thereof." That is the constitutional provision. The great special interests have been sticklers for following the Constitution whenever it has blocked the way to the people's progress if that might in any way interfere with the practice of the interests, but whenever the special interests find it to their advantage to follow any practice profitable to them, the fact that such practice may be in contravention to the Constitution and the laws does not in the least embarrass or hinder them, as long as the people do not invoke the law. When the people do, every possible dilatory tactic is resorted to by the interests to delay compliance. The consequence has been that the Constitution has often been used as an instrument to prevent the people from enforcing their rights.

"Sound money" will be the song that will be sung to you by every advocate of the special interests. I have shown, and they have already stated and proved, that what they have in the past called "sound money" is not "sound." By doing that they aid me. By that admission they disclose the fact, and it is a fact, that they have defrauded all of the people by their so-called "sound money." Their kind of sound money has enabled them to become wealthy and independent, but it has prevented the people generally from doing what

they have a right to do, and should have done, namely, retained the fruits of their own labor.

The kind of exchange that we should use is the kind that anybody who has value to give can get without paying usury. That kind will be the sound money of the people—the honest money. Those who wish gold may have it—there will be nothing to prevent their buying it. We, the people, on their presenting it, will stamp its weight and fineness for anyone who will pay the cost of doing so. We will do that to insure to the people who wish the gold the amount the Government stamp certifies that there is in any given piece of metal. That is honest, and to do anything more is dishonest to the people, but the Government could not say that it was legal tender and thereby give it a special quality that it did not possess in itself. We can do the same with any commodity that it is practicable to use as a thing of exchange. The demand for commodities of all kinds will be in proportion to the service they may render to the people, and no one should complain when absolute justice is to be done. As a consequence the Government would create no more "commodity" money either for itself or for the people, because it would not only be unjust to do so but unnecessary and ridiculous. When anyone wishes commodities let them buy them as such.

Everybody knows that we must have money, and now the question arises as to what kind it shall be. "Honest money," of course, instead of what we have now and are told is "sound money," whereas in truth it is the opposite of "honest money," and should have been named accordingly. We want a kind of money the buying and selling properties of which remain respectively constant. In other words, we want a kind of money that will buy the exact equivalent of what it cost us to get it. We want the kind of money that serves the same office among the people in their commercial and social relations with each other as the drafts and checks serve in the business transactions entered into by the bankers. We do not intend that the bankers shall have a better system for themselves than we have for ourselves. We expect to pay those whose duty it will be to help make the exchanges. The bankers will be able to give as effective and valuable service in this other up-to-date system as they have given us heretofore, but the past service has been altogether too expensive and therefore not sufficiently effective. We have no prejudice to vent upon the bankers. As the system stands they serve the people, generally, the best they can. There are always, of course, a few isolated exceptions. But the time for us to do for ourselves what the bankers are doing for themselves is here and now, and we should hasten to adopt a system of exchange under which it will cost the people no more to make their commercial exchanges between each other than it costs the banks to make exchanges between the bankers and their cash customers. It is just as simple for us as it is for them, and we have the indisputable right. We owe it to ourselves, to our children, and to all posterity to have an efficient, self-sustaining, and effective system.

The people are the Government. Therefore the Government should, as the Constitution provides, regulate the value of money. There is no other real sovereign power, because all authority emanates

from the people. Money is the means of exchange among all people. Its regulation is absolutely a governmental function, and the Government has no natural inherent power that enables it to impart to money any other property or quality than that of making it the agent of exchange.

Congress is not justified in passing an act that does not do complete justice to all. Merely to improve a false old system, but still leave it in operation, to continually force a sacrifice of the people's very life energies, is criminal. The Glass bill is a living picture of the deplorable effects of the treasonable caucus system and the gag rules by means of which a few leaders control legislation. As a result the outrageous policy of extorting usury from the people to pay monopoly is to be continued. It is not conceivable that the Members of this House, if freed from the caucus gag, would stand for the Glass bill to continue a false system simply by providing 12 new houses for it to operate in. By the failure of Congress to enact a proper bill an overwhelming majority of the people will still be compelled to work too many hours per day, receive too small pay for what they do, and pay too much for what they buy, and therefore have but few of the advantages that the present-day civilization owes to them. And all this is done for the purpose of allowing those who control the material productions of the people, and the credit supported by the people, to charge them excessive interest, rents, and dividends, which when compounded by the usages of business, impoverish the people generally. Do the Members of this House expect that such a system can stand in the face of the growing intelligence of a nation of self-respecting people? The Members who have, by the caucus and the rules that gag, prevented the presentation to the House of a bill in every respect true to the people, on which a record vote of the Members unfettered would force adoption, will have to answer. The people will reply with the truth when they learn what Congress has done. This monetary legislation is a test case to divide those who favor from those who do not favor measures suited for the general welfare, but unfortunately many a Member will be able to hide behind the curtain cast around him by the secrecy of the caucus.

C. A. LINDBERGH.

NOTE.—At the last meeting of the committee my objections as to the amount of reserves required were met by amendments. Therefore my objections as to the reserve requirements are removed.

C. A. LINDBERGH.

Calendar No. 107.

63D CONGRESS, 1st Session. | SENATE. | REPT. 133, Part 1.

BANKING AND CURRENCY.

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

Mr. OWEN, from the Committee on Banking and Currency, submitted the following

REPORT.

[To accompany H. R. 7837.]

The Committee on Banking and Currency, to which was referred the bill (H. R. 7837) to provide for the establishment of Federal reserve banks, for furnishing an elastic currency, affording means of rediscounting commercial paper, and to establish a more effective supervision of banking in the United States, and for other purposes, having considered the measure, report the same to the Senate without recommendation.

Calendar No. 107.

63D CONGRESS, 1st Session. | SENATE. | REPT. 133, Part 2.

BANKING AND CURRENCY.

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

Mr. OWEN (for himself, Messrs. O'GORMAN, REED, POMERENE, SHAFROTH, and HOLLIS), from the Committee on Banking and Currency, submitted the following

VIEWS.

[To accompany H. R. 7837.]

The chairman (Mr. Owen), on behalf of himself and his colleagues, Messrs. O'Gorman, Reed, Pomerene, Shafroth, and Hollis, submit the following memorandum:

The Committee on Banking and Currency, to which was referred the bill (H. R. 7837) to provide for the establishment of Federal reserve banks, etc., received the bill on September 18, 1913, and the members thereof, having been unable after two months to agree upon a report, the committee having divided into two sections, were compelled, finally, to agree to report the bill back to the Senate without recommendation from the committee acting as a committee, but submitting separately the respective views of the two sections of the committee.

The views of the Democratic section of the committee are embraced in the House bill, with certain interlined amendments submitted herewith (Exhibit A), and the following observations are made to explain the origin and principles of the measure, give a general outline of the changes which have been proposed in the House bill, the reasons therefor, etc.

AN OUTLINE OF THE INVESTIGATION MADE AFFECTING THE PRINCIPLES AND CONSTRUCTION OF THE PENDING MEASURE.

So many persons have been under the impression that Congress was inclined to act without sufficient consideration of the pending measure and the principles involved in it, that attention is called to the work which has been done preliminary to the drafting of the present bill.

It has been long understood that the American banking system was seriously defective in having no adequate safeguard against financial panic, against financial stringencies, and violent fluctuations of interest rates, so that immediately after the panic of 1907 a temporary measure providing against panic was passed by Congress in the Vreeland-Aldrich Act, approved May 30, 1908. This bill established the National Monetary Commission. The act gave authority and instruction to the commission as follows:

> It shall be the duty of this commission to inquire into and report to Congress, at the earliest date practicable, what changes are necessary or desirable in the monetary system of the United States or in the laws relating to banking and currency, and for this purpose they are authorized to sit during the session or recess of Congress at such times and places as they may deem desirable; to send for persons and papers; to administer oaths, to summon and compel the attendance of witnesses. * * * The commission shall have the power, through subcommittee or otherwise, to examine witnesses, and to make such investigations and examinations, in this or other countries, of the subjects committed to their charge as they shall deem necessary.

Under this instruction the National Monetary Commission conducted the most extensive and far-reaching investigation of the banking systems of the entire world, and published a series of reports including over 30 volumes and a vast compilation of literature involving over 2,500 volumes, and finally resulting in the recommendation of a central bank, privately controlled, which was submitted to the Senate of the United States under the title of "A bill to incorporate the National Reserve Association of the United States, and for other purposes." (Vol. I, p. 43.) This bill was introduced during the preceding Congress and was not considered. It was, however, reintroduced in the present Congress (63d Cong., 1st sess, S. 7) on April 13, 1913, and has been commonly referred to as "the Aldrich bill."

This bill provided substantially that the national reserve association should be established for 50 years with an authorized capital equal to 20 per cent of the capital of all banks eligible for membership with one-half paid in. It was provided that the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce and Labor, and the Comptroller of the Currency, should be a committee to organize the national reserve association. It was to have a capital of $200,000,000 and 15 branches in 15 districts of the United States. Each branch was to be controlled by a board of directors chosen by the member banks, with power to make by-laws, etc., and the central national reserve association was to have 39 directors elected by the directors of the 15 branches, and 7 additional ex officio members of the board of directors, to wit, a governor of the national reserve association, 2 deputy directors, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce and Labor, and the Comptroller of the Currency, so that the Government had 4 representatives out of 46 members of the board of directors of the national reserve association. An executive committee of 9 members was provided with 1 representative of the Government, the Comptroller of the Currency, ex officio a member. Each branch bank was to have a manager and a deputy manager, appointed by the governor of the association.

The earnings of the association were to be 4 per cent annual dividend, cumulative, a 20 per cent surplus provided, and a division of the remainder between the United States and the shareholders.

The reserve association was made the principal fiscal agent of the United States. Provision was made for rediscounting notes and bills of exchange drawn for agricultural, industrial, and commercial purposes, having a maturity of not more than 28 days. The reserve association was given various powers to deal in gold coin or bullion, to purchase from subscribing banks bills of exchange, open foreign banking accounts, transfer deposit balances from one bank to another, etc.

It was required to keep 50 per cent reserve against demand liabilities, including deposit and circulating notes, with a tax upon any reserve deficiency.

It was authorized to purchase for a limited time the 2 per cent bonds of national banks, assume the redemption of the notes of such banks, and issue its own notes in lieu of such national-bank notes. It was authorized to have a cover for such note issues, either of 50 per cent of gold or other money of the United States, or bills of exchange arising out of commercial transactions, as defined by the act. These notes could be issued up to nine hundred millions without a gold cover under a special tax of 1½ per cent, and any notes in excess of $1,200,000,000 not covered by gold or lawful money could be taxed at 5 per cent, provided that the outstanding national-bank notes should be computed as a part of such issue. Its circulating notes were to be redeemed in lawful money and maintained at a parity.

The circulating notes of this association were to be received at par in payment of all taxes, excises, and other dues to the United States, and of all salaries and other debts and demands due by the United States, except obligations specifically payable in gold, and for all debts due from or by one bank or trust company to another, and for all obligations due to any bank or trust company.

The 2 per cent bonds purchased were to be exchanged for 3 per cent bonds payable in 50 years, and the association was to hold such bonds during its corporate existence, with the right, at the option of the Secretary of the Treasury, to sell fifty millions of such bonds annually after five years. It provided for the establishment of branches of banks to do a foreign banking business.

The Government of the United States was required absolutely to deposit all of its general funds with the national reserve association and its branches, after the organization of the association, and thereafter all receipts of the Government except its trust funds.

This bill was made a matter of general debate throughout the United States, was vigorously pressed by the friends of the measure, and discussed in all of the large cities of the Nation. It was indorsed by the American Banking Association, but, after abundant discussion, was condemned by the Democratic national convention at Baltimore on July 3, 1912, in the following language:

> We oppose the so-called Aldrich bill or the establishment of a central bank; and we believe the people of the country will be largely freed from panic and subsequent unemployment and business depression by such a systematic revision of our banking laws as will render temporary relief in localities where such relief is needed with protection from control or domination by what is known as the Money Trust.

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The obvious reason for public disapproval of this bill was that the comparative independence of the various districts of the country was ignored, the concentration of banking power was very extreme, and finally it placed the national credit system in the control of private persons, without any adequate supervision or control by the Government of the United States, and proposed to allow these banks to issue the currency of the country as private corporations.

THE PUJO INVESTIGATION.

Under House resolutions 439 and 504, Sixty-Second Congress, second session, the so-called "Money Trust investigation" was conducted by the House of Representatives, beginning May 16, 1912. These hearings were published in 29 parts, consisting of thousands of pages, and with a most illuminating report showing the existence, substantially, of a vast concentration of power in the hands of a few men over the credit system of the United States.

THE GLASS INVESTIGATION.

These investigations were further continued by a subcommittee of the Committee on Banking and Currency of the House of Representatives, beginning on Tuesday, January 7, 1913, and directed by Hon. Carter Glass, chairman, according to the leading bankers and financial experts of the country extended hearings, comprising a volume of 745 pages of printed testimony.

In addition to these extensive examinations by the National Monetary Commission, the Pujo investigation, and the Glass investigation various representatives of the American Banking Association were in frequent consultation with Chairman Glass of the House Committee on Banking and Currency, with the chairman of the Senate Committee on Banking and Currency, with the Secretary of the Treasury, and others who were concerned in the primary framing of the pending measure, so that the plea of some of the interests opposing the bill that the matter had not been properly investigated had no just foundation of fact. But in addition to these investigations and discussions the bill, when finally introduced in the House of Representatives, was discussed for many weeks in the Committee on Banking and Currency of the House, in the Democratic conference, and for many days in the House of Representatives, finally passing September 17, 1913.

THE SENATE INVESTIGATION.

Anticipating the action of the House of Representatives upon this bill, the Committee on Banking and Currency of the United States Senate began hearings on the bill September 2, 1913, holding their sessions from 10 o'clock in the morning until 5 and 6 in the evening and listening to various representatives of the American Banking Association, of credit associations, of business men, and of financial experts. These hearings when concluded and presented to the Senate in Senate Document No. 232, Sixty-third Congress, first session, on November 6, 1913, in three volumes, with index, make

3,259 pages. It is therefore obvious that great pains have been taken by the authorities of the United States and by the committees in Congress to proceed with the greatest caution and upon the fullest information in the adjustment of this very important measure.

When the hearings before the Senate Committee on Banking and Currency were concluded, the members of the committee discussed the bill for over two weeks, finally agreeing to submit their separate views in the form of the House bill, H. R. 7837, with certain amendments thereto, representing the respective views of the two sections of the committee.

Both sections of the committee, however, agreed on the great fundamentals of the bill—that is:

First. On the necessity for greater concentration of the banking reserves of the country.

Second. The volume of such reserves.

Third. The volume of the capital of the proposed banks.

Fourth. The mobilization of such reserves.

Fifth. The promotion of an open discount market.

Sixth. The provision for elastic currency; the issuance of Federal reserve notes.

Seventh. That the Federal reserve notes should be the obligations of the United States.

Eighth. That the system should be the regional Federal reserve bank system instead of a central bank; and

Ninth. The control of the system itself by the Government.

The two sections of the committee disagree upon the number of the Federal reserve banks, the method of subscribing for the stock of such banks, the method of electing the directors of such banks, the method of administering the regional reserve banks, and these differences arise, in the main, because of two schools of thought, one part of the committee believing in a central bank administered by a central board and the other part of the committee proposing to establish a number of comparatively independent district banks administered by boards of directors chosen from and representing the several districts, but under the strict supervisory control of the Government. The interests of the public are thus protected by Government supervision, and the vast and intricate technical detail of bank administration being placed in the hands of the bankers whose funds and whose business is involved.

THE PURPOSES OF THE BANKING AND CURRENCY BILL.

The chief purposes of the banking and currency bill is to give stability to the commerce and industry of the United States, prevent financial panics or financial stringencies; make available effective commercial credit for individuals engaged in manufacturing, in commerce, in finance, and in business to the extent of their just deserts; put an end to the pyramiding of the bank reserves of the country and the use of such reserves for gambling purposes on the stock exchange.

In order to accomplish these results there are certain great fundamentals recognized by all experts as essential and necessary, to wit:

First. The proper concentration of the bank reserves of the country under the control of the banks themselves, safeguarded by governmental supervision.

Second. A suitable banking capital as a margin of safety.

Third. Placing the larger part of the Government funds with such banks, where they may be used in the service of the national commerce.

Fourth. Authorizing the issuance of elastic currency against liquid commercial bills under proper safeguards.

Fifth. Establishing an open market for liquid commercial bills, by providing through the reserve banks a constant and unfailing market for such bills at a steady rate of interest.

Sixth. Finally, protecting the gold reserve of the United States by the same methods adopted in Europe, to wit, raising the rate of interest through the Federal reserve banks and authorizing such banks to acquire foreign bills when gold shipments are anticipated and taking other precautionary measures.

THE MECHANISM OF THE FEDERAL RESERVE BANK SYSTEM.

These important national ends are proposed to be obtained by the mechanism of eight Federal reserve banks organized with a capital equal to 6 per cent of the capital and surplus of the National and State banks in the several districts.

The eight districts are proposed to be laid off by an organization committee, who shall organize a Federal reserve bank with headquarters in a central city of each district, each bank to establish as many branches in its district as may be found expedient.

It is proposed that each Federal reserve bank shall have nine directors, six elected by the banks and three chosen by the Federal reserve board.

The entire system is proposed to be under the supervisory control of the Federal reserve board, consisting of the Secretary of the Treasury and six other members of such board appointed by the President and confirmed by the Senate.

The Federal reserve board is given very broad powers of supervision and is assisted by a Federal advisory council, consisting of one representative from each of the Federal reserve banks.

The details of the organization and the principles of the bill will be hereinafter more fully set forth.

FEDERAL RESERVE DISTRICTS.

The Federal reserve districts are proposed to be organized by the Secretary of the Treasury and not less than two members of the Federal reserve board (sec. 2), who shall summon expert aid and take testimony and lay out such Federal reserve districts, eight in number, according to the convenience and customary course of business, designating the city in which the district Federal reserve bank shall be located (p. 2).

When the districts shall have been laid out and the city determined in which such Federal reserve banks shall be located, five

of the subscribing banks in such district are authorized to take out a charter in the same manner and with similar powers as a national bank (pp. 11 to 14), except that the business of the Federal reserve bank is confined to member banks and other Federal reserve banks and to the United States, except its open market operations, which may be with any responsible concern.

These banks are given, as a part of the charter rights, the right to issue Federal reserve bank notes against United States bonds in the same manner as a national bank, the purpose being to permit said banks to absorb as much of the 2 per cent bonds as the national banks may care to dispose of.

STOCK SUBSCRIPTION.

The amount of possible stock is placed at a sum equal to 6 per cent of the capital and surplus of national banks and State banks and trust companies, exclusive of savings banks, a possible total of about $150,000,000, one-half of which will be required to be paid in during a period of six months after the organization of said banks and one-half subject to call, with a double liability resting upon the subscribers against the amount subscribed.

The reasons for requiring the banks to subscribe to this stock with a double liability are—

First. To protect the large deposits of general funds which the United States will probably place with such banks.

Second. To protect the United States against the extension of credit through the Federal reserve notes, the obligations of the United States, loaned to the Federal reserve banks against commercial bills.

Third. To safeguard the system itself, to protect the large volume of reserves placed with such banks, and give to such banks the confidence of the world.

Fourth. To justify the Government in putting on the banks the prime responsibility of administering these banks and safeguarding their own reserves and their own capital stock, and making them responsible to the country for safeguarding the welfare of the national banking system, protecting the national gold supply under the safeguard of governmental supervision.

Every national bank located in a given district is required within 60 days after the passage of the act to signify its acceptance of the terms of the act, and every State bank eligible for membership is permitted to signify its assent in like manner.

Any national bank within such district failing to signify its assent may be discontinued as a reserve agent upon 30 days' notice by the organization committee or the Federal reserve board. And should any national bank within one year after the passage of the act fail to become a member bank of the system, it is required to cease to act as a national bank.

In the contingency that the capital stock is not fully subscribed by the banks of a given district, provision is made (p. 7) to offer such stock to public subscription, and on the contingency that such stock is not subscribed by the public the balance of the necessary capital may be allotted to the United States and sold by the Government at proper times and places.

All stock held by the public or by the Government will be voted by the directors of the Federal reserve bank of class C, representing the Government.

CONTROL OF THE FEDERAL RESERVE BANKS.

Each Federal reserve bank will be controlled by a board of nine directors—three of class A, elected by the banks; three of class B—business men—elected by the banks; and three of class C, appointed by the Federal reserve board to represent the United States.

One director of class C will be a Federal reserve agent and chairman of the board, and one a deputy Federal reserve agent and deputy chairman, representing expressly the interests of the United States at such bank and issuing Federal reserve notes to the reserve bank, holding the security therefor, and receiving such notes for safe-keeping when returned by the bank.

PROBABLE RESOURCES OF FEDERAL RESERVE BANKS.

The capital stock of 25,195 banks in the United States, including savings banks, amounts to $2,010,000,000; surplus, $1,585,000,000. Six per cent of this sum would be something over $200,000,000, and the total liability would make over $400,000,000. Assuming that one-half of these concerns enter the system, it would give a capital of $100,000,000, with over $50,000,000 paid in.

The total reserves which would be paid into the Federal reserve banks by 7,120 national banks, outside of reserve or central reserve cities, would be $166,000,000 (Exhibit B, p. 1); from 315 reserve city banks, $110,000,000; and from 52 central reserve city banks, $96,000,000, which, including an estimated deposit of $150,000,000 from the Government, would make an amount equal to $672,00,000.

If the State banks and trust companies come in, omitting the savings banks, it would add $279,000,000 of reserves and $21,000,000 of capital stock (Exhibit B, p. 6), making a total of $972,000,000.

These funds would not include any optional deposits that might be voluntarily placed with the Federal reserve bank by member banks.

DIVISION OF EARNINGS.

It is proposed in the pending bill to give the stockholders 6 per cent dividends, lay up a surplus of 20 per cent, and give the United States the additional earnings. The policy of limiting the dividends to 6 per cent is based upon the theory that these great public utility banks are not intended to be merely money-making banks, but that they are guardians of the public welfare, primarily safeguarding the member banks, protecting their reserves, safeguarding their credit, protecting them from panic or financial stringency, and being always prepared to furnish them with accommodation at a reasonable rate of interest. But these Federal reserve banks will also be charged with the duty of protecting the national gold reserve, protecting the national commerce, and in this way give stability to the manufacturing, industrial, commercial, and transportation enterprises of the United States. For this reason these banks ought to have no other

motive than the public welfare, and the moving policy of the banks should not be to earn as much dividends as the commerce of the country could endure, but to protect our national commerce and our national-banking system at a fair profit.

STATE BANKS AND TRUST COMPANIES.

The bill (pp. 5 and 27) invites the State banks to become members where the capital stock, sound condition, subscription, and compliance with the rules of the system justifies. The State banks and trust companies, however, will be subjected to the same rules governing the national banks in regard to the limitation of liability which may be incurred by any one person to such banks, the prohibition of making purchase of or loans upon the stock of such banks, or withdrawal or impairment of capital, the payment of unearned dividends, the making of reports to the comptroller, and the right of examination of such banks, as if they were national banks, with the right, however, to accept the State examinations in lieu of the comptroller's examination where such examinations are satisfactorily made.

BANK EXAMINATIONS.

Under the proposed system the bank examinations are made much more carefully, the bank examiners put on salaries (p. 66). Loans, gratuities, or commissions are forbidden to either bank examiners or to officers or directors of member banks.

BANK RESERVES.

Very important changes are made in the matter of bank reserves (p. 59) by requiring the withdrawal of the legal reserves from other national banks after a period of three years, making the change that the country banks are required to keep 12 per cent of their demand liabilities and 5 per cent of their time deposits as reserves—two-twelfths in the Federal reserve bank for 14 months, and thereafter five-twelfths—leaving seven-twelfths after three years to be optionally kept either in the bank's own vaults or in the Federal reserve bank (p. 62). The reserve city banks are required to keep 18 per cent of their demand liabilities and 5 per cent of time deposits; three-eighteenths of such reserve for the first 14 months being kept in the Federal reserve bank, and thereafter six-eighteenths of said reserve, leaving twelve-eighteenths of such reserve to be kept after three years either in the bank's own vaults or in the Federal reserve bank, at its option (p. 63).

The central reserve city banks are required to maintain a reserve equal to 18 per cent of their demand liabilities and 5 per cent of their time deposits; for 14 months three-eighteenths of such reserves and thereafter six-eighteenths of such reserves with the Federal reserve bank, leaving twelve-eighteenths optional to be kept in the bank's own vaults or with the Federal reserve bank.

The State banks are permitted to keep their surplus legal reserves for three years with other State banks if the State law requires.

It is proposed that the reserves of the Federal reserve banks shall be not less than 35 per cent of gold or lawful money against their demand liabilities or Federal reserve notes in circulation (pp. 48 and 65.)

Some of the banks have objected that they would lose 2 per cent interest on so much of the deposits as they keep with the Federal reserve bank, and they seem to think they would not be sufficiently compensated by the obvious benefits of the Federal reserve banking system.

The answer to such objections is that the compensations in a financial way will far more than outweigh the loss of the 2 per cent interest, while the stability of the business of the bank, and the peace of mind it will give to the bankers in having freedom from constant anxiety, would more than compensate them, even if the financial advantages did not do so. The financial advantages are obvious—

First. The capital stock put into the system will be merely a transfer of funds obtained by taking a certain portion of the present deposits (however invested) into the form of this capital stock, earning 6 per cent net, free from tax, making the earning on such stock between 7 and 8 per cent, which is a higher return than any bank can possibly average upon its deposits.

Second. The reserves placed with the Federal reserve banks would not bear interest under the present bill (although this may possibly be found expedient at some future time when the system is established), but an average bank with a hundred thousand dollars ($100,000) capital and $550,000 average individual deposits, if it carried 5 per cent of its deposits as reserves with the Federal reserve bank, would carry only $27,500 with the Federal reserve bank, which it might use, if it saw fit, as a checking account for exchange purposes if it kept the account up to the required standard.

The earning power on $27,500 at 2 per cent would only be $550, and since the bank could borrow back an equal sum, at probably 4 per cent and lend it at 6 or 8 per cent, it could earn as much or more out of such rediscount as the interest at 2 per cent amounts to.

But it has a far larger earning power, because, under the old system, where every bank had to protect itself by keeping a high individual reserve, the country banks have carried on an average of over 21 per cent, and under this system they would have available the difference between 12 per cent legal reserves and 21 per cent actual reserves, which, on the deposits of an average bank of $550,000, would amount to $49,000, and which they could lend at 6 per cent instead of 2 per cent, as at present, giving such bank an additional earning power of $1,980 above its present earning power, if it saw fit to use these surplus reserves which they now carry, because of the fear of panic and financial stringency.

A very important consideration, however, would result from this improved system in giving an increased public confidence in the banks and which would attract a considerable amount of money which is not now deposited in banks at all and would thus enlarge the deposits of the bank and enlarge substantially their money-earning power.

Another important financial advantage to the bank would be that the larger use of their reserves would also result in an enlargement of deposits, entirely justified and on a safe basis, which would give them increased earning power. It is extremely short-sighted for a

bank to imagine that its financial earnings would be in any wise harmed by the proposals of this measure. A very great psychological advantage is in giving peace of mind to the entire banking world, so long as business is conducted upon an honest, sensible basis.

PROBABLE READJUSTMENT OF CASH UNDER REQUIREMENT OF THE FEDERAL RESERVE ACT.

If all national banks enter the system and subscribe at the rate of 6 per cent of their capital ($1,056,345,786) and surplus ($725,333,629), or $106,900,764.90, paying one-sixth in cash, one-sixth in three months, and one-sixth in six months, the Federal reserve banks will have in six months a paid-up capital of $53,450,382, to which should be added about $150,000,000 of Government funds, which will be deposited with the Federal reserve banks, making a total of $203,450,382 cash, of which two-thirds *could* be used for discounting.

The relative proportion of subscription to the Federal reserve bank is as follows: Country banks, 55 per cent; reserve city banks, 26 per cent; and central reserve cities, 19 per cent.

Assuming that the banks will immediately avail themselves of the discounting privilege to the extent of one-third of this fund in the Federal reserve banks, the country banks will be entitled to 55 per cent of (one-third of $203,450,382) $67,816,794 = $37,299,236; the reserve city banks 26 per cent, or $17,632,366; and the central reserve cities 19 per cent, or $12,885,190.

Should the banks avail themselves of this privilege to the extent of one-half of this fund, the country banks will be entitled to 55 per cent of (one-half of $203,450,382) $101,725,191 = $55,948,855; the reserve city banks 26 per cent, or $26,448,549, and the central reserve city banks 19 per cent, or $19,327,787.

In the event the banks should avail themselves of the discount privilege to the extent of two-thirds of the fund in the Federal reserve banks, the country banks would be entitled to 55 per cent of (two-thirds of $203,450,382) $135,633,588 = $74,598,472; the reserve city banks 26 per cent, or $35,264,732, and the central reserve city banks 19 per cent, or $25,770,380.

The reserve requirement and the probable readjustment of cash in the several classes, respectively, under the Federal reserve act are as follows:

7,120 banks not in a reserve or central reserve city.

RESERVES.

12 per cent of demand liabilities ($3,136,329,730.27)	$376,359,567.63
5 per cent of time deposits ($459,377,757.19)	22,968,887.86
Total	399,328,455.49

	Cash in the banks' own vault.	Cash in the Federal reserve bank.	Optional, own vault or Federal reserve bank.	Optional, in own vault, in Federal reserve bank, reserve city bank, or in central reserve city bank.
First 14 months	4/12=$133,109,485	2/12=$66,554,742		6/12=$199,664,228
Between 14 and 36 months	4/12= 133,109,485	5/12=166,386,855		3/12= 99,832,114
After 36 months		5/12=166,386,855	7/12=$232,941,597	

PROBABLE READJUSTMENT OF CASH, COUNTRY BANKS.

(First 14 months.)

Cash on hand (Aug. 9, 1913) specie and legal tender	$250,702,980	
Cash available by discount of commercial paper (one-third basis)	37,299,236	
Cash required for stock subscription to Federal reserve banks		$29,397,710
Cash reserve required in own vault (four-twelfths)		133,109,485
Cash reserve required in Federal reserve banks (two-twelfths)		66,554,742
Cash surplus		[1] 58,940,279
	288,002,216	288,002,216

One-third basis.—Between 14 and 36 months, amount reserve required in the Federal reserve banks is increased three-twelfths, or $99,832,114, making a deficit of $40,891,835, and after 36 months, three-twelfths additional, or $99,832,114, must be kept either in Federal reserve banks or in banks' own vaults, making the total deficit after 36 months $140,723,949.

One-half basis.—Should the banks discount to the extent of one-half of the available fund in the Federal reserve banks (i. e., capital stock and United States funds) this deficit will be reduced by the difference between $37,299,236 (one-third basis) and $55,948,855 (one-half basis), or $18,649,619, leaving a deficit of $122,074,330.

Two-thirds basis.—If the banks discount to the extent of two-thirds of the fund in the Federal reserve banks, the deficit will be reduced by the difference between $37,299,236 (one-third basis) and $74,598,472 (two-thirds basis) or $37,299,236, leaving a deficit of $103,424,713.

$15 reserve city banks.

RESERVES.

18 per cent of demand liabilities ($1,821,413,780.14)	$327,854,480.43
5 per cent of time deposits ($60,233,520.52)	3,011,676.03
Total	330,866,156.46

	Cash in the banks' own vaults.	Cash in the Federal reserve bank.	Optional, own vault or Federal reserve bank.	Optional, in own vault, in Federal reserve bank, reserve city bank, or in central reserve city bank.
First 14 months	6/18=$110,288,719	3/18=$55,144,359		9/18=$165,433,078
Between 14 and 36 months	6/18= 110,288,719	6/18=110,288,719		6/18= 110,288,719
After 36 months		6/18=110,288,719	12/18=$220,577,438	

PROBABLE READJUSTMENT OF CASH.

(First 14 months.)

Cash on hand (Aug. 9, 1913) specie and legal tender	$240,947,005	
Cash available by discount of commercial paper (one-third basis)	17,632,366	
Cash required for stock subscription to Federal reserve banks		$13,897,099
Cash reserve required in own vault (six-eighteenths)		110,288,719
Cash reserve required in Federal reserve banks (three-eighteenths)		55,144,359
Cash surplus		79,249,194
	258,579,371	258,579,371

One-third basis.—Between 14 and 36 months, amount of reserve required in Federal reserve banks is increased three-eighteenths, or $55,144,359, leaving still a surplus of $24,104,835, and after 36 months

[1] The above table does not include cash from possible rediscounts of reserve put in Federal reserve banks.

an additional six-eighteenths, or $110,288,719, must be kept either in banks' own vaults or in Federal reserve banks, causing a deficit of $86,183,884.

One-half basis.—Should the banks discount to the extent of one-half of the available fund in the Federal reserve banks, this deficit will be reduced by the difference between $17,632,366 (one-third basis) and $26,448,549, or $8,816,183, leaving a deficit of $77,367,701.

Two-thirds basis.—If the banks discount to the extent of two-thirds of the funds in the Federal reserve banks, the deficit will be reduced by the difference between $17,632,366 (one-third basis) and $35,264,732, or $17,632,366, leaving a deficit of $59,735,355.

52 central reserve city banks.

RESERVES.

18 per cent of demand liabilities ($1,605,579,970.29)	$289,004,394.65
5 per cent of time deposits ($13,755,310.58)	687,765.53
Total	289,692,160.18

	Cash in the banks' own vaults.	Cash in the Federal reserve bank.	Optional, own vault or Federal reserve bank.	Optional, in own vault, in Federal reserve bank, reserve city bank, or central reserve city bank.
First 14 months	6/18=$96,564,053	3/18=$48,282,027	9/18=$144,846,080	
Between 14 and 36 months	6/18= 96,564,053	6/18= 96,564,053	6/18= 96,564,053	
After 36 months		6/18= 96,564,053	12/18= 193,128,107	

PROBABLE READJUSTMENT OF CASH.

(First 14 months.)

Cash on hand (Aug. 9, 1913) specie and legal tender	$407,519,389	
Cash available by discount of commercial paper (one-third basis)	12,885,190	
Cash required for stock subscription in Federal reserve banks		$10,155,572
Cash reserve required in own vaults (six-eighteenths)		96,564,053
Cash reserve required in Federal reserve banks (three-eighteenths)		48,282,026
Cash reserve required in own vault or Federal reserve banks (nine-eighteenths)		144,846,080
Cash surplus		120,556,848
	420,404,579	420,404,579

Although the percentages of cash reserve required in the banks' own vaults and in the Federal reserve banks change after 14 months and after 36 months, inasmuch as at all times the full reserve requirement must be either in the banks' own vaults or in the Federal reserve banks, the surplus cash remains the same.

One-half basis.—Should the banks discount to the extent of one-half of the available fund in the Federal reserve banks, this surplus would be increased by the difference between $12,885,190 (one-third basis) and $19,327,787 (one-half basis), or $6,442,597, making a surplus of $126,999,445.

Two-thirds basis.—If the banks discount to the extent of two-thirds of the funds in the Federal reserve banks, the surplus will be increased by the difference between $12,885,190 (one-third basis) and $25,770,380 (two-thirds basis), or $12,885,190, making a surplus of $133,442,038.

In addition to the paid-up capital of the Federal reserve banks ($53,450,382) and the deposit of Government funds ($150,000,000) the Federal reserve banks will have available for discount purposes the funds held by them as reserves of the member banks to within 33⅓ per cent, viz:

Reserves deposited—Available for loans to member banks.

FIRST 14 MONTHS.

Amount of reserve deposited with Federal reserve banks first 14 months:	
Country banks (two-twelfths of reserve requirement)	$66,554,742
Reserve city banks (three-eighteenths of reserve requirement)	55,144,359
Central reserve city banks (three-eighteenths of required reserve)	48,282,027
Total	169,981,128

If one-third of this fund is used for rediscounting purposes, the additional cash would amount to $56,660,376; if one-half is used, $84,940,564; and if two-thirds, $113,320,752.

BETWEEN 14 AND 36 MONTHS.

Amount of reserves deposited with Federal reserve banks 14 to 36 months:	
Country banks (five-twelfths of reserve requirement)	$166,386,855
Reserve city banks (six-eighteenths of reserve requirement)	110,288,719
Central reserve city banks (six-eighteenths of reserve requirement)	96,564,053
Total	373,239,627

Additional available cash as follows: One-third basis, $124,413,209; one-half basis, $186,619,814; and two-thirds basis, $248,826,418.

AFTER 36 MONTHS.

Country banks (five-twelfths of reserve requirement)	$166,386,855
Reserve city banks (six-eighteenths of reserve requirement)	110,288,719
Central reserve city banks (six-eighteenths of reserve requirement)	96,564,053
	373,239,627

Additional available cash as follows: One-third basis, $124,413,209; one-half basis, $186,619,814; and two-thirds basis, $248,826,418.

SUMMARY.

Condition of all national banks with respect to cash after probable redistribution under Federal reserve act.

FIRST 14 MONTHS.

[This table does not include cash obtained from rediscounting reserve money in Federal reserve banks.]

National bank system.	When one-third of Federal reserve bank funds are discounted.		When one-half of Federal reserve bank funds are discounted.		When two-thirds of Federal reserve bank funds are discounted.	
	Surplus.	Deficit.	Surplus.	Deficit.	Surplus.	Deficit.
Country banks	$58,940,279	.....	$77,589,898	.....	$96,239,515	.....
Reserve city banks	79,249,194	.....	88,065,377	.....	96,881,560	.....
Central reserve city banks	120,556,848	.....	126,999,445	.....	133,442,038	.....
Surplus	258,746,321	.....	292,654,720	.....	326,563,113	.....
Additional cash available if reserves ($169,981,128) of member banks are used for rediscount	56,660,376	.....	84,940,564	.....	113,320,752	.....
Total surplus	315,406,697	.....	377,595,284	.....	439,883,865	.....

Condition of all national banks with respect to cash after probable redistribution under Federal reserve act—Continued.

BETWEEN 14 AND 36 MONTHS.

National bank system.	When one-third of Federal reserve bank funds are discounted.		When one-half of Federal reserve bank funds are discounted.		When two-thirds of Federal reserve bank funds are discounted.	
	Surplus.	Deficit.	Surplus.	Deficit.	Surplus.	Deficit.
Country banks		$40,891,885		$22,242,216		$3,592,599
Reserve city banks	$24,104,835		$32,921,018		$41,737,201	
Central reserve city banks	120,556,848		126,999,445		133,442,038	
Surplus, including all banks		103,770,048		137,678,247		171,586,640
	144,661,683	144,661,883	159,920,463	159,920,463	175,179,239	175,179,239
Surplus	103,770,048		137,678,247		171,586,640	
All banks: Additional cash available if reserves ($373,239,627) of member banks are used for rediscount	124,413,209		186,619,814		248,826,418	
Total surplus	228,183,257		324,298,061		420,413,058	

AFTER 36 MONTHS.

Country banks		$140,723,949		$122,074,330		$103,424,711
Reserve city banks		86,193,884		77,367,701		59,735,345
Central reserve city banks	$120,556,848		$126,999,445		$133,442,038	
Deficit of all banks, to balance	106,350,985		72,442,586		29,718,018	
	226,907,833	226,907,833	199,442,031	199,442,031	163,160,056	163,160,056
Deficit, to balance, excluding cash from reserve discounts		106,350,985		72,442,586		29,718,018
Additional cash available if reserves ($373,239,627) of member banks are used for rediscount [1]	124,413,209		186,619,814		248,826,418	
Total surplus		18,062,224		114,177,228		219,108,400
	124,413,209	124,413,209	186,619,814	186,619,814	248,826,418	248,826,418
Total deficit or surplus for system where cash is obtained from rediscounting reserves as well as capital and United States deposits	[2] 18,062,224		[3] 114,177,228		[4] 219,108,400	

[1] The total reserve deposits are $373,239,627; one-third equals $124,413,209; one-half equals $186,619,814; two-thirds equal $248,826,418.
[2] $18,062,224 surplus is on theory of discounting one-third of capital, United States funds, and reserves.
[3] $114,177,228 surplus is on theory of discounting one-half of capital, United States funds, and reserves.
[4] $219,108,400 surplus is on theory of discounting two-thirds of capital, United States funds, and reserves.

All the capital could be loaned out, but only two-thirds of United States funds and of reserves.

These figures above relate only to the national banks. The State banks and trust companies must be provided with reserve money in sufficient quantity to enable them to enter the system without contracting loans.

Memorandum prepared by Robert L. Owen, showing amount of reserve money available by statement of Aug. 9, 1913.

	Number.	Demand liabilities.	Time deposits.	Cash on hand.	Date of report.
National banks	7,488	$6,563,335,480.70	$533,364,588.29	[1] $899,169,374.00	Aug. 9, 1913
State banks	14,011	2,444,100,836.73	[2] 636,910,746.06	[3] 246,247,125.00	June 4, 1913
Trust companies	1,615	2,600,505,985.19	[2] 970,855,018.71	[4] 285,384,815.00	Do.

[1] National banks have, also, not included in these figures, $42,637,771 national-bank notes and $3,650,042.38 minor coins; total, $46,287,813.38, which can not be counted as reserves under present laws.
[2] Represent savings deposits, time deposits not given.
[3] Includes $35,521,522 national-bank notes and minor coins.
[4] Includes $26,732,928 national-bank notes and minor coins.

Total reserve money, 246+285=531−62=459 millions

State banks	$2,444, at 12%= $292				
	636, at 5%= 31				
		Total, $323	Own vaults	$216	
			In Federal reserve banks	107	
					$323
Trust companies	2,600, at 18%= 468				
	970, at 5%= 48				
		Total, 516	Own vaults	344	
			In Federal reserve banks	172	
					516
Total requirements		839			
Actual reserve cash		459			
Gross deficit		378			
Credit cash from rediscounts one-half $279, on deposit Federal reserve banks ($172+107)		139			
Total net deficit		239			

The capital stock of State banks and trust companies excluding savings banks equals $459,000,000 with a surplus fund of $271,000,000, making a total of $730,000,000, which upon a 6 per cent basis would give an addition to the capital stock of the Federal reserve banks, if the State banks and trust companies entered it, of $43,000,000, which, if one-half were paid in cash, would add to the initial capital stock in cash $21,000,000 above the capital stock heretofore considered, and would therefore add a further deficit of $21,000,000 to the total net deficit of $239,000,000, making a total deficit of $260,000,000, as far as the State banks and trust companies are concerned.

It is insisted, however, that this contingency is not likely to arise, as many of the small State banks will not enter the system, and if it did arise, it could be taken care of—

First, by discounting of the funds of the Federal reserve banks.

Second, by an additional deposit of United States funds above the $150,000,000 heretofore estimated.

Third, or finally, by the issuance of Federal reserve notes, which should be counted as reserves for member banks if the Federal reserve board find it necessary.

Moreover, it might further be provided for by making the national-bank notes available for reserve money, since they are based on Government bonds and are already used by State banks under the present State laws as reserves. This contingency has been provided for by a proposed amendment giving the Federal reserve board (p. 38, line 15) the right to authorize the use as reserves of member banks Federal reserve notes or bank notes based on United States bonds.

FEDERAL RESERVE BOARD—ITS POWERS.

The Federal reserve board, consisting of the Secretary of the Treasury and six members appointed by the President of the United States and confirmed by the Senate for terms of six years (p. 31), are given the following powers:

POWERS OF THE FEDERAL RESERVE BOARD.

To readjust districts created by the organization committee and create new ones.

To regulate the establishment of branches of Federal reserve banks within Federal reserve district in which bank is located.

To designate three (class C) of the nine members of the board of directors of each Federal reserve bank, one of these to be chairman of the board with the title of "Federal reserve agent," and one "deputy Federal reserve agent."

The Federal reserve agent to maintain a local office of the Federal reserve board on the premises of the Federal reserve bank. He shall make regular reports to Federal reserve board and be its official representative.

To remove any director or officer of a Federal reserve bank for cause stated.

To remove chairman of Federal reserve bank without notice.

To establish by-laws governing applications from State banks and trust companies.

"Of the six persons * * * appointed (by the President), one shall be designated governor and one vice governor of the Federal reserve board." The governor, subject to supervision of the Secretary of the Treasury and board, shall be the acting managing officer of the Federal reserve board.

To levy a semiannual assessment upon the Federal reserve banks for estimated expenses for succeeding six months, together with deficit carried forward.

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

To require, or on application to permit, a Federal reserve bank to rediscount the paper of any other Federal reserve bank.

To suspend for a period not exceeding 30 days (and to renew such suspension for periods not to exceed 15 days), any and every reserve requirement specified in this act.

To supervise and regulate the issue and retirement of Treasury notes to Federal reserve banks.

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 section 21 of this act, or to reclassify existing reserve or central reserve cities and to designate the banks therein situated as country banks, at its discretion.

To require the removal of officials of Federal reserve banks.

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

To suspend the further operations of any Federal reserve bank and appoint a receiver therefor.

To perform the duties, functions, or services specified or implied in this act.

To determine or define (subject to stipulations) the character of paper eligible for discount for member banks.

To prescribe regulations for purchase and sale by Federal reserve banks of bankers' bills, etc.

To review and determine the minimum rate of discount for member banks established by Federal reserve banks and fix weekly the discount rate reserve banks may discount for each other.

To authorize establishment of correspondents and agencies of Federal reserve banks in foreign countries.

To authorize the issue of Federal reserve Treasury notes.

To receive, through the local Federal reserve agent, applications from Federal reserve banks for notes, such applications to be accompanied by rediscounted notes for deposit as collateral security.

To require Federal reserve banks to maintain deposits in Treasury of United States in gold of 5 per cent of notes issued.

To grant in whole or in part or to reject entirely the application from Federal reserve banks for notes.

To establish rate of interest on notes issued.

To prescribe regulations for substitution of collateral.

To make and promulgate regulations governing the transfer of funds among Federal reserve banks.

To act, if desired, as clearing house for Federal reserve banks.

To require, in its discretion, Federal reserve banks to act as clearing houses for shareholding banks.

To require extra examinations of national banks when deemed necessary.

To determine and report annually to Congress fixed salaries of all bank examiners.

To assess upon banks in proportion to assets or resources the expenses of examinations.

To fix a date for such assessment.

To arrange for special or periodical examinations of member banks for account of Federal reserve banks.

To receive from Federal reserve banks information concerning the condition of any national bank in its district.

To order examinations of national banks in reserve cities as often as necessary.

To add to the list of cities in which national banks shall not be permitted to loan on real estate as described.

To receive applications from national banks having $1,000,000 or more capital for the establishment of branches in foreign countries, to reject or accept such applications, and to prescribe conditions under which such branches may be opened.

To require examinations of foreign branches as it may deem best.

(Pp. 31–38, 40, 45.)

FEDERAL ADVISORY COUNCIL.

In order to keep the Federal reserve board in intimate touch with the banking business of the country, the Federal advisory council is established, consisting of one representative from each Federal reserve bank with power to confer directly with the Federal reserve board, make proper representations and recommendations, call for information, etc. (p. 39). Many of the big banks quite urgently insisted that the bankers should have representation upon the Federal reserve board. This was denied for the obvious reason that the function of the Federal reserve board in supervising the banking system is a governmental function in which private persons or private interests have no right to representation except through the Government itself. The precedents of all civilized governments is against such a contention. It was believed that the Federal reserve board itself, consisting entirely of officers of the Government, might be made more efficient if it had the advice freely available of the Federal advisory council. Moreover, the operations of the Federal reserve board would in this way be subject to greater publicity and enable the banks of the country to have a greater measure of confidence in all of the operations of the Federal reserve board.

It was further believed that the banks of the country, which are invited or required to contribute a very large sum to the Federal reserve banks, would be more content by having an easy and convenient means provided by law of frequent conferences with the Federal

reserve board and the opportunity to advise the board with regard to the financial, commercial, and industrial needs of the country.

CONCENTRATION OF RESERVES.

The reserves of the banks of the United States are now scattered without any system among over 25,000 individual banks. The present law permits the national banks in the country to keep nine-fifteenths of their reserves in the banks of reserve cities and permits banks of the reserve cities to keep one-half of their reserves in the central reserve cities, and permits the banks in the central reserve cities to keep only *one-fourth of these reserves of the reserves of the reserves* in cash. The effect of this system—the necessary effect of this system—is to concentrate in the hands of a few banks in the central reserve cities (who have diligently sought the reserves of other banks) to such an extent that the Nation's bank reserves are pyramided in a dangerous fashion in the hands of a few banks in the three central reserve cities and chiefly in certain banks in New York City. These central reserve city banks have been accustomed to pay 2 per cent on the deposit of these bank reserves placed with them, and having no place to which they themselves might go for rediscount they have fallen into the habit of placing very large sums out of these reserves, amounting to hundreds of millions, upon call on the New York Stock Exchange, for the simple reason that under the law of the stock exchange they can sell the stock collateral immediately on any day when money is actually needed. It may be ruinous to the borrower—it may wipe out his margin—it may cause him a disastrous loss; it may upset the interest rates of the country, excite alarm, and result in final panic; but it does furnish the money when needed.

We are advised by representative bankers in New York that the great banks there would be glad to improve the system by the establishment of Federal reserve banks strong enough to furnish money quickly on demand against good commercial bills, and thus enable the New York banks to withdraw their funds from the stock exchange (which has become the most gigantic gambling establishment in the world) and place such funds in the service of legitimate industry and commerce. This will be one of the great benefits of the pending measure—that is, that it will withdraw from gambling enterprises on the stock exchange the bank reserves of the country and enable such reserves to be used for the commerce of the Nation.

Attention is respectfully called to the fact that while in 1896 the shares sold on the New York Stock Exchange amounted to only a little over $3,000,000,000, in 1905 it was $21,000,000,000, in 1906 it was $23,000,000,000, in 1907—the year of the panic—the amount fell to $14,000,000,000, increasing in 1908 to $15,000,000,000, and in 1909 to $19,000,000,000. (National Monetary Commission Reports, vol. 21, p. 9.)

MAKING STABLE THE INTEREST RATES.

The extremely injurious character of this gambling on the stock market with the reserves of the country is shown by Table 29, National Monetary Commission Reports (vol. 21, p. 136), where during

the year 1907 the range of interest for money was from 2 to 45 per cent in January, from 3 to 25 per cent for March, from 5 to 125 per cent in October, from 3 to 75 per cent in November, and from 2 to 25 per cent in December, with currency bringing a premium from 1 to 4 per cent during November and December. The blighting effect of these violent fluctuations of the interest rates is demonstrated by the rate charged for 90-day time loans, which during November and December, 1907, were running as high as 12 to 16 per cent, with no business done in time loans of a longer period during the entire month of November and no business being done at times on prime commercial bills during the same months. (Ibid.)

These violent fluctuations are the more astounding when compared with the extremely stable rates of interest which have long prevailed in Europe, as shown by the rates of discount for 50 years in England, France, Germany, Holland, and Belgium, where the rate has been steadily around 3 to 4 per cent. (See Senate hearings before Banking and Currency Committee, pp. 538–542, an abstract of which is submitted.)

Moreover, in Europe manufacturers, merchants, and business men could ALWAYS get money, while in the United States they have been absolutely ruined by thousands because of the denial of merited credit. This act will put an end to this deadly peril to American business.

TABLE III.—*Rate of discount, 1844–1909—The number of days at each rate arranged from the lowest rate to the highest.*

Rate.	Bank of England.[1]		Bank of France.[2]		Imperial Bank of Germany.		Bank of the Netherlands.[4]		National Bank of Belgium.[5]	
	Number of days.	Number of days per cent of total (total = 1,000).	Number of days.	Number of days per cent of total (total = 1,000).	Number of days.	Number of days per cent of total (total = 1,000).	Number of days.	Number of days per cent of total (total = 1,000).	Number of days.	Number of days per cent of total (total = 1,000).
2 per cent	3,409	143	2,735	115	.....	.....	1,328	56	.....	.....
2½ per cent	28	1	.....	.....	.....	.....	.....	.....	.....	.....
2½ per cent	3,599	151	2,579	108	.....	.....	5,058	212	3,169	147
3 per cent	5,859	246	7,828	329	3,073	129	8,013	336	9,412	437
3½ per cent	1,921	80	2,060	86	644	27	3,737	157	2,965	138
4 per cent	3,772	158	4,579	192	12,192	511	2,167	91	3,416	159
4½ per cent	608	26	353	15	1,626	68	811	34	698	32
5 per cent	2,195	92	2,061	86	4,094	172	1,823	76	944	44
5½ per cent	263	11	120	5	707	30	375	16	378	18
6 per cent	975	41	1,170	49	970	41	260	11	540	25
6½ per cent	91	4	8	.....	72	3	150	6	.....	.....
7 per cent	633	26	286	12	269	11	135	5	27	.....
7½ per cent	.....	.....	21	1	110	5	.....	.....	.....	.....
8 per cent	268	11	41	2	37	1	.....	.....	.....	.....
9 per cent	95	4	16	.....	63	2	.....	.....	.....	.....
10 per cent	141	6	.....	.....	.....	.....	.....	.....	.....	.....
Total	23,857	1,000	23,857	1,000	23,857	1,000	23,857	1,000	21,549	1,000

[1] Lowest rate 2 per cent; highest rate 10 per cent.
[2] Lowest rate 2 per cent; highest rate 9 per cent.
[3] Lowest rate 3 per cent; highest rate 9 per cent.
[4] Lowest rate 2 per cent; highest rate 7 per cent.
[5] Lowest rate 2½ per cent; highest rate 6 per cent.

TABLE IV.—*Rate of discount, 1844-1909—The number of days at each rate, arranged from the highest number of days to the lowest.*

Bank of England.			Bank of France.			Imperial Bank of Germany.			Bank of the Netherlands.			Bank of Belgium.		
Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).
5,859	3	246	7,828	3	329	12,192	4	511	8,013	3	336	9,412	3	437
3,772	4	158	4,579	4	192	4,094	5	172	5,058	2½	212	3,416	4	159
3,559	2½	151	2,735	2	115	3,073	3	129	3,737	3½	157	3,169	2½	147
3,409	2	143	2,579	2½	108	1,626	4½	68	2,167	4	91	2,965	3½	138
2,195	5	92	2,061	5	86	970	6	41	1,823	5	76	944	5	44
1,921	3½	80	2,060	3½	86	707	5½	30	1,328	2	56	698	4½	32
975	6	41	1,170	6	49	644	3½	27	811	4½	34	540	6	25
633	7	26	353	4½	15	269	7	11	375	5½	16	378	5½	18
608	4½	26	286	7	12	110	7½	5	260	6	11	27	7	.....
268	8	11	120	5½	5	72	6½	3	150	6½	6	.....	.....	.....
263	5½	11	41	8	2	63	9	2	135	7	5	.....	.....	.....
141	10	6	21	7½	1	37	8	1	.....	.....	.....	.....	.....	.....
95	9	4	16	9	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
91	6½	4	8	6½	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
28	2½	1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
23,857	.....	1,000	23,857	.....	1,000	23,857	.....	1,000	23,857	.....	1,000	21,549	.....	1,000

It will thus be seen that these great banks holding the national reserves have been able to furnish commerce with a very low rate of discount for nearly all the time and only occasionally have been compelled to raise the rate to a high point.

These low rates illustrate the enormous value of these great banks to European commerce and the urgent necessity for action by the United States along similar lines.

The stabilizing of the rate of interest in the United States will be one of the very important functions of the proposed Federal reserve system. The right of the Federal reserve board to fix the rate of interest which may be charged member banks by the Federal reserve banks and which the Federal reserve banks may charge each other would have a steadying effect upon the interest rate throughout the United States, and will enable the banks of the country to extend accommodation at a comparatively stable rate of interest upon a lower basis than heretofore, because the element of hazard of panic and of financial stringency will be removed by the proposed system.

MOBILIZATION OF RESERVES.

In addition to concentrating in the Federal reserve banks a substantial part of the reserves of the National and State banks and trust companies of the country and placing in such banks a respectable capital by stock subscriptions and a considerable volume of Government funds—approximately a total of about $700,000,000—it is proposed to make them perfectly mobile. In order to have these funds meet the purpose for which they were intended they must be kept in a liquid condition and made instantly mobile by keeping the investments of such banks either in actual gold and lawful money or in short-time commercial bills drawn against actual commercial transactions which are readily converted into money on short notice. (Sec. 14, p. 40, and sec. 15, p. 44.)

In pursuing this policy we have followed the experience of the great public utility banks of Europe. The European systems confine in large measure the holdings of the public utility banks to cash and liquid bills of very short maturities, the average length of time of the bills of the Bank of France not exceeding 28 days and the Reichsbank of Germany having no paper of longer maturity than 90 days, and a large part of its paper very short time paper. The Bank of England handles quite a large volume of paper, running 7 to 14 days. These public utility banks carefully avoid putting the funds in their custody in the form of investments which are not instantly convertible into money. This consideration is of the highest importance, because the Federal reserve banks holding the reserves of the reserves must be in a position to extend instant accommodation to any member bank requiring cash.

With a view to enlarging the volume of liquid paper based on actual shipments of goods, the reserve bank is authorized to discount acceptances and the member banks are authorized to accept bills of exchange against actual shipments of goods.

ELASTIC CURRENCY—FEDERAL RESERVE NOTES.

In order to render still more mobile and liquid the reserves held by the Federal reserve banks, elastic currency has been provided (sec. 17, p. 47) in the form of Federal reserve notes issued as obligations of the United States, redeemable in gold at the Treasury, or in gold or lawful money at the reserve banks, and receivable for all taxes and public dues, except customs. The exception of customs was intended to enable the Federal Government to command a supply of gold through the customhouses, if it should prove to be necessary, by compelling the customs to be paid in gold by foreign shippers.

These Federal reserve notes, while the obligations of the United States, and made redeemable in gold or lawful money at the Federal reserve banks and in gold only at the Treasury of the United States, are carefully surrounded by very numerous safeguards to make assurance doubly sure that they shall not at any time in reality tax the credit of the United States itself. The securities behind these notes are:

First. Commercial bills drawn against actual commercial transactions which have goods and merchandise behind the notes.

Second. Such notes have the credit of the maker of the commercial bill deemed good by the member banks.

Third. The indorsement by the member bank of such commercial bills.

Fourth. The double liability of the stockholders of the member bank so indorsing.

Fifth. Thirty-three and a third per cent of gold reserve in the Federal reserve bank.

Sixth. A first lien on all the assets of the Federal reserve bank.

Seventh. The stock of the indorsing member bank in the Federal reserve bank.

Eighth. The reserve balance of the indorsing member bank in the Federal reserve bank.

Ninth. A double liability of the member banks of the Federal reserve bank.

Tenth. The double liability of the stockholders of the member banks of the Federal reserve bank.

Eleventh. The surplus of the Federal reserve bank.

Twelfth. The earning power of such reserve bank, and finally the United States. There has never been issued a note with such safeguards surrounding it by any banking system of the world.

The commercial bills alone would never fail, because of their liquid character and short maturity. No apprehension whatever need be felt with regard to these notes ever taxing the Federal Treasury.

Since each bank is required to keep a gold reserve with the Treasury of the United States against such note issues, it is necessary to keep a record of the outstanding circulation emitted through each Federal reserve bank, and for this reason a descriptive number is placed upon the notes emitted through any Federal reserve bank so as to keep the record of notes outstanding issued through such banks. The effect of issuing Federal reserve notes against commercial bills is to make intensely mobile the assets of the Federal reserve bank and enable such bank at all times to respond instantly to the needs of national commerce. The emission of these notes is controlled by the Federal reserve board, which is authorized to control the volume of these notes and the terms upon which they shall be advanced to the Federal reserve bank and the conditions of retirement.

The Federal reserve board is authorized to tax the issue of the notes and also to fix the rate of interest on the discounts of the Federal reserve banks, and in this way keep a double check on the issuance of the Federal reserve notes.

While the Federal reserve notes are extremely well secured, it is made easy for member banks needing currency for seasonal demands or for any extraordinary emergency to obtain Federal reserve notes from the Federal reserve banks. The Federal reserve bank has only to deposit liquid commercial bills of a qualified class with the Federal reserve agent and obtain from him such Federal reserve notes, keeping, however, a minimum deposit of 33 per cent of gold against such Federal reserve notes as may be put in actual circulation. It is believed that in actual practice the gold reserves against such notes in circulation will be very large, much larger than the minimum requirement, especially if our proposed amendment is placed in the House bill, permitting the reserves against deposits and against the notes to be kept as a common fund. It is obvious that if a minimum requirement of 33 per cent against deposits and 33 per cent against notes in circulation is held as a common fund, anyone observing the statement merely from the standpoint of a depositor, if the deposits and the notes in circulation happened to be equal, would perceive that the reserves against deposits would appear as 66 per cent, and anyone looking at the reserves against the notes from that point of view would observe a reserve equal to 66 per cent of the notes in circulation.

It also is obvious that when there is a surplus reserve against the deposits far above 33 per cent there is no reason why the bank should not have the credit of this surplus appearing also in its favor as a reserve against notes in circulation, and it was upon the best advice obtainable that an amendment was proposed to section 17 permitting

these reserves to be carried as a common fund, but in no contingency less than a 33 per cent gold reserve against the notes, as required in the House bill.

The retirement of these Federal reserve notes would, of course, be accomplished whenever the commercial bills were withdrawn by the member bank or by the Federal reserve bank from the hands of the Federal reserve agent, the Federal reserve agent in such contingency either receiving the notes back or a like volume of lawful money.

OPEN-MARKET OPERATIONS.

One of the most important features of this bill is the establishment of what is called an open market for bills of exchange and bankers' acceptances such as has long prevailed in Europe, but which has not existed to any great extent in the United States. In Europe the various banks and private bankers carry on a very large scale commercial bills of exchange and acceptances based on actual commercial transactions of short maturities and which are regarded as self-liquidating. Such bills have behind them actual merchandise for which a purchaser has been found, and these bills are held in their portfolios as almost the exact equivalent of cash, for the reason that the security of such bills is regarded as substantially perfect, their uniform and certain payment constant, and therefore there is an "open market" for such bills maintained by the great public banks, such as the Bank of France, the Reichsbank, the Bank of Belgium, the Bank of Netherlands, the Bank of England, etc., at a very low rate of interest.

It is now proposed that a constant market at a fairly uniform rate of interest be established in this country by establishing the Federal reserve bank with a large capital and large reserves and with the express power to discount for member banks commercial bills and acceptances of the qualified liquid class, and also to buy and sell in the open market such bills and bankers' acceptances as have been found merchantable and liquid by the experience of European banking systems. It is anticipated that the effect of this method will be to encourage banking houses to buy commercial bills of the qualified class, and in this way that we may greatly enlarge the market for the bills of manufacturers, merchants, and business men who are handling the actual commerce of the country. (Secs. 14 and 15, pp. 40–44.)

GOVERNMENT DEPOSITS WITH FEDERAL RESERVE BANKS.

It has been deemed of the highest importance to maintain the independent Treasury of the United States and not compel the Secretary of the Treasury to deposit every dollar of the public funds in the Federal reserve banks, but to provide that he may do so. The argument in favor of maintaining the independence of the Federal Treasury is overwhelmingly in favor of an independent Treasury and need not be recounted here.

The Government of the United States can advantageously to the banks and to itself place with the Federal reserve banks $150,000,000,

or even a larger sum, but the process of collecting the revenue through revenue collectors scattered throughout the Nation, making local deposits, and the right of the Treasury Department to make disbursements in every part of the country through its numerous disbursing officers, makes it highly necessary to maintain the independence of the Treasury. We have, therefore, thought it proper to change the provision of section 16 in such a way as to accomplish this object (p. 46).

REFUNDING BONDS.

The House measure (sec. 19, p. 56) provided for retiring 5 per cent of the outstanding 2 per cent bonds held for national-bank circulation by the exchange of 3 per cent bonds without circulation privilege for such 2 per cent bonds, justly assumes that the Government will be compensated by the interest earned upon a like amount of Federal reserve notes.

We have preferred to absorb such of these bonds as would be offered on the market by permitting the Federal reserve banks to buy such 2 per cent bonds and issue Federal reserve bank notes against them just as the national banks do (p. 14), and have further permitted such Federal reserve banks, in section 19, to assume the redemption of not exceeding $36,000,000 of national-bank notes issued against such bonds and to take over such bonds and issue Federal reserve notes against such bonds, leaving the bonds with the Treasurer of the United States in trust in the form of 3 per cent bonds or 3 per cent annual notes, in this way assuring to the Government the earning power upon the circulation taking the place of the retired national-bank circulation (p. 58).

CLEARING CHECKS AND DRAFTS.

The House bill proposed to clear checks and drafts *at par*, but we propose an amendment providing that checks and drafts sent to the Federal reserve banks by member banks may be cleared, allowing the Federal reserve board to fix the charge which may be imposed for the service of clearing or collection rendered either by the Federal reserve bank or by the member banks, and with a provision that the act should not be construed to prohibit member banks from making reasonable charges for checks and drafts debited to their account, or for collecting and remitting drafts, or for exchange sold to its patrons. In this way the reserve banks are not put in competition with the country banks, but can serve them and their customers at a fair price. This amendment should remove the very serious objection of many of the country banks to the House provision, which they thought would interfere with their right to charge for exchange in making remittances (p. 55).

SAVINGS-BANK SECTION.

Your committee has struck out entirely the savings-bank section No. 27, for the reason that the national banks now, through the system of time deposits, carry on a savings-bank business very economically

and at the same time use the funds in promoting the local enterprises. It was the practical judgment of all the small banks of the country that this section should not remain in the bill.

CHANGES IN THE NATIONAL-BANK ACT.

Several changes of importance in the national-bank act have been made, to which attention should be called:

First. Section 21 (p. 65) provides that the 5 per cent fund placed with the Secretary of the Treasury for the redemption of national-bank notes shall no longer be construed to be a part of the bank's reserves. This is justified because the reserves of the national banks have been made decidedly lower than they have been in the past.

Second. The law requiring bonds of national banks to be deposited before any national bank association shall be authorized to commence the banking business, as provided in section 5159 of the Revised Statutes, etc., is repealed by section 18 (p. 56). The obvious purpose of this section is to ultimately do away with the bond-secured circulation, which is inelastic and unscientific. The way to establish an improved system is thus made open.

Third. The bank examinations are more thoroughly provided for in section 23 (p. 66).

Fourth. The loans, gratuities, and commissions to bank officers or bank examiners are penalized by section 24 (p. 69).

Fifth. The stockholders' liabilities of national banks and of member banks is modified to establish the double liability and to prevent its evasion. (Sec. 25, p. 71.)

Sixth. Loans on farm lands are permitted to the extent of 25 per cent of the capital and surplus of a national bank and for a period of five years. This would make available possibly $400,000,000, but in actual practice it would not be likely to exceed a hundred million dollars under the terms of the bill, for the reason that the city banks do not make such loans, and where the banks have the authority they will probably not exercise it with any uniformity. P. 21

Seventh. The change of the reserves in the national banking law is a very important change, heretofore described, and which will be found set forth in section 20 (p. 59).

The House provision was changed so as to make the language more compact and to simplify it.

Eighth. Foreign branches were also provided for national banks having a capital and surplus of a million dollars or more, with the approval of the Federal reserve board. (Sec. 28, p. 77.)

This is a very important amendment and one of far-reaching importance to the foreign commerce of the United States, the purpose of which is so obvious as to need no explanation.

Many other amendments are needed in the national-bank act which this bill does not undertake to deal with, for the reason that it was of great importance that this bill should not be embarrassed by the consideration of questions which were not necessarily germane to the bill itself in establishing the Federal reserve system.

The National Monetary Commission did a very large amount of work looking toward the codification of the national-bank act, and

this work has so far progressed that it may be easily submitted to the Senate during the next regular session, in such a form as to enable the matter to be disposed of and to make any other amendments which are necessary to the national-bank act, without embarrassing the present measure by considerations which are not necessarily a part of the Federal reserve system.

The proposed changes recommended by the undersigned are best set forth by submitting a print of the House bill with the parts struck out being placed in brackets and the amendments proposed being inserted in italics. (See Exhibit A.) The other exhibits are necessary to justify the amendments recommended.

Very respectfully submitted.

ROBERT L. OWEN, *Chairman.*
JAMES A. O'GORMAN.
JAMES A. REED.
ATLEE POMERENE.
JOHN F. SHAFROTH.
HENRY F. HOLLIS.

APPENDIX (WITH EXHIBITS).

EXHIBIT A.

H. R. 7837.

[Omit the part inclosed in brackets and insert the part printed in italic.]

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."

Wherever the word "bank" is used in this act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

FEDERAL RESERVE DISTRICTS.

SEC. 2. [That within ninety days after the passage of this act, or as] *As* soon [thereafter] as practicable, the Secretary of the Treasury, [the Secretary of Agriculture, and the Comptroller of the Currency,] *and not less than two members of the Federal reserve board*, acting as "The reserve bank organization committee," shall designate [from among the reserve and central reserve cities now authorized by law a number of such] *eight* cities to be known as Federal reserve cities, and shall divide the continental United States, *including Alaska*, into districts, each district to contain one, *and only one*, of such Federal reserve cities. *The determination of said organization committee shall not be subject to review except by the Federal reserve board when organized: Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business [of the community] and shall not necessarily [coincide with the area of such] *be coterminous with any* State or States [as may be wholly or in part included in any given district]. The districts thus created may be readjusted and new districts may from time to time be created by the Federal reserve board [hereinafter established, acting upon a joint application made by not less than ten member banks desiring to be organized into a new district]. The districts thus constituted shall be known as Federal reserve districts and [shall] *may* be designated by number [according to the pleasure of the organization committee, and no Federal reserve district shall be abolished, nor the location of a Federal reserve bank changed, except upon the application of three-fourths of the member banks of such district]. *A majority of the organization committee shall constitute a quorum with authority to act.*

[The organization committee shall, in accordance with regulations to be established by itself, proceed to organize in each of the reserve cities designated as hereinbefore specified a Federal reserve

bank. Each such Federal reserve bank shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago," and so forth. The total number of reserve cities designated by the organization committee shall be not less than twelve, and the organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigations as may be deemed necessary by the said committee for the purpose of determining the reserve cities to be designated and organizing the reserve districts hereinbefore provided.

Every national bank located within a given district shall be required to subscribe to the capital stock of the Federal reserve bank of that district a sum equal to twenty per centum of the capital stock of such national bank fully paid in and unimpaired, one-fourth of such subscription to be paid in cash and one-fourth within sixty days after said subscription is made. The remainder of the subscription or any part thereof shall become a liability of the member bank, subject to call and payment thereof whenever necessary to meet the obligations of the Federal reserve bank under such terms and in accordance with such regulations as the board of directors of said Federal reserve bank may prescribe: *Provided*, That no]

Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in determining the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization, in each of the cities designated, of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago," and so forth.

Under regulations to be prescribed by the organization committee, every national banking association is hereby required and every eligible bank is hereby authorized to signify in writing, within sixty days after the passage of this act, its acceptance of the terms and provisions hereof. When such Federal reserve bank shall have been organized, every national banking association within that district shall be required and every eligible bank may be permitted to subscribe to the capital stock thereof in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of such subscription to be payable on call of the organization committee or of the Federal reserve board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal reserve board, said payments to be in gold or gold certificates.

The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this act.

Any national bank failing to signify its acceptance of the terms of this act within the sixty days aforesaid shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Federal reserve board.

Should any national banking association now organized fail, within one year after the passage of this act, to become a member bank under the provisions hereinbefore stated, or fail to comply with any of the provisions of this act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank act, or under the provisions of this act, shall be thereby forfeited. Any noncompliance with or violation of this act shall, however, be determined and adjudged by a proper circuit, district, or Territorial court of the United States in a suit brought for that purpose by the Comptroller of the Currency in his own name before the association shall be declared dissolved, and in cases of such violation, other than the failure to become a member bank under the provisions of this act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment in and stock liability as provided for member banks.

No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than $10,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

Stock not held by member banks shall not be entitled to voting power in the hands of its holders, but the voting power thereon shall be vested in and be exercised solely by the class C directors of the Federal reserve bank in which said stock may be held, and who shall

be designated as "voting trustees." The voting power on said public stock shall be limited to one vote for each $15,000 par value thereof, fractional amounts not to be considered. The voting trustees shall exercise the same powers as member banks in voting for class A and class B directors.

The Federal reserve board is hereby empowerd to adopt and promulgate rules and regulations governing the transfers of said stock and the exercise of the voting power thereon.

No Federal reserve bank shall commence business with a [paid-up and unimpaired] *subscribed* capital less in amount than [$5,000,000] *$3,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this act changes the amount of reserves that may be carried with approved reserve agents located therein.* The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher 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 moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

[STOCK ISSUES] *BRANCH OFFICES.*

SEC. 3. [That the capital stock of each Federal reserve bank shall be divided into shares of $100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock or as additional banks become members, and may be decreased as member banks reduce their capital stock or cease to be members.] Each Federal reserve bank [may] *shall* establish branch offices [under regulations of the Federal reserve board at points within the Federal reserve district in which it is located: *Provided*, That the total number of such branches shall not exceed one for each $500,000 of the capital stock of said Federal reserve bank] *within the Federal reserve district in which it is located and also in the district of any Federal reserve bank which may have been suspended, such branches to be established and conducted at places and under regulations approved by the Federal reserve board.*

FEDERAL RESERVE BANKS.

[SEC. 4. The national banks in each Federal reserve district uniting to form the Federal reserve bank therein, hereinbefore provided for, shall under their seals, make an organization certificate, which shall specifically state the name of such Federal reserve bank so organized, the territorial extent of the district over which the operations of said Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the names and places of doing business of each of the makers of said certificate and the number of shares held by each of them, and the fact that the certificate is made to enable such banks to avail themselves of the advantages of this act. The said organization certificates shall be

acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record, and carefully preserve the same in his office. Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank so formed shall become a body corporate, and as such, and in the name designated in such organization certificate, shall have power to perform all those acts and to enjoy all those privileges and to exercise all those powers described in section fifty-one hundred and thirty-six, Revised Statutes, save in so far as the same shall be limited by the provisions of this act. The Federal reserve bank so incorporated shall have succession for a period of twenty years from its organization, unless sooner dissolved by act of Congress.]

Sec. 4. When the organization committee shall have established Federal reserve districts as provided in section two of this act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this act.

When the minimum amount of capital stock prescribed by this act for the organization of any Federal reserve bank shall have been subscribed and allotted the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank so organized, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this act.

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank so formed shall

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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.

Eighth. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law which relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege.

But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this act.

Every Federal reserve bank shall be conducted under the [oversight] *supervision* and control of a board of directors [, whose powers shall be the same as those conferred upon the boards of directors of national banking associations under existing law, not inconsistent with the provisions of this act].

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal reserve board, extend to each member bank such advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

Such board of directors shall be [constituted and elected] *selected* as hereinafter specified and shall consist of nine members, holding office for three years. and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who shall be representative of the general public interests of the reserve district.

Class C shall consist of three members, who shall be designated by the Federal reserve board.

No director of class B or of class C shall be an officer, director, or stockholder of a member bank.

Directors of class A *and class B* shall be chosen in the following manner:

[It shall be the duty of the] *The* chairman of the board of directors of the Federal reserve bank of the district in which [each such] *the* bank is situated [to] *shall* classify the member banks of the [said] district into three general groups or divisions. Each [such] group shall contain as nearly as may be one-third of the aggregate number of [said] *the* member banks of the [said] district and shall consist, as nearly as may be, of banks of similar capitalization. The [said] groups shall be designated by number [at the pleasure of] *by* the chairman [of the board of directors of the Federal reserve bank].

At a regularly called [directors'] meeting *of the board of directors* of each member bank in the [Federal reserve] district [aforesaid, the board of directors of such member bank] *it* shall elect by ballot one of its own members as a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The [said] chairman shall establish lists of the district reserve electors[, class A,] thus named by banks in each of the aforesaid three groups and shall transmit one list to each [such] elector in each group. [Every elector shall, within fifteen days of the receipt of the said list, select and certify to the said chairman from among the names on the list pertaining to his group, transmitted to him by the chairman, one name, not his own, as representing his choice for Federal reserve director, class A. The name receiving the greatest number of votes, not less than a majority, shall be designated by said chairman as Federal reserve director for the group to which he belongs. In case no candidate shall receive a majority of all votes cast in any group, the chairman aforesaid shall establish an eligible list, consisting of the three names receiving the greatest number of votes on the first ballot, and shall transmit said list to the electors in each of the groups of banks established by him. Each elector shall at once select and certify to the said chairman from among the three persons submitted to him his choice for Federal reserve director, class A, and the name receiving the greatest number of such votes shall be declared by the chairman as Federal reserve director, class A. In case of a tie vote the balloting shall continue in the manner hereinbefore prescribed until one candidate receives more votes than either of the others.

Directors of class B shall be chosen by the electors of the respective groups at the same time and in the same manner prescribed for directors of class A, except that they must be selected from a list of names furnished, one by each member bank, and such names shall in no case be those of officers or directors of any bank or banking association.]

Every elector shall, within fifteen days after the receipt of the said list, certify to the chairman his first, second, and other choices upon

the list, upon a preferential ballot, on a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each elector shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate.

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column to the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

[They shall not accept office as such during the term of their service as directors of the Federal reserve banks. They] *Directors of class B* shall be fairly representative of the commercial, agricultural, or industrial interests of their respective districts. [The Federal reserve board shall have power at its discretion to remove any director of class B in any Federal reserve bank, if it should appear at any time that such director does not fairly represent the commercial, agricultural, or industrial interests of his district.]

Three directors belonging to class C shall be [chosen] *appointed* directly by the Federal reserve board, and shall [be] *have been for at least two years* residents of the district for which they are [selected] *appointed*, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed and shall be designated *by said board* as "Federal reserve agent." He shall be a person of tested banking experience; and in addition to his duties as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed, he shall be required to maintain under regulations to be established by the Federal reserve board a local office of said board, which shall be situated on the premises of the Federal reserve bank of the district. He shall make regular reports to the Federal reserve board, and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal reserve board and paid monthly by the Federal reserve bank to which he is designated. *One of the directors of class C shall be appointed by the Federal reserve board as deputy chairman and deputy Federal reserve agent to exercise the powers of the chairman of the board and Federal reserve agent in case of the absence or disability of his principal.*

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for members of such boards shall be subject to review

and subsequent readjustment at any time by the Federal reserve board.

The reserve bank organization committee may, in organizing Federal reserve banks for the first time, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank after organization it shall be the duty of the directors of classes A and B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years [; but the chairman of the board of directors of each Federal reserve bank designated by the Federal reserve board, as hereinbefore described, shall be removable at the pleasure of the said board, without notice, and his successor shall hold office during the unexpired term of the director in whose place he was appointed.] Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL.

SEC. 5. [That shares] *The capital stock of each Federal reserve bank shall be divided into shares of $100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares* of the capital stock of Federal reserve banks *owned by member banks* shall not be transferable, nor be [hypothecated] *hypothecable.* In case a member bank [increased] *increase* its capital *stock or surplus*, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to [twenty] *six* per centum of the [bank's own] *said* increase [of capital,] one-half of said subscription to be paid [in cash] in the manner hereinbefore provided for original subscription, and one-half [to become a liability of the member bank according to the terms of the original subscription] *subject to call of the Federal reserve board.* A bank applying for stock in a Federal reserve bank at any time after the [formation of the latter] *organization thereof* must subscribe for an amount of the capital *stock* of [said] *the* Federal reserve bank equal to [twenty] *six* per centum of the *paid-up* capital stock *and surplus* of said [subscribing] *applicant* bank, paying therefor its par value [in accordance with the terms prescribed by section two of this act] *plus one-half of one per cent a month from the period of the last dividend.* When the capital stock of any Federal reserve bank [has] *shall have* been increased either on account of the increase of capital stock of

member banks or on account of the increase in the number of member banks, the board of directors shall [make and execute] *cause to be executed* a certificate to the Comptroller of the Currency showing [said] *the* increase in capital *stock*, the amount paid in, and by whom paid. In case a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and in case a member bank goes into voluntary liquidation it shall surrender all of its holdings of the capital stock of said Federal reserve bank *and be released from its stock subscription not previously called.* In either case the shares surrendered shall be canceled and such member bank shall receive in payment therefor, under regulations to be prescribed by the Federal reserve board, a sum equal to its cash paid subscriptions on the shares surrendered *and one-half of one per cent a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.*

SEC. 6. [That if any member bank shall become insolvent and a receiver be appointed, the stock held by it in said Federal reserve bank shall be canceled and the balance, after deducting from the amount of its cash-paid subscriptions all debts due by such insolvent bank to said Federal reserve bank, shall be paid to the receiver of the insolvent bank] *If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank.* Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of [any such member] *such bank*, the board of directors shall [make and execute] *cause to be executed* a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS.

SEC. 7. [That after the payment of] *After* all necessary expenses [and taxes] of a Federal reserve bank *have been paid or provided for*, the member banks shall be entitled to receive an annual dividend of [five] *six* per centum on the paid-in capital stock, which dividend shall be cumulative. [One-half of the net earnings, after the aforesaid dividend claims have been fully met, shall be paid into a surplus fund until such fund shall amount to twenty per centum of the paid-in capital stock of such bank, and of the remaining one-half sixty per centum shall be paid to the United States and forty per centum to the member banks in the ratio of their average balances with the Federal reserve bank for the preceding year. Whenever and so long as the surplus fund of a Federal reserve bank amounts to twenty per centum of the paid-in capital stock and the member banks shall have received the dividends at the rate of five per centum per annum hereinbefore provided for, sixty per centum of all excess earnings shall be paid to the United States and forty per

centum to the member banks in proportion to their annual average balances with such Federal reserve bank; all] *After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, excepting, however, that one-half of such earnings shall be first applied to the creation and maintenance of a surplus fund equal to twenty per centum of the capital stock of said bank. All net* earnings derived by the United States from Federal reserve banks shall [constitute a sinking fund to be held for] *be applied to* the reduction of the outstanding bonded indebtedness of the United States[, said reduction to be accomplished] under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, [the surplus fund of said bank] *any surplus remaining,* after the payment of all debts and dividend requirements as hereinbefore provided for, shall be paid to and become the property of the United States *and shall be similarly applied.*

Every Federal reserve bank incorporated under the terms of this act [and], the capital stock therein [held by member banks], *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 any national banking association heretofore organized may upon application at any time within one year after the passage of this act, and with the approval of the Comptroller of the Currency, be granted, as herein provided, all the rights, and be subject to all the liabilities, of national banking associations organized subsequent to the passage of this act: *Provided*, That such application on the part of such associations shall be authorized by the consent in writing of stockholders owning not less than a majority of the capital stock of the association. Any national banking association now organized which shall not, within one year after the passage of this act, become a national banking association under the provisions hereinbefore stated, or which shall fail to comply with any of the provisions of this act applicable thereto, shall be dissolved: but such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have previously been incurred.]

SEC. 9. [That any] *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 *of* 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] *vote* 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] *and acting through a committee, organize a national banking association with any name approved by the said comptroller, and transfer its business to such* national banking association [under its former name or by any name approved by the comptroller] : *Provided, however, That said acts are not in contravention of the State or local law.* 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] *and* by the national banking act for associations originally organized as national banking asssociations.

STATE BANKS AS MEMBERS.

SEC. 10. [That from and after the passage of this act any] *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 *of* the United States, may make application to *the reserve bank organization committee, pending organization, and thereafter to* the Federal reserve board [hereinafter created] for the right to subscribe to the stock of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The *organization committee or the* Federal reserve board, under such rules and regulations as it may prescribe, subject to the provisions of this section, [shall] *may* permit [such] *the* applying bank to become a stockholder in the Federal reserve bank of the district in which [such] *the* applying bank is located. Whenever the *organization committee or the* Federal reserve board shall permit [such] *the* applying bank to become a stockholder in the Federal reserve bank of the district [in which the applying bank is located], stock shall be issued and paid for under the rules and regulations in this act provided for national banks which become stockholders in Federal reserve banks.

[It shall be the duty of the] *The organization committee or the* Federal reserve board [to] *shall* establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies [hereinbefore referred to] for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve *and capital* requirements and *to* submit to the [inspection] *examination* and [regulation provided for in this and other laws relating to national banks] *regulations prescribed by the organization committee or by the Federal reserve board.* 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 conforms to the provisions herein prescribed for national banking associations of similar capitalization and to the regulations of the Federal reserve board].

Any bank becoming a member of a Federal reserve bank under the provisions of this section shall, in addition to the regulations and restrictions hereinbefore provided, be required to conform to the provisions of law imposed on the national banks and to such rules and regulations as the Federal reserve board may, in pursuance thereof, prescribe respecting the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition against making purchase of or loans on stock of such banks, and the

withdrawal or impairment of capital, or the payment of unearned dividends.

Such banks, and the officers, agents, and employees thereof, shall also be subject to the provisions of and to the penalties prescribed by sections fifty-one hundred and ninety-eight, fifty-two hundred and eight, fifty-two hundred, fifty-two hundred and one, and fifty-two hundred and eight and fifty-two hundred and nine of the Revised Statutes. The member banks shall also be required to make reports of the conditions and of the payments of dividends to the comptroller, as provided in sections fifty-two hundred and eleven and fifty-two hundred and twelve of the Revised Statutes, and shall be subject to the penalties prescribed by section fifty-two hundred and thirteen for the failure to make such report.

If at any time it shall appear to the Federal reserve board that a banking association or trust company organized under the laws of any State or of the United States *and having become a member bank* has failed to comply with the provisions of this section or the regulations of the Federal reserve board, it shall be within the power of the said board, *after hearing*, to require such banking association or trust company to surrender its stock in the Federal reserve bank; [in which it holds stock] upon [receiving from] such *surrender the* Federal reserve bank *shall pay* the cash-paid subscriptions to the said stock [in current funds] *with interest at the rate of one-half of one per centum per month interest, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled,* and said Federal reserve bank shall, upon notice from the Federal reserve board, be required to suspend said banking association or trust company from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and make payment therefor in the manner herein provided. *The Federal reserve board may restore membership upon due proof of compliance with the conditions imposed by this section.*

FEDERAL RESERVE BOARD.

SEC. 11. [That there shall be created a] A Federal reserve board[,] *is hereby created* which shall consist of seven members, including the Secretary of the Treasury, [the Secretary of Agriculture, and the Comptroller of the Currency,] who shall be [members] *a member* ex officio, and [four] *six* members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the [four] *six* appointive members of the Federal reserve board, [not more than one of whom shall be selected from any one Federal reserve district,] the President shall have due regard to a fair representation of [different] *the financial, commercial, and* geographical divisions of the country. The [four] *six* members of the Federal reserve board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal reserve board and shall each receive an annual salary of $10,000, together with an allowance for actual necessary traveling expenses [, and the Comptroller of the Currency, as ex officio member of said Federal reserve board, shall, in addition to the salary now

paid him as comptroller, receive the sum of $5,000 annually for his services as a member of said board]. Of the [four] *six* members thus appointed by the President [not more than two shall be of the same political party, and] at least [one of whom] *two* shall be [a person] *persons* experienced in banking *or finance*. One shall be designated by the President to serve for [two] *one*, one for [four] *two*, one for [six] *three*, [and] one for [eight years] *four, one for five, and one for six years*, respectively, and thereafter each member so appointed shall serve for a term of [eight] *six* years unless sooner removed for cause by the President. Of the [four] *six* persons thus appointed, one shall be designated by the President as [manager] *governor* and one as vice [manager] *governor* of the Federal reserve board. The [manager] *governor* of the Federal reserve board, subject to the supervision of the [Secretary of the Treasury and] Federal reserve board, shall be the active executive officer of the Federal reserve board. *In case of vacancies, temporary appointments on the Federal reserve board may be made by the President when the Senate is not in session, to be immediately submitted to the Senate when it convenes. The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal reserve board. Each member of the Federal reserve board shall within fifteen days after notice of appointment make and subscribe to the oath of office.*

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 of its members and employees* for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal reserve board shall be held in Washington, District of Columbia, as soon as may be after the passage of this act, at a date to be fixed by the reserve bank organization committee. The Secretary of the Treasury shall be ex officio chairman of the Federal reserve board. No member of the Federal reserve board shall be an officer or director of any bank, [or] banking institution, *trust company*, or Federal reserve bank nor hold stock in any bank, [or] banking institution, *or trust company*; and before entering upon his duties as a member of the Federal reserve board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the [four] *six* members of the Federal reserve board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed *he* shall hold office for the unexpired term of the member whose place he is selected to fill.

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 bureaus under such department, and wherever any power vested by this act in the Federal reserve board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The Federal reserve board shall annually make a *full* report of its [fiscal] operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of 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, except as in this act otherwise provided, with the execution of all laws passed by Congress relating to the issue and regulation of currency issued by or through banking associations, 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, acting as the chairman of the Federal reserve board:" *Provided, however,* That nothing herein contained shall be construed to affect any power now vested by law in the Comptroller of the Currency or the Secretary of the Treasury] *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 directions of the Secretary of the Treasury.*"

SEC. 12. [That the] *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] *the* Federal reserve banks, single and combined, and shall furnish full information regarding the character of the [lawful] 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] paper of other Federal reserve banks[, at least five members of the Federal reserve board being present when such action is taken and all present consenting to the requirement. The exercise of this compulsory rediscount power by the Federal reserve board shall be subject to an interest charge to the accommodated bank of not less than one nor greater than three per centum above the higher of the rates prevailing in the districts immediately affected] *at rates of interest to fixed each week by the Federal reserve board.*

(c) To suspend for a period not exceeding thirty days, [(] and *from time to time* to renew such suspension for periods not [to exceed] *exceeding* fifteen days[)], any [and every] reserve requirement specified in this act: *Provided,* That it shall establish a graduated tax upon the amounts by which the reserve requirements of this act may be permitted to fall below the level hereinafter specified, such tax to be uniform in its application to all *Federal reserve banks and to member* banks, *required to keep the same reserves*[; but said board

shall not suspend the reserve requirements with reference to Federal reserve notes].

(d) [To supervise and regulate the issue and retirement of Federal reserve notes and to prescribe the form and tenor of such notes.] *To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the comptroller of the Federal reserve agents applying therefor.*

(e) 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 section twenty of this act; or to reclassify existing reserve and central reserve cities [and to designate the banks therein situated as country banks at its discretion] *or to terminate their designation as such.*

(f) [To suspend the officials of Federal reserve banks and, for cause stated in writing with opportunity of hearing, require the removal of said officials for incompetency, dereliction of duty, fraud, or deceit, such removal to be subject to approval by the President of the United States] *To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal reserve board to the removed officer or director and to said bank.*

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

(h) To suspend, for cause relating to violation of any of the provisions of this act, the operations of any Federal reserve bank and [appoint a receiver therefor] *take possession thereof and administer the same during the period of suspension.*

(i) To *require bonds of Federal reserve agents*, perform the duties, functions, or services specified or implied in this act, *and to make all rules and regulations necessary to enable said board effectively to perform the same.*

(*j*) *To exercise general supervision over said Federal reserve banks.*

(*k*) *To authorize the use, as reserves of member banks, Federal reserve notes, or bank notes based on United States bonds, to the extent that said board may find necessary.*

(*l*) *To grant by special permit to national banks applying therefor the right to act as trustee, executor, or to exercise general trust powers under such rules and regulations as the said board may prescribe.*

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 [no compensation for his services, but may be reimbursed for actual necessary expenses] *such compensation and allowances as may be fixed by his 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.

POWERS OF FEDERAL RESERVE BANKS.

SEC. 14. [That any] *Any* Federal reserve bank may receive from any *of its* member [bank] *banks, and from the United States*, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent banks *of the Federal reserve system*, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks and drafts upon solvent *member or other Federal reserve* banks, payable upon presentation.

Upon the indorsement of any *of its* member [bank] *banks*, 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] *are to* 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]. *Nothing in this act* 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*. Notes, *drafts*, and bills admitted to discount under the terms of this paragraph must have a maturity *at the time of discount* of not more than ninety days.

[Upon the indorsement of any member bank any Federal reserve bank may discount the paper of the classes hereinbefore described having a maturity of more than ninety and not more than one hundred and twenty days, when its own cash reserve exceeds thirty-three and one-third per centum of its total outstanding demand liabilities exclusive of its outstanding Federal reserve notes by an amount to be fixed by the Federal reserve board; but not more than fifty per centum of the total paper so discounted for any member bank shall have a maturity of more than ninety days.

Upon the indorsement of any member bank any] *Any* Federal reserve bank may discount acceptances of [such] *member* banks which are based on the exportation or importation *or domestic shipments* of goods and which [mature in] *have a maturity at time of discount of* not more than [six] *three* months, and bear the signature of at least one member bank in addition to that of the acceptor. The amount *of acceptances* so discounted shall at no time exceed one-half the capital stock *and surplus* 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 [having not more than six months sight to run] and growing out of transactions involving the importation, [or] exportation, *or domestic shipment* of goods *having not more than six months sight to run*; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half [the face value of] its paid-up [and unimpaired] capital *stock and surplus*.

[Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of sections two, five, and fourteen of the Federal reserve act.]

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 Federal reserve bank exceed three-fourths of the actual value of the securities so pledged.

The rediscount by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange and acceptances shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal reserve board.

OPEN-MARKET OPERATIONS.

SEC. 15. [That any] *Any* Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open market, *at home or abroad*, either from or to domestic or foreign banks, firms, corporations, or individuals, [prime] *cable transfers and* bankers' [bills] *acceptances* 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] *or* abroad, to make loans thereon, *exchange Federal reserve notes for gold, gold coin, or gold certificates*, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds *or other securities which Federal reserve banks are authorized to hold*;

(b) to [invest in] *buy and sell, at home or abroad, bonds and notes of the* United States [bonds], and [bonds issued by any State, county, district, or municipality] *bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, or municipality of the United States, such purchases to be made in accordance with rules and regulations prescribed by the Federal reserve board*;

(c) to purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined [, payable in foreign countries; but such bills of exchange must have not exceeding ninety days to run and must bear the signature of two or more responsible parties, of which the last shall be that of a member bank];

(d) to establish [each week, or as much oftener as required] *from time to time*, subject to review and determination of the Federal reserve board, [a rate] *rates* of discount to be charged by [such] *the Federal reserve* bank for each class of paper, which shall be fixed with a view of accommodating [the] commerce [of the country] *and business;* [and]

(e) *to establish accounts with other Federal reserve banks for exchange purposes and*, with the consent of the Federal reserve board, to open and maintain banking accounts in foreign countries, *appoint correspondents*, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting [foreign] bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, [prime foreign] bill of exchange arising out of *actual* commercial transactions which have not [exceeding] *more than* ninety days to run and which bear the signature of two or more responsible parties.

GOVERNMENT DEPOSITS.

SEC. 16. [That all] *The 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] *may*, upon the direction of the Secretary of the Treasury, [within twelve months after the passage of this act,] be deposited in Federal reserve banks, which banks [shall,] *when required by the Secretary of the Treasury, shall* act as fiscal agents of the United States; and [thereafter] the revenues of the Government *or any part thereof* [shall] *may* be [regularly] deposited in such banks, and disbursement [shall] *may* be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this act: Provided, however, That nothing in this act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositaries.

[The Secretary of the Treasury shall, subject to the approval of the Federal reserve board, from time to time, apportion the funds of the Government among the said Federal reserve banks, distributing them, as far as practicable, equitably between different sections, and may, at their joint discretion, charge interest thereon and fix, from month to month, a rate which shall be regularly paid by the banks holding such deposits: *Provided*, That no Federal reserve bank shall pay interest upon any deposits except those of the United States.

No Federal reserve bank shall receive or credit deposits except from the Government of the United States, its own member banks, and, to the extent permitted by this act, from other Federal reserve banks. All domestic transactions of the Federal reserve banks involving loans made by such banks, rediscount operations or the creation of deposit accounts shall be confined to the Government and the depositing and Federal reserve banks, with the exception of the purchase or sale of Government or State securities or of gold coin or bullion.]

NOTE ISSUES.

SEC. 17. Federal reserve notes, to be issued at the discretion of the Federal reserve board for the purpose of making advances to Federal reserve banks *through the Federal reserve agents* 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, *except customs*. They shall be redeemed in gold [or lawful money] on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or *in gold or lawful money* 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 [deem best] *require*. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral 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 section 14 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 Federal reserve bank shall pay out or disburse Federal reserve notes issued to it as hereinbefore provided, it shall segregate in its own vaults and shall carry to a special reserve account on

its books gold or lawful money equal in amount to thirty-three and one-third per centum of the reserve notes so paid out by it, such reserve to be used for the redemption of said reserve notes as presented; but any Federal reserve bank so using any part of such reserve to redeem notes shall immediately carry to said reserve account an amount of gold or lawful money sufficient to make said reserve equal to thirty-three and one-third per centum of its outstanding Federal reserve notes.]

Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and its Federal reserve notes in actual circulation, but the amount of gold in the Federal reserve bank, together with the amount deposited by it with the Treasury, shall be at least equal to thirty-three and one-third per centum of the Federal reserve notes issued to said bank and in actual circulation and not offset by gold or lawful money deposited with the Federal reserve agent. 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 [immediately] *promptly* returned for *credit or* redemption to the Federal reserve bank through which they were originally issued [, or shall be charged off against Government deposits and returned to the Treasury of the United States, or shall be presented to the said Treasury for redemption]. 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, *if fit for circulation*, returned to the Federal reserve banks through which they were originally issued. Federal reserve notes received by the Treasury, otherwise than for redemption, [shall] *may* be exchanged for [lawful money] *gold* out of the [five per centum] redemption fund hereinafter provided and returned [as hereinbefore provided] to the reserve bank through which they were originally issued, *or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.*

The Federal reserve board shall [have power, in its discretion, to] require *each* Federal reserve [banks] *bank* to maintain on deposit in the Treasury of the United States a sum in gold [equal to five per centum of] *sufficient in the judgment of the Secretary of the Treasury for the redemption of* [such amount of] *the* Federal reserve notes [as may be] issued to [them under the provisions of this act] *such bank but in no event less than five per centum;* but such [five per centum] *deposit of gold* shall be counted and included as part of the thirty-three and one-third per centum reserve hereinbefore required. The [said] board shall [also] have the right, *acting through the Federal reserve agent*, to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent [and in the amount] that such application may be granted the Federal reserve board shall, through its local Federal reserve agent [deposit] *supply* Federal reserve notes [with] *to* the [banks] *bank* so apply-

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ing, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal reserve board, [which rate shall not be less than one-half of one per centum per annum,] and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, 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 [the deposit of] *depositing, with its Federal reserve agent*, Federal reserve notes, [whether issued to such bank or to some other reserve bank, or lawful money of the United States,] *gold certificates*, or gold [bullion, with any Federal reserve agent, or with the Treasurer of the United States, and such reduction shall be accompanied by a corresponding reduction in the required reserve fund of lawful money set apart for the redemption of said notes and by the release of a corresponding amount of the collateral security deposited with the local Federal reserve agent].

The Federal reserve agent shall hold such gold certificates and gold available for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal reserve board shall require the Federal reserve agent to transmit said gold to the Treasury of the United States for the redemption of such notes.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of *its* Federal reserve notes deposited with it and shall at the same time substitute *therefor* other *like* collateral of equal [value] *amount* approved by the Federal reserve agent under regulations to be prescribed by the Federal reserve board.

In order to furnish suitable notes for circulation as 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 $1, $2, $5, $10, $20, $50, $100, as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank, and shall be held for the use of such bank subject to the order of the Comptroller of the Currency 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 Federal reserve banks, and the Federal reserve board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, bed pieces, 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 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.

[It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors or by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to the credit of said depositor in said reserve bank last mentioned, nothing herein contained to be construed as prohibiting member banks from making reasonable charges to cover actual expenses incurred in collecting and remitting funds for their patrons.]

Every Federal reserve bank shall receive on deposit from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal 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 the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal 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 [at par] *and charges therefor* among Federal reserve banks *and their branches*, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

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 upon application the Secretary of the Treasury shall exchange the two per centum bonds of the United States bearing the circulation privilege deposited by any national banking association with the Treasurer of the United States as security for circulating notes for three per centum bonds of the United States without the circulation privilege, payable after twenty years from date of issue, and exempt from Federal, State, and municipal taxation both as to income and principal. No national bank shall, in any one year, present two per centum bonds for exchange in the manner hereinbefore provided to an amount exceeding five per centum of the total amount of bonds on deposit with the Treasurer by said bank for circulation purposes. Should any national bank fail in any one year to so exchange its full quota of two per centum bonds under the terms of this act, the Secretary of the Treasury may permit any other national bank or banks to exchange bonds in excess of the five per centum aforesaid in an amount equal to the deficiency caused by the failure of any one or more banks to make exchange in any one year, allotment to be made to applying banks in proportion to their holdings of bonds. At the expiration of twenty years from the passage of this act every holder of United States two per centum bonds then outstanding shall receive payment at par and accrued interest. After twenty years from the date of the passage of this act national bank notes still remaining outstanding shall be recalled and redeemed by the national banking associations issuing the same within a period and under regulations to be prescribed by the Federal reserve board, and notes still remaining in circulation at the end of such period shall be secured by an equal amount of lawful money to be deposited in the Treasury of the United States by the banking associations originally issuing such notes. Meanwhile every national bank may continue to apply for and receive circulating notes from the Comptroller of the Currency based upon the deposit of two per centum bonds or of any other bonds bearing the circulation privilege; but no national bank shall be permitted to issue other circulating notes except such as are secured as in this section provided or to issue or to make use of any substitute for such circulating notes in the form of clearing-house loan certificates, cashier's checks, or other obligation.]

SEC. 19. Upon application by a Federal reserve bank the Secretary of the Treasury shall, for the account of such bank, assume the redemption of circulating notes of any national bank requesting the same and surrendering in writing the two per centum bonds held in trust by the Treasurer of the United States as security for its circulation. Such two per centum bonds shall, at the option of such Federal reserve bank, be reissued by the Secretary of the Treasury as bonds bearing three per centum interest, due July first, nineteen hundred and thirty-three, or as one-year notes renewable from year to year

until July first, nineteen hundred and thirty-three, and bearing interest at the rate of three per centum per annum. The amount of the redemption of such notes shall not exceed $36,000,000 per annum and shall be apportioned pro rata among the national banks applying for such redemption at the end of each quarterly period of any fiscal year. The circulating notes of any national bank, the redemption of which is so assumed, shall, when delivered to the Treasury for redemption, be canceled and redeemed out of funds to be furnished the Secretary of the Treasury by the Federal reserve bank making the application aforesaid; and the Federal reserve board shall thereupon deliver to the Federal reserve bank an equal amount of Federal reserve notes without interest or penalty of any kind, and the two per centum bonds aforesaid, or the three per centum bonds or notes issued in lieu thereof, shall be held in trust for such Federal reserve bank by the Treasurer of the United States as security for the redemption of such notes.

BANK RESERVES.

[SEC. 20. That from and after the date when the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the fact that a Federal reserve bank has been established in any designated district, every banking association within said district which shall have subscribed for stock in such Federal reserve bank shall be required to establish and maintain reserves as follows:

(a) If a country bank as defined by existing law, it shall hold and maintain a reserve equal to twelve per centum of the aggregate amount of its deposits, not including savings deposits hereinafter provided for. Five-twelfths of such reserve shall consist of money which national banks may under existing law count as legal reserve, held actually in the bank's own vaults; and for a period of fourteen months from the date aforesaid at least three-twelfths and thereafter at least five-twelfths of such reserve shall consist of a credit balance with the Federal reserve bank of its district. The remainder of the twelve per centum reserve hereinbefore required may, for a period of thirty-six months from and after the date fixed by the Secretary of the Treasury as hereinbefore provided, consist of balances due from national banks in reserve or central reserve cities as now defined by law. From and after a date thirty-six months subsequent to the date fixed by the Secretary of the Treasury as hereinbefore provided the said remainder of the twelve per centum reserve required of each country bank shall consist either in whole or in part of reserve money in the bank's own vaults or of credit balance with the Federal reserve bank of its district.

(b) If a reserve city bank as defined by existing law, it shall hold and maintain, for a period of sixty days from the date fixed by the Secretary of the Treasury as hereinbefore provided, a reserve equal to twenty per centum of the aggregate amount of its deposits, not including savings deposits hereinafter provided for, and permanently thereafter eighteen per centum. At least one-half of such reserve shall consist of money which national banks may under existing law count as legal reserve, held actually in the bank's own vaults. After sixty days from the date aforesaid, and for a period of one year, at least three-eighteenths and permanently thereafter at least five-

eighteenths of such reserve shall consist of a credit balance with the Federal reserve bank of its district. The remainder of the reserve in this paragraph required may, for a period of thirty-six months from and after the date fixed by the Secretary of the Treasury as hereinbefore provided, consist of balances due from national banks in central reserve cities as now defined by law. From and after a date thirty-six months subsequent to the date fixed by the Secretary of the Treasury as hereinbefore provided, the said remainder of the eighteen per centum reserve required of each reserve city bank shall consist either in whole or in part of reserve money in the bank's own vaults or of credit balance with the Federal reserve bank of its district.

(c) If a central reserve city bank as defined by existing law, it shall hold and maintain for a period of sixty days from the date fixed by the Secretary of the Treasury as hereinbefore provided a reserve equal to twenty per centum of the aggregate amount of its deposits, not including savings deposits hereinafter provided for, and permanently thereafter eighteen per centum. At least one-half of such reserve shall consist of money which national banks may under existing law count as legal reserve, held actually in the bank's own vaults. After sixty days from the date aforesaid, and thereafter for a period of one year, at least three-eighteenths and permanently thereafter at least five-eighteenths of such reserve shall consist of a credit balance with the Federal reserve bank of its district. The remainder of the eighteen per centum reserve required of each central reserve city bank shall consist either in whole or in part of reserve money actually held in its own vaults or of credit balance with the Federal reserve bank of its district.]

Sec. 20. Demand liabilities within the meaning of this act shall comprise all liabilities maturing within thirty days, and time deposits shall comprise all deposits payable after thirty days.

When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a Federal reserve bank in any district, every subscribing member bank 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 demand liabilities and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date four-twelfths thereof.

In the Federal reserve bank for a period of fourteen months after said date two-twelfths, and permanently thereafter five-twelfths.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in banks in reserve or central reserve city banks as now defined by law.

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the reserve bank, shall be held in the vaults of the member bank or in the Federal reserve bank, or in both, at its option.

(b) A bank in a reserve city, as now or hereafter defined, shall hold and maintain reserves equal to eighteen per centum of the aggregate

amount of its demand liabilities and five per centum of its time deposits, as follows:

In its vaults six-eighteenths thereof.

In the Federal reserve bank for a period of fourteen months after the date aforesaid at least three-eighteenths and permanently thereafter six-eighteenths of said reserve.

For a period of thirty-six months after said date the balance of said reserves shall be held in its vaults, in the Federal reserve bank, or in central reserve city banks as now defined by law.

After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank, or in both, at its option.

(c) A bank in a central reserve city as now or hereafter defined shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand liabilities and five per centum of its time deposits, as follows:

In its vaults six-eighteenths thereof.

In the Federal reserve bank for a period of fourteen months after the date aforesaid at least three-eighteenths, and permanently thereafter six-eighteenths.

For a period of thirty-six months after said date the balance of said reserves shall be held in its own vaults or in the Federal reserve bank at its option.

After said thirty-six months' period all of said reserves, except those herein permanently required to be held in the Federal reserve bank, shall be held in its own vaults or in the Federal reserve bank, or both, at its option.

Any Federal reserve bank may receive from the member banks as reserves, not exceeding one-half of said installment thereof, eligible discounted paper properly indorsed and acceptable to the said reserve 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 Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situate. Except as thus provided no member bank shall keep on deposit with any nonmember bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall extend directly or indirectly the benefits of this system to a nonmember bank, except upon written permission of the Federal reserve board, under penalty of suspension.

The reserve carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal reserve board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

SEC. 21. [That so] *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] *In addition to the reserve required against the Federal reserve notes emitted by a Federal reserve bank, it* shall [at all times have on hand] *maintain* in its own vaults, in gold, or lawful money *other than Federal reserve notes*, a sum [equal to] not less than thirty-three and one-third per centum of its outstanding demand liabilities *other than its Federal reserve notes.*

The Federal reserve board may notify any Federal reserve bank whose lawful reserve shall be below the amount required to be [kept on hand] *maintained*, to make good such reserve; and if such bank shall fail for thirty days thereafter so to make good its lawful reserve, the Federal reserve board may [appoint a receiver to wind up the business of said bank] *suspend and take possession of such reserve bank and administer the same during the period of suspension.*

BANK EXAMINATIONS.

SEC. 23. [That the examination of the affairs of every national banking association authorized by existing law] *Every member bank* shall [take place] *be examined by the Comptroller of the Currency* 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 Secretary of the Treasury] *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 [, however,] at any time direct the holding of a special examination. The person [assigned to the] making [of such] *the* examination [of the affairs] of any [national banking association] *member bank* shall have power to call together a quorum of the directors of such [association] *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 determined by the]. *The* Federal reserve board *shall fix the salaries of all bank examiners* and [annually reported] *make report thereof* to Congress. [But the] *The* expense of the examinations herein provided for shall be assessed by *authority of* the Federal reserve board upon the [associations] *banks* examined in proportion to assets or resources held by such [associations] *banks* upon [a date during the year in which such examinations are held to be established by the Federal reserve board. The Comptroller of the Currency shall so arrange the duties

of national-bank examiners that no two successive examinations of any association shall be made by the same examiner] *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] *provide* 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 [national bank located] *member bank* within the district of the said Federal reserve bank.

No association shall be subject to any visitorial powers other than such as are authorized by law, or vested in the courts of justice, or such as shall be or shall have been exercised or directed by Congress, or either House thereof, or any committee thereof.

[The Federal reserve board shall as often as it deems best, and in any case not less frequently than four times each year, order an examination of national banking associations in reserve cities. Such examinations shall show in detail the total amount of loans made by each bank on demand, on time, and the different classes of collateral held to protect the various loans, and the lines of credit which are being extended by them.] 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 national] *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* [offending against] *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;* and *fined* a further sum equal to the money so loaned or gratuity given [; and the officer or officers of a bank making such loan or granting such gratuity shall be likewise deemed guilty of a misdemeanor and each shall be fined not to exceed $5,000]. Any examiner accepting a loan or gratuity from any bank examined by him *or from an officer, director, or employee thereof* shall be deemed guilty of a misdemeanor and shall be *imprisoned not exceeding one year or* fined not more than $5,000, *or both;* and *fined* a further sum equal to the money so loaned or gratuity given; and shall forever thereafter be disqualified from holding office as a national-bank examiner. No national-bank examiner shall perform any other service for compensation [while holding such office] *for any bank or officer, director, or employee thereof.*

[No officer or director of a national bank shall receive or be beneficiary, either directly or indirectly, of any fee (other than a legitimate fee paid an attorney at law for legal services), commission, gift, or other consideration for or on account of any loan, purchase, sale,

payment, exchange, or transaction with respect to stocks, bonds, or other investment securities or notes, bills of exchange, acceptances, bankers' bills, cable transfers or mortgages made by or on behalf of a national bank of which he is such officer or director.] *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. No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or either House thereof, or any committee thereof.* Any person violating any provision of this section shall be punished by a fine of not exceeding $5,000 or by imprisonment not exceeding [five years] *one year*, or both [such fine and imprisonment, in the discretion of the court having jurisdiction].

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

SEC. 25. [That from and after the passage of this act the] *The* stockholders of every [national banking association] *member bank* shall be held individually responsible for all contracts, debts, and engagements of such [association] *bank*, 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] *member bank* who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such [association] *bank* to meet its obligations, *or with knowledge of such impending failure*, shall be liable to the same extent as if they had made no such transfer, *to the extent that the subsequent transferee fails to meet such liability*; 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 any] *Any* national banking association not situated in a reserve city or central reserve city may make loans secured by improved and unencumbered farm land, *situated within its Federal reserve district*, but no such loan shall be made for a longer time than [twelve months] *five years*, nor for an amount exceeding fifty per centum of the actual value of the property offered as security [, and such property shall be situated within the Federal reserve district in which the bank is located]. Any such bank may make such

loans in an aggregate sum equal to twenty-five per centum of its capital and surplus.

The Federal reserve board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

[SAVINGS DEPARTMENT.]

[SEC. 27. That any national banking association may, subsequent to a date one year after the organization of the Federal reserve board, make application to the Comptroller of the Currency for permission to open a savings department. Such application shall set forth that the directors of said national bank have by a majority vote apportioned a specified percentage of their paid-in capital and surplus to said savings department, and to that end have segregated specified assets for the uses of said department, or that cash capital for the said savings department has been obtained by subscription to additional issues of the capital stock of said national bank: *Provided*, That the capital thus set apart for the uses of the proposed savings department aforesaid shall in no case be less than $15,000, or than a sum equal to twenty per centum of the paid-up capital and surplus of the said national bank.

In making the application aforesaid any national banking association may further apply for power to act as trustee for mortgage loans subject to the conditions and limitations herein prescribed or to be established as hereinafter provided.

Whenever the Comptroller of the Currency shall have approved any such application as hereinbefore provided, he shall so inform the applying bank, and thereafter it shall be authorized to receive savings deposits as so defined, and the organization and business conducted or possessed by said bank at the time of making said application, except such as has been specifically segregated for the savings department, and subsequent expansions thereof shall be known as the commercial department of the said bank. The said departments shall, to all intents and purposes, be separate and distinct institutions save and except as hereinafter expressly provided. The capital, surplus, deposits, securities, investments, and other property, effects, and assets of each of said departments shall, in no event, be mingled with those of the other department, or used, either in whole or in part, to pay any of the deposits of the other department until all of the deposits of its own department have been fully paid and satisfied. National banks may increase or diminish their capital stock in the manner now provided by law, but whenever such general increase or reduction of the capital stock of any national bank operating upon the provisions of this section shall be made such increase or reduction shall be apportioned between the commercial and savings departments of the said bank as its board of directors shall prescribe, notice of such increase or reduction, and of the apportionment thereof, being forthwith given to the Comptroller of the Currency; and any such national bank may increase or diminish the capital already apportioned to either its savings or commercial department to an extent not inconsistent with the provisions of this section,

notifying the Comptroller of the Currency as hereinbefore provided. The savings department for which authority has been solicited and granted shall have control of the cash or assets apportioned to it as hereinbefore provided, and shall be organized under rules and regulations to be prescribed by the Comptroller of the Currency.

Both the savings and commercial departments so created shall, however, be under the control and direction of a single board of directors and of the general officers of said bank.

All business transacted by the commercial department of any such national bank shall be in every respect subject to the limitations and requirements provided in the national banking act as modified by this act, and such business shall henceforward be known as commercial business.

The savings department of each such national bank shall be authorized to accumulate and loan the funds of its depositors, to receive deposits of current funds, to purchase securities authorized by the Federal reserve board, to loan any funds in its possession upon real estate or other authorized security, and to collect the same with interest, and to declare and pay dividends or interest upon its deposits. The Federal reserve board is hereby authorized to exempt the savings departments of national banking associations from any and every restriction upon classes or kinds of business laid down in the national banking act, and it shall be the duty of the said board within one year after its organization to prepare and publish rules and regulations for the conduct of business by such savings departments. The said regulations shall require every national bank which shall conduct a savings department and a commercial department to segregate in its own vaults the cash and assets belonging to such departments, respectively, and shall prescribe the general forms of separate books of account to be used by each such department for its exclusive and individual use. The regulations aforesaid shall further specify the period of notice for the withdrawal of deposits made in the said savings department and shall forbid the acceptance of deposits by one department of such national bank from the other department of such bank. The Federal reserve board shall make and publish at its discretion lists of securities, paper, bonds, and other forms of investment, which the saving departments of national banks shall be authorized to buy or loan upon; and said lists need not be uniform throughout the United States, but shall be adapted to the conditions of business in different sections of the country.

It shall be the duty of every national bank to maintain, with respect to all deposit liabilities of its savings department, a reserve in money which may under existing law be counted as reserve, equal to not less than five per centum of the total deposit liabilities of such department, and every national bank authorized to maintain a savings department is hereby exempted from the reserve requirements of the national banking act and of this act in respect to the said deposit liabilities of its savings department, except as in this section provided. Every regulation made in pursuance of this section shall be duly published, and also posted in every member bank having a savings department.

Every officer, director, or employee of any member bank who shall knowingly or willfully violate any of the provisions of this section,

or any of the regulations of the Federal reserve board, or of the Comptroller of the Currency, made under and by virtue of the provisions of this section, shall be guilty of a felony, and on conviction thereof shall be punished by a fine not exceeding $5,000 or by imprisonment not exceeding two years, or both, in the discretion of the court.]

FOREIGN BRANCHES.

SEC. 28. That any national banking association possessing a capital *and surplus* of $1,000,000 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 application shall specify, in addition to the name and capital of the banking association filing it, the [foreign country or countries or the dependencies of the United States] *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] *such place or places.* 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 *foreign* branches [in foreign countries] shall be required at all times to furnish information concerning the condition of such branches as 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 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. [That all] *All* provisions of law inconsistent with or superseded by any of the provisions of this act [be, and the same are] *are to that extent and to that extent only* hereby[,] repealed[: *Provided*, That nothing]. *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," *and the Secretary of the Treasury may for such purposes, or to strengthen the gold reserve, borrow gold on the security of United States bonds or for one-year notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds*

of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

Sec. 29a. 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 December thirty-first, nineteen hundred and fourteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the act of May twentieth, nineteen hundred and eight, are hereby reenacted to read as such sections read prior to May twentieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this act.

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

Aggregate resources and liabilities of national banks, 1908 to 1912.

Classification.	1908 (July 15).	1909 (Apr. 28).	1910 (June 30).	1911 (June 7).	1912 (June 14).
	6,824 banks.	6,893 banks.	7,145 banks.	7,277 banks.	7,372 banks.
RESOURCES.					
Loans on real estate		$57,070,962.46		$65,112,003.29	$74,831,997.28
Loans on other collateral security	[1] $1,990,152,632.00	1,939,431,702.85	$2,050,590,293.00	2,004,993,992.88	2,135,767,904.30
Other loans and discounts	2,625,522,899.59	2,966,608,204.24	3,379,568,893.75	3,540,732,790.84	3,743,304,530.18
Overdrafts	24,705,023.68	24,584,055.22	25,743,314.27	23,397,257.78	19,849,391.65
United States bonds	732,599,187.16	740,167,972.67	748,797,808.97	754,744,891.34	783,497,976.72
State, county, and municipal bonds	[2] 179,384,137.05	156,612,965.93	[2] 161,998,193.97	176,284,278.64	210,426,073.39
Railroad bonds and stocks	[3] 507,425,613.60	351,371,083.96	298,692,105.00	361,221,071.31	384,321,275.41
Bank stocks					
Bonds of other public-service corporations		148,643,966.78	153,025,132.00	182,297,622.00	195,707,108.25
Other stocks, bonds, etc	153,305,600.23	208,165,517.21	249,447,101.58	287,840,448.00	287,328,544.09
Due from other banks and bankers	1,104,458,684.94	1,232,556,106.45	1,201,606,823.38	1,376,785,821.33	1,424,091,680.31
Real estate, furniture, etc	198,279,190.33	215,966,786.14	236,463,370.67	253,009,304.09	266,625,008.70
Checks and other cash items	271,464,243.39	338,333,768.51	482,805,231.42	317,477,121.00	295,215,400.32
Cash on hand	889,213,394.43	926,776,902.82	865,452,856.21	998,061,441.05	996,142,823.46
Other resources	37,553,793.69	62,593,847.89	42,433,572.51	41,090,650.76	44,654,163.08
Total	8,714,064,400.09	9,368,883,843.13	9,896,624,696.73	10,383,048,694.31	10,861,763,877.18
LIABILITIES.					
Capital stock	919,100,850.00	933,979,903.00	989,567,114.00	1,019,633,152.25	1,033,570,675.00
Surplus fund	564,045,022.80	587,132,286.31	644,857,482.82	671,946,796.68	693,990,419.08
Other undivided profits	184,656,576.85	207,944,821.08	216,546,125.10	241,554,106.09	256,837,095.57
Dividends unpaid	2,849,822.39	1,130,750.07	15,144,463.48	1,851,823.47	1,622,560.16
Individual deposits	4,374,551,208.33	4,826,060,384.38	5,287,216,312.20	5,477,991,156.45	5,825,461,163.36
United States deposits [4]	130,266,023.63	70,401,818.99	54,541,349.41	48,455,641.54	58,945,980.66
Due to other banks and bankers	1,822,853,669.00	2,036,753,287.47	1,900,135,622.01	2,147,440,999.04	2,178,163,418.11
Other liabilities	715,741,227.09	705,480,591.83	788,616,227.71	774,175,018.79	813,172,565.21
Total	8,714,064,400.09	9,368,883,843.13	9,896,624,696.73	10,383,048,694.31	10,861,763,877.18

[1] Classification as of September call.
[2] Includes State, etc., and railway bonds held by Treasurer of United States to secure public deposits.
[3] Includes bonds of other corporations.
[4] Includes deposits of United States disbursing officers.

NOTE.—For consolidated statement of all banks, see text of this report.

Aggregate resources and liabilities of State banks from 1908 to 1912.

Classification.	1908	1909	1910	1911	1912
	11,220 banks.	11,319 banks.	12,166 banks.	12,864 banks.	13,281 banks.
RESOURCES.					
Loans on real estate	$188,382,185	$414,820,580.12	$472,428,488.53	$489,660,852.27	$572,984,870.29
Loans on other collateral security	127,270,669	559,690,457.10	594,419,425.26	606,377,489.15	563,942,284.11
Other loans and discounts	2,090,944,681	1,112,841,061.34	1,308,646,565.52	1,311,054,107.53	1,379,585,928.04
Overdrafts	29,447,901	34,316,574.20	30,972,194.87	32,322,218.37	32,860,093.94
United States bonds	2,888,514	5,221,710.94	2,050,780.00	2,848,777.50	4,330,539.47
State, county, and municipal bonds	3,729,479	65,892,211.21	63,952,194.59	55,096,142.18	81,967,470.56
Railroad bonds and stock	2,698,260	75,036,949.01	69,343,008.35	75,753,959.38	71,549,647.21
Bank stocks	184,385				
Bonds of other public service corporations		50,977,866.08	44,484,912.86	52,742,087.88	53,609,977.26
Other stocks, bonds, etc	492,935,533	95,892,443.89	123,793,905.69	129,109,896.01	130,339,491.98
Due from other banks and bankers	549,297,603	491,961,365.43	485,361,856.14	525,822,785.89	530,161,901.29
Real estate, furniture, etc	136,146,988	119,702,242.64	130,841,382.91	135,115,589.73	138,428,757.38
Checks and other cash items	71,251,438	75,096,440.72	105,187,734.98	77,855,345.68	77,752,380.52
Cash on hand	308,736,342	227,039,134.90	240,580,836.12	236,662,497.38	241,756,724.48
Other resources	28,754,507	10,180,096.61	22,892,480.69	17,364,546.20	18,550,760.18
Total	4,032,638,485	3,338,669,134.19	3,694,958,766.81	3,747,786,296.35	3,897,770,826.71
LIABILITIES.					
Capital stock	502,513,303	416,059,900.00	435,822,833.58	452,944,684.44	459,067,206.81
Surplus fund	217,112,085	152,639,305.36	187,571,005.45	170,566,937.42	271,373,944.18
Other undivided profits	86,503,972	91,213,767.57	65,678,941.67	92,785,739.26	
Dividends unpaid	682,749	1,039,492.86	2,441,796.41	1,235,652.15	829,045.40
Individual deposits	2,937,129,596	2,466,958,665.76	2,727,926,966.03	2,777,566,835.81	2,919,977,897.99
Due to other banks and bankers	207,432,987	158,958,549.87	129,768,527.09	144,578,103.41	142,644,643.99
Other liabilities	81,263,791	51,799,452.77	145,748,676.58	108,108,343.86	103,878,088.34
Total	4,032,638,485	3,338,669,134.19	3,694,958,766.81	3,747,786,296.35	3,897,770,826.71

Aggregate resources and liabilities of savings banks (mutual and stock savings) from 1907–8 to 1912.

Classification.	1907–8	1909	1910	1911	1912
	1,453 banks.	1,703 banks.	1,759 banks.	1,884 banks.	1,922 banks.
RESOURCES.					
Loans on real estate	$1,440,061,503	$1,620,131,445.62	$1,832,097,713.03	$1,963,906,841.51	$2,087,677,677.90
Loans on other collateral security	66,624,785	232,893,152.92	226,704,806.91	205,912,380.77	240,472,906.77
Other loans and discounts	364,362,059	177,977,493.04	233,707,955.82	243,857,140.37	259,374,577.22
Overdrafts	1,050,343	2,266,509.26	1,906,951.03	1,596,816.33	1,978,070.99
United States bonds	13,860,545	43,566,428.18	32,082,745.00	13,226,534.10	29,031,138.45
State, county, and municipal bonds	587,155,390	710,159,543.86	743,463,260.89	779,927,236.80	776,431,140.75
Railroad bonds and stocks	618,193,416	769,980,508.90	783,704,137.70	792,998,933.33	794,083,005.58
Bank stocks	24,265,271				
Bonds of other public service corporations		96,554,513.65	120,134,242.69	101,139,974.97	143,565,265.60
Other stocks, bonds, etc	343,465,167	93,009,919.88	117,727,439.77	161,976,217.67	179,809,612.84
Due from other banks and bankers	163,616,708	218,477,832.87	214,327,121.92	242,389,433.46	258,280,430.86
Real estate, furniture, etc	57,010,988	68,123,675.81	73,955,091.77	75,866,650.82	80,830,846.65
Checks and other cash items	779,228	3,944,728.46	5,397,201.49	4,552,812.46	4,594,881.48
Cash on hand	43,483,533	32,697,021.94	50,880,340.23	42,408,336.78	45,452,063.85
Other resources	85,604,217	2,927,330.95	45,782,436.65	22,554,993.25	21,141,671.69
Total	3,809,533,152	4,072,710,105.34	4,481,871,444.90	4,652,313,302.62	4,922,723,290.63
LIABILITIES.					
Capital stock	36,013,455	59,506,420.00	68,320,822.30	72,177,899.09	76,871,811.79
Surplus fund	244,711,801	224,424,711.93	276,229,027.77	261,834,083.46	280,036,025.43
Other undivided profits	39,412,250	62,160,100.11	53,814,779.06	77,264,792.69	89,595,370.89
Dividends unpaid		92,707.96	364,639.25	51,294.48	262,835.16
Individual deposits	3,479,192,891	3,713,405,709.80	4,070,486,246.70	4,212,583,598.53	4,451,555,687.72
Due to other banks and bankers	3,187,417	8,234,513.44	6,690,451.96	8,084,294.10	10,181,417.50
Other liabilities	7,015,338	4,885,942.10	5,965,477.86	20,317,340.27	14,220,142.14
Total	3,809,533,152	4,072,710,105.34	4,481,871,444.90	4,652,313,302.62	4,922,723,290.63

Aggregate resources and liabilities of private banks from 1908 to 1912.

Classification.	1908	1909	1910	1911	1912
	1,007 banks.	1,497 banks.	934 banks.	1,116 banks.	1,110 banks.
RESOURCES.					
Loans on real estate	$19,610,740	$36,636,702.07	$22,746,018.18	$37,536,422.83	$39,881,511.77
Loans on other collateral security	7,521,699	21,096,873.66	13,832,195.89	16,316,121.32	19,775,745.64
Other loans and discounts	80,226,816	103,569,194.24	70,224,281.77	71,559,680.21	66,106,577.60
Overdrafts	1,796,144	4,616,218.90	1,646,968.46	2,633,647.85	2,370,427.64
United States bonds	297,157	609,219.30	389,190.00	410,282.47	422,117.74
State, county, and municipal bonds	1,100,443	3,228,802.32	2,336,285.00	2,466,506.72	2,436,189.30
Railroad bonds and stocks	550,901	1,213,577.66	584,460.18	448,547.28	1,412,833.27
Bank stocks	205,348	.....	.....	.....	.....
Bonds of other public service corporations	.....	1,760,406.73	1,106,865.55	1,418,865.04	1,986,671.33
Other stocks, bonds, etc	5,821,879	6,187,297.87	5,992,780.67	5,125,443.71	7,667,677.09
Due from other banks and bankers	27,298,378	40,832,801.79	24,069,188.01	26,168,941.51	29,622,664.53
Real estate, furniture, etc	6,448,497	13,026,388.49	7,482,500.61	9,621,350.43	14,214,049.28
Checks and other cash items	1,529,589	1,387,731.95	704,623.55	1,039,498.54	860,206.87
Cash on hand	8,497,540	11,053,706.52	6,764,890.90	7,189,327.84	7,450,404.38
Other resources	636,349	1,037,343.91	2,135,304.04	889,584.93	1,083,320.94
Total	161,541,480	246,256,355.41	160,015,552.81	182,824,220.68	196,940,397.42
LIABILITIES.					
Capital stock	21,122,836	27,726,922.00	18,899,561.74	21,872,416.34	22,348,040.33
Surplus fund	5,556,230	10,195,237.01	6,541,431.06	7,329,974.38	9,333,680.83
Other undivided profits	3,475,238	5,533,006.44	3,160,559.55	3,421,956.92	4,250,634.46
Dividends unpaid	35,160	62,003.43	62,448.49	189,643.09	74,638.22
Individual deposits	126,673,158	193,263,224.31	124,644,003.22	142,277,224.21	152,494,618.90
Due to other banks and bankers	1,561,453	3,404,236.54	1,644,318.25	1,583,296.84	1,707,139.16
Other liabilities	3,117,396	6,071,725.68	5,063,230.50	6,149,708.90	6,731,645.52
Total	161,541,480	246,256,355.41	160,015,552.81	182,824,220.68	196,940,397.42

Aggregate resources and liabilities of loan and trust companies from 1908 to 1912.

Classification.	1908	1909	1910	1911	1912
	842 companies.	1,079 companies.	1,091 companies.	1,251 companies.	1,410 companies.
RESOURCES.					
Loans on real estate	$153,727,485	$377,318,280.19	$369,161,435.56	$467,531,456.44	$526,509,702.69
Loans on other collateral security	821,341,681	1,222,881,129.16	1,230,282,986.02	1,289,452,721.54	1,279,983,539.16
Other loans and discounts	404,412,308	460,550,859.39	655,016,724.24	668,650,649.78	900,350,885.96
Overdrafts	860,744	3,916,235.40	2,111,764.82	3,786,253.54	4,397,620.37
United States bonds	555,303	3,222,380.20	1,271,940.00	2,224,692.43	5,985,094.59
State, county, and municipal bonds	89,639,659	155,647,931.87	144,495,162.24	187,123,910.87	202,293,176.75
Railroad bonds and stocks	29,576,312	362,404,241.30	312,518,321.28	371,707,846.78	380,190,967.79
Bank stocks	4,805,843	.....	.....	.....	.....
Bonds of other public-service corporations	.....	168,589,933.84	159,294,782.36	212,593,716.76	208,673,579.15
Other stocks, bonds, etc	651,298,154	468,914,756.87 300,324,823.03	541,978,126.32 382,683,343.96	341,128,520.22	421,996,627.13
Due from other banks and bankers	391,573,223	578,243,506.14	467,643,271.31	617,605,590.28	605,669,597.26
Real estate, furniture, etc	97,112,461	127,216,448.81	125,486,325.05	143,081,102.71	157,188,159.08
Checks and other cash items	5,878,676	19,129,908.47	26,374,390.56	21,763,736.38	51,677,976.00
Cash on hand	118,398,874	254,447,910.16	260,129,890.91	269,825,566.23	282,151,463.26
Other resources	96,452,153	34,641,394.69	80,379,723.21	68,635,104.75	80,375,993.13
Total	2,865,632,876	4,068,534,982.65	4,216,850,061.52	4,665,110,868.71	5,107,444,382.27
LIABILITIES.					
Capital stock	278,408,759	362,763,223.09	367,333,556.37	385,782,933.44	418,985,771.77
Surplus fund	370,145,308	351,699,101.89	432,718,233.98	400,406,067.99	424,313,939.08
Other undivided profits	45,894,591	141,683,091.23	65,448,601.52	138,464,384.81	136,428,039.39
Dividends unpaid	467,115	985,990.44	2,842,956.53	2,360,771.04	850,048.81
Individual deposits	1,866,964,314	2,835,835,180.79	3,073,122,706.20	3,295,855,895.27	3,674,578,238.92
Due to other banks and bankers	163,014,678	276,753,308.05	187,141,876.31	319,368,254.43	299,938,456.82
Other liabilities	140,738,111	98,815,087.25	88,242,130.61	122,872,561.73	152,349,887.48
Total	2,865,632,876	4,068,534,982.65	4,216,850,061.52	4,665,110,868.71	5,107,444,382.27

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Aggregate resources and liabilities of national and other reporting banks on or about June 30, 1908 to 1912.

Classification.	1908	1909	1910	1911	1012
	21,346 banks.	22,491 banks.	23,095 banks.	24,362 banks.	25,195 banks.
RESOURCES.					
Loans on real estate	$1,801,751,913.00	[1]$2,505,977,970.46	[1]$2,696,433,655.30	[1]$3,023,747,576.34	[1]$3,301,485,759.93
Loans on other collateral security	3,012,911,466.00	3,975,993,315.69	4,115,839,707.06	4,123,052,705.66	4,239,942,380.07
Other loans and discounts	5,565,468,763.39	4,821,546,812.25	5,647,164,421.40	5,835,554,269.03	6,350,722,499.00
Overdrafts	57,360,155.68	60,699,592.98	62,351,193.45	63,735,193.87	61,455,604.59
United States bonds	750,200,706.16	792,787,711.20	784,592,463.97	773,455,177.84	823,266,866.97
State, county, and municipal bonds	[2]861,009,108.05	1,091,541,455.19	1,116,245,086.69	1,200,896,075.21	1,273,554,050.84
Railroad bonds and stocks	1,158,444,501.60	1,560,006,360.83	1,464,842,032.51	1,602,130,358.08	1,631,544,479.26
Bonds of other public-service corporations		466,526,687.08	478,045,935.46	550,192,266.65	603,542,601.59
Bank stocks	29,460,847.00				
Other stocks, bonds, etc	1,646,826,333.23	703,580,001.88	979,644,571.67	935,180,526.51	1,026,975,383.45
Due from other banks and bankers	2,236,244,596.94	2,562,071,702.68	2,393,008,260.76	2,788,772,572.47	2,847,992,843.98
Real estate, furniture, etc	494,998,124.33	544,035,541.89	574,231,671.01	616,693,997.78	657,299,660.36
Checks and other cash items	350,903,174.39	437,892,578.11	620,469,182.00	422,688,514.06	430,101,255.82
Cash on hand	1,368,329,683.43	1,452,014,676.34	1,423,808,814.37	1,554,147,169.28	1,572,953,479.43
Other resources	249,001,019.69	111,380,014.05	193,623,517.10	150,534,879.89	165,805,906.94
Total	19,583,419,393.09	21,095,054,420.72	22,450,320,522.77	23,631,063,382.67	24,986,642,774.18
LIABILITIES.					
Capital stock	1,757,159,203.00	1,800,036,368.00	1,879,943,887.99	1,952,411,085.56	2,010,843,505.70
Surplus fund	1,401,570,455.80	1,326,090,642.50	1,547,917,181.08	1,512,063,859.93	1,584,981,106.44
Other undivided profits	359,942,627.85	508,534,786.43	404,649,006.90	553,490,979.77	581,178,042.47
Circulation (national banks)	613,663,963.00	636,367,526.00	675,632,565.00	681,740,513.00	708,690,593.00
Dividends unpaid	94,034,846.39	3,310,944.76	20,856,304.16	5,689,184.23	3,639,127.75
Individual deposits	12,784,511,169.33	14,035,523,165.04	15,283,396,254.35	15,906,274,710.27	17,024,067,606.89
United States deposits	130,266,023.63	70,401,818.99	54,541,349.41	48,455,641.54	58,945,980.66
Due to other banks and bankers	2,198,050,204.00	2,484,103,895.37	2,225,380,795.62	2,621,054,947.82	2,632,635,075.58
Other liabilities	344,211,900.09	230,685,273.63	358,003,178.26	349,882,460.55	381,661,735.69
Total	19,583,410,393.09	21,095,054,420.72	22,450,320,522.77	23,631,063,382.67	24,986,642,774.18

[1] Includes mortgages owned. [2] Includes bonds of other corporations for national banks.

Summary of reports of condition from 25,195 banks in the United States and island possessions (including National, State, savings, and private banks and loan and trust companies), showing their condition at the close of business June 14, 1912.

RESOURCES.

Loans and discounts:		
Secured by real estate (including mortgages owned)	$3,301,485,759.93	
Secured by collateral other than real estate	4,239,942,380.07	
All other loans	6,350,722,499.00	
Overdrafts	61,455,604.59	
		$13,953,606,243.59

Bonds, securities, etc., including premiums thereon:		
United States bonds	$823,266,866.97	
State, county, and municipal bonds	1,273,554,050.84	
Railroad bonds	1,631,544,479.26	
Bonds of other public-service corporations (including street and interurban railways bonds)	603,542,601.59	
Other bonds, stocks, warrants, etc	1,026,975,383.45	
		$5,358,883,382.11
Banking house, furniture, and fixtures		550,326,884.44
Other real estate owned		106,972,775.92
Due from banks		2,847,992,843.93
Checks and other cash items		55,236,223.74
Exchanges for clearing house		374,865,032.08
Actual cash on hand:		
Gold coin	238,389,386.74	
Gold certificates	[1] 643,547,090.00	
Silver dollars	22,957,395.00	
Silver certificates	194,374,169.00	
Subsidiary and minor coins	37,738,008.29	
Legal-tender notes	253,122,053.00	
National-bank notes	108,281,687.00	
Cash not classified	74,543,690.40	
		1,572,953,479.43
Other resources		165,805,908.94
Total resources		24,986,642,774.18

LIABILITIES.

Capital stock paid in		$2,010,843,505.70
Surplus		1,584,981,106.44
Undivided profits		581,178,042.47
National-bank circulation		708,690,593.00
Due to banks		2,632,635,075.58
Dividends unpaid		3,639,127.75
Individual deposits subject to check without notice	$8,323,485,623.53	
Saving deposits or deposits in interest or savings department	6,496,192,707.60	
Certificates of deposit	1,952,784,093.94	
Certified checks	135,241,263.20	
Cashier's checks outstanding	116,363,918.62	
		17,024,067,606.89
United States deposits		58,945,980.66
Notes and bills rediscounted		21,836,346.24
Bills payable, including certificates of deposit representing money borrowed		127,778,722.66
Other liabilities		232,046,606.79
Total liabilities		24,986,642,774.18

Aggregate loans, resources, capital, and deposits for the fiscal years 1908 to 1912, inclusive, of banks reporting to Comptroller of the Currency.

[In millions of dollars.]

Year.	Number of banks.	Loans.	Resources.	Capital.	Individual deposits.
1908	21,346	$10,437.9	$19,583.4	$1,757.1	$12,784.5
1909	22,491	11,393.1	21,095.0	1,800.0	14,035.5
1910	23,096	12,521.7	22,450.3	1,879.9	15,283.3
1911	24,392	13,046.4	23,631.0	1,952.4	15,906.3
1912	25,195	13,953.6	24,986.6	2,010.8	17,024.0

[1] Includes $80,479,000 clearing-house certificates.

Principal items of resources and liabilities of State, savings, and private banks, loan and trust companies, and national banks, from 1863 to 1912.

[From 1863 to 1872, inclusive, data from various sources; from 1873 compiled from reports obtained by the Comptroller of the Currency.]

[Amounts in millions of dollars.]

Year.	Number of banks reporting.	Loans and discounts (including overdrafts).	Bonds, stocks, etc.	Due from banks and bankers.	Specie.	Paper currency.[1]	Total cash in bank.	Capital.	Surplus and profits.	Circulation.[2]	United States deposits.[3]	Individual deposits.	Due to banks.	Total assets.
1863	1,466	$648.6	$180.5	$96.9	$46.1	.....	[4] $205.5	$405.0	.....	$238.7	.....	$393.7	$100.5	$1,191.7
1864	[5] 1,089	.....	.....	.....	50.7	.....	.....	344.5	.....	163.3	.....	.....	.....	.....
	[6] 467	70.7	93.4	33.3	.....	.....	47.6	75.2	$4.2	189.1	.....	119.4	27.4	252.3
1865	1,966	362.4	404.3	103.0	9.4	$190.0	199.4	397.0	54.5	131.5	$58.0	641.0	157.8	1,126.5
1866	2,267	550.4	465.2	110.7	12.6	219.3	231.9	480.8	79.4	267.8	39.1	815.8	122.4	1,476.4
1867	2,279	588.5	443.1	100.0	11.1	194.5	205.6	483.8	93.9	291.8	33.3	876.6	112.5	1,494.1
1868	2,293	655.7	440.5	123.1	20.8	179.9	200.7	486.4	109.4	294.9	28.3	968.6	140.7	1,572.2
1869	2,354	686.3	414.6	107.6	18.5	144.0	162.5	489.7	126.0	292.7	12.8	1,032.0	129.0	1,564.2
1870	2,457	719.3	406.1	121.2	31.1	156.6	187.7	513.7	132.7	291.8	13.2	1,051.3	148.5	1,510.7
1871	2,796	789.4	419.9	143.8	19.9	174.1	194.0	561.7	143.1	315.5	11.1	1,251.6	176.4	1,730.6
1872	3,066	871.5	431.2	144.0	24.3	153.3	177.6	592.6	155.4	327.1	12.4	1,353.8	172.7	1,770.8
1873	[7] 1,968	1,439.9	713.2	167.1	[8] 27.9	.....	218.2	532.9	215.6	340.2	15.1	1,421.2	178.6	2,731.3
1874	[9] 1,893	1,564.5	723.2	193.6	[8] 22.3	.....	252.2	550.3	199.9	338.7	10.6	1,526.5	232.5	2,890.4
1875	3,336	1,748.1	793.1	195.0	[8] 19.0	.....	238.7	592.6	254.2	318.1	10.2	1,787.0	194.7	3,204.6
1876	3,448	1,727.1	807.3	198.2	[8] 25.4	.....	226.4	602.3	261.6	294.8	11.1	1,778.6	183.3	3,183.1
1877	3,384	1,720.9	841.2	184.6	[8] 21.3	.....	230.5	614.2	260.5	290.4	10.9	1,813.6	170.1	3,204.1
1878	3,229	1,561.2	865.9	183.2	[8] 29.7	.....	214.6	587.7	237.7	300.4	25.6	1,717.4	161.7	3,080.6
1879	3,335	1,507.4	1,032.9	204.0	[8] 42.7	.....	216.3	580.4	246.1	307.7	252.1	1,694.2	187.9	3,212.6
1880	3,355	1,662.1	900.6	248.9	[8] 100.2	.....	285.5	565.2	260.2	318.4	10.7	1,951.6	239.6	3,399.0
1881	3,427	1,901.9	500.9	346.1	[8] 129.5	.....	295.0	572.3	292.0	312.5	12.2	2,296.8	314.7	3,869.1
1882	3,572	2,050.3	1,049.1	307.3	[8] 112.4	.....	287.1	590.6	310.1	309.2	12.6	2,460.1	279.0	4,031.1
1883	3,835	2,133.6	951.2	392.8	[8] 116.2	.....	321.0	625.6	347.8	312.2	13.9	2,568.4	288.2	4,208.0
1884	4,111	2,260.7	1,030.4	294.1	[8] 110.2	.....	321.2	656.4	379.6	295.3	14.2	2,566.4	227.0	4,221.3
1885	4,350	2,272.3	952.0	432.9	[8] 179.0	.....	414.3	678.0	362.0	269.2	14.0	2,734.3	293.0	4,426.9
1886	4,378	2,456.7	1,031.1	349.8	[8] 152.2	.....	375.5	686.7	393.8	238.0	17.1	2,812.0	308.9	4,521.5
1887	6,179	2,944.9	999.9	632.1	[8] 165.1	.....	432.8	806.8	460.2	166.8	23.2	3,308.2	350.1	5,203.7
1888	6,647	3,161.1	1,112.1	439.1	226.4	219.7	446.1	853.7	493.7	155.5	58.4	3,422.7	366.1	5,470.4
1889	7,293	3,475.2	1,111.9	513.7	[8] 221.5	277.6	499.1	893.3	531.9	129.0	46.7	3,778.1	434.6	5,940.9
1890	7,999	3,842.1	1,158.0	531.3	221.9	256.4	478.3	968.7	584.0	126.5	30.6	4,062.5	432.3	6,343.0
1891	8,641	3,965.9	1,042.5	652.6	217.3	261.8	479.1	1,029.7	619.2	124.0	25.9	4,196.8	415.7	6,562.1
1892	9,338	4,336.6	1,269.4	684.3	262.2	324.2	586.4	1,071.1	650.3	141.2	14.2	4,664.9	464.9	7,245.3
1893	9,492	4,368.6	1,354.1	549.2	210.9	305.0	515.9	1,091.8	689.3	155.1	13.7	4,627.3	419.9	7,192.3
1894	9,508	4,085.0	1,445.3	705.1	283.4	405.5	688.9	1,069.8	682.4	171.8	14.1	4,651.2	599.1	7,290.6
1895	9,818	4,268.8	1,565.2	714.4	246.3	384.8	631.1	1,060.3	699.3	178.8	13.2	4,921.3	600.5	7,609.6
1896	9,469	4,251.1	1,674.4	645.0	251.2	280.6	531.8	1,051.9	694.4	199.2	15.4	4,945.1	521.7	7,553.9
1897	9,457	4,216.0	1,732.3	781.4	297.7	330.5	628.2	1,012.3	712.7	196.6	16.4	5,094.7	673.4	7,822.1

1898	9,485	4,652.2	1,859.7	924.9	402.2	285.6	687.8	992.0	732.7	189.9	52.9	5,688.2	809.8	8,009.0
1899	9,732	5,177.6	2,179.0	1,203.1	449.1	274.2	723.3	973.6	761.1	199.4	76.3	6,768.7	1,046.4	9,904.9
1900	10,382	5,657.5	2,398.3	1,272.8	449.7	300.2	749.9	1,024.7	882.2	265.3	98.9	7,238.9	1,172.5	10,785.9
1904	11,406	6,425.2	2,821.2	1,448.0	479.0	328.5	807.5	1,076.1	955.6	319.0	99.1	8,460.6	1,333.0	12,357.5
1900	12,424	7,189.0	3,039.2	1,561.2	541.0	307.1	848.1	1,201.6	1,096.9	309.4	124.0	9,104.7	1,393.2	13,962.9
1903	13,684	7,738.9	3,400.1	1,570.6	478.2	379.0	857.2	1,321.9	1,273.4	359.2	147.3	9,553.6	1,475.9	14,863.1
1904	14,850	7,982.0	3,654.2	1,842.9	612.2	378.4	996.6	1,392.5	1,360.9	399.6	110.3	10,000.5	1,752.2	15,198.8
1900	16,410	9,027.2	3,987.9	1,981.9	617.3	376.8	994.1	1,463.2	1,439.5	445.4	75.3	11,350.7	1,904.3	18,918.2
1900	17,905	9,893.7	4,073.5	2,029.2	633.0	383.4	1,016.4	1,565.3	1,558.9	510.9	89.9	12,215.8	1,899.0	18,147.6
1907	19,746	10,763.9	4,377.1	2,135.6	719.5	394.2	1,113.7	1,690.8	1,645.0	547.9	180.7	13,099.6	2,875.4	19,645.0
1908	21,346	10,438.0	4,445.9	2,236.2	860.5	507.8	1,368.3	1,757.2	1,761.5	613.7	130.3	12,784.5	2,198.0	19,583.4
1900	22,491	11,373.2	4,614.4	2,562.0	1,044.6	407.4	1,452.0	1,800.0	1,834.6	636.3	70.4	14,035.5	2,484.1	21,095.0
1910	23,095	12,521.8	4,723.4	2,393.0	1,009.6	414.2	1,423.8	1,880.0	1,952.6	675.6	54.5	15,283.4	2,225.3	22,450.3
1911	24,392	13,046.4	5,051.9	2,788.8	1,110.7	443.4	1,554.2	1,952.4	2,065.6	681.7	48.5	15,906.3	2,621.1	23,631.1
1912	25,195	13,953.6	5,358.9	2,848.0	1,137.0	435.9	1,572.9	2,010.8	2,166.1	708.7	58.9	17,024.0	2,632.6	24,986.6

[1] Includes cash not classified.
[2] Includes State bank circulation.
[3] Includes deposits of United States disbursing officers.
[4] Specie funds and notes of other banks.
[5] From Homan's Banker's Almanac.
[6] National banks.
[7] Number of national banks only; number of State and savings banks not reported.
[8] Specie in national banks; incomplete for State banks.
[9] Includes coin certificates from 1889; specie for 1902 partially estimated.

NOTE.—Since 1873 the Comptroller of the Currency has collected and published statistics of State banks, but complete data for compiling these statistics for a number of years thereafter were available only for those States in which the banks were required to report to some State official. For recent years the statistics are practically complete.

National banks in the United States (7,488):	
Capital	$1, 056, 345, 786
Surplus	725, 333, 629
Undivided profits	259, 549, 156
Circulation	724, 459, 849
Individual deposits	5, 761, 338, 731
Total resources	10, 876, 852, 343
State banks (13,381[1]):	
Capital	459, 067, 206
Surplus	177, 307, 042
Undivided profits	94, 066, 902
Individual deposits	2, 919, 977, 897
Total resources	3, 897, 770, 826
Mutual savings banks (630[1]):	
Surplus	248, 983, 429
Undivided profits	66, 440, 676
Individual deposits	3, 608, 657, 828
Total resources	3, 929, 091, 986
Stock savings banks (1,292[1]):	
Capital	76, 871, 811
Surplus	31, 052, 596
Undivided profits	23, 154, 694
Individual deposits	842, 897, 859
Total resources	993, 631, 303
Loan and trust companies (1,410[1]):	
Capital	418, 985, 771
Surplus	424, 313, 939
Undivided profits	136, 428, 039
Individual deposits	3, 674, 578, 238
Total resources	5, 107, 444, 382
Private banks (1,110[1])	
Capital	22, 348, 040
Surplus	9, 333, 680
Undivided profits	4, 250, 634
Individual deposits	152, 494, 618
Total resources	196, 940, 397
State, savings, and private banks, loan and trust companies (17,823[1]):	
Capital	977, 272, 830
Surplus	890, 990, 687
Undivided profits	324, 340, 946
Individual deposits	11, 198, 606, 443
Total resources	14, 124, 878, 897
All banks (25,309[2]):	
Capital	2, 033, 618, 616
Surplus	1, 616, 324, 316
Undivided profits	583, 890, 102
Individual deposits	17, 959, 945, 174
Total resources	25, 001, 731, 240

[1] Comptroller's report, 1912. [2] No dates given.

Classification of deposits in each class of banks as of June 14, 1912.

Classification.	Number of banks.	Individual deposits subject to check without notice.	Savings deposits or deposits in interest or savings department.	Certificates of deposit.
State banks	13,381	$1,609,117,069.91	$657,477,220.31	$610,207,548.25
Mutual savings banks	630	15,907,801.72	3,592,530,070.33	96,528.65
Stock savings banks	1,292	178,127,748.36	574,822,459.57	87,099,928.02
Loan and trust companies	1,410	2,319,055,959.95	910,850,167.60	395,983,407.02
Private banks	1,110	78,339,600.91	26,868,853.68	46,651,290.14
Total, State, etc., banks	17,823	4,200,548,180.85	5,762,548,771.49	1,140,038,702.08
National banks	7,372	4,122,937,442.68	733,643,936.11	812,745,391.86
Grand total	25,195	8,323,485,623.53	6,496,192,707.60	1,952,784,093.94

Classification.	Certified checks.	Cashiers' checks outstanding.	Total.
State banks	$32,254,762.10	$10,921,297.42	$2,919,977,897.99
Mutual savings banks		123,427.41	3,608,657,828.11
Stock savings banks	795,385.48	2,052,338.18	842,897,859.61
Loan and trust companies	16,658,017.77	32,030,686.58	3,674,578,238.92
Private banks	304,237.00	330,637.17	152,494,618.90
Total, State, etc., banks	50,012,402.35	45,458,386.76	11,198,606,443.53
National banks	85,228,860.85	70,905,531.86	[1] 5,825,461,163.36
Grand total	135,241,263.20	116,363,918.62	17,024,067,606.89

[1] United States deposits not included.

MEMORANDUM RELATIVE TO TABLES NO. 1 AND NO. 2.

As to the New York City figures of October 21, showing losses in loans of $26,272,715, and in cash of $29,059,727, while a gain of $79,102,171 in individual deposits is reported, attached Table No. 1 shows that this loss in cash was offset by an increase in exchanges for clearing house (an increase since August 9 of $94,038,000). By reference to Table No. 2 it will be noted that the column of cash reported by New York City banks shows this to be at an ebb in the fall of the year.

Relative to the item of loans and discounts and individual deposits comparisons for the past three years have been made (see Table No. 2) showing the amounts reported each date; also the amounts shown by all the reporting banks for comparison.

TABLE NO. 1.

Statement of New York City Banks for Oct. 21 compared with last call Aug. 9 and a year ago, Nov. 26, 1912.

RESOURCES.

	Oct. 21, 1913.	Aug. 9, 1913.	Nov. 26, 1912.
Loans	2910,635,000	$936,908,000	$874,616,000
Bond investment	225,398,000	233,893,000	232,580,000
Due from banks	122,536,000	85,133,000	93,503,000
Exchange for clearing house	149,811,000	55,773,000	178,700,000
Lawful money	273,986,000	300,707,000	257,690,000
Aggregate	1,722,684,000	1,655,642,000	1,682,275,000

LIABILITIES.

National bank circulation	$45,847,000	$47,018,000	$48,382,000
Due to banks	641,256,000	656,385,000	586,043,000
Individual deposits	715,646,000	636,544,000	742,932,000
United States deposits	3,506,000	2,835,000	1,737,000
Bonds borrowed	8,247,000	8,221,000	7,819,000
Bills payable and rediscounted	7,873,000	2,977,000	500,000
Per cent reserve	25.37	26.42	24.69

TABLE NO. 2.

Table showing loans, cash, and individual deposits held by New York City and total United States at each call for past three years.

Date of report.	Loans and discounts.		Cash.		Individual deposits.	
	New York City.	Total banks.	New York City.	Total banks.	New York City.	Total banks.
1913.						
Oct. 21	$910,635,729	$6,260,877,853	$271,647,803	$889,632,454	$715,646,351	$6,051,689,087
Aug. 9	936,908,444	6,168,555,525	300,707,530	899,169,371	636,544,180	5,761,338,731
June 4	886,966,803	6,143,928,132	292,517,948	913,982,640	704,998,318	5,953,461,551
Apr. 4	910,727,161	6,178,096,379	279,655,691	888,283,735	717,610,317	5,968,787,045
Feb. 4	953,792,810	6,125,029,165	304,643,384	933,417,231	754,284,535	5,985,432,295
1912.						
Nov. 26	874,616,719	6,058,982,029	257,690,470	859,098,737	742,932,490	5,744,561,069
Sept. 4	950,893,024	6,040,841,270	286,158,326	895,951,094	767,845,606	5,891,670,007
June 4	959,068,755	5,963,904,431	321,478,638	945,202,895	805,383,121	5,825,461,163
Apr. 18	939,218,163	5,882,166,597	303,486,295	931,689,162	742,693,664	5,712,051,088
Feb. 20	971,498,585	5,810,433,940	333,471,111	950,497,398	734,506,849	5,630,559,231
1911.						
Dec. 5	838,672,447	5,659,109,826	265,388,742	862,794,196	686,417,818	5,536,042,281
Sept. 1	885,628,747	5,663,411,073	304,359,507	895,475,406	766,024,815	5,489,995,011
June 7	903,566,432	5,610,838,787	329,815,391	946,330,109	776,964,554	5,477,991,156
Mar. 7	915,917,556	5,558,039,050	319,263,311	908,036,627	692,763,534	5,304,624,091
Jan. 7	808,646,569	5,402,642,351	259,659,227	836,267,359	562,020,067	5,113,221,817

Comparative statement showing the amount of loans and discounts, cash, and individual deposits held by national banks in reserve cities and country banks according to the geographical sections as shown by the reports of condition on Oct. 21, 1913, Aug. 9, 1913, and Nov. 26, 1912.

Location.	Loans and discounts.					Cash.					Individual deposits.				
	Oct. 21, 1913.	Aug. 9, 1913.	Excess.	Nov. 26, 1912.	Excess.	Oct. 21, 1913.	Aug. 9, 1913.	Excess.	Nov. 26, 1912.	Excess.	Oct. 21, 1913.	Aug. 9, 1913.	Excess.	Nov. 26, 1912.	Excess.
Reserve city (Boston)	$205,136,237.15	$189,872,991.74	$15,263,245.41	$199,745,658.06	$5,390,579.09	$31,529,566.94	$30,835,728.90	$693,838.04	$28,330,982.90	$3,198,584.04	$189,658,386.31	$171,327,393.94	$18,330,992.37	$182,857,600.35	$6,799,785.96
Country banks	312,527,699.40	306,266,615.18	6,261,084.22	316,632,261.35	−4,104,561.95	25,128,955.62	22,148,520.49	2,980,435.13	24,116,564.86	1,012,390.76	329,710,641.68	316,293,285.31	13,417,356.37	324,976,637.28	4,734,004.40
New England States	517,663,936.55	496,139,606.92	21,524,329.63	516,377,919.41	1,286,017.14	56,658,522.56	52,984,249.39	3,674,273.17	52,447,547.76	4,210,974.80	519,369,027.99	487,620,679.25	31,748,348.74	507,844,237.63	11,524,790.36
New York City	910,635,729.74	936,908,444.96	−26,272,715.22	874,616,719.65	36,019,010.09	271,647,803.12	300,707,530.79	−29,059,727.67	257,690,470.67	13,957,332.45	715,646,351.77	636,544,180.46	79,102,171.31	742,932,490.21	−27,286,138.44
Other reserve cities	494,899,316.99	480,035,966.08	14,863,350.91	486,798,720.39	8,100,596.60	76,229,542.10	73,067,182.81	3,162,359.29	74,784,780.03	1,444,762.07	419,121,734.38	382,364,158.05	36,757,576.33	421,847,095.98	−2,725,361.60
Country banks	874,833,692.00	859,979,495.86	14,854,196.14	839,552,426.03	35,281,265.97	78,765,243.36	71,943,066.99	6,822,176.37	73,137,302.59	5,627,940.77	1,121,704,090.15	1,091,794,939.16	29,909,150.99	1,060,885,691.72	60,818,398.43
Eastern States	2,280,368,738.73	2,276,923,906.90	3,444,831.83	2,200,967,866.07	79,400,872.66	426,642,588.58	445,717,780.59	−19,075,192.01	405,612,553.29	21,030,035.29	2,256,472,176.30	2,110,703,277.67	145,768,898.63	2,225,665,277.91	30,806,898.39
Reserve cities	141,814,455.28	135,828,629.34	5,985,825.94	146,666,408.26	−4,851,952.98	16,087,878.16	16,036,642.04	51,236.12	18,261,383.50	−2,173,505.34	116,329,649.84	114,385,980.67	1,943,669.17	122,414,380.05	−6,084,730.21
Country banks	701,897,013.11	676,516,603.83	25,380,409.28	661,944,162.09	39,952,851.02	47,809,667.59	41,959,202.75	5,850,464.84	45,322,748.71	2,486,918.88	619,295,506.58	564,063,074.26	55,232,432.32	614,602,162.53	4,693,344.05
Southern States	843,711,468.39	812,345,233.17	31,366,235.22	808,610,570.35	35,100,898.04	63,897,545.75	57,995,844.79	5,901,700.96	63,584,132.21	313,413.54	735,625,156.42	678,449,084.93	57,176,121.49	737,016,542.58	−1,391,386.16
Chicago	330,122,983.81	329,024,370.83	1,098,612.98	312,601,824.74	17,521,159.07	83,662,072.25	82,446,563.40	1,215,508.85	80,566,974.75	3,095,097.50	215,663,806.29	202,335,910.84	13,327,895.45	213,451,301.14	3,212,505.15
St. Louis	107,132,567.81	109,161,973.15	−2,029,405.34	110,952,331.16	−3,819,763.35	21,576,157.79	24,365,294.99	−2,789,137.20	28,901,585.42	−7,325,427.63	62,318,513.60	61,380,098.04	938,415.56	66,149,508.22	−3,830,994.62
Other reserve cities	456,236,681.96	447,140,265.47	9,096,416.49	438,271,155.67	17,965,526.29	62,033,701.68	64,452,236.35	−2,418,534.67	59,055,218.69	2,978,483.00	358,493,976.04	350,813,434.92	7,680,541.12	349,426,495.21	9,067,480.83
Country banks	872,859,621.34	860,383,178.40	12,476,442.94	835,701,993.41	37,157,627.93	72,076,410.82	69,653,160.29	2,423,250.53	67,707,300.98	4,369,109.84	986,772,876.08	989,234,535.82	−2,551,659.74	944,068,972.21	42,703,903.87
Middle Western States	1,766,351,854.92	1,745,709,787.85	20,642,067.07	1,697,527,304.98	68,824,549.94	239,348,342.54	240,917,255.03	−1,568,912.49	236,231,079.83	3,117,262.71	1,623,249,172.91	1,608,853,979.62	19,395,192.39	1,572,096,276.78	51,152,896.23
Reserve cities	104,127,255.11	102,304,917.62	1,822,337.49	106,734,391.38	−2,607,136.27	18,369,377.75	18,992,148.11	−622,770.36	18,121,982.50	247,395.25	106,596,219.55	101,749,168.74	4,747,050.81	107,811,240.70	−1,215,021.15
Country banks	313,741,451.01	304,121,606.98	9,619,844.03	293,863,652.62	19,877,798.39	26,580,816.32	25,814,258.64	766,557.70	25,733,931.54	846,884.80	350,744,292.63	337,568,482.99	13,175,809.64	333,002,898.60	17,741,394.03
Western States	417,868,706.12	406,426,524.60	11,442,181.52	400,598,044.00	17,270,662.12	44,950,194.07	44,806,406.75	143,787.34	43,855,914.04	1,094,280.05	457,340,512.18	439,317,651.73	18,022,860.45	440,814,139.30	16,526,372.88
Reserve cities	244,156,733.21	242,464,891.17	1,691,842.04	251,048,414.08	−6,891,680.87	38,066,699.76	37,563,067.10	503,632.66	37,013,550.17	1,053,149.59	226,083,946.63	220,106,944.93	5,977,001.70	228,249,810.56	−2,165,863.93
Country banks	189,083,069.30	186,767,969.78	2,315,099.52	182,303,054.13	6,780,015.17	19,323,656.49	18,605,728.04	717,928.45	19,681,860.16	−358,203.67	231,658,953.09	219,371,538.90	12,287,414.19	230,882,045.82	776,907.27
Pacific States	433,239,802.51	429,232,860.95	4,006,941.56	433,351,468.21	−111,665.70	57,390,356.25	56,168,795.14	1,221,561.11	56,695,410.33	694,945.92	457,742,899.72	439,478,483.83	18,264,415.89	459,131,856.38	−1,388,956.66
Hawaii (islands)	1,673,346.43	1,777,604.91	−104,258.48	1,548,856.28	124,490.15	744,904.65	579,042.80	165,861.85	672,100.25	72,804.40	1,890,143.07	1,915,624.74	−25,481.67	1,992,739.33	−102,596.26
Total United States	6,260,877,853.65	6,168,555,525.30	92,322,328.35	6,058,982,029.30	201,895,824.15	889,632,454.40	899,169,374.49	−9,536,920.09	859,098,737.71	30,533,716.69	6,051,689,087.69	5,761,338,731.77	290,350,355.92	5,944,561,069.91	107,128,017.78

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Bank balances reported Apr. 14, 1913.

	New York.	Chicago.	St. Louis.
Due to reserve cities	$153,987,595	$85,035,506	$36,406,146
Due from reserve cities	16,314,119	7,691,507	3,630,529
Net	137,673,476	77,343,999	32,775,617
Due to country banks	124,839,276	63,416,397	21,691,780
Due from country banks	4,321,843	586,549	295,932
Net	120,517,433	62,829,848	21,395,848
Due to all banks	278,826,871	148,451,904	58,097,926
Due from all banks	20,635,962	8,278,056	3,926,462
Net	258,190,909	140,173,848	54,171,464

Respectfully,

W. J. FOWLER.
Deputy Comptroller.

The amount and class of loans of all national banks on approximate dates in 1902 to 1910 and 1911 and 1912 are shown in the following table:

Date.	Number of banks.	On demand, paper with one or more individual or firm names.	On demand, secured by stocks, bonds, and other personal securities.	On time, paper with two or more individual or firm names.	On time, single-name paper (one person or firm), without other security.	On time, secured by stocks, bonds, and other personal securities, or on mortgages or other real estate security.	Total.
		Millions.	*Millions.*	*Millions.*	*Millions.*	*Millions.*	*Millions.*
Sept. 15, 1902	4,601	$237.3	$706.9	$1,176.4	$517.1	$642.4	$3,280.1
Sept. 9, 1903	5,042	283.1	717.3	1,267.5	558.1	655.4	3,481.4
Sept. 6, 1904	5,412	279.8	818.9	1,316.7	611.0	699.7	3,726.2
Aug. 25, 1905	5,757	320.1	854.1	1,382.2	689.1	753.0	3,998.5
Sept. 4, 1906	6,137	374.7	828.0	1,502.0	776.1	818.1	4,299.0
Aug. 22, 1907	6,544	428.2	832.9	1,648.7	899.5	869.2	4,678.5
Sept. 23, 1908	6,853	395.9	922.7	1,582.4	852.1	997.5	4,750.6
Sept. 1, 1909	6,977	441.5	957.3	1,698.4	971.5	1,060.1	5,128.8
Sept. 1, 1910	7,173	524.3	939.1	1,842.5	1,068.3	1,093.0	5,467.2
June 7, 1911	7,277	529.7	953.8	1,885.1	1,124.7	1,117.5	5,610.8
June 14, 1912	7,372	571.3	985.4	1,973.4	1,198.5	1,225.3	5,953.9

DISTRIBUTION OF MONEY IN THE UNITED STATES.

In the following table is shown the distribution of money in the United States, giving the amount in the Treasury as assets, amount in reporting banks, and elsewhere, from 1892 to 1912, inclusive:

Year ended June 30—	Coin and other money in the United States.	Coin and other money in Treasury as assets.[1]		Coin and other money in reporting banks.[2]		Coin and other money not in Treasury or banks.			In circulation, exclusive of coin and other money in Treasury as assets.	
		Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent.	Per capita.	Amount.	Per capita.
	Millions.	*Millions.*		*Millions.*		*Millions.*			*Millions.*	
1892	$1,752.2	$150.9	8.60	$586.4	33.48	$1,014.9	57.92	$15.50	$1,601.3	$24.60
1893	1,738.8	142.1	8.17	515.9	29.68	1,080.8	62.15	16.14	1,596.7	24.06
1894	1,805.5	144.2	7.99	688.9	38.17	972.4	53.84	14.21	1,661.3	24.56
1895	1,819.3	217.4	11.95	631.1	34.96	970.8	53.36	13.89	1,601.9	23.24
1896	1,799.9	293.5	16.31	531.8	29.55	974.6	54.14	13.65	1,506.4	21.44
1897	1,906.7	265.7	13.93	628.2	32.94	1,012.8	53.13	13.87	1,641.0	22.92
1898	2,073.5	235.7	11.37	687.7	33.17	1,150.1	55.46	15.43	1,837.8	25.19
1899	2,190.0	286.0	13.06	723.2	33.02	1,180.8	53.92	15.51	1,904.0	25.62
1900	2,339.7	284.6	12.16	749.9	32.05	1,305.2	55.79	17.11	2,055.1	26.93
1901	2,482.1	307.8	12.39	794.9	32.02	1,380.4	55.59	17.75	2,175.3	27.98
1902	2,563.2	313.9	12.24	837.9	32.69	1,411.4	55.07	17.90	2,249.3	28.43
1903	2,684.7	317.0	11.80	848.0	31.59	1,519.7	56.61	18.88	2,367.7	29.42
1904	2,803.5	284.3	10.14	982.9	35.06	1,536.3	54.80	18.77	2,519.2	30.77
1905	2,883.1	295.2	10.24	987.8	34.27	1,600.1	55.49	19.22	2,587.9	31.08
1906	3,069.9	333.3	10.86	1,010.7	32.92	1,725.9	56.22	20.39	2,736.6	32.32
1907	3,115.6	342.6	11.00	1,106.5	35.51	1,666.5	53.49	19.36	2,773.0	32.22
1908	3,378.8	340.8	10.08	1,362.9	40.34	1,675.1	49.58	19.15	3,038.0	34.72
1909	3,406.3	300.1	8.81	1,444.3	42.40	1,661.9	48.78	18.68	3,106.2	34.93
1910	3,419.5	317.2	9.27	1,414.6	41.37	1,687.7	49.36	18.68	3,102.3	34.33
1911	3,555.9	341.9	9.61	1,545.5	43.46	1,668.5	46.93	17.75	3,214.0	34.20
1912	3,648.8	364.3	9.98	1,563.8	42.86	1,720.7	47.16	17.98	3,284.5	34.34

[1] Public money in national-bank depositaries to the credit of the Treasurer of the United States not included.

[2] Money in banks of island possessions not included.

Cash on hand in banks reporting to the Comptroller of the Currency June 14, 1912.

Classification.	Number of banks.	Gold coin.	Gold certificates.	Silver dollars.	Silver certificates.
National banks	7,372	$149,294,417.78	$437,081,380.00	$12,637,221.00	$138,569,628.00
State banks	13,381	43,475,473.23	55,832,110.00	7,483,824.00	28,659,217.00
Mutual savings banks	630	2,613,101.74	3,040,620.00	21,575.00	1,522,101.00
Stock savings banks	1,292	13,099,102.11	3,292,340.00	809,660.00	1,445,841.00
Loan and trust companies	1,410	28,720,390.23	143,797,940.00	1,571,391.00	23,694,632.00
Private banks	1,110	1,186,901.65	502,700.00	433,724.00	482,750.00
Total	25,195	238,389,386.74	643,547,090.00	22,957,395.00	194,374,169.00

Classification.	Minor coins.	Legal tender.	National bank notes.	Cash not classified.	
National banks	$22,555,692.68	$188,440,207.00	$47,564,277.00		$996,142,823.46
State banks	9,884,265.50	35,374,475.00	24,568,164.00	$36,479,195.75	241,756,724.48
Mutual savings banks	245,994.27	1,378,566.00	3,370,411.00	3,993,692.28	16,186,061.29
Stock savings banks	828,452.46	2,579,310.00	3,400,118.00	3,811,178.99	29,266,002.56
Loan and trust companies	3,932,351.85	24,587,336.00	28,347,109.00	27,504,313.18	282,151,463.26
Private banks	291,251.53	766,159.00	1,031,608.00	2,755,310.20	7,450,404.38
Total	37,738,008.29	253,122,053.00	108,281,687.00	74,543,690.40	1,572,953,479.43

Schedule of loans running 90 days or less from Aug. 9, as shown by the reports of condition of 7,096 national banks.

	New York (36 banks).	Chicago (9 banks).	St. Louis (7 banks).	Central reserve cities (52 banks).	Other reserve cities (308 banks).	Country banks (6,736).	Total banks in United States (7,096).
A. On demand (one or more names).....	$7,004,989	$6,196,249	$2,412,125	$15,613,363	$79,186,557	$157,344,961	$252,144,881
B. On demand, secured by stocks, bonds, etc...	128,361,990	19,759,293	5,276,533	153,397,816	107,692,020	123,493,347	384,583,183
C. On time (two or more names).....	125,527,742	73,754,071	23,814,102	223,095,915	305,571,196	766,028,358	1,294,695,469
D. On time, single name, without other security.....	116,680,948	52,386,018	11,096,501	180,163,467	243,326,078	350,301,629	773,791,174
E. On time, secured by stocks, bonds, etc...	121,086,821	44,740,103	20,025,680	185,852,604	194,391,557	321,164,876	701,409,037
F. Secured by real estate mortgages, etc.....	303,812	208,864	12,951	525,627	3,647,050	17,258,736	21,431,413
90 days or less.....	498,966,302	197,044,598	62,637,892	758,648,792	933,814,458	1,735,591,907	3,428,055,157
Over 90 days....	437,942,142	131,979,772	46,524,081	616,445,995	639,924,756	1,337,980,689	2,594,351,440
Total, all loans...	936,908,444	329,024,370	109,161,973	1,375,094,787	1,573,739,214	3,073,572,596	6,022,406,597

Sept. 25, 1913, Office Comptroller of Currency.

The following table shows amount of cash, loans, individual deposits, and banks deposits held by national banks:

Capital, specie, circulation, etc., of the great European single banks of issue on or about June 30, 1906.

[Amounts are expressed in millions.]

	Capital.	Circulation.	Deposits.	Total specie.	Loans.
Imperial Bank of Germany	$28.9	$412.0	$149.9	$211.1	$345.7
Bank of Austria-Hungary	41.9	376.5	31.6	299.2	189.8
National Bank of Belgium	9.6	136.5	16.3	24.1	124.8
National Bank of Bulgaria	1.8	8.6	17.0	7.6	11.9
National Bank of Denmark	6.8	34.9	.8	27.2	13.7
Bank of Spain	28.9	305.7	134.2	200.2	154.4
Bank of Finland	1.9	18.2	4.2	5.2	11.7
Bank of France	35.2	908.8	189.1	803.4	255.3
National Bank of Greece	3.9	23.1	23.4	.4	21.6
Bank of Italy	28.9	213.3	90.6	152.7	91.6
Bank of Naples	11.6	66.6	16.1	32.8	34.5
Bank of Sicily	.....	14.8	10.6	9.1	10.9
Bank of Norway	3.5	21.4	1.9	8.0	12.0
Bank of Netherlands	8.0	113.0	2.5	57.1	59.8
Bank of Portugal	14.6	74.5	29.3	13.7	26.5
National Bank of Roumania	2.9	43.1	.....	15.0	25.2
Imperial Bank of Russia	28.3	591.0	109.8	455.9	208.3
Bank of England	70.8	146.8	280.3	187.8	156.8
National Bank of Servia	1.1	6.6	.6	4.5	2.3
Royal Bank of Sweden	11.9	52.2	12.2	20.6	37.0
Total (20 banks)	340.5	3,567.6	1,120.4	2,525.6	1,793.8

Savings banks, including postal savings banks. Number of depositors, amount of deposits, average deposits per deposit account and per inhabitant, by specified countries.

[Compiled by the Bureau of Foreign and Domestic Commerce, Department of Commerce and Labor, from the official reports of the respective countries.]

Countries.	Population.[1]	Date of report.	Form of organization.	Number of depositors.	Deposits.	Average deposit account.	Average deposit per inhabitant.
Austria	28,572,000	Dec. 31, 1909	Communal and private savings banks	4,119,295	$1,161,149,241	$281.88	$40.64
		Dec. 31, 1910	Postal savings banks, savings department	2,205,703	46,623,889	21.14	2.63
		do	Postal savings banks, check department	102,574	79,682,452	776.83	2.79
Belgium	7,501,000	Dec. 31, 1911	Government savings banks	2,901,753	194,534,158	67.04	25.93
		Dec. 31, 1910	Communal and private savings banks	46,997	11,679,721	248.52	1.56
Bulgaria	4,285,000	do	Postal savings banks	280,775	9,129,423	32.52	2.13
Chile	3,415,000	June 30, 1911	Caja de ahorros	268,731	10,543,275	39.23	3.09
Denmark [2]	2,757,000	Mar. 31, 1910	Communal and corporate savings banks	1,166,607	174,182,302	149.28	63.18
Egypt	11,629,000	Dec. 31, 1910	Government savings banks	104,095	2,255,464	21.67	.19
France	39,602,000	Dec. 31, 1911	Private savings banks	8,411,791	754,255,333	89.67	9.05
		Dec. 31, 1910	Postal savings banks	5,786,035	329,974,970	57.03	8.33
Algeria	5,232,000	Dec. 31, 1908	Municipal savings banks	19,301	934,380	48.41	.18
Tunis	1,923,000	Dec. 31, 1910	Postal savings banks	5,701	1,288,268	225.97	.67
Germany	64,432,000	do	Public and corporate savings banks	21,534,034	3,993,775,184	185.46	61.98
Luxemburg	246,000	do	State savings bank	69,202	11,863,592	171.43	48.23
Hungary [4]	20,886,000	do	Postal savings banks, savings department	775,970	21,894,118	28.22	1.05
		do	Postal savings banks, check department	20,716	20,075,888	969.10	.96
Italy	34,687,000	June 30, 1911	Communal and corporate savings banks	2,294,063	472,879,910	206.13	13.63
		June 30, 1910	Postal savings banks	5,160,008	324,279,617	62.84	9.35
Japan	51,547,000	Dec. 31, 1910	Private savings banks	7,500,470	73,106,674	9.75	1.42
		Mar. 31, 1912	Postal savings banks	11,950,158	91,896,942	7.69	1.78
Formosa	3,341,000	Dec. 31, 1910	Private savings banks	6,779	121,327	17.90	.04
		Mar. 31, 1911	Postal savings banks	100,819	955,592	9.48	.28
China and Korea		do	do	207,195	3,098,571	14.95	
Netherlands	5,945,000	Dec. 31, 1909	Private savings banks	433,209	41,718,485	96.30	7.02
		Dec. 31, 1910	Postal savings banks	1,510,033	66,039,592	43.73	11.11
Dutch East Indies	37,717,000	do	Private savings banks	13,228	2,887,566	218.29	.08
		Dec. 31, 1911	Postal savings banks	91,898	3,616,685	39.36	.10
Dutch Guiana	86,000	Dec. 31, 1910	do	9,478	337,925	35.65	3.86
Norway	2,393,000	do	Communal and private savings banks	1,001,310	135,886,457	135.71	56.78
Roumania [5]	6,866,000	July 1, 1910	Government savings banks	218,690	11,616,820	53.12	1.69
Russia [6]	163,779,000	June 30, 1912	State, including postal savings banks	8,189,734	784,117,885	95.74	4.79
Finland	3,120,000	Dec. 31, 1910	Private savings banks	291,603	44,068,779	151.13	14.12
		do	Postal savings banks	50,723	1,396,856	23.39	.45
Spain [7]	19,588,000	Dec. 31, 1910	Private savings banks	495,772	46,931,094	94.66	2.40
Sweden	5,522,000	Dec. 31, 1910	Communal and trustees savings banks	1,560,317	216,755,326	138.92	39.25
		Dec. 31, 1911	Postal savings banks	565,759	12,645,957	22.35	2.29
Switzerland	3,647,000	Dec. 31, 1908	Communal and private savings banks	1,899,332	303,196,216	159.63	83.14

United Kingdom [8]	45,289,000	Nov. 20, 1911	Trustee savings banks	1,849,043	258,083,128	139.58	5.70
		Dec. 31, 1911	Postal savings banks	12,370,646	859,027,319	69.44	18.97
British India [9]	244,127,000	Mar. 31, 1910	....do	1,378,916	51,478,416	37.33	.21
Australia, Commonwealth	4,425,000	1910-11	Government, trustee, and joint-stock savings banks	1,600,112	289,039,353	180.64	65.32
New Zealand	1,008,000	Dec. 31, 1910	Postal savings banks	380,714	68,641,934	180.30	68.10
		....do	Private savings banks	51,508	7,375,302	143.19	7.32
Canada [10]	7,205,000	June 30, 1912	Postal savings banks	146,310	42,683,232	291.73	5.92
		....do	Dominion Government savings banks	35,031	14,171,966	404.55	1.97
British South Africa	6,745,000	1909-10	Government, post-office, and private savings banks	222,772	25,103,835	112.69	3.72
British West Indies	1,679,000	1909-10	Government and post-office savings banks	91,881	6,301,465	68.58	3.75
British colonies, n. e. s	20,427,000	1909-10	....do	219,967	12,921,863	58.74	.63
Total, foreign countries	859,620,000			109,725,758	11,096,223,947	101.13	12.91
United States	95,411,000	Nov. 30, 1912	Postal savings banks [11]	300,000	28,000,000	93.33	.....
		June 14, 1912	Mutual and stock savings banks	10,010,304	4,451,818,523	444.72	46.66
Philippine Islands	8,460,000	June 30, 1912	Postal savings banks	35,802	1,177,435	32.89	.14

[1] The figures of population are for the nearest date to which the statistics of savings banks relate.
[2] Exclusive of 1,809 deposits of $173,011 in savings banks in Faroe Islands, and of data for savings departments of ordinary banks, which comprised 155,160 accounts, credited with $31,370,748 on Mar. 31, 1910.
[3] Exclusive of Brunswick
[4] No separate data available for private and communal savings banks in 1910. The ordinary banks savings banks, and land-credit banks of Hungary held 1,768,455 savings accounts credited with $699,288,107 on Dec. 31, 1910.
[5] Figures for the Casa d'Economie.
[6] Includes 38,958 depositors in school savings depositories, credited with $105,060. The above total is exclusive of $162,185,345 worth of securities held by the savings banks to the credit of depositors.
[7] The peseta has been converted at the rate of 18 cents. Data taken from "España Económica y Financiera," Oct. 21, 1911. Exclusive of data for savings departments of commercial banks, which comprised 124,657 accounts credited with $28,588,964 on Dec. 31, 1910.
[8] Exclusive of Government stock held for depositors, which, at the end of the year, amounted to $120,776,096 in the postal savings banks and to $12,934,743 in the trustee savings banks.
[9] Exclusive of the population of the feudatory States.
[10] Exclusive of data for special private savings banks, which on June 30, 1912, held deposits amounting to $40,828,420. The above total does not include the savings deposits in chartered banks ("Deposits payable after notice or on a fixed day"), which on June 30, 1912, amounted to $631,317,687.
[11] Number of offices, 12,823.

Bank of England.

ISSUE DEPARTMENT.

LIABILITIES.		ASSETS.	
Notes issued	£51,241,210	Government debt	£11,015,100
		Other securities	7,434,900
		Gold coin and bullion	32,791,210
	51,241,210		51,241,210

BANKING DEPARTMENT.

Proprietors' capital	£14,553,000	Government securities	£17,507,945
Rest	3,360,154	Other securities	36,211,089
Public deposits (including exchequer, savings banks, commissioners of national debt, and dividend accounts)	9,936,777	Notes	22,375,490
		Gold and silver coin	912,633
Other deposits	49,139,180		
7-day and other bills	18,046		
	77,007,157		77,007,157

J. G. NAIRNE, *Chief Cashier.*

Dated January 6, 1910.
The above is the statement as it appears in the weekly returns.

BALANCE SHEET, JAN. 6, 1910.

[Arranged so that it corresponds in form with the balance sheets of the other banks given here.]

LIABILITIES.		ASSETS.	
Capital and rest	£17,913,154	Gold coin and bullion and silver coin	£33,703,843
Notes in circulation	28,865,720	Government securities in both departments	28,523,045
7-day and other bills	18,046	Other securities	43,654,989
Public deposits	9,936,777		
Other deposits	49,139,180		
	105,872,877		105,872,877

[NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted so as to show the real position of the accounts.]

It will thus be observed that the note issues are covered by 62.7 per cent gold. The public and private deposits are covered in the banking department by 38.3 per cent of notes and coin, nearly all such reserve being in notes, which, measured by actual gold, would make a gold reserve of only about 25 per cent against the deposits.

It will be observed under the tables of interest rates that this narrow margin has been supplemented by frequent changes of the rate of interest to attract gold from other countries when English commerce requires gold, and it would also appear that in 1847, 1857, and 1867 the Bank of England was permitted to issue legal-tender notes against commercial paper in times of panic in order to extend needed loans, restore confidence, and safeguard the commerce and industry of England.

Imperial Bank of Germany

BALANCE SHEET, DEC. 31, 1908.

[Marks converted as 20=£1.]

LIABILITIES.

Capital and reserve	£12,458,581
Notes in circulation	96,771,474
Amount due on clearing and current accounts	33,944,291
Deposits (not bearing interest)	25,167
Sundry liabilities and reserve for doubtful debts	720,072
Net profits for 1907	1,537,287
	146,756,872

ASSETS.

Gold in bars	£16,792,075	
German gold coin	21,620,898	
		£38,412,973
Divisional money		10,594,046
		49,007,019
Notes of imperial treasury (Reichskassenscheinen)		2,876,243
Notes of other banks		505,105
Bills held:		
Due within 15 days		22,660,590
Due at later dates		28,939,529
		51,600,119
Bills on foreign places		6,457,493
		58,057,612
Loans		8,796,468
Securities		19,724,627
Value of real property belonging to the bank		2,849,450
Sundry assets		4,940,348
		146,756,872

[NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted so as to show the real position of the accounts.]

It will be observed that the Bank of Germany carries 50 per cent of gold against its notes and 37.1 per cent of gold against its notes and deposits, but the Bank of Germany can also issue legal-tender notes against commercial paper of a qualified class.

It will be observed that the Bank of Germany also carries a large volume of quick assets. Thus the Bank of Germany, like the Bank of England and the Bank of France, holds its reserves liquid and always available for loaning for commercial and industrial needs.

20366 O—58——17

Bank of France.

BALANCE SHEET, DEC. 31, 1908.

[Francs converted as 25=£1.]

LIABILITIES.			ASSETS.		
Capital of the bank		£7,300,000	Coin and bullion at Paris and at the branches		£175,401,607
Reserve and profits in addition to capital		1,700,774	Bills due yesterday to be received this day		1,757
Notes payable to bearer in circulation (head office and branches)		197,972,403	Amount of bills:		
Drafts		914,397	Paris	£9,920,192	
Current account with the treasury		7,199,491	Branches	18,886,626	
Current accounts and deposit accounts:					28,806,818
Paris	£22,780,727		Advances on securities:		
Branches	2,721,524		Paris	6,332,341	
		25,502,251	Branches	14,478,603	
Dividends unpaid, etc		1,876,386			20,810,944
			Advances to Government (laws of June 9, 1857; June 13, 1878; Nov. 17, 1897)		7,200,000
			Government stock reserve fund		519,230
			Disposable funds, Government stock		3,985,234
			Immovable funds, Government stock (law of June 9, 1857)		4,000,000
			Amount appropriated to special reserve		336,298
			Office and furniture of the bank and buildings at the branches, etc		1,403,814
		242,465,702			242,465,702

[NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted so as to show the real position of the accounts.]

This table shows that the Bank of France carries 88 per cent in coin against notes, the coin including both gold and silver, however, and carries 75 per cent of coin against notes and deposits. Its authorized issue of notes is 5,800,000,000 francs, or £232,000,000, which leaves a margin of over £35,000,000 sterling, or $175,000,000 margin of notes, besides the quick assets which it constantly carries, just as the Bank of England does.

The need for large cash reserves in France is due to the fact that the check system (currency) against deposits is not developed in France as in England and in the United States

Bank of the Netherlands.

BALANCE SHEET, MAR. 31, 1909.

[Guilders converted as 12=£1.]

LIABILITIES.		ASSETS.	
Capital	£1,666,667	Coin, bullion, etc	£13,665,502
Reserve	435,955	Inland bills	3,514,247
Notes in circulation	22,798,206	Foreign bills	1,550,309
Transfers	173,200	Loan accounts	4,144,246
Current accounts	539,849	Advances on current accounts	1,882,021
Discount on—		Investments:	
Inland bills	10,521	Capital	332,662
Foreign bills	3,060	Reserve	432,708
Sundry liabilities	59,598	Sundry assets, buildings	255,721
Net profit for distribution	90,360		
	25,777,416		25,777,416

[NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted so as to show the real position of the accounts.]

This bank carries gold against its notes of 58 per cent and gold against notes and deposits of 57 per cent, its deposits being very small.

National Bank of Belgium.

BALANCE SHEET, DEC. 31, 1908.

[Francs converted as 25=£1.]

LIABILITIES.		ASSETS.	
Capital paid up	£2,000,000	Specie and bullion	£6,326,529
Reserve fund	1,444,899	Bills discounted (bills in Belgium, £19,738,332; foreign bills, £7,421,639; total, £27,159,971)	27,159,971
Notes in circulation	32,275,122	Securities due for collection	193,849
Current accounts	4,028,662	Advances on Government securities	2,056,765
Stamp duty, share of profits due to the Government, employees' superannuation, provident funds, dividends due, etc	1,029,776	Government and reserve fund securities	3,418,343
		Securities for current accounts, etc	1,623,002
	40,778,459		40,778,459

[NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted so as to show the real position of the accounts.]

The Bank of the Netherlands carries 58 per cent of gold against its notes and 57 per cent of gold against its notes and deposits. This bank only carries a very small line of deposits.

The National Bank of Belgium carries 19 per cent of gold against its notes and 17 per cent of gold against its notes and deposits.

The three great banks of England, France, and Germany, as above mentioned, practically provide the gold accommodation needed by western European commerce, the two latter banks, however, serving a useful local purpose.

Reserve of actual gold versus notes only, versus notes and deposits against deposits only.

Ratio of gold reserves against notes and deposits.	Versus notes only.	Versus both notes and deposits.	Versus deposits only.
	Per cent.	*Per cent.*	*Per cent.*
Bank of England	62.7	38.3	[1] 25
Reichsbank	50.0	37.1	.....
Bank of France	86.0	75.0	.....
Netherlands	58.0	57.9	.....
Belgium	19.0	17.0	.....

[1] Banking department.

TABLE 1.—*Rate of discount—Number of changes in each year at the Banks of England, France, Germany, Holland (1844–1909), and Belgium (1851–1909.)*

Year	Bank of England.			Bank of France.			Bank of Germany			Bank of Holland.			Bank of Belgium.		
	Rise.	Fall.	Total.	Rise.	Fall.	Total.	Rise.	Fall.	Total.	Rise.	Fall.	Total.	Rise.	Fall.	Total.
	Per ct.	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*
1844	.....	1	1	(1)	(1)	(1)	1	.....	1	(1)	(1)	(1)	(2)	(2)	(2)
1845	2	.....	2	(1)	(1)	(1)	1	1	2	5	.....	5	(2)	(2)	(2)
1846	.....	1	1	(1)	(1)	(1)	1	1	2	.....	2	2	(2)	(2)	(2)
1847	6	3	9	1	1	2	.....	1	1	1	.....	1	(2)	(2)	(2)
1848	.....	3	3	(1)	(1)	(1)	1	1	2	1	3	4	(2)	(2)	(2)
1849	.....	1	1	(1)	(1)	(1)	.....	1	1	.....	1	1	(2)	(2)	(2)
1850	1	.....	1	(1)	(1)	(1)	(1)	(1)	(1)	.....	1	1	(2)	(2)	(2)
1851	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
1852	.....	2	2	.....	1	1	(1)	(1)	(1)	(1)	(1)	(1)	.....	1	1
1853	6	.....	6	1	.....	1	1	.....	1	2	.....	2	(1)	(1)	(1)
1854	1	1	2	1	1	2	.....	1	1	(1)	(1)	(1)	(1)	(1)	(1)
1855	4	4	8	2	.....	2	1	.....	1	2	.....	2	(1)	(1)	(1)
1856	2	5	7	1	1	2	3	1	4	3	.....	3	1	.....	1
1857	6	3	9	4	4	8	4	2	6	5	3	8	3	1	4
1858	.....	6	6	.....	4	4	1	4	5	.....	6	6	.....	4	4
1859	2	3	5	1	1	2	1	1	2	(1)	(1)	(1)		1	1
1860	8	3	11	1	.....	1	(1)	(1)	(1)	(1)	(1)	(1)		1	1
1861	3	8	11	4	3	7	(1)	(1)	(1)	2	.....	2	3	2	5
1862	2	3	5	1	3	4	(1)	(1)	(1)	2	2	4	1	2	3
1863	8	4	12	5	3	8	1	.....	1	4	2	6	3	.....	3
1864	7	8	15	4	7	11	3	1	4	5	4	9	2	4	6
1865	8	8	16	2	4	6	3	2	5	6	5	11	3	3	6
1866	5	9	14	2	5	7	1	7	8	4	7	11	2	4	6
1867	.....	3	3	.....	2	2	(1)	(1)	(1)	2	4	6	.....	1	1
1868	2	.....	2	(1)	(1)	(1)	(1)	(1)	(1)	.....	2	2	(1)	(1)	(1)
1869	3	4	7	(1)	(1)	(1)	1	.....	1	5	.....	5	(1)	(1)	(1)
1870	4	6	10	4	.....	4	2	3	5	4	8	12	2	3	5
1871	4	6	10	1	1	2	.....	2	2	.....	2	2	5	6	11
1872	9	5	14	.....	1	1	1	.....	1	5	1	6	6	3	9
1873	11	13	24	2	2	4	3	4	7	4	5	9	9	8	17
1874	6	7	13	.....	2	2	2	2	4	.....	3	3	3	6	9
1875	5	7	12	(1)	(1)	(1)	2	3	5	.....	1	1	3	6	9
1876	1	4	5	.....	1	1	3	3	6	(1)	(1)	(1)	.....	2	2
1877	4	3	7	.....	1	1	3	4	7	(1)	(1)	(1)	1	1	2
1878	6	4	10	1	.....	1	1	2	3	2	.....	2	2	1	3
1879	.....	5	5	1	1	2	2	3	5	.....	2	2	1	3	4
1880	1	1	2	1	1	2	2	3	5	(1)	(1)	(1)	1	1	2
1881	4	2	6	2	.....	2	2	1	3	3	.....	3	4	3	7

1882	3	3	6	.....	3	3	2	2	4	5	3	8	4	6	10
1883	1	5	6	.....	1	1	.....	1	1	.....	4	4	.....	1	1
1884	4	3	7	(1)	(1)	(1)	(1)	(1)	(1)	.....	1	1	1	1	2
1885	2	5	7	(1)	(1)	(1)	1	2	3	.....	1	1	1	3	6
1886	4	3	7	(1)	(1)	(1)	3	2	5	(1)	(1)	(1)	2	4	4
1887	2	4	6	(1)	(1)	(1)	.....	2	2	(1)	(1)	(1)	2	.....	2
1888	4	5	9	2	2	4	2	.....	2	(1)	(1)	(1)	4	2	6
1889	4	4	8	.....	2	2	2	2	4	(1)	(1)	(1)	1	3	4
1890	4	7	11	(1)	(1)	(1)	2	1	3	4	.....	4	.....	2	2
1891	5	7	12	(1)	(1)	(1)	1	3	4	.....	3	3	(1)	(1)	(1)
1892	1	3	4	.....	1	1	1	1	2	.....	1	1	.....	1	1
1893	6	6	12	(1)	(1)	(1)	2	1	3	4	2	6	1	.....	1
1894	.....	2	2	(1)	(1)	(1)	.....	2	2	.....	2	2	(1)	(1)	(1)
1895	(1)	(1)	(1)	.....	1	1	1	.....	1	(1)	(1)	(1)	.....	1	1
1896	3	.....	3	(1)	(1)	(1)	2	1	3	2	.....	2	1	.....	1
1897	2	4	6	(1)	(1)	(1)	2	3	5	.....	1	1	(1)	(1)	(1)
1898	3	3	6	1	.....	1	4	2	6	.....	1	1	1	.....	1
1899	4	2	6	2	.....	2	4	3	7	4	.....	4	4	2	6
1900	1	5	6	1	3	4	.....	3	3	.....	3	3	.....	2	2
1901	2	4	6	(1)	(1)	(1)	1	3	4	1	.....	1	.....	2	2
1902	1	2	3	(1)	(1)	(1)	1	2	3	(1)	(1)	(1)	(1)	(1)	(1)
1903	1	2	3	(1)	(1)	(1)	1	1	2	1	.....	1	1	2	3
1904	.....	2	2	(1)	(1)	(1)	1	.....	1	.....	1	1	(1)	(1)	(1)
1905	2	1	3	(1)	(1)	(1)	4	3	7	1	1	2	1	.....	1
1906	4	2	6	(1)	(1)	(1)	3	2	5	3	.....	3	1	2	3
1907	4	3	7	2	.....	2	2	2	4	1	2	3	3	.....	3
1908	.....	6	6	.....	2	2	.....	6	6	.....	3	3	.....	5	5
1909	4	2	6	(1)	(1)	(1)	2	1	3	1	1	2	1	.....	1
	202	241	443	50	65	115	91	105	196	94	94	188	86	106	192

[1] No change.

[2] Operations commenced in 1851.

TABLE II.—*Lowest and highest rates charged and extent of fluctuation during each year, Banks of England, France, Germany, Holland (1844-1909), and Belgium (1851-1909).*

Year.	Bank of England.			Bank of France.			Bank of Germany.			Bank of Holland.			Bank of Belgium.		
	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.
	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.
1844	(1)	(1)	(1)	(1)	(1)	(1)	4	4½	½	(1)	(1)	(1)	(2)	(2)	(2)
1845	2½	3½	1	(2)	(2)	(2)	4	5	1	2½	5½	3	(2)	(2)	(2)
1846	3	3½	½	(2)	(2)	(2)	4	5	1	4	5½	1½	(2)	(2)	(2)
1847	3	8	5	4	5	1	4½	5	½	4	5	1	(2)	(2)	(2)
1848	3	5	2	(2)	(2)	(2)	4½	5	½	3	5	2	(2)	(2)	(2)
1849	2½	3	½	(2)	(2)	(2)	4	4½	½	2½	3	½	(2)	(2)	(2)
1850	2½	3	½	(2)	(2)	(2)	(2)	(2)	(2)	2	2½	½	(2)	(2)	(2)
1851	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(1)	(1)	(1)	(2)	(2)	(2)
1852	2	2½	½	3	4	1	(2)	(2)	(2)	(1)	(1)	(1)	3	4	1
1853	2	5	3	3	4	1	4	5	1	2	3	1	(2)	(2)	(2)
1854	5	5½	½	4	5	1	4	5	1	(1)	(1)	(1)	(2)	(2)	(2)
1855	3½	7	3½	4	6	2	4	4½	½	3	4	1	(2)	(2)	(2)
1856	4½	7	2½	5	6	1	4	6	2	4	5½	1½	3	4	1
1857	5½	10	4½	5	9	4	5	7½	2½	4	7	3	3½	5½	2
1858	2½	8	5½	3	5	2	4	6½	2½	3	7	4	3	5	2
1859	2½	4½	2	3	4	1	4	5	1	(1)	(1)	(1)	3	4	1
1860	2½	6	3½	3½	4½	1	(2)	(2)	(2)	(1)	(1)	(1)	3	4	1
1861	3	8	5	4½	7	2½	(2)	(2)	(2)	3	4	1	3	5	2
1862	2	3	1	3½	5	1½	(2)	(2)	(2)	3½	4	½	3	4	1
1863	3	8	5	3½	7	3½	4	4½	½	3	5	2	3	5½	2½
1864	6	9	3	4½	8	3½	4½	7	2½	4½	7	2½	4	6	2
1865	3	7	4	3	5	2	4	7	3	3	6	3	3	6	3
1866	3½	10	6½	3	5	2	4	9	5	4½	7	2½	3	6	3
1867	2	3½	1½	2½	3	½	(2)	(2)	(2)	2½	4½	2	2½	3	½
1868	2	3	1	(2)	(2)	(2)	(2)	(2)	(2)	2½	3½	1	(2)	(2)	(2)
1869	2½	4½	2	(2)	(2)	(2)	4	5	1	2½	5	2½	(2)	(2)	(2)
1870	2½	6	3½	2½	6	3½	4	8	4	3	6	3	2½	6	3½
1871	2	5	3	5	6	1	4	5	1	3	4	1	2½	5½	3
1872	3	7	4	5	6	1	4	5	1	2½	5	2½	2½	5½	3
1873	3	9	6	5	7	2	4	6	2	4	6½	2½	3½	7	3½
1874	2½	6	3½	4	5	1	4	6	2	3½	5	1½	3½	6	2½
1875	2	6	4	(2)	(2)	(2)	4	6	2	3	3½	½	3	4½	1½
1876	2	5	3	3	4	1	3½	6	2½	(2)	(2)	(2)	2½	3½	1
1877	2	5	3	2	3	1	4	5½	1½	(2)	(2)	(2)	2½	3½	1
1878	2	6	4	2	3	1	4	5	1	3	4	1	2½	4½	2
1879	2	5	3	2	3	1	3	4½	1½	3	4	1	2½	4	1½
1880	2½	3	½	2½	3½	1	4	5½	1½	(1)	(1)	(1)	3	3½	½

1881	2½	5	2½	3½	5	1½	4	5½	1½	3½	4½	1	3½	5½	2
1882	3	6	3	3½	5	1½	4	6	2	3½	5½	2	3½	6	½
1883	3	5	2	3	3½	½	4	5	1	3½	5½	2	3½	4	½
1884	2	5	3	[1]	[1]	[1]	[1]	[1]	[1]	3	3½	½	3	4	[illegible]
1885	2	5	3	[1]	[1]	[1]	4	5	1	2½	3	½	3	4	1
1886	2	5	3	[1]	[1]	[1]	3	5	2	[1]	[1]	[1]	2½	4	½
1887	2	5	3	[1]	[1]	[1]	3	5	2	[1]	[1]	[1]	2½	3½	1
1888	2	5	3	2½	4½	2	3	4½	1½	[1]	[1]	[1]	2½	5	2½
1889	2½	6	3½	3	4	1	3	5	2	[1]	[1]	[1]	3	5	2
1890	3	6	3	[1]	[1]	[1]	4	5½	1½	2½	4½	2	3	4	1
1891	2½	5	2½	[1]	[1]	[1]	3	5½	2½	3	4½	1½	[1]	[1]	[1]
1892	2	3½	1½	2½	3	½	3	4	1	2½	3	½	2½	3	½
1893	2½	5	2½	[1]	[1]	[1]	3	5	2	2½	5	2½	2½	3	½
1894	2	3	1	[1]	[1]	[1]	3	5	2	2½	3½	1	[1]	[1]	[1]
1895	[1]	[1]	[1]	2	2½	½	3	4	1	[1]	[1]	[1]	2½	3	½
1896	2	4	2	[1]	[1]	[1]	3	5	2	2½	3½	1	2½	3	½
1897	2	4	2	[1]	[1]	[1]	3	5	2	3	3½	½	[1]	[1]	[1]
1898	2½	4	1½	2	3	1	3	6	3	2½	3	½	3	4	1
1899	3	6	3	3	4½	1½	4	7	3	2½	5	2½	3½	5	1½
1900	3	6	3	3	4½	1½	5	7	2	3½	5	1½	4	5	1
1901	3	5	2	[1]	[1]	[1]	3½	4½	1	3	3½	½	3	4	1
1902	3	4	1	[1]	[1]	[1]	3	4	1	[1]	[1]	[1]	[1]	[1]	[1]
1903	3	4	1	[1]	[1]	[1]	3½	4	½	3	3½	½	3	4	1
1904	3	3½	½	[1]	[1]	[1]	4	5	1	3	3½	½	[1]	[1]	[1]
1905	2½	4	1½	[1]	[1]	[1]	3	6	3	2½	3	½	3	4	1
1906	3½	6	2½	[1]	[1]	[1]	4½	7	2½	3	5	2	3½	4½	1
1907	4	7	3	3½	4	½	5½	7½	2	5	6	1	4	6	2
1908	2½	6	3½	3	3½	½	4	6½	2½	3	5	2	3	6	3
1909	2½	5	2½	[1]	[1]	[1]	3½	5	1½	2½	3	½	3	3½	½

[1] No change.

[2] Operations commenced in 1851.

TABLE III.—*Rate of discount, 1844–1909—The number of days at each rate, arranged from the lowest rate to the highest.*

Rate.	Bank of England.[1]		Bank of France.[2]		Imperial Bank of Germany.[3]		Bank of the Netherlands.[4]		National Bank of Belgium.[5]	
	Number of days.	Number of days per cent of total (total=1,000).	Number of days.	Number of days per cent of total (total=1,000).	Number of days.	Number of days per cent of total (total=1,000).	Number of days.	Number of days per cent of total (total=1,000).	Number of days.	Number of days per cent of total (total=1,000).
2 per cent	3,409	143	2,735	115	.....	.....	1,328	56	.....	.....
2½ per cent	28	1	.....	.....	.....	.....	.....	.....	.....	.....
2½ per cent	3,590	151	2,579	108	.....	.....	5,058	212	3,169	147
3 per cent	5,859	246	7,828	329	3,073	129	8,013	336	9,412	437
3½ per cent	1,921	80	2,060	86	644	27	3,737	157	2,965	138
4 per cent	3,772	158	4,579	192	12,192	511	2,167	91	3,416	159
4½ per cent	608	26	353	15	1,626	68	811	34	698	32
5 per cent	2,195	92	2,061	86	4,094	172	1,823	76	944	44
5½ per cent	263	11	120	5	707	30	375	16	378	18
6 per cent	975	41	1,170	49	970	41	260	11	540	25
6½ per cent	91	4	8	.....	72	3	150	6	.....	.....
7 per cent	633	26	286	12	269	11	135	5	27	.....
7½ per cent	.....	.....	21	1	110	5	.....	.....	.....	.....
8 per cent	268	11	41	2	37	1	.....	.....	.....	.....
9 per cent	95	4	16	.....	63	2	.....	.....	.....	.....
10 per cent	141	6	.....	.....	.....	.....	.....	.....	.....	.....
Total	23,857	1,000	23,857	1,000	23,857	1,000	23,857	1,000	21,549	1,000

[1] Lowest rate 2 per cent; highest rate 10 per cent.
[2] Lowest rate 2 per cent; highest rate 9 per cent.
[3] Lowest rate 3 per cent; highest rate 9 per cent.
[4] Lowest rate 2 per cent; highest rate 7 per cent.
[5] Lowest rate 2½ per cent; highest rate 7 per cent.

TABLE IV.—*Rate of discount, 1844–1909—The number of days at each rate, arranged from the highest number of days to the lowest.*

Bank of England.			Bank of France.			Imperial Bank of Germany.			Bank of the Netherlands.			Bank of Belgium.		
Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).
5,859	3	246	7,828	3	329	12,192	4	511	8,013	3	336	9,412	3	437
3,772	4	158	4,579	4	192	4,094	5	172	5,058	2½	212	3,416	4	159
3,559	2½	151	2,735	2	115	3,073	3	129	3,737	3½	157	3,169	2½	147
3,409	2	143	2,579	2½	108	1,626	4½	68	2,167	4	91	2,965	3½	138
2,195	5	92	2,061	5	86	970	6	41	1,823	5	76	944	5	44
1,921	3½	80	2,060	3½	86	707	5½	30	1,328	2	56	698	4½	32
975	6	41	1,170	6	49	644	3½	27	811	4½	34	540	6	25
633	7	26	353	4½	15	269	7	11	375	5½	16	378	5½	18
608	4½	26	286	7	12	110	7½	5	260	6	11	27	7	.....
268	8	11	120	5½	5	72	6½	3	150	6½	6	.....	.....	.....
263	5½	11	41	8	2	63	9	2	135	7	5	.....	.....	.....
141	10	6	21	7½	1	37	8	1	.....	.....	.....	.....	.....	.....
95	9	4	16	9	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
91	6½	4	8	6½	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
28	2½	1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
23,857	.....	1,000	23,857	.....	1,000	23,857	.....	1,000	23,857	.....	1,000	21,549	.....	1,000

It will thus be seen that these great banks holding the national reserves have been able to furnish commerce with a very low rate of discount for nearly all the time and only occasionally have been compelled to raise the rate to a high point.

These low rates illustrate the enormous value of these great banks to European commerce and the urgent necessity for action by the United States along similar lines.

AMERICAN INTEREST RATES.

1906.

	Jan. 29.	Apr. 6.	June 18.	Sept. 4.	Nov. 12.
Cash (in thousands)	$668,303	$620,000	$651,283	$626,013	$634,550
Loans	4,071,041	4,141,176	4,206,890	4,288,983	4,366,045
Individual deposits	4,088,420	3,978,467	4,055,873	4,199,938	4,289,773
Bank deposits	1,595,494	1,557,257	1,555,267	1,589,001	1,599,943
Rates for money.					
New York call loans:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	2½-60	2 -90	2 -6	2 -90	6 -27
Average	8½	9½	3½	9½	7¾
Banks and trust companies	4 -50	4 -6	2½-3	3 -6	3 -6
Time loans:					
30 days	8 -8½	5 -8	4 -4½		
60 days	4½- 7	5 -7½	3½-5½	7 -7½	7 -8
90 days	4½- 6	5 -6½	4 -5	6½ -8	6½- 7½
4 months	4½- 6	5 -6	4½-5	7 -7½	6½- 7
5 months	4½- 5½	5 -6	4½-5	6½ -6½	6 -6½
6 months	4½- 5½	5 -6	4½-5	6½ -6½	6 -6½
7 months	4½- 5½	5 -5½	5½-5½		6
Commercial paper:					
Double names—					
Choice 60 to 90 days	4 -5	4½ -6			6 -6½
Single names—					
Prime, 4 to 6 months	4½ -5½	4½ -6			6 -6½
Good, 4 to 6 months	5½ -6	5 -6½			6 -7½

1907.

	Jan. 26.	Mar. 22.	May 20.	Aug. 22.	Dec. 3.
Cash (in thousands)	$695,503	$656,226	$691,581	$701,623	$660,785
Loans	4,403,267	4,535,844	4,631,143	4,678,583	4,585,337
Individual deposits	4,115,650	4,269,511	4,322,880	4,319,035	4,176,873
Bank deposits	1,676,926	1,637,158	1,685,540	1,595,493	1,387,886
Rates for money.					
New York call loans:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	1½-45	2 -25	1½-3	1½-6	2-25
Average	5	6½	2½	3	14
Banks and trust companies	2 -3	3 -6	1½-2½	2 -2½	
Time loans:					
30 days	5½- 7	6 -8	2½-3½	5 -6	15-18
60 days	4½- 7	6 -7½	3½-4	5 -6½	8-12
90 days	5 -7	5½- 7	3½-4½	6 -7	8-12
4 months	5½- 6½	5½- 6½	4 -4½	6 -7	7- 8
5 months	5½ -6½	5½- 6	4½-4½	6½ 7	7
6 months	5½ -6½	5½- 6	4½-4½	6½ -7	6- 8
7 months					6- 7
Commercial paper:					
Double names—					
Choice, 60 to 90 days	5¾ 6½	6 -6½	5 -5½	6 -6½	8 nom.
Single names—					
Prime, 4 to 6 months	5¾- 6½	6 -6½	5 -5½	6 -6½	8 nom.
Good, 4 to 6 months	6½- 7	6½- 7	5½-6	6½-7	

AMERIBAN INTEREST RATES—continued.

1908.

	Feb. 14.	May 14.	July 15.	Sept. 23.	Nov. 27.
Cash (in thousands)	$788,395	$861,326	$849,018	$868,424	$844,759
Loans	4,422,353	4,528,346	4,615,675	4,750,612	4,840,367
Individual deposits	4,105,814	4,312,656	4,374,551	4,548,135	4,720,284
Bank deposits	1,584,426	1,692,421	1,822,853	1,941,665	1,958,831
Rates for money.					
New York call loans:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	1½–2½	1 –2	1 –1½	1 –2	1 –3
Average	1½	1½	1½	1½	1½
Banks and trust companies	1½–2	1 –1½	1	1 –1½	1 –1½
Time loans:					
30 days	.....	2 –2½	1½	.....	.....
60 days	3½–4½	2½–2¾	1½–1¾	1½–2½	2½–3½
90 days	4 –4½	2½–3	2 –3	2 –3	3 –3½
4 months	4½–4½	3 –3½	2½–3½	2½–3½	3½–4
5 months	4½–5	3½–4	2½–3½	3 –3½	3½–4
6 months	4½–5	3½–4	3½–4	3½–3½	3½–4
7 months	.....	4½–4½	.....	.....	.....
8 months	.....	.....	.....	.....	.....
Commercial paper:					
Double names—					
Choice, 60 to 90 days	5½–6	3½–4½	3½–4	3½–4	3½–4½
Single names—					
Prime, 4 to 6 months	5 –6	3½–4½	3½–4	3½–4½	4 –5
Good, 4 to 6 months	5½–6	4 –4½	4 –5	4½–5	4½

1909.

	Feb. 5.	Apr. 28.	June 23.	Sept. 1.	Nov. 16.
Cash (in thousands)	$860,117	$878,457	$885,915	$854,071	$804,960
Loans	4,840,766	4,963,110	5,035,883	5,128,882	5,148,787
Individual deposits	4,699,682	4,826,060	4,898,576	5,009,893	5,120,442
Bank deposits	2,035,169	2,046,753	2,034,663	2,018,813	1,886,260
Rates for money.					
New York call loans:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	1½–3	1½–2½	1½–2	2½–3	3½–6
Average	2¼	1¾	1¾	2⅝	4⅜
Banks and trust companies	1½–2	1½–1¾	1½–1¾	2½–2¾	.....
Time loans:					
30 days	.....	.....	.....	.....	.....
60 days	2½–2¾	2½–2¾	2 –2½	2¾–3¼	4½–5½
90 days	2½–3	2½–2¾	2½–2¾	3¼–4	4½–5½
4 months	2½–3	2½–2¾	2⅝–3	3¼–5	4½–5
5 months	2½–3½	2½–3	2¾–3½	3½–5	4½–5
6 months	3 –3½	2¾–3	3¼–3½	4½–5	4½–5
7 months	3½–3½	3 –3½	.....	.....	.....
8 months	.....	.....	3½–4	.....	.....
Commercial paper:					
Double names—					
Choice, 60 to 90 days	3 –3¼	3 –3¼	3 –3½	3¾–4½	4½–5½
Single names—					
Prime, 4 to 6 months	3¾–4	3¾–4	3½–4	4 –5	5 –6
Good, 4 to 6 months	4 –4½	4 –4½	4 –4½	4½–5	5½–6½

AMERICAN INTEREST RATES—continued.

1910.

	Jan. 31.	Mar. 29.	June 30.	Sept. 1.	Nov. 10.
Cash (in thousands)	$833,079	$834,895	$820,773	$851,685	$816,071
Loans	5,229,503	5,432,093	5,430,150	5,467,638	5,450,644
Individual deposits	5,190,835	5,227,851	5,287,312	5,145,658	5,304,788
Bank deposits	1,966,594	1,988,000	1,900,135	1,943,691	1,906,360
Rates for money.					
New York call loans:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	1–14	1½–3½	2 –3½	1½–13	2 –4½
Average	4½	2½	2½	2	3½
Time loans:					
60 days	3¾– 4½	3½–4	3 –3½	3½– 4½	4 –5½
90 days	4 – 4½	3½–4½	3 –3½	4 – 4½	4 –5½
4 months	4 – 4½	3½–4½	3½–3½	4½– 5	4 –5½
5 months	4 – 4½	3½–4½	3½–4½	4½– 5	4 –5
6 months	4 – 4½	3¾–4½	4 –4½	4½– 5	4 –5
Commercial paper:					
Double names—					
Choice, 60 to 90 days	4½– 5	4 –5	4½–5	5½– 5¾	4¾–6
Single names—					
Prime, 4 to 6 months	4½– 5	4½–5	4¾–5½	5½– 6	4¾–6
Good, 4 to 6 months	5 – 5½	4¾–5¾	5 –6	6 – 6½	5½–6½

1911.

	Jan. 27.	Mar. 7.	June 7.	Sept. 1.	Dec. 5.
Cash (in thousands)	$856,267	$908,036	$946,331	$895,475	$862,794
Loans	5,402,642	5,558,039	5,610,787	5,663,411	5,659,109
Individual deposits	5,113,221	5,304,624	5,477,991	5,489,011	5,536,042
Bank deposits	1,991,188	2,224,719	2,147,441	2,088,187	2,085,106
Rates for money.					
New York call loans:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	1½–6	1½–2½	2 –2½	1½–2½	2½–6
Average	3½	2½	2⅜	2¼	4
Time loans:					
30 days	3				3¾–5
60 days	3 –3¾	2½–2¾	2½–3	2¾–3½	3¾–4½
90 days	3 –3¾	2¾–3	2¾–3	3½–3¾	3¾–4½
4 months	3½–4	3 –3½	2¾–3	3¾–4	4 –4½
5 months	3½–4	3 –3½	3 –3½	3¾–4	4 –4½
6 months	3½–4	3 –3½	3½–3½	3¾–4	4 –4½
Commercial paper:					
Double names—					
Choice, 60 to 90 days	3½–4½	3½–4¼	3½–4	4 –5	4 –5
Single names—					
Prime, 4 to 6 months	3½–4½	3½–4¼	3¾–4	4½–5	4½–5
Good, 4 to 6 months	4½–5	4½–5	4½–5	5 –5½	4½–5½

AMERICAN INTEREST RATES—continued.

1912.

	Feb. 20.	Apr. 18.	June 14.	Sept. 4.	Nov. 26.
Cash	$850,497	$931,680	$945,283	$895,950	$859,098
Loans	5,810,433	5,882,166	5,953,904	6,040,841	6,058,982
Individual deposits	5,630,559	5,712,051	5,825,461	5,891,670	5,944,561
Bank deposits	2,381,214	2,248,244	2,178,163	2,177,488	2,101,805
Rates for money.					
Call loans, New York:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	1½–2½	2 –5	2 –3	3 –7½	(1)
Average	2¼	3	2¾	4¾	(1)
Time loans:					
30 days					(1)
60 days	2¼–2½	3 –3½	3	4½–6	(1)
90 days	2½–3	3½–3¾	3 –3½	5 –6	(1)
4 months	3 –3½	3½–4	3½–3¾	5 –6	(1)
5 months	3 –3½	3½–4	3¾–3⅞	5 –6	(1)
6 months	3 –3½	3½–4	3¾–4	5 –6	(1)
Commercial paper:					
Double names—					
Choice, 60 to 90 days	3½–4	4 –4½	3¾–4½	5 –6	(1)
Single names—					
Prime, 4 to 6 months	3½–4½	4 –4½	3¾–4½	5½–6	(1)
Good, 4 to 6 months	4½	5	4 –4½	6 –6½	(1)

1913.

	Feb. 4.	Apr. 4.	June 4.	Aug. 9.	
Cash (in thousands)	$933,417	$888,283	$913,982	$899,769	
Loans	6,125,029	6,178,096	6,143,028	6,168,555	
Individual deposits	5,985,432	5,968,787	5,953,461	5,761,338	
Bank deposits	2,310,560	2,192,345	2,120,551	2,108,550	
Rates for money.					
New York call loans:					
Stock exchange—				*Per cent.*	
Range				2 –2½	
Average				2½	
Time loans:					
60 days				3½	
90 days				4½	
4 months				5	
5 months				5½–6	
6 months				5½–6	
Commercial paper:					
Double names—					
Choice, 60 to 90 days				6 –6½	
Single names—					
Prime, 4 to 6 months				6 –6½	
Good, 4 to 6 months				6½–7	

[1] None compiled.

Reports of New York City banks from January, 1907, to January, 1908, showing loans, individual deposits, and reserves during that period.

Date of call by office of the comptroller.	Banks reporting.	Loans.	Deposits.	Reserves held.	Per cent of reserves.
Jan. 26, 1907	40	$723,319,528	$857,875,410	$230,116,200	26.82
Mar. 22, 1907	37	688,703,472	803,590,176	211,379,340	26.30
May 20, 1907	39	752,566,083	866,332,979	233,329,867	26.93
Aug. 22, 1907	38	712,121,058	825,703,785	221,349,657	26.81
Dec. 3, 1907	40	775,181,207	824,394,509	180,448,128	21.89

It will be observed that the March statement shows loss of forty millions loans and fifty-four millions of deposits; the May statement a relative increase of sixty-four millions loans and sixty-two millions increase in deposits; the August statement a relative decrease in loans of forty millions and a decrease in deposits of forty-one millions; the December statement an increase in loans of sixty-three millions, with no increase of deposits. These violent changes and the violent fluctuations of the interest rates, running to 45 per cent in June and 125 per cent in October, explain the panic and the ruinous changes in stock values due to these contractions and expansions of credits by the unscrupulous manipulators of credits.

Fluctuation of principal stocks during 1907.

Name.	Capital.	Value of stock.											Range of prices.
		Jan. 12.	Feb. 4.	Mar. 4.	Apr. 6.	May.	June 8.	July.	Aug. 10.	Sept. 7.	Oct. 5.	Nov. 9.	Dec.	
1. Allis-Chalmers Co	$19,820,000	43	14½	13½	12⅞	11⅞	10⅞	11½	10	6⅝	6¼	5½	6¼	27 to 4
2. Amalgamated Copper Co	153,287,900	119½	111	110	97½	96	86⅜	92⅜	74⅜	71½	59¼	48	48⅛	130 to 33
3. American Beet Sugar Co	15,000,000	21⅜	18½	18¼	16¼	15½	13	16	11	12	11	8¼	10	36 to 7
4. American Ice Securities Co	19,029,400	85	83	81	80	72½	.....	69¾	54½	52	.....	11¼	16¼	94 to 8
5. American Telephone & Telegraph Co	131,551,400	130	128⅜	.....	122	123	.....	.....	.....	.....	.....	90	103	186 to 88
6. Baltimore & Ohio	152,165,500	119½	115	109½	101½	99½	96	98	93	91	89½	80	82⅜	125 to 55
7. Erie	112,379,900	42⅜	34½	33⅜	25½	24⅜	22½	25½	22	21⅜	18⅜	17⅜	16⅜	52 to 10
8. Great Northern	149,577,300	183½	166½	150½	138	136⅜	127⅞	135⅜	121½	128½	128	113½	119½	348 to 107
9. New York Central	178,292,100	132⅞	125⅜	124½	120½	116⅜	112½	114½	105⅞	105⅞	102½	98	98⅜	174 to 89
10. Southern Railway	119,900,000	31⅜	26⅜	25⅜	22⅜	21⅛	19½	20⅜	17⅞	16½	12⅜	12⅜	40	42 to 10
11. Tennessee Copper	5,000,000	.....	.....	51⅜	.....	41	36⅞	39½	32½	36	30	22	27	.....
12. Tennessee Coal & Iron	22,553,600	158	.....	147	144	145	139	141½	.....	.....	.....	.....	.....	166 to 25
13. Texas Pacific	38,760,000	35⅜	32	32⅜	29½	29	27⅜	31⅞	26	28	25⅜	18⅛	20⅛	54 to 13
14. Third Avenue	16,000,000	122	117½	116½	110	110	105	.....	85	54	40	20	22	141 to 15
15. Union Pacific	195,479,100	180	171⅛	170⅛	141⅜	148½	136⅛	142⅛	127	131⅜	127	111½	116⅜	195 to 44
16. United States Steel Corporation	508,495,200	49⅜	43⅞	43⅞	37⅜	37½	34½	38⅛	31⅜	32½	26⅞	24⅜	27⅛	55 to 8
17. Wabash	38,000,000	17⅜	16½	14⅜	14⅜	14	12⅞	13⅜	12	12⅛	10	9	10½	36 to 6
18. Westinghouse E. & M.	29,996,350	149½	150	150	146½	143⅜	142½	142	141	133	122	47	70	233 to 32
Volume of sales for the week, in number of shares	.....	4,932,000	6,295,615	5,802,476	6,176,753	3,786,059	3,169,313	2,301,758	4,436,982	2,588,258	2,481,097	1,817,591	4,613,552	.....

Condition of 25,193 banks of all kinds, as shown by the Report of the Comptroller of the Currency, June 30, 1912.

COMPARATIVE BANK RESOURCES, 1864–1912.

[The national-bank notes are included in the demand obligations. The 5 per cent redemption fund is also included in the total cash.]

[Amounts in millions.]

Years.	Capital and surplus.	Loans and discounts.	Government deposits.	Total cash in all banks.	Total demand obligations.	Per cent of cash to obligations.
1864	$391.0	$70.7	.....	$198.3	$544.8	$18.5
1865	451.5	362.4	$58.0	199.4	830.5	24.0
1866	501.2	550.4	39.1	231.9	1,122.7	20.0
1867	577.7	588.5	33.3	205.6	1,101.7	17.1
1868	595.8	655.7	28.3	200.7	1,291.8	15.5
1869	615.7	686.3	12.8	162.5	1,337.5	12.1
1870	646.4	719.3	13.2	187.7	1,356.3	13.9
1871	659.8	789.4	11.1	194.0	1,578.2	12.2
1872	748.0	871.5	12.4	177.6	1,693.3	11.6
1873	748.5	1,439.9	15.1	218.2	1,776.5	12.3
1874	750.2	1,564.5	10.6	252.2	1,875.8	13.4
1875	846.8	1,748.1	10.2	238.7	2,115.3	11.2
1876	863.9	1,727.1	11.1	226.4	2,084.5	10.8
1877	874.7	1,720.9	10.9	230.5	2,115.0	10.8
1878	825.4	1,561.2	25.6	214.6	2,043.4	10.5
1879	826.5	1,507.4	252.1	216.3	2,254.0	9.6
1880	825.4	1,662.1	10.7	285.5	2,279.7	12.5
1881	864.3	1,901.9	12.2	295.0	2,621.5	11.2
1882	900.7	2,050.3	12.6	287.1	2,781.9	10.5
1883	973.4	2,133.6	13.9	321.0	2,899.5	11.0
1884	1,036.0	2,260.7	14.2	321.2	2,875.9	11.1
1885	1,040.0	2,272.3	14.0	414.3	3,017.5	13.7
1886	1,080.5	2,456.7	17.1	375.5	3,067.1	12.9
1887	1,267.0	2,944.9	23.2	432.8	3,498.2	13.1
1888	1,347.4	3,161.1	58.4	446.1	3,636.6	13.0
1889	1,425.2	3,475.2	46.7	499.1	3,953.8	14.0
1890	1,552.7	3,842.1	30.6	478.3	4,219.6	11.3
1891	1,648.9	3,965.9	25.9	478.1	4,346.2	11.0
1892	1,721.4	4,336.6	14.2	586.4	4,820.3	12.1
1893	1,781.1	4,368.6	13.7	515.9	4,896.1	10.7
1894	1,752.2	4,085.0	14.1	688.9	4,837.1	14.2
1895	1,759.6	4,268.8	13.2	631.1	5,113.1	12.3
1896	1,756.3	4,251.1	15.4	531.8	5,160.7	10.3
1897	1,725.2	4,216.0	16.4	628.2	5,221.7	12.0
1898	1,724.7	4,652.2	52.9	687.8	5,831.0	11.7
1899	1,734.7	5,177.6	76.3	723.3	6,944.4	10.4
1900	1,906.9	5,657.5	98.9	749.9	7,603.1	9.8
1901	2,031.7	6,425.2	99.1	807.5	8,878.7	9.0
1902	2,298.5	7,189.0	124.0	848.1	9,838.1	8.9
1903	2,595.3	7,738.9	147.3	857.2	10,060.1	8.5
1904	2,753.4	7,982.0	110.3	990.6	10,509.9	9.4
1905	2,902.7	9,027.2	75.3	994.1	11,871.4	8.3
1906	3,224.2	9,893.7	89.9	1,016.4	12,816.6	7.9–6.5
1907	3,335.8	10,763.9	180.7	1,113.7	13,828.2	8.0–6.6
1908	3,513.7	10,438.0	130.3	1,368.3	13,528.5	10.0–8.6
1909	3,634.6	11,373.2	70.4	1,452.0	14,743.2	9.8–8.8
1910	3,832.5	12,521.7	54.5	1,423.8	16,013.5	8.8–8.0
911	4,018.0	13,046.0	48.4	1,554.1	16,640.5	9.3–8.0
1912	4,176.9	13,953.6	58.9	1,572.9	17,790.0	8.2

1912—25,000 banks in above table.

Monetary systems and approximate stocks of money, in the aggregate and per capita, in the principal countries of the world, Dec. 31, 1911.

	Countries.	Monetary standard	Monetary unit.	Population.	Stock of gold.			Stock of silver.			Uncovered paper	Per capita.				
					In banks and public treasuries.	In circulation.	Total.	Full tender.	Limited tender.	Total.		Gold.	Silver.	Paper.	Total.	
				Thousands.	*Thousands.*	*Thousands.*	*Thousands.*	*Thousands.*	*Thousands.*	*Thousands.*	*Thousands.*					
1	United States	Gold	Dollar	94,800	1,429,800	369,800	1,799,600	568,300	167,600	735,900	764,500	$18.98	$7.76	$8.07	$34.81	1
2	Austria-Hungary	do	Crown	49,400	265,700	90,600	356,300	Nil.	122,900	122,900	197,600	7.21	2.49	4.00	13.70	2
3	Belgium	do	Franc	7,300	36,500			8,700	2,400	11,100	139,000	5.00	1.52	19.04	25.56	3
4	British Empire:															4
5	Australia	do	Pound sterling	4,400	207,800	14,600	222,400	Nil.	10,000	10,000		50.54	2.27		52.81	5
6	Canada	do	Dollar	6,200	138,200			Nil.	7,700	7,700	79,100	22.29	1.24	12.76	36.29	6
7	United Kingdom.	do	Pound sterling	45,000	[1]375,000	335,800	[1]710,800	Nil.	116,800	116,800	115,200	15.80	2.59	2.56	20.95	7
8	India	do	Pound sterling and rupee.	295,000	[2]44,600			97,400	45,000	142,400	45,400	.14	.48	.16	.78	8
9	South Africa	do	Pound sterling	7,800	50,400	15,000	65,400	Nil.	20,000	20,000		8.38	2.56		10.94	9
10	Straits Settlements.[3]	do	Dollar	1,600	6,800			Nil.	19,000	19,000	7,500	4.25	11.88	4.68	20.81	10
11	Bulgaria	do	Lev	4,000	7,700			Nil.	4,800	4,800	9,900	1.93	1.20	2.47	5.60	11
12	Cuba	do	Peseta	2,100			42,000	Nil.	5,000	5,000		20.00	2.38		22.38	12
13	Denmark	do	Crown	2,700	19,800	18,500	38,300	Nil.	7,900	7,900	17,300	14.19	2.92	6.41	23.52	13
14	Egypt	do	Piaster	11,300	8,200	174,500	[4]182,700	Nil.	14,300	14,300	6,600	16.17	1.26	.58	18.01	14
15	Finland	do	Markkaa	2,900	6,900	3,700	10,600	Nil.	500	500	14,900	3.66	.17	5.13	8.96	15
16	France	do	Franc	39,300	635,000	565,000	[5]1,200,000	347,400	63,700	411,100	245,900	30.53	10.46	6.26	47.25	16
17	Germany	do	Mark	64,900	[6]205,700			Nil.	253,600	253,600	276,100	3.16	3.90	4.24	11.30	17
18	Greece	do	Drachma	2,600	2,500	1,900	4,400	Nil.	3,000	3,000	27,600	1.69	1.15	10.62	13.46	18
19	Haiti	do	Gourde	1,500	1,300	2,100	3,400	1,000	1,500	2,500	8,200	2.26	1.67	5.47	9.40	19
20	Italy	do	Lira	33,900	288,500			22,700	1,400	24,100	182,300	8.51	.71	5.38	14.60	20
21	Japan	do	Yen	52,200	117,000	16,900	133,900	Nil.	64,200	64,200	101,700	2.57	1.23	1.95	5.55	21
22	Mexico	do	Peso	15,000	31,200			52,000	4,000	56,000	51,200	2.08	3.73	3.41	9.22	22
23	Netherlands	do	Florin	5,900	56,400	19,200	75,600	Nil.	29,000	29,000	64,700	12.81	4.92	10.97	28.70	23
24	Norway	do	Crown	2,400	16,200	4,600	20,800	Nil.	3,700	3,700	8,700	8.67	1.54	3.62	13.83	24
25	Portugal	do	Milreis	5,400	6,500	8,000	14,500	Nil.	33,100	33,100	69,900	2.69	6.13	12.94	21.76	25
26	Roumania	do	Lei	6,800	30,600	2,100	32,700	Nil.	12,600	12,600	43,200	4.81	1.85	6.35	13.01	26
27	Russia	do	Ruble	160,100	611,700	334,600	946,300	Nil.	78,800	78,800		5.91	.49		6.40	27
28	Servia	do	Dinar	2,800	6,500			Nil.	1,300	1,300	4,900	2.32	.46	1.75	4.53	28
29	Siam	do	Tical	7,000	100			Nil.	52,200	52,200	2,100	.01	7.46	.30	7.77	29
30	South American States:															30
31	Argentina	do	Peso	7,000	248,300			Nil.	9,400	9,400	[7]692,200	35.47	1.34	98.89	135.70	31
32	Bolivia	do	Boliviano	2,300	7,900			Nil.	700	700	2,000	3.39	.30	.87	4.56	32
33	Brazil	do	Milreis	20,500	116,500			Nil.	25,000	25,000	[7]77,900	5.68	1.22	3.80	10.70	33
34	Chile	do	Peso	3,500	500			Nil.	8,500	8,500	19,000	.14	2.43	5.43	8.00	34
35	Colombia	do	Dollar	4,300				Nil.			[8]10,000			2.33	2.33	35
36	Ecuador	do	Sucre	1,500	3,300	2,100	5,400	Nil.	1,300	1,300	1,700	3.60	.87	1.13	5.60	36
37	Guiana—															37
38	British	do	Pound sterling	300	100			Nil.	400	400	100	.33	1.34	.33	2.00	38
39	Dutch	do	Florin	100	200			Nil.	300	300	300	2.00	3.00	3.00	8.00	39
40	French	do	Franc	100	100			Nil.	100	100	600	1.00	1.00	6.00	8.00	40
41	Paraguay	do	Peso	800	15,200			Nil.			42,900	19.00		53.63	72.63	41
42	Peru	do	Sol	4,500	8,300	3,900	12,200	Nil.	2,400	2,400		2.71	.53		3.24	42
43	Uruguay	do	Peso	1,100	15,200			Nil.	4,300	4,300	8,000	13.82	3.90	7.28	25.00	43
44	Venezuela	do	Bolivar	2,600	600	2,500	3,100	Nil.	10,800	10,800	800	1.19	4.15	.31	5.65	44
45	Spain	do	Peseta	19,700	74,900	138,200	213,100	Nil.	256,800	256,800	76,000	10.82	13.04	3.85	27.71	45
46	Sweden	do	Crown	5,400	22,800	3,200	26,000	Nil.	8,600	8,600	34,700	4.81	1.59	6.43	12.83	46
47	Switzerland	do	Franc	3,300	31,000	34,700	65,700	Nil.	13,500	13,500	27,900	19.91	4.09	8.45	32.45	47
48	Turkey	do	Piaster	24,000	14,900	127,500	142,400	Nil.	26,400	26,400		5.93	1.10		7.03	48
49	Central American States.	Silver[9]	Peso	5,300	1,300	100	1,400	Nil.	9,200	9,200	89,900	.26	1.74	16.96	18.96	49
	Total			1,040,600	5,167,600			1,097,500	1,523,700	2,621,200	3,567,500					

NOTE.—The blank spaces in this table signify that no satisfactory information is available

[1] Estimates for the United Kingdom prior to that for 1910 were for coin only; these figures include £100,000,000 for bullion in the Bank of England; also $12,200,000 gold belonging to Indian gold-standard reserve.

[2] This is the amount in the currency reserves. Fred. J. Atkinson, accountant general of India, in 1908, estimated the active rupee circulation at 2,040,000,000 rupees; small silver coin at 140,000,000 rupees.

[3] Includes Straits Settlements, the Malay States, and Johore

[4] This estimate is based upon a calculation made by Messrs. P. Arminjon and B. Michel in 1908, who estimated the stock of gold in the country at from 33 000 000 to 41,000,000 Egyptian pounds. The mean of these figures was adopted in this table last year. Since their estimate was made the net imports of gold into Egypt to Dec. 31, 1911, have amounted to $28,919,061; but as there is said to be a considerable absorption of gold for ornaments, no change in the estimate of the monetary stock has been made

[5] Estimate of A. De Foville, 1909.

[6] German war fund and Imperial Bank of Germany. No definite information as to other holdings. The coinage of gold since the establishment of the Empire, less recoinage, amounts to $1,125,023,299, but the exports are unknown, and there has been an industrial consumption.

[7] Gold conversion value.

[8] This amount has been reduced to a gold basis; that is, 100 pesos equal 1 United States gold dollar.

[9] Except Costa Rica and British Honduras (gold-standard countries).

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Statement showing money in circulation from 1860 to 1912.

Year.	Gold in circulation.	United States notes in circulation.	Average gold value of United States notes.[1]	Gold certificates in circulation.	Silver in circulation.		Silver certificates in circulation.	National bank notes in circulation.	Total circulation per capita of national bank notes.	Capital of national banks.	Surplus of national banks.	Individual deposits of national banks.	Number of national banks.	Population.	Total circulation per capita.	Year.
					Standard silver dollars.	Subsidiary silver.										
1860..	$228,304,775	.....	.....	None.	(2)	(2)	None.	.....	.....	.....	.....	.....	.....	31,443,321	$13.85	1860
1861..	246,400,000	.....	.....	None.	(2)	(2)	None.	.....	.....	.....	.....	.....	.....	32,064,000	13.98	1861
1862..	309,697,744	$72,865,665	88.3	None.	(2)	(2)	None.	.....	.....	.....	.....	.....	.....	32,704,000	10.23	1862
1863..	570,394,038	312,481,418	68.9	None.	(2)	(2)	None.	.....	.....	$7,188,393.00	$128,030.26	$8,497,681.84	66	33,365,000	17.84	1863
1864..	644,641,478	415,115,990	49.2	None.	(2)	(2)	None.	$31,235,270	$0.09	86,782,802.00	2,010,286.10	122,166,536.40	508	34,046,000	19.67	1864
1865..	689,971,860	378,916,742	63.6	None.	(2)	(2)	None.	146,406,725	4.12	393,157,206.00	38,713,380.72	500,910,873.22	1,513	34,748,000	20.58	1865
1866..	648,591,701	327,792,305	71	None.	(2)	(2)	None.	276,116,170	7.77	415,472,369.00	53,359,277.64	564,616,777.64	1,664	35,469,000	18.99	1866
1867..	637,126,128	319,437,702	72.4	None.	(2)	(2)	None.	286,889,020	7.92	420,073,415.00	66,695,589.01	540,797,837.51	1,642	36,211,000	18.29	1867
1868..	655,886,198	328,571,665	71.6	None.	(2)	(2)	None.	295,151,410	7.98	420,634,511.00	77,995,761.40	580,940,820.85	1,643	36,973,000	18.42	1868
1869..	640,573,364	314,702,094	75.2	None.	(2)	(2)	None.	292,876,157	7.75	426,399,151.00	86,165,335.32	511,400,196.63	1,617	37,756,000	17.63	1869
1870..	651,284,427	324,962,638	87	None.	(2)	(2)	None.	289,719,714	7.51	435,356,094.00	94,705,740.34	507,368,618.67	1,648	38,558,371	17.51	1870
1871..	693,616,114	343,068,970	89.5	None.	(2)	(2)	None.	314,132,781	7.94	460,225,866.00	101,573,153.62	596,586,487.54	1,790	39,555,000	18.17	1871
1872..	716,548,708	346,168,680	89	None.	(2)	(2)	None.	332,276,164	8.18	482,606,252.00	111,410,248.98	598,114,679.26	1,940	40,596,000	18.27	1872
1873..	728,799,412	348,464,145	87.9	None.	(2)	(2)	None.	340,880,078	8.22	490,266,611.00	120,961,267.91	540,510,602.78	1,976	41,677,000	18.09	1873
1874..	751,083,051	371,421,452	89.9	None.	(2)	(2)	None.	340,265,544	7.97	495,802,481.00	130,485,641.37	682,946,607.45	2,027	42,796,000	18.13	1874
1875..	729,101,947	349,686,335	87	None.	(2)	(2)	None.	340,546,545	7.74	505,485,865.00	133,085,422.30	618,517,245.74	2,086	43,951,000	17.16	1875
1876..	702,609,388	331,447,378	89.8	None.	(2)	(2)	None.	316,120,702	7.00	497,482,016.00	131,390,664.67	619,350,223.06	2,082	45,137,000	16.12	1876
1877..	697,314,883	337,899,344	94.4	None.	(2)	(2)	None.	301,289,025	6.46	477,128,771.00	121,618,455.32	604,512,514.52	2,074	46,353,000	15.58	1877
1878..	704,132,634	320,905,895	99.2	None.	$1,209,251	$53,918,322	$7,080	311,724,361	6.13	464,874,996.00	116,402,118.84	598,905,775.56	2,055	47,598,000	15.32	1878
1879..	110,505,362	301,644,112	100	$15,279,820	81,036,439	61,346,584	414,480	321,404,996	6.16	454,498,515.00	115,429,031.93	755,459,996.01	2,052	48,866,000	16.75	1879
1880..	225,695,779	327,895,457	100	7,963,900	20,110,557	48,511,788	5,789,569	337,415,178	6.72	458,540,085.00	121,824,629.03	1,006,452,852.82	2,095	50,155,783	.9.41	1880
1881..	315,312,877	328,126,924	100	5,759,520	29,342,412	46,839,364	39,110,729	349,746,293	6.81	465,639,835.00	129,867,493.92	1,102,679,163.71	2,164	51,316,000	21.71	1881
1882..	358,251,325	325,255,427	100	5,029,020	32,403,820	46,379,949	54,506,090	352,464,788	6.73	484,883,492.00	135,930,969.31	1,066,[illegible]1,719.85	2,308	52,495,000	22.37	1882
1883..	344,653,495	323,242,177	100	59,807,370	35,651,450	46,474,299	72,620,686	348,598,488	6.49	511,837,575.00	144,800,252.13	1,10[illegible],118.23	2,529	53,693,000	22.93	1883
1884..	340,624,203	319,687,214	100	71,146,640	40,690,200	45,660,808	96,427,011	330,689,893	6.00	524,089,065.00	146,867,119.06	987,6[illegible],055.68	2,664	54,911,000	22.65	1884
1885..	341,668,411	331,218,637	100	126,729,730	39,086,969	43,702,921	101,530,946	309,124,222	5.50	529,360,725.00	150,155,549.52	1,111,429,914.98	2732	56,148,000	23.03	1885
1886..	358,219,575	323,812,699	100	76,044,375	52,668,623	46,173,990	88,116,225	304,976,044	6.09	550,698,675.00	159,573,479.21	1,169,716,413.13	2875	57,404,000	21.78	1886
1887..	376,540,681	326,667,219	100	91,225,437	55,548,721	48,583,865	142,118,017	276,855,203	4.71	580,733,094.42	175,246,408.26	1,235,757,941.59	3070	58,680,000	22.45	1887
1888..	391,114,033	300,000,040	100	121,094,650	55,527,396	50,362,314	200,759,657	245,306,780	4.16	593,848,247.29	187,292,469.97	1,331,265,617.06	3150	59,974,000	22.88	1888
1889..	376,481,568	316,439,191	100	117,130,229	54,457,299	51,477,164	257,155,585	207,220,633	3.38	617,840,164.67	198,508,794.14	1,436,402,685.65	3326	61,289,000	22.52	1889
1890..	374,258,923	334,688,977	100	130,830,859	56,278,749	54,032,587	297,556,238	181,604,937	2.90	657,877,225.00	214,965,633.67	1,485,095,855.70	3573	62,622,250	22.82	1890
1891..	407,319,163	343,207,360	100	120,063,069	58,826,179	58,219,220	307,235,966	162,220,646	2.54	677,356,927.00	228,221,530.31	1,602,052,766.59	3692	63,844,000	23.45	1891
1892..	408,568,824	309,559,904	100	141,093,619	56,817,462	63,293,704	326,693,465	167,221,517	2.56	689,698,017.50	239,931,932.08	1,764,456,177.11	3784	65,086,000	24.60	1892
1893..	408,535,663	319,059,426	100	92,642,189	56,929,673	65,469,866	326,823,848	174,669,786	2.63	681,812,960.00	246,739,602.09	1,539,399,795.23	3787	66,349,000	24.06	1893
1894..	495,976,730	266,589,602	100	66,339,849	52,564,662	58,510,957	326,990,726	200,718,200	2.96	666,271,045.00	244,937,179.48	1,695,489,346.08	3737	67,632,000	24.56	1894
1895..	479,637,961	263,648,985	100	48,381,309	51,986,043	60,350,014	319,622,941	206,953,051	3.00	656,956,245.00	249,177,563.53	1,720,550,261.03	3,706	68,934,000	26.24	1895
1896..	454,905,064	224,249,868	100	42,198,119	52,116,904	60,204,451	330,657,191	215,168,122	3.06	647,186,395.00	247,399,567.15	1,639,688,393.60	3,661	70,254,000	21.44	1896
1897..	517,589,688	245,954,622	100	37,285,339	51,940,281	59,616,409	357,849,312	226,318,003	3.16	629,655,365.00	246,416,688.48	1,916,630,252.25	3,607	71,592,000	22.92	1897
1898..	657,950,463	284,569,022	100	35,811,589	58,482,966	64,056,920	390,126,510	222,990,987	3.05	620,516,245.00	246,696,552.28	2,225,269,813.21	3,590	72,947,000	25.19	1898
1899..	679,738,050	308,351,842	100	32,655,919	61,481,426	69,065,824	402,136,617	237,805,439	3.19	606,725,265.00	250,367,091.89	2,380,610,361.43	3,602	74,318,000	25.62	1899
1900..	610,806,472	313,971,545	100	200,733,019	65,889,346	76,160,988	408,465,574	300,115,111	3.93	632,353,405.00	262,387,647.59	2,623,997,521.88	3,942	76,303,387	26.93	1900
1901..	629,790,765	330,045,406	100	247,036,359	66,921,323	79,235,214	429,643,556	345,110,800	4.43	665,340,664.00	287,170,337.92	2,964,417,965.82	4,291	77,754,000	27.96	1901
1902..	632,394,289	334,291,722	100	306,399,009	68,747,349	85,721,238	446,559,662	345,476,516	4.36	714,616,353.00	335,763,730.38	3,152,878,796.65	4,666	79,117,000	28.43	1902
1903..	617,266,739	334,248,567	100	377,258,559	72,391,240	92,726,694	454,733,013	399,996,709	4.09	758,315,170.00	375,503,102.21	3,176,201,572.89	5,118	80,487,000	29.42	1903
1904..	645,817,576	333,759,425	100	465,655,099	71,313,826	95,528,343	461,138,698	433,027,835	5.29	776,089,401.00	399,961,534.15	3,707,706,530.92	5,477	81,957,000	30.77	1904
1905..	651,063,589	332,420,697	100	485,210,749	73,584,336	101,437,707	454,864,708	480,028,849	5.76	808,328,658.00	420,785,055.00	3,989,582,834.59	5,833	83,260,000	31.08	1905
1906..	668,655,075	335,940,220	100	516,561,849	77,001,368	111,509,624	471,520,054	548,001,238	6.48	847,514,653.00	504,548,213.62	4,289,773,899.28	6,199	83,662,000	32.32	1906
1907..	561,697,371	342,270,055	100	600,072,299	81,710,444	121,777,401	470,211,225	589,242,125	7.08	901,681,682.00	549,614,684.05	4,176,873,717.48	6,625	86,074,000	32.22	1907
1908..	613,244,810	339,396,322	100	782,976,619	76,328,657	124,178,165	465,287,705	631,648,680	7.44	921,019,383.66	568,159,292.92	4,720,284,640.40	6,865	87,496,000	34.72	1908
1909..	599,337,608	340,118,267	100	615,005,449	71,987,900	132,331,798	477,717,324	665,538,806	7.48	953,963,472.81	603,246,750.20	5,120,442,963.08	7,006	88,926,000	34.93	1909
1910..	590,877,993	334,787,870	100	802,754,199	72,432,514	135,583,731	487,597,238	683,659,535	7.56	1,004,288,107.37	652,462,489.68	5,304,788,306.45	7,204	90,363,000	34.33	1910
1911..	589,295,538	338,989,122	100	943,435,618	72,446,049	139,421,723	453,543,696	687,701,283	7.31	1,026,440,500.00	672,891,252.01	5,536,042,281.16	7,328	93,983,000	34.20	1911
1912..	610,724,154	337,697,321	100	943,435,618	70,399,574	145,034,198	469,224,400	705,142,259	7.37	1,046,012,580.00	701,021,452.71	5,891,670,007.00	7,397	95,656,000	34.34	1912

[1] Specie payments suspended 1862 to 1879.

[2] No figures available.

Total of all State banks June 14, 1912, and all mutual savings banks, stock savings banks, private banks, loan and trust companies:

Capital..... $964,235,780.49

Surplus..... 870,684,492.80

In case all banks and trust companies in the United States and the island possessions of the United States would join the different Federal reserve banks and take out their 20 per cent capital stock as provided in the act they would deposit in these regional banks the sum of $402,049,672.09.

TABLE No. 59.—*Abstract of reports of earnings and dividends of national banks in the United States for year ended July 1, 1912.*

[Figures in boldface type indicate loss.]

	Location.	Number of banks.	Capital stock.	Surplus.	Capital and surplus.	Charged off.		Net earnings.	Dividends.	Ratios.			
						Gross earnings.	Losses and premiums.	Expenses and taxes.			Net earnings to capital and surplus.	Dividends to capital and surplus.	Dividends to capital.	
											Per cent.	*Per cent.*	*Per cent.*	
1	Maine	70	$7,850,000.00	$3,579,250.00	$11,429,250.00	$2,752,144.73	$281,220.42	$1,660,545.53	$810,378.77	$808,412.50	7.09	5.24	7.62	1
2	New Hampshire	56	5,235,000.00	3,083,800.00	8,318,800.00	1,728,729.49	276,898.20	713,858.28	737,878.92	497,316.68	8.87	5.98	9.50	2
3	Vermont	50	5,160,000.00	2,022,481.21	7,182,481.21	1,478,754.42	88,896.39	696,533.41	581,323.62	436,363.00	7.82	6.08	8.46	3
4	Massachusetts	167	30,317,500.00	17,490,750.00	47,808,250.00	9,194,782.64	781,424.82	5,134,246.28	3,279,111.54	2,298,353.00	6.86	4.79	7.55	4
5	Boston	20	24,950,000.00	20,630,500.00	45,580,500.00	12,140,184.26	1,006,905.52	8,021,796.90	3,111,482.84	2,127,000.00	6.83	4.67	6.53	5
6	Rhode Island	22	6,775,250.00	4,241,500.00	11,016,750.00	1,808,571.20	105,894.29	991,480.23	721,196.68	492,115.00	6.55	4.47	7.26	6
7	Connecticut	79	19,364,200.00	11,449,300.00	30,813,500.00	4,940,052.42	441,068.33	2,345,383.47	2,153,600.62	1,540,293.00	6.99	5.00	7.95	7
	New England States	464	99,651,950.00	62,497,581.21	162,149,521.21	34,043,213.15	2,982,300.06	19,695,942.10	11,374,970.99	7,979,843.18	7.02	4.92	8.01	
8	New York	416	46,785,100.00	32,138,689.67	78,923,789.67	21,345,497.95	1,658,041.83	12,463,219.69	7,024,236.43	4,498,596.50	8.90	5.69	9.60	8
9	Albany	3	2,100,000.00	2,200,000.00	4,300,000.00	1,811,075.13	115,073.97	1,206,953.80	389,047.36	283,061.00	9.05	6.58	13.48	9
10	Brooklyn	6	2,252,000.00	2,650,000.00	4,902,000.00	1,200,503.21	131,915.16	740,511.94	328,076.11	230,400.00	6.69	4.70	10.23	10
11	New York City	39	121,500,000.00	127,891,150.00	249,391,150.00	61,172,450.75	3,988,284.25	33,639,088.98	23,635,088.52	25,902,500.00	9.48	10.39	21.32	11
12	New Jersey	185	21,737,000.00	21,996,140.00	43,733,140.00	11,458,092.40	852,440.87	6,389,558.03	4,216,053.50	2,744,835.00	9.64	6.28	12.63	12
13	Pennsylvania	772	67,074,300.00	70,224,480.98	137,298,880.98	26,589,466.04	2,830,911.57	15,770,059.47	9,938,497.00	5,821,023.00	7.24	4.31	8.68	13
14	Philadelphia	32	22,055,000.00	43,350,000.00	65,405,000.00	12,982,741.49	747,236.31	8,177,177.40	3,934,327.78	2,572,500.00	6.02	3.93	11.66	14
15	Pittsburgh	24	28,700,000.00	25,217,500.00	53,917,500.00	13,300,141.60	2,353,452.01	7,662,420.40	3,284,269.10	2,724,000.00	6.09	5.05	9.49	15
16	Delaware	28	2,423,975.00	2,292,600.00	4,716,575.00	762,350.61	51,954.15	393,343.44	317,053.02	214,221.58	6.74	4.55	8.84	16
17	Maryland	90	5,292,000.00	3,741,622.96	9,033,622.96	2,295,956.34	104,268.48	1,435,371.19	746,316.67	473,295.00	8.26	5.24	8.94	17
18	Baltimore	17	12,290,710.00	7,720,010.00	20,010,720.00	3,832,198.30	587,171.53	2,086,099.54	1,146,927.23	1,126,656.50	5.73	5.63	9.17	18
19	District of Columbia	1	252,000.00	252,000.00	504,000.00	72,643.21	692.25	37,073.42	34,877.54	30,240.00	6.92	6.00	12.00	19
20	Washington	10	5,859,000.00	4,640,512.79	10,499,512.79	1,785,616.83	92,342.06	844,852.41	848,422.36	636,000.00	8.09	6.06	10.87	20
	Eastern States	1,633	338,312,175.00	344,304,716.40	682,616,891.40	160,428,741.86	13,623,858.44	90,957,729.80	55,847,173.62	47,352,319.18	8.18	6.94	14.00	
21	Virginia	129	17,308,500.00	11,547,684.00	28,856,184.00	6,764,845.97	366,650.65	3,978,828.78	2,412,007.14	1,512,280.00	8.36	5.24	8.74	21
22	West Virginia	108	9,587,000.00	5,650,150.76	15,237,150.76	3,539,338.07	330,681.13	1,999,291.62	1,209,365.32	920,019.14	7.94	6.04	9.60	22
23	North Carolina	73	8,585,000.00	2,649,273.00	11,234,273.00	2,804,931.84	90,608.37	1,421,848.40	1,101,575.07	679,550.00	9.81	6.05	7.92	23
24	South Carolina	43	5,460,000.00	1,934,250.00	7,394,250.00	2,291,868.38	165,702.58	1,383,986.37	741,970.43	591,538.00	10.03	6.78	9.19	24
25	Georgia	112	14,050,500.00	8,187,299.00	22,242,730.00	5,371,016.44	341,544.31	2,786,709.46	2,242,722.67	1,725,630.00	10.08	7.76	12.27	25
26	Savannah	2	900,000.00	700,000.00	1,600,000.00	408,009.84	78,071.77	95,213.90	234,724.17	57,500.00	14.67	3.59	6.39	26
27	Florida	45	6,080,000.00	2,707,700.00	8,787,700.00	2,922,701.82	222,446.54	1,667,589.98	1,032,665.30	495,050.00	11.75	.63	8.14	27
28	Alabama	84	9,675,000.00	5,233,025.00	14,908,025.00	3,509,560.39	326,035.12	1,814,863.04	1,374,662.23	971,225.00	9.22	6.51	10.04	28
29	Mississippi	31	3,255,000.00	1,582,329.74	4,837,329.74	1,323,412.72	131,441.92	770,131.38	421,839.42	292,100.00	8.72	6.04	8.97	29
30	Louisiana	28	3,145,000.00	2,245,865.83	5,390,865.83	1,542,660.94	136,981.95	916,014.51	489,664.48	450,400.00	9.08	8.35	14.32	30
31	New Orleans	5	5,200,000.00	2,960,000.00	8,160,000.00	2,124,478.19	209,361.61	1,289,338.59	625,778.99	541,000.00	7.65	6.61	10.40	31
32	Texas	479	32,166,000.00	16,817,846.02	48,983,846.02	12,906,934.67	1,240,979.92	6,224,527.77	5,441,426.98	4,065,523.94	11.11	8.36	12.73	32
33	Dallas	4	2,650,000.00	2,350,000.00	5,000,000.00	1,570,189.61	147,898.67	721,264.39	701,029.55	448,000.00	14.02	8.96	16.91	33
34	Fort Worth	8	2,875,000.00	1,915,000.00	4,790,000.00	1,266,294.68	97,065.79	680,892.24	488,336.65	271,600.00	10.19	5.66	9.43	34
35	Galveston	2	500,000.00	250,000.00	750,000.00	261,617.75	27,510.80	166,436.13	67,670.82	36,000.00	9.02	4.80	7.20	35
36	Houston	5	4,000,000.00	1,190,000.00	5,190,000.00	1,873,676.04	191,887.12	987,498.20	694,290.72	667,000.00	11.99	11.52	14.50	36
37	San Antonio	6	2,100,000.00	1,080,000.00	3,180,000.00	822,617.87	14,030.05	380,133.15	428,454.67	279,000.00	13.47	8.77	13.29	37
38	Waco	6	1,450,000.00	308,300.00	1,758,300.00	518,629.28	51,725.52	302,485.28	164,418.48	359,000.00	9.35	20.42	24.76	38
39	Arkansas	48	4,900,000.00	1,776,020.00	6,736,020.00	1,830,428.53	114,980.03	1,013,074.72	701,764.04	497,350.00	10.42	7.38	10.83	39
40	Kentucky	136	12,045,900.00	4,793,067.22	16,838,967.22	3,234,884.28	397,524.51	1,674,349.56	1,163,010.21	943,543.00	6.91	5.60	7.83	40
41	Louisville	8	5,495,000.00	2,645,000.00	8,140,000.00	1,793,484.06	154,850.80	1,024,416.86	614,216.40	416,100.00	7.55	5.11	7.57	41
42	Tennessee	100	12,400,000.00	5,294,961.26	17,754,961.26	4,665,333.59	471,918.24	2,642,982.84	1,549,482.81	1,278,200.00	8.73	7.02	10.26	42
	Southern States	1,492	164,556,900.00	83,833,711.83	248,390,611.83	63,135,395.28	5,293,946.80	33,940,422.67	23,901,015.79	17,437,139.08	9.62	7.02	10.60	
43	Ohio	355	34,307,100.00	17,942,942.87	52,250,042.87	14,385,163.72	1,405,784.98	7,920,440.63	4,158,939.01	2,828,327.67	7.96	5.41	8.24	43
44	Cincinnati	8	13,900,000.00	6,300,000.00	20,200,000.00	3,926,987.25	2,547,714.73	2,011,509.84	632,237.32	1,370,000.00	3.12	6.78	9.86	44
45	Cleveland	7	9,350,000.00	4,050,000.00	13,400,000.00	3,611,365.32	363,523.60	2,334,291.00	913,550.72	803,600.00	6.82	5.99	8.59	45
46	Columbus	8	5,000,000.00	4,570,500.00	4,570,500.00	1,540,211.82	118,779.36	916,587.66	504,844.80	304,500.00	11.05	6.66	10.15	46
47	Indiana	250	21,133,000.00	9,305,180.54	30,438,180.54	7,949,472.97	555,682.22	4,798,986.11	2,634,884.64	1,875,433.66	8.66	6.16	8.57	47
48	Indianapolis	5	5,400,000.00	2,745,000.00	8,145,000.00	2,365,241.24	529,369.63	1,277,768.45	558,103.16	380,000.00	6.35	4.67	7.04	48
49	Illinois	432	31,235,000.00	17,450,455.84	48,685,455.84	13,238,909.21	1,015,964.64	7,598,182.73	4,624,841.82	3,518,100.00	9.50	7.23	11.26	49
50	Chicago	10	43,000,000.00	26,100,000.00	69,700,000.00	18,883,374.34	1,645,344.58	11,403,149.97	5,814,879.85	6,226,000.00	8.34	8.93	14.28	50
51	Michigan	96	10,200,000.00	5,342,300.00	15,602,300.00	5,140,553.05	315,809.51	3,304,144.57	1,520,598.97	959,731.96	9.75	6.15	9.35	51
52	Detroit	3	4,750,000.00	1,750,000.00	6,500,000.00	2,350,335.89	271,364.38	1,520,598.22	558,463.29	400,000.00	8.59	6.15	8.42	52
53	Wisconsin	122	11,180,000.00	4,885,400.00	15,773,400.00	5,319,816.92	365,420.24	3,555,703.36	1,398,693.32	1,285,450.00	8.87	8.15	11.50	53
54	Milwaukee	6	6,250,000.00	2,760,000.00	9,010,000.00	2,980,364.61	191,203.71	1,953,252.76	845,908.14	588,250.00	9.38	6.51	9.38	54
55	Minnesota	260	11,811,000.00	6,277,005.57	18,088,005.57	7,452,013.42	361,591.00	4,785,881.81	2,324,540.61	1,658,349.66	12.85	9.17	14.04	55
56	Minneapolis	5	6,800,000.00	5,800,000.00	12,600,000.00	3,308,701.77	99,823.15	2,101,640.42	1,107,238.20	708,000.00	8.75	5.59	10.41	56
57	St. Paul	6	4,100,000.00	3,450,574.24	7,550,574.24	2,140,508.90	289,559.98	1,134,375.63	716,573.79	440,200.00	9.49	5.83	10.74	57
58	Iowa	314	17,715,000.00	7,328,710.75	24,953,710.75	9,293,293.14	588,454.98	5,036,149.07	2,678,659.11	2,044,807.31	10.73	8.19	11.54	58
59	Cedar Rapids	3	400,000.00	308,000.00	708,000.00	510,756.01	36,357.86	301,897.71	112,479.44	61,000.00	15.89	8.62	15.25	59
60	Des Moines	4	2,000,000.00	600,000.00	2,600,000.00	982,581.78	95,892.93	551,655.93	285,032.92	154,000.00	10.96	5.92	7.70	60
61	Dubuque	3	600,000.00	130,000.00	730,000.00	207,782.47	5,350.40	131,974.99	70,457.08	39,000.00	9.65	5.35	8.33	61
62	Sioux City	5	940,000.00	400,000.00	1,350,000.00	606,340.30	45,948.34	429,770.89	132,621.07	86,000.00	9.82	6.37	9.05	62
63	Missouri	110	6,665,000.00	2,666,916.62	9,331,916.62	2,352,085.94	155,992.85	1,340,455.00	855,645.99	642,625.00	9.17	7.31	10.24	63
64	Kansas City	12	7,850,000.00	3,382,000.00	11,232,000.00	4,884,019.24	410,245.90	3,274,933.67	1,198,839.67	625,000.00	10.67	5.56	7.96	64
65	St. Joseph	4	1,800,000.00	675,000.00	1,775,000.00	711,830.21	61,330.60	507,648.39	142,851.22	98,500.00	8.05	5.44	8.77	65
66	St. Louis	8	20,400,000.00	11,990,000.00	32,390,000.00	7,816,242.93	870,396.61	5,270,111.58	1,675,744.44	2,259,000.00	6.17	8.97	11.07	66
	Middle Western States	2,086	274,756,100.00	142,887,904.53	417,644,004.53	119,937,918.42	12,344,925.54	73,360,852.30	34,232,140.58	29,462,275.18	8.19	7.04	10.70	
67	North Dakota	146	5,358,000.00	1,878,689.33	7,146,689.33	3,150,624.82	235,084.22	2,052,282.49	883,255.11	690,780.21	12.36	9.67	14.11	67
68	South Dakota	102	4,180,450.00	1,238,450.00	5,418,450.00	2,080,998.75	127,140.70	1,802,295.89	721,502.16	512,760.41	13.32	9.46	12.27	68
69	Nebraska	231	10,415,000.00	4,261,368.00	14,676,368.00	4,766,288.98	343,417.56	2,680,442.13	1,732,488.26	1,424,572.97	11.80	9.71	13.68	69
70	Lincoln	4	1,000,000.00	330,000.00	1,330,000.00	498,144.73	22,695.23	318,057.44	157,391.96	79,000.00	11.83	5.94	7.90	70
71	Omaha	7	3,700,000.00	2,810,000.00	6,510,000.00	2,515,262.42	272,052.11	1,508,550.79	734,679.52	348,000.00	11.29	5.35	9.41	71
72	South Omaha	3	1,100,000.00	300,000.00	1,400,000.00	548,882.27	38,742.50	358,194.94	151,944.83	90,000.00	10.26	6.08	8.18	72
73	Kansas	202	10,662,500.00	4,619,985.00	15,282,485.00	4,702,084.67	425,894.15	2,682,109.46	1,594,081.06	1,301,567.65	11.02	8.52	12.21	73
74	Kansas City	2	300,000.00	300,000.00	800,000.00	342,278.45	24,851.56	243,876.93	73,549.96	36,000.00	9.19	4.50	7.20	74
75	Topeka	2	300,000.00	180,000.00	480,000.00	190,871.94	15,980.32	130,814.12	44,054.50	34,000.00	9.88	7.09	11.33	75
76	Wichita	3	500,000.00	505,000.00	1,005,000.00	453,024.93	27,292.90	315,382.83	110,349.20	57,000.00	10.98	5.67	11.40	76
77	Montana	58	4,980,000.00	2,774,250.00	7,754,250.00	3,176,080.31	307,035.42	1,802,665.95	1,065,378.94	909,980.00	13.77	11.76	18.34	77
78	Wyoming	29	1,735,000.00	1,056,500.00	2,791,500.00	1,192,234.78	56,212.19	685,810.26	450,212.23	286,250.00	16.13	10.40	16.73	78
79	Colorado	118	6,490,000.00	3,079,290.74	9,789,290.74	3,350,315.67	505,514.43	1,872,416.74	972,384.70	749,950.00	9.95	7.68	11.51	79
80	Denver	6	3,600,000.00	3,902,000.00	7,502,000.00	2,961,449.27	393,867.29	1,707,289.54	860,292.44	472,750.00	11.47	6.30	13.13	80
81	Pueblo	3	650,000.00	450,000.00	1,100,000.00	463,135.21	102,244.84	239,733.46	121,156.91	73,000.00	11.01	6.64	11.23	81
82	New Mexico	39	2,080,000.00	990,350.00	3,070,350.00	1,216,074.79	128,099.17	694,943.55	393,031.77	372,580.00	12.80	12.13	17.82	82
83	Oklahoma	272	10,545,000.00	2,818,245.21	13,363,245.21	5,566,733.22	657,981.13	3,085,557.75	1,824,094.34	1,644,713.32	13.65	12.31	15.60	83
84	Muskogee	5	850,000.00	280,800.00	1,130,800.00	468,249.93	53,200.80	263,328.01	152,721.12	115,250.00	13.88	10.47	13.56	84
85	Oklahoma City	6	1,850,000.00	270,000.00	1,920,000.00	765,707.67	178,938.14	484,618.11	102,153.42	108,000.00	5.61	5.93	6.97	85
	Western States	1,238	70,295,500.00	32,064,608.28	102,360,108.28	39,069,043.01	4,115,396.79	22,718,353.79	12,235,302.43	9,329,943.56	11.95	9.11	13.27	
86	Washington	66	4,075,000.00	1,985,915.99	6,060,915.99	2,310,295.02	398,499.85	1,319,033.04	592,762.13	618,575.00	9.78	10.21	15.18	86
87	Seattle	6	4,200,000.00	1,370,000.00	5,570,000.00	2,263,475.87	295,136.02	1,375,774.73	621,565.12	589,000.00	11.16	10.57	14.02	87
88	Spokane	5	3,400,000.00	765,000.00	4,165,000.00	1,427,605.47	178,767.29	874,547.24	374,290.94	356,000.00	8.99	8.55	10.47	88
89	Tacoma	2	500,000.00	850,000.00	1,350,000.00	449,184.35	87,264.09	265,822.01	96,098.25	94,000.00	7.12	6.96	18.80	89
90	Oregon	76	4,611,000.00	2,093,187.14	6,704,187.14	2,092,837.50	228,490.56	1,041,513.15	822,833.79	638,936.19	12.27	9.53	13.86	90
91	Portland	4	4,000,000.00	1,827,000.00	5,827,000.00	1,879,845.83	317,441.19	949,909.26	612,495.38	448,158.20	10.51	7.69	11.20	91
92	California	197	18,872,800.00	7,931,647.55	26,804,447.55	7,891,103.62	684,537.27	4,264,739.74	2,941,826.61	1,769,480.00	10.98	6.60	9.38	92
93	Los Angeles	9	6,100,000.00	2,826,000.00	8,926,000.00	2,987,864.93	342,340.68	1,528,056.66	1,116,477.59	906,250.00	12.51	10.18	14.89	93
94	San Francisco	9	28,250,000.00	14,805,000.00	43,055,000.00	7,308,656.18	644,953.44	3,717,668.94	2,946,033.80	2,265,000.00	6.84	5.26	9.02	94
95	Idaho	48	2,940,000.00	1,392,240.90	4,332,240.90	1,580,550.84	203,558.89	915,828.57	461,163.38	375,100.00	10.64	8.66	12.76	95
96	Utah	17	1,155,000.00	440,186.45	1,595,186.45	790,162.58	50,895.88	361,120.91	378,145.79	240,382.65	23.71	15.07	20.81	96
97	Salt Lake City	5	2,150,000.00	965,000.00	3,115,000.00	899,180.80	160,822.70	626,917.77	111,440.33	166,000.00	3.58	5.33	7.72	97
98	Nevada	11	1,742,000.00	474,000.00	2,216,000.00	569,941.39	128,486.44	289,174.49	152,280.46	159,020.00	6.87	7.18	9.13	98
99	Arizona	13	1,105,000.00	725,000.00	1,830,000.00	668,758.58	104,815.22	347,532.61	216,410.75	127,000.00	11.83	6.94	11.49	99
100	Alaska	2	100,000.00	53,500.00	153,500.00	157,998.81	95,587.46	91,541.33	29,129.98		18.98			100
	Pacific States	470	83,200,800.00	38,503,678.03	121,704,478.03	33,277,461.77	3,892,586.98	17,970,180.45	11,414,694.34	8,754,852.04	9.38	7.19	10.52	
101	Hawaii	4	610,000.00[1]	254,426.42	864,426.42	151,476.62	3,145.54	67,025.60	81,305.48	44,500.00	9.41	5.15	7.30	101
	United States	7,307	1,031,383,425.00	704,346,706.70	1,735,730,131.70	450,043,250.09	42,256,130.15	258,730,516.71	149,056,603.23	120,300,872.22	8.59	6.93	11.66	

[1] Capital and surplus as shown at the close of the year.

Daily statement of the United States Treasury at close of business Sept. 16, 1913.

CASH ASSETS AND LIABILITIES.

GENERAL FUND.

ASSETS.		LIABILITIES.	
Cash.		*Current liabilities.*	
In Treasury offices:		In Treasury offices:	
Gold coin	$48,698,805.49	Disbursing officers' balances	$76,262,786.16
Gold certificates	64,872,850.00	Outstanding warrants	1,823,348.93
Standard silver dollars	3,740,127.00	Outstanding Treasurer's checks	7,476,607.99
Silver certificates	13,183,004.00	Post Office Department balances	12,361,628.16
United States notes	5,837,393.00	Postal-savings balances	1,509,009.54
Treasury notes of 1890	4,488.00	Judicial officers' balances, etc	6,343,080.42
Certified checks on banks	301,582.00	National-bank notes, redemption fund [2]	20,666,426.00
National-bank notes	[1]51,792,262.02	National-bank 5 per cent fund	28,071,077.85
Subsidiary silver coin	18,527,844.36	Assets of failed national banks	10,110,129.54
Fractional currency	347.26	Coupons and interest checks	131,107.19
Minor coin	1,108,335.63	Miscellaneous (exchanges etc.)	7,171,832.34
Silver bullion (available for subsidiary coinage)	2,091,539.21	Total	171,927,124.12
	210,658,577.97	Subtract checks not cleared	23,472,913.67
In national-bank depositaries:			148,454,210.45
To credit of Treasurer United States	62,676,478.39	In national-bank depositaries:	
To credit of postmasters, judicial officers, etc	6,346,620.86	Judicial officers' balances, etc	6,346,620.86
In treasury, Philippines:		Outstanding warrants	509,200.06
To credit of Treasurer United States	3,016,856.05	In treasury, Philippines:	
To credit of disbursing officers	3,430,796.73	Disbursing officers' balances	3,430,796.73
		Outstanding warrants	1,291,932.00
			160,032,760.10
		Net balance in general fund	126,096,569.90
Total	286,129,330.00	Total	286,129,330.00

THE CURRENCY TRUST FUNDS THE GENERAL FUND, AND THE GOLD RESERVE FUND.

ASSETS.		LIABILITIES.	
Currency trust funds:		Outstanding certificates:	
Gold coin	$866,618,964.00	Gold certificates outstanding	$1,084,234,169.00
Gold bullion	217,615,205.00	Silver certificates outstanding	488,916,000.00
Total gold	1,084,234,169.00	Treasury notes outstanding	2,614,000.00
Silver dollars	488,916,000.00		
Silver dollars of 1890	2,614,000.00		
Total currency trust funds	1,575,764,169.00	Total outstanding certificates	1,575,764,169.00
General fund: Total cash assets, as above	286,129,330.00 [3]	General fund liabilities and balance:	
		Total liabilities, as above	160,032,760.10
		Balance in general fund, as above	$126,096,569.90
Gold reserve fund:		Gold reserve	[3] 150,000,000.00
Gold coin	100,000,000.00		
Gold bullion	50,000,000.00	Total net balances	276,096,569.90
Grand total cash assets in Treasury	2,011,893,499.00		2,011,893,499.00

[1] This includes $48,118,368.02 which the Treasury has redeemed and for which it will receive payment from national banks.

[2] The act of July 14, 1890, provides that deposits made by national banks to redeem circulating notes shall be covered into the Treasury as miscellaneous receipts and that the Treasury shall redeem from the general cash the circulating notes which come into its possession subject to redemption.

[3] Reserved against $346,681,016 of United States notes and $2,614,000 of Treasury notes of 1890.

Bonds, Sept. 18, 1915.

Kinds of bonds.	Rate of interest.	Total amount outstanding.	Bonds held for national banks.			
			Total.	To secure circulation.	To secure deposits of public moneys.	
					Value at par.	Value at rate approved by department.
GOVERNMENT.						
I. U. S. loan of 1925, at par	4	$118,489,900	$37,992,400	$34,390,700	$3,601,700	$3,601,700
I. U. S. loan of 1908–1918 at par	3	63,945,460	25,891,200	22,132,200	3,759,000	3,759,000
I. U. S. Panama of 1961 at par	3	50,000,000	17,296,200		17,296,200	17,296,200
I. U. S. consol of 1930, at par	2	646,250,150	616,521,300	603,775,900	12,745,400	12,745,400
I. U. S. Panama of 1936 at par	2	54,631,980	54,249,360	52,964,860	1,284,500	1,284,500
I. U. S. Panama of 1938 at par	2	30,000,000	29,424,140	28,822,140	602,000	602,000
II. Philippine loans, at par	4	16,000,000	5,967,000		5,967,000	5,967,000
II. Porto Rico loans, at par	4	5,225,000	1,821,000		1,821,000	1,821,000
II. District of Columbia at par	3.65	6,949,650	933,000		933,000	933,000
II. Territory of Hawaii, 3½ per cent bonds at 90 per cent of par: all other Hawaiian bonds at market value not exceeding par	[1]	6,515,000	1,998,000		1,998,000	1,950,900
MISCELLANEOUS.						
III. Philippine Railway Co.	4	2,551,000	918,000		918,000	600,271
III. Manila Railroad Co., at 90 per cent of market value, not exceeding 90 per cent par	4	1,735,000	10,000		10,000	6,750
IV. State, county, city, and other securities[2]	[1]		33,609,254		33,609,254	22,576,308
Total		1,013,293,140	826,630,854	742,085,800	84,545,054	73,144,029

[1] Various.

[2] As security for deposits made in connection with crop movement Government bonds are accepted at par, other bonds at 75 per cent of market value, and commercial paper at 65 per cent of face value.

Other outstanding bonds, $186,662,286.

When banks have occasion to withdraw bonds held by the Treasurer to secure deposits of public moneys, the following shall be the order of withdrawal: Group IV, Group III, Group II, and Group I.

Bonds within a group may be interchanged by banks if desired, but bonds in a lower group may not be substituted for those in a higher group, except that an initial substitution of bonds of a lower group for those of a higher group may be made to an amount not to exceed 30 per cent of the total security value of bonds held for a particular bank. National-bank depositaries which have not as yet taken out the full amount of circulation authorized by law may withdraw United States 2's and substitute for them bonds in Group II, provided the 2's as withdrawn shall be used as security for additional circulation.

Paper currency of the United States, by denominations, outstanding June 30, 1912.

Denominations.	United States notes.	Treasury notes, 1890.	National-bank notes.	Gold certificates.	Silver certificates.	Total.
$1	$1,830,994	$373,606	$343,588		$161,327,436	$163,875,624
$2	1,374,959	241,744	164,312		62,854,116	64,635,131
$5	169,049,930	688,160	141,565,470		227,178,187	538,481,747
$10	114,137,926	898,470	328,508,870	$226,435,300	20,757,611	690,738,177
$20	12,192,432	434,970	224,856,140	256,496,964	4,488,670	498,469,176
$50	1,841,375	14,550	16,373,800	55,053,055	4,417,760	77,700,540
$100	4,696,400	166,500	35,032,350	80,127,550	480,220	120,503,020
$500	4,470,000		89,500	18,239,000	22,000	22,820,500
$1,000	38,077,000	111,000	23,000	66,765,500	23,000	104,999,500
$5,000				95,020,000		95,020,000
$10,000	10,000			241,920,000		241,930,000
Fractional parts			50,684			50,684
Total	347,681,016	2,929,000	747,007,714	1,040,057,369	481,549,000	2,619,224,099

Classification of cash in banks June 14, 1912.

Classification.	7,372 national banks.	17,823 State, etc., banks.	25,195 reporting banks.
Gold coin	$149,294,417.78	$89,094,968.96	$238,389,386.74
Gold certificates	356,602,380.00	206,465,716.00	563,068,096.00
Gold clearing-house certificates	80,479,000.00		80,479,000.00
Silver dollars	12,637,221.00	10,320,174.00	22,957,395.00
Silver certificates	138,569,628.00	55,804,541.00	194,374,169.00
Subsidiary and minor coin	22,555,692.68	15,182,315.61	37,738,008.29
Legal-tender notes	188,440,207.00	64,681,846.00	253,122,053.00
National-bank notes	47,564,277.00	60,717,410.00	108,281,687.00
Cash not classified		74,543,684.40	74,543,684.40
Total	996,142,823.46	576,810,655.97	1,572,953,479.43

Distribution of money in the United States.

Year ended June 30—	Coin and other money in the United States.	Coin and other money in Treasury as assets.[1]		Coin and other money in reporting banks.[2]		Coin and other money not in Treasury or banks.			In circulation, exclusive of coin and other money in Treasury as assets.	
		Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent.	Per capita.	Amount.	Per capita.
	Millions.	*Millions.*		*Millions.*		*Millions.*			*Millions.*	
1892	$1,752.2	$150.9	8.60	$586.4	33.48	$1,014.9	57.92	$15.50	$1,601.3	$24.60
1893	1,738.8	142.1	8.17	515.9	29.68	1,080.8	62.15	16.14	1,596.7	24.06
1894	1,805.5	144.2	7.99	688.9	38.17	972.4	53.84	14.21	1,661.3	24.56
1895	1,819.3	217.4	11.95	631.1	34.96	970.8	53.36	13.89	1,601.9	23.24
1896	1,799.9	293.5	16.31	531.8	29.55	974.6	54.14	13.65	1,506.4	21.44
1897	1,906.7	265.7	13.93	628.2	32.94	1,012.8	53.13	13.87	1,641.0	22.92
1898	2,073.5	235.7	11.37	687.7	33.17	1,150.1	55.46	15.43	1,837.8	25.19
1899	2,190.0	286.0	13.06	723.2	33.02	1,180.8	53.92	15.51	1,904.0	25.62
1900	2,339.7	284.6	12.16	749.9	32.05	1,305.2	55.79	17.11	2,055.1	26.93
1901	2,483.1	307.8	12.39	794.9	32.02	1,380.4	55.59	17.75	2,175.3	27.98
1902	2,563.2	313.9	12.24	837.9	32.69	1,411.4	55.07	17.90	2,249.3	28.43
1903	2,684.7	317.0	11.80	848.0	31.59	1,519.7	56.61	18.88	2,367.7	29.42
1904	2,803.5	284.3	10.14	982.9	35.06	1,536.3	54.80	18.77	2,519.2	30.77
1905	2,883.1	295.2	10.24	987.8	34.27	1,600.1	55.49	19.22	2,587.9	31.04
1906	3,069.9	333.3	10.86	1,010.7	32.92	1,725.9	56.22	20.39	2,736.6	32.32
1907	3,115.6	342.6	11.00	1,106.5	35.51	1,666.5	53.49	19.36	2,773.0	32.22
1908	3,378.8	340.8	10.08	1,362.9	40.34	1,675.1	49.58	19.15	3,038.0	34.72
1909	3,406.3	300.1	8.81	1,444.3	42.40	1,661.9	48.78	18.68	3,106.2	34.93
1910	3,419.5	317.2	9.27	1,414.6	41.37	1,687.7	49.36	18.68	3,102.3	34.33
1911	3,555.9	341.9	9.61	1,545.5	43.46	1,668.5	46.93	17.75	3,214.0	34.20
1912	3,648.8	364.3	9.98	1,563.8	42.86	1,720.7	47.16	17.98	3,284.5	34.34

[1] Public money in national-bank depositaries to the credit of the Treasurer of the United States not included.

[2] Money in banks of island possessions not included.

PLANKS OF DEMOCRATIC AND REPUBLICAN PLATFORMS ON BANKING AND CURRENCY SINCE 1896.

Democratic.

Republican.

1896.

INTEREST-BEARING BONDS.

We are opposed to the issuing of interest-bearing bonds of the United States in time of peace, and condemn the trafficking with banking syndicates, which, in exchange for bonds and at an enormous profit to themselves, supply the Federal Treasury with gold to maintain the policy of gold monometallism.

AGAINST NATIONAL BANKS.

Congress alone has the power to coin and issue money, and President Jackson declared that this power could not be delegated to corporations or individuals. We therefore denounce the issuance of notes intended to circulate as money by national banks as in derogation of the Constitution, and we demand that all paper which is made a legal tender for public and private debts, or which is receivable for dues to the United States, shall be issued by the Government of the United States, and shall be redeemable in coin.

FINANCE.

The Republican Party is unreservedly for sound money. It caused the enactment of the law providing for the resumption of specie payments in 1879; since then every dollar has been as good as gold.

We are unalterably opposed to every measure calculated to debase our currency or impair the credit of our country. We are therefore opposed to the free coinage of silver except by international agreement with the leading commercial nations of the world, which we pledge ourselves to promote, and until such agreement can be obtained the existing gold standard must be preserved. All our silver and paper currency must be maintained at parity with gold, and we favor all measures designed to maintain inviolably the obligations of the United States of all our money, whether coin or paper, at the present standard, the standard of the most enlightened nations of the earth.

1900.

THE CURRENCY BILL DENOUNCED.

We denounce the currency bill enacted at the last session of Congress as a step forward in the Republican policy which aims to discredit the sovereign right of the National Government to issue all money, whether coin or paper, and to bestow upon national banks the power to issue and control the volume of paper money for their own benefit. A permanent national-bank currency, secured by Government bonds, must have a permanent debt to rest upon, and if the bank currency is to increase the debt must also increase. The Republican currency scheme is therefore a scheme for fastening upon the taxpayers a perpetual and growing debt.

We are opposed to this private corporation paper circulated as money but without legal-tender qualities, and demand the retirement of the national-bank notes as fast as Government paper or silver certificates can be substituted for them.

FREE COINAGE OF SILVER OPPOSED.

We declare our steadfast opposition to the free and unlimited coinage of silver. No measure to that end could be considered which was without the support of the leading commercial countries of the world. However firmly Republican legislation may seem to have secured the country against the peril of base and discredited currency, the election of a Democratic President could not fail to impair the country's credit and to bring once more into question the intention of the American people to maintain upon the gold standard the parity of their money circulation. The Democratic Party must be convinced that the American people will never tolerate the Chicago platform.

1904.

THE GOLD STANDARD MUST BE UPHELD.

We believe it to be the duty of the Republican Party to uphold the gold standard and the integrity and value of our national currency. The maintenance of the gold standard, established by the Republican Party, can not safely be committed to the Democratic Party, which resisted its adoption, and has never given any proof since that time of belief in it or fidelity to it.

1908.

BANKING.

The panic of 1907, coming without any legitimate excuse, when the Republican Party had for a decade been in complete control of the Federal Government, furnishes additional proof that it is either unwilling or incompetent to protect the interests of the general public. It has so linked the country to Wall Street that the sins of the speculators are visited upon the whole people. While refusing to rescue the wealth producers from spoliation at the hands of the stock gamblers and speculators in farm products, it has deposited Treasury funds, without interest and without competition, in favorite banks. It has used an emergency for which it is largely responsible to force through Congress a bill changing the basis of bank currency and inviting market manipulation, and has failed to give to the 15,000,000 depositors of the country protection in their savings.

We believe that in so far as the needs of commerce require an emergency currency, such currency should be issued and controlled by the Federal Government and loaned on adequate security to national and State banks. We pledge ourselves to legislation under which the national banks shall be required to establish a guaranty fund for the prompt payment of the depositors of any insolvent national bank, under an equitable system which should be available to all State banking institutions wishing to use it.

We favor a postal savings bank if the guaranteed bank can not be secured, and believe that it should be so constituted as to keep the deposited money in the communities where the depositors live. But we condemn the policy of the Republican Party in proposing postal savings banks under a plan of conduct by which they will

We approve the emergency measure adopted by the Government during the recent financial disturbance, and especially commend the passage by Congress of the law designed to protect the country from a repetition of such a stringency. The Republican Party is committed to the development of a permanent currency system responding to our greater needs and the appointment of a national monetary commission by the present Congress which will impartially investigate all the proposed methods and insure the early realization of this purpose.

The present currency laws have fully justified their adoption, but an expanding commerce, a marvelous growth in wealth and population, multiplying the centers of distribution, increasing the demand for the movement of crops in the West and South, and entailing periodic changes in the monetary condition, disclose the need of a more elastic and adaptable system. Such a system must meet the requirements of agriculturists, manufacturers, merchants, and business men in general; must be automatic in operation, minimizing the fluctuations in the interest rates; and all must be in harmony with the Republican doctrine, which insists that every dollar shall be based upon and as good as gold.

POSTAL SAVINGS.

We favor the establishment of a postal savings bank system for the convenience of the people and the encouragement of thrift.

aggregate the deposits of the rural communities and deposit the same while under Government charge in the banks of Wall Street, thus depleting the circulating medium of the producing regions and unjustly favoring the speculative markets.

1912.

BANKING LEGISLATION.

We oppose the so-called Aldrich bill or the establishment of a central bank, and we believe the people of the country will be largely freed from panics and consequent unemployment and business depression by such a systematic revision of our banking laws as will render temporary relief in localities where such relief is needed, with protection from control or dominion by what is known as the Money Trust.

Banks exist for the accommodation of the public and not for the control of business. All legislation on the subject of banking and currency should have for its purpose the securing of these accommodations on terms of absolute security to the public and of complete protection from the misuse of the power that wealth gives to those who possess it.

We condemn the present methods of depositing Government funds in a few favored banks, largely situated in or controlled by Wall Street, in return for political favors, and we pledge our party to provide by law for their deposit by competitive bidding in the banking institutions of the country, national and State, without discrimination as to locality, upon approved securities and subject to call by the Government.

RURAL CREDITS.

Of equal importance with the question of currency reform is the question of rural credits or agricultural finance. Therefore we recommend that an investigation of agricultural credit societies in foreign countries be made, so that it may be ascertained whether a system of rural credits may be devised suitable to conditions in the United States; and we also favor legislation permitting national banks to loan a reasonable proportion of their funds on real estate security.

We recognize the value of vocational education and urge Federal appropriations for such training and extension teaching in agriculture in cooperation with the several States.

BANKING AND CURRENCY.

The Republican Party has always stood for a sound currency and safe banking methods. It is responsible for the resumption of specie payment and for the establishment of the gold standard. It is committed to the progressive development of our banking and currency system. Our banking arrangements to-day need further revision to meet the requirements of current conditions. We need measures which will prevent the recurrence of money panics and financial disturbances and which will promote the prosperity of business and the welfare of labor by producing constant employment. We need better currency facilities for the movement of crops in the West and South. We need banking arrangements under American auspices for the encouragement and better conduct of our foreign trade. In attaining these ends the independence of individual banks, whether organized under national or State charters, must be carefully protected, and our banking and currency system must be safeguarded from any possibility of domination by sectional, financial, or political interests.

It is of great importance to the social and economic welfare of this country that its farmers have facilities for borrowing easily and cheaply the money they need to increase the productivity of their land. It is as important that financial machinery be provided to supply the demand of farmers for credit as it is that the banking and currency systems be reformed in the interest of general business. Therefore we recommend and urge an authoritative investigation of agricultural credit societies and corporations in other countries and the passage of State and Federal laws for the establishment and capable supervision of organizations having for another purpose the loaning of funds to farmers.

LAWFUL MONEY.

Memorandum prepared for the Treasury Department by Mr. Broughton.

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, August 22, 1913.

The terms "lawful money" and "legal tender" are different names for the same thing. The term "lawful money" originated in the act of February 25, 1862, authorizing the issue of United States notes. It was probably used in subsequent acts, because the term was comprehensive and, notwithstanding the fact that gold and silver coins were not then in circulation, it would necessarily embrace them, as well as legal-tender notes, whenever specie payments should be resumed. However, commonly the term "lawful money" has been applied to the United States notes. "Legal tender" is a quality given a circulating medium by Congress, and possessing this quality it becomes "lawful money."

The fact is interesting that the Continental Congress which authorized the issues of Continental currency did not ordain it legal tender, but asked the States to do so; it is stated all did so except Rhode Island.

Act of February 25, 1862, authorizing the issue of United States notes: "* * * and such notes herein authorized shall be receivable in payment of all taxes, internal duties, excises, debts, and demands of every kind due to the United States, except duties on imports, and of all claims and demands against the United States of every kind whatsoever, except for interest upon bonds and notes, which shall be paid in coin, and shall also be lawful money and a legal tender in payment of all debts, public and private, within the United States, except duties on imports and interest as aforesaid."

Calendar No. 107.

63D CONGRESS, 1st Session. } SENATE. { REPT. 133, Part 3.

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.

*

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 33⅓ 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 33⅓ 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 subpœna, 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

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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 oppoint 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, bed pieces, 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-twefths 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.*

BANKING AND CURRENCY

REPORT OF THE

COMMITTEE OF CONFERENCE

OF THE

TWO HOUSES OF CONGRESS

ON THE BILL (H. R. 7837) TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, TO FURNISH AN ELASTIC CURRENCY, TO AFFORD MEANS OF REDISCOUNTINC COMMERCIAL PAPER, TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

Sixty-third Congress, Second Session

SECOND EDITION

PRINTED FOR THE USE OF THE COMMITTEE ON BANKING AND CURRENCY

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1913

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BANKING AND CURRENCY BILL.

CONFERENCE REPORT ON THE BILL (H. R. 7837) 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.

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 7837) 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, having met, after full and free conference have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows:

In lieu of the amendment proposed by the Senate insert the following:

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."

Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

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 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. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal

Reserve Board when organized: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.

Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Federal Reserve Board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates.

The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this Act.

Any national bank failing to signify its acceptance of the terms of this Act within the sixty days aforesaid, shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.

Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under the provisions of this Act, shall be thereby forfeited. Any noncom-

pliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the District or Territory in which such bank is located, under direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than $25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

Stock not held by member banks shall not be entitled to voting power.

The Federal Reserve Board is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

No Federal reserve bank shall commence business with a subscribed capital less than $4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as

it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher 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 moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

BRANCH OFFICES.

SEC. 3. Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located and may do so in the district of any Federal reserve bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch banks shall possess the same qualifications as directors of the Federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The reserve bank shall designate one of the directors as manager.

FEDERAL RESERVE BANKS.

SEC. 4. When the organization committee shall have established Federal reserve districts as provided in section two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

When the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this Act.

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank 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 or equity.

Fifth. To appoint by its board of directors, such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

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.

Eighth. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.

But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.

Every Federal reserve bank shall be conducted under the supervision and control of a board of directors.

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who at the time of their election shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit.

Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

No Senator or Representative in Congress shall be a member of the Federal Reserve Board or an officer or a director of a Federal reserve bank.

No director of class B shall be an officer, director, or employee of any bank.

No director of class C shall be an officer, director, employee, or stockholder of any bank.

Directors of class A and class B shall be chosen in the following manner:

The chairman of the board of directors of the Federal reserve bank of the district in which the bank is situated or, pending the appointment of such chairman, the organization committee shall classify the member banks of the district into three general groups or divisions. Each group shall contain as nearly as may be one-third of the aggregate number of the member banks of the district and shall consist, as nearly as may be, of banks of similar capitalization. The groups shall be designated by number by the chairman.

At a regularly called meeting of the board of directors of each member bank in the district it shall elect by ballot a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups and shall transmit one list to each elector in each group.

Each member bank shall be permitted to nominate to the chairman one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each elector.

Every elector shall, within fifteen days after the receipt of the said list, certify to the chairman his first, second, and other choices of a director of class A and class B, respectively, upon a preferential ballot, on a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each elector shall make a cross opposite the name of the first, second, and other choices for a

director of class A and for a director of class B, but shall not vote more than one choice for any one candidate.

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience; and in addition to his duties as chairman of the board of directors of the Federal reserve bank he shall be required to maintain under regulations to be established by the Federal Reserve Board a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board, and shall act as its official representative for the performance of the functions conferred upon it by this Act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C, who shall be a person of tested banking experience, shall be appointed by the Federal Reserve Board as deputy chairman and deputy Federal reserve agent to exercise the powers of the chairman of the board and Federal reserve agent in case of absence or disability of his principal.

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers or employees shall be subject to the approval of the Federal Reserve Board.

The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank, it shall be the duty of the directors of classes A, B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire

at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL.

SEC. 5. The capital stock of each Federal reserve bank shall be divided into shares of $100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

SEC. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if

any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS.

SEC. 7. After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank.

The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate.

SEC. 8. Section fifty-one hundred and fifty-four, United States Revised Statutes, is hereby amended to read as follows:

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency: *Provided, however*, That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they

were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. 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 the Federal Reserve Act and by the national banking Act for associations originally organized as national banking associations.

STATE BANKS AS MEMBERS.

SEC. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, may make application to the reserve bank organization committee, pending organization, and thereafter to the Federal Reserve Board for the right to subscribe to the stock of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The organization committee or the Federal Reserve Board, under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located. Whenever the organization committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district, stock shall be issued and paid for under the rules and regulations in this Act provided for national banks which become stockholders in Federal reserve banks.

The organization committee or the Federal Reserve Board shall establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve and capital requirements and to submit to the examination and regulations prescribed by the organization committee or by the Federal Reserve Board. No 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.

Any bank becoming a member of a Federal reserve bank under the provisions of this section shall, in addition to the regulations and restrictions hereinbefore provided, be required to conform to the provisions of law imposed on the national banks respecting the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition against making purchase of or loans on stock of such banks, and the withdrawal or impairment of capital, or the payment of unearned dividends, and to such rules and regulations as the Federal Reserve Board may, in pursuance thereof, prescribe.

Such banks, and the officers, agents, and employees thereof, shall also be subject to the provisions of and to the penalties prescribed by sections fifty-one hundred and ninety-eight, fifty-two hundred,

fifty-two hundred and one, and fifty-two hundred and eight, and fifty-two hundred and nine of the Revised Statutes. The member banks shall also be required to make reports of the conditions and of the payments of dividends to the comptroller, as provided in sections fifty-two hundred and eleven and fifty-two hundred and twelve of the Revised Statutes, and shall be subject to the penalties prescribed by section fifty-two hundred and thirteen for the failure to make such report.

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 section or the regulations of the Federal Reserve Board, it shall be within the power of the said board, after hearing, to require such bank to surrender its stock in the Federal reserve bank; upon such surrender the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled, and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be required to suspend said bank from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and make payment therefor in the manner herein provided.

The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

FEDERAL RESERVE BOARD.

SEC. 10. A Federal Reserve Board is hereby created which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the five appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial and geographical divisions of the country. The five members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of $12,000, payable monthly together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of $7,000 annually for his services as a member of said Board.

The members of said board, the Secretary of the Treasury, the Assistant Secretaries of the Treasury, and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. Of the five members thus appointed by the President at least two shall be persons experienced in banking or finance. One shall be designated by the President to serve for two, one for four, one for six, one for eight, and one for ten years, and thereafter each member so appointed shall serve for a term of ten years unless

sooner removed for cause by the President. Of the five persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer. The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

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 the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the five members of the Federal Reserve Board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.

The President shall have power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate, by granting commissions which shall expire thirty days after the next session of the Senate convenes.

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 bureaus under such department, and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of 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 directions of the Secretary of the Treasury.

SEC. 11. The Federal Reserve Board 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 the Federal reserve banks, single and combined, and shall furnish full information regarding the 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, on the affirmative vote of at least five members of the Reserve Board, to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirement specified in this Act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: *And provided further*, That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum per annum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

(d) To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the comptroller to the Federal reserve agents applying therefor.

(e) 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 section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

(f) To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank.

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

(h) To suspend, for the violation of any of the provisions of this Act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

(j) To exercise general supervision over said Federal reserve banks.

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said board may prescribe.

(l) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof.: *Provided*, That nothing herein shall prevent the President from placing said employes in the classified service.

FEDERAL ADVISORY COUNCIL.

SEC. 12. 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 his 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 in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, 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 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 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.

POWERS OF FEDERAL RESERVE BANKS.

SEC. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks and drafts upon solvent member or other Federal reserve banks, payable upon presentation.

Upon the indorsement of any of its member banks, with a waiver of demand, notice and protest by such bank, 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 are to 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 in this Act 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. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days: *Provided*, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months, and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus 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 member bank may 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 sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up capital stock and surplus.

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No national

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banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

The rediscount by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

OPEN-MARKET OPERATIONS.

SEC. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

Every Federal reserve bank shall have power:

(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell with or without its

indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties.

GOVERNMENT DEPOSITS.

SEC. 15. The moneys 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 may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act: *Provided, however,* That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

NOTE ISSUES.

SEC. 16. Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents 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 by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. 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 in gold or lawful money at any Federal reserve bank.

Any Federal reserve bank may 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 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 section thirteen 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 may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation, and not offset by gold or lawful money deposited with the Federal reserve agent. 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 promptly returned for credit or 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 returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasury, otherwise than for redemption, may be exchanged for gold out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal Reserve Board, and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this Act upon security of United States two per centum Government bonds, 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 depositing, with the Federal reserve agent, its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding

Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit so much of said gold to the Treasury of the United States as may be required for the exclusive purpose of the redemption of such notes.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes deposited with it and shall at the same time substitute therefor other like collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board.

In order to furnish suitable notes for circulation as 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 of the denominations of $5, $10, $20, $50, $100, as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency 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 Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, bed pieces, 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 herbey extended to include 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 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 exempt-

ing 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 at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal 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 charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal 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 and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

SEC. 17. 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 is hereby repealed.

REFUNDING BONDS.

SEC. 18. After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchase to be made: *Provided*, That Federal reserve banks shall not be permitted to purchase an amount to exceed $25,000,000 of such bonds in any one year, and which amount shall include bonds acquired under section four of this Act by the Federal reserve bank. *Provided further*, That the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the

capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.

Upon notice from the Treasurer of the amount of bonds so sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal reserve bank purchasing the same, and such Federal reserve bank shall, thereupon, deposit lawful money with the Treasurer of the United States for the purchase price of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be canceled and permanently retired when redeemed.

The Federal reserve banks purchasing such bonds shall be permitted to take out an amount of circulating notes equal to the par value of such bonds.

Upon the deposit with the Treasurer of the United States of bonds so purchased, or any bonds with the circulating privilege acquired under section four of this Act, any Federal reserve bank making such deposit in the manner provided by existing law, shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited. Such notes shall be the obligations of the Federal reserve bank procuring the same, and shall be in form prescribed by the Secretary of the Treasury, and to the same tenor and effect as national-bank notes now provided by law. They shall be issued and redeemed under the same terms and conditions as national-bank notes except that they shall not be limited to the amount of the capital stock of the Federal reserve bank issuing them.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary of the Treasury may issue, in exchange for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circulation privilege, to an amount not to exceed one half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered: *Provided*, That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes, an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes so purchased by such Federal reserve bank, to purchase from the United States such an amount of one year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such

Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this Act, as well as from taxes in any form by or under State, municipal, or local authorities. And for the same purpose, the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

BANK RESERVES.

SEC. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment.

When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a Federal reserve bank in any district, every subscribing member bank 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 demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date five-twelfths thereof and permanently thereafter four-twelfths.

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

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall 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 city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date six-fifteenths thereof, and permanently thereafter five-fifteenths.

In the Federal reserve bank of its district for a period of twelve months after the date aforesaid at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths

have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank, or in both, at the option of the member bank.

(c) A bank in a central reserve city, as now or hereafter defined, shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults six-eighteenths thereof.

In the Federal reserve bank seven-eighteenths.

The balance of said reserves shall be held in its own vaults or in the Federal reserve bank, at its option.

Any Federal reserve bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as described in section fourteen properly indorsed and acceptable to the said reserve bank.

If a State bank or trust company is required by the law 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 Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situate. Except as thus provided, no member bank shall keep on deposit with any nonmember bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act except by permission of the Federal Reserve Board.

The reserve carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however,* That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

In estimating the reserves required by this Act, the net balance of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which reserves shall be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

National banks located in Alaska or outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks, except in the Philippine

Islands, may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall, in that event, take stock, maintain reserves, and be subject to all the other provisions of this Act.

SEC. 20. 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 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.

BANK EXAMINATIONS.

SEC. 21. Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:

The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary: *Provided, however*, That the Federal Reserve Board may authorize examination 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 of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

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 the Federal Reserve Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank 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 concerning the condition of any member bank within the district of the said Federal reserve bank.

No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by

either House thereof or by any committee of Congress or of either House duly authorized.

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. 22. No member bank or any officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee 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; and may be fined a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than $5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given; and shall forever thereafter be disqualified from holding office as a national-bank examiner. No national-bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

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 by said bank to such officer, director, or employee for 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. No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress or of either House duly authorized. Any person violating any provision of this section shall be punished by a fine of not exceeding $5,000 or by imprisonment not exceeding one year, or both.

Except as provided in existing laws, this provision shall not take effect until sixty days after the passage of this Act.

SEC. 23. 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, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; 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.

LOANS ON FARM LANDS.

SEC. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal reserve district, but no such loan shall be made for a longer time than five years, nor for an amount exceeding fifty per centum of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section,

FOREIGN BRANCHES.

SEC. 25. Any national banking association possessing a capital and surplus of $1,000,000 or more may file application with the Federal Reserve Board, upon such conditions and under such regulations 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 application 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 for the conduct of its foreign business. 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 foreign branches 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 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 branch as a separate item.

SEC. 26. 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*, 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," and the Secretary of

the Treasury may for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section two of the Act last referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

SEC. 27. 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, nineteenth hundred and fifteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the Act of May thirtieth, nineteen hundred and eight, are hereby reenacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this Act: *Provided, however*, That section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes.

SEC. 28. Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and reenacted to read as follows: Any association formed under this title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

SEC. 29. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

SEC. 30. The right to amend, alter, or repeal this Act is hereby expressly reserved.

Managers on the part of the Senate:

ROBT. L. OWEN,
J. A. O'GORMAN,
JAS. A. REED,
ATLEE POMERENE,
J. F. SHAFROTH,
HENRY F. HOLLIS.

Managers on the part of the House:

CARTER GLASS,
CHARLES A. KORBLY.

[PUBLIC—No. 43—63D CONGRESS.]

[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."

Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

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 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. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: *Provided,* That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.

Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Federal Reserve Board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates.

The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this Act.

Any national bank failing to signify its acceptance of the terms of this Act within the sixty days aforesaid, shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.

Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under the provisions of this Act, shall be thereby forfeited. Any noncompliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or territory in which such bank is located, under direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital

required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than $25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

Stock not held by member banks shall not be entitled to voting power.

The Federal Reserve Board is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

No Federal reserve bank shall commence business with a subscribed capital less than $4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher 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 moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

BRANCH OFFICES.

SEC. 3. Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located and may do so in the district of any Federal reserve bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch banks shall possess the same qualifications as directors of the Federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The reserve bank shall designate one of the directors as manager.

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FEDERAL RESERVE BANKS.

SEC. 4. When the organization committee shall have established Federal reserve districts as provided in section two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

When the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this Act.

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank 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 or equity.

Fifth. To appoint by its board of directors, such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

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.

Eighth. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.

But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.

Every Federal reserve bank shall be conducted under the supervision and control of a board of directors.

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who at the time of their election shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit.

Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

No Senator or Representative in Congress shall be a member of the Federal Reserve Board or an officer or a director of a Federal reserve bank.

No director of class B shall be an officer, director, or employee of any bank.

No director of class C shall be an officer, director, employee, or stockholder of any bank.

Directors of class A and class B shall be chosen in the following manner:

The chairman of the board of directors of the Federal reserve bank of the district in which the bank is situated or, pending the appointment of such chairman, the organization committee shall classify the member banks of the district into three general groups or divisions. Each group shall contain as nearly as may be one-third of the aggregate number of the member banks of the district and shall consist, as nearly as may be, of banks of similar capitalization. The groups shall be designated by number by the chairman.

At a regularly called meeting of the board of directors of each member bank in the district it shall elect by ballot a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups and shall transmit one list to each elector in each group.

Each member bank shall be permitted to nominate to the chairman one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each elector.

Every elector shall, within fifteen days after the receipt of the said list, certify to the chairman his first, second, and other choices of a director of class A and class B, respectively, upon a preferential ballot, on a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each elector shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate.

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience; and in addition to his duties as chairman

of the board of directors of the Federal reserve bank he shall be required to maintain under regulations to be established by the Federal Reserve Board a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board, and shall act as its official representative for the performance of the functions conferred upon it by this Act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C, who shall be a person of tested banking experience, shall be appointed by the Federal Reserve Board as deputy chairman and deputy Federal reserve agent to exercise the powers of the chairman of the board and Federal reserve agent in case of absence or disability of his principal.

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers or employees shall be subject to the approval of the Federal Reserve Board.

The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank, it shall be the duty of the directors of classes A, B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL.

SEC. 5. The capital stock of each Federal reserve bank shall be divided into shares of $100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said sub-

scription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

SEC. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS.

SEC. 7. After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank.

The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of

the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate.

SEC. 8. Section fifty-one hundred and fifty-four, United States Revised Statutes, is hereby amended to read as follows:

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency: *Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. 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 the Federal Reserve Act and by the national banking Act for associations originally organized as national banking associations.

STATE BANKS AS MEMBERS.

SEC. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, may make application to the reserve bank organization committee, pending organization, and thereafter to the Federal Reserve Board for the right to subscribe to the stock of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The organization committee or the Federal Reserve Board, under such rules and regulations as

it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located. Whenever the organization committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district, stock shall be issued and paid for under the rules and regulations in this Act provided for national banks which become stockholders in Federal reserve banks.

The organization committee or the Federal Reserve Board shall establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve and capital requirements and to submit to the examination and regulations prescribed by the organization committee or by the Federal Reserve Board. No 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.

Any bank becoming a member of a Federal reserve bank under the provisions of this section shall, in addition to the regulations and restrictions hereinbefore provided, be required to conform to the provisions of law imposed on the national banks respecting the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition against making purchase of or loans on stock of such banks, and the withdrawal or impairment of capital, or the payment of unearned dividends, and to such rules and regulations as the Federal Reserve Board may, in pursuance thereof, prescribe.

Such banks, and the officers, agents, and employees thereof, shall also be subject to the provisions of and to the penalties prescribed by sections fifty-one hundred and ninety-eight, fifty-two hundred, fifty-two hundred and one, and fifty-two hundred and eight, and fifty-two hundred and nine of the Revised Statutes. The member banks shall also be required to make reports of the conditions and of the payments of dividends to the comptroller, as provided in sections fifty-two hundred and eleven and fifty-two hundred and twelve of the Revised Statutes, and shall be subject to the penalties prescribed by section fifty-two hundred and thirteen for the failure to make such report.

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 section or the regulations of the Federal Reserve Board, it shall be within the power of the said board, after hearing, to require such bank to surrender its stock in the Federal reserve bank; upon such surrender the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled, and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be required to suspend said bank from further privileges of membership, and shall within thirty days of such notice

cancel and retire its stock and make payment therefor in the manner herein provided. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

FEDERAL RESERVE BOARD.

SEC. 10. A Federal Reserve Board is hereby created which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the five appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial and geographical divisions of the country. The five members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of $12,000, payable monthly together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of $7,000 annually for his services as a member of said Board.

The members of said board, the Secretary of the Treasury, the Assistant Secretaries of the Treasury, and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. Of the five members thus appointed by the President at least two shall be persons experienced in banking or finance. One shall be designated by the President to serve for two, one for four, one for six, one for eight, and one for ten years, and thereafter each member so appointed shall serve for a term of ten years unless sooner removed for cause by the President. Of the five persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer. The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

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 the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board. No member of the Federal Reserve Board shall be an officer or director of any bank, banking

institution, trust company, or Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the five members of the Federal Reserve Board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.

The President shall have power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate, by granting commissions which shall expire thirty days after the next session of the Senate convenes.

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 bureaus under such department, and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of 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 directions of the Secretary of the Treasury.

SEC. 11. The Federal Reserve Board 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 the Federal reserve banks, single and combined, and shall furnish full information regarding the 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, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding

fifteen days, any reserve requirement specified in this Act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: *And provided further*, That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

(d) To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.

(e) 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 section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

(f) To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank.

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

(h) To suspend, for the violation of any of the provisions of this Act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

(j) To exercise general supervision over said Federal reserve banks.

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said board may prescribe.

(l) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large,

page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: *Provided*, That nothing herein shall prevent the President from placing said employees in the classified service.

FEDERAL ADVISORY COUNCIL.

SEC. 12. 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 his 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 in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, 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 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 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.

POWERS OF FEDERAL RESERVE BANKS.

SEC. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks and drafts upon solvent member or other Federal reserve banks, payable upon presentation.

Upon the indorsement of any of its member banks, with a waiver of demand, notice and protest by such bank, 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 are to 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 in this Act 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. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days: *Provided*, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months, and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus 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 member bank may 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 sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up capital stock and surplus.

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

The rediscount by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

OPEN-MARKET OPERATIONS.

SEC. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or

foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

Every Federal reserve bank shall have power:

(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties

GOVERNMENT DEPOSITS.

SEC. 15. The moneys 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 may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act: *Provided, however*, That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

NOTE ISSUES.

SEC. 16. Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents 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 by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. 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 in gold or lawful money at any Federal reserve bank.

Any Federal reserve bank may 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 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 section thirteen 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 may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation, and not offset by gold or lawful money deposited with the Federal reserve agent. 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 promptly returned for credit or 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 returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasury, otherwise than for redemption, may be exchanged for gold out of the redemption fund

hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal Reserve Board, and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this Act upon security of United States two per centum Government bonds, 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 depositing, with the Federal reserve agent, its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit so much of said gold to the Treasury of the United States as may be required for the exclusive purpose of the redemption of such notes.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes deposited with it and shall at the same time substitute therefor other like collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board.

In order to furnish suitable notes for circulation as 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 of the denominations of $5, $10, $20, $50, $100, as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the

distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency 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 Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, bed pieces, 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 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 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 at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal 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 charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal 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 and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to

exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

SEC. 17. 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 associations 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 is hereby repealed.

REFUNDING BONDS.

SEC. 18. After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchase to be made: *Provided*, That Federal reserve banks shall not be permitted to purchase an amount to exceed $25,000,000 of such bonds in any one year, and which amount shall include bonds acquired under section four of this Act by the Federal reserve bank.

Provided further, That the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.

Upon notice from the Treasurer of the amount of bonds so sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal reserve bank purchasing the same, and such Federal reserve bank shall, thereupon, deposit lawful money with the Treasurer of the United States for the purchase price of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be canceled and permanently retired when redeemed.

The Federal reserve banks purchasing such bonds shall be permitted to take out an amount of circulating notes equal to the par value of such bonds.

Upon the deposit with the Treasurer of the United States of bonds so purchased, or any bonds with the circulating privilege acquired under section four of this Act, any Federal reserve bank making such deposit in the manner provided by existing law, shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited. Such notes

shall be the obligations of the Federal reserve bank procuring the same, and shall be in form prescribed by the Secretary of the Treasury, and to the same tenor and effect as national-bank notes now provided by law. They shall be issued and redeemed under the same terms and conditions as national-bank notes except that they shall not be limited to the amount of the capital stock of the Federal reserve bank issuing them.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary of the Treasury may issue, in exchange for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circulation privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered: *Provided*, That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes, an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes so purchased by such Federal reserve bank, to purchase from the United States such an amount of one-year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this Act, as well as from taxes in any form by or under State, municipal, or local authorities. And for the same purpose, the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

BANK RESERVES.

Sec. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment.

When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a Federal reserve bank in any district, every subscribing member bank 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 demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date five-twelfths thereof and permanently thereafter four-twelfths.

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

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall 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 city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date six-fifteenths thereof, and permanently thereafter five-fifteenths.

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

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank, or in both, at the option of the member bank.

(c) A bank in a central reserve city, as now or hereafter defined, shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults six-eighteenths thereof.

In the Federal reserve bank seven-eighteenths.

The balance of said reserves shall be held in its own vaults or in the Federal reserve bank, at its option.

Any Federal reserve bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as

described in section fourteen properly indorsed and acceptable to the said reserve bank.

If a State bank or trust company is required by the law 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 Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situate. Except as thus provided, no member bank shall keep on deposit with any nonmember bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act except by permission of the Federal Reserve Board.

The reserve carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however,* That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

In estimating the reserves required by this Act, the net balance of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which reserves shall be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

National banks located in Alaska or outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks, except in the Philippine Islands, may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall, in that event, take stock, maintain reserves, and be subject to all the other provisions of this Act.

SEC. 20. 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, 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.

BANK EXAMINATIONS.

SEC. 21. Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:

The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine

every member bank at least twice in each calendar year and oftener if considered necessary: *Provided, however,* That the Federal Reserve Board may authorize examination 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 of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

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 the Federal Reserve Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank 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 concerning the condition of any member bank within the district of the said Federal reserve bank.

No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

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. 22. No member bank or any officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee 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; and may be fined a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than $5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given; and shall forever thereafter be disqualified from holding office as a national-bank examiner. No national-bank examiner shall perform

any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

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 by said bank to such officer, director, or employee for 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. No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress or of either House duly authorized. Any person violating any provision of this section shall be punished by a fine of not exceeding $5,000 or by imprisonment not exceeding one year, or both.

Except as provided in existing laws, this provision shall not take effect until sixty days after the passage of this Act.

SEC. 23. 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, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; 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.

LOANS ON FARM LANDS.

SEC. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal reserve district, but no such loan shall be made for a longer time than five years, nor for an amount exceeding fifty per centum of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

FOREIGN BRANCHES.

SEC. 25. Any national banking association possessing a capital and surplus of $1,000,000 or more may file application with the Federal Reserve Board, upon such conditions and under such regulations 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 application 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 for the conduct of its foreign business. 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 foreign branches 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 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 branch as a separate item.

SEC. 26. 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*, 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," and the Secretary of the Treasury may for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section two of the Act last referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

SEC. 27. 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, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the Act of May thirtieth, nineteen

hundred and eight, are hereby reenacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this Act: *Provided, however,* That section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes.

SEC. 28. Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and reenacted to read as follows: Any association formed under this title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

SEC. 29. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

SEC. 30. The right to amend, alter, or repeal this Act is hereby expressly reserved.

Approved, December 23, 1913.

INDEX TO FEDERAL RESERVE ACT.

THE McFADDEN ACT

69TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 83

THE NATIONAL BANK BILL

JANUARY 12, 1926.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. MCFADDEN, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany H. R. 2]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 2) to amend an act entitled "An act to provide for the consolidation of national banking associations," approved November 7, 1918; to amend section 5136 as amended, section 5137, section 5138 as amended, section 5142, section 5150, section 5155, section 5190, section 5200 as amended, section 5202 as amended, section 5208 as amended, section 5211 as amended, of the Revised Statutes of the United States; and to amend section 9, section 13, section 22, and section 24 of the Federal reserve act, and for other purposes, having considered the same, report it back to the House with the recommendation that the bill do pass with the following amendments:

On page 6, line 15, after the word "notes" strike out the comma and insert the words "and/or."

On page 6, line 15, after the word "debentures" strike out the words "and the."

On page 6, line 16, strike out the word "like."

On page 7, line 24, after the word "notes" strike out the comma and insert the words "and/or."

On page 7, line 25, after the word "debentures" strike out the words "and the like."

On page 15, at the end of line 22, strike out the colon and insert a period.

On page 15, beginning with line 23, strike out down to and including line 25 on the same page.

On page 16, beginning with line 9, strike out down to and including line 4 on page 17.

On page 17, line 5, after the abbreviated word "Sec.," strike out "11" and insert "10."

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On page 19, line 2, after the word "insurance," insert a comma and the words "if it is customary to insure such staples,"

On page 21, line 9, after the abbreviated word "Sec.," strike out "12" and insert "11."

On page 21, line 16, after the abbreviated word "Sec.," strike out "13" and insert "12."

On page 23, line 11, after the abbreviated word "Sec.," strike out "14" and insert "13."

On page 24, line 18, after the abbreviated word "Sec.," strike out "15" and insert "14."

On page 25, line 3, after the abbreviated word "Sec.," strike out "16" and insert "15."

On page 26, line 3, after the abbreviated word "Sec.," strike out "17" and insert "16."

This bill is in effect identical with H. R. 8887 as it passed the House in the last Congress, but which failed of passage in the Senate during the closing days of the session.

There are two changes of form in H. R. 2 as compared with H. R. 8887. Section 15 which related to the safe-deposit business and section 17 (b) which related to the investment-securities business have been combined and carried over as section 2 (b). The policy of the bill remains the same but instead of appearing in the bill as new grants of power (as they appeared in H. R. 8887) they now appear as a confirmation and regulation of an existing banking service or business. It is a matter of common knowledge that national banks have been engaged in the investment-securities business and the safe-deposit business for a number of years. In this they have proceeded under their incidental corporate powers to conduct the banking business. Section 2 (b) recognizes this situation but declares a public policy with reference thereto and thereby regulates these activities.

Sections 7, 8, and 9 and the last proviso to section 1, which relate to branch banking, have been clarified as to phraseology by these same sections as drafted in H. R. 2. Some amendments offered upon the floor of the House in the preceding Congress have been coordinated with the text and on the whole the language has been simplified. No change, however, has been made in the policy of the bill in this respect.

Every section of the bill is an amendment of the national bank act itself or of provisions of the Federal reserve act which relate to national banks. The general purpose of the bill is to adjust the national banking laws to modern banking conditions along the lines of conservative banking, and without any deviation from the high standard which has been set by the national banking system. Some of the provisions in the bill extend and enlarge the powers of national banks, but only in the manner in which State banks and trust companies generally have been successfully operating within recent years. Other sections of the bill affirm and regulate practices which have grown up within the national banking system under the exercise of incidental corporate powers. These practices are common to both the State and national banks. Other sections of the bill relate entirely to questions of procedure and not to banking powers. An attempt is made to eliminate some of the rigid formalities in this direction. Several sections of the bill declare a Federal Govern-

mental policy with reference to branch banking. A detailed analysis section by section follows:

Section 1: This section relates to a question of procedure. It adds no new power to the national banks. It provides that a State bank may consolidate directly with a national bank under the national charter. The same result can now be accomplished through the State bank first converting into a national bank and then consolidating with another national bank. Consequently, the effect of the section is to eliminate delay and expense in accomplishing a result which is already provided for by law. At the end of this section is a proviso in conformity with the branch banking policy of the bill, which prohibits any such consolidated bank to retain any branches which the State bank may have had outside of the city limits of the city of the consolidated bank and also prohibits the retention of any branches whatever which may have been established in a State which, at the time of the enactment of the bill, prohibited branches.

Section 2: Section 2 is divided into two subsections (a) and (b).

Subsection (a) is not an enlargement of the powers of a national bank but extends the term of its charter to an indefinite number of years subject to forfeiture of the charter by reason of violation of law, subject to termination by act of Congress at any time and to termination through the appointment of a receiver on account of insolvency. This extension of the life of the charters of national banks is along the line of State legislation for the State banks in Arkansas, Connecticut, Florida, Illinois, Kentucky, Maine, Massachusetts, Minnesota, Nebraska, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, and West Virginia. It will be noted that these states include the important cities of New York, Buffalo, Boston, Chicago, St. Paul, Minneapolis, Cleveland, Cincinnati, Louisville, Omaha, Providence, Nashville, Richmond, and a number of other lesser financial centers.

One of the principal advantages of the indeterminate charter is to enable the bank to administer long-term and perpetual trusts. Many of these trusts are in the nature of educational and charitable foundations.

Subsection (b): This subsection is divided into two provisos, each of which recognizes and affirms the existence of a type of business which national banks are now conducting under their incidental charter powers. They may be said to liberalize, in that they confirm the conduct of this character of business; on the other hand, they are restrictive in that the business is confined to definite limits by law.

The first proviso referred to recognizes the right of national banks to continue to engage in the business of buying and selling investment securities but at the same time it makes a general definition of the term "investment securities" and gives the comptroller the authority to make a further definition by regulation. This would give the comptroller the authority to exclude by definition the right of a national bank to purchase undesirable or unsafe investment securities. This provision also limits the total amount which a national bank may take of any one issue of such securities to 25 per cent of its capital and surplus. In this connection it may be noted that this is a business regularly carried on by State banks and trust companies and has

been engaged in by national banks for a number of years. The national banks hold to-day in the neighborhood of $6,000,000,000 of investment securities. The effect of this provision, therefore, is primarily regulative.

The second proviso regulates the safe-deposit business of national banks and prohibits them from investing an amount in excess of 15 per cent of capital and surplus in a corporation organized to conduct a safe-deposit business in connection with the bank. This is a business which is regularly carried on by national banks and the effect of this provision is also primarily regulative.

Section 3: Section 3 is in the nature of a liberalization to the extent that it would permit a national bank to purchase a piece of real estate for expansion of its banking matters without making it mandatory upon the banks to make immediate use of the property for banking purposes. In other words, the section simply strikes out the word "immediate" from the law. The existing law has operated as a hardship upon national banks in this respect.

Section 4: Section 4 provides for the organization of banks in the outlying districts of a city with a capital of $100,000 where the population is in excess of 50,000.

Section 5: Section 5 is also in the nature of a confirmation and regulation of an existing practice. It permits national banks to continue to pay stock dividends but provides a definite procedure and regulations of amount of surplus which the bank must have at the time of the increase.

Section 6: This section does not add any new charter powers, but is simply a clarification of an ambiguous provision of law relating to the status of the chairman of the board of directors. It provides that the president of the bank shall be a member of the board of directors but not necessarily chairman thereof.

Section 7: This section is a restriction upon branch banking. It is a reenactment of existing law which permits a State bank to convert into a national bank and to retain all of the branches which the State bank might have had regardless of their location, but restricts the branches which may be retained solely to those which the State bank may have had within the limits of the city in which the State bank is located in a State which at the time of the enactment of the bill permitted branch banking. Any branch which may have been established even within the city limits under State authority given after the passage of this bill would have to be reliquished, as well as any branches which may have been established on the outside of city limits under authority of State laws previous to the passage of the bill. This section is in conformity with the branch banking policy of the bill which would confine all branch banking within the national banking system to city limits and to prohibit national banks from establishing any branches in States which prohibit State banks from exercising this power.

Section 8: This section recognizes the right of national banks to establish branches within those cities in which State banks have that privilege at the time of the passage of the bill. Should a nonbranch-banking State in the future change its policy and permit the State banks to have branches the national banks would be prohibited from exercising similar powers. This section also as a practical

matter limits the branch banking activities of national banks to cities having a population in excess of 100,000.

Section 9: This section makes the same requirements as to State member banks in the Federal reserve system which section 8 makes of the national banks with reference to branch-banking. Under it a State member bank would be restricted, so far as future operations are concerned, to the establishment of branches within the city limits in which the parent bank is located in those States which permitted branch banking at the time of the passage of this bill. If the State changes its branch-banking policy and permitted the State banks to have branches, State member banks of the Federal reserve system could not exercise such powers within the Federal reserve system. This section further prohibits any nonmember State bank from bringing into the Federal reserve system branches which have been established on the outside of city limits.

Section 10: This section is designed to restate and clarify section 5200 of the Revised Statutes which governs the amount of money which a national bank may lend to any one person. The existing law is composed of the original provisions of 1863 with a number of amendments and provises added from time to time and stands in need of clarification to clear up certain ambiguities. It is not the purpose of this section to make any substantial liberalization or restriction upon the business of national banks and the language of the bill is therefore substantially identical in effect with that of the existing law.

Subsection 4 is in the nature of a restriction upon the discount of noncommercial paper. Through a loophole in the existing law there is at present no limit upon the amount of this type of paper which a national bank may discount since the limitation of the law runs against the maker only and not against the indorser. This subsection is designed to cure this defect in the law.

Under subsection 6 there is an enlargement of the power of national banks in the matter of loans upon the security of nonperishable staple commodities stored in bonded warehouses. This section would permit a gradual increase of the loan up to an amount not exceeding 50 per cent of the capital and surplus of the bank provided each increase in the amount of the loan shall be accompanied by an increase in the value of the commodity collateral in proportion to the face amount of the additional loan.

Section 11: This section is designed to cure a typographical error in the agricultural credits act of 1923, and relates to the total liabilities of national banking associations.

Section 12: Section 12 is designed to clarify and correct a criminal provision in section 5208, Revised Statutes, relating to the overcertification of checks.

Section 13: Section 13 relates to a matter of procedure and gives the board of directors of a national bank the right to permit a junior officer to certify reports to the comptroller in the absence of the president and cashier.

Section 14: This section is in the nature of a liberalization for both State and national banks in that it empowers the Federal reserve banks to rediscount for any member bank an amount of eligible paper equal to the amount which a national bank could lawfully discount for its customers. Under the existing law a Federal

reserve bank can only discount an amount of eligible paper of any one borrower not exceeding 10 per cent of the capital and surplus of the member bank. This section does not change the character of classes of eligible paper. If the paper is already eligible for discount and the national bank act considers it safe for a national bank to take it in certain stated amounts, it is considered by this section to be safe for the Federal reserve banks to rediscount it in the same amounts. The paper itself is considered liquid and in addition has the indorsement of the member bank upon it when presented for rediscount.

Section 15: This section simply adds an additional criminal provision providing for the punishment of a national-bank examiner who commits a theft from a bank examined by him.

Section 16: This section is a restatement of the existing law relative to loans by national banks upon the security of real estate. It broadens the powers of national banks as to the time limit of the loans upon city property but at the same time makes restrictions by way of definitions. At the present time a national-bank may make a loan upon first mortgage upon city property for a period not exceeding one year. This section increases this period to five years as a maximum. At the same time it defines a real-estate loan to be one with respect to which the bank takes the entire obligation at the time of making the loan. The purpose of this definition is to prevent the possibility of a bank from purchasing real-estate bonds under the guise of making loans upon the security of real estate. Such real-estate bonds as may be purchased by a bank (should the comptroller determine that any such bonds are "investment securities") would be acquired under section 2 (b) of the bill.

The State banks and trust companies are authorized to make long-time loans upon the security of first mortgage upon city real estate. National banks, by being limited to a one-year period, have found themselves handicapped in meeting the demands of their customers in this respect. The section limits all such loans to an amount not exceeding one-half of the savings deposits in the bank, and thereby relates the real estate loan business to savings deposits. This is a logical connection. National banks have on deposit about $5,000,000,000 of savings deposits from about 11,000,000 depositors. This constitutes a large proportion of the entire savings business in the United States, and it has become necessary to recognize the right of a national bank with certain definite restrictions to use these funds in the same general manner in which the State banks and trust companies are using them, which includes the right to make loans upon city property, as provided above.

The enactment of this bill into law will put new life into the national banking system. The cumulative effect of its provisions will produce a situation in the Federal reserve system where the rights of the national banks will be more nearly on a par with those of the State member banks. When the Federal reserve act was amended to let State banks come into the Federal reserve system with their full charter powers, the national banks, operating under the old national bank act of 1864, found themselves, as compulsory members of the Federal reserve system, placed at a considerable disadvantage. Many of these State banks are operating under modern banking codes. The amendments which had heretofore

been made to the national bank act were not sufficient to enable the national banks to compete on terms of equality with such State member banks, while at the same time they were compelled by law to bear the chief burden in supporting the Federal reserve system.

The bill recognizes the absolute necessity of taking legislative action with reference to the branch banking controversy. The present situation is intolerable to the national banking system. The bill proposes the only practicable solution by stopping the further extension of state-wide branch banking in the Federal reserve system by State member banks and by permitting national banks to have branches in those cities where State banks are allowed to have them under State laws.

Your committee feels that the need for this legislation is even more urgent than it was during the last Congress and respectfully urges its passage.

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Calendar No. 357

69TH CONGRESS } SENATE { REPORT
1st Session } { No. 473

THE NATIONAL BANK ACT

MARCH 25, 1926.—Ordered to be printed

Mr. PEPPER, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany H. R. 2]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 2) to amend an act entitled "An act to provide for the consolidation of national banking associations," approved November 7, 1918; to amend section 5136 as amended, section 5137, section 5138 as amended, section 5142, section 5150, section 5155, section 5190, section 5200 as amended, section 5202 as amended, section 5208 as amended, section 5211 as amended, of the Revised Statutes of the United States; and to amend section 9, section 13, section 22, and section 24 of the Federal reserve act, and for other purposes, having considered the same, report it back to the Senate with the recommendation that the bill do pass with the amendments herewith indicated.

The bill is in many respects identical with S. 3316, favorably reported by your committee at the first session of the Sixty-eighth Congress, and H. R. 8887, favorably reported by your committee at the second session of the Sixty-eighth Congress.

COMMITTEE AMENDMENTS

Your committee, after public hearings by a subcommittee and after due deliberation, recommends the following amendments to the bill:

Proposed amendments to section 1:

On page 2, line 4, after the word "same" insert the word "State."

On page 2, line 18, strike out the word "located" and insert the words "situated, and in the legal newspaper for the publication of legal notices or advertisements, if any such paper has been designated by the rules of a court in the county where such association or bank is situated."

On page 3, line 2, after the word "organized" strike out the colon and the words "*Provided*, That the" and substitute a period and insert the word "The" in said line.

On page 3, line 7, after the word "State" insert the words "or District."

On page 3, line 16, after the word "State" insert the words "or District."

On page 3, line 17, after the word "association" strike out the colon and the words "*And provided further*, That when" and insert a period and the word "When" in line 18.

On page 3, line 20, after the word "State" insert the words "or District."

On page 4, line 23, strike out the colon and insert a period after the word "determine," and in line 24, strike out the words "*And provided further*, That the" and insert the word "The" in said line.

On page 5, line 3, after the word "provided" strike out the colon and the words "*And provided further*, That no" and insert a period and the word "No" in said line.

On page 5, line 5, after the word "incorporated" strike out down to and including line 19 and insert a comma.

On page 5, line 5, after the word "incorporated" insert the following words: "nor shall any such State bank or banks entering into such consolidation be located at a greater distance from such national banking association than is authorized by the laws of the State in case of the consolidation or merger of two or more State banks."

On page 5, at the end of section 1 insert the following:

The words "State bank," "State banks," "bank," or "banks" as used in this section shall be held to include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws.

Proposed amendment to section 2:

On page 5, line 20, strike out the word "section" and insert the words "That section."

Proposed amendment to section 3:

On page 8, line 23, strike out the word "section" and insert the words "That section."

Proposed amendment to section 4:

On page 9, line 3, strike out the word "section" and insert the words "That section."

On page 9, line 5, after the word "No" insert the words "national banking."

On page 9, line 6, strike out the word "banks" and insert the words "such associations."

On page 9, line 10, strike out the words "banks" and insert the words "such associations."

On page 9, line 13, after the word "No" insert the word "such."

On page 9, line 17, after the word "city" strike out the word "banks" and insert the following: "where the State laws permit the organization of State banks with a capital of $100,000 or less, national banking associations."

Proposed amendment to section 6:

On page 10, line 24, strike out the word "section" and insert the words "That section."

Proposed amendments to section 7:

On page 11, line 6, strike out the word "section" and insert the words "That section."

On page 11, line 8, strike out everything to the end of the page, down to and including line 25, and on page 12 strike out everything down to and including line 9 and insert:

SEC. 5155. The conditions upon which a national banking association may retain or establish and operate a branch or branches are the following:

(a) A national banking association may maintain and operate such branch or branches as it may have in operation at the date of the approval of this act.

(b) If a State bank is hereafter converted into or consolidated with a national banking association, the said association may retain and operate such branches, if any, as were being maintained and operated by said State bank at the date of the approval of this act.

(c) A national banking association may, after the date of the approval of this act, establish and operate new branches within the limits of the city, town, or village in which said association is situated if such establishment and operation are at the time permitted to State banks by the law of the State in question.

(d) If at the date of the approval of this act there is situated in any State which prohibits branches a national banking association which has one or more branches within the city in which the parent bank is located, any other national bank situated in such city may establish within the limits of such city branches not exceeding in number the aggregate number of branches maintained by such national banking association.

(e) No branch shall be established after the date of the approval of this act within the limits of any city, town, or village of which the population by the last decennial census was less than twenty-five thousand. No more than one such branch may be thus established where the population, so determined, of such municipal unit does not exceed fifty thousand; and not more than two such branches where the population does not exceed one hundred thousand. In any such municipal unit where the population exceeds one hundred thousand, the determination of the number of branches shall be within the discretion of the Comptroller of the Currency.

(f) In cases in which, under the provisions of this section, a national banking association is authorized to establish a branch or branches within the limits of a city, town, or village, the Comptroller of the Currency shall have the discretionary power to authorize the establishment and operation of such branch or branches beyond the boundaries of said city, town, or village as strictly defined by law; but only within the same metropolitan area as that in which the parent bank is situated: *Provided, however,* That he shall in no case authorize such establishment and operation except within the territory of a city, town, or village, the corporate limits of which at some point coincide with the corporate limits of the city or town in which the parent bank is situated, when in his discretion he shall determine, after public hearing, that the banking needs of the inhabitants of said contiguous and urban territory require the establishment of such branch or branches; but no branch shall be established under the authority of this section in any part of a State to which right of State banks, under the State law, to establish branches does not extend.

(g) No branch of any national banking association shall be established or moved from one location to another without first obtaining the consent and approval of the Comptroller of the Currency.

(h) The term "branch" as used in this section shall be held to include any branch bank, branch office, branch agency, additional office or any branch place of business located in any State or Territory of the United States or in the District of Columbia at which deposits are received, or checks paid or money lent.

(i) This section shall not be construed to amend or repeal section 25 of the Federal reserve act, as amended, authorizing the establishment by national banking associations of branches in foreign countries, or dependencies, or insular possessions of the United States.

(j) The words "State bank," "State banks," "bank" or "banks" as used in this section shall be held to include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws.

Proposed amendments to section 8:

On page 12, line 10, strike out the word "section" and insert the words "That section."

On page 12, line 14, after the word "certificate" strike out down to and including line 25; and on page 13 strike out, beginning with line 1, down to and including line 26; and on page 14 strike out, beginning with line 1, down to and including line 11.

On page 12, line 14, after the word "certificate" strike out the comma and insert the words "and in the branch or branches, if any, established or maintained by it in accordance with the provisions of section 5155 of the Revised Statutes, as amended by this act."

Proposed amendments to section 9:

On page 14, beginning with line 12, strike out down to and including line 5 on page 16, and insert the following:

SEC. 9. That the first paragraph of section 9 of the Federal reserve act be amended so as to read as follows:

"SEC. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal reserve system, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to the provisions of this act and to such conditions as it may prescribe pursuant thereto, may permit the applying bank to become a stockholder of such Federal reserve bank.

Any such State bank, which, at the date of the approval of this act, has established and is operating a branch or branches in conformity with the State law, may retain and operate the same while remaining or upon becoming a stockholder of such Federal reserve bank; but no such State bank may retain or acquire stock in a Federal Reserve Bank except upon relinquishment of any branch or branches established after the date of the approval of this act beyond the limits of the city, town, or village in which the parent bank is situated. The Federal Reserve Board shall have the discretionary power to define the limits of any such municipal unit in such a way as to include only the territory of a city, town, or village the corporate limits of which at some point coincide with the corporate limits of the city or town in which the parent bank is situated.

Proposed amendment to section 10:

On page 19, line 12, strike out the word "and" and insert "and/or."

Proposed amendment to section 13:

On page 22, line 11, strike out the word "section" and insert the words "That section".

Proposed new sections:

On page 26, after line 9 insert four new sections, as follows:

SEC. 17. That the last proviso of the second paragraph of section 8 of the act entitled "An act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October 15, 1914, as amended, is amended to read as follows:

"*And provided further*, That nothing in this act shall prohibit any private banker from being an officer, director, or employee of not more than two banks, banking associations, or trust companies, or prohibit any officer, director, or employee of any bank, banking association, or trust company, or any class A director of a Federal reserve bank, from being an officer, director, or employee of not more than two other banks, banking associations, or trust companies, whether organized under the laws of the United States or any State, if in any such case there is in force a permit therefor issued by the Federal Reserve Board; and the Federal Reserve Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest, and to revoke any such permit whenever it finds after reasonable notice and opportunity to be heard, that the public interest requires its revocation."

SEC. 18. That section 5139 of the Revised Statutes of the United States be amended by inserting in the first sentence thereof the following words: "or into shares of such less amount as may be provided in the articles of association," so that the section as amended shall read as follows:

"SEC. 5139. The capital stock of each association shall be divided into shares of $100 each, or into shares of such less amount as may be provided in the articles of association, and be deemed personal property, and transferable on the books of the association in such manner as may be prescribed in the by-laws or articles of association. Every person becoming a shareholder by such transfer shall, in proportion to his shares, succeed to all rights and liabilities of the prior holder of such shares; and no change shall be made in the articles of association by which the rights, remedies, or security of the existing creditors of the association shall be impaired."

SEC. 19. That section 5146 of the Revised Statutes of the United States as amended be amended by inserting in lieu of the second sentence thereof the following: "Every director must own in his own right shares of the capital stock of the association of which he is a director, the aggregate par value of which shall not be less than $1,000, unless the capital of the bank shall not exceed $25,000, in which case he must own in his own right shares of such capital stock the aggregate value of which shall not be less than $500," so that the section as amended shall read as follows:

"SEC. 5146. Every director must during his whole term of service, be a citizen of the United States, and at least three fourths of the directors must have resided in the State, Territory, or District in which the association is located, or within fifty miles of the location of the office of the association, for at least one year immediately preceding their election, and must be residents of such State or within a fifty-mile territory of the location of the association during their continuance in office. Every director must own in his own right shares of the capital stock of the association of which he is a director the aggregate par value of which shall not be less than $1,000, unless the capital of the bank shall not exceed $25,000 in which case he must own in his own right shares of such capital stock the aggregate par value of which shall not be less than $500. Any director who ceases to be the owner of the required number of shares of the stock, or who becomes in any other manner disqualified, shall thereby vacate his place."

SEC. 20. That the second subdivision of the fourth paragraph of section 4 of the Federal reserve act be amended to read as follows:

"Second. To have succession after the approval of this act until dissolved by act of Congress or until forfeiture of franchise for violation of law."

Amend the title so as to read: "An act to amend an act entitled 'An act to provide for the consolidation of national banking associations,' approved November 7, 1918; to amend section 5136 as amended, section 5137, section 5138 as amended, section 5139, section 5142, section 5146 as amended, section 5150, section 5155, section 5190, section 5200 as amended, section 5202 as amended, section 5208 as amended, section 5211 as amended, of the Revised Statutes of the United States; and to amend section 4, section 9, section 13, section 22, and section 24 of the Federal reserve act, and section 8 of the act entitled 'An act to supplement existing laws against unlawful restraint and monopolies, and for other purposes,' approved October 15, 1914, as amended, and for other purposes."

COMMENT ON THE BILL AS AMENDED

Every section of the bill is an amendment of the national banking act itself or of provisions of the Federal reserve act which relate directly or indirectly to national banks or of the Clayton Act, as far as it relates to qualification of directors. The general purpose of the bill is to adjust the national banking laws to modern banking conditions along the lines of conservative banking, and without any deviation from the high standard which has been set by the national banking system. Some of the provisions in the bill extend and enlarge the powers of national banks, but only in ways in which State banks and trust companies generally have been successfully operating within recent years. Other sections of the bill affirm and regulate practices which have grown up within the national banking system under the

exercise of incidental corporate powers. These practices are common to both the State and national banks. Other sections of the bill relate entirely to questions of procedure and not to banking powers. An attempt is made to eliminate some of the rigid formalities in this direction. The bill also declares a Federal Governmental policy with reference to branch banking.

Many of the foregoing proposed amendments are solely verbal changes and require no further comment. There are certain others which perhaps require a word of explanation. These will be briefly discussed. A detailed analysis section by section follows.

Section 1: This section relates to a question of procedure. It adds no new power to national banks. Its purpose is to permit State banks to consolidate directly with national banks instead of requiring them, as under present procedure, first to convert into national banks. Section 1, therefore, provides a direct procedure to accomplish the same results which may be accomplished under existing law but in a more indirect manner, and will consequently eliminate delay and expense.

Two amendments to section 1 which perhaps require an explanation are the insertion of the word "State" on page 2, line 4, and the insertion of the following words on page 5, lines 23 to 25, and page 6, lines 1 to 3 "nor shall any such State bank or banks entering into such consolidation be located at a greater distance from such national banking association than is authorized by the laws of the State in case of the consolidation or merger of two or more State banks." These amendments are in harmony with the policy of the section as originally drafted. They would permit a State bank to consolidate with a national bank regardless of county lines if the State law permitted State banks to consolidate with each other regardless of county lines. For example, if a State bank and a national bank in such a State desired to merge into one institution it could be readily done by the national bank first converting into a State bank and both State banks consolidating and the consolidated State bank converting back into a national bank. It also could be accomplished by the State bank consolidating with another State bank in the same county in which the national bank is located and the consolidated State bank, converting into a national bank, could then consolidate with the national bank.

It will be seen, therefore, that the insertion of the word "State" followed by the restrictive language above quoted does not alter the substantive policy of the bill, but simply gives the national-banking system the benefit of a more direct procedure. Under these amendments no consolidation can be effected which could not at the present time be effected under State laws.

Section 2: Section 2 is divided into two subsections (a) and (b).

Subsection (a) is not an enlargement of the powers of a national bank but extends the term of its charter to an indefinite number of years subject to forfeiture of the charter by reason of violation of law, subject to termination by act of Congress at any time and to termination through the appointment of a receiver on account of insolvency. This extension of the life of the charters of national banks is along the line of State legislation for the State banks in Arkansas, Connecticut, Florida, Illinois, Kentucky, Maine, Massachusetts, Minnesota, Nebraska, New Hampshire, New Jersey, New

York, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, and West Virginia. It will be noted that these States include the important cities of New York, Buffalo, Boston, Chicago, St. Paul, Minneapolis, Cleveland, Cincinnati, Louisville, Omaha, Providence, Nashville, Richmond, and a number of other lesser financial centers

One of the principal advantages of the indeterminate charter is to enable the bank to administer long-term and perpetual trusts. Many of these trusts are in the nature of educational and charitable foundations.

Subsection (b): This subsection is divided into two provisos, each of which recognizes and affirms the existence of a type of business which national banks are now conducting under their incidental charter powers. They may be said to liberalize, in that they confirm the conduct of this character of business; on the other hand, they are restrictive in that the business is confined to definite limits by law.

The first proviso referred to recognizes the right of national banks to continue to engage in the business of buying and selling investment securities but at the same time it makes a general definition of the term "investment securities" and gives the comptroller the authority to make a further definition by regulation. This would give the comptroller the authority to exclude by definition the right of a national bank to purchase undesirable or unsafe investment securities. This provision also limits the total amount which a national bank may take of any one issue of such securities to 25 per cent of its capital and surplus. In this connection it may be noted that this is a business regularly carried on by State banks and trust companies and has been engaged in by national banks for a number of years. The national banks hold to-day in the neighborhood of $6,000,000,000 of investment securities. The effect of this provision, therefore, is primarily regulative.

The second proviso regulates the safe-deposit business of national banks and prohibits them from investing an amount in excess of 15 per cent of capital and surplus in a corporation organized to conduct a safe-deposit business in connection with the bank. This is a business which is regularly carried on by national banks and the effect of this provision is also primarily regulative.

Section 3: Section 3 is in the nature of a liberalization to the extent that it would permit a national bank to purchase a piece of real estate for expansion of its banking matters without making it mandatory upon the banks to make immediate use of the property for banking purposes. In other words, the section simply strikes out the word "immediate" from the law. The existing law has operated as a hardship upon national banks in this respect.

Section 4: Section 4 provides for the organization of banks in the outlying districts of a city with a capital of $100,000 where the population is in excess of 50,000.

The amendment proposed on page 10, lines 8 to 10, of the amended print, is designed to limit the organization of national banks with reduced capital of $100,000 in the outlying districts of cities of more than 50,000 population to those cities in which the State laws do not require a greater amount of capital for the State banks.

Section 5: Section 5 is also in the nature of a confirmation and regulation of an existing practice. It permits national banks to con-

tinue to pay stock dividends but provides a definite procedure and regulations of amount of surplus which the bank must have at the time of the increase.

Section 6: This section does not add any new charter powers, but is simply a clarification of an ambiguous provision of law relating to the status of the chairman of the board of directors. It provides that the president of the bank shall be a member of the board of directors but not necessarily chairman thereof.

BRANCH BANKING

Sections 7, 8, and 9 are those that deal with the all-important subject of branch banking.

The branch banking provisions of the bill relate both to national banks and to State member banks of the Federal reserve system. In the bill as it passed the House, these provisions as to the national banks are found as provisos in section 1, section 7 and section 8. As a matter of form and in order to facilitate a more ready analysis, your committee thought it best to assemble in one section all of the conditions under which national banks may have branches. These now appear in the committee amendment of section 7. The conditions under which State member banks of the Federal Reserve System may have branches are, as in the House bill, set forth in section 9.

Your committee is in agreement with the fundamental branch banking policy of the House bill by which branch banking in the future would, in the Federal reserve system, be restricted to the confines or the limits of the city in which the parent bank is situated.

Under the House bill national banks would be permitted to keep the branches they now have, branch banking would be permitted for national banks in cities having more than 100,000 population at the discretion of the Comptroller of the Currency in cities where State banks can have branches, and national banks would be denied the right to have branches at all in any State which denied to State banks the right to have branches. These provisions are all embodied in the amendments recommended by your committee.

In the bill as herewith reported there are recommended, however, the following modifications of the branch banking policy which, in the opinion of your committee, are entirely in harmony with the general purpose of the bill. It is proposed that the original recommendation of the Comptroller of the Currency be followed by permitting State banks, upon converting into or consolidating with a national bank or upon becoming a member of the Federal reserve system, to retain the branches now in existence regardless of their location. The bill as it passed the House denies the right to retain branches now existing if they be located outside of the city in which the parent bank is situated. Your committee feels that this restriction is not only unfair to the banks which are now legally operating outside branches but is inconsistent with the general branch banking policy of the bill. The exclusion of such banks from the national system and from the Federal reserve system would encourage them to continue to increase the number of state-wide branches, whereas if they are permitted to come in they have the choice between the establishment of additional branches and joining the national or Federal reserve systems.

The amendment proposed by your committee would have the effect, therefore, of discouraging the further extension of branches. It would also put nonmember State banks upon the same footing as to branches, with respect to the Federal reserve system, as the member banks. It would further permit State member banks of the Federal reserve system to become national banks and retain all of the branches they now have. If it is sound policy to permit them to keep these branches in the Federal reserve system (and your committee agrees with the House position in this respect), it seems illogical to bar them from the national system. The purpose of the bill is to fix a policy for future branches and not to debar those already legally established.

There are one or two cities in the United States in which there is a national bank having one or more branches which were originally established under a State law not now in force. It is proposed to permit any other national bank in such a city to establish not more than the maximum number of branches possessed by such other State bank.

Your committee further recommends that the Comptroller of the Currency and the Federal Reserve Board, respectively, be given authority to define the term "municipal limits" to include incorporated suburbs, the boundary of which at some point coincides with that of the city in question. This would, in certain cases, in those States where the State law permits similar action, allow branches to be established outside of the strictly defined legal city limits but not outside of the city as an economic unit. Such branches would still be home city branches.

Finally, there is another amendment proposed which your committee believes to be of the greatest importance. It is the omission of the so-called Hull amendments. These amendments would deny to national banks and to State member banks of the Federal reserve system the right to have branches inside city limits (as well as outside) in any State which now prohibits branch banking, but which in the future may permit branch banking. For example, if the State of Illinois, which now prohibits branch banking, should in the future permit State banks in Chicago to have home city branches, under the Hull amendments only State banks not members of the Federal reserve system could have such branches. The national banks and the State banks in the Federal reserve system in the city of Chicago would be denied that right. Proponents of these amendments admit under such circumstances it would be necessary for Congress to enact a special law to relieve these banks of their handicap.

The real purpose of the Hull amendments, as shown by the testimony given before your committee, is to bring pressure to bear upon the leading bankers in States which now prohibit branch banking by depriving them of the motive to seek a change in the State laws favorable to branch banking. It is to coerce them to remain silent. Your committee feels that this is an unprecedented policy for the Federal Government to pursue and constitutes an unwarranted interference with the rights of citizens of these States in their relationship to the State legislatures. Apart from the unwisdom of interference in this manner with the enactment of local legislation, the Hull amendments have no logical place in the bill. With them excluded no state-wide branches could be established by national or State member banks.

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The only effect of the Hull amendments, therefore, is to declare unlawful home city branches in certain States even though the State law declares them lawful for State banks. Congress, under such conditions, would find itself declaring home-city branches lawful in New York City and Los Angeles, but unlawful in Chicago and St. Louis, assuming that Illinois and Missouri enacted a branch banking law. In this respect your committee is of the opinion that the bill is sufficiently restrictive when it declares unlawful the establishment of branches by national banks in any city in which the State banks are denied that right by State law and properly permissive when it permits national and State member banks to have branches in any city in which it is lawful for State banks to have branches.

Section 10: This section is designed to restate and clarify section 5200 of the Revised Statutes which governs the amount of money which a national bank may lend to any one person. The existing law is composed of the original provisions of 1863 with a number of amendments and provisos added from time to time and stands in need of clarification to clear up certain ambiguities. It is not the purpose of this section to make any substantial liberalization or restriction upon the business of national banks and the language of the bill is therefore substantially identical in effect with that of the existing law.

Subsection 4 is in the nature of a restriction upon the discount of noncommercial paper. Through a loophole in the existing law there is at present no limit upon the amount of this type of paper which a national bank may discount since the limitation of the law runs against the maker only and not against the indorser. This subsection is designed to cure this defect in the law.

Under subsection 6 there is an enlargement of the power of national banks in the matter of loans upon the security of nonperishable staple commodities stored in bonded warehouses. This section would permit a gradual increase of the loan up to an amount not exceeding 50 per cent of the capital and surplus of the bank provided each increase in the amount of the loan shall be accompanied by an increase in the value of the commodity collateral in proportion to the face amount of the additional loan.

Section 11: This section is designed to cure a typographical error in the agricultural credits act of 1923, and relates to the total liabilities of national banking associations.

Section 12: Section 12 is designed to clarify and correct a criminal provision in section 5208, Revised Statutes, relating to the over-certification of checks.

Section 13: Section 13 relates to a matter of procedure and gives the board of directors of a national bank the right to permit a junior officer to certify reports to the comptroller in the absence of the president and cashier.

Section 14: This section is in the nature of a liberalization for both State and National banks in that it empowers the Federal reserve banks to rediscount for any member bank an amount of eligible paper equal to the amount which a national bank could lawfully discount for its customers. Under the existing law a Federal reserve bank can only discount an amount of eligible paper of any one borrower not exceeding 10 per cent of the capital and surplus of the member bank. This section does not change the character

of classes of eligible paper. If the paper is already eligible for discount, and the national bank act considers it safe for a national bank to take it in certain stated amounts, it is considered by this section to be safe for the Federal reserve banks to rediscount it in the same amounts. The paper itself is considered liquid and in addition has the indorsement of the member bank upon it when presented for rediscount.

Section 15: This section simply adds an additional criminal provision providing for the punishment of a national-bank examiner who commits a theft from a bank examined by him.

Section 16: This section is a restatement of the existing law relative to loans by national banks upon the security of real estate. It broadens the powers of national banks as to the time limit of the loans upon city property but at the same time makes restrictions by way of definitions. At the present time a national bank may make a loan upon first mortgage upon city property for a period not exceeding one year. This section increases this period to five years as a maximum. At the same time it defines a real-estate loan to be one with respect to which the bank takes the entire obligation at the time of making the loan. The purpose of this definition is to prevent the possibility of a bank from purchasing real-estate bonds under the guise of making loans upon the security of real estate. Such real-estate bonds as may be purchased by a bank (should the comptroller determine that any such bonds are "investment securities") would be acquired under section 2 (b) of the bill.

The State banks and trust companies are authorized to make long-time loans upon the security of first mortgage upon city real estate. National banks, by being limited to a one-year period, have found themselves handicapped in meeting the demands of their customers in this respect. This section limits all such loans to an amount not exceeding one-half of the savings deposits in the bank, and thereby relates the real estate loan business to savings deposits. This is a logical connection. National banks have on deposit about $5,000,000,000 of savings deposits from about 11,000,000 depositors. This constitutes a large proportion of the entire savings business in the United States, and it has become necessary to recognize the right of a national bank with certain definite restrictions to use these funds in the same general manner in which the State banks and trust companies are using them, which includes the right to make loans upon city property, as provided above.

Sections 17, 18, 19, and 20 are new sections proposed by your committee.

Section 17 is an amendment to the Kern amendment of the Clayton Act. In effect it would authorize the Federal Reserve Board to permit one person to serve as director on the boards of not more than three banks if the board finds such service not incompatible with the public interest, whereas under existing law the board must find in such a case that no substantial competition exists. This amendment has been recommended by the Comptroller of the Currency and by the Federal Reserve Board.

The Pujo committee was appointed under a resolution of the House to investigate banking conditions in the United States as a basis for remedial legislation. The majority of this committee concluded that there existed an undue concentration of the control of money and

credits, especially in the larger cities. As one of several methods of remedying this evil the committee recommended an amendment to the national banking laws prohibiting interlocking directorates. It was probably because of this recommendation that section 8 was incorporated in the Clayton Antitrust Act, which was approved and became a law October 15, 1924.

This section prohibited a director of a national bank under certain conditions from serving as a director of any other banking institution, State or National. It had no application to directors of banks and trust companies organized under State laws. National banks were accordingly placed under a decided disadvantage in meeting competition of State banks and trust companies. To alleviate this situation the Kern amendment was passed May 26, 1916. Under the amendment a national-bank director is permitted, with the consent of the Federal Reserve Board, to serve on the boards of two other banks if the Federal Reserve Board first determines that such other banks are not "in substantial competition" with the national bank.

The requirement that the board must find that the banks involved are not in substantial competition as a condition precedent to the granting of its consent to a person to serve as a director of more than one bank, has practically destroyed the value of the Kern amendment as a relief measure. As stated by the board in its eighth annual report to Congress (p. 354):

> The act in its present form operates in an illogical way and often defeats the very purpose for which it was enacted.

The board has four times recommended to Congress a modification of the Kern amendment, and in its annual reports has explained with great detail the necessity for such modification. The purpose of the Clayton Act was to prevent concentration of the control of money and credit by preserving and fostering competition as between banks. The board shows by concrete illustration that the effect of the Kern amendment in some instances is to encourage the elimination of competition so as to make possible interlocking directorates. It calls attention to the fact that where a director is permitted to serve on two banks which are not in substantial competition, if competition is permitted to develop he thereby may become ineligible, whereas if competition is stifled he may continue to serve both banks. This being true in some cases as the board states:

> The Clayton Act operates to favor those persons who have eliminated competition between banks while it penalizes joint directors who have permitted the growth of competition between the banks they serve. (Eighth Annual Report, p. 354.)

As another illustration of the illogical effect of the Kern amendment the board refers to the case of a national bank and trust company not in substantial competition, which were permitted to have common directors. After the board's consent had been granted the trust company, in order to be prepared to meet a threatened emergency, invested in commercial paper which could be rediscounted with the Federal reserve bank, thus creating a secondary reserve. It also made commercial loans in an endeavor to help out the local situation where credit facilities were much strained. These transactions resulted in bringing the trust company and national banks "in substantial competition" within the meaning of that language as inter-

preted by the board. The trust company rather than to lose one of its valuable directors adopted the alternative of reducing its commercial business and suggested making a still further reduction so as to eliminate substantial competition. In commenting on this case the board said:

> Surely Congress never dreamed that the enforcement of the act could have such an effect. Somewhat similar cases have come to the board's attention from New York and other places.

In its report the board also directs attention to the fact that the Clayton Antitrust Act as interpreted by the Attorney General has no application to State banks and trust companies even though they become members of the Federal reserve system. This, in the opinion of many bankers, gives banking institutions organized under State law a decided advantage over national banks and will unquestionably have the effect of driving some national banks out of the system unless some relief is afforded.

By the passage of the Kern amendment Congress recognized the fact that it is not objectionable per se for the same person to serve as director of a limited number of banks. Interlocking directorates become objectionable when by reason of the common domination of several banking institutions competition is unduly restricted and concentration of the control of credit results. Presumably Congress intended to vest a discretion in the board to determine, within the limits prescribed by it, when it became incompatible with the public interest for the same director to serve on the boards of two or three banking institutions. The test applied, however, namely, the degree of competition existing as between such institutions, has proven impracticable and unworkable. This being true, the Federal Reserve Board, which is charged with the administration of this act in April, 1921, recommended a further amendment to section 8 of the Clayton Act, and a bill amending section 8 was introduced and referred to the Banking and Currency Committee, but was never reported out.

In its eighth annual report, covering operations for the year 1921, the board renewed its recommendation and in its ninth and tenth annual reports, covering operations for the years 1922 and 1923, again renewed its recommendation.

This amendment retains the limit on the number of banks that may have common directors, but vests in the board a discretion to determine when interlocking directorates within the limits imposed by Congress are inconsistent with the purpose of the Clayton Act. This is a question which must be determined by consideration of all the facts in a given case and which can not be determined by the application of any formula.

Sections 18 and 19 give discretionary authority to national banks to issue their capital stock at a par value of less than $100. The market value of the stock of many national banks is so high that it has become difficult to sell it to purchasers of moderate means. In many instances a smaller par value will make it easier to give the stock a wider distribution.

Section 20 is designed to permit the indeterminate existence of the charters of the Federal reserve banks. The existing charters expire in 1934. Your committee feels that the time is appropriate for

Congress to give this assurance of permanence to the Federal reserve system.

This section of the bill would amend the second subdivision of the fourth paragraph of the Federal reserve act so as to provide that Federal reserve banks shall have succession, after the approval of this act, until dissolved by act of Congress or until a forfeiture of their franchise for violation of law. This is in accordance with the modern tendency of bank legislation to give banks indeterminate charters and would do substantially the same for Federal reserve banks as section 2 of the bill would do for national banks.

The Federal reserve system has demonstrated its usefulness to the country and has been recognized throughout the world as the best banking system ever brought into existence. The Secretary of the Treasury and the American Bankers' Association have gone on record as favoring the early renewal of the charters of the Federal reserve banks in order that the country may be assured of the continued existence of this indispensable feature of our banking and financial system. It is believed that this is fairly representative of the sentiment of the entire country. Your committee believes that this is an appropriate time to accomplish this desired result.

Attention is called to the fact that section 30 of the Federal reserve act expressly reserves to Congress the right to amend, alter, or repeal the act. Congress, therefore, can at any time enact such amendments to the Federal reserve act as it deems desirable. The right to amend would not be impaired in any way by the extension of corporate existence in the manner provided for in this bill.

Your committee believes that the enactment of this bill into law will put new life into the national banking system. The cumulative effect of its provisions will produce a situation in the Federal reserve system where the rights of the national banks will be more nearly on a par with those of the State member banks. When the Federal reserve act was amended to let State banks come into the Federal reserve system with their full charter powers, the national banks, operating under the old national bank act of 1864, found themselves, as compulsory members of the Federal reserve system, placed at a considerable disadvantage. Many of these State banks are operating under modern banking codes. The amendments which had theretofore been made to the national bank act were not sufficient to enable the national banks to compete on terms of equality with such State member banks, while at the same time they were compelled by law to bear the chief burden in supporting the Federal reserve system.

The bill recognizes the absolute necessity of taking legislative action with reference to the branch banking controversy. The present situation is intolerable to the national banking system. The bill proposes the only practicable solution by stopping the further extension of state-wide branch banking in the Federal reserve system by State member banks and by permitting national banks to have branches in those cities where State banks are allowed to have them under State laws.

Your committee feels that the need for this legislation is even more urgent than it was during the last Congress and respectfully urges its passage.

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69TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 1481

AMENDMENTS TO BANKING LAWS

JUNE 15, 1926.—Ordered to be printed

Mr. MCFADDEN, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H. R. 2]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 2) to amend an act entitled "An act to provide for the consolidation of national banking associations," approved November 7, 1918; to amend section 5136 as amended, section 5137, section 5138 as amended, section 5142, section 5150, section 5155, section 5190, section 5200 as amended, section 5202 as amended, section 5208 as amended, section 5211 as amended, of the Revised Statutes of the United States; and to amend section 9, section 13, section 22, and section 24 of the Federal reserve act, and for other purposes," having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 13, 14, 15, 16, and 35.

That the House recede from its disagreement to the amendments of the Senate numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 17, 18, 19, 20, 21, 22, 23, 24, 25, 27, 29, 31, 32, 34, and 39, and agree to the same.

Amendment numbered 12:

That the House recede from its disagreement to the amendment of the Senate numbered 12, and agree to the same with an amendment as follows.

Insert the matter proposed to be inserted by the Senate amendment; and on page 5 of the House bill, lines 23, 24, and 25, strike out "the approval of this act, or from the date of its organization if organized after such date of approval" and insert *its organization (whether organized before or after this section as amended takes effect)*; and the Senate agree to the same.

Amendment numbered 28:

That the House recede from its disagreement to the amendment of the Senate numbered 28, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert *and in the branch or branches, if any, retained or established and operated by it in accordance with the provisions of section 5155 of the Revised Statutes, as amended*; and the Senate agree to the same.

Amendment numbered 30:

That the House recede from its disagreement to the amendment of the Senate numbered 30, and agree to the same with an amendment as follows:

On page 7 of the Senate engrossed amendments, line 23, after "act," insert a comma and *as amended* and a comma; and on page 8 of the Senate engrossed amendments, lines 15 and 16, strike out "of the approval of this act" and insert *this section as amended takes effect*; and on page 8 of the Senate engrossed amendments, line 22, strike out "of the approval of this act" and insert *this section as amended takes effect*; and the Senate agree to the same.

Amendment numbered 33:

That the House recede from its disagreement to the amendment of the Senate numbered 33, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment; and on page 24 of the House bill, line 4, strike out "paragraph 2 thereof" and insert in lieu thereof *as amended*; and on page 17 of the House bill, line 20, after "act," insert a comma and *as amended* and a comma; and on page 21 of the House bill, line 17, after "act," insert a comma and *as amended*; and on page 21 of the House bill, line 21, after "Statutes," insert a comma and *as amended*; and on page 21 of the House bill, line 23, after "act," insert a comma and *as amended* and a comma; and on page 25 of the House bill, line 4, after "act," insert a comma and *as amended* and a comma; and on page 26 of the House bill, line 1, after "States," insert a comma and *as amended*; and the Senate agree to the same.

Amendment numbered 36:

That the House recede from its disagreement to the amendment of the Senate numbered 36, and agree to the same with an amendment as follows:

On page 10 of the Senate engrossed amendments, line 12, strike out "18" and insert *17*; and the Senate agree to the same.

Amendment numbered 37:

That the House recede from its disagreement to the amendment of the Senate numbered 37, and agree to the same with an amendment as follows:

On page 11 of the Senate engrossed amendments, line 4, strike out "19" and insert *18*; and the Senate agree to the same.

Amendment numbered 38:

That the House recede from its disagreement to the amendment of the Senate numbered 38, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by said amendment insert:

Sec. 19. That subdivision second of the fourth paragraph of section 4 of the Federal reserve act, as amended, is amended to read as follows:

"Second. To have succession for a period terminating 50 years after the expiration of its original franchise unless it is sooner dissolved by act of Congress or its franchise becomes forfeited for violation of law."

Sec. 20. There is hereby created a joint special committee (hereinafter in this section referred to as the "joint committee") to consist of three members of the Committee on Banking and Currency of the House of Representatives, to be appointed by the Speaker of the House of Representatives, and three members of the Committee on Banking and Currency of the Senate, to be appointed by the President of the Senate, to make an inquiry into the prices of commodities in the United States as affected, since the year 1914, if at all, by the Federal banking laws. The joint committee is authorized to appoint and fix the compensation of such clerical, stenographic, and other assistants, to hold such hearings and to sit and act at such places and times during the sessions and recesses of the Sixty-ninth Congress, to require by subpœna or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, to have such printing and binding done, and to make such expenditures, as it deems advisable. The cost of stenographic services in reporting such hearings shall not be in excess of 25 cents per hundred words. Subpœnas for witnesses shall be issued upon the request of the joint committee, or any member thereof, under the signature of either the Speaker of the House or the President of the Senate, and the Sergeant-at-Arms of either the Senate or the House is hereby authorized and directed to serve all such subpœnas and other processes. The members of the joint committee shall serve without compensation in addition to that received for their services as Members of Congress; but they shall be reimbursed for travel, subsistence, and other necessary expenses incurred by them in the performance of the duties vested in the joint committee. The expenses of the joint committee shall not exceed $2,000 and shall be paid one-half from the contingent fund of the Senate and one-half from the contingent fund of the House of Representatives, upon vouchers signed by the chairman. The joint committee shall report to their respective Houses from time to time the results of its inquiries, together with such recommendations as it may deem advisable and a period.

And the Senate agree to the same.

That the House recede from its disagreement to the amendment of the Senate to the title of the bill and agree to the same with an amendment as follows:

Amend the title so as to read: "An act to further amend the national banking laws and the Federal reserve act, and for other purposes;" and the Senate agree to the same.

The committee of conference have not agreed on amendment numbered 26.

LOUIS T. MCFADDEN,
EDWARD J. KING,
Managers on the part of the House.
GEO. P. MCLEAN,
WALTER E. EDGE,
CARTER GLASS,
Managers on the part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 2) to amend an act entitled "An act to provide for the consolidation of national banking associations," approved November 7, 1918; to amend section 5136 as amended, section 5137, section 5138 as amended, section 5142, section 5150, section 5155, section 5190, section 5200 as amended, section 5202 as amended, section 5208 as amended, section 5211 as amended, of the Revised Statutes of the United States; and to amend section 9, section 13, section 22, and section 24 of the Federal reserve act, and for other purposes, submit the following written statement explaining the effect of the action agreed on by the conference committee and submitted in the accompanying conference report.

Amendments Nos. 3, 4, 6, 7, 8, 9, 10, 12, 17, 18, 19, 20, 21, 22, 24, 25, 27, 31, 32, and 34 are clerical or minor clarifying changes.

Amendments Nos. 1 and 11: The Senate amendments provide that a State bank may consolidate with a national bank in any part of the State if the State law permitted two State banks to consolidate under the same conditions. The House bill contained no similar provision, and the House recedes.

Amendment No. 2: The House bill provided for the publication of the time, place, and object of meetings for the consolidation of a national bank with a State bank in a newspaper of general circulation published in the place where the national bank is located. The Senate amendment provided for such publication in addition in a legal newspaper for the publication of legal notices or advertisements, if any such paper has been designated by the rules of a court in the county where the national bank is situated. The House recedes.

Amendment No. 5: The Senate amendment provides that in case of a consolidation of a national bank with a State bank that the consolidated bank should enjoy, among other property rights, franchises, and interests of the constituent banks, the right of session as trustees, executors, or in any other fiduciary capacity. The House bill had no provision on the subject, and the House recedes.

Amendments Nos. 13, 14, 15, and 16: The Senate amendments authorize national banks to buy and sell investment securities. The House bill contained no similar provision. The Senate recedes.

Amendment No. 23: The Senate amendment prohibits a national bank from being organized in the outlying sections of a city upon a capitalization of $100,000 if the State law places the same prohibition upon the State banks. The House bill contained no similar provision, and the House recedes.

Amendment No. 28: The Senate amendment provides that national banks might transact general business not only at the place specified in the organization certificate but also at such branches as

the bank might lawfully maintain under the provisions of the bill. The House bill contained no similar provision, and the House recedes with an amendment making clerical changes.

Amendment No. 29: The House provision relative to the establishment of new branches of national banks were stricken out by the Senate, and the House recedes. Corresponding provisions were included by the Senate in amendment No. 26.

Amendment No. 30: The House bill provided that no State member bank may establish new branches outside of the home city of the bank except upon pain of expulsion from the Federal reserve system. The Senate amendment retains this provision in a redrafted form, and the House recedes with an amendment making certain clerical changes.

Amendment No. 33: The House provision empowered Federal reserve banks to rediscount for member banks an amount of eligible paper equal to the amount which a national bank could lawfully discount for its customers. This is a liberalization of existing law under which Federal reserve banks could discount for any one borrower only eligible paper not exceeding 10 per cent of the capital and surplus of the member bank. The Senate amendment struck out the House provision and the House recedes with an amendment also striking out the House provision but further making certain clerical changes in matters of citation.

Amendment No. 35: The Senate amendment amended the Clayton Act by giving the Federal Reserve Board discretionary authority to permit, if the public interest requires, a single person to serve as a director of not more than three banks. The House bill contained no such language, and the Senate recedes.

Amendments Nos. 36 and 37: The Senate amendments provide that national banks may hereafter divide their stock into shares of less than $100 par value. The House bill contained no such language, and the House recedes with amendments changing the section numbers.

Amendment No. 38: The Senate amendment provides for the extension of the existing charters of Federal reserve banks until such time as the charters were dissolved by act of Congress or forfeited for violation of law. The House bill contained no similar provision and the House recedes with an amendment which provides for the extension of such charters for a period terminating 50 years after the expiration of the present charters, except in case of dissolution by act of Congress or forfeiture for violation of law; and with a further amendment providing for creation of a joint special committee to inquire into the prices of commodities in the United States as affected since the year 1914 by the Federal banking laws.

Amendment No. 39: The Senate amendment grants specific authority to the Federal Reserve Board to discontinue branch Federal reserve banks in order definitely to settle the question which is now before the Attorney General for an opinion as to whether the Federal Reserve Board now impliedly possesses such power. The House bill contained no similar provision, and the House recedes.

Amendment to the title: The House recedes from its disagreement to the amendment of the title by the Senate with a further amendment which states that the bill is to be entitled "An act to further

amend the national banking laws and the Federal reserve act, and for other purposes."

The committee of conference have not agreed upon the following amendment of the Senate:

Amendment No. 26: The House bill provided that a State bank upon converting into a national bank may retain only such branches as the State bank might have had in operation within the corporate limits of the city in which the bank was situated, with a proviso that no such branches may be retained which may have been established after the approval of this act in a State which at the time of the approval of this act did not permit branches to the State banks.

The Senate struck out the House provisions and substituted new language which embraced all of the conditions under which a national bank might have branches. The Senate provision permits the retention of all existing lawful branches; the retention of any branch in operation for more than 25 years; the retention of all now existing branches in case a State bank is converted into or consolidated with a national bank; the establishment of new branches by national banks in certain cities in States which permit branch banking at the discretion of the Comptroller of the Currency; and the establishment of branches in incorporated contiguous territory to such cities at the discretion of the Comptroller of the Currency. The Senate provision further provides that no branch could be established or moved without the approval of the Comptroller of the Currency; defines the terms "branch," "State bank," "State banks," "bank," and "banks"; and exempts foreign branches from the provisions of the section.

LOUIS T. MCFADDEN,
EDWARD J. KING,
Managers on the part of the House.

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69TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 1796

AMENDMENTS TO BANKING LAWS

JANUARY 19, 1927.—Ordered to be printed

Mr. MCFADDEN, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H. R. 2]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 2) entitled "An act to amend an act entitled 'An act to provide for the consolidation of national banking associations,' approved November 7, 1918; to amend section 5136 as amended, section 5137, section 5138 as amended, section 5142, section 5150, section 5155, section 5190, section 5200 as amended, section 5202 as amended, section 5208 as amended, section 5211 as amended of the Revised Statutes of the United States; and to amend section 9, section 13, section 22, and section 24 of the Federal reserve act, and for other purposes," having met, after conference have been unable to agree.

LOUIS T. MCFADDEN,
JAMES G. STRONG,
Managers on the part of the House.

GEORGE WHARTON PEPPER,
WALTER E. EDGE,
CARTER GLASS,
Managers on the part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 2) entitled "An act to amend an act entitled 'An act to provide for the consolidation of national banking associations,' approved November 7, 1918; to amend section 5136 as amended, section 5137, section 5138 as amended, section 5142, section 5150, section 5155, section 5190, section 5200 as amended, section 5202 as amended, section 5208 as amended, section 5211 as amended, of the Revised Statutes of the United States, and to amend section 9, section 13, section 22, and section 24 of the Federal reserve act, and for other purposes," submit the following statement:

That the managers have been unable to agree.

LOUIS T. MCFADDEN,
JAMES G. STRONG,
Managers on the part of the House.

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[PUBLIC—No. 639—69TH CONGRESS]

[H. R. 2]

An Act To further amend the national banking laws and the Federal Reserve Act, 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 Act entitled "An Act to provide for the consolidation of national banking associations," approved November 7, 1918, be amended by adding at the end thereof a new section to read as follows:

"SEC. 3. That any bank incorporated under the laws of any State, or any bank incorporated in the District of Columbia, may be consolidated with a national banking association located in the same county, city, town, or village under the charter of such national banking association on such terms and conditions as may be lawfully agreed upon by a majority of the board of directors of each association or bank proposing to consolidate, and which agreement shall be ratified and confirmed by the affirmative vote of the shareholders of each such association or bank owning at least two-thirds of its capital stock outstanding, or by a greater proportion of such capital stock in the case of such State bank if the laws of the State where the same is organized so require, at a meeting to be held on the call of the directors after publishing notice of the time, place, and object of the meeting for four consecutive weeks in some newspaper of general circulation published in the place where the said association or bank is situated, and in the legal newspaper for the publication of legal notices or advertisements, if any such paper has been designated by the rules of a court in the county where such association or bank is situated, and if no newspaper is published in the place, then in a paper of general circulation published nearest thereto, unless such notice of meeting is waived in writing by all stockholders of any such association or bank, and after sending such notice to each shareholder of record by registered mail at least ten days prior to said meeting, but any additional notice shall be given to the shareholders of such State bank which may be required by the laws of the State where the same is organized. The capital stock of such consolidated association shall not be less than that required under existing law for the organization of a national banking association in the place in which such consolidated association is located; and all the rights, franchises, and interests of such State or District bank so consolidated with a national banking association in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such national banking association into which it is consolidated without any deed or other transfer, and the said consolidated national banking association shall hold and enjoy the same and all rights of property, franchises, and interests including the right of succession as trustee, executor, or in any other fiduciary capacity in the same manner and to the same extent as was held and enjoyed by such State or District

bank so consolidated with such national banking association. When such consolidation shall have been effected and approved by the comptroller any shareholder of either the association or of the State or District bank so consolidated, who has not voted for such consolidation, may give notice to the directors of the consolidated association within twenty days from the date of the certificate of approval of the comptroller that he dissents from the plan of consolidation as adopted and approved, whereupon he shall be entitled to receive the value of the shares so held by him, to be ascertained by an appraisal made by a committee of three persons, one to be selected by the shareholder, one by the directors of the consolidated association, and the third by the two so chosen; and in case the value so fixed shall not be satisfactory to such shareholder he may within five days after being notified of the appraisal appeal to the Comptroller of the Currency, who shall cause a reappraisal to be made, which shall be final and binding; and the consolidated association shall pay the expenses of reappraisal, and the value as ascertained by such appraisal or reappraisal shall be deemed to be a debt due and shall be forthwith paid to said shareholder by said consolidated association, and the shares so paid for shall be surrendered and, after due notice, sold at public auction within thirty days after the final appraisement provided for in this Act; and if the shares so sold at public auction shall be sold at a price greater than the final appraised value, the excess in such sale price shall be paid to the said shareholder; and the consolidated association shall have the right to purchase such shares at public auction, if it is the highest bidder therefor, for the purpose of reselling such shares within thirty days thereafter to such person or persons and at such price as its board of directors by resolution may determine. The liquidation of such shares of stock in any State bank shall be determined in the manner prescribed by the law of the State in such cases if such provision is made in the State law; otherwise as hereinbefore provided. No such consolidation shall be in contravention of the law of the State under which such bank is incorporated.

"The words 'State bank,' 'State banks,' 'bank,' or 'banks,' as used in this section, shall be held to include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws."

SEC. 2. (a) That section 5136 of the Revised Statutes of the United States, subsection "second" thereof as amended, be amended to read as follows:

"Second. To have succession from the date of the approval of this Act, or from the date of its organization if organized after such date of approval until such time as it be dissolved by the act of its shareholders owning two-thirds of its stock, or until its franchise becomes forfeited by reason of violation of law, or until terminated by either a general or a special Act of Congress or until its affairs be placed in the hands of a receiver and finally wound up by him."

(b) That section 5136 of the Revised Statutes of the United States, subsection "seventh" thereof, be further amended by adding at the end of the first paragraph thereof the following:

"*Provided*, That the business of buying and selling investment securities shall hereafter be limited to buying and selling without

recourse marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation, in the form of bonds, notes and/or debentures, commonly known as investment securities, under such further definition of the term 'investment securities' as may by regulation be prescribed by the Comptroller of the Currency, and the total amount of such investment securities of any one obligor or maker held by such association shall at no time exceed 25 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund, but this limitation as to total amount shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act: *And provided further*, That in carrying on the business commonly known as the safe-deposit business no such association shall invest in the capital stock of a corporation organized under the law of any State to conduct a safe-deposit business in an amount in excess of 15 per centum of the capital stock of such association actually paid in and unimpaired and 15 per centum of its unimpaired surplus," so that the subsection as amended shall read as follows:

"Seventh. To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title: *Provided*, That the business of buying and selling investment securities shall hereafter be limited to buying and selling without recourse marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation, in the form of bonds, notes and/or debentures, commonly known as investment securities, under such further definition of the term 'investment securities' as may by regulation be prescribed by the Comptroller of the Currency, and the total amount of such investment securities of any one obligor or maker held by such association shall at no time exceed 25 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund, but this limitation as to total amount shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act: *And provided further*, That in carrying on the business commonly known as the safe deposit business no such association shall invest in the capital stock of a corporation organized under the law of any State to conduct a safe deposit business in an amount in excess of 15 per centum of the capital stock of such association actually paid in and unimpaired and 15 per centum of its unimpaired surplus.

"But no association shall transact any business except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the Comptroller of the Currency to commence the business of banking."

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SEC. 3. That section 5137 of the Revised Statutes of the United States, subsection "First" thereof, be amended to read as follows:

"First. Such as shall be necessary for its accommodation in the transaction of its business."

SEC. 4. That section 5138 of the Revised Statutes of the United States, as amended, be amended to read as follows:

"SEC. 5138. No national banking association shall be organized with a less capital than $100,000, except that such associations with a capital of not less than $50,000 may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants, and except that such associations with a capital of not less than $25,000 may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed three thousand inhabitants. No such association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than $200,000, except that in the outlying districts of such a city where the State laws permit the organization of State banks with a capital of $100,000 or less, national banking associations now organized or hereafter organized may, with the approval of the Comptroller of the Currency, have a capital of not less than $100,000."

SEC. 5. That section 5142 of the Revised Statutes of the United States, as amended, be amended to read as follows:

"SEC. 5142. Any national banking association may, with the approval of the Comptroller of the Currency, and by a vote of shareholders owning two-thirds of the stock of such associations, increase its capital stock to any sum approved by the said comptroller, but no increase in capital shall be valid until the whole amount of such increase is paid in and notice thereof, duly acknowledged before a notary public by the president, vice president, or cashier of said association, has been transmitted to the Comptroller of the Currency and his certificate obtained specifying the amount of such increase in capital stock and his approval thereof, and that it has been duly paid in as part of the capital of such association: *Provided, however*, That a national banking association may, with the approval of the Comptroller of the Currency, and by the vote of shareholders owning two-thirds of the stock of such association, increase its capital stock by the declaration of a stock dividend, provided that the surplus of said association, after the approval of the increase, shall be at least equal to 20 per centum of the capital stock as increased. Such increase shall not be effective until a certificate certifying to such declaration of dividend, signed by the president, vice president, or cashier of said association and duly acknowledged before a notary public, shall have been forwarded to the Comptroller of the Currency and his certificate obtained specifying the amount of such increase of capital stock by stock dividend, and his approval thereof."

SEC. 6. That section 5150 of the Revised Statutes of the United States be amended to read as follows:

"SEC. 5150. The president of the bank shall be a member of the board and shall be the chairman thereof, but the board may designate

a director in lieu of the president to be chairman of the board, who shall perform such duties as may be designated by the board."

SEC. 7. That section 5155 of the Revised Statutes of the United States be amended to read as follows:

"SEC. 5155. The conditions upon which a national banking association may retain or establish and operate a branch or branches are the following:

"(a) A national banking association may retain and operate such branch or branches as it may have in lawful operation at the date of the approval of this Act, and any national banking association which has continuously maintained and operated not more than one branch for a period of more than twenty-five years immediately preceding the approval of this Act may continue to maintain and operate such branch.

"(b) If a State bank is hereafter converted into or consolidated with a national banking association, or if two or more national banking associations are consolidated, such converted or consolidated association may, with respect to any of such banks, retain and operate any of their branches which may have been in lawful operation by any bank at the date of the approval of the Act.

"(c) A national banking association may, after the date of the approval of this Act, establish and operate new branches within the limits of the city, town, or village in which said association is situated if such establishment and operation are at the time permitted to State banks by the law of the State in question.

"(d) No branch shall be established after the date of the approval of this Act within the limits of any city, town, or village of which the population by the last decennial census was less than twenty-five thousand. No more than one such branch may be thus established where the population, so determined, of such municipal unit does not exceed fifty thousand; and not more than two such branches where the population does not exceed one hundred thousand. In any such municipal unit where the population exceeds one hundred thousand the determination of the number of branches shall be within the discretion of the Comptroller of the Currency.

"(e) No branch of any national banking association shall be established or moved from one location to another without first obtaining the consent and approval of the Comptroller of the Currency.

"(f) The term 'branch' as used in this section shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or Territory of the United States or in the District of Columbia at which deposits are received, or checks paid, or money lent.

"(g) This section shall not be construed to amend or repeal section 25 of the Federal Reserve Act, as amended, authorizing the establishment by national banking associations of branches in foreign countries, or dependencies, or insular possessions of the United States.

"(h) The words 'State bank,' 'State banks,' 'bank,' or 'banks,' as used in this section, shall be held to include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws."

SEC. 8. That section 5190 of the Revised Statutes of the United States be amended to read as follows:

"SEC. 5190. The general business of each national banking association shall be transacted in the place specified in its organization certificate and in the branch or branches, if any, established or maintained by it in accordance with the provisions of section 5155 of the Revised Statutes, as amended by this Act."

SEC. 9. That the first paragraph of section 9 of the Federal Reserve Act, as amended, be amended so as to read as follows:

"SEC. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal reserve system, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto may permit the applying bank to become a stockholder of such Federal reserve bank.

"Any such State bank which, at the date of the approval of this Act, has established and is operating a branch or branches in conformity with the State law, may retain and operate the same while remaining or upon becoming a stockholder of such Federal reserve bank; but no such State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of any branch or branches established after the date of the approval of this Act beyond the limits of the city, town, or village in which the parent bank is situated."

SEC. 10. That section 5200 of the Revised Statutes of the United States, as amended, be amended to read as follows:

"SEC. 5200. The total obligations to any national banking association of any person, copartnership, association, or corporation shall at no time exceed 10 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund. The term 'obligations' shall mean the direct liability of the maker or acceptor of paper discounted with or sold to such association and the liability of the indorser, drawer, or guarantor who obtains a loan from or discounts paper with or sells paper under his guaranty to such association and shall include in the case of obligations of a copartnership or association the obligations of the several members thereof. Such limitation of 10 per centum shall be subject to the following exceptions:

"(1) Obligations in the form of drafts or bills of exchange drawn in good faith against actually existing values shall not be subject under this section to any limitation based upon such capital and surplus.

"(2) Obligations arising out of the discount of commercial or business paper actually owned by the person, copartnership, association, or corporation negotiating the same shall not be subject under this section to any limitation based upon such capital and surplus.

"(3) Obligations drawn in good faith against actually existing values and secured by goods or commodities in process of shipment shall not be subject under this section to any limitation based upon such capital and surplus.

"(4) Obligations as indorser or guarantor of notes, other than commercial or business paper excepted under (2) hereof, having a maturity of not more than six months, and owned by the person, corporation, association, or copartnership indorsing and negotiating the same, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

"(5) Obligations in the form of banker's acceptances of other banks of the kind described in section 13 of the Federal Reserve Act shall not be subject under this section to any limitation based upon such capital and surplus.

"(6) Obligations of any person, copartnership, association or corporation, in the form of notes or drafts secured by shipping documents, warehouse receipts or other such documents transferring or securing title covering readily marketable nonperishable staples when such property is fully covered by insurance, if it is customary to insure such staples, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus when the market value of such staples securing such obligation is not at any time less than 115 per centum of the face amount of such obligation, and to an additional increase of limitation of 5 per centum of such capital and surplus in addition to such 25 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 120 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 30 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 125 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 35 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 130 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 40 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 135 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 45 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 140 per centum of the face amount of such additional obligation, but this exception shall not apply to obligations of any one person, copartnership, association or corporation arising from the same transactions and/or secured upon the identical staples for more than ten months.

"(7) Obligations of any person, copartnership, association, or corporation in the form of notes or drafts secured by shipping documents or instruments transferring or securing title covering livestock or giving a lien on livestock when the market value of the livestock securing the obligation is not at any time less than 115 per centum of the face amount of the notes covered by such documents shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

"(8) Obligations of any person, copartnership, association, or corporation in the form of notes secured by not less than a like amount of bonds or notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, shall (except to the extent permitted by rules and regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury) be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus."

SEC. 11. That section 5202 of the Revised Statutes of the United States as amended be amended by adding at the end thereof a new paragraph to read as follows:

"Eighth. Liabilities incurred under the provisions of section 202 of Title II of the Federal Farm Loan Act, approved July 17, 1916, as amended by the Agricultural Credits Act of 1923."

SEC. 12. That section 5208 of the Revised Statutes of the United States as amended be amended by striking out the words "or who shall certify a check before the amount thereof shall have been regularly entered to the credit of the drawer upon the books of the bank," and in lieu thereof inserting the following: "or who shall certify a check before the amount thereof shall have been regularly deposited in the bank by the drawer thereof," so that the section as amended shall read as follows:

"SEC. 5208. It shall be unlawful for any officer, director, agent, or employee of any Federal reserve bank, or any member bank as defined in the Act of December 23, 1913, known as the Federal Reserve Act, to certify any check drawn upon such Federal reserve bank or member bank unless the person, firm, or corporation drawing the check has on deposit with such Federal reserve bank or member bank, at the time such check is certified, an amount of money not less than the amount specified in such check. Any check so certified by a duly authorized officer, director, agent, or employee shall be a good and valid obligation against such Federal reserve bank or member bank; but the act of any officer, director, agent, or employee of any such Federal reserve bank or member bank in violation of this section shall, in the discretion of the Federal Reserve Board, subject such Federal reserve bank to the penalties imposed by section 11, subsection (h) of the Federal Reserve Act, and shall subject such member bank, if a national bank, to the liabilities and proceedings on the part of the Comptroller of the Currency provided for in section 5234, Revised Statutes, and shall, in the discretion of the Federal Reserve Board, subject any other member bank to the penalties imposed by section 9 of said Federal Reserve Act for the violation of any of the provi-

sions of said Act. Any officer, director, agent, or employee of any Federal reserve bank or member bank who shall willfully violate the provisions of this section, or who shall resort to any device, or receive any fictitious obligation, directly or collaterally, in order to evade the provisions thereof, or who shall certify a check before the amount thereof shall have been regularly deposited in the bank by the drawer thereof, shall be deemed guilty of a misdemeanor and shall, on conviction thereof in any district court of the United States, be fined not more than $5,000, or shall be imprisoned for not more than five years, or both, in the discretion of the court."

SEC. 18. That section 5211 of the Revised Statutes of the United States as amended be amended to read as follows:

"SEC. 5211. Every association shall make to the Comptroller of the Currency not less than three reports during each year, according to the form which may be prescribed by him, verified by the oath or affirmation of the president, or of the cashier, or of a vice president, or of an assistant cashier of the association designated by its board of directors to verify such reports in the absence of the president and cashier, taken before a notary public properly authorized and commissioned by the State in which such notary resides and the association is located, or any other officer having an official seal, authorized in such State to administer oaths, and attested by the signature of at least three of the directors. Each such report shall exhibit, in detail and under appropriate heads, the resources and liabilities of the association at the close of business on any past day by him specified, and shall be transmitted to the comptroller within five days after the receipt of a request or requisition therefor from him; and the statement of resources and liabilities, together with acknowledgment and attestation in the same form in which it is made to the comptroller, shall be published in a newspaper published in the place where such association is established, or if there is no newspaper in the place, then in the one published nearest thereto in the same county, at the expense of the association; and such proof of publication shall be furnished as may be required by the comptroller. The comptroller shall also have power to call for special reports from any particular association whenever in his judgment the same are necessary in order to obtain a full and complete knowledge of its condition."

SEC. 15. That section 22 of the Federal Reserve Act, subsection (a), paragraph 2 thereof, be amended to read as follows:

"(a) No member bank and no officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee 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, and may be fined a further sum equal to the money so loaned or gratuity given.

"Any examiner or assistant examiner who shall accept a loan or gratuity from any bank examined by him, or from an officer, director, or employee thereof, or who shall steal, or unlawfully take, or unlawfully conceal any money, note, draft, bond, or security or any other property of value in the possession of any member bank or from any safe deposit box in or adjacent to the premises of such

bank, shall be deemed guilty of a misdemeanor and shall, upon conviction thereof in any district court of the United States, be imprisoned for not exceeding one year, or fined not more than $5,000, of both, and may be fined a further sum equal to the money so loaned, gratuity given, or property stolen, and shall forever thereafter be disqualified from holding office as a national bank examiner."

SEC. 16. That section 24 of the Federal Reserve Act be amended to read as follows:

"SEC. 24. Any national banking association may make loans secured by first lien upon improved real estate, including improved farm land, situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines. A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by mortgage, trust deed, or other such instrument upon real estate when the entire amount of such obligation or obligations is made or is sold to such association. The amount of any such loan shall not exceed 50 per centum of the actual value of the real estate offered for security, but no such loan upon such security shall be made for a longer term than five years. Any such bank may make such loans in an aggregate sum including in such aggregate any such loans on which it is liable as indorser or guarantor or otherwise equal to 25 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund, or to one-half of its savings deposits, at the election of the association, subject to the general limitation contained in section 5200 of the Revised Statutes of the United States. Such banks may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such banks may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State wherein such national banking association is located."

SEC. 16. That section 5139 of the Revised Statutes of the United States be amended by inserting in the first sentence thereof the following words: "or into shares of such less amount as may be provided in the articles of association" so that the section as amended shall read as follows:

"SEC. 5139. The capital stock of each association shall be divided into shares of $100 each, or into shares of such less amount as may be provided in the articles of association, and be deemed personal property, and transferable on the books of the association in such manner as may be prescribed in the by-laws or articles of association. Every person becoming a shareholder by such transfer shall, in proportion to his shares, succeed to all rights and liabilities of the prior holder of such shares; and no change shall be made in the articles of association by which the rights, remedies, or security of the existing creditors of the association shall be impaired."

SEC. 17. That section 5146 of the Revised Statutes of the United States as amended be amended by inserting in lieu of the second

sentence thereof the following: "Every director must own in his own right shares of the capital stock of the association of which he is a director the aggregate par value of which shall not be less than $1,000, unless the capital of the bank shall not exceed $25,000 in which case he must own in his own right shares of such capital stock the aggregate value of which shall not be less than $500," so that the section as amended shall read as follows:

"SEC. 5146. Every director must during his whole term of service, be a citizen of the United States, and at least three-fourths of the directors must have resided in the State, Territory, or District in which the association is located, or within fifty miles of the location of the office of the association, for at least one year immediately preceding their election, and must be residents of such State or within a fifty-mile territory of the location of the association during their continuance in office. Every director must own in his own right shares of the capital stock of the association of which he is a director the aggregate par value of which shall not be less than $1,000, unless the capital of the bank shall not exceed $25,000 in which case he must own in his own right shares of such capital stock the aggregate par value of which shall not be less than $500. Any director who ceases to be the owner of the required number of shares of the stock, or who becomes in any other manner disqualified, shall thereby vacate his place."

SEC. 18. That the second subdivision of the fourth paragraph of section 4 of the Federal Reserve Act be amended to read as follows:

"Second. To have succession after the approval of this Act until dissolved by Act of Congress or until forfeiture of franchise for violation of law."

SEC. 19. That section 3 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof the following:

"The Federal Reserve Board may at any time require any Federal Reserve Bank to discontinue any branch of such Federal Reserve Bank established under this section. The Federal Reserve Bank shall thereupon proceed to wind up the business of such branch bank, subject to such rules and regulations as the Federal Reserve Board may prescribe."

Approved, February 25, 1927.

BANKING ACT OF 1933

Calendar No. 604

72D CONGRESS, 1st Session | SENATE | REPORT No. 584

OPERATION OF THE NATIONAL AND FEDERAL RESERVE BANKING SYSTEMS

APRIL 22, 1932.—Ordered to be printed

Mr. GLASS, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. 4412]

The Senate Committee on Banking and Currency has had under consideration S. 4412, "To provide for the safer and more effective use of the assets of Federal reserve banks and of national banking associations, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes," and reports it back to the Senate with the recommendation that the bill be passed.

The bill thus reported is the result of extensive hearings by a duly authorized subcommittee of the Banking and Currency Committee of the Senate and, more recently, hearings by the general Banking and Currency Committee. The investigation of banking problems was held under the terms of Senate Resolution No. 71, adopted at the second session of the Seventy-first Congress, reading as follows:

Resolved, That in order to provide for a more effective operation of the National and Federal reserve banking systems of the country the Committee on Banking and Currency of the Senate, or a duly authorized subcommittee thereof, be, and is hereby, empowered and directed to make a complete survey of the systems and a full compilation of the essential facts and to report the result of its findings as soon as practicable, together with such recommendations for legislation as the committee deems advisable. The inquiry thus authorized and directed is to comprehend specifically the administration of these banking systems with respect to the use of their facilities for trading in and carrying speculative securities; the extent of call loans to brokers by member banks for such purposes; the effect on the systems of the formation of investment and security trusts; the desirability of chain banking; the development of branch banking as a part of the national system, together with any related problems which the committee may think it important to investigate.

For the purpose of this resolution the committee, or any duly authorized subcommittee thereof, is authorized to hold hearings, to sit and act at such times and places during the sessions and recesses of the Seventy-first and succeeding Congresses until the final report is submitted, to employ such clerical and other

assistants, to require by subpœna or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, and to take such testimony, and make such expenditures as it deems advisable. The cost of such stenographic services to report such hearings shall not be in excess of 25 cents per hundred words. The expenses of the committee, which shall not exceed $15,000, shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman.

Acting upon the authority of the foregoing resolution the Senate Committee on Banking and Currency appointed a subcommittee to conduct the inquiry, which subcommittee proceeded in three ways:

1. It held hearings during the months of January and February of the year 1931 and at these hearings interrogated numerous witnesses, representing the banking, financial, and technical elements in the community, who either indicated a desire to be heard or were invited by the committee as probably possessing information that would be valuable.

2. Inquiries were made among a select list of representative banks by the method of questionnaires. Lists of questions were carefully formulated by experts and transmitted to the banks; and, in nearly all cases, replies of a full and complete description were forwarded by the latter. These have been carefully analyzed and the result published as appendixes to the hearings.

3. Statistical and other investigations were conducted by investigators attached to the committee; and their results reported and published in connection with the hearings. In addition, reports on topics of a technical nature calling for special inquiry were placed before the committee.

In addition to the foregoing the committee carried on an extensive correspondence and received numerous suggestions, recommendations, and other presentations of argument or evidence. It also received various drafts of proposed legislation, and gave due consideration to all. It found, however, that public opinion was in an indeterminate condition on the whole subject, and felt that immediate emergencies were so great that it was wise to defer the preparation of a completely comprehensive measure for the reconstruction of our banking system, such as had been urged by some responsible men. Hence the committee resolved to construct a bill to correct manifest immediate abuses, and to bring our banking system back into a stronger condition. Thus, for example, it seems to be the consensus of opinion among banking authorities that the United States will never have a complete and strong system until such time as it shall succeed in fully harmonizing and adjusting State and Federal laws on banking questions. This might involve a constitutional amendment or some equally far-reaching measure necessitating a long postponement of action.

The immediate measures of reform and rectification are, however, quite important. They include the correction of evils which reached a peak of danger in 1929 and abuses which have gradually grown up within the banking system itself. Immediate dangers and emergencies have been of so pressing a nature as to throw into the background many of the evils which have previously been recognized and to divert discussion from causes to the immediate effects of what was done in recent years. It is, therefore, needful to consider at some length the general background of the banking conditions which culminated in the breakdown of 1929.

INFLATION OF BANK CREDIT

There seems to be no difference of opinion with reference to the statement that the years after 1925, and indeed to a smaller extent those preceding that date and subsequent to 1922, were years of a very great inflation of bank credit—as well as of commercial credit and, especially in the later years, of business. By inflation, in the sense in which that word is here used, is meant the increase of bank liabilities, usually demand liabilities, in a proportion or degree materially greater than the rate of increase indicated by the requirements of a gradual growth of business transactions involving the production and distribution of goods—in a degree or ratio, therefore, greater than that in which the need for media of exchange had grown—usually accompanied by corresponding changes in liquidity. By way of demonstration or illustration of this statement in very brief form, we may simply cite the enlargement of deposit liabilities of the banks during the past few years prior to 1929 and the great subsequent enlargement of investments and frozen loans. This growth was not paralleled by any similar enlargement of the demand for means of exchange, as is suggested by the various indexes reflecting the rate of production.

Inflation was also indicated by the uses to which the credit thus established was put and the advance in prices thereby brought about. It is now evident that the increase in deposit credit on the part of the banks already described was largely used in three ways: (1) In the carrying and inflating of the prices of securities, especially common stocks, (2) in the overdevelopment of real estate and real estate enterprises, and (3) in the upbuilding of a large capital equipment paid for with short-term accommodation but not funded at the time into longer-term loans.

BEARINGS ON CREDIT EXPANSION

Analysis of the sources from which the excessive credit used in the stock market during past years was drawn, is a primary factor in determining what was really at fault in the management of banking during the years in question. This is of special interest in connection with the so-called brokers' loans.

The loans in question are divided into two main groups, the one obtained from banks and bankers while a second represents those obtained from "others." These "others" were corporations and other nonbanking lenders, including investment trusts and many others having funds to spare who chose to advance them for use in supporting securities transactions. The question is thus naturally raised: Where did the "others" thus spoken of obtain their funds? They obtained them, of course, in substantial measure from the public at large through sales of new issues, which rose steadily through this period. In part, also, they were a result of the use of large war-time and postwar earnings, which were retained from stockholders instead of being paid out as dividends.

The major source of the inflation, however, was the creation of new bank credit through large loans and investments by banks that had substantial surplus reserves, owing to gold imports, open market operations of the reserve banks, etc.

USE OF PROCEEDS OF NEW ISSUES OF SECURITIES

A large portion of the funds obtained by these issues of securities from the public was unavoidably used in new construction and in carrying out the legitimate purposes of the businesses which thus obtained them from the investors of the country. Another large portion was, however, left over; it was not directly required for immediate use, the issuers of securities having overborrowed or overcapitalized themselves, so that they were in possession of more current funds than they needed. This surplus of funds went into the stock market and fostered excessive speculation, although it also stimulated business by being transferred to sellers of securities later on.

Where did the public which bought the securities of such corporations get the funds they thus supplied? Some portion of the money naturally came from savings and current incomes, but a larger fraction was unquestionably obtained from the banks by means of the security borrowings to which reference has been made at an earlier point. The banks were thus lending directly in unprecedentedly large amounts directly to brokers; but they were also lending in even larger amounts on collateral to the general public, which was then taking the funds so supplied and using them in large degree for the purchase of securities whose proceeds were applied to speculative loans in the market. The flow of funds through the hands of the general public into those of the corporations, and from the latter into the hands of brokers and dealers, who then re-lent the funds to the public engaged in speculation, was thus primarily the result of a loose banking policy which had turned from the making of loans on commercial paper to the making of loans on security. This policy was critically referred to by the Federal Reserve Board, which often called attention to it in its annual reports.

THE GROWTH OF ACCEPTANCE CREDIT

The general ease and accessibility of credit under the régime which existed prior to 1929 was accentuated by the issue of the instrument known as the bankers' acceptance. In its original purpose this form of lending was intended to include only unquestionably liquid obligations, growing out of the actual sale of goods in foreign trade, so that the acceptance became a short-term claim payable in international funds, usually gold. It was this conception of the instrument which was originally adopted in the Federal reserve act, and on which the use of the instrument by the Federal reserve system was founded. Later amendments to the reserve act, adopted during the World War, broadened the use of the acceptance and opened the door to the application of a conception of its use which was practically that of a finance bill—a bill drawn without reference to the immediately liquid character of a given transaction, and primarily based upon the general power of the parties to it to see that it was liquidated from some sourse. The use of the acceptance to supply what was called dollar exchange, although doubtless of advantage under proper restrictions, undoubtedly opened a door to grave abuses, which were in some measure responsible for the credit difficulties that later made their appearance in South American finance. These difficulties, however, were after all comparatively minor, the real dangers of the accept-

ance being exhibited in connection with the stretching of the definition of various transactions so as, for instance, to include storage of commodities as an incident to their moving abroad or moving from one market to another so that acceptances protected by such stored goods were regarded as acceptances made against goods actually moving in international trade. It was easy to pass from this view of the situation to another and more advanced view, wherein stored goods not sold during the period of the acceptance were used as goods properly providing a basis for renewal of the acceptance so that revolving acceptances or acceptances growing out of revolving credits became common, notwithstanding official warnings against them.

From the domestic standpoint, it would seem clear that not a few banks had fallen into the habit of supplying their customers with funds through the issue and sale of their acceptances, without much regard to the question whether such acceptances were called for or not. That the large amount of reserve credit thus created prevented effective control of security loans and investments of the banks, and thus fostered the stock market boom, there can be little doubt.

Through these and similar means, too, a very large commitment on the part of American banks taken on behalf of foreign banks came into existence. Germany, in particular, proved to be a great borrower on this score, and the total of acceptances made directly or indirectly in order to provide funds for foreign banks grew to unprecedented amounts. The effect of these transactions upon the German banks themselves, in leading up to the German financial collapse of July, 1931, has been carefully traced by the international committee of bankers which met under the chairmanship of Mr. A. H. Wiggin in Basle, after the breakdown of Germany during the past summer, for the purpose of discussing ways and means of dealing with the German credit situation.

BANK INSOLVENCIES

Every discussion of the conditions which preceded the panic of 1929 must make full allowance for the bank insolvencies which during the years after 1924 began to grow so numerous. The following brief tabulation furnished to another subcommittee affords the facts regarding bank insolvencies during the year 1931, while figures for earlier years were furnished by the Comptroller of the Currency during the hearings of the past winter, and are computed on a somewhat different basis by the Federal Reserve Board in its monthly bulletin. It is obvious that bank failures, whatever may be the basis upon which they are computed, have reached an unprecedentedly high level after a long continued growth extending over a decade. The effect of these insolvencies prior to the panic of 1929, was twofold. They tended to break down the business structure of the country and particularly of the places and regions in which they were most numerous, and they tended to bring on local hoarding over large areas. The condition of affairs is complex, growing as it did, out of a variety of conditions. Most of these circumstances have been outlined in the hearings, and there is little use in further reviewing them at this point. For the most part they are well known.

There should, however, be no failure to recognize the important rôle played by these insolvencies in preparing the way for the gen-

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eral breakdown of 1929. The fact that they occurred more largely among "small banks," as has often been urged, in no way reduces the significance of the phenomenon. It points to a gradual disintegration of banking under present conditions and it reflects the community's way of gradually curing the evils complained of, though a lengthy and costly process. It was this tendency to bank failure starting 10 years ago after the depression of 1920–21 and steadily growing more and more pronounced, except during the boom years, until it reached the astonishing height touched in 1930 that has culminated in the great total of nearly 2,300 failures occurring in this country during the year 1931. This drift toward failure among banks laid the foundation for extreme difficulties experienced during the latter part of 1931, and necessitated the remedial measures that were then undertaken. Bank failures can not but be regarded as one of the fundamental symptoms that must be given primary study in the search for remedies to be applied to present conditions.

Bank suspensions in 1931, preliminary figures

	All banks		National banks		State bank members		Nonmember banks	
	Number	Deposits	Number	Deposits	Number	Deposits	Number	Deposits
Year 1931, total	2,290	$1,759,000,000	410	$473,000,000	108	$302,000,000	1,772	$984,000,000
Last quarter of 1931	1,049	866,000,000	199	244,000,000	51	155,000,000	799	467,000,000
November and December, 1931	527	388,000,000	99	128,000,000	26	37,000,000	402	223,000,000
October, 1931	522	478,000,000	100	116,000,000	25	118,000,000	397	244,000,000
November, 1931	174	69,000,000	35	28,000,000	8	4,000,000	131	37,000,000
December, 1931	353	319,000,000	64	100,000,000	18	33,000,000	271	186,000,000

STOCK-EXCHANGE SPECULATION

Stock-exchange speculation in excess is often spoken of by some as the cause and by others as an unfortunate result of the business, banking, and credit conditions which culminated in the panic of 1929. It was neither of these, but was an accompaniment or symptom of unsound credit and banking conditions themselves. The facts as to the expansion of such speculation are well known, and its history requires no repetition, but the major data, facts, and conclusions may be briefly summarized as including: (1) A steady increase in bank security loans and investments; (2) rising price resulting from the increased resulting demand; (3) a sporadically enlarging volume of stock-exchange operations and new issues made possible by popular enthusiasm thus engendered; and, finally (4) a violently fluctuating course of prices on the stock exchange continuing until the whole structure fell of its own weight, resulting in the sharp downward movement which began in the autumn of 1929 and has been followed by sporadic collapses at various times since.

INFLUENCE OF PUBLIC FINANCE

It must be noted, in reviewing the situation which preceded the panic of 1929, that methods then adopted in connection with public finance had a very substantial share in bringing on the collapse of

that year. Almost all governments both here and abroad have permitted themselves to overborrow on short term. When such borrowing has been effected at banks, as has been the case in most instances the result has been to add to inflation by getting the banks to carry as credit what was really long-term capital investment. In the United States very low money, the result of exceptionally low interest and discount rates, rendered it possible to effect such borrowing on a very economical basis. The result was the extended use of the banks for the purpose of carrying unfunded public debt, often in the expectation that such debt would be shortly funded and could be so funded at any time determined upon by the borrowing government as suitable. The growth of very large public-bond holdings, including not only the obligations of the United States but of various States and cities, operated strongly to limit the banks' liquidity by engaging their funds in what were really long-term investments. From the outbreak of the panic and during the subsequent depression there was never a favorable time for refunding, and the result has been to leave many banks with unduly large burdens of public bonds. So far as Federal reserve banks were concerned, the fact that the obligations of the Federal Government could always be used to protect member-bank borrowings inevitably tended to encourage such members in developing frozen portfolios.

REAL-ESTATE INFLATION

One element which deserves special notice in any study of prepanic conditions is afforded by real-estate inflation and speculation. It is not possible to find authoritative statements of the growth of the volume of real-estate loans and security investment in the portfolios of the banks and elsewhere, but the general facts in the case are clearly enough known. The immense increase in the volumes of real-estate bond issues and of real-estate mortgages both in banks and among the holdings of the financial institutions generally are the subject of widespread comment. What is less well recognized is the fact that an immense overexpansion of real-estate values was set in motion and that in consequence the coming on of the panic and their recognition that the country was "overbuilt" added an element of great difficulty to the situation. This element of difficulty is vividly illustrated by the circumstance that many institutions now find themselves hopelessly embarrassed by their real-estate commitments and by the fact that rents and selling values have so seriously shrunk.

PROBLEMS OF RESERVE BANKS

At times the reserve banks have held an unprecedented amount of gold during the past two or three years and the gold stock of the country has occasionally been well above $5,000,000,000, so that the reserve percentage of the reserve banks has been steadily high, notwithstanding fluctuations and a recent tendency to recede. These high ratios, however, have much less direct bearing upon the actual condition of the system than is generally supposed. The real problem of reserves is furnished by the relationship between the outstanding deposits of the banks of the country and the gold reserve which the reserve banks themselves carry. This ratio or relationship has

until recent months shown continuous tendency to decline. The great gold movements of the past half year and the liquidation of many banks have somewhat changed the situation, but it has continued true that the ratio was inadequate while the tendency of a portion of the public to hoard currency has necessitated the issue of reserve notes in large volumes with corresponding shrinkage of the so-called free gold available. During the three years before the collapse of 1929 unduly low discount rates were a cause of danger to reserve banks. They have been viewed by some banking authorities as a chief cause of the difficulties which compelled Great Britain to abandon the gold standard in the summer of 1931. The question of reserve policy is an involved and complex one on which your committee took much testimony and also pursued an extended study whose results are stated, in the words of the reserve banks themselves, in part 6 of the hearings (appendix). So fully are the facts there reviewed and so authoritatively are they stated by the reserve-bank authorities that it has not been thought necessary to enlarge more fully upon the situation in this report.

CONDITION OF MEMBER BANKS

The outstanding development in the commercial banking system during the prepanic period was the appearance of excessive security loans, and of overinvestment in securities of all kinds. The effects of this situation in changing the whole character of the banking problem can hardly be overemphasized. National banks were never intended to undertake investment banking business on a large scale, but the whole tenor of legislation and administrative rulings concerning them has been away from recognition of such a growth in the direction of investment banking, as legitimate. Nevertheless it has continued; and a very fruitful cause of bank failures, especially within the past two years, has been the fact that the funds of various institutions have been so extensively "tied up" in long-term investments. The growth of the investment portfolio of the bank itself has been greatly emphasized in importance by the organization of allied or affiliated companies under State laws, through which even more extensive advances and investments in the security market could be made. This question, like that relating to the policy and situation of reserve banks, has extensive ramifications which must be studied statistically. In order to provide material for such a study, the results of questionnaires addressed to a selected list of large banks, each possessing one or more affiliates, have been assembled in general tabular form with such explanation as is necessary to enable the reader to evaluate the figures thus given. They are presented as part 7 of the hearings (appendix).

ANALYSIS OF PRESENT BANKING PROBLEM

We have furnished thus far a merely descriptive account of the financial and credit conditions which preceded the panic of 1929. It now remains to consider these facts as exhibiting a distinct kind of banking problem and to inquire in what way remedies for it may be found. Specific conditions which stand out as requiring some remedy are therefore taken under consideration, as follows:

1. *Bank loans and their uses.*—It is evident from what has been said that the underlying factor in the whole prepanic situation was excessive use of bank credit. The question of "excess" is a question of judgment and can only be determined by noting in specific terms the forms it has taken and the remedies to be applied to them.

(*a*) The excessive use of bank credit in making loans for the purpose of stock speculation or, more generally stated, for the excessive carrying of securities with borrowed money was generally admitted before the panic of 1929, and almost universally since that time, to have been one of the sources of major difficulty, far exceeding in its scope any total that could be reasonably asked for as a basis for the financing of legitimate investment business. Under this same topic, too, must be mentioned the so-called "brokers' loan." These are merely a special form of securities loan in which a bank or commerical corporation or other enterprise advances funds through an intermediary—the broker—instead of lending direct; an excessive volume of brokers' loans must be considered in the light of the total volume of security loans outstanding. The category of brokers' loans obtained from "others" is a separate and especially difficult aspect of this problem.

(*b*) It seems clear that any remedial measure of legislation should seek to provide some check upon the abnormal growth of all security loans at banks as well as seek to limit the loans to brokers, especially those loans originating with "others." Such legislation, if successful, should operate to lessen the danger of a repetition of the experience of 1929. It is often suggested that control of this form of credit ought to be effected in some way through stock exchanges. Whatever may be thought of that method of approaching the subject, it is at all events certain that nothing of the kind would be likely to succeed without adequate banking control, while on the other hand, banking control alone may greatly ameliorate conditions in this field of credit.

(*c*) The line of reasoning thus presented leads us to propose:

(1) Legislation designed to control and limit brokers' loans, particularly to limit the use of funds of the reserve banks for this purpose.

(2) Legislation designed to restrain the diversion of bank funds to an undue degree into direct loans upon securities whether to brokers or to others.

(3) Legislation intended to prevent, so far as legislation can, speculative market loans by corporations engaged in industrial or business enterprises.

2. *Banking affiliates.*—There seems to be no doubt anywhere that a large factor in the overdevelopment of security loans, and in the dangerous use of the resources of bank depositors for the purpose of making speculative profits and incurring the danger of hazardous losses, has been furnished by perversions of the national banking and State banking laws, and that, as a result, machinery has been created which tends toward danger in several directions.

(*a*) The greatest of such dangers is seen in the growth of "bank affiliates" which devote themselves in many cases to perilous underwriting operations, stock speculation, and maintaining a market for the banks' own stock often largely with the resources of the parent bank. This situation was never contemplated by the national banking act, and it would, therefore, appear that the affiliate sys-

tem calls for the establishment of some legislative provisions designed to deal with the situation. It has been suggested from many quarters that the affiliate system be simply "abolished." This suggestion has much authority behind it, but, in addition to the manifest difficulty of enforcement, owing to the existence of well-known subterfuges to maintain control, there remains the question whether it would be of much real service so long as State legislation permits the growth of affiliates in connection with State banks and trust companies. The committee has, therefore, determined to present proposed legislation aimed at the following objects:

(1) To separate as far as possible national and member banks from affiliates of all kinds.

(2) To limit the amount of advances or loans which can be obtained by affiliates from the parent institutions with which they are connected.

(3) To install a satisfactory examination of affiliates, working simultaneously with the present system of examination applicable to the parent banks.

(*b*) *Group banking.*—Closely allied in many points of similarity with the affiliate system is the plan of group banking in operation in some parts of the United States, working, in a few cases, on a large scale. In this system a holding company is organized under State law and proceeds to buy a majority of the stock of a series of banks, operating them thereafter through the holding company. In this way in some districts such holding companies control the reserve bank of the district through ownership of enough banks to carry an election. The difference between this plan and the affiliate system itself is that in the one banks are owned by a State-organized holding company, while in the other State-organized companies (affiliates) are owned by a national bank's stockholders, or in some cases directly by trust companies, under some form of law which amounts to ownership by the parent bank itself. The evils of indirect control are similar in the two cases, and they may lead to similar abuses, as is seen when it is noted that holding companies also usually control companies organized for security financing. However, such companies have in some parts of the United States become well rooted, and the difficulty of eliminating or abolishing them in any effective way is similar to the difficulty of eliminating or abolishing the affiliates of city banks. It is, therefore, thought best to attempt the control and oversight of these companies on the following terms:

(1) Since the companies are State corporations, Congress has no control over them, except that which may be voluntarily granted. However, since the staple of their ownership or holdings is the stock of National and State member banks, it would seem that Congress may control the conditions under which such stocks may be owned and particularly voted.

(2) The affiliates of this type (holding companies) are prohibited from voting the stocks of national banks unless they are willing to undertake to accept examination by the Federal Reserve Board, divest themselves of ownership of stock and bond financing concerns, and comply with regulations designed to insure their ownership of sufficient free assets to make sure that they can satisfy the double liability of their shareholders in case any of the banks owned by such a company should go into the hands of receivers or be closed.

(3) It is thought that, in any event, holding companies should not be allowed, except in a severely limited way, to vote at elections of Federal reserve bank directors, since otherwise the Federal reserve bank would become merely the creature of the holding company. Such voting is therefore definitely restricted.

3. *Insolvency of banks.*—Within the past few years, the insolvency of banks has been a major cause of distress and business difficulty in all parts of the country. There is no one sovereign remedy for this condition or tendency. It grows out of the weakness of the banking system and the way to correct it is, of course, to correct defects in the system itself. However, we believe that this tendency to constitutional weaknesses is to be remedied or alleviated by measures of several sorts. These we shall briefly enumerate as follows:

(*a*) Strengthening of the capital of banks.
(*b*) Provisions for closer and stronger supervision.
(*c*) More careful restriction of investments.
(*d*) Requirements for the truthful valuation of assets.
(*e*) Protection of depositors and limitation of their losses through a liquidating corporation.

These provisions if acted upon in good faith by administrators will do something to correct the insolvency situation, but there is no denying the fact that our banking system is going through a period of great change and that the ultimate destination of the system is not yet fully clear. Because of that fact, provision for branch-banking powers under carefully qualified conditions with a view to making a larger experiment with branch banking is deemed essential and due provision for it is made. Specifically, what is proposed is the grant of power to establish branches of national banks not merely in the towns and cities in which they are located but also outside of such limits at any point within the borders of the State in which they exist, irrespective of State laws. Also, it is proposed that if by reason of the proximity of a national bank to a State boundary line the ordinary and usual business of the bank is found to extend into an adjacent State, the Federal Reserve Board may permit the establishment of a branch or branches in an adjacent State but not beyond 50 miles from the place where the parent bank is located. No national bank is to be permitted, however, to establish a branch outside of the city, town or village in which it is located unless it has a paid-in and unimpaired capital of not less than $500,000.

4. *Strengthening of Federal reserve system.*—The Federal reserve system has been seriously impaired of recent years and has wandered far away from its original function. This is the result of many complex conditions. Among these conditions has been the uncertainty of policy in the matter of exercising plainly authorized control by the central supervising authority at Washington and the tendency to submit rather timidly to considerations of immediate expediency. Among the reserve banks themselves there has been a decidedly dangerous drift toward the conversion of the system into a medium for transacting financial rather than commercial business. Further, the establishment of understandings or agreements with foreign central and other banks, and the attempt to carry out plans and measures of a hazardous nature relating to discount rates and problems of technique, have had unfortunate results.

To reform these conditions the committee recommends:

(*a*) Improvement of membership, and increase of independence of Federal Reserve Board.

(*b*) Restoration of the requirement that two members of the board shall be men of experience in banking.

(*c*) Elimination of the Secretary of the Treasury from membership.

(*d*) Better definition of powers with respect to speculative transactions, particularly as to authority over open market dealings, by establishing a so-called "open market committee" with designated authority.

(*e*) Definition of powers of the board in the management of foreign affairs.

5. *Protection of bank depositors.*—The great number of banks now in the hands of receivers with assets which are said to aggregate something like $2,500,000,000 has created a situation in which a very large number of persons are unable to meet their obligations and in which many business houses are embarrassed through inability to get the use of their funds. In the natural course of events it would be a long time before these conditions are very greatly relieved through the liquidation of these closed banks. The continued postponement of liquidation is a very heavy burden upon a large portion of the community. Furthermore, there is and can be no assurance that further failures of considerable amount and number can be avoided. They will from time to time recur even under the best conditions. In order to provide against a repetition of the present painful experience in which a vast sum of assets and purchasing power is "tied up," we have recommended the creation of a Federal liquidation corporation.

The proposal is that this corporation shall have a capital stock contributed by reserve banks to the extent of one-quarter of their present surplus, or a sum of about $68,500,000, while member banks shall subscribe to the extent of one-fourth of 1 per cent of total net outstanding time and demand deposits or a sum of approximately $75,000,000, so that the enterprise would have a subscribed capital of about $143,000,000. In addition, it is proposed that the Government contribute $125,000,000 to the corporation as paid-in surplus, and the corporation is empowered to issue notes, bonds, debentures, and other such obligations in an amount equal to not more than twice the sum of its capital and the amount appropriated out of Government funds. The sum thus made available would be adequate to deal with any probable failure conditions of the future. If the Government should add to it a proportionate sum for the benefit of State nonmember banks it would be able to include their necessities along with those of the system's own members as a subject of treatment. The corporation may be left free to invest its excess funds in the assets of banks that have already failed before it came into existence and it may thus materially help in clearing up the bad situation that has been left as a result of the panic.

6. *Emergency relief.*—Within recent months there has been a very widespread demand for some means of furnishing emergency relief to banks that are in difficult straits. The Federal reserve system was intended to furnish a means of mutual aid and if properly administered was entirely adequate to the necessities of the case. However, with conditions as they stand it is likely that some plan whereby

actual assistance could be furnished to banks which are willing to stand sponsor for one another and thus enable them to clear up danger spots in their own several communities would be helpful. We therefore suggested such a plan as an additional means of strengthening and rendering useful the provisions of the Federal reserve system. The general plan so recommended was founded upon the idea of joint action by clearing houses or groups of banks in different localities designed for the purpose of getting accommodation on their joint unsecured notes at reserve banks up to such amount as might be held prudent; likewise, in exigent cases, relief was provided for individual banks. Such emergency credit should be retired as soon as possible, and therefore it seemed best to provide severe restrictions upon its use and duration. This proposal was lifted from the body of the bill as first prepared and has already been enacted into law. (See Public No. 44, 72d Cong.)

TERMS OF BILL RECOMMENDED

Having thus outlined in general broad terms the main objects of the new legislation, although without endeavoring to do more than suggest the major features of the enactment, we think it best to review the actual provisions of the accompanying measure point by point in order to indicate the precise content of the various sections and their main provisions:

Section 1.—Provides a short title for use in citation, for convenience in discussion, and for certainty of reference.

Section 2.—Defines the language used in the bill and undertakes to make the meaning definite.

Section 3.—Places general restrictions upon the operating policy of Federal reserve banks with the intent to limit them to the extension of credit for ordinary business purposes and to make plain that their resources are not to be used to support speculation. The Reserve Board is given power to oversee and direct such use of the resources of banks.

This section also provides that where two or more member banks are affiliated with the same holding company, they may participate in the nomination and election of directors of the Federal reserve bank in their district through one of the banks to be designated for that purpose by the holding company.

Section 4.—Amends the first paragraph of section 7 of the Federal reserve act so as to eliminate the requirement of the payment of a franchise tax to the United States by Federal reserve banks.

Section 5.—Provides for reports of condition of affiliates of State member banks and for the examination of all such affiliates by examiners selected or approved by the Federal Reserve Board.

The section also subjects State member banks to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks. (See sec. 14.)

It is also provided that after three years from the date of enactment of the bill no certificate representing the stock of a State member bank shall represent the stock of any other corporation except a member bank nor be conditioned in any manner whatsoever upon the

ownership, sale, or transfer of a stock certificate of any other corporation except a member bank. This corresponds to the provision in section 16 which is applicable to national banks.

Section 6.—Provides for eliminating the Secretary of the Treasury as a member of the Federal Reserve Board and restores the former requirement that two members of the board shall be men of tested banking experience. It also readjusts the term of members of the board so as to secure as nearly as possible the expiration of terms of members at equal 2-year intervals.

Section 7.—Adds a new section 12A to the Federal reserve act providing for the creation of a Federal open-market committee of 12 members to supervise the open-market operations of the Federal reserve banks and the relations of the Federal reserve system with foreign banks. This in effect legalizes and gives official recognition to the present open-market committee.

This section also adds to the Federal reserve act a new section 12B providing for a Federal liquidating corporation which is given power to liquidate the assets of member banks which have been closed by action of the Comptroller of the Currency, the appropriate State authorities, or by vote of their directors. The management of the corporation is vested in a board of five directors consisting of the Comptroller of the Currency, a member of the Federal Reserve Board, and three persons chosen annually by the governors of the 12 reserve banks. The capitalization of the corporation has already been referred to. (See p. 12.)

Section 8.—Imposes certain limitations upon advances by Federal reserve banks to member banks on their 15-day promissory notes. It is provided that if, during the life of any such advance and despite an official warning of the Federal reserve bank or the Federal Reserve Board to the contrary, any member bank increases its outstanding loans made to members of any organized stock exchange, investment house, or dealer in securities for the purpose of purchasing or carrying stocks, bonds, or other investment securities (except obligations of the United States) the advance to the member bank shall be immediately due and payable and the bank shall be ineligible as a borrower on 15-day paper for such period as the Federal Reserve Board shall determine.

Section 9.—Gives the Federal Reserve Board power to supervise all relations and transactions of any kind entered into by Federal reserve banks with foreign banks or bankers.

Section 10.—Prohibits member banks from acting as the medium or the agent of any nonbanking corporation, partnership, association, business trust, or individual in making loans on the security of stocks, bonds, and other investment securities to brokers or dealers in such securities.

Section 11.—Imposes certain limitations upon loans or extensions of credit by member banks to their affiliates and also limits the amount which such banks may invest in the securities of such affiliates. In general, the maximum limit is 10 per cent of the capital stock and surplus of the member bank in the case of any one affiliate and 20 per cent of the capital stock and surplus in the case of all such affiliates. It is also required that each such loan or extension of credit be secured by collateral having a market value of at least 20 per cent more than the amount of the loan or extension or at least 10

per cent more than the amount of the loan or extension if it is secured by obligations of any State or political subdivision of a State. The provisions do not apply, however, to loans or extensions of credit secured by obligations of the United States, the Federal intermediate credit banks, the Federal land banks, or by paper eligible for rediscount or purchase by Federal reserve banks. Certain types of affiliates are also exempted from the application of the provisions of this section.

Section 12.—Adds a new section 24A to the Federal reserve act which imposes a maximum limit upon the amounts which national banks and State member banks may invest in bank premises or in the stock, bonds, debentures, or other such obligations of a corporation holding the premises of any such bank, and the amounts which such banks may lend to any such corporation.

Section 13.—Provides that all suits of a civil nature to which any corporation organized under the laws of the United States shall be a party, arising out of transactions involving international or foreign banking, shall be deemed to arise under the laws of the United States, and the district courts of the United States are given original jurisdiction of all such suits. It is also provided that a defendant in any such suit may at any time before the trial thereof remove the suit from a State court to a Federal district court in the same manner as now provided by law for the removal of other suits.

Section 14.—Undertakes to broaden the national banking laws by giving national banks all powers possessed by State banks of deposit and discount organized in the States in which such national banks are located, except in so far as they may be prohibited by Federal legislation. National banks are to be permitted to purchase and sell investment securities for their customers to the same extent as heretofore, but hereafter they are to be authorized to purchase and sell such securities for their own account only under such limitations and restrictions as the Comptroller of the Currency may prescribe, subject to certain definite maximum limits as to amount.

Section 15.—Provides for the amount of capital of national banks depending upon the population of the places where they are to be located and also prohibits the admission of a bank into the Federal reserve system unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national bank.

Section 16.—Provides for separating the certificates representing ownership in national banks and ownership in affiliates other than member banks so that in the future they will not be written upon a single certificate of ownership. This corresponds to the provision contained in section 5 of which is applicable to State member banks.

Section 17.—Provides for the voting of national-bank stock held by holding companies under voting permits obtained from the Federal Reserve Board. Certain limitations are imposed upon such holding companies which they must agree to comply with at the time the voting permits are obtained. These limitations relate chiefly to examinations, reports of condition, reserve requirements, and ownership and control by holding companies of organizations engaged in the issuance, underwriting, and distribution of securities. These provisions are also made applicable to holding companies affiliated with State member banks. (See sec. 3.)

Section 18.—Provides for eliminating after a period of three years all affiliations by member banks with corporations, associations, business trusts, or other similar organizations engaged principally in the issuance, underwriting, or distribution of securities.

Section 19.—Authorizes national banks to establish branches at any place within the States in which such banks are located, and also allows the establishment of branches in adjacent States under certain conditions, subject to the approval of the Federal Reserve Board, but not beyond 50 miles from the seat of the parent bank. No such association is to be permitted, however, to establish a branch outside of the city, town, or village in which it is located unless it has a paid-in and unimpaired capital of not less than $500,000.

Section 20.—Amends the act of November 7, 1918 (relating to the consolidation of national banks), to the extent necessary to carry out the policy provided for in section 19.

Section 21.—Limits the interest that may be charged by a national bank to that which may be charged by local banks in the State where the national bank is located, or to a rate 1 per cent higher than the discount rate on 90-day commercial paper in effect at the Federal reserve bank in the district where the national bank is located, whichever is greater. If no rate is fixed by State law, the maximum rate the national bank may charge is limited to 7 per cent, or 1 per cent in excess of such discount rate, whichever is greater.

Section 22.—Provides that in estimating the total amount of loans which may be made by a national bank to a corporation, the obligations to the bank of all subsidiaries of the corporation in which it owns or controls a majority interest are to be counted.

Section 23.—Provides for reports of condition of all types of affiliates of national banks. This corresponds to the provisions of section 5 which are applicable to affiliates of State member banks.

Section 24.—Relates to the examinations of affiliates of national banks. There is a corresponding provision in section 5 relating to affiliates of State member banks.

Section 25.—Provides for the removal from office of directors and officers of member banks who have continued to violate the banking laws or who have continued unsafe and unsound banking practices after being warned by a Federal reserve agent or the Comptroller of the Currency.

Section 26.—Reserves the right to alter, amend, or repeal the act and provides for separability of its provisions in case any part of the act is held invalid.

The changes which are thus suggested are considered to represent essential matters called for in the interest of immediate improvement of present conditions and the avoidance of financial dangers and there is none of them which can wisely be omitted. All afford solutions that have been indicated by investigators in many quarters as unavoidable and all are thought urgent for the purpose of correcting or eliminating actual hazards.

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Calendar No. 604

72D CONGRESS, 1st Session | SENATE | REPT. 584 Part II

OPERATION OF THE NATIONAL AND FEDERAL RESERVE BANKING SYSTEMS

APRIL 29 (calendar day, APRIL 30), 1932.—Ordered to be printed

Mr. NORBECK, from the Committee on Banking and Currency, submitted the following

MINORITY VIEWS

[To accompany S. 4412]

The Senate Committee on Banking and Currency has had under consideration the bill (S. 4412) to provide for the safer and more effective use of the assets of Federal reserve banks and of national banking associations, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes, and reported favorably thereon on April 22, 1932. (Rept. No. 584.)

On behalf of the minority of the members of the Senate Committee on Banking and Currency, I am making this report in protest against the proposed extension of branch banking, without taking issue with the distinguished author of the bill, Senator Glass, on other matters in the bill, in most of which I heartily concur, and some of which I deem very important.

In speaking of our banking system, we must keep in mind that we have:

(1) A system of national banks chartered and supervised by the Federal Government.

(2) We have a competitive system, that of State banks, chartered and supervised by the States.

There is difference of opinion among well-informed people as to their comparative merits, and certainly there is a great desire on the part of certain people to wipe out the State banking system. What can not be done directly by law may be done by giving the national system such an advantage that the competitive State system can not exist.

Aside from the two general classifications, we might make further classifications, as follows: Unit bank, chain banks, group banks, branch banks.

A unit bank may have a national or State charter. It is generally defined as an institution which is owned, controlled, and operated by residents where the bank is located, and has no affiliated institutions. This is the typical American bank.

The term "chain bank" is generally applied where two or more banks are owned and controlled by one individual and partnership (without a holding company or more centralized control).

Group bank is the proper term for institutions that have been growing up in many sections of the country of late years. If not a violation of law, it is certainly an evasion of law. A holding company is generally organized for the purpose of owning and controlling these banks. As a rule, the holding company owns over 90 per cent of such bank stock, but there remains a local organization and a local board of directors, subject, however, to the control of the holding company, which is located in some central place.

It is a well-known fact that shares in a bank carry a double liability with them on the part of the stockholder. As a rule, the shares in a holding company do not carry this extra liability, though there are a few notable exceptions to this practice. I have in mind especially the Detroit group, who appeared before this committee and explained their system.

Branch banking is where a parent bank has one financial structure, from which it operates the several branches or offices under set rules and instructions issued by the head office. The officers of the several branches have very limited powers of discretion.

FALLING PRICES

Since the war, there has been a continual shrinkage in values and this has put a great strain upon our banking structure. Numerous failures have been taking place, and those, who for different reasons prefer the chain bank with the central control, are continually pointing to the banking systems of other countries. But all things considered, the American system has held up wonderfully well. Our Government has not come to the direct aid of our banking structure, such as has been the case in many European countries, where the governmental form of banking exists, where the taxpayers took the losses.

We are often reminded of the losses suffered by depositors in this country. That is true, and it is deplorable, but it is not fair to point to other countries for comparison. The American dollar is still at par, while the bank deposits in foreign lands have dwindled in proportion to the shrinkage of their currency value; in Canada it is 20 per cent, and in France it is 80 per cent. We have much over which to be happy, and do not need to be hasty about importing a banking system from foreign lands.

The so-called safety of the French, Canadian, or English system is simply one of percentage, and we need not be ashamed of the comparison.

It is not believed that the remedy lies in more centralization. When we take the history of the chain bank, group bank, and branch bank, many States in the Union have had debacles, which are appalling. The greatest bank failure in this whole depression was in the case of a branch-bank system—a central bank with some 50 or 60 branches. On the other hand, while the losses of unit banks in the

United States, due to overbanking conditions and the present financial situation, have been devastating, we have no assurance that such a condition may not arise again under a different form of banking, as each generation must learn its own lesson, and human nature, as a rule, has never been able to capitalize 100 per cent from the mistakes of the past.

BRANCH BANKS

Advocates of the branch-banking system ignore the fact that such a system has never been tried in a country of 120,000,000 population, 3,000 miles across. They ignore the tendency in this country to centralize control of everything, and especially of credit. I believe the branch-banking system would put us at the mercy of the financial centers.

THE CANADIAN SYSTEM

We hear much about the Canadian systen, which is the outgrowth of the British system, but we hear only the good side of it. However, we occasionally run across something suspicious even in these presentations. We are told that Canada has only 11 banks, with an average of about 400 branches, and that there have been no failures. This statement is not in accordance with the record, for they have had numerous failures.

An advocate of the Canadian system in a recent magazine article said they had had only 16 failures in 62 years. The branches are not counted when the failures occur, but let us take them at their own statement. They have 11 banks and they have had 16 failures; that is more than a hundred per cent.

We are told that these 11 Canadian bankers have during the last few years had a smaller percentage of failures than the banks in this country, and I think that is true. But we have a large number of banks in this country that have had no failures, and certainly we have one banking system here, not above referred to, that has gone through entirely without losses, and it has done an enormous banking business. The worst thing that can be said about it is that it has not furnished accommodation to the communities where the deposits were received. They have taken no risk. They have not been interested in building up the communities. If we had only such a system, we would make no progress in our development; we would slow down—we would come to a standstill. The system is the nearest comparable to the Canadian system. I have reference, of course, to the postal savings bank that drains the community dry of its cash.

One of our distinguished Senators, who has spent a great deal of time in Canada, told me privately he believed the natural resources of Canada were equal to those of the United States. Their growth has only been one-tenth the growth of the United States. I believe we are much indebted to the unit banking system for this difference.

I feel that section 19 of the Glass bill should be eliminated in its entirety. There is a movement on foot to control the banking industry of the United States by centralization. This movement might be termed not only national but international. Of late years this movement has been becoming more evident. The only way it can be accomplished, apparently, is through nation-wide branch banking and the complete elimination of the unit bank.

The unit banker has had a most prominent place in the development of the United States. By reason of his individualistic characteristics he has been able to mold himself to meet any possible situation. It has been through his foresight, strength of character, and belief in these great United States of ours that our country has become the foremost in commerce and industry. His endeavors have been most outstanding. The history of our country might have been different if our banking system had been controlled from Washington or New York.

Our dual system of banking has been one of the great motivating factors in making the United States the outstanding country that it is to-day. Our country is too large, too widely diversified, to expect one banking system to be so versatile as to deal with so complex a situation efficiently. The American people are individualistic and so should be our banking structure. The unit bank has a most definite position in our national welfare.

Two reasons have been advanced why we should have one system of banking:

First. The commerce of the United States should be financed in an orderly manner; must have a uniform system of banking under Federal supervision. Our past history does not prove the necessity of the same.

Second. That the Federal Government can not rely upon the voluntary cooperation of State banks and trust companies for the execution of a national policy. The record is clear that there has never been a time when the unit bank or the State chartered institutions have not upheld the hands of our Government.

The placing of our banking structure with the now overburdened bureaucracy in Washington is in direct violation of the principle of State rights. So far no tangible evidence has been offered that the passage of this section would be of value to the rank and file of our citizenry or would meet and stabilize the present situation. We have always the matter of politics, change of administration, Government in business, which can not be overlooked. History repeats itself.

The past several years a large amount of propaganda has been fed to the people endeavoring to educate them to national branch banking, and while the resolutions of some of our financial organizations were rapid in their opposition to branch banking, owing to steady pressure from without and within, their position has been gradually changing.

This plan appears to be a part of the preconceived plan for the elimination of the unit State bank and placing the control of our banking structure in financial centers. Those interested in controlling the banking structure of our country will find it far more easy to handle Washington than some 19,000 different banking corporations scattered throughout the United States. When banking and credit are centralized in a few hands, it is easier for the powerful to get control of such corporations; in fact, Mr. Whitney, president of the New York Stock Exchange, testified before the Banking Committee that with good dollars he could "go out and buy every corporation in the world," and there seems to be no limit to the number of good dollars they control. This is most true.

DEMANDS FOR MORE POWER

Congress first allowed the national banks to have branches within the city in which they were located. The next step was to allow branches in metropolitan areas. Now the demand is made that we have what will mean nation-wide branch banking in its entirety, and plans have been offered which can be utilized in eliminating every unit bank by direct congressional action.

It is in the interest of the United States that a banking monopoly should not be created. The theory of syphoning credits through a branch banking system has been exploded. Theoretically, it functions perfectly, until under pressure the pipe springs a leak. When a unit bank closes, there is merely a pop; when a system of branch banks closes, it is a detonation.

We only have to look back to the history of the endeavor to renew the charter of the Bank of the United States with its branches in the then leading cities, during the Presidency of Andrew Jackson, to prove now, as then, that a banking monopoly headed at Washington is not for the best interests of the citizens of the United States.

The placing of more power in the national banking system is dangerous. Additional powers given this system would not redound to its benefit, unless it is coupled with legislation that will cripple or eradicate our present State-chartered institutions. This fear of centralization in the hands of a few is possibly one of the factors behind the popularity of State-chartered institutions, and general satisfaction of our dual system of banking.

The following figures speak for themselves:

On December 31, 1931, there were in the United States 194 private banks, 587 mutual savings banks, 546 stock savings banks, 1,245 loan and trust companies, and 11,240 State banks; total, 13,812.

The national system had 6,368 banks with capital from $10,000 up, of which less than 225 had a capital of $1,000,000 or over.

As of the same time, national banks had on deposit $19,210,000,000, which included $260,000,000 of funds of the United States. While deposits of State-chartered institutions were $30,486,000,000, a difference of $11,175,000,000 in favor of State-chartered institutions.

Now as to capital structure: State-chartered institutions had $175,000,000 more than national banks and a surplus of $1,700,000,000 in excess of those of national charter. In other words, State-chartered institutions had more millions of surplus above the amount of surplus of national banks than the total aggregate of capital and national banks.

Further, take the period from March 25, 1931, to December 30, 1931. We find that during the intervening period, the deposits in national banks decreased $3,100,000,000, while deposits in State-chartered institutions decreased $3,700,000,000. The per cent of decrease in each instance is, national banks, 13 per cent; State banks, 8 per cent.

Now, further, a comparison of national bank suspensions and State bank suspensions:

In 1931, prior to the figures cited above, there were 409 bank suspensions as against 161 for the year 1930, or an increase of 154 per cent. While the State-chartered institutions had 1,809 suspensions in 1931, as opposed to 1,128 in 1930, or an increase of 60 per cent, there were

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reopened in 1931, 25 national banks and 250 State-chartered institutions, or 10 to 1. In 1930, there were reopened five national banks and 140 State-chartered institutions.

Now as to deposits: Time deposits in national banks, including deposits of the Post Office Department in national banks on December 30, 1931, were $7,594,000,000, as opposed to time deposits in State-chartered institutions of $18,430,000,000, or, roughly speaking, two and a half to one in State-chartered instututions. In the Postal Savings System, at the end of the last fiscal year, June 30, 1931, there was on deposit averaging $500 for each depositor, an aggregate of $347,000,000, an increase of $172,000,000 for the Government's fiscal year. Eight hundred and ten million dollars of the deposit shrinkage in State-chartered institutions were in savings accounts. The number of savings depositors decreased by one and a half million. Now, obviously, the million and one-half depositors who ceased having savings accounts in State-chartered institutions did not rush to the post office, for the increase in the number of postal-savings depositors during the same period was 304,000, or less than one-fifth.

LIQUIDATING CORPORATION

It is hoped that a liquidating corporation will be the means of more prompt payment to depositors of some substantial part of their equity as soon as a bank is closed. It is not a guaranty of bank deposits, though it may point in that direction and, therefore, be subject to much criticism.

GUARANTEE OF DEPOSITS

The State banking system is threatened from another angle, and that is the great demand now on the part of the national banks to have guarantee of deposits. The request is based on the plea that it will restore confidence, but I do not hesitate to say there are national banks that would like to unload their losses on the Federal Treasury, and among them are some large ones, and where the bank is a large one the taxpayer would be assuming a big burden. One of the purposes is to give the national bank a certain advantage over the State bank and destroy our dual system of banking. It is an indirect and an insidious way to do that which they dare not attempt to do directly.

The writer believes that guarantee of deposits may sometime become a reality, but it is quite convincing from the experience of many States that tried the bank guarantee law that a more careful approach to the subject must be made, and certainly it must be considered a form of insurance; therefore the two fundamental principles of insurance must be recognized:

(1) No loss must be underwritten which can not be paid.

(2) No risk should be assumed at 100 per cent value; 75 per cent would be a safer figure.

The depositor who could get 75 per cent cash would be fortunate, indeed, compared to some of those who wait many years on the slow liquidation of a receiver.

There are members of this committee who favor guaranty of bank deposits who would hesitate now to have the Government take over

bank losses and also to destroy the State banking system, for State banks would not be included in the program for guaranty.

The depression, started in agricultural sections, brought down thousands of banks. These people have taken their losses. They protest against helping pay the losses that are now threatening other sections.

PETER NORBECK,
For the Minority.

Calendar No. 79

73D CONGRESS, 1st Session } SENATE { REPORT No. 77

OPERATION OF THE NATIONAL AND FEDERAL RESERVE BANKING SYSTEMS

MAY 15 (calendar day, MAY 17), 1933.—Ordered to be printed

MR. GLASS, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. 1631]

The Senate Committee on Banking and Currency has had under consideration S. 1631, "To provide for the safer and more effective use of the assets of Federal reserve banks and of national banking associations, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes," and reports it back to the Senate with certain amendments with the recommendation that the bill be passed.

The bill thus reported is similar in its main aspects to the bill S. 4412, which was passed by the Senate during the last session of Congress and which was the result of extensive hearings by a duly authorized subcommittee of the Banking and Currency Committee of the Senate and hearings by the general Banking and Currency Committee. The investigation of banking problems was held under the terms of Senate Resolution No. 71, adopted at the second session of the Seventy-first Congress, reading as follows:

Resolved, That in order to provide for a more effective operation of the National and Federal reserve banking systems of the country the Committee on Banking and Currency of the Senate, or a duly authorized subcommittee thereof, be, and is hereby, empowered and directed to make a complete survey of the systems and a full compilation of the essential facts and to report the result of its findings as soon as practicable, together with such recommendations for legislation as the committee deems advisable. The inquiry thus authorized and directed is to comprehend specifically the administration of these banking systems with respect to the use of their facilities for trading in and carrying speculative securities; the extent of call loans to brokers by member banks for such purposes; the effect on the systems of the formation of investment and security trusts; the desirability of chain banking; the development of branch banking as a part of the national system, together with any related problems which the committee may think it important to investigate.

For the purpose of this resolution the committee, or any duly authorized subcommittee thereof, is authorized to hold hearings, to sit and act at such times and places during the sessions and recesses of the Seventy-first and succeeding Congresses until the final report is submitted, to employ such clerical and other assistants, to require by subpoena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, and to take such testimony, and make such expenditures as it deems advisable. The cost of such stenographic services to report such hearings shall not be in excess of 25 cents per hundred words. The expenses of the committee, which shall not exceed $15,000, shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman.

Acting upon the authority of the foregoing resolution the Senate Committee on Banking and Currency appointed a subcommittee to conduct the inquiry, which subcommittee proceeded in three ways:

1. It held hearings during the months of January and February of the year 1931 and at these hearings interrogated numerous witnesses, representing the banking, financial, and technical elements in the community, who either indicated a desire to be heard or were invited by the committee as probably possessing information that would be valuable.

2. Inquiries were made among a select list of representative banks by the method of questionnaires. Lists of questions were carefully formulated by experts and transmitted to the banks; and, in nearly all cases, replies of a full and complete description were forwarded by the latter. These have been carefully analyzed and the result published as appendixes to the hearings.

3. Statistical and other investigations were conducted by investigators attached to the committee; and their results reported and published in connection with the hearings. In addition, reports on topics of a technical nature calling for special inquiry were placed before the committee.

In addition to the foregoing the committee carried on an extensive correspondence and received numerous suggestions, recommendations, and other presentations of argument or evidence. It also received various drafts of proposed legislation, and gave due consideration to all. It found, however, that public opinion was in an indeterminate condition on the whole subject, and felt that immediate emergencies were so great that it was wise to defer the preparation of a completely comprehensive measure for the reconstruction of our banking system, such as had been urged by some responsible men. Hence the committee resolved to construct a bill to correct manifest immediate abuses, and to bring our banking system back into a stronger condition. Thus, for example, it seems to be the consensus of opinion among banking authorities that the United States will never have a complete and strong system until such time as it shall succeed in fully harmonizing and adjusting State and Federal laws on banking questions. This might involve a constitutional amendment or some equally far-reaching measure necessitating a long postponement of action.

The immediate measures of reform and rectification are, however, quite important. They include the correction of evils which reached a peak of danger in 1929 and abuses which have gradually grown up within the banking system itself. Immediate dangers and emergencies have been of so pressing a nature as to throw into the background many of the evils which have previously been recognized and to divert discussion from causes to the immediate effects of what

was done in recent years. It is, therefore, needful to consider at some length the general background of the banking conditions which culminated in the breakdown of 1929.

INFLATION OF BANK CREDIT

There seems to be no difference of opinion with reference to the statement that the years after 1925, and indeed to a smaller extent those preceding that date and subsequent to 1922, were years of a very great inflation of bank credit—as well as of commercial credit and, especially in the later years, of business. By inflation, in the sense in which that word is here used, is meant the increase of bank liabilities, usually demand liabilities, in a proportion or degree materially greater than the rate of increase indicated by the requirements of a gradual growth of business transactions involving the production and distribution of goods—in a degree or ratio, therefore, greater than that in which the need for media of exchange had grown—usually accompanied by corresponding changes in liquidity. By way of demonstration or illustration of this statement in very brief form, we may simply cite the enlargement of deposit liabilities of the banks during the past few years prior to 1929 and the great subsequent enlargement of investments and frozen loans. This growth was not paralleled by any similar enlargement of the demand for means of exchange, as is suggested by the various indexes reflecting the rate of production.

Inflation was also indicated by the uses to which the credit thus established was put and the advance in prices thereby brought about. It is now evident that the increase in deposit credit on the part of the banks already described was largely used in three ways: (1) In the carrying and inflating of the prices of securities, especially common stocks, (2) in the overdevelopment of real estate and real estate enterprises, and (3) in the upbuilding of a large capital equipment paid for with short-term accommodation but not funded at the time into longer-term loans.

BEARINGS ON CREDIT EXPANSION

Analysis of the sources from which the excessive credit used in the stock market during past years was drawn, is a primary factor in determining what was really at fault in the management of banking during the years in question. This is of special interest in connection with the so-called "brokers' loans."

The loans in question are divided into two main groups, the one obtained from banks and bankers, while a second represents those obtained from "others." These "others" were corporations and other nonbanking lenders, including investment trusts and many others having funds to spare who chose to advance them for use in supporting securities transactions. The question is thus naturally raised, Where did the "others" thus spoken of obtain their funds? They obtained them, of course, in substantial measure from the public at large through sales of new issues, which rose steadily through this period. In part, also, they were a result of the use of large war-time and post-war earnings, which were retained from stockholders instead of being paid out as dividends.

The major source of the inflation, however, was the creation of new bank credit through large loans and investments by banks that had substantial surplus reserves, owing to gold imports, open market operations of the reserve banks, etc.

USE OF PROCEEDS OF NEW ISSUES OF SECURITIES

A large portion of the funds obtained by these issues of securities from the public was unavoidably used in new construction and in carrying out the legitimate purposes of the businesses which thus obtained them from the investors of the country. Another large portion was, however, left over; it was not directly required for immediate use, the issuers of securities having overborrowed or overcapitalized themselves, so that they were in possession of more current funds than they needed. This surplus of funds went into the stock market and fostered excessive speculation, although it also stimulated business by being transferred to sellers of securities later on.

Where did the public which bought the securities of such corporations get the funds they thus supplied? Some portion of the money naturally came from savings and current incomes, but a larger fraction was unquestionably obtained from the banks by means of the security borrowings to which reference has been made at an earlier point. The banks were thus lending directly in unprecedentedly large amounts directly to brokers; but they were also lending in even larger amounts on collateral to the general public, which was then taking the funds so supplied and using them in large degree for the purchase of securities whose proceeds were applied to speculative loans in the market. The flow of funds through the hands of the general public into those of the corporations, and from the latter into the hands of brokers and dealers, who then re-lent the funds to the public engaged in speculation, was thus primarily the result of a loose banking policy which had turned from the making of loans on commercial paper to the making of loans on security. This policy was critically referred to by the Federal Reserve Board, which often called attention to it in its annual reports.

THE GROWTH OF ACCEPTANCE CREDIT

The general ease and accessibility of credit under the regime which existed prior to 1929 was accentuated by the issue of the instrument known as "the bankers' acceptance." In its original purpose this form of lending was intended to include only unquestionably liquid obligations, growing out of the actual sale of goods in foreign trade, so that the acceptance became a short-term claim payable in international funds, usually gold. It was this conception of the instrument which was originally adopted in the Federal Reserve Act, and on which the use of the instrument by the Federal Reserve System was founded. Later amendments to the reserve act, adopted during the World War, broadened the use of the acceptance and opened the door to the application of a conception of its use which was practically that of a finance bill—a bill drawn without reference to the immediately liquid character of a given transaction, and primarily based upon the general power of the parties to it to see that it was liquidated from some source. The use of the acceptance to supply what was called

"dollar exchange", although doubtless of advantage under proper restrictions, undoubtedly opened a door to grave abuses, which were in some measure responsible for the credit difficulties that later made their appearance in South American finance. These difficulties, however, were after all comparatively minor, the real dangers of the acceptance being exhibited in connection with the stretching of the definition of various transactions so as, for instance, to include storage of commodities as an incident to their moving abroad or moving from one market to another so that acceptances protected by such stored goods were regarded as acceptances made against goods actually moving in international trade. It was easy to pass from this view of the situation to another and more advanced view, wherein stored goods not sold during the period of the acceptance were used as goods properly providing a basis for renewal of the acceptance so that revolving acceptances or acceptances growing out of revolving credits became common, notwithstanding official warnings against them.

From the domestic standpoint, it would seem clear that not a few banks had fallen into the habit of supplying their customers with funds through the issue and sale of their acceptances, without much regard to the question whether such acceptances were called for or not. That the large amount of reserve credit thus created prevented effective control of security loans and investments of the banks, and thus fostered the stock market boom, there can be little doubt.

Through these and similar means, too, a very large commitment on the part of American banks taken on behalf of foreign banks came into existence. Germany, in particular, proved to be a great borrower on this score, and the total of acceptances made directly or indirectly in order to provide funds for foreign banks grew to unprecedented amounts. The effect of these transactions upon the German banks themselves, in leading up to the German financial collapse of July 1931, has been carefully traced by the international committee of bankers which met under the chairmanship of Mr. A. H. Wiggin in Basle, after the breakdown of Germany, for the purpose of discussing ways and means of dealing with the German credit situation.

BANK INSOLVENCIES

Every discussion of the conditions which preceded the panic of 1929 must make full allowance for the bank insolvencies which during the years after 1924 began to grow so numerous. The following brief tabulation furnished to another subcommittee affords the facts regarding bank insolvencies during the year 1931, while figures for earlier years were furnished by the Comptroller of the Currency during the hearings of the past winter, and are computed on a somewhat different basis by the Federal Reserve Board in its monthly bulletin. It is obvious that bank failures, whatever may be the basis upon which they are computed, have reached an unprecedentedly high level after a long continued growth extending over a decade. The effect of these insolvencies prior to the panic of 1929 was twofold. They tended to break down the business structure of the country and particularly of the places and regions in which they were most numerous, and they tended to bring on local hoarding over large areas. The condition of affairs is complex, growing as it did, out of

a variety of conditions. Most of these circumstances have been outlined in the hearings, and there is little use in further reviewing them at this point. For the most part they are well known.

There should, however, be no failure to recognize the important role played by these insolvencies in preparing the way for the general breakdown of 1929. The fact that they occurred more largely among small banks, as has often been urged, in no way reduces the significance of the phenomenon. It points to a gradual disintegration of banking under present conditions and it reflects the community's way of gradually curing the evils complained of, though a lengthy and costly process. It was this tendency to bank failure starting 10 years ago after the depression of 1920–21 and steadily growing more and more pronounced, except during the boom years, until it reached the astonishing height touched in 1930, that has culminated in the great total of nearly 2,300 failures occurring in this country during the year 1931. This drift toward failure among banks laid the foundation for extreme difficulties experienced during the latter part of 1931, and necessitated the remedial measures that were then undertaken. During the year 1932 and the first two months of 1933 nearly 1,850 additional banks suspended operations. Bank failures cannot but be regarded as one of the fundamental symptoms that must be given primary study in the search for remedies to be applied to present conditions.

Bank suspensions 1931–33, preliminary figures

	All banks		National banks		State-bank members		Nonmember banks	
	Number	Deposits	Number	Deposits	Number	Deposits	Number	Deposits
Year 1931, total	2,290	$1,759,000,000	410	$473,000,000	108	$302,000,000	1,772	$984,000,000
Last quarter of 1931	1,049	866,000,000	199	244,000,000	51	155,000,000	799	467,000,000
October, 1931	522	478,000,000	100	116,000,000	25	118,000,000	397	244,000,000
November, 1931	174	69,000,000	35	28,000,000	8	4,000,000	131	37,000,000
December, 1931	353	319,000,000	64	100,000,000	18	33,000,000	271	186,000,000
Year 1932, total	1,456	715,626,000	276	214,150,000	55	55,153,000	1,125	446,323,000
Last quarter of 1932	345	151,554,000	58	46,932,000	10	11,354,000	277	93,268,000
October, 1932	97	21,899,000	20	6,603,000			77	15,296,000
November, 1932	95	46,322,000	19	26,475,000	6	3,519,000	70	16,328,000
December, 1932	153	83,333,000	19	13,854,000	4	7,835,000	130	61,644,000
January, 1933	237	142,719,000	43	55,921,000	15	14,798,000	179	72,000,000
February, 1933	148	72,870,000	20	15,881,000	7	7,788,000	121	49,201,000

STOCK-EXCHANGE SPECULATION

Stock-exchange speculation in excess is often spoken of by some as the cause and by others as an unfortunate result of the business, banking, and credit conditions which culminated in the panic of 1929. It was neither of these, but was an accompaniment or symptom of unsound credit and banking conditions themselves. The facts as to the expansion of such speculation are well known, and its history requires no repetition, but the major data, facts, and conclusions may be briefly summarized as including: (1) A steady increase in bank security loans and investments; (2) rising price resulting from the increased resulting demand; (3) a sporadically enlarging volume of stock-exchange operations and new issues made possible by popular enthusiasm thus engendered; and, finally (4) a violently

fluctuating course of prices on the stock exchange continuing until the whole structure fell of its own weight, resulting in the sharp downward movement which began in the autumn of 1929 and has been followed by sporadic collapses at various times since.

INFLUENCE OF PUBLIC FINANCE

It must be noted, in reviewing the situation which preceded the panic of 1929, that methods then adopted in connection with public finance had a very substantial share in bringing on the collapse of that year. Almost all governments both here and abroad have permitted themselves to overborrow on short term. When such borrowing has been effected at banks, as has been the case in most instances, the result has been to add to inflation by getting the banks to carry as credit what was really long-term capital investment. In the United States very low money, the result of exceptionally low interest and discount rates, rendered it possible to effect such borrowing on a very economical basis. The result was the extended use of the banks for the purpose of carrying unfunded public debt, often in the expectation that such debt would be shortly funded and could be so funded at any time determined upon by the borrowing government as suitable. The growth of very large public-bond holdings, including not only the obligations of the United States but of various States and cities, operated strongly to limit the banks' liquidity by engaging their funds in what were really long-term investments. From the outbreak of the panic and during the subsequent depression there was never a favorable time for refunding, and the result has been to leave many banks with unduly large burdens of public bonds. So far as Federal reserve banks were concerned, the fact that the obligations of the Federal Government could always be used to protect member-bank borrowings inevitably tended to encourage such members in developing frozen portfolios.

REAL-ESTATE INFLATION

One element which deserves special notice in any study of pre-panic conditions is afforded by real-estate inflation and speculation. It is not possible to find authoritative statements of the growth of the volume of real-estate loans and security investment in the portfolios of the banks and elsewhere, but the general facts in the case are clearly enough known. The immense increase in the volumes of real-estate bond issues and of real-estate mortgages both in banks and among the holdings of the financial institutions generally are the subject of widespread comment. What is less well recognized is the fact that an immense over-expansion of real-estate values was set in motion and that in consequence the coming on of the panic and their recognition that the country was "overbuilt" added an element of great difficulty to the situation. This element of difficulty is vividly illustrated by the circumstance that many institutions now find themselves hopelessly embarrassed by their real-estate commitments and by the fact that rents and selling values have so seriously shrunk.

PROBLEMS OF RESERVE BANKS

At times the Reserve banks have held an unprecedented amount of gold during the past two or three years and the gold stock of the country has occasionally been well above $5,000,000,000, so that the reserve percentage of the Reserve banks has been steadily high, notwithstanding fluctuations and a recent tendency to recede. These high ratios, however, have much less direct bearing upon the actual condition of the system than is generally supposed. The real problem of reserves is furnished by the relationship between the outstanding deposits of the banks of the country and the gold reserve which the Reserve banks themselves carry. This ratio or relationship has shown continuous tendency to decline. The great gold movements of the past year and a half and the liquidation of many banks have somewhat changed the situation, but it has continued true that the ratio was inadequate while the tendency of a portion of the public to hoard currency has necessitated the issue of Reserve notes in large volumes with corresponding shrinkage of the so-called "free gold" available. During the three years before the collapse of 1929 unduly low discount rates were a cause of danger to Reserve banks. They have been viewed by some banking authorities as a chief cause of the difficulties which compelled Great Britain to abandon the gold standard in the summer of 1931. The question of reserve policy is an involved and complex one on which your committee took much testimony and also pursued an extended study whose results are stated, in the words of the Reserve banks themselves, in part 6 of the hearings (appendix). So fully are the facts there reviewed and so authoritatively are they stated by the Reserve-bank authorities that it has not been thought necessary to enlarge more fully upon the situation in this report.

CONDITION OF MEMBER BANKS

The outstanding development in the commercial banking system during the prepanic period was the appearance of excessive security loans, and of overinvestment in securities of all kinds. The effects of this situation in changing the whole character of the banking problem can hardly be overemphasized. National banks were never intended to undertake investment banking business on a large scale, and the whole tenor of legislation and administrative rulings concerning them has been away from recognition of such a growth in the direction of investment banking as legitimate. Nevertheless it has continued; and a very fruitful cause of bank failures, especially within the past three years, has been the fact that the funds of various institutions have been so extensively "tied up" in long-term investments. The growth of the investment portfolio of the bank itself has been greatly emphasized in importance by the organization of allied or affiliated companies under State laws, through which even more extensive advances and investments in the security market could be made. This question, like that relating to the policy and situation of reserve banks, has extensive ramifications which must be studied statistically. In order to provide material for such a study, the results of questionnaires addressed to a selected list of large banks, each possessing one or more affiliates, have been assem-

bled in general tabular form with such explanation as is necessary to enable the reader to evaluate the figures thus given. They are presented as part 7 of the hearings (appendix).

ANALYSIS OF PRESENT BANKING PROBLEM

We have furnished thus far a merely descriptive account of the financial and credit conditions which preceded the panic of 1929. It now remains to consider these facts as exhibiting a distinct kind of banking problem and to inquire in what way remedies for it may be found. Specific conditions which stand out as requiring some remedy are therefore taken under consideration, as follows:

1. *Bank loans and their uses.*—It is evident from what has been said that the underlying factor in the whole prepanic situation was excessive use of bank credit. The question of "excess" is a question of judgment and can only be determined by noting in specific terms the forms it has taken and the remedies to be applied to them.

(*a*) The excessive use of bank credit in making loans for the purpose of stock speculation, or, more generally stated, for the excessive carrying of securities with borrowed money, was generally admitted before the panic of 1929, and almost universally since that time, to have been one of the sources of major difficulty, far exceeding in its scope any total that could be reasonably asked for as a basis for the financing of legitimate investment business. Under this same topic, too, must be mentioned the so-called "brokers' loans." These are merely a special form of securities loan in which a bank or commercial corporation or other enterprise advances funds through an intermediary—the broker—instead of lending direct; an excessive volume of brokers' loans must be considered in the light of the total volume of security loans outstanding. The category of brokers' loans obtained from "others" is a separate and especially difficult aspect of this problem.

(*b*) It seems clear that any remedial measure of legislation should seek to provide some check upon the abnormal growth of all security loans at banks as well as seek to limit the loans to brokers, especially those loans originating with "others." Such legislation, if successful, should operate to lessen the danger of a repetition of the experience of 1929. It is often suggested that control of this form of credit ought to be effected in some way through stock exchanges. Whatever may be thought of that method of approaching the subject, it is at all events certain that nothing of the kind would be likely to succeed without adequate banking control, while on the other hand, banking control alone may greatly ameliorate conditions in this field of credit.

(*c*) The line of reasoning thus presented leads us to propose:

(1) Legislation designed to control and limit brokers' loans, particularly to limit the use of funds of the Reserve banks for this purpose.

(2) Legislation designed to restrain the diversion of bank funds to an undue degree into direct loans upon securities whether to brokers or to others.

(3) Legislation intended to prevent, so far as legislation can, speculative market loans by corporations engaged in industrial or business enterprises.

2. *Banking affiliates.*—There seems to be no doubt anywhere that a large factor in the overdevelopment of security loans, and in the

dangerous use of the resources of bank depositors for the purpose of making speculative profits and incurring the danger of hazardous losses, has been furnished by perversions of the national banking and State banking laws, and that, as a result, machinery has been created which tends toward danger in several directions.

(*a*) The greatest of such dangers is seen in the growth of "bank affiliates" which devote themselves in many cases to perilous underwriting operations, stock speculation, and maintaining a market for the banks' own stock often largely with the resources of the parent bank. This situation was never contemplated by the National Banking Act, and it would, therefore, appear that the affiliate system calls for the establishment of some legislative provisions designed to deal with the situation. It has been suggested from many quarters that the affiliate system be simply, "abolished." This suggestion has much authority behind it, but, in addition to the manifest difficulty of enforcement, owing to the existence of well-known subterfuges to maintain control, there remains the question whether it would be of much real service so long as State legislation permits the growth of affiliates in connection with State banks and trust companies. The committee has, therefore, determined to present proposed legislation aimed at the following objects:

(1) To separate as far as possible national and member banks from affiliates of all kinds.

(2) To limit the amount of advances or loans which can be obtained by affiliates from the parent institutions with which they are connected.

(3) To install a satisfactory examination of affiliates, working simultaneously with the present system of examination applicable to the parent banks.

(*b*) *Group banking.*—Closely allied in many points of similarity with the affiliate system is the plan of group banking in operation in some parts of the United States, working, in a few cases, on a large scale. In this system a holding company is organized under State law and proceeds to buy a majority of the stock of a series of banks, operating them thereafter through the holding company. In this way in some districts such holding companies control the reserve bank of the district through ownership of enough banks to carry an election. The difference between this plan and the affiliate system itself is that in the one banks are owned by a State-organized holding company, while in the other State-organized companies (affiliates) are owned by a national bank's stockholders, or in some cases directly by trust companies, under some form of law which amounts to ownership by the parent bank itself. The evils of indirect control are similar in the two cases, and they may lead to similar abuses, as is seen when it is noted that holding companies also usually control companies organized for security financing. However, such companies have in some parts of the United States become well rooted, and the difficulty of eliminating or abolishing them in any effective way is similar to the difficulty of eliminating or abolishing the affiliates of city banks. It is, therefore, thought best to attempt the control and oversight of these companies on the following terms:

(1) Since the companies are State corporations, Congress has no control over them, except that which may be voluntarily granted. However, since the staple of their ownership or holdings is the stock

of National and State member banks, it would seem that Congress may control the conditions under which such stocks may be owned and particularly voted.

(2) The affiliates of this type (holding companies) are prohibited from voting the stocks of national banks unless they are willing to undertake to accept examination by the Federal Reserve Board, divest themselves of ownership of stock and bond financing concerns, and comply with regulations designed to insure their ownership of sufficient free assets to make sure that they can satisfy the double liability of their shareholders in case any of the banks owned by such a company should go into the hands of receivers or be closed.

(3) It is thought that, in any event, holding companies should not be allowed, except in a severely limited way, to vote at elections of Federal Reserve bank directors, since otherwise the Federal Reserve bank would become merely the creature of the holding company. Such voting is therefore definitely restricted.

3. *Insolvency of banks.*—Within the past few years, the insolvency of banks has been a major cause of distress and business difficulty in all parts of the country. There is no one sovereign remedy for this condition or tendency. It grows out of the weakness of the banking system and the way to correct it is, of course, to correct defects in the system itself. However, we believe that this tendency to constitutional weaknesses is to be remedied or alleviated by measures of several sorts. These we shall briefly enumerate as follows:

(*a*) Strengthening of the capital of banks.

(*b*) Provisions for closer and stronger supervision.

(*c*) More careful restriction of investments.

(*d*) Requirements for the truthful valuation of assets.

(*e*) Protection of depositors and limitation of their losses through a bank deposit insurance corporation.

These provisions if acted upon in good faith by administrators will do something to correct the insolvency situation, but there is no denying the fact that our banking system is going through a period of great change and that the ultimate destination of the system is not yet fully clear. Because of that fact, provision for branch-banking powers under carefully qualified conditions with a view to making a larger experiment with branch banking is deemed essential and due provision for it is made. Specifically, what is proposed is the grant of power to establish branches of national banks not merely in the towns and cities in which they are located but also outside of such limits at any point within the borders of the State in which they exist, if such establishment is expressly authorized to State banks in such State. The branches so established are also to be subject to the restrictions as to location imposed by the law of the State upon State banks and no national bank is to be permitted to establish a branch outside of the city, town, or village in which it is located unless it has a paid-in and unimpaired capital of not less than $500,000; except that in States with a population of less than 1,000,000 and with no cities with a population exceeding 100,000, the minimum capital requirement for the association is fixed at $250,000.

4. *Strengthening of Federal Reserve System.*—The Federal Reserve System has been seriously impaired of recent years and has wandered

far away from its original function. This is the result of many complex conditions. Among these conditions has been the uncertainty of policy in the matter of exercising plainly authorized control by the central supervising authority at Washington and the tendency to submit rather timidly to considerations of immediate expediency. Among the Reserve banks themselves there has been a decidedly dangerous drift toward the conversion of the system into a medium for transacting financial rather than commercial business. Further, the establishment of understandings or agreements with foreign central and other banks, and the attempt to carry out plans and measures of a hazardous nature relating to discount rates and problems of technique, have had unfortunate results.

To reform these conditions the committee recommends:

(*a*) Increase of independence of Federal Reserve Board.

(*b*) Better definition of the powers of the Board with respect to speculative transactions, particularly as to authority over open market dealings, by establishing a so-called "open market committee" with designated authority.

(*c*) Definition of powers of the Board in the management of foreign affairs.

5. *Protection of bank depositors.*—The great number of banks now in the hands of receivers has created a situation in which a very large number of persons are unable to meet their obligations and in which many business houses are embarrassed through inability to get the use of their funds. In the natural course of events it would be a long time before these conditions are very greatly relieved through the liquidation of these closed banks. The continued postponement of liquidation is a very heavy burden upon a large portion of the community. In order to provide against a repetition of the present painful experience in which a vast sum of assets and purchasing power is "tied up", we have recommended the creation of a Federal bank-deposit insurance corporation to liquidate the assets of closed member banks of the Federal Reserve System and, on and after July 1, 1934, to insure the time and demand deposits of such banks which have subscribed to stock of the corporation.

The proposal is that this corporation shall have a capital stock contributed by the Federal Reserve banks to the extent of one-half of their surplus on January 1, 1933, or a sum of about $175,000,000, while each member bank shall subscribe to stock of the corporation to the extent of one-half of 1 percent of its total deposit liabilities, or a sum of approximately $175,000,000, so that the enterprise would have a subscribed capital from those two sources of about $350,000,000. In addition, it is proposed that the Government subscribe for $150,000,000 of stock of the corporation, and the corporation is to be permitted to issue tax-exempt notes, bonds, debentures, and other such obligations in an amount aggregating not more than twice the amount of its capital. Payment of the net amount due a depositor in a closed member bank which has subscribed to the stock of the corporation is to be made by the corporation up to 100 percent where the net amount of the deposit does not exceed $10,000. If the net amount of the deposit exceeds $10,000 but does not exceed $50,000, the corporation is to pay 75 percent of the amount of the deposit between these two limits, and if the net amount of the deposit exceeds $50,000, the corporation is to pay 50 percent of such excess.

6. *Emergency relief.*—One provision of the bill as first prepared which was suggested as an additional means of strengthening and rendering useful the provisions of the Federal Reserve System and of furnishing emergency relief to banks in difficult straits, has already been enacted into law (see Public, No. 44, 72d Cong.). The general plan recommended in this provision was founded upon the idea of joint action by clearing houses or groups of banks in different localities for the purpose of getting accommodation on their joint unsecured notes at the Federal Reserve banks up to such amount as might be held prudent; likewise, in exigent cases, relief was provided for individual banks. Such emergency credit should be retired as soon as possible, and therefore it seemed best to provide severe restrictions upon its use and duration.

TERMS OF BILL RECOMMENDED

Having thus outlined in general broad terms the main objects of the new legislation, although without endeavoring to do more than suggest the major features of the enactment, we think it best to review the actual provisions of the accompanying measure point by point in order to indicate the precise content of the various sections and their main provisions:

Section 1.—Provides a short title for use in citation, for convenience in discussion, and for certainty of reference.

Section 2.—Defines the language used in the bill and undertakes to make the meaning definite.

Section 3.—Places general restrictions upon the operating policy of Federal Reserve banks with the intent to limit them to the extension of credit for ordinary business purposes and to make plain that their resources are not to be used to support speculation. The Reserve Board is given power to oversee and direct such use of the resources of banks.

This section also provides that where two or more member banks are affiliated with the same holding company, they may participate in the nomination and election of directors of the Federal Reserve bank in their district through one of the banks to be designated for that purpose by the holding company.

Section 4.—Amends the first paragraph of section 7 of the Federal Reserve Act so as to eliminate the requirement of the payment of a franchise tax to the United States by Federal Reserve banks.

Section 5.—Amends section 9 of the Federal Reserve Act so as to extend the privileges of membership in the system to Morris Plan banks and other incorporated banking institutions engaged in similar business, and to mutual savings banks having no capital stock and any other banking institutions the capital of which consists of segregated weekly or other time deposits.

Provision is also made for reports of condition of affiliates of State member banks and for the examination of all such affiliates by examiners selected or approved by the Federal Reserve Board.

The section also subjects State member banks to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks. (See sec. 16).

It is also provided that after three years from the date of enactment of the bill no certificate representing the stock of a State member

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bank shall represent the stock of any other corporation except a member bank or an existing corporation engaged solely in holding the bank premises of the bank, nor be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a stock certificate of any other corporation except a member bank. This corresponds to the provision in section 18 which is applicable to national banks.

Section 6.—Readjusts the term of members of the Federal Reserve Board so as to secure as nearly as possible the expiration of terms of members at equal 2-year intervals; and leaves to the Board the determination of its own internal management policies.

Section 7.—Confers upon the Federal Reserve Board the power to fix from time to time the percentage of individual member bank capital and surplus which may be represented by loans secured by stock or bond collateral.

Section 8.—Adds a new section 12A to the Federal Reserve Act providing for the creation of a Federal open-market committee of 12 members to supervise the open-market operations of the Federal Reserve banks and the relations of the Federal Reserve System with foreign banks, in accordance with regulations adopted by the Federal Reserve Board. This in effect legalizes and gives official recognition to the present open-market committee.

This section also adds to the Federal Reserve Act a new section, 12B, providing for a Federal bank deposit insurance corporation which is to insure, on and after July 1, 1934, the time and demand deposits of all member banks and of all banks which have applied for membership in the system whose applications have not been acted upon. The insurance is to extend to 100 percent of the first $10,000 of the individual deposit, 75 percent of the next $40,000, and 50 percent of the amount in excess of $50,000; and provision is made for the expeditious payment of the insurance and the winding up of the affairs of closed banks. The management of the corporation is vested in a board of five directors consisting of the Comptroller of the Currency, a member of the Federal Reserve Board, and three persons chosen annually by the governors of the 12 Reserve banks. The capitalization of the corporation has already been referred to. (See p. 12.)

Section 9.—Imposes certain limitations upon advances by Federal Reserve banks to member banks on their 15-day promissory notes. It is provided that if, during the life of any such advance and despite an official warning of the Federal Reserve bank or the Federal Reserve Board to the contrary, any member bank increases its outstanding loans made to members of any organized stock exchange, investment house, or dealer in securities for the purpose of purchasing or carrying stocks, bonds, or other investment securities (except obligations of the United States) the advance to the member bank shall be immediately due and payable and the bank shall be ineligible as a borrower on 15-day paper for such period as the Federal Reserve Board shall determine.

The section also repeals the provisions of existing law which empower a national banking association located in a place having a population of not more than 5,000 inhabitants to act as the agent of an insurance company.

Section 10.—Gives the Federal Reserve Board power to supervise all relations and transactions of any kind entered into by Federal Reserve banks with foreign banks or bankers.

Section 11.—Prohibits member banks from acting as the medium or the agent of any nonbanking corporation, partnership, association, business trust, or individual in making loans on the security of stocks, bonds, and other investment securities to brokers or dealers in such securities.

The section also prohibits the payment by any member bank of interest on demand deposits, and gives the Federal Reserve Board the power to regulate the rate of interest which may be paid by member banks on time deposits. It also amends the law relating to postal savings depositories so as to provide that all deposits in such depositories shall be for a period of not less than 60 days, and that no such deposits may be withdrawn prior to the expiration of such 60-day period.

Section 12.—Prohibits any executive officer of a member bank from borrowing from the bank of which he is such officer, prohibits member banks from making loans to their executive officers, and provides for the making of a written report by any executive officer of a member bank of the amount in which he may be indebted to any other member bank. Penalties are provided for the violation of any of the provisions of this section.

Section 13.—Imposes certain limitations upon loans or extensions of credit by member banks to their affiliates and also limits the amount which such banks may invest in the securities of such affiliates. In general, the maximum limit is 10 percent of the capital stock and surplus of the member bank in the case of any one affiliate and 20 percent of the capital stock and surplus in the case of all such affiliates. It is also required that each such loan or extension of credit be secured by collateral having a market value of at least 20 percent more than the amount of the loan or extension or at least 10 percent more than the amount of the loan or extension if it is secured by obligations of any State or political subdivision of a State. The provisions do not apply, however, to loans or extensions of credit secured by obligations of the United States, the Federal intermediate credit banks, the Federal land banks, or by paper eligible for rediscount or purchase by Federal Reserve banks. Certain types of affiliates are also exempted from the application of the provisions of this section.

Section 14.—Adds a new section 24A to the Federal Reserve Act which imposes a maximum limit upon the amounts which national banks and State member banks may invest in bank premises or in the stock, bonds, debentures, or other such obligations of a corporation holding the premises of any such bank, and the amounts which such banks may lend to any such corporation.

Section 15.—Provides that all suits of a civil nature to which any corporation organized under the laws of the United States shall be a party, arising out of transactions involving international or foreign banking, shall be deemed to arise under the laws of the United States, and the district courts of the United States are given original jurisdiction of all such suits. It is also provided that a defendant in any such suit may at any time before the trial thereof remove the suit from a State court to a Federal district court in the same manner as now provided by law for the removal of other suits.

The section also makes the same provisions with respect to jurisdiction over all suits of a civil nature to which any Federal Reserve

bank shall be a party. It also prohibits the issuance of attachment or execution against any Federal Reserve bank or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court.

Section 16.—Undertakes to broaden the national banking laws by giving national banks all powers possessed by State banks of deposit and discount organized in the States in which such national banks are located, except in so far as they may be prohibited by Federal legislation. National banks are to be permitted to purchase and sell investment securities for their customers to the same extent as heretofore, but hereafter they are to be authorized to purchase and sell such securities for their own account only under such limitations and restriction as the Comptroller of the Currency may prescribe, subject to certain definite maximum limits as to amount. The limitations as to dealing in investment securities are not to take effect until two years after the approval of the act.

Section 17.—Provides for the amount of capital of national banks depending upon the population of the places where they are to be located and also prohibits the admission of a bank into the Federal Reserve System unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national bank.

Section 18.—Provides for separating the certificates representing ownership in national banks and ownership in affiliates other than member banks or existing corporations engaged solely in holding the bank premises of the affiliated national bank so that in the future they will not be written upon a single certificate of ownership. This corresponds to the provision contained in section 5 which is applicable to State member banks.

Section 19.—Provides for cumulative voting of shares of national-bank stock in the election of directors and for the voting of national-bank stock held by holding companies under voting permits obtained from the Federal Reserve Board. Certain limitations are imposed upon such holding companies which they must agree to comply with at the time the voting permits are obtained. These limitations relate chiefly to examinations, reports of condition, reserve requirements, and ownership and control by holding companies of organizations engaged in the issuance, underwriting, and distribution of securities. These provisions are also made applicable to holding companies affiliated with State member banks. (See sec. 5.)

Section 20.—Provides for eliminating after a period of two years all affiliations by member banks with corporations, associations, business trusts, or other similar organizations engaged principally in the issuance, underwriting, or distribution of securities.

Section 21.—Makes it unlawful after a period of two years (1) for any person or institution engaged principally in the issuance, underwriting, or distribution of securities, to receive deposits; and (2) for any person or institution other than a banking institution or private banker subject to examination and regulation under State or Federal law, to engage in the business of receiving deposits, unless such person or institution shall submit to examination by the Comptroller of the Currency or by Federal Reserve bank officials, and shall make and publish periodical reports of its condition.

Section 22.—Authorizes national banks, subject to the approval of the Comptroller of the Currency, to establish branches at any place

within the limits of the city, town, or village, or at any point within the State in which the national bank is situated, if the establishment and operation are expressly authorized to State banks by the law of the State in question, and subject to restrictions as to location imposed by such law on State banks. No such association is to be permitted, however, to establish a branch outside of the city, town, or village in which it is located unless it has a paid-in and unimpaired capital of not less than $500,000; except that in the case of an association situated in a State with a population of less than 1,000,000 and with no cities of more than 100,000, the required capital shall be $250,000.

Section 23.—Amends the act of November 7, 1918 (relating to the consolidation of national banks), to the extent necessary to carry out the policy provided for in section 21.

The section also amends such act with respect to the property rights and the duties and powers of consolidated national banking institutions.

Section 24.—Limits the interest that may be charged by a national bank to that which may be charged by local banks in the State where the national bank is located, or to a rate 1 percent higher than the discount rate on 90-day commercial paper in effect at the Federal Reserve bank in the district where the national bank is located, whichever is greater. If no rate is fixed by State law, the maximum rate the national bank may charge is limited to 7 percent, or 1 percent in excess of such discount rate, whichever is greater.

Section 25.—Provides that in estimating the total amount of loans which may be made by a national bank to a corporation, the obligations to the bank of all subsidiaries of the corporation in which it owns or controls a majority interest are to be counted but it does not apply to obligations held by a national bank on the effective date of the act.

Section 26.—Provides for reports of condition of all types of affiliates of national banks. This corresponds to the provisions of section 5 which are applicable to affiliates of State member banks.

Section 27.—Relates to the examinations of affiliates of national banks. There is a corresponding provision in section 5 relating to affiliates of State member banks.

Section 28.—Permits the Comptroller of the Currency to authorize a national bank which has been closed to resume business if the depositors and unsecured creditors of the bank representing at least 85 percent of its total deposit and unsecured credit liabilities consent in writing to the retention by the bank of such part of its deposits as the Comptroller deems necessary.

Section 29.—Provides for the removal from office of directors and officers of member banks who have continued to violate the banking laws or who have continued unsafe and unsound banking practices after being warned by a Federal Reserve agent or the Comptroller of the Currency.

Section 30.—Requires every member bank to have a board of directors consisting of not less than five nor more than 25 members, and that every member of the board shall be a bona fide owner of stock of the bank having a par value of at least $2,000.

Section 31.—Provides that no officer or director of a member bank shall be an officer, director, or manager of any institution engaged primarily in the business of purchasing, selling, or negotiating securities, that no member bank shall act as a correspondent bank for any such institution, and that no individual, partnership, corporation, or unincorporated association shall act as correspondent for any member bank unless a permit therefor is issued by the Federal Reserve Board. The issuance and revocation of any such permit rests with the discretion of the Board.

Section 32.—Amends the Clayton Act to provide that no director, officer, or employee of any bank, banking association, or trust company organized or operating under the laws of the United States shall be at the same time a director, officer, or employee of a corporation or a member of a partnership which shall make loans secured by stock or bond collateral.

Section 33.—Permits national banks to hold stock in corporations organized by them for the purpose of liquidating such of their assets as have been ordered liquidated by the Comptroller.

Section 34.—Reserves the right to alter, amend, or repeal the act and provides for separability of its provisions in case any part of the act is held invalid.

The changes which are thus suggested are considered to represent essential matters called for in the interest of immediate improvement of present conditions and the avoidance of financial dangers and there is none of them which can wisely be omitted. All afford solutions that have been indicated by investigators in many quarters as unavoidable and all are thought urgent for the purpose of correcting or eliminating actual hazards.

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73D CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 150

BANKING ACT OF 1933

MAY 19, 1933.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

MR. STEAGALL, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany H.R. 5661]

The Committee on Banking and Currency, to whom was referred the bill (H.R. 5661) to provide for the safer use of the assets of banks, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes, having considered the same, report favorably thereon and recommend that the bill do pass.

STATEMENT

This bill provides for salutary reforms of our banking system and the laws governing it along three important lines.

It makes provision for strengthening the restrictions upon banks and bank officers in the making of loans for speculative purposes and in investing bank funds.

It makes provision for expediting the liquidation of hundreds of banks now in receivership, but providing for the purchase of the good but frozen assets belonging to such receivership, or the lending of funds on such assets as collateral security, so as to enable prompt distribution to the distressed depositors in these closed banks.

We submit the following excerpts from the report of the Senate Committee on Banking and Currency on S. 1631 relating to provisions of that bill which are substantially identical with some of the provisions of the House bill as follows:

Places general restrictions upon the operating policy of Federal Reserve banks with the intent to limit them to the extension of credit for ordinary business purposes and to make plain that their resources are not to be used to support speculation. The Reserve Board is given power to oversee and direct such use of the resources of banks.

This section also provides that where two or more member banks are affiliated with the same holding company, they may participate in the nomination and

election of directors of the Federal Reserve bank in their district through one of the banks to be designated for that purpose by the holding company.

Amends the first paragraph of section 7 of the Federal Reserve Act so as to eliminate the requirement of the payment of a franchise tax to the United States by Federal Reserve banks.

Amends section 9 of the Federal Reserve Act so as to extend the privileges of membership in the system to Morris Plan banks and other incorporated banking institutions engaged in similar business, and to mutual savings banks having no capital stock and any other banking institutions the capital of which consists of segregated weekly or other time deposits.

Provision is also made for reports of condition of affiliates of State member banks and for the examination of all such affiliates by examiners selected or approved by the Federal Reserve Board.

The section also subjects State member banks to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks. (See sec. 16.)

It is also provided that after 3 years from the date of enactment of the bill no certificate representing the stock of a State member bank shall represent the stock of any other corporation except a member bank or an existing corporation engaged solely in holding the bank premises of the bank, nor be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a stock certificate of any other corporation except a member bank. This corresponds to the provision in section 18 which is applicable to national banks.

Readjusts the term of members of the Federal Reserve Board so as to secure as nearly as possible the expiration of terms of members at equal 2-year intervals, and leaves to the Board the determination of its own internal management policies.

Confers upon the Federal Reserve Board the power to fix from time to time the percentage of individual member bank capital and surplus which may be represented by loans secured by stock or bond collateral.

Adds a new section, 12A, to the Federal Reserve Act providing for the creation of a Federal open-market committee of 12 members to supervise the open-market operations of the Federal Reserve banks and the relations of the Federal Reserve System with foreign banks, in accordance with regulations adopted by the Federal Reserve Board. This in effect legalizes and gives official recognition to the present open-market committee.

Imposes certain limitations upon advances by Federal Reserve banks to member banks on their 15-day promissory notes. It is provided that if, during the life of any such advance and despite an official warning of the Federal Reserve bank or the Federal Reserve Board to the contrary, any member bank increases its outstanding loans made to members of any organized stock exchange, investment house, or dealer in securities for the purpose of purchasing or carrying stocks, bonds, or other investment securities (except obligations of the United States) the advance to the member bank shall be immediately due and payable and the bank shall be ineligible as a borrower on 15-day paper for such period as the Federal Reserve Board shall determine.

The section also repeals the provisions of existing law which empower a national banking association located in a place having a population of not more than 5,000 inhabitants to act as the agent of an insurance company.

Gives the Federal Reserve Board power to supervise all relations and transactions of any kind entered into by Federal Reserve banks with foreign banks or bankers.

Prohibits member banks from acting as the medium or the agent of any non-banking corporation, partnership, association, business trust, or individual in making loans on the security of stocks, bonds, and other investment securities to brokers or dealers in such securities.

The section also prohibits the payment by any member bank of interest on demand deposists, and gives the Federal Reserve Board the power to regulate the rate of interest which may be paid by member banks on time deposits. It also amends the law relating to postal savings depositories so as to provide that all deposits in such depositories shall be for a period of not less than 60 days, and that no such deposits may be withdrawn prior to the expiration of such 60-day period.

Prohibits any executive officer of a member bank from borrowing from the bank of which he is such officer, prohibits member banks from making loans to their executive officers, and provides for the making of a written report by any

executive officer of a member bank of the amount in which he may be indebted to any other member bank. Penalties are provided for the violation of any of the provisions of this section.

Imposes certain limitations upon loans or extensions of credit by member banks to their affiliates and also limits the amount which such banks may invest in the securities of such affiliates. In general, the maximum limit is 10 percent of the capital stock and surplus of the member bank in the case of any one affiliate and 20 percent of the capital stock and surplus in the case of all such affiliates. It is also required that each such loan or extension of credit be secured by collateral having a market value of at least 20 percent more than the amount of the loan or extension or at least 10 percent more than the amount of the loan or extension if it is secured by obligations of any State or political subdivision of a State. The provisions do not apply, however, to loans or extensions of credit secured by obligations of the United States, the Federal intermediate credit banks, the Federal land banks, or by paper eligible for rediscount or purchase by Federal Reserve banks. Certain types of affiliates are also exempted from the application of the provisions of this section.

Adds a new section 24A to the Federal Reserve Act which imposes a maximum limit upon the amounts which national banks and State member banks may invest in bank premises or in the stock, bonds, debentures, or other such obligations of a corporation holding the premises of any such bank, and the amounts which such banks may lend to any such corporation.

Provides that all suits of a civil nature to which any corporation organized under the laws of the United States shall be a party, arising out of transactions involving international or foreign banking, shall be deemed to arise under the laws of the United States, and the district courts of the United States are given original jurisdiction of all such suits. It is also provided that a defendant in any such suit may at any time before the trial thereof remove the suit from a State court to a Federal district court in the same manner as now provided by law for the removal of other suits.

The section also makes the same provisions with respect to jurisdiction over all suits of a civil nature to which any Federal Reserve bank shall be a party. It also prohibits the issuance of attachment or execution against any Federal Reserve bank or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court.

Undertakes to broaden the national banking laws by giving national banks all powers possessed by State banks of deposit and discount organized in the States in which such national banks are located, except insofar as they may be prohibited by Federal legislation. National banks are to be permitted to purchase and sell investment securities for their customers to the same extent as heretofore, but hereafter they are to be authorized to purchase and sell such securities for their own account only under such limitations and restriction as the Comptroller of the Currency may prescribe, subject to certain definite maximum limits as to amount. The limitations as to dealing in investment securities are not to take effect until 2 years after the approval of the act.

Provides for the amount of capital of national banks depending upon the population of the places where they are to be located and also prohibits the admission of a bank into the Federal Reserve System unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national bank.

Provides for separating the certificates representing ownership in national banks and ownership in affiliates other than member banks or existing corporations engaged solely in holding the bank premises of the affiliated national bank so that in the future they will not be written upon a single certificate of ownership. This corresponds to the provision contained in section 5 which is applicable to State member banks.

Provides for cumulative voting of shares of national-bank stock in the election of directors and for the voting of national-bank stock held by holding companies under voting permits obtained from the Federal Reserve Board. Certain limitations are imposed upon such holding companies which they must agree to comply with at the time the voting permits are obtained. These limitations relate chiefly to examinations, reports of condition, reserve requirements, and ownership and control by holding companies of organizations engaged in the issuance, underwriting, and distribution of securities. These provisions are also made applicable to holding companies affiliated with State member banks. (See sec. 5.)

Provides for eliminating after a period of 2 years all affiliations by member banks with corporations, associations, business trusts, or other similar organi-

zations engaged principally in the issuance, underwriting, or distribution of securities.

Makes it unlawful after a period of 2 years (1) for any person or institution engaged principally in the issuance, underwriting, or distribution of securities, to receive deposits; and (2) for any person or institution other than a banking institution or private banker subject to examination and regulation under State or Federal law, to engage in the business of receiving deposits, unless such person or institution shall submit to examination by the Comptroller of the Currency or by Federal Reserve bank officials, and shall make and publish periodical reports of its condition.

Authorizes national banks, subject to the approval of the Comptroller of the Currency, to establish branches at any place within the limits of the city, town, or village, or at any point within the State in which the national bank is situated, if the establishment and operation are expressly authorized to State banks by the law of the State in question, and subject to restrictions as to location imposed by such law on State banks. No such association is to be permitted, however, to establish a branch outside of the city, town, or village in which it is located unless it has a paid-in and unimpaired capital of not less than $500,000; except that in the case of an association situated in a State with a population of less than 1,000,000 and with no cities of more than 100,000, the required capital shall be $250,000.

Amends the act of November 7, 1918 (relating to the consolidation of national banks), to the extent necessary to carry out the policy provided for in section 21.

The section also amends such act with respect to the property rights and the duties and powers of consolidated national banking institutions.

Limits the interest that may be charged by a national bank to that which may be charged by local banks in the State where the national bank is located, or to a rate 1 percent higher than the discount rate on 90-day commercial paper in effect at the Federal Reserve bank in the district where the national bank is located, whichever is greater. If no rate is fixed by State law, the maximum rate the national bank may charge is limited to 7 percent, or 1 percent in excess of such discount rate, whichever is greater.

Provides that in estimating the total amount of loans which may be made by a national bank to a corporation, the obligations to the bank of all subsidiaries of the corporation in which it owns or controls a majority interest are to be counted but it does not apply to obligations held by a national bank on the effective date of the act.

Provides for reports of condition of all types of affiliates of national banks. This corresponds to the provisions of section 5 which are applicable to affiliates of State member banks.

Relates to the examinations of affiliates of national banks. There is a corresponding provision in section 5 relating to affiliates of State member banks.

Permits the Comptroller of the Currency to authorize a national bank which has been closed to resume business if the depositors and unsecured creditors of the bank representing at least 85 percent of its total deposit and unsecured credit liabilities consent in writing to the retention by the bank of such part of its deposits as the Comptroller deems necessary.

Provides for the removal from office of directors and officers of member banks who have continued to violate the banking laws or who have continued unsafe and unsound banking practices after being warned by a Federal Reserve agent or the Comptroller of the Currency.

Requires every member bank to have a board of directors consisting of not less than 5 nor more than 25 members, and that every member of the board shall be a bona fide owner of stock of the bank having a par value of at least $2,000.

Provides that no officer or director of a member bank shall be an officer, director, or manager of any institution engaged primarily in the business of purchasing, selling, or negotiating securities, that no member bank shall act as a correspondent bank for any such institution, and that no individual, partnership, corporation, or unincorporated association shall act as correspondent for any member bank unless a permit therefor is issued by the Federal Reserve Board. The issuance and revocation of any such permit rests with the discretion of the Board.

Amends the Clayton Act to provide that no director, officer, or employee of any bank, banking association, or trust company organized or operating under the laws of the United States shall be at the same time a director, officer, or employee of a corporation or a member of a partnership which shall make loans secured by stock or bond collateral.

Permits national banks to hold stock in corporations organized by them for the purpose of liquidating such of their assets as have been ordered liquidated by the comptroller.

Reserves the right to alter, amend, or repeal the act and provides for separability of its provisions in case any part of the act is held invalid.

The changes which are thus suggested are considered to represent essential matters called for in the interest of immediate inprovement of present conditions and the avoidance of financial dangers and there is none of them which can wisely be omitted. All afford solutions that have been indicated by investigators in many quarters as unavoidable and all are thought urgent for the purpose of correcting or eliminating actual hazards.

The bill makes provision for insuring deposits both in national and other member banks and in nonmember State banks, which it is believed will provide absolute indemnity against loss for depositors in banks insured. The bill does not provide that the Government shall guarantee the payment of deposits; but it does provide and require that the banks under Government supervision and regulation shall mutually guarantee the deposits of each other through the medium of a Government controlled instrumentality designed for that purpose; and that the banks shall make such contributions to the insurance fund provided for, from time to time, as may be necessary to provide for the payment of all deposits in banks which may be closed; and that such contributions shall be made by the banks in proportion to the amount of their deposits.

It is submitted that the guarantee of bank deposits against loss provided by this bill is absolute and that no specific guarantee of the Government is necessary to make the protection of the depositors complete.

The bill provides for a Federal Bank Deposit Insurance Corporation which shall insure all deposits of all member banks, and also of all State banks complying with the conditions prescribed to the extent of 100 percent of the first $10,000 of any deposit and 75 percent of the next $50,000 thereof, and 50 percent of the amount of any deposits in excess of $50,000. Provision is made that when a bank is closed the amounts of the deposits insured as herein stated shall be immediately avaliable to the depositors through the medium of a temporary national bank, which shall be created to assume and discharge the insured deposit liabilities of the closed bank.

The Federal Bank Deposit Insurance Corporation provided for in the act is to have a capital stock contributed by the Federal Reserve banks to the extent of one half of their surplus on January 1, 1933, which will amount to about $150,000,000, while each member bank is required to subscribe to stock in the Corporation to the extent of one half of 1 percent of its total deposit liabilities yielding an additional sum of approximately $150,000,000, in addition to which the bill provides that the Government shall prescribe for $150,000,000 of stock in the Corporation, thus providing for approximately $500,000,000 of original capital stock, and further provision is made that the Corporation may issue notes, bonds, debentures, and other similar obligations in an amount aggregating not more than three times the amount of its capital. It is further provided that whenever the net deposit liability of the Corporation, over and above the assets of closed banks, shall equal or exceed one fourth of 1 percent of the deposits of the insured banks, the insured banks shall be assessed and required to subscribe for and pay in an additional amount of stock equal to one fourth of 1 percent of their deposits.

The bill requires that the deposits in all banks which are members of the Federal Reserve System shall be insured under the limitations before stated and provides that any State bank, or trust company not a member of the Federal Reserve System, with the approval of the State authority and after examination by and approval of the Federal Deposit Insurance Corporation, shall be entitled to the privileges of insurance provided for member banks upon agreeing to comply with the law and upon subscribing for the same amount of stock as would be required if such bank or trust company became a member bank; and the bill provides that the board of directors of the Federal Deposit Insurance Corporation whenever in its opinion any such State bank or trust company has failed to comply with the law, or that its continued participation in the insurance privileges of the insurance is detrimental to the safe and economical performance of its duty, may give notice to such State bank or trust company of its findings, and after hearing, be ordered to require withdrawal of such bank or trust company from participation in the benefits of the law.

It is believed that the bill thus makes absolutely safe and adequate provision for the protection of depositors in the thousands of nonmember banks, without facing any undue risk or burden upon the member banks.

There are a large number of nonmember State banks. They are for the most part small institutions, and the aggregate of their deposit liabilities is comparatively small. The risk would be diffused so that the risks assumed in the insurance of their deposits is not large and can be safely assumed in accordance with the provisions of the bill.

Certainly it is not necessary to call attention to the great desirability of protection against loss, to the limit of the ability of the Government to do so, for millions of depositors in these nonmember banks located in every section of the country, and providing indispensable banking accommodations and facilities for their communities. The demand for this great reform has become Nation-wide and has the support of an overwhelming majority of the bankers themselves. There can be no resumption of normal banking without such legislation. Experts advise us that more than 90 percent of the business of the Nation is conducted with bank credit, or check currency. The use of bank credit has declined to the vanishing point. The public is afraid to deposit their money in the banks, and the banks are afraid to employ their deposits in the extension of bank credit for the support of trade and commerce. Business men and investors are victimized by the same fear. The result is curtailment of business, decline in values, idleness, unemployment, bread lines, national depression, and distress. We must resume the use of bank credit if we are to find our way out of our present difficulties

This point could not be more clearly, or forcefully stated than it was by Dr. Thomas Nixon Carver, professor of political economy at Harvard University, who in the press of April 23, 1933, said:

> Credit will not expand again until confidence is restored. Confidence will not return until people believe that their money is safe when in a bank or when invested. They will not have confidence in banks until the Government guarantees bank deposits. That is a drastic measure, but nothing short of that will do.

The bill submitted does not go so far as advocated by this great economist. The measure provides a mutual insurance plan for

banks. Dr. Carver together with practically all leading economists of the country agree that we must have some form for the protection of deposits.

Along the same lines about a year ago on March 30, 1932, Prof. Irving Fisher, professor of economics at Yale University, testifying before the House Banking and Currency Committee, said:

I have never until last month made any study of guaranteeing bank deposits. Nevertheless, I have reached a very definite decision, and that is that—especially at this juncture—we need just such legislation.

* * * * * * *

As I diagnose the present situation, and I have been writing a book on the depression, and I think I am right, the real kink or trouble today is just what this bill aims to eliminate, and next to stabilization legislation it seems to me to be the most constructive legislation before Congress today, and with respect to the present emergency it is even more important than stabilization legislation. If you really could convince people that the member banks were safe, hoarding would stop overnight, and hoarding, once really stopped, that if, if the hoarded money were put back into banks, it would soon go on its way, to be multiplied by 10.

* * * * * * *

In conclusion, let me say that I believe it is inevitable that our banking system must be thoroughly overhauled and made safer, and that to this end a guaranty system is of prime importance to help us out of this depression, which I believe it will do very speedily, and for the permanent interests of industry, commerce, and agriculture.

Now is the time of all times for this great reform.

In conformity with 2a of rule XIII of the House Rules, there is herewith printed in full the several statutes or parts thereof proposed to be amended showing by black brackets the omissions proposed to be made and showing in italics the new matter or insertions proposed to be made, as follows:

[Sec. 4. Federal Reserve Act, U.S.C., title 12, sec. 301]

Eighth. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal Reserve bank.

But no Federal Reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this act.

Every Federal Reserve bank shall be conducted under the supervision and control of a board of directors.

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Said board *of directors* shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and [shall] *may*, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks, *the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture. The Federal Reserve Board may prescribe regulations further defining within the limitations of this act the conditions under which discounts, advancements, and accommodations may be extended to member banks. Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments*

of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information. The chairman of the Federal reserve bank shall report to the Federal Reserve Board any such undue use of bank credit by any member bank, together with his recommendation. Whenever, in the judgment of the Federal Reserve Board, any member bank is making such undue use of bank credit, the Board may, in its discretion, after reasonable notice and an opportunity for a hearing, suspend such bank from the use of the credit facilities of the Federal Reserve System and may terminate such suspension or may renew it from time to time.

[Par. 1 of sec. 7]

After all necessary expenses of a Federal Reserve bank *shall* have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims [shall] have been fully met, the net earnings shall be paid [to the United States as a franchise tax except that the whole of such net earnings, including those for the year ending December 31, 1918, shall be paid into a surplus fund until it shall amount to 100 per centum of the subscribe dcapital stock of such bank, and that thereafter 10 per centum of such net earnings shall be paid into the surplus.] *into the surplus fund of the Federal Reserve bank.*

SEC. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, *including Morris Plan banks and other incorporated banking institutions engaged in similar business,* desiring to become a member of the Federal Reserve System, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal Reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to the provisions of this act and to such conditions as it may prescribe pursuant thereto may permit the applying bank to become a stockholder of such Federal Reserve bank.

Any such State bank which, at the date of the approval of this act, has established and is operating a branch or branches in conformity with the State law, may retain and operate the same while remaining or upon becoming a stockholder of such Federal Reserve bank; but no such State bank may retain or acquire stock in a Federal Reserve bank except upon relinquishment of any branch or branches established after the date of the approval of this act beyond the limits of the city, town, or village in which the parent bank is situated: *Provided, however, That nothing herein contained shall prevent any State member bank from establishing and operating branches in the United States or any dependency or insular possession thereof or in any foreign country, on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks.*

In acting upon such application the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this act.

Whenever the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal Reserve bank of the district its stock subscription shall be payable on call of the Federal Reserve Board, and stock issued to it shall be held subject to the provisions of this act.

All banks admitted to membership under authority of this section shall be required to comply with the reserve and capital requirements of this act and to conform to those provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, which relate to the withdrawal or impairment of their capital stock, and which relates to the payment of unearned dividends. Such banks and the officers, agents, and employees thereof shall also be subject to the provisions of and to the penalties prescribed by section fifty-two hundred and nine of the Revised Statutes and shall be required to make reports of condition and of the payment of dividends to the Federal Reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal Reserve bank on dates to be fixed by the Federal Reserve Board. Failure to make such

reports within ten days after the date they are called for shall subject the offending bank to a penalty of $100 a day for each day that it fails to transmit such report; such penalty to be collected by the Federal Reserve bank by suit or otherwise.

As a condition of membership such banks shall likewise be subject to examinations made by direction of the Federal Reserve Board or of the Federal Reserve bank by examiners selected or approved by the Federal Reserve Board.

Whenever the directors of the Federal Reserve bank shall approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board: *Provided, however,* That when it deems it necessary the Board may order special examinations by examiners of its own selection and shall in all cases approve the form of the report. The expenses of all examinations, other than those made by State authorities, may, in the discretion of the Federal Reserve Board, be assessed against the banks examined and, when so assessed, shall be paid by the banks examined. Copies of the reports of such examinations may, in the discretion of the Federal Reserve Board, be furnished to the State authorities having supervision of such banks, to officers, directors, or receivers of such banks, and to any other proper persons.

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 section or the regulations of the Federal Reserve Board made pursuant thereto, or has ceased to exercise banking functions without a receiver or liquidating agent having been appointed therefor, it shall be within the power of the Board after hearing to require such bank to surrender its stock in the Federal Reserve bank and to forfeit all rights and privileges of membership. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

Any State bank or trust company desiring to withdraw from membership in a Federal Reserve bank may do so, after six months' written notice shall have been filed with the Federal Reserve Board, upon the surrender and cancelation of all of its holdings of capital stock in the Federal Reserve bank: *Provided,* That the Federal Reserve Board, in its discretion and subject to such conditions as it may prescribe, may waive such six months' notice in individual cases and may permit any such State bank or trust company to withdraw from membership in a Federal Reserve bank prior to the expiration of six months from the date of the written notice of its intention to withdraw: *Provided, however,* That no Federal Reserve bank shall, except under express authority of the Federal Reserve Board, cancel within the same calendar year more than 25 per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year. All such applications shall be dealt with in the order in which they are filed with the Board. Whenever a member bank shall surrender its stock holdings in a Federal Reserve bank, or shall be ordered to do so by the Federal Reserve Board, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal reserve bank it shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of 1 per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal Reserve bank.

No applying bank shall be admitted to membership in a Federal Reserve bank unless (a) 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 Bank Act, or (b) it possesses a paid-up, unimpaired capital of at least 60 percent of the amount sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act and under penalty of loss of membership complies with rules and regulations which the Federal Reserve Board shall prescribe fixing the time within which and the method by which the unimpaired capital of such bank shall be increased out of net income to equal the capital which would have been required if such bank had been admitted to membership under the provisions of clause (a) of this paragraph: *Provided,* That every such rule or regulation shall require the applying bank to set aside annually not less than 20 percent of its net income of the preceding year as a fund exclusively applicable to such capital increase.

Banks becoming members of the Federal Reserve System under authority of this section shall be subject to the provisions of this section and to those of this

act which relate specifically to member banks, but shall not be subject to examination under the provisions of the first two paragraphs of section 5240 of the Revised Statutes as amended by section 21 of this act. Subject to the provisions of this act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks: *Provided, however,* That no Federal Reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association. The Federal Reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank.

It shall be unlawful for any officer, clerk, or agent of any bank admitted to membership under authority of this section to certify any check drawn upon such bank unless the person or company drawing the check has on deposit therewith at the time such check is certified an amount of money equal to the amount specified in such check. Any check so certified by duly authorized officers shall be a good and valid obligation against such bank, but the act of any such officer, clerk, or agent in violation of this section may subject such bank to a forfeiture of its membership in the Federal Reserve System upon hearing by the Federal Reserve Board.

All banks or trust companies incorporated by special law or organized under the general laws of any State, which are members of the Federal Reserve System, when designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, under such regulations as may be prescribed by the Secretary; and they may also be employed as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public money and financial agents of the Government, as may be required of them. The Secretary of the Treasury shall require of the banks and trust companies thus designated satisfactory security, by the deposit of United States bonds or otherwise, for the safe keeping and prompt payment of the public money deposited with them and for the faithful performance of their duties as financial agents of the Government.

Any mutual savings bank having no capital stock, but having surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the same place, may apply for and be admitted to membership in the Federal Reserve System in the same manner and subject to the same provisions of law as State banks and trust companies, except that such savings bank shall subscribe for capital stock of the Federal Reserve bank in an amount equal to six-tenths of 1 per centum of its total deposit liabilities as shown by the most recent report of examination of such savings bank preceding its admission to membership. Thereafter such subscription shall be adjusted semiannually on the same percentage basis in accordance with rules and regulations prescribed by the Federal Reserve Board. If any mutual savings bank applying for membership is not permitted by the laws under which it was organized to purchase stock in a Federal reserve bank, it shall, upon admission to the system, deposit with the Federal reserve bank an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock. Thereafter such deposit shall be adjusted semiannually in the same manner as subscriptions for stock. Such deposit shall be subject to the same conditions with respect to repayment as amounts paid upon subscriptions to capital stock by other member banks and the Federal reserve bank shall pay interest thereon at the same rate as dividends are actually paid on outstanding shares of stock of such Federal reserve bank. If the laws under which such savings bank was organized be amended so as to authorize mutual savings banks to subscribe for Federal reserve bank stock such savings bank shall thereupon subscribe for the appropriate amount of stock in the Federal reserve bank, and the deposit hereinbefore provided for in lieu of payment upon capital stock shall be applied upon such subscription. If the laws under which such savings bank was organized be not amended at the next session of the legislature following the admission of such savings bank to membership so as to authorize mutual savings banks to purchase Federal reserve bank stock, or if such laws be so amended

and such bank fail within six months thereafter to purchase such stock, all of its rights and privileges as a member bank shall be forfeited and its membership in the Federal Reserve System shall be terminated in the manner prescribed elsewhere in this section with respect to State banks and trust companies. Each mutual savings bank shall comply with all the provisions of law applicable to State member banks and trust companies, with the regulations of the Federal Reserve Board and with the conditions of membership prescribed for such savings bank at the time of admission to membership, except as otherwise hereinbefore provided with respect to capital stock.

Each bank admitted to membership under this section shall obtain from each of its affiliates other than member banks and furnish to the Federal reserve bank of its district and to the Federal Reserve Board not less than three reports during each year. Such reports shall be in such form as the Federal Reserve Board may prescribe, shall be verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, and shall disclose the information hereinafter provided for as of dates identical with those fixed by the Federal Reserve Board for reports of the condition of the affiliated member bank. Each such report of an affiliate shall be transmitted as herein provided at the same time as the corresponding report of the affiliated member bank, except that the Federal Reserve Board may, in its discretion, extend such time for good cause shown. Each such report shall contain such information as in the judgment of the Federal Reserve Board shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Board to inform itself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the bank under the same conditions as govern its own condition reports.

Any such affiliated member bank may be required to obtain from any such affiliate such additional reports as in the opinion of its Federal reserve bank or the Federal Reserve Board may be necessary in order to obtain a full and complete knowledge of the condition of the affiliated member bank. Such additional reports shall be transmitted to the Federal reserve bank and the Federal Reserve Board and shall be in such form as the Federal Reserve Board may prescribe.

Any such affiliated member bank which fails to obtain from any of its affiliates and furnish any report provided for by the two preceding paragraphs of this section shall be subject to a penalty of $100 for each day during which such failure continues, which, by direction of the Federal Reserve Board, may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located. For the purposes of this paragraph and the two preceding paragraphs of this section, the term "affiliate" shall include holding company affiliates as well as other affiliates.

State member banks shall be subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks under paragraph "Seventh" of section 5136 of the Revised Statutes, as amended.

After two years from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any State member bank shall represent the stock of any other corporation, except a member bank, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such bank be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank.

Each State member bank affiliated with a holding company affiliate shall obtain from such holding company affiliate, within such time as the Federal Reserve Board shall prescribe, an agreement that such holding company affiliate shall be subject to the same conditions and limitations as are applicable under section 5144 of the Revised Statutes, as amended, in the case of holding company affiliates of national banks. A copy of each such agreement shall be filed with the Federal Reserve Board. Upon the failure of a State member bank affiliated with a holding company affiliate to obtain such an agreement within the time so prescribed, the Federal Reserve Board shall require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section. Whenever the Federal Reserve Board shall have revoked the voting permit of any such holding company affiliate, the Federal Reserve Board may, in its discretion, require any or all State member banks affiliated with such holding company affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section.

In connection with examinations of State member banks, examiners selected or approved by the Federal Reserve Board shall make such examinations of the affairs of all affiliates of such banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations upon the affairs of such

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banks. The expense of examination of affiliates of any State member bank may, in the discretion of the Federal Reserve Board, be assessed against such bank and, when so assessed, shall be paid by such bank. In the event of the refusal to give any information requested in the course of the examination of any such affiliate, or in the event of the refusal to permit such examination, or in the event of the refusal to pay any expense so assessed, the Federal Reserve Board may, in its discretion, require any or all State member banks affiliated with such affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System, as provided in this section.

[Par. 2 of sec. 10]

The Secretary of the Treasury and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. The appointive members of the Federal Reserve Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. [Of the six members thus appointed by the President one shall be designated by the President to serve for two, one for four, one for six, one for eight, and the balance of the members for ten years, and thereafter each member so appointed shall serve for a term of ten years, unless sooner removed for cause by the President.] *Upon the expiration of the term of any appointive member of the Federal Reserve Board in office when this paragraph as amended takes effect, the President shall fix the term of the successor to such member at not to exceed twelve years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one appointive member in any two-year period, and thereafter each appointive member shall hold office for a term of twelve years from the expiration of the term of his predecessor.* Of the six persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be [the] *its* active executive officer. [The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board.] Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

[Par. 4, sec. 10]

[The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board.] *The principal offices of the Board shall be in the District of Columbia. At meetings of the Board the Secretary of the Treasury shall preside as chairman, and, in his absence, the governor shall preside. In the absence of both the Secretary of the Treasury and the governor the vice governor shall preside. In the absence of the Secretary of the Treasury, the governor, and the vice governor the Board shall elect a member to act as chairman pro tempore. The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and may leave on deposit in the Federal Reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees, whose employment, compensation, leave, and expenses shall be governed solely by the provisions of this Act, specific amendments thereof, and rules and regulations of the Board not inconsistent therewith; and funds derived from such assessments shall not be construed to be Government funds or appropriated moneys.* No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank [nor] *or* hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath [to the Secretary of the Treasury] that he has complied with this requirement, *and such certification shall be filed with the secretary of the Board,* whenever a vacancy shall occur, other than by expiration of term, among the six members of the Federal Reserve Board appointed by the President as above provided, a successor shall be appointed by the President, *by and* with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of [the member whose place he is selected to fill] *his predecessor.*

[(m) Upon the affirmative vote of not less than five of its members, the Federal Reserve Board shall have power to permit Federal Reserve banks to discount for any member bank notes, drafts, or bills of exchange bearing the signature or endorsement of any one borrower in excess of the amount permitted by section 9 and section 13 of this Act, but in no case to exceed 20 per centum of the member bank's capital and surplus: *Provided, however,* That all such notes, drafts, or bills of exchange discounted for any member bank in excess of the amount permitted under such sections shall be secured by not less than a like face amount of bonds or notes of the United States issued since April 24, 1917, for which the borrower shall in good faith prior to January 1, 1921, have paid or agreed to pay not less than the full face amount thereof, or certificates of indebtedness of the United States: *Provided further,* That the provisions of this subsection (m) shall not be operative after October 31, 1921.]

(m) Upon the affirmative vote of not less than six of its members the Federal Reserve Board shall have power to fix from time to time for each Federal Reserve district the percentage of individual bank capital and surplus which may be represented by loans secured by stock or bond collateral made by member banks within such district, but no such loan shall be made by any such bank to any person in an amount in excess of 10 per centum of the unimpaired capital and surplus of such bank. Any percentage so fixed by the Federal Reserve Board shall be subject to change from time to time upon ten days' notice, and it shall be the duty of the Board to establish such percentages with a view to preventing the undue use of bank loans for the speculative carrying of securities. The Federal Reserve Board shall have power to direct any member bank to refrain from further increase of its loans secured by stock or bond collateral for any period up to one year under penalty of suspension of all rediscount privileges at Federal Reserve banks.

SEC. 12A. (a) There is hereby created a Federal Open Market Committee (hereinafter referred to as the 'committee'), 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 one member of said committee. The meetings of said committee shall be held at Washington, District of Columbia, at least four times each year, upon the call of the governor of the Federal Reserve Board or at the request of any three members of the committee, and, in the discretion of the Board, may be attended by the members of the Board.

(b) No Federal reserve bank shall engage in open-market operations under section 14 of this Act except in accordance with regulations adopted by the Federal Reserve Board. The Board shall consider, adopt, and transmit to the committee and to the several Federal reserve banks regulations relating to the open-market transactions of such banks and the relations of the Federal Reserve System with foreign central or other foreign banks.

(c) The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

(d) If any Federal reserve bank shall decide not to participate in open-market operations recommended and approved as provided in paragraph (b) hereof, it shall file with the chairman of the committee within thirty days a notice of its decision, and transmit a copy thereof to the Federal Reserve Board.

[Par. 8, sec. 13]

[Any Federal Reserve bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal Reserve banks, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal Reserve banks under the provisions of this Act, or by the deposit or pledge of bonds or notes of the United States.]

Any Federal reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or by the deposit or pledge of debentures or other such obligations of Federal intermediate credit banks which are eligible for purchase by Federal reserve banks under section 13 (a) of this Act; and any Federal reserve bank may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act. All such advances shall be made at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board.

If any member bank to which any such advance has been made shall, during the life or continuance of such advance, and despite an official warning of the reserve bank of the district or of the Federal Reserve Board to the contrary, increase its outstanding loans secured by collateral in the form of stocks, bonds, debentures, or other such obligations, or loans made to members of any organized stock exchange, investment house, or dealer in securities, upon any obligation, note, or bill, secured or unsecured, for the purpose of purchasing and/or carrying stocks, bonds, or other investment securities (except obligations of the United States) such advance shall be deemed immediately due and payable, and such member bank shall be ineligible as a borrower at the reserve bank of the district under the provisions of this paragraph for such period as the Federal Reserve Board shall determine: Provided, That no temporary carrying or clearance loans made solely for the purpose of facilitating the purchase or delivery of securities offered for public subscription shall be included in the loans referred to in this paragraph.

SEC. 14. Any Federal Reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers, and bankers' acceptances and bills of exchange of the kinds and maturities by this act made eligible for rediscount, with or without the endorsement of a member bank.

Every Federal Reserve bank shall have power—

(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal Reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal Reserve banks are authorized to hold;

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal Reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;

(e) To establish accounts with other Federal Reserve banks for exchange purposes and, with the consent or upon the order and direction of the Federal Reserve Board and under regulations to be prescribed by said Board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Federal Reserve Board, to open and maintain banking accounts for such foreign correspondents or agencies. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal Reserve bank, with the consent of or under the order and direction of the Federal Reserve Board, any other Federal Reserve bank may, with the consent and approval of the Federal Reserve Board, be permitted to carry on or conduct, through the Federal Reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the Board;

(f) To purchase and sell in the open market, either from or to domestic banks, firms, corporations, or individuals, acceptances of Federal Intermediate Credit Banks and of National Agricultural Credit Corporations, whenever the Federal Reserve Board shall declare that the public interest so requires.

(g) The Federal Reserve Board shall exercise special supervision over all relationships and transactions of any kind entered into by any Federal reserve bank with any foreign bank or banker, or with any group of foreign banks or bankers, and all such relationships and transactions shall be subject to such regulations, conditions, and limitations as the Board may prescribe. No officer or other representative of any

Federal reserve bank shall conduct negotiations of any kind with the officers or representatives of any foreign bank or banker without first obtaining the permission of the Federal Reserve Board. The Federal Reserve Board shall have the right, in its discretion, to be represented in any conference or negotiations by such repesentative or representatives as the Board may designate. A full report of all conferences or negotiations, and all understandings or agreements arrived at or transactions agreed upon, and all other material facts appertaining to such conferences or negotiations, shall be filed with the Federal Reserve Board in writing by a duly authorized officer of each Federal reserve bank which shall have participated in such conferences or negotiations.

SEC. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.

Every bank, banking association, or trust company which is or which becomes a member of any Federal Reserve bank shall establish and maintain reserve balances with its Federal Reserve bank as follows:

(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however,* That if located in the outlying districts of a reserve city or in territory added to such a city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraph (a) hereof.

(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however,* That if located in the outlying districts of a central reserve city or in territory added to such city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraphs (a) or (b) thereof.

No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal Reserve bank under the provisions of this act, except by permission of the Federal Reserve Board.

No member bank shall act as the medium or agent of any nonbanking corporation, partnership, association, business trust, or individual in making loans on the security of stocks, bonds, and other investment securities to brokers or dealers in stocks, bonds, and other investment securities. Every violation of this provision by any member bank shall be punishable by a fine of not more than $100 per day during the continuance of such violation; and such fine may be collected, by suit or otherwise, by the Federal Reserve bank of the district in which such member bank is located.

The required balance carried by a member bank with a Federal Reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however,* That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

In estimating the balances required by this act, the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with Federal Reserve banks shall be determined.

National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event

take stock, maintain reserves, and be subject to all the other provisions of this act.

The Federal Reserve Board shall from time to time limit by regulation the rate of interest which may be paid by member banks on deposits, and may prescribe different rates for such payment on time and savings deposits having different maturities or subject to different conditions respecting withdrawal or repayment. No member bank shall pay any time deposit before its maturity, or waive any requirement of notice before payment of any savings deposit except as to all saving deposits having the same requirement.

SEC. 22. (a) No member bank and no officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee 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, and may be fined a further sum equal to the money so loaned or gratuity given.

Any examiner or assistant examiner who shall accept a loan or gratuity from any bank examined by him, or from an officer, director, or employee thereof, or who shall steal, or unlawfully take, or unlawfully conceal any money, note, draft, bond, or security or any other property of value in the possession of any member bank or from any safe deposit box in or adjacent to the premises of such bank, shall be deemed guilty of a misdemeanor and shall, upon conviction thereof in any district court of the United States, be imprisoned for not exceeding one year, or fined not more than $5,000, or both, and may be fined a further sum equal to the money so loaned, gratuity given, or property stolen, and shall forever thereafter be disqualified from holding office as a national bank examiner.

(b) No national bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress, or of either House duly authorized. Any bank examiner violating the provisions of this subsection shall be imprisoned not more than one year or fined not more than $5,000, or both.

(c) Except as herein provided, any officer, director, employee, or attorney of a member bank who stipulates for or receives or consents or agrees to receive any fee, commission, gift, or thing of value from any person, firm, or corporation, for procuring or endeavoring to procure for such person, firm, or corporation, or for any other person, firm, or corporation, any loan from or the purchase or discount of any paper, note, draft, check, or bill of exchange by such member bank shall be deemed guilty of a misdemeanor and shall be imprisoned not more than one year or fined not more than $5,000, or both.

(d) Any member bank may contract for, or purchase from, any of its directors or from any firm of which any of its directors is a member, any securities or other property when (and not otherwise) such purchase is made in the regular course of business upon terms not less favorable to the bank than those offered to others or when such purchase is authorized by a majority of the board of directors not interested in the sale of such securities of property, such authority to be evidenced by the affirmative vote or written assent of such directors: *Provided, however*, That when any director, or firm of which any director is a member, acting for or on behalf of others, sells securities or other property to a member bank, the Federal Reserve Board by regulation may, in any or all cases, require a full disclosure to be made, on forms to be prescribed by it, of all commissions or other considerations received, and whenever such director or firm, acting in his or its own behalf, sells securities or other property to the bank the Federal Reserve Board by regulation, may require a full disclosure of all profit realized from such sale.

Any member bank may sell securities or other property to any of its directors, or to a firm of which any of its directors is a member, in the regular course of business on terms not more favorable to such director or firm than those offered to others, or when such sale is authorized by a majority of the board of directors of a member bank to be evidenced by their affirmative vote or written assent: *Provided, however*, That nothing in this subsection contained shall be construed as authorizing member banks to purchase or sell securities or other property which such banks are not otherwise authorized by law to purchase or sell.

(e) No member bank shall pay to any director, officer, attorney, or employee a greater rate of interest on the deposits of such director, officer, attorney, or employee than that paid to other depositors on similar deposits with such member bank.

(f) If the directors or officers of any member bank shall knowingly violate or permit any of the agents, officers, or directors of any member bank to violate any of the provisions of this section or regulations of the board made under authority thereof, every director and officer participating in or assenting to such violation shall be held liable in his personal and individual capacity for all damages which the member bank, its shareholders, or any other persons shall have sustained in consequence of such violation.

(g) No executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers: Provided, That loans heretofore made to any such officer may be renewed or extended not more than two years from the effective date of this title, if in accord with sound banking practice. If any executive officer of any member bank borrow from or if he be or become indebted to any bank other than a member bank of which he is an executive officer, he shall make a written report to the chairman of the board of directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor, and the purpose for which the proceeds have been or are to be used. Any executive officer of any member bank violating the provisions of this paragraph shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year, or fined not more than $5,000, or both; and any member bank violating the provisions of this paragraph shall be fined not more than $10,000, and may be fined a further sum equal to the amount so loaned or credit so extended.

SEC. 24A. Hereafter no national bank, without the approval of the Comptroller of the Currency, and no State member bank, without the approval of the Federal Reserve Board, shall (1) invest in bank premises, or in the stock, bonds, debentures, or other such obligations of any corporation holding the premises of such bank or (2) make loans to or upon the security of the stock of any such corporation, if the aggregate of all such investments and loans will exceed the amount of the capital stock of such bank.

SEC. 25. (b) Notwithstanding any other provision of law all suits of a civil nature at common law or in equity to which any corporation organized under the laws of the United States shall be a party, arising out of transactions involving international or foreign banking, or banking in a dependency or insular possession of the United States, or out of other international or foreign financial operations, either directly or through the agency, ownership, or control of branches or local institutions in dependencies or insular possessions of the United States or in foreign countries, shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and any defendant in any such suit may, at any time before the trial thereof, remove such suits from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law.

Notwithstanding any other provision of law, all suits of a civil nature at common law or in equity to which any Federal Reserve bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and any Federal Reserve bank which is a defendant in any such suit may, at any time before the trial thereof, remove such suit from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law. No attachment or execution shall be issued against any Federal Reserve bank or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court.

[Sec. 5136]

Seventh. To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title[:] [*Provided*, That the business of buying and selling investment securities shall hereafter be limited to buying and selling without recourse marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation, in the form of bonds, notes and/or debentures, commonly

known as investment securities, under such further definition of the term "investment securities" as may be regulation be prescribed by the Comptroller of the Currency, and the total amount of such investment securities of any one obligor or maker held by such association shall at no time exceed 25 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund, but this limitation as to total amount shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act: *And provided further*, That in carrying on the business commonly known as the safe deposit business no such association shall invest in the capital stock of a corporation organized under the law of any State to conduct a safe deposit business in an amount in excess of 15 per centum of the capital stock of such association actually paid in and unimpaired and 15 per centum of its unimpaired surplus.

But no association shall transact any business except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the Comptroller of the Currency to commence the business of banking.]*; and generally by engaging in all forms of banking business and undertaking all types of banking transactions that may, by the laws of the State in which such bank is situated, be permitted to banks of deposit and discount organized and incorporated under the laws of such State, except insofar as they may be forbidden by the provisions of any Act of Congress. The business of dealing in investment securities by the association shall be limited to purchasing and selling such securities without recourse, solely upon the order, and for the account of customers, and in no case for its own account, and the association shall not underwrite any issue of securities: Provided, That the association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe, but in no event (1) shall the total amount of any issue of investment securities of any one obligor or maker purchased after this section as amended takes effect and held by the association for its own account exceed at any time 10 per centum of the total amount of such issue outstanding, but this limitation shall not apply to any such issue the total amount of which does not exceed $100,000 and does not exceed 50 per centum of the capital of the association, nor (2) shall the total amount of the investment securities of any one obligor or maker purchased after this section as amended takes effect and held by the association for its own account exceed at any time 15 per centum of the amount of the capital stock of the association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund. As used in this section the term "investment securities" shall mean marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes, and/or debentures commonly known as investment securities under such further definition of the term "investment securities" as may by regulation be prescribed by the Comptroller of the Currency. Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association of any shares of stock of any corporation. The limitations herein contained as to investment securities shall not apply to obligations of the United States, or obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act, as amended, or any other Acts creating Federal corporations: Provided, That in carrying on the business commonly known as the safe-deposit business the association shall not invest in the capital stock of a corporation organized under the law of any State to conduct a safe-deposit business in an amount in excess of 15 per centum of the capital stock of the association actually paid in and unimpaired and 15 per centum of its unimpaired surplus.*

The restrictions of this section as to dealing in investment securities shall take effect two years after the date of the approval of this Act.

SEC. 5188 Revised Statutes. After this section as amended takes effect, no national banking association shall be organized with a less capital than $100,000, except that such associations with a capital of not less than $50,000 may, [with the approval of the Secretary of the Treasury,] be organized in any place the population of which does not exceed six thousand inhabitants. [and except that such associations with a capital of not less than $25,000 may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed three thousand inhabitants.] No such association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than $200,000, except that in the outlying districts of such a city where the State laws permit the organization of State banks with a capital of $100,000 or less, national banking associations now organized or hereafter organized may, with the approval of the Comptroller of the Currency, have a capital of not less than $100,000.

[Par. 10 of sec. 9.]

No applying bank shall be admitted to membership in a Federal Reserve bank unless [(a)] 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 Bank Act, *as amended.* [or (b) it possesses a paid-up, unimpaired capital of at least 60 per centum of the amount sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act and, under penalty of loss of membership complies with rules and regulations which the Federal Reserve Board shall prescribe fixing the time within which and the method by which the unimpaired capital of such bank shall be increased out of net income to equal the capital which would have been required if such bank had been admitted to membership under the provisions of clause (a) of this paragraph: *Provided,* That every such rule or regulation shall require the applying bank to set aside annually not less than 20 per centum of its net income of the preceding year as a fund exclusively applicable to such capital increase.]

SEC. 5139, Revised Statutes. The capital stock of each association shall be divided into shares of $100 each, or into shares of such less amount as may be provided in the articles of association, and be deemed personal property, and transferable on the books of the association in such manner as may be prescribed in the bylaws or articles of association. Every person becoming a shareholder by such transfer shall, in proportion to his shares, succeed to all rights and liabilities of the prior holder of such shares; and no change shall be made in the articles of association by which the rights, remedies, or security of the existing creditors of the association shall be impaired.

After two years from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any such association shall represent the stock of any other corporation, except a member bank, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank.

SEC. 5197, Revised Statutes. Any association may take, receive, reserve, and charge on any loan or discount made, or upon any notes, bill of exchange, or other evidences of debt, interest at the rate allowed by the laws of the State Territory, or District where the bank is located, *whichever may be the greater,* and no more, except that where by the laws of any State a different rate is limited for banks [of issue] organized under State laws, the rate so limited shall be allowed for associations organized or existing in any such State under this title. When no rate is fixed by the laws of the State, or Territory, or District, the bank may take, receive, reserve, or charge a rate not exceeding 7 per centum, *or 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where the bank is located, whichever may be the greater,* and such interest may be taken in advance, reckoning the days for which the note, bill, or other evidence of debt has to run. [And the purchase, discount, or sale of a bona fide bill of exchange, payable at another place than the place of such purchase, discount, or sale, at not more than the current rate of exchange for sight drafts in addition to the interest, shall not be considered as taking or receiving a greater rate of interest.]

SEC. 8. That from and after two years from the date of the approval of this act no person shall at the same time be a director or other officer or employee of more than one bank, banking association, or trust company, organized or operating under the laws of the United States, either of which has deposits, capital, surplus, and undivided profits aggregating more than $5,000,000; and no private banker or person who is a director in any bank or trust company, organized and operating under the laws of a State, having deposits, capital, surplus, and undivided profits aggregating more than $5,000,000, shall be eligible to be a director in any bank or banking association organized or operating under the laws of the United States. The eligibility of a director, officer, or employee under the foregoing provisions shall be determined by the average amount of deposits, capital, surplus, and undivided profits as shown in the official statements of such bank, banking association, or trust company filed as provided by law during the fiscal year next preceding the date set for the annual election of directors, and when a director, officer, or employee has been elected or selected in accordance with the provisions of this act it shall be lawful for him to continue as such for one year thereafter under said election or employment.

No bank, banking association or trust company, organized or operating under the laws of the United States, in any city or incorporated town or village of more than two hundred thousand inhabitants, as shown by the last preceding decennial census of the United States, shall have as a director or other officer or employee

any private banker or any director or other officer or employee of any other bank, banking association or trust company located in the same place: *Provided,* That nothing in this section shall apply to mutual savings banks not having a capital stock represented by shares: *Provided further,* That a director or other officer or employee of such bank, banking association, or trust company may be a director or other officer or employee of not more than one other bank or trust company organized under the laws of the United States or any State where the entire capital stock of one is owned by stockholders in the other: *And provided further,* That nothing in this Act shall prohibit any private banker from being an officer, director, or employee of not more than two banks, banking associations, or trust companies, or prohibit any officer, director, or employee of any bank, banking association, or trust company, or any class A director of a Federal reserve bank, from being an officer, director, or employee of not more than two other banks, banking associations, or trust companies, whether organized under the laws of the United States or any State, if in any such case there is in force a permit therefor issued by the Federal Reserve Board; and the Federal Reserve Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest, and to revoke any such permit whenever it finds, after reasonable notice and opportunity to be heard, that the public interest requires its revocation.

SEC. 8A. That from and after the 1st day of January, 1934, no director, officer, or employee of any bank, banking association, or trust company, organized or operating under the laws of the United States shall be at the same time a director, officer, or employee of a corporation or a member of a partnership organized for any purpose whatsoever which shall make loans secured by stock or bond collateral to any individual, association, partnership, or corporation other than its own subsidiaries.

SEC. 4. The Federal Reserve Board shall classify the member banks of the district into three general groups or divisions, designating each group by number. Each group shall consist as nearly as may be of banks of similar capitalization. Each member bank shall be permitted to nominate to the chairman of the board of directors of the Federal Reserve bank of the district one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each member bank. Each member bank by a resolution of the board or by an amendment to its by-laws shall authorize its president, cashier, or some other officer to cast the vote of the member bank in the elections of class A and class B directors[.]: *Provided, That whenever any two or more member banks within the same Federal Reserve district are affiliated with the same holding company affiliate, participation by such member banks in any such nomination or election shall be confined to one of such banks, which may be designated for the purpose by such holding company affiliate.*

SEC. 23A. No member bank shall (1) make any loan or any extension of credit to, or purchase securities under repurchase agreement from, any of its affiliates, or (2) invest any of its funds in the capital stock, bonds, debentures, or other such obligations of any such affiliate, or (3) accept the capital stock, bonds, debentures, or other such obligations of any such affiliate as collateral security for advances made to any person, partnership, association, or corporation, if, in the case of any such affiliate, the aggregate amount of such loans, extensions of credit, repurchase agreements, investments, and advances against such collateral security will exceed 10 per centum of the capital stock and surplus of such member bank, or if, in the case of all such affiliates, the aggregate amount of such loans, extensions of credits, repurchase agreements, investments, and advances against such collateral security will exceed 20 per centum of the capital stock and surplus of such member bank.

Within the foregoing limitations, each loan or extension of credit of any kind or character to an affiliate shall be secured by collateral in the form of stocks, bonds, debentures, or other such obligations having a market value at the time of making the loan or extension of credit of at least 20 per centum more than the amount of the loan or extension of credit, or of at least 10 per centum more than the amount of the loan or extension of credit if it is secured by obligations of any State, or of any political subdivision or agency thereof: Provided, That the provisions of this paragraph shall not apply to loans or extensions of credit secured by obligations of the United States Government, the Federal intermediate credit banks, or the Federal land banks, or by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal Reserve banks. A loan or extension of credit to a director officer, clerk, or other employee or any representative of any such affiliate shall be deemed a loan to the affiliate to the extent that the proceeds of such loan are used for the benefit of, or transferred to, the affiliate.

For the purposes of this section the term "affiliate" shall include holding company affiliates as well as other affiliates, and the provisions of this section shall not apply

to any affiliate (1) engaged solely in holding the bank premises of the member bank with which it is affiliated, (2) engaged solely in conducting a safe-deposit business or the business of an agricultural credit corporation or livestock loan company, (3) in the capital stock of which a national banking association is authorized to invest pursuant to section 25 of the Federal Reserve Act, as amended, or (4) organized under section 25 (a) of the Federal Reserve Act, as amended; but as to any such affiliate, member banks shall continue to be subject to other provisions of law applicable to loans by such banks and investments by such banks in stocks, bonds, debentures, or other such obligations.

SEC. 5144. In all elections of directors, and in deciding all questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him[.] *; except (1) that shares of its own stock held by a national bank as sole trustee shall not be voted, and shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (2) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted.*

Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such [association] *bank* shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote.

For the purposes of this section shares shall be deemed to be controlled by a holding company affiliate if they are owned or controlled directly or indirectly by such holding company affiliate, or held by any trustee for the benefit of the shareholders or members thereof.

Any such holding company affiliate may make application to the Federal Reserve Board for a voting permit entitling it to cast one vote at all elections of directors and in deciding all questions at meetings of shareholders of such bank on each share of stock controlled by it or authorizing the trustee or trustees holding the stock for its benefit or for the benefit of its shareholders so to vote the same. The Federal Reserve Board may, in its discretion, grant or withhold such permit as the public interest may require. In acting upon such application, the Board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank, but no such permit shall be granted except upon the following conditions:

(a) Every such holding company affiliate shall, in making the application for such permit, agree (1) to receive, on dates identical with those fixed for the examination of banks with which it is affiliated, examiners duly authorized to examine such banks, who shall make such examinations of such holding company affiliate as shall be necessary to disclose fully the relations between such banks and such holding company affiliate and the effect of such relations upon the affairs of such banks, such examinations to be at the expense of the holding company affiliate so examined; (2) that the reports of such examiners shall contain such information as shall be necessary to disclose fully the relations between such affiliate and such banks and the effect of such relations upon the affairs of such banks; (3) that such examiners may examine each bank owned or controlled by the holding company affiliate, both individually and in conjunction with other banks owned or controlled by such holding company affiliate; and (4) that publication of individual or consolidated statements of condition of such banks may be required;

(b) After five years after the enactment of the Banking Act of 1933, every such holding company affiliate (1) shall possess, and shall continue to possess during the life of such permit, free and clear of any lien, pledge, or hypothecation of any nature, readily marketable assets other than bank stock in an amount not less than 12 per centum of the aggregate par value of all bank stocks controlled by such holding company affiliate, which amount shall be increased by not less than 2 per centum per annum of such aggregate par value until such assets shall amount to 25 per centum of the aggregate par value of such bank stocks; and (2) shall reinvest in readily marketable assets other than bank stock all net earnings over and above 6 per centum per annum on the book value of its own shares outstanding until such assets shall amount to such 25 per centum of the aggregate par value of all bank stocks controlled by it;

(c) Notwithstanding the foregoing provisions of this section, after five years after the enactment of the Banking Act of 1933, (1) any such holding company affiliate the shareholders or members of which shall be individually and severally liable in proportion to the number of shares of such holding company affiliate held by them respectively, in addition to amounts invested therein, for all statutory liability imposed on such holding company affiliate by reason of its control of shares of stock of banks, shall be required only to establish and maintain out of net earnings over and above 6 per centum per annum on the book value of its own shares outstanding

a reserve of readily marketable assets in an amount not less than 12 per centum of the aggregate par value of bank stocks controlled by it, and (2) the assets required by this section to be possessed by such holding company affiliate may be used by it for replacement of capital in banks affiliated with it and for losses incurred in such banks, but any deficiency in such assets resulting from such use shall be made up within such period as the Federal Reserve Board may by regulation prescribe;

(d) Every officer, director, agent, and employee of every such holding company affiliate shall be subject to the same penalties for false entries in any book, report, or statement of such holding company affiliate as are applicable to officers, directors, agents, and employees of member banks under section 5209 of the Revised Statutes, as amended; and

(e) Every such holding company affiliate shall, in its application for such voting permit, (1) show that it does not own, control, or have any interest in, and is not participating in the management or direction of, any corporation, business, trust, association, or other similar organization formed for the purpose of, or engaged principally in, the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail or through syndicate participation, of stocks, bonds, debentures, notes, or other securities of any sort (hereinafter referred to as "securities company"); (2) agree that during the period that the permit remains in force it will not acquire any ownership, control, or interest in any such securities company or participate in the management or direction thereof; (3) agree that if, at the time of filing the application for such permit, it owns, controls, or has an interest in, or is participating in the management or direction of, any such securities company, it will, within five years after the filing of such application, divest itself of its ownership, control, and interest in such securities company and will cease participating in the management or direction thereof, and will not thereafter, during the period that the permit remains in force, acquire any further ownership, control, or interest in any such securities company or participate in the management or direction thereof; and (4) agree that thenceforth it will declare dividends only out of actual net earnings.

If at any time it shall appear to the Federal Reserve Board that any holding company affiliate has violated any of the provisions of the Banking Act of 1933 or of any agreement made pursuant to this section, the Federal Reserve Board may, in its discretion, revoke any such voting permit after giving sixty days' notice by registered mail of its intention to the holding company affiliate and affording it an opportunity to be heard. Whenever the Federal Reserve Board shall have revoked any such voting permit, no national bank whose stock is controlled by the holding company affiliate whose permit is so revoked shall receive deposits of public moneys of the United States, nor shall any such national bank pay any further dividend to such holding company affiliate upon any shares of such bank controlled by such holding company affiliate.

Whenever the Federal Reserve Board shall have revoked any voting permit as hereinbefore provided, the rights, privileges, and franchises of any or all national banks the stock of which is controlled by such holding company affiliate shall, in the discretion of the Federal Reserve Board, be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended.

SEC. 5200. Revised Statutes. The total obligations to any national banking association of any person, copartnership, association, or corporation shall at no time exceed 10 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund. The term "obligations" shall mean the direct liability of the maker or acceptor of paper discounted with or sold to such association and the liability of the indorser, drawer, or guarantor who obtains a loan from or discounts paper with or sells paper under his guaranty to such association and shall include in the case of obligations of a copartnership or association the obligations of the several members thereof *and shall include in the case of obligations of a corporations all obligations of all subsidiaries thereof in which such corporation owns or controls a majority interest.*

(b) The amendment made by this section shall not apply to such obligations of subsidiaries held by such association on the date this section takes effect.

SEC. 5211. Every association shall make to the Comptroller of the Currency not less than three reports during each year, according to the form which may be prescribed by him, verified by the oath or affirmation of the president, or of the cashier, or of a vice president, or of an assistant cashier of the association designated by its board of directors to verify such reports in the absence of the president and cashier, taken before a notary public properly authorized and commissioned by the State in which such notary resides and the association is located, or any other officer having an official seal, authorized in such State to administer oaths, and attested by the signature of at least three of the directors. Each such report shall exhibit, in detail and under appropriate heads, the resources and

liabilities of the association at the close of business on any past day by him specified, and shall be transmitted to the Comptroller within five days after the receipt of a request or requisition therefor from him; and the statement of resources and liabilities, together with acknowledgment and attestation in the same form in which it is made to the comptroller, shall be published in a newspaper published in the place where such association is established, or if there is no newspaper in the place, then in the one published nearest thereto in the same county, at the expense of the association; and such proof of publication shall be furnished as may be required by the Comptroller. The Comptroller shall also have power to call for special reports from any particular association whenever in his judgment the same are necessary in order to obtain a full and complete knowledge of its condition.

Each national banking association shall obtain from each of its affiliates other than member banks and furnish to the Comptroller of the Currency not less than three reports during each year, in such form as the Comptroller may prescribe, verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, disclosing the information hereinafter provided for as of dates identical with those for which the Comptroller shall during such year require the reports of the condition of the association. For the purpose of this section the term "affiliate" shall include holding company affiliates as well as other affiliates. Each such report of an affiliate shall be transmitted to the Comptroller at the same time as the corresponding report of the association, except that the Comptroller may, in his discretion, extend such time for good cause shown. Each such report shall contain such information as in the judgment of the Comptroller of the Currency shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Comptroller to inform himself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the association under the same conditions as govern its own condition reports. The Comptroller shall also have power to call for additional reports with respect to any such affiliate whenever in his judgment the same are necessary in order to obtain full and complete knowledge of the conditions of the association with which it is affiliated. Such additional reports shall be transmitted to the Comptroller of the Currency in such form as he may prescribe. Any such affiliated bank which fails to obtain and furnish any report required under this section shall be subject to a penalty of $100 for each day during which such failure continues.

SEC. 5240. The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners, who shall examine every member bank at least twice in each calendar year and oftener if considered necessary: *Provided, however,* That the Federal Reserve Board may authorize examination 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 of State banks or trust companies that are stockholders in any Federal Reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank, and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency[.]*: Provided, That in making the examination of any national bank the examiners shall include such an examination of the affairs of all its affiliates other than member banks as shall be necessary to disclose fully the relations between such bank and such affiliates and the effect of such relations upon the affairs of such bank; and in the event of the refusal to give any information required in the course of the examination of any such affiliate, or in the event of the refusal to permit such examination, all the rights, privileges, and franchises of the bank shall be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended. The Comptroller of the Currency shall have power, and he is hereby authorized, to publish the report of his examination of any national banking association or affiliate which shall not within one hundred and twenty days after notification of the recommendations or suggestions of the Comptroller, based on said examination, have complied with the same to his satisfaction. Ninety days' notice prior to such publicity shall be given to the bank or affiliate.*

The examiner making the examination of any affiliate of a national bank shall have power to make a thorough examination of all the affairs of the affiliate, and in doing so he shall have power to administer oaths and to examine any of the officers, directors, employees, and agents thereof under oath and to make a report of his findings to the Comptroller of the Currency. The expense of examinations of such affiliates may be assessed by the Comptroller of the Currency upon the affiliates examined in proportion to assets or resources held by the affiliates upon the dates of examination

of the various affiliates. If any such affiliate shall refuse to pay such expenses or shall fail to do so within sixty days after the date of such assessment, then such expenses may be assessed against the affiliated national bank and, when so assessed, shall be paid by such national bank: Provided, however, That, if the affiliation is with two or more national banks, such expenses may be assessed against, and collected from, any or all of such national banks in such proportions as the Comptroller of the Currency may prescribe. If any affiliate of a national bank shall refuse to permit an examiner to make an examination of the affiliate or shall refuse to give any information required in the course of any such examination, the national bank with which it is affiliated shall be subject to a penalty of not more than $100 for each day that any such refusal shall continue. Such penalty may be assessed by the Comptroller of the Currency and collected in the same manner as expenses of examinations.

SEC. 9. That Postal Savings funds received under the provisions of this act shall be deposited in solvent banks, whether organized under National or State laws, being subject to National or State supervision and examination, and the sums deposited shall bear interest at the rate of not less than 2¼ per centum per annum, which rate shall be uniform throughout the United States and Territories thereof; but 5 per centum of such funds shall be withdrawn by the board of trustees and kept with the Treasurer of the United States, who shall be treasurer of the board of trustees, in lawful money as a reserve. The board of trustees shall take from such banks such security in public bonds or other securities, supported by the taxing power, as the board may prescribe, approve, and deem sufficient and necessary to insure the safety and prompt payment of such deposits on demand: *Provided, That no such security shall be required in case of such part of the deposits as are insured under this title.*

The funds received at the Postal Savings depository offices in each city, town, village, and other locality shall be deposited in banks located therein (substantially in proportion to the capital and surplus of each such bank) willing to receive such deposits under the terms of this act and the regulations made by authority thereof: *Provided, however,* If one or more member banks of the Federal Reserve System established by the act approved December 23, 1913, exists in the city, town, village, or locality where the Postal Savings deposits are made, such deposits shall be placed in such qualified member banks substantially in proportion to the capital and surplus of each such bank, but if such member banks fail to qualify to receive such deposits, then any other bank located therein may, as hereinbefore provided, qualify and receive the same. If no such member bank and no other qualified bank exists in any city, town, village, or locality, or if none where such deposits are made will receive such deposits on the terms prescribed, then such funds shall be deposited under the terms of this act in the bank most convenient to such locality. If no such bank in any State or Territory is willing to receive such deposits on the terms prescribed, then such funds shall be deposited with the treasurer of the board of trustees and shall be counted in making up the reserve of 5 per centum. Such funds may be withdrawn from the treasurer of said board of trustees, and all other Postal Savings funds, or any part of such funds, may be at any time withdrawn from the banks and savings depository offices for the repayment of Postal Savings depositors when required for that purpose. If at any time the Postal Savings deposits in any State or Territory shall exceed the amount which the qualified banks therein are willing to receive under the terms of this act, and such excess amount is not required to make up the reserve fund of 5 per centum hereinbefore provided for, the board of trustees may invest all or any part of such excess amount in bonds or other securities of the United States. When, in the judgment of the President, the general welfare and interests of the United States so require, the board of trustees may invest all or any part of the Postal Savings funds, except the reserve fund of 5 per centum herein provided for, in bonds or other securities of the United States. The board of trustees may in its discretion purchase from the holders thereof bonds which have been or may be issued under the provisions of section 10 of the act of June 25, 1910. Interest and profit accruing from the deposits or investment of Postal Savings funds shall be applied to the payment of interest due to Postal Savings depositors, as hereinbefore provided, and the excess thereof, if any, shall be covered into the Treasury of the United States as a part of the postal revenue: *Provided further,* That Postal Savings funds in the treasury of said board shall be subject to disposition as provided in this act, and not otherwise: *And provided further,* That the board of trustees may at any time dispose of bonds held as Postal Savings investments and use the proceeds to meet withdrawals of deposits by depositors. For the purposes of this act the word "Territory" as used herein shall be held to include the District of Columbia, the District of Alaska, and Puerto Rico, and the word "bank" shall be held to include savings banks and trust companies doing a banking business.

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73D CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 254

BANKING ACT, 1933

JUNE 12, 1933.—Committed to the Committee of the Whole House and ordered to be printed

Mr. STEAGALL, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H.R. 5661]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 5661) to provide for the safer and more effective use of the assets of banks, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert:

That the short title of this Act shall be the "Banking Act of 1933."

SEC. 2. As used in this Act and in any provision of law amended by this Act—

(a) The terms "banks", "national bank", "national banking association", "member bank", "board", "district", and "reserve bank" shall have the meanings assigned to them in section 1 of the Federal Reserve Act, as amended.

(b) Except where otherwise specifically provided, the term "affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Of which a member bank, directly or indirectly, owns or controls either a majority of the voting shares or more than 50 per centum of the number of shares voted for the election of its directors, trustees, or other persons exercising similar functions at the preceding election, or controls in any manner the election of a majority of its directors, trustees, or other persons exercising similar functions; or

(2) Of which control is held, directly or indirectly, through stock ownership or in any other manner, by the shareholders of a member bank who own or control either a majority of the shares of such bank or more than 50 per centum of the number of shares voted for the election of directors of such bank at the preceding election, or by trustees for the benefit of the shareholders of any such bank; or

(3) Of which a majority of its directors, trustees, or other persons exercising similar functions are directors of any one member bank.

(c) The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election of a majority of the directors of any one bank; or

(2) For the benefit of whose shareholders or members all or substantially all the capital stock of a member bank is held by trustees.

SEC. 3. (a) The fourth paragraph after paragraph "Eighth" of section 4 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 301), is amended to read as follows:

"Said board of directors shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and may, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture. The Federal Reserve Board may prescribe regulations further defining within the limitations of this Act the conditions under which discounts, advancements, and the accommodations may be extended to member banks. Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information. The chairman of the Federal reserve bank shall report to the Federal Reserve Board any such undue use of bank credit by any member bank, together with his recommendation. Whenever, in the judgment of the Federal Reserve Board, any member bank is making such undue use of bank credit, the Board may, in its discretion, after reasonable notice and an opportunity for a hearing, suspend such bank from the use of the credit facilities of the Federal Reserve System and may terminate such suspension or may renew it from time to time."

(b) The paragraph of section 4 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 304), which commences with the words "The Federal Reserve Board shall classify" is amended by inserting before the period at the end thereof a colon and the following: "Provided, That whenever any two or more member banks within the same Federal Reserve district are affiliated with the same holding company affiliate, participation by such member banks in any such nomination or election shall be

confined to one of such banks, which may be designated for the purpose by such holding company affiliate."

SEC. 4. The first paragraph of section 7 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 289), is amended, effective July 1, 1932, to read as follows:

"After all necessary expenses of a Federal Reserve bank shall have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid into the surplus fund of the Federal Reserve bank."

SEC. 5. (a) The first paragraph of section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 321; Supp. VI, title 12, sec. 321), is amended by inserting immediately after the words "United States" a comma and the following: "including Morris Plan banks and other incorporated banking institutions engaged in similar business."

(b) The second paragraph of section 9 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following: "Provided, however, That nothing herein contained shall prevent any State member bank from establishing and operating branches in the United States or any dependency or insular possession thereof or in any foreign country, on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks."

(c) Section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 321–331; Supp. VI, title 12, secs. 321–332), is further amended by adding at the end thereof the following new paragraphs:

"Any mutual savings bank having no capital stock (including any other banking institution the capital of which consists of weekly or other time deposits which are segregated from all other deposits and are regarded as capital stock for the purposes of taxation and the declaration of dividends), but having surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the same place, may apply for and be admitted to membership in the Federal Reserve System in the same manner and subject to the same provisions of law as State banks and trust companies, except that any such savings bank shall subscribe for capital stock of the Federal Reserve bank in an amount equal to six-tenths of 1 per centum of its total deposit liabilities as shown by the most recent report of examination of such savings bank preceding its admission to membership. Thereafter such subscription shall be adjusted semiannually on the same percentage basis in accordance with rules and regulations prescribed by the Federal Reserve Board. If any such mutual savings bank applying for membership is not permitted by the laws under which it was organized to purchase stock in a Federal reserve bank, it shall, upon admission to the system, deposit with the Federal reserve bank an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock. Thereafter such deposit shall be adjusted semiannually in the same manner as subscriptions for stock. Such deposit shall be subject to the same conditions with respect to repayment as amounts paid upon subscriptions to capital stock by other member banks and the Federal reserve bank shall pay interest thereon at the same rate as dividends are actually paid on outstanding shares of stock of such Federal reserve bank. If the laws under which any such savings bank was organized be amended so as to

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authorize mutual savings banks to subscribe for Federal reserve bank stock, such savings bank shall thereupon subscribe for the appropriate amount of stock in the Federal reserve bank, and the deposit hereinbefore provided for in lieu of payment upon capital stock shall be applied upon such subscription. If the laws under which any such savings bank was organized be not amended at the next session of the legislature following the admission of such savings bank to memberhship so as to authorize mutual savings banks to purchase Federal reserve bank stock, or if such laws be so amended and such bank fail within six months thereafter to purchase such stock, all of its rights and privileges as a member bank shall be forfeited and its membership in the Federal Reserve System shall be terminated in the manner prescribed elsewhere in this section with respect to State member banks and trust companies. Each such mutual savings bank shall comply with all the provisions of law applicable to State member banks and trust companies, with the regulations of the Federal Reserve Board and with the conditions of membership prescribed for such savings bank at the time of admission to membership, except as otherwise hereinbefore provided with respect to capital stock.

"Each bank admitted to membership under this section shall obtain from each of its affiliates other than member banks and furnish to the Federal reserve bank of its district and to the Federal Reserve Board not less than three reports during each year. Such reports shall be in such form as the Federal Reserve Board may prescribe, shall be verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, and shall disclose the information hereinafter provided for as of dates identical with those fixed by the Federal Reserve Board for reports of the condition of the affiliated member bank. Each such report of an affiliate shall be transmitted as herein provided at the same time as the corresponding report of the affiliated member bank, except that the Federal Reserve Board may, in its discretion, extend such time for good cause shown. Each such report shall contain such information as in the judgment of the Federal Reserve Board shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Board to inform itself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the bank under the same conditions as govern its own condition reports.

"Any such affiliated member bank may be required to obtain from any such affiliate such additional reports as in the opinion of its Federal reserve bank or the Federal Reserve Board may be necessary in order to obtain a full and complete knowledge of the condition of the affiliated member bank. Such additional reports shall be transmitted to the Federal reserve bank and the Federal Reserve Board and shall be in such form as the Federal Reserve Board may prescribe.

"Any such affiliated member bank which fails to obtain from any of its affiliates and furnish any report provided for by the two preceding paragraphs of this section shall be subject to a penalty of $100 for each day during which such failure continues, which, by direction of the Federal Reserve Board, may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located. For the purposes of this paragraph and the two preceding paragraphs of this section, the term 'affiliate' shall include holding company affiliates as well as other affiliates.

"State member banks shall be subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks under paragraph 'Seventh' of section 5136 of the Revised Statutes, as amended.

"After one year from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any State member bank shall represent the stock of any other corporation, except a member bank or a corporation existing on the date this paragraph takes effect engaged solely in holding the bank premises of such State member bank, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such bank be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank.

"Each State member bank affiliated with a holding company affiliate shall obtain from such holding company affiliate, within such time as the Federal Reserve Board shall prescribe, an agreement that such holding company affiliate shall be subject to the same conditions and limitations as are applicable under section 5144 of the Revised Statutes, as amended, in the case of holding company affiliates of national banks. A copy of each such agreement shall be filed with the Federal Reserve Board. Upon the failure of a State member bank affiliated with a holding company affiliate to obtain such an agreement within the time so prescribed, the Federal Reserve Board shall require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section. Whenever the Federal Reserve Board shall have revoked the voting permit of any such holding company affiliate, the Federal Reserve Board may, in its discretion, require any or all State member banks affiliated with such holding company affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section.

"In connection with examinations of State member banks, examiners selected or approved by the Federal Reserve Board shall make such examinations of the affairs of all affiliates of such banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations upon the affairs of such banks. The expense of examination of affiliates of any State member bank may, in the discretion of the Federal Reserve Board, be assessed against such bank and, when so assessed, shall be paid by such bank. In the event of the refusal to give any information requested in the course of the examination of any such affiliate, or in the event of the refusal to permit such examination, or in the event of the refusal to pay any expense so assessed, the Federal Reserve Board may, in its discretion, require any or all State member banks affiliated with such affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System, as provided in this section."

SEC. 6. (a) The second paragraph of section 10 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 242), is amended to read as follows:

"The Secretary of the Treasury and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member

bank. The appointive members of the Federal Reserve Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Upon the expiration of the term of any appointive member of the Federal Reserve Board in office when this paragraph as amended takes effect, the President shall fix the term of the successor to such member at not to exceed twelve years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one appointive member in any two-year period, and thereafter each appointive member shall hold office for a term of twelve years from the expiration of the term of his predecessor. Of the six persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be its active executive officer. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office."

(b) The fourth paragraph of section 10 of the Federal Reserve Act, as amended (U.S.C., title 12 sec. 244), is amended to read as follows:

"The principal offices of the Board shall be in the District of Columbia. At meetings of the Board the Secretary of the Treasury shall preside as chairman, and, in his absence, the governor shall preside. In the absence of both the Secretary of the Treasury and the governor the vice governor shall preside. In the absence of the Secretary of the Treasury, the governor, and the vice governor the Board shall elect a member to act as chairman pro tempore. The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and may leave on deposit in the Federal Reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees, whose employment, compensation, leave, and expenses shall be governed solely by the provisions of this Act, specific amendments thereof, and rules and regulations of the Board not inconsistent therewith; and funds derived from such assessments shall not be construed to be Government funds or appropriated moneys. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank of hold stock in any bank, banking institution, or trust company; and before entering upon his dutiew as a member of the Federal Reserve Board he shall certify under oath that he has compiled with this requirement, and such certification shall be filed with the secretary of the Board. Whenever a vacancy shall occur, other than by expiration of term, among the six members of the Federal Reserve Board appointed by the President as above provided, a successor shall be appointed by the President, by and with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of his predecessor."

SEC. 7. Paragraph (m) of section 11 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 248), is amended to read as follows:

"(m) Upon the affirmative vote of not less than six of its members the Federal Reserve Board shall have power to fix from time to time for each Federal reserve district the percentage of individual bank capital and surplus which may be represented by loans secured by stock or bond collateral made by member banks within such district, but no such loan

shall be made by any such bank to any person in an amount in excess of 10 per centum of the unimpaired capital and surplus of such bank. Any percentage so fixed by the Federal Reserve Board shall be subject to change from time to time upon ten days' notice, and it shall be the duty of the Board to establish such percentages with a view to preventing the undue use of bank loans for the speculative carrying of securities. The Federal Reserve Board shall have power to direct any member bank to refrain from further increase of its loans secured by stock or bond collateral for any period up to one year under penalty of suspension of all rediscount privileges at Federal reserve banks."

SEC. 8. The Federal Reserve Act, as amended, is amended by inserting between sections 12 and 13 (U.S.C., title 12, secs. 261, 262 and 342), thereof the following new sections:

"SEC. 12A. (a) There is hereby created a Federal Open Market Committee (hereinafter referred to as the 'committee'), 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 one member of said committee. The meetings of said committee shall be held at Washington, District of Columbia, at least four times each year, upon the call of the governor of the Federal Reserve Board or at the request of any three members of the committee, and, in the discretion of the Board, may be attended by the members of the Board.

"(b) No Federal reserve bank shall engage in open-market operations under section 14 of this Act except in accordance with regulations adopted by the Federal Reserve Board. The Board shall consider, adopt, and transmit to the committee and to the several Federal reserve banks regulations relating to the open-market transactions of such banks and the relations of the Federal Reserve System with foreign central or other foreign banks.

"(c) The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

"(d) If any Federal reserve bank shall decide not to participate in open-market operations recommended and approved as provided in paragraph (b) hereof, it shall file with the chairman of the committee within thirty days a notice of its decision, and transmit a copy thereof to the Federal Reserve Board.

"SEC. 12B. (a) There is hereby created a Federal Deposit Insurance Corporation (hereinafter referred to as the 'Corporation'), whose duty it shall be to purchase, hold, and liquidate, as hereinafter provided, the assets of national banks which have been closed by action of the Comptroller of the Currency, or by vote of their directors, and the assets of State member banks which have been closed by action of the appropriate State authorities, or by vote of their directors; and to insure, as hereinafter provided, the deposits of all banks which are entitled to the benefits of insurance under this section.

"(b) The management of the Corporation shall be vested in a board of directors consisting of three members, one of whom shall be the Comptroller of the Currency, and two of whom shall be citizens of the United States to be appointed by the President, by and with the advice and consent of the Senate. One of the appointive members shall be the chairman of the board of directors of the Corporation and not more than two of the

members of such board of directors shall be members of the same political party. Each such appointive member shall hold office for a term of six years and shall receive compensation at the rate of $10,000 per annum, payable monthly out of the funds of the Corporation, but the Comptroller of the Currency shall not receive additional compensation for his services as such member.

(c) There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $150,000,000, which shall be available for payment by the Secretary of the Treasury for capital stock of the Corporation in an equal amount, which shall be subscribed for by him on behalf of the United States. Payments upon such subscription shall be subject to call in whole or in part by the board of directors of the Corporation. Such stock shall be in addition to the amount of capital stock required to be subscribed for by Federal reserve banks and member and nonmember banks as hereinafter provided, and the United States shall be entitled to the payment of dividends on such stock to the same extent as member and nonmember banks are entitled to such payment on the class A stock of the Corporation held by them. Receipts for payments by the United States for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership of the United States.

"(d) The capital stock of the Corporation shall be divided into shares of $100 each. Certificates of stock of the Corporation shall be of two classes—class A and class B. Class A stock shall be held by member and nonmember banks as hereinafter provided and they shall be entitled to payment of dividends out of net earnings at the rate of 6 per centum per annum on the capital stock paid in by them, which dividends shall be cumulative, or to the extent of 30 per centum of such net earnings in any one year, whichever amount shall be the greater, but such stock shall have no vote at meetings of stockholders. Class B stock shall be held by Federal reserve banks only and shall not be entitled to the payment of dividends. Every Federal reserve bank shall subscribe to shares of class B stock in the Corporation to an amount equal to one half of the surplus of such bank on January 1, 1933, and its subscriptions shall be accompanied by a certified check payable to the Corporation in an amount equal to one half of such subscription. The remainder of such subscription shall be subject to call from time to time by the board of directors upon ninety days' notice.

"(e) Every bank which is or which becomes a member of the Federal Reserve System on or before July 1, 1934, shall take all steps necessary to enable it to become a class A stockholder of the Corporation on or before July 1, 1934; and thereafter no State bank or trust company or mutual savings bank shall be admitted to membership in the Federal Reserve System until it becomes a class A stockholder of the Corporation, no national bank in the continental United States shall be granted a certificate by the Comptroller of the Currency authorizing it to commence the business of banking until it becomes a member of the Federal Reserve System and a class A stockholder of the Corporation, and no national bank in the continental United States for which a receiver or conservator has been appointed shall be permitted to resume the transaction of its banking business until it becomes a class A stockholder of the Corporation. Every member bank shall apply to the Corporation for class A stock of the Corporation in an amount equal to one half of 1 per centum of its total deposit liabilities as computed in accordance with regulations

prescribed by the Federal Reserve Board; except that in the case of a member bank organized after the date this section takes effect, the amount of such class A stock applied for by such member bank during the first twelve months after its organization shall equal 5 per centum of its paid-up capital and surplus, and beginning after the expiration of such twelve months' period the amount of such class A stock of such member bank shall be adjusted annually in the same manner as in the case of other member banks. Upon receipt of such application the Corporation shall request the Federal Reserve Board, in the case of a State member bank, or the Comptroller of the Currency, in the case of a national bank, to certify upon the basis of a thorough examination of such bank whether or not the assets of the applying bank are adequate to enable it to meet all of its liabilities to depositors and other creditors as shown by the books of the bank; and the Federal Reserve Board or the Comptroller of the Currency shall make such certification as soon as practicable. If such certification be in the affirmative, the Corporation shall grant such application and the applying bank shall pay one half of its subscription in full and shall thereupon become a class A stockholder of the Corporation: Provided, That no member bank shall be required to make such payment or become a class A stockholder of the Corporation before July 1, 1934. The remainder of such subscription shall be subject to call from time to time by the board of directors of the Corporation. If such certification be in the negative, the Corporation shall deny such application. If any national bank shall not have become a class A stockholder of the Corporation on or before July 1, 1934, the Comptroller of the Currency shall appoint a receiver or conservator therefor in accordance with the provisions of existing law. Except as provided in subsection (g) of this section, if any State member bank shall not have become a class A stockholder of the Corporation on or before July 1, 1934, the Federal Reserve Board shall terminate its membership in the Federal Reserve System in accordance with the provisions of section 9 of this Act.

"(f) Any State bank or trust company or mutual savings bank which applies for membership in the Federal Reserve System or for conversion into a national banking association on or after July 1, 1936, may, with the consent of the Corporation, obtain the benefits of this section, pending action on such application, by subscribing and paying for the same amount of stock of the Corporation as it would be required to subscribe and pay for upon becoming a member bank. Thereupon the provisions of this section applicable to member banks shall be applicable to such State bank or trust company or mutual savings bank to the same extent as if it were already a member bank: Provided, That if the application of such State bank or trust company or mutual savings bank for membership in the Federal Reserve System or for conversion into a national banking association be approved and it shall not complete its membership in the Federal Reserve System or its conversion into a national banking association within a reasonable time, or if such application shall be disapproved, then the amount paid by such State bank or trust company or mutual savings bank on account of its subscription to the capital stock of the Corporation shall be repaid to it and it shall no longer be subject to the provisions or entitled to the privileges of this section.

"(g) If any State bank or trust company or mutual savings bank (referred to in this subsection as 'State bank') which is or which becomes a member of the Federal Reserve System is not permitted by the laws under which it was organized to purchase stock in the Corporation,

it shall apply to the Corporation for admission to the benefits of this section and, if such application be granted after appropriate certification in accordance with this section, it shall deposit with the Corporation an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock of the Corporation. Thereafter such deposit shall be adjusted in the same manner as subscriptions for stock by class A stockholders. Such deposit shall be subject to the same conditions with respect to repayment as amounts paid on subscriptions to class A stock by other member banks and the Corporation shall pay interest thereon at the same rate as dividends are actually paid on outstanding shares of class A stock. As long as such deposit is maintained with the Corporation, such State bank shall, for the purposes of this section, be deemed to be a class A stockholder of the Corporation. If the laws under which such State bank was organized be amended so as to authorize State banks to subscribe for class A stock of the Corporation, such State bank shall within six months thereafter subscribe for an appropriate amount of such class A stock and the deposit hereinafter provided for in lieu of payment upon class A stock shall be applied upon such subscription. If the law under which such State bank was organized be not amended at the next session of the State legislature following the admission of such State bank to the benefits of this section so as to authorize State banks to purchase such class A stock, or, if the law be so amended and such State bank shall fail within six months thereafter to purchase such class A stock, the deposit previously made with the Corporation shall be returned to such State bank and it shall no longer be entitled to the benefits of this section, unless it shall have been closed in the meantime on account of inability to meet the demands of its depositors.

"(h) The amount of the outstanding class A stock of the Corporation held by member banks shall be annually adjusted as hereinafter provided as of the last preceding call date as member banks increase their time and demand deposits or as additional banks become members or subscribe to the stock of the Corporation, and such stock may be decreased in amount as member banks reduce their time and demand deposits or cease to be members. Shares of the capital stock of the Corporation owned by member banks shall not be transferred or hypothecated. When a member bank increases its time and demand deposits it shall, at the beginning of each calendar year, subscribe for an additional amount of capital stock of the Corporation equal to one half of 1 per centum of such increase in deposits. One half of the amount of such additional stock shall be paid for at the time of the subscription therefor, and the balance shall be subject to call by the board of directors of the Corporation. A bank organized on or before the date this section takes effect and admitted to membership in the Federal Reserve System at any time after the organization of the Corporation shall be required to subscribe for an amount of class A capital stock equal to one half of 1 per centum of the time and demand deposits of the applicant bank as of the date of such admission, paying therefor its par value plus one half of 1 per centum a month from the period of the last dividend on the class A stock of the Corporation. When a member bank reduces its time and demand deposits it shall surrender, not later than the 1st day of January thereafter, a proportionate amount of its holdings in the capital stock of the Corporation, and when a member bank voluntarily liquidates it shall surrender all its holdings of the capital stock of the Corporation and be released from its stock subscription not previously called. The

shares so surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Corporation, a sum equal to its cash-paid subscriptions on the shares surrendered and its proportionate share of dividends not to exceed one half of 1 per centum a month, from the period of the last dividend on such stock, less any liability of such member bank to the Corporation.

(i) If any member or nonmember bank shall be declared insolvent, or shall cease to be a member bank (or in the case of a nonmember bank, shall cease to be entitled to the benefits of insurance under this section), the stock held by it in the Corporation shall be canceled, without impairment of the liability of such bank, and all cash-paid subscriptions on such stock, with its proportionate share of dividends not to exceed one half of 1 per centum per month from the period of last dividend on such stock shall be first applied to all debts of the insolvent bank or the receiver thereof to the Corporation, and the balance, if any, shall be paid to the receiver of the insolvent bank.

"(j) Upon the date of enactment of the Banking Act of 1933, the Corporation shall become a body corporate and as such shall have power—

"First. To adopt and use a corporate seal.

"Second. To have succession until dissolved by an Act of Congress.

"Third. To make contracts.

"Fourth. To sue and be sued, complain and defend, in any court of law or equity, State or Federal.

"Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this section, to define their duties, fix their compensation, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. Nothing in this or any other Act shall be construed to prevent the appointment and compensation as an officer or employee of the Corporation of any officer or employee of the United States in any board, commission, independent establishment, or executive department thereof.

"Sixth. To prescribe by its board of directors, bylaws 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 section and such incidental powers as shall be necessary to carry out the powers so granted.

"(k) The board of directors shall administer the affairs of the Corporation fairly and impartially and without discrimination. The board of directors of the Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government. The Corporation with the consent of any Federal reserve bank or of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, and facilities thereof in carrying out the provisions of this section.

"(l) Effective on and after July 1, 1934 (thus affording ample time for examination and preparation), unless the President shall by proclamation fix an earlier date, the Corporation shall insure as hereinafter provided the deposits of all member banks, and on and after such date

and until July 1, 1936, of all nonmember banks, which are class A stockholders of the Corporation. Notwithstanding any other provision of law, whenever any national bank which is a class A stockholder of the Corporation shall have been closed by action of its board of directors or by the Comptroller of the Currency, as the case may be, on account of inability to meet the demands of its depositors, the Comptroller of the Currency shall appoint the Corporation receiver for such bank. As soon as possible thereafter the Corporation shall organize a new national bank to assume the insured deposit liabilities of such closed bank, to receive new deposits and otherwise to perform temporarily the functions provided for it in this paragraph. For the purposes of this subsection, the term 'insured deposit liability' shall mean with respect to the owner of any claim arising out of a deposit liability of such closed bank the following percentages of the net amount due to such owner by such closed bank on account of deposit liabilities: 100 per centum of such net amount not exceeding $10,000; and 75 per centum of the amount, if any, by which such net amount exceeds $10,000 but does not exceed $50,000; and 50 per centum of the amount, if any, by which such net amount exceeds $50,000: Provided, That, in determining the amount due to such owner for the purpose of fixing such percentage, there shall be added together all net amounts due to such owner in the same capacity or the same right, on account of deposits, regardless of whether such deposits be maintained in his name or in the names of others for his benefit. For the purposes of this subsection, the term 'insured deposit liabilities' shall mean the aggregate amount of all such insured deposit liabilities of such closed bank. The Corporation shall determine as expeditiously as possible the net amounts due to depositors of the closed bank and shall make available to the new bank an amount equal to the insured deposit liabilities of such closed bank, whereupon such new bank shall assume the insured deposit liability of such closed bank to each of its depositors, and the Corporation shall be subrogated to all rights against the closed bank of the owners of such deposits and shall be entitled to receive the same dividends from the proceeds of the assets of such closed bank as would have been payable to each such depositor until such dividends shall equal the insured deposit liability to such depositor assumed by the new bank, whereupon all further dividends shall be payable to such depositor. Of the amount thus made available by the Corporation to the new bank, such portion shall be paid to it in cash as may be necessary to enable it to meet immediate cash demands and the remainder shall be credited to it on the books of the Corporation subject to withdrawal on demand and shall bear interest at the rate of 3 per centum per annum until withdrawn. The new bank may, with the approval of the Corporation, accept new deposits, which, together with all amounts made available to the new bank by the Corporation, shall be kept on hand in cash, invested in direct obligations of the United States, or deposited with the Corporation or with a Federal Reserve bank. Such new bank shall maintain on deposit with the Federal Reserve bank of its district the reserves required by law of member banks but shall not be required to subscribe for stock of the Federal Reserve bank until its own capital stock has been subscribed and paid for in the manner hereinafter provided. The articles of association and organization certificate of such new bank may be executed by such representatives of the Corporation as it may designate; the new bank shall not be required to have any directors at the time of its organization, but shall be managed by an

executive officer to be designated by the Corporation; and no capital stock need be paid in by the Corporation; but in other respects such bank shall be organized in accordance with the existing provisions of law relating to the organization of national banks; and, until the requisite amount of capital stock for such bank has been subscribed and paid for in the manner hereinafter provided, such bank shall transact no business except that authorized by this subsection and such business as may be incidental to its organization. When in the judgment of the Corporation it is desirable to do so, the Corporation shall offer capital stock of the new bank for sale on such terms and conditions as the Corporation shall deem advisable, in an amount sufficient in the opinion of the Corporation to make possible the conduct of the business of the new bank on a sound basis, but in no event less than that required by section 5138 of the Revised Statutes, as amended (U.S.C., title 12, sec. 51), for the organization of a national bank in the place where such new bank is located, giving the stockholders of the closed bank the first opportunity to purchase such stock. Upon proof that an adequate amount of capital stock of the new bank has been subscribed and paid for in cash by subscribers satisfactory to the Comptroller of the Currency, he shall issue to such bank a certificate of authority to commence business and thereafter it shall be managed by directors elected by its own shareholders and may exercise all of the powers granted by law to national banking associations. If an adequate amount of capital for such new bank is not subscribed and paid in, the Corporation may offer to transfer its business to any other banking institution in the same place which will take over its assets, assume its liabilities, and pay to the Corporation for such business such amount as the Corporation may deem adequate. Unless the capital stock of the new bank is sold or its assets acquired and its liabilities assumed by another banking institution, in the manner herein prescribed, within two years from the date of its organization, the Corporation shall place the new bank in voluntary liquidation and wind up its affairs. The Corporation shall open on its books a deposit insurance account and, as soon as possible after taking possession of any closed national bank, the Corporation shall make an estimate of the amount which will be available from all sources for application in satisfaction of the portion of the claims of depositors to which it has been subrogated and shall debit to such deposit insurance account the excess, if any, of the amount made available by the Corporation to the new bank for depositors over and above the amount of such estimate. It shall be the duty of the Corporation to realize upon the assets of such closed bank, having due regard to the condition of credit in the district in which such closed bank is located; to enforce the individual liability of the stockholders and directors thereof; and to wind up the affairs of such closed bank in conformity with the provisions of law relating to the liquidation of closed national banks, except as herein otherwise provided, retaining for its own account such portion of the amount realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors and paying to depositors and other creditors the amount available for distribution to them, after deducting therefrom their share of the costs of the liquidation of the closed bank. If the total amount realized by the Corporation on account of its subrogation to the claims of depositors be less than the amount of the estimate hereinabove provided for, the deposit insurance account shall be charged with the deficiency and, if the total amount so realized shall exceed the amount of such estimate, such account

shall be credited with such excess. With respect to such closed national banks, the Corporation shall have all the rights, powers, and privileges now possessed by or hereafter given receivers of insolvent national banks and shall be subject to the obligations and penalties not inconsistent with the provisions of this paragraph to which such receivers are now or may hereafter become subject.

"Whenever any State member bank which is a class A stockholder of the Corporation shall have been closed by action of its board of directors or by the appropriate State authority, as the case may be, on account of inability to meet the demands of its depositors, the Corporation shall accept appointment as receiver thereof, if such appointment be tendered by the appropriate State authority and be authorized or permitted by State law. Thereupon the Corporation shall organize a new national bank, in accordance with the provisions of this subsection, to assume the insured deposit liabilities of such closed State member bank, to receive new deposits and otherwise to perform temporarily the functions provided for in this subsection. Upon satisfactory recognition of the right of the Corporation to receive dividends on the same basis as in the case of a closed national bank under this subsection, such recognition being accorded by State law, by allowance of claims by the appropriate State authority, by assignment of claims by depositors, or by any other effective method, the Corporation shall make available to such new national bank, in the manner prescribed by this subsection, an amount equal to the insured deposit liabilities of such closed State member bank; and the Corporation and such new national bank shall perform all of the functions and duties and shall have all the rights and privileges with respect to such State member bank and the depositors thereof which are prescribed by this subsection with respect to closed national banks holding class A stock in the Corporation: Provided, That the rights of depositors and other creditors of such State member bank shall be determined in accordance with the applicable provisions of State law: And provided further, That, with respect to such State member bank, the Corporation shall possess the powers and privileges provided by State law with respect to a receiver of such State member bank, except insofar as the same are in conflict with the provisions of this subsection.

"Whenever any State member bank which is a class A stockholder of the Corporation shall have been closed by action of its board of directors or by the appropriate State authority, as the case may be, on account of inability to meet the demands of its depositors, and the applicable State law does not permit the appointment of the Corporation as receiver of such bank, the Corporation shall organize a new national bank, in accordance with the provisions of this subsection, to assume the insured deposit liabilities of such closed State member bank, to receive new deposits, and otherwise to perform temporarily the functions provided for in this subsection. Upon satisfactory recognition of the right of the Corporation to receive dividends on the same basis as in the case of a closed national bank under this subsection, such recognition being accorded by State law, by allowance of claims by the appropriate State authority, by assignment of claims by depositors, or by any other effective method, the Corporation shall make available to such new bank, in accordance with the provisions of this subsection, the amount of insured deposit liabilities as to which such recognition has been accorded; and such new bank shall assume such insured deposit liabilities and shall in other respects comply with the provisions of this subsection respect-

ing new banks organized to assume insured deposit liabilities of closed national banks. Insofar as possible in view of the applicable provisions of State law, the Corporation shall proceed with respect to the receiver of such closed bank and with respect to the new bank organized to assume its insured deposit liabilities in the manner prescribed by this subsection with respect to closed national banks and new banks organized to assume their insured deposit liabilities; except that the Corporation shall have none of the powers, duties, or responsibilities of a receiver with respect to the winding up of the affairs of such closed State member Bank. The Corporation, in its discretion, however, may purchase and liquidate any or all of the assets of such bank.

"Whenever the net debit balance of the deposit insurance account of the Corporation shall equal or exceed one fourth of 1 per centum of the total deposit liabilities of all class A stockholders as of the date of the last preceding call report, the Corporation shall levy upon such stockholders an assessment equal to one fourth of 1 per centum of their total deposit liabilities and shall credit the amount collected from such assessment to such deposit insurance account. No bank which is a holder of class A stock shall pay any dividends until all assessments levied upon it by the Corporation shall have been paid in full; and any director or officer of any such bank who participates in the declaration or payment of any such dividend may, upon conviction, be fined not more than $1,000, or imprisoned for not more than one year, or both.

"The term 'receiver' as used in this section shall mean a receiver, liquidating agent, or conservator of a national bank, and a receiver, liquidating agent, conservator, commission, person, or other agency charged by State law with the responsibility and the duty of winding up the affairs of an insolvent State member bank.

"For the purposes of this section only, the term 'national bank' shall include all national banking associations and all banks, banking associations, trust companies, savings banks, and other banking institutions located in the District of Columbia which are members of the Federal Reserve System; and the term 'State member bank' shall include all State banks, banking associations, trust companies, savings banks, and other banking institutions organized under the laws of any State, which are members of the Federal Reserve System.

"In any determination of the insured deposit liabilities of any closed bank or of the total deposit liabilities of any bank which is a holder of class A stock of the Corporation, for the purposes of this section, there shall be excluded the amounts of all deposits of such bank which are payable only at an office thereof located in a foreign country.

"The Corporation may make such rules, regulations, and contracts as it may deem necessary in order to carry out the provisions of this section.

"Money of the Corporation not otherwise employed shall be invested in securities of the Government of the United States, except that for temporary periods, in the discretion of the board of directors, funds of the Corporation may be deposited in any Federal reserve bank or with the Treasurer of the United States. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depositary of public moneys and financial agent of the Government as may be required of it.

"(m) Nothing herein contained shall be construed to prevent the Corporation from making loans to national banks closed by action of the Comptroller of the Currency, or by vote of their directors, or to State member banks closed by action of the appropriate State authorities, or by vote of their directors, or from entering into negotiations to secure the reopening of such banks.

"(n) Receivers or liquidators of member banks which are now or may hereafter become insolvent or suspended shall be entitled to offer the assets of such banks for sale to the Corporation or as security for loans from the Corporation, upon receiving permission from the appropriate State authority in accordance with express provisions of State law in the case of State member banks, or from the Comptroller of the Currency in the case of national banks. The proceeds of every such sale or loan shall be utilized for the same purposes and in the same manner as other funds realized from the liquidation of the assets of such banks. The Comptroller of the Currency may, in his discretion, pay dividends on proved claims at any time after the expiration of the period of advertisement made pursuant to section 5235 of the Revised Statutes (U.S.C., title 12, sec. 193), and no liability shall attach to the Comptroller of the Currency or to the receiver of any national bank by reason of any such payment for failure to pay dividends to a claimant whose claim is not proved at the time of any such payment.

"(o) The Corporation is authorized and empowered to issue and to have outstanding at any one time in an amount aggregating not more than three times the amount of its capital, its notes, debentures, bonds, or other such obligations, to be redeemable at the option of the Corporation before maturity in such manner as may be stipulated in such obligations, and to bear such rate or rates of interest, and to mature at such time or times as may be determined by the Corporation: Provided, That the Corporation may sell on a discount basis short-term obligations payable at maturity without interest. The notes, debentures, bonds, and other such obligations of the Corporation may be secured by assets of the Corporation in such manner as shall be prescribed by its board of directors. Such obligations may be offered for sale at such price or prices as the Corporation may determine.

"(p) All notes, debentures, bonds, or other such obligations issued by the Corporation shall be exempt, both as to principal and interest, from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. The Corporation, including its franchise, its capital, reserves, and surplus, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property of the Corporation shall be subject to State, Territorial, county, municipal or local taxation to the same extent according to its value as other real property is taxed.

"(q) In order that the Corporation may be supplied with such forms of notes, debentures, bonds, or other such obligations as it may need for issuance under this Act, the Secretary of the Treasury is authorized to prepare such forms as shall be suitable and approved by the Corporation, to be held in the Treasury subject to delivery, upon order of the Corporation. The engraved plates, dies, bed pieces, and other material executed in connection therewith shall remain in the custody of the Secretary of the

Treasury. The Corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such notes, debentures, bonds, or other such obligations.

"(r) The Corporation shall annually make a report of its operations to the Congress as soon as practicable after the 1st day of January in each year.

"(s) Whoever, for the purpose of obtaining any loan from the Corporation, or any extension or renewal thereof, or the acceptance, release, or substitution of security therefor, or for the purpose of inducing the Corporation to purchase any assets, or for the purpose of influencing in any way the action of the Corporation under this section, makes any statement, knowing it to be false, or willfully overvalues any security, shall be punished by a fine of not more than $5,000, or by imprisonment for not more than two years, or both.

"(t) Whoever (1) falsely makes, forges, or counterfeits any obligation or coupon, in imitation of or purporting to be an obligation or coupon issued by the Corporation, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited obligation or coupon purporting to have been issued by the Corporation, knowing the same to be false, forged, or counterfeited, or (3) falsely alters any obligation or coupon issued or purporting to have been issued by the Corporation, or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true, any falsely altered or spurious obligation or coupon, issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

"(u) Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged, or otherwise intrusted to it, or (2) with intent to defraud the Corporation or any other body, politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or without being duly authorized draws any order or issues, puts forth, or assigns any note; debenture, bond, or other such obligation, or draft, bill of exchange, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

"(v) No individual, association, partnership, or corporation shall use the words 'Federal Deposit Insurance Corporation', or a combination or any three of these four words, as the name or a part thereof under which he or it shall do business. No individual, association, partnership, or corporation shall advertise or otherwise represent falsely by any device whatsoever that his or its deposit liabilities are insured or in anywise guaranteed by the Federal Deposit Insurance Corporation, or by the Government of the United States, or by any instrumentality thereof; and no class A stockholder of the Federal Deposit Insurance Corporation shall advertise or otherwise represent falsely by any device whatsoever the extent to which or the manner in which its deposit liabilities are insured by the Federal Deposit Insurance Corporation. Every individual, partnership, association, or corporation violating this subsection shall be punished by a fine of not exceeding $1,000, or by imprisonment not exceeding one year, or both.

"(w) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U.S.C., title 18, ch. 5, secs. 202 to 207, inclusive), in so far as applicable, are extended to apply to contracts or agreements with the Corporation under this section, which for the purposes hereof shall be held to include loans, advances, extensions, and renewals thereof, and acceptances, releases, and substitutions of security therefor, purchases or sales of assets, and all contracts and agreements pertaining to the same.

"(x) The Secret Service Division of the Treasury Department is authorized to detect, arrest, and deliver into the custody of the United States marshal having jurisdiction any person committing any of the offenses punishable under this section.

"(y) The Corporation shall open on its books a Temporary Federal Deposit Insurance Fund (hereafter referred to as the 'Fund'), which shall become operative on January 1, 1934, unless the President shall by proclamation fix an earlier date, and it shall be the duty of the Corporation to insure deposits as hereinafter provided until July 1, 1934.

"Each member bank licensed before January 1, 1934, by the Secretary of the Treasury pursuant to the authority vested in him by the Executive order of the President issued March 10, 1933, shall, on or before January 1, 1934, become a member of the Fund; each member bank so licensed after such date, and each State bank trust company or mutual savings bank (referred to in this subsection as 'State bank') which becomes a member of the Federal Reserve System on or after such date, shall, upon being so licensed or so admitted to membership, become a member of the Fund; and any State bank which is not a member of the Federal Reserve System, with the approval of the State authority having supervision of such State bank and certification to the Corporation by such authority that such State bank is in solvent condition, shall, after examination by, and with the approval of, the Corporation, be entitled to become a member of the Fund and to the privileges of this subsection upon agreeing to comply with the requirements thereof and upon paying to the Corporation an amount equal to the amount that would be required of it under this subsection if it were a member bank. The Corporation is authorized to prescribe rules and regulations for the further examination of such State bank, and to fix the compensation of examiners employed to make examinations of State banks.

"Each member of the Fund shall file with the Corporation on or before the date of its admission a certified statement under oath showing, as of the fifteenth day of the month preceding the month in which it was so admitted, the number of its depositors and the total amount of its deposits which are eligible for insurance under this subsection, and shall pay to the Corporation an amount equal to one-half of 1 per centum of the total amount of the deposits so certified. One-half of such payment shall be paid in full at the time of the admission of such member to the Fund, and the remainder of such payment shall be subject to call from time to time by the board of directors of the Corporation. Within a reasonable time fixed by the Corporation each such member shall file a similar statement showing, as of June 15, 1934, the number of its depositors and the total amount of its deposits which are eligible for such insurance and shall pay to the Corporation in the same manner an amount equal to one-half of 1 per centum of the increase, if any, in the total amount of such deposits since the date covered by the statement filed upon its admission to membership in the Fund.

"If at any time prior to July 1, 1934, the Corporation requires additional funds with which to meet its obligations under this subsection, each member of the Fund shall be subject to one additional assessment only in an amount not exceeding the total amount theretofore paid to the Corporation by such member.

"If any member of the Fund shall be closed on or before June 30, 1934, on account of inability to meet its deposit liabilities, the Corporation shall proceed in accordance with the provisions of subsection (l) of this section to pay the insured deposit liabilities of such member; except that the Corporation shall pay not more than $2,500 on account of the net approved claim of the owner of any deposit. The provisions of such subsection (l) relating to State member banks shall be extended for the purposes of this subsection to members of the Fund which are not members of the Federal Reserve System; and the provisions of this subsection shall apply only to deposits of members of the Fund which have been made available since March 10, 1933 for withdrawal in the usual course of the banking business.

"Before July 1, 1934, the Corporation shall make an estimate of the balance, if any, which will remain in the Fund after providing for all liabilities of the Fund, including expenses of operation thereof under this subsection and allowing for anticipated recoveries. The Corporation shall refund such estimated balance, on such basis as the Corporation shall find to be equitable, to the members of the Fund other than those which have been closed prior to July 1, 1934.

"Each State bank which is a member of the Fund, in order to obtain the benefits of this section after July 1, 1934, shall, on or before such date, subscribe and pay for the same amount of class A stock of the Corporation as it would be required to subscribe and pay for upon becoming a member bank, or if such State bank is not permitted by the laws under which it was organized to purchase such stock, it shall deposit with the Corporation an amount equal to the amount it would have been required to pay in on account of a subscription to such stock; and thereafter such State bank shall be entitled to such benefits until July 1, 1936.

"It is not the purpose of this section to discriminate, in any manner, against State nonmember, and in favor of, national or member banks; but the purpose is to provide all banks with the same opportunity to obtain and enjoy the benefits of this title. No bank shall be discriminated against because its capital stock is less than the amount required for eligibility for admission into the Federal Reserve System."

SEC. 9. The eighth paragraph of section 13 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 347; Supp. VI, title 12, sec. 347), is amended to read as follows:

"Any Federal reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or by the deposit or pledge of debentures or other such obligations of Federal intermediate credit banks which are eligible for purchase by Federal reserve banks under section 13 (a) of this Act; and any Federal reserve bank may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act. All such advances shall be made at rates to be established by such Federal reserve

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banks, such rates to be subject to the review and determination of the Federal Reserve Board. If any member bank to which any such advance has been made shall, during the life or continuance of such advance, and despite an official warning of the reserve bank of the district or of the Federal Reserve Board to the contrary, increase its outstanding loans secured by collateral in the form of stocks, bonds, debentures, or other such obligations, or loans made to members of any organized stock exchange, investment house, or dealer in securities, upon any obligation, note, or bill, secured or unsecured, for the purpose of purchasing and/or carrying stocks, bonds, or other investment securities (except obligations of the United States) such advance shall be deemed immediately due and payable, and such member bank shall be ineligible as a borrower at the reserve bank of the district under the provisions of this paragraph for such period as the Federal Reserve Board shall determine: Provided, That no temporary carrying or clearance loans made solely for the purpose of facilitating the purchase or delivery of securities offered for public subscription shall be included in the loans referred to in this paragraph."

SEC. 10. Section 14 of the Federal Reserve Act, as amended (U. S. C., title 12, secs. 353–358), is amended by adding at the end thereof the following new paragraph:

"(g) The Federal Reserve Board shall exercise special supervision over all relationships and transactions of any kind entered into by any Federal reserve bank with any foreign bank or banker, or with any group of foreign banks or bankers, and all such relationships and transactions shall be subject to such regulations, conditions, and limitations as the Board may prescribe. No officer or other representative of any Federal reserve bank shall conduct negotiations of any kind with the officers or representatives of any foreign bank or banker without first obtaining the permission of the Federal Reserve Board. The Federal Reserve Board shall have the right, in its discretion, to be represented in any conference or negotiations by such representative or representatives as the Board may designate. A full report of all conferences or negotiations, and all understandings or agreements arrived at or transactions agreed upon, and all other material facts appertaining to such conferences or negotiations, shall be filed with the Federal Reserve Board in writing by a duly authorized officer of each Federal reserve bank which shall have participated in such conferences or negotiations."

SEC. 11. (a) Section 19 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 142, 374, 461–466; supp. VI, title 12, sec. 462a), is amended by inserting after the sixth paragraph thereof the following new paragraph:

"No member bank shall act as the medium or agent of any nonbanking corporation, partnership, association, business trust, or individual in making loans on the security of stocks, bonds, and other investment securities to brokers or dealers in stocks, bonds, and other investment securities. Every violation of this provision by any member bank shall be punishable by a fine of not more than $100 per day during the continuance of such violation; and such fine may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located."

(b) Such section 19 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof the following new paragraphs:

"No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand:

Provided, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract heretofore entered into in good faith which is in force on the date of the enactment of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: Provided, however, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located in a foreign country, and shall not apply to any deposit made by a mutual savings bank, nor to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, with respect to which payment of interest is required under State law.

"The Federal Reserve Board shall from time to time limit by regulation the rate of interest which may be paid by member banks on time deposits, and may prescribe different rates for such payment on time and savings deposits having different maturities or subject to different conditions respecting withdrawal or repayment or subject to different conditions by reason of different locations. No member bank shall pay any time deposit before its maturity, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement."

(c) Section 8 of the Act entitled "An Act to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof, and for other purposes", approved June 25, 1910, as amended (U.S.C., title 39, sec. 758), is amended by striking out the first sentence thereof and inserting in lieu thereof the following: "Any depositor may withdraw the whole or any part of the funds deposited to his or her credit with the accrued interest only on notice given sixty days in advance and under such regulations as the Postmaster General may prescribe; but withdrawal of any part of such funds may be made upon demand, but no interest shall be paid on any funds so withdrawn except interest accrued to the date of enactment of the Banking Act of 1933: Provided, That Postal Savings depositories may deposit funds in member banks on time under regulations to be prescribed by the Postmaster General."

(d) The second sentence of section 9 of the Act entitled "An Act to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof, and for other purposes", approved June 25, 1910, as amended (U.S.C., title 39, sec. 759), is amended by striking out the period at the end thereof and inserting in lieu thereof a colon and the following: "Provided, That no such security shall be required in case of such part of the deposits as are insured under section 12B of the Federal Reserve Act, as amended."

SEC. 12. Section 22 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 375, 376, 503, 593–595; Supp. VI, title 12, sec. 593), is further amended by adding at the end thereof the following new paragraph:

"(g) No executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers: Provided, That loans heretofore made to any such officer may be renewed or extended not

more than two years from the date this paragraph takes effect, if in accord with sound banking practice. If any executive officer of any member bank borrow from or if he be or become indebted to any bank other than a member bank of which he is an executive officer, he shall make a written report to the chairman of the board of directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor, and the purpose for which the proceeds have been or are to be used. Any executive officer of any member bank violating the provisions of this paragraph shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year, or fined not more than $5,000, or both; and any member bank violating the provisions of this paragraph shall be fined not more than $10,000, and may be fined a further sum equal to the amount so loaned or credit so extended."

SEC. 13. The Federal Reserve Act, as amended, is amended by inserting between sections 23 and 24 thereof (U.S.C., title 12, secs. 64 and 371; Supp. VI, title 12, sec. 371) the following new section:

"SEC. 23A. No member bank shall (1) make any loan or any extension of credit to, or purchase securities under repurchase agreement from, any of its affiliates, or (2) invest any of its funds in the capital stock, bonds, debentures, or other such obligations of any such affiliate, or (3) accept the capital stock, bonds, debentures, or other such obligations of any such affiliate as collateral security for advances made to any person, partnership, association, or corporation, if, in the case of any such affiliate, the aggregate amount of such loans, extensions of credit, repurchase agreements, investments, and advances against such collateral security will exceed 10 per centum of the capital stock and surplus of such member bank, or if, in the case of all such affiliates, the aggregate amount of such loans, extensions of credits, repurchase agreements, investments, and advances against such collateral security will exceed 20 per centum of the capital stock and surplus of such member bank.

"Within the foregoing limitations, each loan or extension of credit of any kind or character to an affiliate shall be secured by collateral in the form of stocks, bonds, debentures, or other such obligations having a market value at the time of making the loan or extension of credit of at least 20 per centum more than the amount of the loan or extension of credit, or of at least 10 per centum more than the amount of the loan or extension of credit if it is secured by obligations of any State, or of any political subdivision or agency thereof: Provided, That the provisions of this paragraph shall not apply to loans or extensions of credit secured by obligations of the United States Government, the Federal intermediate credit banks, the Federal land banks, the Federal Home Loan Banks, of the Home Owners' Loan Corporation, or by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal Reserve banks. A loan or extension of credit to a director officer, clerk, or other employee or any representative of any such affiliate shall be deemed a loan to the affiliate to the extent that the proceeds of such loan are used for the benefit of, or transferred to, the affiliate.

"For the purposes of this section the term 'affiliate' shall include holding company affiliates as well as other affiliates, and the provisions of this section shall not apply to any affiliate (1) engaged solely in holding the bank premises of the member bank with which it is affiliated, (2) engaged solely in conducting a safe-deposit business or the business of

an agricultural credit corporation or livestock loan company, (3) in the capital stock of which a national banking association is authorized to invest pursuant to section 25 of the Federal Reserve Act, as amended, (4) organized under section 25 (a) of the Federal Reserve Act, as amended, or (5) engaged solely in holding obligations of the United States Government, the Federal intermediate credit banks, the Federal land banks, the Federal Home Loan Banks, or the Home Owners' Loan Corporation; but as to any such affiliate, member banks shall continue to be subject to other provisions of law applicable to loans by such banks and investments by such banks in stocks, bonds, debentures, or other such obligations."

SEC. 14. The Federal Reserve Act, as amended, is amended by inserting between section 24 and section 25 thereof (U.S.C., title 12, secs. 371 and 601–605; Supp. VI, title 12, sec. 371) the following new section:

"SEC. 24A. Hereafter no national bank, without the approval of the Comptroller of the Currency, and no State member bank, without the approval of the Federal Reserve Board, shall (1) invest in bank premises, or in the stock, bonds, debentures, or other such obligations of any corporation holding the premises of such bank or (2) make loans to or upon the security of the stock of any such corporation, if the aggregate of all such investments and loans will exceed the amount of the capital stock of such bank."

SEC. 15. The Federal Reserve Act, as amended, is further amended by inserting after section 25 (a) thereof (U.S.C., title 12, sec. 611–631) the following new section:

"SEC. 25. (b) Notwithstanding any other provision of law all suits of a civil nature at common law or in equity to which any corporation under the laws of the United States shall be a party, arising out of transactions involving international or foreign banking, or banking in a dependency or insular possession of the United States, or out of other international or foreign financial operations, either directly or through the agency, ownership, or control of branches or local institutions in dependencies or insular possessions of the United States or in foreign countries, shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and any defendant in any such suit may, at any time before the trial thereof, remove such suits from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law. Such removal shall not cause undue delay in the trial of such case and a case so removed shall have a place on the calendar of the United States court to which it is removed relative to that which it held on the State court from which it was removed.

"Notwithstanding any other provision of law, all suits of a civil nature at common law or in equity to which any Federal Reserve bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and any Federal Reserve bank which is a defendant in any such suit may, at any time before the trial thereof, remove such suit from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law. No attachment or execution shall be issued against any Federal Reserve bank or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court."

SEC. 16. Paragraph "Seventh" of section 5136 of the Revised Statutes, as amended (U.S.C., title 12, sec. 24; supp. VI, title 12, sec. 24), is amended to read as follows:

"Seventh. To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title. The business of dealing in investment securities by the association shall be limited to purchasing and selling such securities without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities: Provided, That the association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe, but in no event (1) shall the total amount of any issue of investment securities of any one obligor or maker purchased after this section as amended takes effect and held by the association for its own account exceed at any time 10 per centum of the total amount of such issue outstanding, but this limitation shall not apply to any such issue the total amount of which does not exceed $100,000 and does not exceed 50 per centum of the capital of the association, nor (2) shall the total amount of the investment securities of any one obligor or maker purchased after this section as amended takes effect and held by the association for its own account exceed at any time 15 per centum of the amount of the capital stock of the association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund. As used in this section the term 'investment securities' shall mean marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes and/or debentures commonly known as investment securities under such further definition of the term 'investment securities' as may by regulation be prescribed by the Comptroller of the Currency. Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association of any shares of stock of any corporation. The limitations and restrictions herein contained as to dealing in, underwriting and purchasing for its own account, investment securities shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act, as amended or issued by the Federal Home Loan Banks or the Home Owners' Loan Corporation: Provided, That in carrying on the business commonly known as the safe-deposit business the association shall not invest in the capital stock of a corporation organized under the law of any State to conduct a safe-deposit business in an amount in excess of 15 per centum of the capital stock of the association actually paid in and unimpaired and 15 per centum of its unimpaired surplus"

The restrictions of this section as to dealing in investment securities shall take effect one year after the date of the approval of this Act.

SEC. 17. (a) Section 5138 of the Revised Statutes, as amended (U.S.C., title 12, sec. 51; Supp. VI, title 12, sec. 51), is amended to read as follows:

"SEC. 5138. After this section as amended takes effect, no national banking association shall be organized with a less capital than $100,000, except that such associations with a capital of not less than $50,000 may be organized in any place the population of which does not exceed six thousand inhabitants. No such association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than $200,000, except that in the outlying districts of such a city where the State laws permit the organization of State banks with a capital of $100,000 or less, national banking associations now organized or hereafter organized may, with the approval of the Comptroller of the Currency, have a capital of not less than $100,000."

(b) The tenth paragraph of section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 329), is amended to read as follows:

"No 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 Bank Act, as amended: Provided, That this paragraph shall not apply to State banks and trust companies organized prior to the date this paragraph as amended takes effect and situated in a place the population of which does not exceed three thousand inhabitants and having a capital of not less than $25,000, nor to any State bank or trust company which is so situated and which, while it is entitled to the benefits of insurance under section 12B of this Act, increases its capital to not less than $25,000."

SEC. 18. Section 5139 of the Revised Statutes, as amended (U.S.C., title 12, sec. 52; Supp. VI, title 12, sec. 52), is amended by adding at the end thereof the following new paragraph:

"After one year from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any such association shall represent the stock of any other corporation, except a member bank or a corporation existing on the date this paragraph takes effect engaged solely in holding the bank premises of such association, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank."

SEC. 19. Section 5144 of the Revised Statutes, as amended (U.S.C., title 12, sec. 61), is amended to read as follows:

"SEC. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit; and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him; except (1) that shares of its own stock held by a national bank as sole trustee shall not be voted, and shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (2) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted. Shareholders may vote by proxies

duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote.

"For the purposes of this section shares shall be deemed to be controlled by a holding company affiliate if they are owned or controlled directly or indirectly by such holding company affiliate, or held by any trustee for the benefit of the shareholders or members thereof.

"Any such holding company affiliate may make application to the Federal Reserve Board for a voting permit entitling it to cast one vote at all elections of directors and in deciding all questions at meetings of shareholders of such bank on each share of stock controlled by it or authorizing the trustee or trustees holding the stock for its benefit or for the benefit of its shareholders so to vote the same. The Federal Reserve Board may, in its discretion, grant or withhold such permit as the public interest may require. In acting upon such application, the Board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank, but no such permit shall be granted except upon the following conditions:

"(a) Every such holding company affiliate shall, in making the application for such permit, agree (1) to receive, on dates identical with those fixed for the examination of banks with which it is affiliated, examiners duly authorized to examine such banks, who shall make such examinations of such holding company affiliate as shall be necessary to disclose fully the relations between such banks and such holding company affiliate and the effect of such relations upon the affairs of such banks, such examinations to be at the expense of the holding company affiliate so examined; (2) that the reports of such examiners shall contain such information as shall be necessary to disclose fully the relations between such affiliate and such banks and the effect of such relations upon the affairs of such banks; (3) that such examiners may examine each bank owned or controlled by the holding company affiliate, both individually and in conjunction with other banks owned or controlled by such holding company affiliate; and (4) that publication of individual or consolidated statements of condition of such banks may be required;

"(b) After five years after the enactment of the Banking Act of 1933, every such holding company affiliate (1) shall possess, and shall continue to possess during the life of such permit, free and clear of any lien, pledge, or hypothecation of any nature, readily marketable assets other than bank stock in an amount not less than 12 per centum of the aggregate par value of all bank stocks controlled by such holding company affiliate, which amount shall be increased by not less than 2 per centum per annum of such aggregate par value until such assets shall amount to 25 per centum of the aggregate par value of such bank stocks; and (2) shall reinvest in readily marketable assets other than bank stock all net earnings over and above 6 per centum per annum on the book value of its own shares outstanding until such assets shall amount to such 25 per centum of the aggregate par value of all bank stocks controlled by it;

"(c) Notwithstanding the foregoing provisions of this section, after five years after the enactment of the Banking Act of 1933, (1) any such holding company affiliate the shareholders or members of which shall be individually and severally liable in proportion to the number of shares of such holding company affiliate held by them respectively, in addition to amounts invested therein, for all statutory liability imposed on such

holding company affiliate by reason of its control of shares of stock of banks, shall be required only to establish and maintain out of net earnings over and above 6 per centum per annum on the book value of its own shares outstanding a reserve of readily marketable assets in an amount of not less than 12 per centum of the aggregate par value of bank stocks controlled by it, and (2) the assets required by this section to be possessed by such holding company affiliate may be used by it for replacement of capital in banks affiliated with it and for losses incurred in such banks, but any deficiency in such assets resulting from such use shall be made up within such period as the Federal Reserve Board may by regulation prescribe;

"(d) Every officer, director, agent, and employee of every such holding company affiliate shall be subject to the same penalties for false entries in any book, report, or statement of such holding company affiliate as are applicable to officers, directors, agents, and employees of member banks under section 5209 of the Revised Statutes, as amended (U.S.C., title 12, sec. 592); and

"(e) Every such holding company affiliate shall, in its application for such voting permit, (1) show that it does not own, control, or have any interest in, and is not participating in the management or direction of, any corporation, business trust, association, or other similar organization formed for the purpose of, or engaged principally in, the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail or through syndicate participation, of stocks, bonds, debentures, notes, or other securities of any sort (hereinafter referred to as 'securities company'); (2) agree that during the period that the permit remains in force it will not acquire any ownership, control, or interest in any such securities company or participate in the management or direction thereof; (3) agree that if, at the time of filing the application for such permit, it owns, controls, or has an interest in, or is participating in the management or direction of, any such securities company, it will, within five years after the filing of such application, divest itself of its ownership, control, and interest in such securities company and will cease participating in the management or direction thereof, and will not thereafter, during the period that the permit remains in force, acquire any further ownership, control, or interest in any such securities company or participate in the management or direction thereof; and (4) agree that thenceforth it will declare dividends only out of actual net earnings.

"If at any time it shall appear to the Federal Reserve Board that any holding company affiliate has violated any of the provisions of the Banking Act of 1933 or of any agreement made pursuant to this section, the Federal Reserve Board may, in its discretion, revoke any such voting permit after giving sixty days' notice by registered mail of its intention to the holding company affiliate and affording it an opportunity to be heard. Whenever the Federal Reserve Board shall have revoked any such voting permit, no national bank whose stock is controlled by the holding company affiliate whose permit is so revoked shall receive deposits of public moneys of the United States, nor shall any such national bank pay any further dividend to such holding company affiliate upon any shares of such bank controlled by such holding company affiliate.

"Whenever the Federal Reserve Board shall have revoked any voting permit as hereinbefore provided, the rights, privileges, and franchises of any or all national banks the stock of which is controlled by such holding company affiliate shall, in the discretion of the Federal Reserve Board,

be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended."

SEC. 20. After one year from the date of the enactment of this Act, no member bank shall be affiliated in any manner described in section 2 (b) hereof with any corporation, association, business trust, or other similar organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities.

For every violation of this section the member bank involved shall be subject to a penalty not exceeding $1,000 per day for each day during which such violation continues. Such penalty may be assessed by the Federal Reserve Board, in its discretion, and, when so assessed, may be collected by the Federal reserve bank by suit or otherwise.

If any such violation shall continue for six calendar months after the member bank shall have been warned by the Federal Reserve Board to discontinue the same, (a) in the case of a national bank, all the rights, privileges, and franchises granted to it under the National Bank Act may be forfeited in the manner prescribed in section 2 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 141, 222–225, 281–286, and 502), or, (b) in the case of a State member bank, all of its rights and privileges of membership in the Federal Reserve System may be forfeited in the manner prescribed in section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 321–332).

SEC. 21. (a) After the expiration of one year after the date of enactment of this Act it shall be unlawful—

(1) For any person, firm, corporation, association, business trust, or other similar organization, engaged in the business of issuing, underwriting, selling, or distributing, at wholesale or retail, or through syndicate participation, stocks, bonds, debentures, notes, or other securities, to engage at the same time to any extent whetever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor; or

(2) For any person, firm, corporation, association, business trust, or other similar organization, other than a financial institution or private banker subject to examination and regulation under State or Federal law, to engage to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor, unless such person, firm, corporation, association, business trust, or other similar organization shall submit to periodic examination by the Comptroller of the Currency or by the Federal Reserve bank of the district and shall make and publish periodic reports of its condition, exhibiting in detail its resources and liabilities, such examination and reports to be made and published at the same times and in the same manner and with like effect and penalties as are now provided by law in respect of national banking associations transacting business in the same locality.

(b) Whoever shall willfully violate any of the provisions of this section shall upon conviction be fined not more than $5,000 or imprisoned not more than five years, or both, and any officer, director, employee, or agent of any person, firm, corporation, association, business trust, or other similar organization who knowingly participates in any such violation shall be punished by a like fine or imprisonment or both.

SEC. 22. The additional liability imposed upon shareholders in national banking associations by the provisions of section 5151 of the Revised Statutes, as amended, and section 23 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 63 and 64), shall not apply with respect to shares in any such association issued after the date of enactment of this Act.

SEC. 23. Paragraph (c) of section 5155 of the Revised Statutes, as amended (U.S.C., title 12, sec. 36), is amended to read as follows:

"(c) A national banking association may, with the approval of the Comptroller of the Currency, establish and operate new branches: (1) Within the limits of the city, town or village in which said association is situated, if such establishment and operation are at the time expressly authorized to State banks by the law of the State in question; and (2) at any point within the State in which said association is situated, if such establishment and operation are at the time authorized to State banks by the statute law of the State in question by language specifically granting such authority affirmatively and not merely by implication or recognition, and subject to the restrictions as to location imposed by the law of the State on State banks. No such association shall establish a branch outside of the city, town, or village in which it is situated unless it has a paid-in and unimpaired capital stock of not less than $500,000: Provided, That in States with a population of less than one million, and which have no cities located therein with a population exceeding one hundred thousand, the capital shall be not less than $250,000: Provided, That in States with a population of less than one-half million, and which have no cities located therein with a population exceeding fifty thousand, the capital shall not be less than $100,000."

Paragraph (d) of section 5155 of the Revised Statutes, as amended (U.S.C., title 12, sec. 86), is amended to read as follows:

"(d) The aggregate capital of every national banking association and its branches shall at no time be less than the aggregate minimum capital required by law for the establishment of an equal number of national banking associations situated in the various places where such association and its branches are situated."

SEC. 24. (a) Sections 1 and 3 of the Act entitled "An Act to provide for the consolidation of national banking associations", approved November 7, 1918, as amended (U.S.C., title 12, secs. 33, 34, and 34a), are amended by striking out the words "county, city, town, or village" wherever they occur in each such section, and inserting in lieu thereof the words "State, county, city, town, or village."

(b) Section 3 of such Act of November 7, 1918, as amended, is further amended by striking out the second sentence thereof and inserting in lieu thereof the following: "The capital stock of such consolidated association shall not be less than that required under existing law for the organization of a national banking association in the place in which such consolidated association is located. Upon such a consolidation, or upon a consolidation of two or more national banking associations under section 1 of this Act, the corporate existence of each of the constituent banks and national banking associations participating in such consolidation shall be merged into and continued in the consolidated national banking association and the consolidated association shall be deemed to be the same corporation as each of the constituent institutions. All the rights, franchises, and interests of each of such constituent banks and national banking associations in and to every species of property, real, personal, and mixed, and choses

in action thereto belonging, shall be deemed to be transferred to and vested in such consolidated national banking association without any deed or other transfer; and such consolidated national banking association, by virtue of such consolidation and without any order or other action on the part of any court or otherwise, shall hold and enjoy the same and all rights of property, franchises, and interests, including appointments designations, and nominations and all other rights and interests as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics and in every other fiduciary capacity, in the same manner and to the same extent as such rights, franchises, and interests were held or enjoyed by any such constituent institution at the time of such consolidation: Provided, however, That where any such constituent institution at the time of such consolidation was acting under appointment of any court as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics or in any other fiduciary capacity, the consolidated national banking association shall be subject to removal by a court of competent jurisdiction in the same manner and to the same extent as was such constituent corporation prior to the consolidation, and nothing herein contained shall be construed to impair in any manner the right of any court to remove such a consolidated national banking association and to appoint in lieu thereof a substitute trustee, executor, or other fiduciary, except that such right shall not be exercised in such a manner as to discriminate against national banking associations, nor shall any such consolidated association be removed solely because of the fact that it is a national banking association."

SEC. 25. The first two sentences of section 5197 of the Revised Statutes (U.S.C., title 12, sec. 85) are amended to read as follows:

"Any association may take, receive, reserve, and charge on any loan or discount made, or upon any notes, bills of exchange, or other evidences of debt, interest at the rate allowed by the laws of the State, Territory, or District where the bank is located, or at a rate of 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where the bank is located, whichever may be the greater, and no more, except that where by the laws of any State a different rate is limited for banks organized under State laws, the rate so limited shall be allowed for associations organized or existing in any such State under this title. When no rate is fixed by the laws of the State, or Territory, or District, the bank may take, receive, reserve, or charge a rate not exceeding 7 per centum, or 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where the bank is located, whichever may be the greater, and such interest may be taken in advance, reckoning the days for which the note, bill, or other evidence of debt has to run."

SEC. 26. (a) The second sentence of the first paragraph of section 5200 of the Revised Statutes, as amended (U.S.C., title 12, sec. 84; Supp. VI, title 12, sec. 84), is amended by inserting before the period at the end thereof the following: "and shall include in the case of obligations of a corporation all obligations of all subsidiaries thereof in which such corporation owns or controls a majority interest."

(b) The amendment made by this section shall not apply to such obligations of subsidiaries held by such association on the date this section takes effect.

SEC. 27. Section 5211 of the Revised Statutes, as amended (U.S.C., title 12, sec. 161; Supp. VI, title 12, sec. 161), is amended by adding at the end thereof the following new paragraph:

"Each national banking association shall obtain from each of its affiliates other than member banks and furnish to the Comptroller of the Currency not less than three reports during each year, in such form as the Comptroller may prescribe, verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, disclosing the information hereinafter provided for as of dates identical with those for which the Comptroller shall during such year require the reports of the condition of the association. For the purpose of this section the term 'affiliate' shall include holding company affiliates as well as other affiliates. Each such report of an affiliate shall be transmitted to the Comptroller at the same time as the corresponding report of the association, except that the Comptroller may, in his discretion, extend such time for good cause shown. Each such report shall contain such information as in the judgment of the Comptroller of the Currency shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Comptroller to inform himself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the association under the same conditions as govern its own condition reports. The Comptroller shall also have power to call for additional reports with respect to any such affiliate whenever in his judgment the same are necessary in order to obtain a full and complete knowledge of the conditions of the association with which it is affiliated. Such additional reports shall be transmitted to the Comptroller of the Currency in such form as he may prescribe. Any such affiliated bank which fails to obtain and furnish any report required under this section shall be subject to a penalty of $100 for each day during which such failure continues."

SEC. 28. (a) The first paragraph of section 5240 of the Revised Statutes, as amended (U.S.C., title 12, sec. 481), is amended by inserting before the period at the end thereof a colon and the following proviso: "Provided, That in making the examination of any national bank the examiners shall include such an examination of the affairs of all its affiliates other than member banks as shall be necessary to disclose fully the relations between such bank and such affiliates and the effect of such relations upon the affairs of such bank; and in the event of the refusal to give any information required in the course of the examination of any such affiliate, or in the event of the refusal to permit such examination, all the rights, privileges, and franchises of the bank shall be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 141, 222–225, 281–286, and 502). The Comptroller of the Currency shall have power, and he is hereby authorized, to publish the report of his examination of any national banking association or affiliate which shall not within one hundred and twenty days after notification of the recommendations or suggestions of the Comptroller, based on said examination, have complied with the same to his satisfaction. Ninety days' notice prior to such publicity shall be given to the bank or affiliate."

(b) Section 5240 of the Revised Statutes, as amended (U.S.C., title 12, sec. 481), is further amended by adding after the first paragraph thereof the following new paragraph:

"The examiner making the examination of any affiliate of a national bank shall have power to make a thorough examination of all the affairs of the affiliate, and in doing so he shall have power to administer oaths and to examine any of the officers, directors, employees, and agents thereof under oath and to make a report of his findings to the Comptroller of the Currency. The expense of examinations of such affiliates may be assessed by the Comptroller of the Currency upon the affiliates examined in proportion to assets or resources held by the affiliates upon the dates of examination of the various affiliates. If any such affiliate shall refuse to pay such expenses or shall fail to do so within sixty days after the date of such assessment, then such expenses may be assessed against the affiliated national bank and, when so assessed, shall be paid by such national bank: Provided, however, That, if the affiliation is with two or more national banks, such expenses may be assessed against, and collected from, any or all of such national banks in such proportions as the Comptroller of the Currency may prescribe. The examiners and assistant examiners making the examinations of national banking associations and affiliates thereof herein provided for and the chief examiners, reviewing examiners and other persons whose services may be required in connection with such examinations or the reports thereof, shall be employed by the Comptroller of the Currency with the approval of the Secretary of the Treasury; the employment and compensation of examiners, chief examiners, reviewing examiners, assistant examiners, and of the other employees of the office of the Comptroller of the Currency whose compensation is paid from assessments on banks or affiliates thereof shall be without regard to the provisions of other laws applicable to officers or employees of the United States. The funds derived from such assessments may be deposited by the Comptroller of the Currency in accordance with the provisions of section 5234 of the Revised Statutes (U.S.C., title 12, sec. 192) and shall not be construed to be Government funds or appropriated monies; and the Comptroller of the Currency is authorized and empowered to prescribe regulations governing the computation and assessment of the expenses of examinations herein provided for and the collection of such assessments from the banks and/or affiliates examined. If any affiliate of a national bank shall refuse to permit an examiner to make an examination of the affiliate or shall refuse to give any information required in the course of any such examination, the national bank with which it is affiliated shall be subject to a penalty of not more than $100 for each day that any such refusal shall continue. Such penalty may be assessed by the Comptroller of the Currency and collected in the same manner as expenses of examinations."

SEC. 29. In any case in which, in the opinion of the Comptroller of the Currency, it would be to the advantage of the depositors and unsecured creditors of any national banking association whose business has been closed, for such association to resume business upon the retention by the association, for a reasonable period to be prescribed by the Comptroller, of all or any part of its deposits, the Comptroller is authorized, in his discretion, to permit the association to resume business if depositors and unsecured creditors of the association representing at least 75 per centum of its total deposit and unsecured credit liabilities consent in writing to such retention of deposits. Nothing in this section shall be construed to affect in any manner any powers of the Comptroller under the provisions of law in force on the date of enactment of this Act with respect to the reorganization of national banking associations.

SEC. 30. Whenever, in the opinion of the Comptroller of the Currency, any director or officer of a national bank, or of a bank or trust company doing business in the District of Columbia, or whenever, in the opinion of a Federal Reserve agent, any director or officer of a State member bank in his district shall have continued to violate any law relating to such bank or trust company or shall have continued unsafe or unsound practices in conducting the business of such bank or trust company, after having been warned by the Comptroller of the Currency or the Federal Reserve agent, as the case may be, to discontinue such violations of law or such unsafe or unsound practices, the Comptroller of the Currency or the Federal Reserve agent, as the case may be, may certify the facts to the Federal Reserve Board. In any such case the Federal Reserve Board may cause notice to be served upon such director or officer to appear before such Board to show cause why he should not be removed from office. A copy of such order shall be sent to each director of the bank affected, by registered mail. If after granting the accused director or officer a reasonable opportunity to be heard, the Federal Reserve Board finds that he has continued to violate any law relating to such bank or trust company or has continued unsafe or unsound practices in conducting the business of such bank or trust company after having been warned by the Comptroller of the Currency or the Federal Reserve agent to discontinue such violation of law or such unsafe or unsound practices, the Federal Reserve Board, in its discretion, may order that such director or officer be removed from office. A copy of such order shall be served upon such director or officer. A copy of such order shall also be served upon the bank of which he is a director or officer, whereupon such director or officer shall cease to be a director or officer of such bank: Provided, That such order and the findings of fact upon which it is based shall not be made public or disclosed to anyone except the director or officer involved and the directors of the bank involved, otherwise than in connection with proceedings for a violation of this section. Any such director or officer removed from office as herein provided who thereafter participates in any manner in the management of such bank shall be fined not more than $5,000, or imprisoned for not more than five years, or both, in the discretion of the court.

SEC. 31. After one year from the date of enactment of this Act, notwithstanding any other provision of law, the board of directors, board of trustees, or other similar governing body of every national banking association and of every State bank or trust company which is a member of the Federal Reserve System shall consist of not less than five nor more than twenty-five members; and every director, trustee, or other member of such governing body shall be the bona fide owner in his own right of shares of stock of such banking association, State bank or trust company having a par value in the aggregate of not less than $2,500, unless the capital of the bank shall not exceed $50,000, in which case he must own in his own right shares having a par value in the aggregate of not less than $1,500, or unless the capital of the bank shall not exceed $25,000, in which case he must own in his own right shares having a par value in the aggregate of not less than $1,000. If any national banking association violates the provisions of this section and continues such violation after thirty days' notice from the Comptroller of the Currency, the said Comptroller may appoint a receiver or conservator therefor, in accordance with the provisions of existing law. If any State bank or trust company which is a member of the Federal Reserve System violates the provisions

of this section and continues such violation after thirty days' notice from the Federal Reserve Board, it shall be subject to the forfeiture of its membership in the Federal Reserve System in accordance with the provisions of section 9 of the Federal Reserve Act, as amended.

SEC. 32. From and after January 1, 1934, no officer or director of any member bank shall be an officer, director, or manager of any corporation, partnership, or unincorporated association engaged primarily in the business of purchasing, selling, or negotiating securities, and no member bank shall perform the functions of a correspondent bank on behalf of any such individual, partnership, corporation, or unincorporated association, and no such individual, partnership, corporation, or unincorporated association shall perfrom the functions of a correspondent for any member bank or hold on deposit any funds on behalf of any member bank, unless in any such case there is a permit therefor issued by the Federal Reserve Board; and the Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest, and to revoke any such permit whenever it finds after reasonable notice and opportunity to be heard, that the public interest requires such revocation.

SEC. 33. The Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes", approved October 15, 1914, as amended (U.S.C., title 15, sec. 19), is hereby amended by adding after section 8 thereof the following new section:

"SEC. 8A. That from and after the 1st day of January 1934, no director, officer, or employee of any bank, banking association, or trust company, organized or operating under the laws of the United States shall be at the same time a director, officer, or employee of a corporation (other than a mutual savings bank) or a member of a partnership organized for any purpose whatsoever which shall make loans secured by stock or bond collateral to any individual, association, partnership, or corporation other than its own subsidiaries."

SEC. 34. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

And the Senate agree to the same.

HENRY B. STEAGALL
T. ALAN GOLDSBOROUGH
ROBERT LUCE
Managers of the part of the House.

CARTER GLASS
ROBERT J. BULKLEY
W. G. MCADOO
Managers on the part of the Senate.

[PUBLIC—No. 66—73D CONGRESS]

[H.R. 5661]

AN ACT

To provide for the safer and more effective use of the assets of banks, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, 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 "Banking Act of 1933."

SEC. 2. As used in this Act and in any provision of law amended by this Act—

(a) The terms "banks", "national bank", "national banking association", "member bank", "board", "district", and "reserve bank" shall have the meanings assigned to them in section 1 of the Federal Reserve Act, as amended.

(b) Except where otherwise specifically provided, the term "affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Of which a member bank, directly or indirectly, owns or controls either a majority of the voting shares or more than 50 per centum of the number of shares voted for the election of its directors, trustees, or other persons exercising similar functions at the preceding election, or controls in any manner the election of a majority of its directors, trustees, or other persons exercising similar functions; or

(2) Of which control is held, directly or indirectly, through stock ownership or in any other manner, by the shareholders of a member bank who own or control either a majority of the shares of such bank or more than 50 per centum of the number of shares voted for the election of directors of such bank at the preceding election, or by trustees for the benefit of the shareholders of any such bank; or

(3) Of which a majority of its directors, trustees, or other persons exercising similar functions are directors of any one member bank.

(c) The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election of a majority of the directors of any one bank; or

(2) For the benefit of whose shareholders or members all or substantially all the capital stock of a member bank is held by trustees.

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SEC. 3. (a) The fourth paragraph after paragraph "Eighth" of section 4 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 301), is amended to read as follows:

"Said board of directors shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and may, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture. The Federal Reserve Board may prescribe regulations further defining within the limitations of this Act the conditions under which discounts, advancements, and the accommodations may be extended to member banks. Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information. The chairman of the Federal reserve bank shall report to the Federal Reserve Board any such undue use of bank credit by any member bank, together with his recommendation. Whenever, in the judgment of the Federal Reserve Board, any member bank is making such undue use of bank credit, the Board may, in its discretion, after reasonable notice and an opportunity for a hearing, suspend such bank from the use of the credit facilities of the Federal Reserve System and may terminate such suspension or may renew it from time to time."

(b) The paragraph of section 4 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 304), which commences with the words "The Federal Reserve Board shall classify" is amended by inserting before the period at the end thereof a colon and the following: "*Provided*, That whenever any two or more member banks within the same Federal reserve district are affiliated with the same holding company affiliate, participation by such member banks in any such nomination or election shall be confined to one of such banks, which may be designated for the purpose by such holding company affiliate."

SEC. 4. The first paragraph of section 7 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 289), is amended, effective July 1, 1932, to read as follows:

"After all necessary expenses of a Federal reserve bank shall have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid into the surplus fund of the Federal reserve bank."

SEC. 5. (a) The first paragraph of section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 321; Supp. VI, title 12, sec. 321), is amended by inserting immediately after the words "United

States" a comma and the following: "including Morris Plan banks and other incorporated banking institutions engaged in similar business."

(b) The second paragraph of section 9 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following: "*Provided, however*, That nothing herein contained shall prevent any State member bank from establishing and operating branches in the United States or any dependency or insular possession thereof or in any foreign country, on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks."

(c) Section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 321–331; Supp. VI, title 12, secs. 321–332), is further amended by adding at the end thereof the following new paragraphs:

"Any mutual savings bank having no capital stock (including any other banking institution the capital of which consists of weekly or other time deposits which are segregated from all other deposits and are regarded as capital stock for the purposes of taxation and the declaration of dividends), but having surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the same place, may apply for and be admitted to membership in the Federal Reserve System in the same manner and subject to the same provisions of law as State banks and trust companies, except that any such savings bank shall subscribe for capital stock of the Federal reserve bank in an amount equal to six-tenths of 1 per centum of its total deposit liabilities as shown by the most recent report of examination of such savings bank preceding its admission to membership. Thereafter such subscription shall be adjusted semiannually on the same percentage basis in accordance with rules and regulations prescribed by the Federal Reserve Board. If any such mutual savings bank applying for membership is not permitted by the laws under which it was organized to purchase stock in a Federal reserve bank, it shall, upon admission to the system, deposit with the Federal reserve bank an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock. Thereafter such deposit shall be adjusted semiannually in the same manner as subscriptions for stock. Such deposits shall be subject to the same conditions with respect to repayment as amounts paid upon subscriptions to capital stock by other member banks and the Federal reserve bank shall pay interest thereon at the same rate as dividends are actually paid on outstanding shares of stock of such Federal reserve bank. If the laws under which any such savings bank was organized be amended so as to authorize mutual savings banks to subscribe for Federal reserve bank stock, such savings bank shall thereupon subscribe for the appropriate amount of stock in the Federal reserve bank, and the deposit hereinbefore provided for in lieu of payment upon capital stock shall be applied upon such subscription. If the laws under which any such savings bank was organized be not amended at the next session of the legislature following the admission of such savings bank to membership so as to authorize mutual savings banks to purchase Federal reserve bank stock, or if such laws be so amended and such bank fail within six months thereafter to purchase such stock, all

of its rights and privileges as a member bank shall be forfeited and its membership in the Federal Reserve System shall be terminated in the manner prescribed elsewhere in this section with respect to State member banks and trust companies. Each such mutual savings bank shall comply with all the provisions of law applicable to State member banks and trust companies, with the regulations of the Federal Reserve Board and with the conditions of membership prescribed for such savings bank at the time of admission to membership, except as otherwise hereinbefore provided with respect to capital stock.

"Each bank admitted to membership under this section shall obtain from each of its affiliates other than member banks and furnish to the Federal reserve bank of its district and to the Federal Reserve Board not less than three reports during each year. Such reports shall be in such form as the Federal Reserve Board may prescribe, shall be verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, and shall disclose the information hereinafter provided for as of dates identical with those fixed by the Federal Reserve Board for reports of the condition of the affiliated member bank. Each such report of an affiliate shall be transmitted as herein provided at the same time as the corresponding report of the affiliated member bank, except that the Federal Reserve Board may, in its discretion, extend such time for good cause shown. Each such report shall contain such information as in the judgment of the Federal Reserve Board shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Board to inform itself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the bank under the same conditions as govern its own condition reports.

"Any such affiliated member bank may be required to obtain from any such affiliate such additional reports as in the opinion of its Federal reserve bank or the Federal Reserve Board may be necessary in order to obtain a full and complete knowledge of the condition of the affiliated member bank. Such additional reports shall be transmitted to the Federal reserve bank and the Federal Reserve Board and shall be in such form as the Federal Reserve Board may prescribe.

"Any such affiliated member bank which fails to obtain from any of its affiliates and furnish any report provided for by the two preceding paragraphs of this section shall be subject to a penalty of $100 for each day during which such failure continues, which, by direction of the Federal Reserve Board, may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located. For the purposes of this paragraph and the two preceding paragraphs of this section, the term 'affiliate' shall include holding company affiliates as well as other affiliates.

"State member banks shall be subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks under paragraph 'Seventh' of section 5136 of the Revised Statutes, as amended.

"After one year from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any State member

bank shall represent the stock of any other corporation, except a member bank or a corporation existing on the date this paragraph takes effect engaged solely in holding the bank premises of such State member bank, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such bank be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank.

"Each State member bank affiliated with a holding company affiliate shall obtain from such holding company affiliate, within such time as the Federal Reserve Board shall prescribe, an agreement that such holding company affiliate shall be subject to the same conditions and limitations as are applicable under section 5144 of the Revised Statutes, as amended, in the case of holding company affiliates of national banks. A copy of each such agreement shall be filed with the Federal Reserve Board. Upon the failure of a State member bank affiliated with a holding company affiliate to obtain such an agreement within the time so prescribed, the Federal Reserve Board shall require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section. Whenever the Federal Reserve Board shall have revoked the voting permit of any such holding company affiliate, the Federal Reserve Board may, in its discretion, require any or all State member banks affiliated with such holding company affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section.

"In connection with examinations of State member banks, examiners selected or approved by the Federal Reserve Board shall make such examinations of the affairs of all affiliates of such banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations upon the affairs of such banks. The expense of examination of affiliates of any State member bank may, in the discretion of the Federal Reserve Board, be assessed against such bank and, when so assessed, shall be paid by such bank. In the event of the refusal to give any information requested in the course of the examination of any such affiliate, or in the event of the refusal to permit such examination, or in the event of the refusal to pay any expense so assessed, the Federal Reserve Board may, in its discretion, require any or all State member banks affiliated with such affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System, as provided in this section."

SEC. 6. (a) The second paragraph of section 10 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 242), is amended to read as follows:

"The Secretary of the Treasury and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. The appointive members of the Federal Reserve Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in

any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Upon the expiration of the term of any appointive member of the Federal Reserve Board in office when this paragraph as amended takes effect, the President shall fix the term of the successor to such member at not to exceed twelve years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one appointive member in any two-year period, and thereafter each appointive member shall hold office for a term of twelve years from the expiration of the term of his predecessor. Of the six persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be its active executive officer. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office."

(b) The fourth paragraph of section 10 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 244), is amended to read as follows:

"The principal offices of the Board shall be in the District of Columbia. At meetings of the Board the Secretary of the Treasury shall preside as chairman, and, in his absence, the governor shall preside. In the absence of both the Secretary of the Treasury and the governor the vice governor shall preside. In the absence of the Secretary of the Treasury, the governor, and the vice governor the Board shall elect a member to act as chairman pro tempore. The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and may leave on deposit in the Federal Reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees, whose employment, compensation, leave, and expenses shall be governed solely by the provisions of this Act, specific amendments thereof, and rules and regulations of the Board not inconsistent therewith; and funds derived from such assessments shall not be construed to be Government funds or appropriated moneys. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath that he has complied with this requirement, and such certification shall be filed with the secretary of the Board. Whenever a vacancy shall occur, other than by expiration of term, among the six members of the Federal Reserve Board appointed by the President as above provided, a successor shall be appointed by the President, by and with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of his predecessor."

SEC. 7. Paragraph (m) of section 11 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 248), is amended to read as follows:

"(m) Upon the affirmative vote of not less than six of its members the Federal Reserve Board shall have power to fix from time to time for each Federal reserve district the percentage of indi-

vidual bank capital and surplus which may be represented by loans secured by stock or bond collateral made by member banks within such district, but no such loan shall be made by any such bank to any person in an amount in excess of 10 per centum of the unimpaired capital and surplus of such bank. Any percentage so fixed by the Federal Reserve Board shall be subject to change from time to time upon ten days' notice, and it shall be the duty of the Board to establish such percentages with a view to preventing the undue use of bank loans for the speculative carrying of securities. The Federal Reserve Board shall have power to direct any member bank to refrain from further increase of its loans secured by stock or bond collateral for any period up to one year under penalty of suspension of all rediscount privileges at Federal reserve banks."

SEC. 8. The Federal Reserve Act, as amended, is amended by inserting between sections 12 and 13 (U.S.C., title 12, secs. 261, 262, and 342), thereof the following new sections:

"SEC. 12A. (a) There is hereby created a Federal Open Market Committee (hereinafter referred to as the 'committee'), 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 one member of said committee. The meetings of said committee shall be held at Washington, District of Columbia, at least four times each year, upon the call of the governor of the Federal Reserve Board or at the request of any three members of the committee, and, in the discretion of the Board, may be attended by the members of the Board.

"(b) No Federal reserve bank shall engage in open-market operations under section 14 of this Act except in accordance with regulations adopted by the Federal Reserve Board. The Board shall consider, adopt, and transmit to the committee and to the several Federal reserve banks regulations relating to the open-market transactions of such banks and the relations of the Federal Reserve System with foreign central or other foreign banks.

"(c) The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

"(d) If any Federal reserve bank shall decide not to participate in open-market operations recommended and approved as provided in paragraph (b) hereof, it shall file with the chairman of the committee within thirty days a notice of its decision, and transmit a copy thereof to the Federal Reserve Board.

"SEC. 12B. (a) There is hereby created a Federal Deposit Insurance Corporation (hereinafter referred to as the 'Corporation'), whose duty it shall be to purchase, hold, and liquidate, as hereinafter provided, the assets of national banks which have been closed by action of the Comptroller of the Currency, or by vote of their directors, and the assets of State member banks which have been closed by action of the appropriate State authorities, or by vote of their directors; and to insure, as hereinafter provided, the deposits of all banks which are entitled to the benefits of insurance under this section.

"(b) The management of the Corporation shall be vested in a board of directors consisting of three members, one of whom shall be the Comptroller of the Currency, and two of whom shall be citizens of the United States to be appointed by the President, by and with the advice and consent of the Senate. One of the appointive members shall be the chairman of the board of directors of the Corporation and not more than two of the members of such board of directors shall be members of the same political party. Each such appointive member shall hold office for a term of six years and shall receive compensation at the rate of $10,000 per annum, payable monthly out of the funds of the Corporation, but the Comptroller of the Currency shall not receive additional compensation for his services as such member.

" (c) There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $150,000,000, which shall be available for payment by the Secretary of the Treasury for capital stock of the Corporation in an equal amount, which shall be subscribed for by him on behalf of the United States. Payments upon such subscription shall be subject to call in whole or in part by the board of directors of the Corporation. Such stock shall be in addition to the amount of capital stock required to be subscribed for by Federal reserve banks and member and nonmember banks as hereinafter provided, and the United States shall be entitled to the payment of dividends on such stock to the same extent as member and nonmember banks are entitled to such payment on the class A stock of the Corporation held by them. Receipts for payments by the United States for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership of the United States.

"(d) The capital stock of the Corporation shall be divided into shares of $100 each. Certificates of stock of the Corporation shall be of two classes—class A and class B. Class A stock shall be held by member and nonmember banks as hereinafter provided and they shall be entitled to payment of dividends out of net earnings at the rate of 6 per centum per annum on the capital stock paid in by them, which dividends shall be cumulative, or to the extent of 30 per centum of such net earnings in any one year, whichever amount shall be the greater, but such stock shall have no vote at meetings of stockholders. Class B stock shall be held by Federal reserve banks only and shall not be entitled to the payment of dividends. Every Federal reserve bank shall subscribe to shares of class B stock in the Corporation to an amount equal to one half of the surplus of such bank on January 1, 1933, and its subscriptions shall be accompanied by a certified check payable to the Corporation in an amount equal to one half of such subscription. The remainder of such subscription shall be subject to call from time to time by the board of directors upon ninety days' notice.

" (e) Every bank which is or which becomes a member of the Federal Reserve System on or before July 1, 1934, shall take all steps necessary to enable it to become a class A stockholder of the Corporation on or before July 1, 1934; and thereafter no State bank or trust company or mutual savings bank shall be admitted to membership in the Federal Reserve System until it becomes a class A

stockholder of the Corporation, no national bank in the continental United States shall be granted a certificate by the Comptroller of the Currency authorizing it to commence the business of banking until it becomes a member of the Federal Reserve System and a class A stockholder of the Corporation, and no national bank in the continental United States for which a receiver or conservator has been appointed shall be permitted to resume the transaction of its banking business until it becomes a class A stockholder of the Corporation. Every member bank shall apply to the Corporation for class A stock of the Corporation in an amount equal to one half of 1 per centum of its total deposit liabilities as computed in accordance with regulations prescribed by the Federal Reserve Board; except that in the case of a member bank organized after the date this section takes effect, the amount of such class A stock applied for by such member bank during the first twelve months after its organization shall equal 5 per centum of its paid-up capital and surplus, and beginning after the expiration of such twelve months' period the amount of such class A stock of such member bank shall be adjusted annually in the same manner as in the case of other member banks. Upon receipt of such application the Corporation shall request the Federal Reserve Board, in the case of a State member bank, or the Comptroller of the Currency, in the case of a national bank, to certify upon the basis of a thorough examination of such bank whether or not the assets of the applying bank are adequate to enable it to meet all of its liabilities to depositors and other creditors as shown by the books of the bank; and the Federal Reserve Board or the Comptroller of the Currency shall make such certification as soon as practicable. If such certification be in the affirmative, the Corporation shall grant such application and the applying bank shall pay one half of its subscription in full and shall thereupon become a class A stockholder of the Corporation: *Provided*, That no member bank shall be required to make such payment or become a class A stockholder of the Corporation before July 1, 1934. The remainder of such subscription shall be subject to call from time to time by the board of directors of the Corporation. If such certification be in the negative, the Corporation shall deny such application. If any national bank shall not have become a class A stockholder of the Corporation on or before July 1, 1934, the Comptroller of the Currency shall appoint a receiver or conservator therefor in accordance with the provisions of existing law. Except as provided in subsection (g) of this section, if any State member bank shall not have become a class A stockholder of the Corporation on or before July 1, 1934, the Federal Reserve Board shall terminate its membership in the Federal Reserve System in accordance with the provisions of section 9 of this Act.

" (f) Any State bank or trust company or mutual savings bank which applies for membership in the Federal Reserve System or for conversion into a national banking association on or after July 1, 1936, may, with the consent of the Corporation, obtain the benefits of this section, pending action on such application, by subscribing and paying for the same amount of stock of the Corporation as it would be required to subscribe and pay for upon becoming a member

bank. Thereupon the provisions of this section applicable to member banks shall be applicable to such State bank or trust company or mutual savings bank to the same extent as if it were already a member bank: *Provided*, That if the application of such State bank or trust company or mutual savings bank for membership in the Federal Reserve System or for conversion into a national banking association be approved and it shall not complete its membership in the Federal Reserve System or its conversion into a national banking association within a reasonable time, or if such application shall be disapproved, then the amount paid by such State bank or trust company or mutual savings bank on account of its subscription to the capital stock of the Corporation shall be repaid to it and it shall no longer be subject to the provisions or entitled to the privileges of this section.

" (g) If any State bank or trust company, or mutual savings bank (referred to in this subsection as 'State bank') which is or which becomes a member of the Federal Reserve System is not permitted by the laws under which it was organized to purchase stock in the Corporation, it shall apply to the Corporation for admission to the benefits of this section and, if such application be granted after appropriate certification in accordance with this section, it shall deposit with the Corporation an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock of the Corporation. Thereafter such deposit shall be adjusted in the same manner as subscriptions for stock by class A stockholders. Such deposit shall be subject to the same conditions with respect to repayment as amounts paid on subscriptions to class A stock by other member banks and the Corporation shall pay interest thereon at the same rate as dividends are actually paid on outstanding shares of class A stock. As long as such deposit is maintained with the Corporation, such State bank shall, for the purposes of this section, be deemed to be a class A stockholder of the Corporation. If the laws under which such State bank was organized be amended so as to authorize State banks to subscribe for class A stock of the Corporation, such State bank shall within six months thereafter subscribe for an appropriate amount of such class A stock and the deposit hereinafter provided for in lieu of payment upon class A stock shall be applied upon such subscription. If the law under which such State bank was organized be not amended at the next session of the State legislature following the admission of such State bank to the benefits of this section so as to authorize State banks to purchase such class A stock, or, if the law be so amended and such State bank shall fail within six months thereafter to purchase such class A stock, the deposit previously made with the Corporation shall be returned to such State bank and it shall no longer be entitled to the benefits of this section, unless it shall have been closed in the meantime on account of inability to meet the demands of its depositors.

" (h) The amount of the outstanding class A stock of the Corporation held by member banks shall be annually adjusted as hereinafter provided as of the last preceding call date as member banks increase their time and demand deposits or as additional banks become members or subscribe to the stock of the Corporation, and

such stock may be decreased in amount as member banks reduce their time and demand deposits or cease to be members. Shares of the capital stock of the Corporation owned by member banks shall not be transferred or hypothecated. When a member bank increases its time and demand deposits it shall, at the beginning of each calendar year, subscribe for an additional amount of capital stock of the Corporation equal to one half of 1 per centum of such increase in deposits. One half of the amount of such additional stock shall be paid for at the time of the subscription therefor, and the balance shall be subject to call by the board of directors of the Corporation. A bank organized on or before the date this section takes effect and admitted to membership in the Federal Reserve System at any time after the organization of the Corporation shall be required to subscribe for an amount of class A capital stock equal to one half of 1 per centum of the time and demand deposits of the applicant bank as of the date of such admission, paying therefor its par value plus one half of 1 per centum a month from the period of the last dividend on the class A stock of the Corporation. When a member bank reduces its time and demand deposits it shall surrender, not later than the 1st day of January thereafter, a proportionate amount of its holdings in the capital stock of the Corporation, and when a member bank voluntarily liquidates it shall surrender all its holdings of the capital stock of the Corporation and be released from its stock subscription not previously called. The shares so surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Corporation, a sum equal to its cash-paid subscriptions on the shares surrendered and its proportionate share of dividends not to exceed one half of 1 per centum a month, from the period of the last dividend on such stock, less any liability of such member bank to the Corporation.

"(i) If any member or nonmember bank shall be declared insolvent, or shall cease to be a member bank (or in the case of a nonmember bank, shall cease to be entitled to the benefits of insurance under this section), the stock held by it in the Corporation shall be canceled, without impairment of the liability of such bank, and all cash-paid subscriptions on such stock, with its proportionate share of dividends not to exceed one half of 1 per centum per month from the period of last dividend on such stock shall be first applied to all debts of the insolvent bank or the receiver thereof to the Corporation, and the balance, if any, shall be paid to the receiver of the insolvent bank.

"(j) Upon the date of enactment of the Banking Act of 1933, the Corporation shall become a body corporate and as such shall have power—

"First. To adopt and use a corporate seal.

"Second. To have succession until dissolved by an Act of Congress.

"Third. To make contracts.

"Fourth. To sue and be sued, complain and defend, in any court of law or equity, State or Federal.

"Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this section, to define their duties, fix their compensation, require bonds of them and fix

the penalty thereof, and to dismiss at pleasure such officers or employees. Nothing in this or any other Act shall be construed to prevent the appointment and compensation as an officer or employee of the Corporation of any officer or employee of the United States in any board, commission, independent establishment, or executive department thereof.

"Sixth. To prescribe by its board of directors, bylaws 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 section and such incidental powers as shall be necessary to carry out the powers so granted.

"(k) The board of directors shall administer the affairs of the Corporation fairly and impartially and without discrimination. The board of directors of the Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government. The Corporation with the consent of any Federal reserve bank or of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, and facilities thereof in carrying out the provisions of this section.

"(l) Effective on and after July 1, 1934 (thus affording ample time for examination and preparation), unless the President shall by proclamation fix an earlier date, the Corporation shall insure as hereinafter provided the deposits of all member banks, and on and after such date and until July 1, 1936, of all nonmember banks, which are class A stockholders of the Corporation. Notwithstanding any other provision of law, whenever any national bank which is a class A stockholder of the Corporation shall have been closed by action of its board of directors or by the Comptroller of the Currency, as the case may be, on account of inability to meet the demands of its depositors, the Comptroller of the Currency shall appoint the Corporation receiver for such bank. As soon as possible thereafter the Corporation shall organize a new national bank to assume the insured deposit liabilities of such closed bank, to receive new deposits and otherwise to perform temporarily the functions provided for it in this paragraph. For the purposes of this subsection, the term 'insured deposit liability' shall mean with respect to the owner of any claim arising out of a deposit liability of such closed bank the following percentages of the net amount due to such owner by such closed bank on account of deposit liabilities: 100 per centum of such net amount not exceeding $10,000; and 75 per centum of the amount, if any, by which such net amount exceeds $10,000 but does not exceed $50,000; and 50 per centum of the amount, if any, by which such net amount exceeds $50,000: *Provided*, That, in determining the amount due to such owner for the purpose of fixing such percentage, there shall be added together all net amounts due to such owner in the same capacity or the same right, on account of deposits, regardless of whether such deposits

be maintained in his name or in the names of others for his benefit. For the purposes of this subsection, the term 'insured deposit liabilities' shall mean the aggregate amount of all such insured deposit liabilities of such closed bank. The Corporation shall determine as expeditiously as possible the net amounts due to depositors of the closed bank and shall make available to the new bank an amount equal to the insured deposit liabilities of such closed bank, whereupon such new bank shall assume the insured deposit liability of such closed bank to each of its depositors, and the Corporation shall be subrogated to all rights against the closed bank of the owners of such deposits and shall be entitled to receive the same dividends from the proceeds of the assets of such closed bank as would have been payable to each such depositor until such dividends shall equal the insured deposit liability to such depositor assumed by the new bank, whereupon all further dividends shall be payable to such depositor. Of the amount thus made available by the Corporation to the new bank, such portion shall be paid to it in cash as may be necessary to enable it to meet immediate cash demands and the remainder shall be credited to it on the books of the Corporation subject to withdrawal on demand and shall bear interest at the rate of 3 per centum per annum until withdrawn. The new bank may, with the approval of the Corporation, accept new deposits, which, together with all amounts made available to the new bank by the Corporation, shall be kept on hand in cash, invested in direct obligations of the United States, or deposited with the Corporation or with a Federal reserve bank. Such new bank shall maintain on deposit with the Federal reserve bank of its district the reserves required by law of member banks but shall not be required to subscribe for stock of the Federal reserve bank until its own capital stock has been subscribed and paid for in the manner hereinafter provided. The articles of association and organization certificate of such new bank may be executed by such representatives of the Corporation as it may designate; the new bank shall not be required to have any directors at the time of its organization, but shall be managed by an executive officer to be designated by the Corporation; and no capital stock need be paid in by the Corporation; but in other respects such bank shall be organized in accordance with the existing provisions of law relating to the organization of national banks; and, until the requisite amount of capital stock for such bank has been subscribed and paid for in the manner hereinafter provided, such bank shall transact no business except that authorized by this subsection and such business as may be incidental to its organization. When in the judgment of the Corporation it is desirable to do so, the Corporation shall offer capital stock of the new bank for sale on such terms and conditions as the Corporation shall deem advisable, in an amount sufficient in the opinion of the Corporation to make possible the conduct of the business of the new bank on a sound basis, but in no event less than that required by section 5138 of the Revised Statutes, as amended (U.S.C., title 12, sec. 51), for the organization of a national bank in the place where such new bank is located, giving the stockholders of the closed bank the first opportunity to purchase such stock. Upon proof that an adequate amount of capital stock of the new bank has been subscribed and paid for in cash by subscribers satisfactory to the Comptroller of the Currency, he shall issue to such bank a certificate

of authority to commence business and thereafter it shall be managed by directors elected by its own shareholders and may exercise all of the powers granted by law to national banking associations. If an adequate amount of capital for such new bank is not subscribed and paid in, the Corporation may offer to transfer its business to any other banking institution in the same place which will take over its assets, assume its liabilities, and pay to the Corporation for such business such amount as the Corporation may deem adequate. Unless the capital stock of the new bank is sold or its assets acquired and its liabilities assumed by another banking institution, in the manner herein prescribed, within two years from the date of its organization, the Corporation shall place the new bank in voluntary liquidation and wind up its affairs. The Corporation shall open on its books a deposit insurance account and, as soon as possible after taking possession of any closed national bank, the Corporation shall make an estimate of the amount which will be available from all sources for application in satisfaction of the portion of the claims of depositors to which it has been subrogated and shall debit to such deposit insurance account the excess, if any, of the amount made available by the Corporation to the new bank for depositors over and above the amount of such estimate. It shall be the duty of the Corporation to realize upon the assets of such closed bank, having due regard to the condition of credit in the district in which such closed bank is located; to enforce the individual liability of the stockholders and directors thereof; and to wind up the affairs of such closed bank in conformity with the provisions of law relating to the liquidation of closed national banks, except as herein otherwise provided, retaining for its own account such portion of the amount realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors and paying to depositors and other creditors the amount available for distribution to them, after deducting therefrom their share of the costs of the liquidation of the closed bank. If the total amount realized by the Corporation on account of its subrogation to the claims of depositors be less than the amount of the estimate hereinabove provided for, the deposit insurance account shall be charged with the deficiency and, if the total amount so realized shall exceed the amount of such estimate, such account shall be credited with such excess. With respect to such closed national banks, the Corporation shall have all the rights, powers, and privileges now possessed by or hereafter given receivers of insolvent national banks and shall be subject to the obligations and penalties not inconsistent with the provisions of this paragraph to which such receivers are now or may hereafter become subject.

"Whenever any State member bank which is a class A stockholder of the Corporation shall have been closed by action of its board of directors or by the appropriate State authority, as the case may be, on account of inability to meet the demands of its depositors, the Corporation shall accept appointment as receiver thereof, if such appointment be tendered by the appropriate State authority and be authorized or permitted by State law. Thereupon the Corporation shall organize a new national bank, in accordance with the provisions of this subsection, to assume the insured deposit liabilities of such closed State member bank, to receive new deposits and otherwise to

perform temporarily the functions provided for in this subsection. Upon satisfactory recognition of the right of the Corporation to receive dividends on the same basis as in the case of a closed national bank under this subsection, such recognition being accorded by State law, by allowance of claims by the appropriate State authority, by assignment of claims by depositors, or by any other effective method, the Corporation shall make available to such new national bank, in the manner prescribed by this subsection, an amount equal to the insured deposit liabilities of such closed State member bank; and the Corporation and such new national bank shall perform all of the functions and duties and shall have all the rights and privileges with respect to such State member bank and the depositors thereof which are prescribed by this subsection with respect to closed national banks holding class A stock in the Corporation: *Provided*, That the rights of depositors and other creditors of such State member bank shall be determined in accordance with the applicable provisions of State law: *And provided further*, That, with respect to such State member bank, the Corporation shall possess the powers and privileges provided by State law with respect to a receiver of such State member bank, except in so far as the same are in conflict with the provisions of this subsection.

" Whenever any State member bank which is a class A stockholder of the Corporation shall have been closed by action of its board of directors or by the appropriate State authority, as the case may be, on account of inability to meet the demands of its depositors, and the applicable State law does not permit the appointment of the Corporation as receiver of such bank, the Corporation shall organize a new national bank, in accordance with the provisions of this subsection, to assume the insured deposit liabilities of such closed State member bank, to receive new deposits, and otherwise to perform temporarily the functions provided for in this subsection. Upon satisfactory recognition of the right of the Corporation to receive dividends on the same basis as in the case of a closed national bank under this subsection, such recognition being accorded by State law, by allowance of claims by the appropriate State authority, by assignment of claims by depositors, or by any other effective method, the Corporation shall make available to such new bank, in accordance with the provisions of this subsection, the amount of insured deposit liabilities as to which such recognition has been accorded; and such new bank shall assume such insured deposit liabilities and shall in other respects comply with the provisions of this subsection respecting new banks organized to assume insured deposit liabilities of closed national banks. In so far as possible in view of the applicable provisions of State law, the Corporation shall proceed with respect to the receiver of such closed bank and with respect to the new bank organized to assume its insured deposit liabilities in the manner prescribed by this subsection with respect to closed national banks and new banks organized to assume their insured deposit liabilities; except that the Corporation shall have none of the powers, duties, or responsibilities of a receiver with respect to the winding up of the affairs of such closed State member bank. The Corporation, in its discretion, however, may purchase and liquidate any or all of the assets of such bank.

"Whenever the net debit balance of the deposit insurance account of the Corporation shall equal or exceed one fourth of 1 per centum of the total deposit liabilities of all class A stockholders as of the date of the last preceding call report, the Corporation shall levy upon such stockholders an assessment equal to one fourth of 1 per centum of their total deposit liabilities and shall credit the amount collected from such assessment to such deposit insurance account. No bank which is a holder of class A stock shall pay any dividends until all assessments levied upon it by the Corporation shall have been paid in full; and any director or officer of any such bank who participates in the declaration or payment of any such dividend may, upon conviction, be fined not more than $1,000, or imprisoned for not more than one year, or both.

"The term 'receiver' as used in this section shall mean a receiver, liquidating agent, or conservator of a national bank, and a receiver, liquidating agent, conservator, commission, person, or other agency charged by State law with the responsibility and the duty of winding up the affairs of an insolvent State member bank.

"For the purposes of this section only, the term 'national bank' shall include all national banking associations and all banks, banking associations, trust companies, savings banks, and other banking institutions located in the District of Columbia which are members of the Federal Reserve System; and the term 'State member bank' shall include all State banks, banking associations, trust companies, savings banks, and other banking institutions organized under the laws of any State, which are members of the Federal Reserve System.

"In any determination of the insured deposit liabilities of any closed bank or of the total deposit liabilities of any bank which is a holder of class A stock of the Corporation, or a member of the Fund provided for in subsection (y), for the purposes of this section, there shall be excluded the amounts of all deposits of such bank which are payable only at an office thereof located in a foreign country.

"The Corporation may make such rules, regulations, and contracts as it may deem necessary in order to carry out the provisions of this section.

"Money of the Corporation not otherwise employed shall be invested in securities of the Government of the United States, except that for temporary periods, in the discretion of the board of directors, funds of the Corporation may be deposited in any Federal reserve bank or with the Treasurer of the United States. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depositary of public moneys and financial agent of the Government as may be required of it.

"(m) Nothing herein contained shall be construed to prevent the Corporation from making loans to national banks closed by action of the Comptroller of the Currency, or by vote of their directors, or to State member banks closed by action of the appropriate State

authorities, or by vote of their directors, or from entering into negotiations to secure the reopening of such banks.

"(n) Receivers or liquidators of member banks which are now or may hereafter become insolvent or suspended shall be entitled to offer the assets of such banks for sale to the Corporation or as security for loans from the Corporation, upon receiving permission from the appropriate State authority in accordance with express provisions of State law in the case of State member banks, or from the Comptroller of the Currency in the case of national banks. The proceeds of every such sale or loan shall be utilized for the same purposes and in the same manner as other funds realized from the liquidation of the assets of such banks. The Comptroller of the Currency may, in his discretion, pay dividends on proved claims at any time after the expiration of the period of advertisement made pursuant to section 5235 of the Revised Statutes (U.S.C., title 12, sec. 193), and no liability shall attach to the Comptroller of the Currency or to the receiver of any national bank by reason of any such payment for failure to pay dividends to a claimant whose claim is not proved at the time of any such payment.

"(o) The Corporation is authorized and empowered to issue and to have outstanding at any one time in an amount aggregating not more than three times the amount of its capital, its notes, debentures, bonds, or other such obligations, to be redeemable at the option of the Corporation before maturity in such manner as may be stipulated in such obligations, and to bear such rate or rates of interest, and to mature at such time or times as may be determined by the Corporation: *Provided*, That the Corporation may sell on a discount basis short-term obligations payable at maturity without interest. The notes, debentures, bonds, and other such obligations of the Corporation may be secured by assets of the Corporation in such manner as shall be prescribed by its board of directors. Such obligations may be offered for sale at such price or prices as the Corporation may determine.

"(p) All notes, debentures, bonds, or other such obligations issued by the Corporation shall be exempt, both as to principal and interest, from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. The Corporation, including its franchise, its capital, reserves, and surplus, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property of the Corporation shall be subject to State, Territorial, county, municipal or local taxation to the same extent according to its value as other real property is taxed.

"(q) In order that the Corporation may be supplied with such forms of notes, debentures, bonds, or other such obligations as it may need for issuance under this Act, the Secretary of the Treasury is authorized to prepare such forms as shall be suitable and approved by the Corporation, to be held in the Treasury subject to delivery, upon order of the Corporation. The engraved plates, dies, bed pieces, and

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other material executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such notes, debentures, bonds, or other such obligations.

" (r) The Corporation shall annually make a report of its operations to the Congress as soon as practicable after the 1st day of January in each year.

" (s) Whoever, for the purpose of obtaining any loan from the Corporation, or any extension or renewal thereof, or the acceptance, release, or substitution of security therefor, or for the purpose of inducing the Corporation to purchase any assets, or for the purpose of influencing in any way the action of the Corporation under this section, makes any statement, knowing it to be false, or willfully overvalues any security, shall be punished by a fine of not more than $5,000, or by imprisonment for not more than two years, or both.

" (t) Whoever (1) falsely makes, forges, or counterfeits any obligation or coupon, in imitation of or purporting to be an obligation or coupon issued by the Corporation, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited obligation or coupon purporting to have been issued by the Corporation, knowing the same to be false, forged, or counterfeited, or (3) falsely alters any obligation or coupon issued or purporting to have been issued by the Corporation, or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true, any falsely altered or spurious obligation or coupon, issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

" (u) Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged, or otherwise intrusted to it, or (2) with intent to defraud the Corporation or any other body, politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or without being duly authorized draws any order or issues, puts forth, or assigns any note, debenture, bond, or other such obligation, or draft, bill of exchange, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

" (v) No individual, association, partnership, or corporation shall use the words 'Federal Deposit Insurance Corporation', or a combination or any three of these four words, as the name or a part thereof under which he or it shall do business. No individual, association, partnership, or corporation shall advertise or otherwise represent falsely by any device whatsoever that his or its deposit liabilities are insured or in anywise guaranteed by the Federal Deposit Insurance Corporation, or by the Government of the United States, or by any instrumentality thereof; and no class A stockholder of the Federal Deposit Insurance Corporation shall

advertise or otherwise represent falsely by any device whatsoever the extent to which or the manner in which its deposit liabilities are insured by the Federal Deposit Insurance Corporation. Every individual, partnership, association, or corporation violating this subsection shall be punished by a fine of not exceeding $1,000, or by imprisonment not exceeding one year, or both.

"(w) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U.S.C., title 18, ch. 5, secs. 202 to 207, inclusive), in so far as applicable, are extended to apply to contracts or agreements with the Corporation under this section, which for the purposes hereof shall be held to include loans, advances, extensions, and renewals thereof, and acceptances, releases, and substitutions of security therefor, purchases or sales of assets, and all contracts and agreements pertaining to the same.

"(x) The Secret Service Division of the Treasury Department is authorized to detect, arrest, and deliver into the custody of the United States marshal having jurisdiction any person committing any of the offenses punishable under this section.

"(y) The Corporation shall open on its books a Temporary Federal Deposit Insurance Fund (hereinafter referred to as the 'Fund'), which shall become operative on January 1, 1934, unless the President shall by proclamation fix an earlier date, and it shall be the duty of the Corporation to insure deposits as hereinafter provided until July 1, 1934.

" Each member bank licensed before January 1, 1934, by the Secretary of the Treasury pursuant to the authority vested in him by the Executive order of the President issued March 10, 1933, shall, on or before January 1, 1934, become a member of the Fund; each member bank so licensed after such date, and each State bank trust company or mutual savings bank (referred to in this subsection as 'State bank', which term shall also include all banking institutions located in the District of Columbia) which becomes a member of the Federal Reserve System on or after such date, shall, upon being so licensed or so admitted to membership, become a member of the Fund; and any State bank which is not a member of the Federal Reserve System, with the approval of the authority having supervision of such State bank and certification to the Corporation by such authority that such State bank is in solvent condition, shall, after examination by, and with the approval of, the Corporation, be entitled to become a member of the Fund and to the privileges of this subsection upon agreeing to comply with the requirements thereof and upon paying to the Corporation an amount equal to the amount that would be required of it under this subsection if it were a member bank. The Corporation is authorized to prescribe rules and regulations for the further examination of such State bank, and to fix the compensation of examiners employed to make examinations of State banks.

" Each member of the Fund shall file with the Corporation on or before the date of its admission a certified statement under oath showing, as of the fifteenth day of the month preceding the month in which it was so admitted, the number of its depositors and the total amount of its deposits which are eligible for insurance under this subsection, and shall pay to the Corporation an amount equal

to one-half of 1 per centum of the total amount of the deposits so certified. One-half of such payment shall be paid in full at the time of the admission of such member to the Fund, and the remainder of such payment shall be subject to call from time to time by the board of directors of the Corporation. Within a reasonable time fixed by the Corporation each such member shall file a similar statement showing, as of June 15, 1934, the number of its depositors and the total amount of its deposits which are eligible for such insurance and shall pay to the Corporation in the same manner an amount equal to one-half of 1 per centum of the increase, if any, in the total amount of such deposits since the date covered by the statement filed upon its admission to membership in the fund.

"If at any time prior to July 1, 1934, the Corporation requires additional funds with which to meet its obligations under this subsection, each member of the Fund shall be subject to one additional assessment only in an amount not exceeding the total amount theretofore paid to the Corporation by such member.

"If any member of the Fund shall be closed on or before June 30, 1934, on account of inability to meet its deposit liabilities, the Corporation shall proceed in accordance with the provisions of subsection (l) of this section to pay the insured deposit liabilities of such member; except that the Corporation shall pay not more than $2,500 on account of the net approved claim of the owner of any deposit. The provisions of such subsection (l) relating to State member banks shall be extended for the purposes of this subsection to members of the Fund which are not members of the Federal Reserve System; and the provisions of this subsection shall apply only to deposits of members of the Fund which have been made available since March 10, 1933, for withdrawal in the usual course of the banking business.

"Before July 1, 1934, the Corporation shall make an estimate of the balance, if any, which will remain in the Fund after providing for all liabilities of the Fund, including expenses of operation thereof under this subsection and allowing for anticipated recoveries. The Corporation shall refund such estimated balance, on such basis as the Corporation shall find to be equitable, to the members of the Fund other than those which have been closed prior to July 1, 1934.

"Each State bank which is a member of the Fund, in order to obtain the benefits of this section after July 1, 1934, shall, on or before such date, subscribe and pay for the same amount of class A stock of the Corporation as it would be required to subscribe and pay for upon becoming a member bank, or if such State bank is not permitted by the laws under which it was organized to purchase such stock, it shall deposit with the Corporation an amount equal to the amount it would have been required to pay in on account of a subscription to such stock; and thereafter such State bank shall be entitled to such benefits until July 1, 1936.

"It is not the purpose of this section to discriminate, in any manner, against State nonmember, and in favor of, national or member banks; but the purpose is to provide all banks with the same opportunity to obtain and enjoy the benefits of this section. No bank shall be discriminated against because its capital stock is less

than the amount required for eligibility for admission into the Federal Reserve System."

SEC. 9. The eighth paragraph of section 13 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 347; Supp. VI, title 12, sec. 347), is amended to read as follows:

"Any Federal reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or by the deposit or pledge of debentures or other such obligations of Federal intermediate credit banks which are eligible for purchase by Federal reserve banks under section 13 (a) of this Act; and any Federal reserve bank may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act. All such advances shall be made at rates to be established by such Federal reserve banks, such rates to be subject to the review and determination of the Federal Reserve Board. If any member bank to which any such advance has been made shall, during the life or continuance of such advance, and despite an official warning of the reserve bank of the district or of the Federal Reserve Board to the contrary, increase its outstanding loans secured by collateral in the form of stocks, bonds, debentures, or other such obligations, or loans made to members of any organized stock exchange, investment house, or dealer in securities, upon any obligation, note, or bill, secured or unsecured, for the purpose of purchasing and/or carrying stocks, bonds, or other investment securities (except obligations of the United States) such advance shall be deemed immediately due and payable, and such member bank shall be ineligible as a borrower at the reserve bank of the district under the provisions of this paragraph for such period as the Federal Reserve Board shall determine: *Provided*, That no temporary carrying or clearance loans made solely for the purpose of facilitating the purchase or delivery of securities offered for public subscription shall be included in the loans referred to in this paragraph."

SEC. 10. Section 14 of the Federal Reserve Act, as amended (U. S. C., title 12, secs. 353–358), is amended by adding at the end thereof the following new paragraph:

"(g) The Federal Reserve Board shall exercise special supervision over all relationships and transactions of any kind entered into by any Federal reserve bank with any foreign bank or banker, or with any group of foreign banks or bankers, and all such relationships and transactions shall be subject to such regulations, conditions, and limitations as the Board may prescribe. No officer or other representative of any Federal reserve bank shall conduct negotiations of any kind with the officers or representatives of any foreign bank or banker without first obtaining the permission of the Federal Reserve Board. The Federal Reserve Board shall have the right, in its discretion, to be represented in any conference or negotiations by such representative or representatives as the Board may designate. A full report of all conferences or negotiations, and all understand-

ings or agreements arrived at or transactions agreed upon, and all other material facts appertaining to such conferences or negotiations, shall be filed with the Federal Reserve Board in writing by a duly authorized officer of each Federal reserve bank which shall have participated in such conferences or negotiations."

SEC. 11. (a) Section 19 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 142, 374, 461–466; Supp. VI, title 12, sec. 462a), is amended by inserting after the sixth paragraph thereof the following new paragraph:

"No member bank shall act as the medium or agent of any non-banking corporation, partnership, association, business trust, or individual in making loans on the security of stocks, bonds, and other investment securities to brokers or dealers in stocks, bonds, and other investment securities. Every violation of this provision by any member bank shall be punishable by a fine of not more than $100 per day during the continuance of such violation; and such fine may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located."

(b) Such section 19 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof the following new paragraphs:

"No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided*, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract heretofore entered into in good faith which is in force on the date of the enactment of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided, however*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located in a foreign country, and shall not apply to any deposit made by a mutual savings bank, nor to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, with respect to which payment of interest is required under State law.

"The Federal Reserve Board shall from time to time limit by regulation the rate of interest which may be paid by member banks on time deposits, and may prescribe different rates for such payment on time and savings deposits having different maturities or subject to different conditions respecting withdrawal or repayment or subject to different conditions by reason of different locations. No member bank shall pay any time deposit before its maturity, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement."

(c) Section 8 of the Act entitled "An Act to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof, and for other purposes", approved June 25, 1910, as amended (U.S.C., title 39, sec. 758), is amended by striking out the first sentence thereof and

inserting in lieu thereof the following: "Any depositor may withdraw the whole or any part of the funds deposited to his or her credit with the accrued interest only on notice given sixty days in advance and under such regulations as the Postmaster General may prescribe; but withdrawal of any part of such funds may be made upon demand, but no interest shall be paid on any funds so withdrawn except interest accrued to the date of enactment of the Banking Act of 1933: *Provided*, That Postal Savings depositories may deposit funds in member banks on time under regulations to be prescribed by the Postmaster General."

(d) The second sentence of section 9 of the Act entitled "An Act to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof, and for other purposes", approved June 25, 1910, as amended (U.S.C., title 39, sec. 759), is amended by striking out the period at the end thereof and inserting in lieu thereof a colon and the following: "*Provided*, That no such security shall be required in case of such part of the deposits as are insured under section 12B of the Federal Reserve Act, as amended."

SEC. 12. Section 22 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 375, 376, 503, 593–595; Supp. VI, title 12, sec. 593), is further amended by adding at the end thereof the following new paragraph:

"(g) No executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers: *Provided*, That loans heretofore made to any such officer may be renewed or extended not more than two years from the date this paragraph takes effect, if in accord with sound banking practice. If any executive officer of any member bank borrow from or if he be or become indebted to any bank other than a member bank of which he is an executive officer, he shall make a written report to the chairman of the board of directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor, and the purpose for which the proceeds have been or are to be used. Any executive officer of any member bank violating the provisions of this paragraph shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year, or fined not more than $5,000, or both; and any member bank violating the provisions of this paragraph shall be fined not more than $10,000, and may be fined a further sum equal to the amount so loaned or credit so extended."

SEC. 13. The Federal Reserve Act, as amended, is amended by inserting between sections 23 and 24 thereof (U.S.C., title 12, secs. 64 and 371; Supp. VI, title 12, sec. 371) the following new section:

"SEC. 23A. No member bank shall (1) make any loan or any extension of credit to, or purchase securities under repurchase agreement from, any of its affiliates, or (2) invest any of its funds in the capital stock, bonds, debentures, or other such obligations of any such affiliate, or (3) accept the capital stock, bonds, debentures, or other such obligations of any such affiliate as collateral security for advances made to any person, partnership, association, or corpora-

tion, if, in the case of any such affiliate, the aggregate amount of such loans, extensions of credit, repurchase agreements, investments, and advances against such collateral security will exceed 10 per centum of the capital stock and surplus of such member bank, or if, in the case of all such affiliates, the aggregate amount of such loans, extensions of credits, repurchase agreements, investments, and advances against such collateral security will exceed 20 per centum of the capital stock and surplus of such member bank.

"Within the foregoing limitations, each loan or extension of credit of any kind or character to an affiliate shall be secured by collateral in the form of stocks, bonds, debentures, or other such obligations having a market value at the time of making the loan or extension of credit of at least 20 per centum more than the amount of the loan or extension of credit, or of at least 10 per centum more than the amount of the loan or extension of credit if it is secured by obligations of any State, or of any political subdivision or agency thereof: *Provided*, That the provisions of this paragraph shall not apply to loans or extensions of credit secured by obligations of the United States Government, the Federal intermediate credit banks, the Federal land banks, the Federal Home Loan Banks, or the Home Owners' Loan Corporation, or by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks. A loan or extension of credit to a director officer, clerk, or other employee or any representative of any such affiliate shall be deemed a loan to the affiliate to the extent that the proceeds of such loan are used for the benefit of, or transferred to, the affiliate.

"For the purposes of this section the term 'affiliate' shall include holding company affiliates as well as other affiliates, and the provisions of this section shall not apply to any affiliate (1) engaged solely in holding the bank premises of the member bank with which it is affiliated, (2) engaged solely in conducting a safe-deposit business or the business of an agricultural credit corporation or livestock loan company, (3) in the capital stock of which a national banking association is authorized to invest pursuant to section 25 of the Federal Reserve Act, as amended, (4) organized under section 25 (a) of the Federal Reserve Act, as amended, or (5) engaged solely in holding obligations of the United States Government, the Federal intermediate credit banks, the Federal land banks, the Federal Home Loan Banks, or the Home Owners' Loan Corporation; but as to any such affiliate, member banks shall continue to be subject to other provisions of law applicable to loans by such banks and investments by such banks in stocks, bonds, debentures, or other such obligations."

SEC. 14. The Federal Reserve Act, as amended, is amended by inserting between section 24 and section 25 thereof (U.S.C., title 12, secs. 371 and 601–605; Supp. VI, title 12, sec. 371) the following new section:

"SEC. 24A. Hereafter no national bank, without the approval of the Comptroller of the Currency, and no State member bank, without the approval of the Federal Reserve Board, shall (1) invest in bank premises, or in the stock, bonds, debentures, or other such obligations of any corporation holding the premises of such bank

or (2) make loans to or upon the security of the stock of any such corporation, if the aggregate of all such investments and loans will exceed the amount of the capital stock of such bank."

SEC. 15. The Federal Reserve Act, as amended, is further amended by inserting after section 25 (a) thereof (U.S.C., title 12, sec. 611–631) the following new section:

"SEC. 25. (b) Notwithstanding any other provision of law all suits of a civil nature at common law or in equity to which any corporation organized under the laws of the United States shall be a party, arising out of transactions involving international or foreign banking, or banking in a dependency or insular possession of the United States, or out of other international or foreign financial operations, either directly or through the agency, ownership, or control of branches or local institutions in dependencies or insular possessions of the United States or in foreign countries, shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and any defendant in any such suit may, at any time before the trial thereof, remove such suits from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law. Such removal shall not cause undue delay in the trial of such case and a case so removed shall have a place on the calendar of the United States court to which it is removed relative to that which it held on the State court from which it was removed.

"Notwithstanding any other provision of law, all suits of a civil nature at common law or in equity to which any Federal Reserve bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and any Federal Reserve bank which is a defendant in any such suit may, at any time before the trial thereof, remove such suit from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law. No attachment or execution shall be issued against any Federal Reserve bank or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court."

SEC. 16. Paragraph "Seventh" of section 5136 of the Revised Statutes, as amended (U.S.C., title 12, sec. 24; Supp. VI, title 12, sec. 24), is amended to read as follows:

"Seventh. To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title. The business of dealing in investment securities by the association shall be limited to purchasing and selling such securities without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities: *Provided*, That the association may purchase for its own account investment securities under

such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe, but in no event (1) shall the total amount of any issue of investment securities of any one obligor or maker purchased after this section as amended takes effect and held by the association for its own account exceed at any time 10 per centum of the total amount of such issue outstanding, but this limitation shall not apply to any such issue the total amount of which does not exceed $100,000 and does not exceed 50 per centum of the capital of the association, nor (2) shall the total amount of the investment securities of any one obligor or maker purchased after this section as amended takes effect and held by the association for its own account exceed at any time 15 per centum of the amount of the capital stock of the association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund. As used in this section the term 'investment securities' shall mean marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes and/or debentures commonly known as investment securities under such further definition of the term 'investment securities' as may by regulation be prescribed by the Comptroller of the Currency. Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association of any shares of stock of any corporation. The limitations and restrictions herein contained as to dealing in, underwriting and purchasing for its own account, investment securities shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act, as amended, or issued by the Federal Home Loan Banks or the Home Owners' Loan Corporation: *Provided*, That in carrying on the business commonly known as the safe-deposit business the association shall not invest in the capital stock of a corporation organized under the law of any State to conduct a safe-deposit business in an amount in excess of 15 per centum of the capital stock of the association actually paid in and unimpaired and 15 per centum of its unimpaired surplus."

The restrictions of this section as to dealing in investment securities shall take effect one year after the date of the approval of this Act.

SEC. 17. (a) Section 5138 of the Revised Statutes, as amended (U.S.C., title 12, sec. 51; Supp. VI, title 12, sec. 51), is amended to read as follows:

"SEC. 5138. After this section as amended takes effect, no national banking association shall be organized with a less capital than $100,000, except that such associations with a capital of not less than $50,000 may be organized in any place the population of which does not exceed six thousand inhabitants. No such association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than $200,000, except that in the outlying districts of such a city where the State laws permit the organization of State banks with a capital of $100,000 or less, national banking associations now organized or hereafter organized may, with the approval of the Comptroller of the Currency, have a capital of not less than $100,000."

(b) The tenth paragraph of section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 329), is amended to read as follows:

"No 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 Bank Act, as amended: *Provided*, That this paragraph shall not apply to State banks and trust companies organized prior to the date this paragraph as amended takes effect and situated in a place the population of which does not exceed three thousand inhabitants and having a capital of not less than $25,000, nor to any State bank or trust company which is so situated and which, while it is entitled to the benefits of insurance under section 12B of this Act, increases its capital to not less than $25,000."

SEC. 18. Section 5139 of the Revised Statutes, as amended (U.S.C., title 12, sec. 52; Supp. VI, title 12, sec. 52), is amended by adding at the end thereof the following new paragraph:

"After one year from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any such association shall represent the stock of any other corporation, except a member bank or a corporation existing on the date this paragraph takes effect engaged solely in holding the bank premises of such association, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank."

SEC. 19. Section 5144 of the Revised Statutes, as amended (U.S.C., title 12, sec. 61), is amended to read as follows:

"SEC. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit; and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him; except (1) that shares of its own stock held by a national bank as sole trustee shall not be voted, and shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (2) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote.

"For the purposes of this section shares shall be deemed to be controlled by a holding company affiliate if they are owned or controlled directly or indirectly by such holding company affiliate, or held by any trustee for the benefit of the shareholders or members thereof.

"Any such holding company affiliate may make application to the Federal Reserve Board for a voting permit entitling it to cast one vote at all elections of directors and in deciding all questions at meetings of shareholders of such bank on each share of stock controlled by it or authorizing the trustee or trustees holding the stock for its benefit or for the benefit of its shareholders so to vote the same. The Federal Reserve Board may, in its discretion, grant or withhold such permit as the public interest may require. In acting upon such application, the Board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank, but no such permit shall be granted except upon the following conditions:

" (a) Every such holding company affiliate shall, in making the application for such permit, agree (1) to receive, on dates identical with those fixed for the examination of banks with which it is affiliated, examiners duly authorized to examine such banks, who shall make such examinations of such holding company affiliate as shall be necessary to disclose fully the relations between such banks and such holding company affiliate and the effect of such relations upon the affairs of such banks, such examinations to be at the expense of the holding company affiliate so examined; (2) that the reports of such examiners shall contain such information as shall be necessary to disclose fully the relations between such affiliate and such banks and the effect of such relations upon the affairs of such banks; (3) that such examiners may examine each bank owned or controlled by the holding company affiliate, both individually and in conjunction with other banks owned or controlled by such holding company affiliate; and (4) that publication of individual or consolidated statements of condition of such banks may be required;

" (b) After five years after the enactment of the Banking Act of 1933, every such holding company affiliate (1) shall possess, and shall continue to possess during the life of such permit, free and clear of any lien, pledge, or hypothecation of any nature, readily marketable assets other than bank stock in an amount not less than 12 per centum of the aggregate par value of all bank stocks controlled by such holding company affiliate, which amount shall be increased by not less than 2 per centum per annum of such aggregate par value until such assets shall amount to 25 per centum of the aggregate par value of such bank stocks; and (2) shall reinvest in readily marketable assets other than bank stock all net earnings over and above 6 per centum per annum on the book value of its own shares outstanding until such assets shall amount to such 25 per centum of the aggregate par value of all bank stocks controlled by it;

" (c) Notwithstanding the foregoing provisions of this section, after five years after the enactment of the Banking Act of 1933, (1) any such holding company affiliate the shareholders or members of which shall be individually and severally liable in proportion to the number of shares of such holding company affiliate held by them respectively, in addition to amounts invested therein, for all statutory liability imposed on such holding company affiliate by reason of its control of shares of stock of banks, shall be required only to

establish and maintain out of net earnings over and above 6 per centum per annum on the book value of its own shares outstanding a reserve of readily marketable assets in an amount of not less than 12 per centum of the aggregate par value of bank stocks controlled by it, and (2) the assets required by this section to be possessed by such holding company affiliate may be used by it for replacement of capital in banks affiliated with it and for losses incurred in such banks, but any deficiency in such assets resulting from such use shall be made up within such period as the Federal Reserve Board may by regulation prescribe;

" (d) Every officer, director, agent, and employee of every such holding company affiliate shall be subject to the same penalties for false entries in any book, report, or statement of such holding company affiliate as are applicable to officers, directors, agents, and employees of member banks under section 5209 of the Revised Statutes, as amended (U.S.C., title 12, sec. 592); and

" (e) Every such holding company affiliate shall, in its application for such voting permit, (1) show that it does not own, control, or have any interest in, and is not participating in the management or direction of, any corporation, business trust, association, or other similar organization formed for the purpose of, or engaged principally in, the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail or through syndicate participation, of stocks, bonds, debentures, notes, or other securities of any sort (hereinafter referred to as 'securities company'); (2) agree that during the period that the permit remains in force it will not acquire any ownership, control, or interest in any such securities company or participate in the management or direction thereof; (3) agree that if, at the time of filing the application for such permit, it owns, controls, or has an interest in, or is participating in the management or direction of, any such securities company, it will, within five years after the filing of such application, divest itself of its ownership, control, and interest in such securities company and will cease participating in the management or direction thereof, and will not thereafter, during the period that the permit remains in force, acquire any further ownership, control, or interest in any such securities company or participate in the management or direction thereof; and (4) agree that thenceforth it will declare dividends only out of actual net earnings.

"If at any time it shall appear to the Federal Reserve Board that any holding company affiliate has violated any of the provisions of the Banking Act of 1933 or of any agreement made pursuant to this section, the Federal Reserve Board may, in its discretion, revoke any such voting permit after giving sixty days' notice by registered mail of its intention to the holding company affiliate and affording it an opportunity to be heard. Whenever the Federal Reserve Board shall have revoked any such voting permit, no national bank whose stock is controlled by the holding company affiliate whose permit is so revoked shall receive deposits of public moneys of the United States, nor shall any such national bank pay any further dividend to such holding company affiliate upon any shares of such bank controlled by such holding company affiliate.

"Whenever the Federal Reserve Board shall have revoked any voting permit as hereinbefore provided, the rights, privileges, and franchises of any or all national banks the stock of which is controlled by such holding company affiliate shall, in the discretion of the Federal Reserve Board, be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended."

SEC. 20. After one year from the date of the enactment of this Act, no member bank shall be affiliated in any manner described in section 2 (b) hereof with any corporation, association, business trust, or other similar organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities.

For every violation of this section the member bank involved shall be subject to a penalty not exceeding $1,000 per day for each day during which such violation continues. Such penalty may be assessed by the Federal Reserve Board, in its discretion, and, when so assessed, may be collected by the Federal reserve bank by suit or otherwise.

If any such violation shall continue for six calendar months after the member bank shall have been warned by the Federal Reserve Board to discontinue the same, (a) in the case of a national bank, all the rights, privileges, and franchises granted to it under the National Bank Act may be forfeited in the manner prescribed in section 2 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 141, 222–225, 281–286, and 502), or, (b) in the case of a State member bank, all of its rights and privileges of membership in the Federal Reserve System may be forfeited in the manner prescribed in section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 321–332).

SEC. 21. (a) After the expiration of one year after the date of enactment of this Act it shall be unlawful—

(1) For any person, firm, corporation, association, business trust, or other similar organization, engaged in the business of issuing, underwriting, selling, or distributing, at wholesale or retail, or through syndicate participation, stocks, bonds, debentures, notes, or other securities, to engage at the same time to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor; or

(2) For any person, firm, corporation, association, business trust, or other similar organization, other than a financial institution or private banker subject to examination and regulation under State or Federal law, to engage to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor, unless such person, firm, corporation, association, business trust, or other similar organization shall submit to periodic examination by the Comptroller of the Currency or by the Federal reserve bank of the district and shall make and publish periodic reports of its condition, exhibiting in detail its resources and liabilities, such examination and reports to be made and published at the same times and in the same manner and with like effect

and penalties as are now provided by law in respect of national banking associations transacting business in the same locality.

(b) Whoever shall willfully violate any of the provisions of this section shall upon conviction be fined not more than $5,000 or imprisoned not more than five years, or both, and any officer, director, employee, or agent of any person, firm, corporation, association, business trust, or other similar organization who knowingly participates in any such violation shall be punished by a like fine or imprisonment or both.

SEC. 22. The additional liability imposed upon shareholders in national banking associations by the provisions of section 5151 of the Revised Statutes, as amended, and section 23 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 63 and 64), shall not apply with respect to shares in any such association issued after the date of enactment of this Act.

SEC. 23. Paragraph (c) of section 5155 of the Revised Statutes, as amended (U.S.C., title 12, sec. 36), is amended to read as follows:

"(c) A national banking association may, with the approval of the Comptroller of the Currency, establish and operate new branches: (1) Within the limits of the city, town or village in which said association is situated, if such establishment and operation are at the time expressly authorized to State banks by the law of the State in question; and (2) at any point within the State in which said association is situated, if such establishment and operation are at the time authorized to State banks by the statute law of the State in question by language specifically granting such authority affirmatively and not merely by implication or recognition, and subject to the restrictions as to location imposed by the law of the State on State banks. No such association shall establish a branch outside of the city, town, or village in which it is situated unless it has a paid-in and unimpaired capital stock of not less than $500,000: *Provided*, That in States with a population of less than one million, and which have no cities located therein with a population exceeding one hundred thousand, the capital shall be not less than $250,000: *Provided*, That in States with a population of less than one-half million, and which have no cities located therein with a population exceeding fifty thousand, the capital shall not be less than $100,000."

Paragraph (d) of section 5155 of the Revised Statutes, as amended (U.S.C., title 12, sec. 36), is amended to read as follows:

"(d) The aggregate capital of every national banking association and its branches shall at no time be less than the aggregate minimum capital required by law for the establishment of an equal number of national banking associations situated in the various places where such association and its branches are situated."

SEC. 24. (a) Sections 1 and 3 of the Act entitled "An Act to provide for the consolidation of national banking associations", approved November 7, 1918, as amended (U.S.C., title 12, secs. 33, 34, and 34a), are amended by striking out the words " county, city, town, or village " wherever they occur in each such section, and inserting in lieu thereof the words " State, county, city, town, or village."

(b) Section 3 of such Act of November 7, 1918, as amended, is further amended by striking out the second sentence thereof and inserting in lieu thereof the following: " The capital stock of such

consolidated association shall not be less than that required under existing law for the organization of a national banking association in the place in which such consolidated association is located. Upon such a consolidation, or upon a consolidation of two or more national banking associations under section 1 of this Act, the corporate existence of each of the constituent banks and national banking associations participating in such consolidation shall be merged into and continued in the consolidated national banking association and the consolidated association shall be deemed to be the same corporation as each of the constituent institutions. All the rights, franchises, and interests of each of such constituent banks and national banking associations in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such consolidated national banking association without any deed or other transfer; and such consolidated national banking association, by virtue of such consolidation and without any order or other action on the part of any court or otherwise, shall hold and enjoy the same and all rights of property, franchises, and interests, including appointments, designations, and nominations and all other rights and interests as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics and in every other fiduciary capacity, in the same manner and to the same extent as such rights, franchises, and interests were held or enjoyed by any such constituent institution at the time of such consolidation: *Provided, however*, That where any such constituent institution at the time of such consolidation was acting under appointment of any court as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics or in any other fiduciary capacity, the consolidated national banking association shall be subject to removal by a court of competent jurisdiction in the same manner and to the same extent as was such constituent corporation prior to the consolidation, and nothing herein contained shall be construed to impair in any manner the right of any court to remove such a consolidated national banking association and to appoint in lieu thereof a substitute trustee, executor, or other fiduciary, except that such right shall not be exercised in such a manner as to discriminate against national banking associations, nor shall any such consolidated association be removed solely because of the fact that it is a national banking association."

SEC. 25. The first two sentences of section 5197 of the Revised Statutes (U.S.C., title 12, sec. 85) are amended to read as follows:

"Any association may take, receive, reserve, and charge on any loan or discount made, or upon any notes, bills of exchange, or other evidences of debt, interest at the rate allowed by the laws of the State, Territory, or District where the bank is located, or at a rate of 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal reserve bank in the Federal reserve district where the bank is located, whichever may be the greater, and no more, except that where by the laws of any State a different rate is limited for banks organized under State laws, the rate so limited shall be allowed for associations organized or existing in any such State under this title. When no rate is fixed by the laws of the

State, or Territory, or District, the bank may take, receive, reserve, or charge a rate not exceeding 7 per centum, or 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal reserve bank in the Federal reserve district where the bank is located, whichever may be the greater, and such interest may be taken in advance, reckoning the days for which the note, bill, or other evidence of debt has to run."

SEC. 26. (a) The second sentence of the first paragraph of section 5200 of the Revised Statutes, as amended (U.S.C., title 12, sec. 84; Supp. VI, title 12, sec. 84), is amended by inserting before the period at the end thereof the following: " and shall include in the case of obligations of a corporation all obligations of all subsidiaries thereof in which such corporation owns or controls a majority interest."

(b) The amendment made by this section shall not apply to such obligations of subsidiaries held by such association on the date this section takes effect.

SEC. 27. Section 5211 of the Revised Statutes, as amended (U.S.C., title 12, sec. 161; Supp. VI, title 12, sec. 161), is amended by adding at the end thereof the following new paragraph:

" Each national banking association shall obtain from each of its affiliates other than member banks and furnish to the Comptroller of the Currency not less than three reports during each year, in such form as the Comptroller may prescribe, verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, disclosing the information hereinafter provided for as of dates identical with those for which the Comptroller shall during such year require the reports of the condition of the association. For the purpose of this section the term 'affiliate' shall include holding company affiliates as well as other affiliates. Each such report of an affiliate shall be transmitted to the Comptroller at the same time as the corresponding report of the association, except that the Comptroller may, in his discretion, extend such time for good cause shown. Each such report shall contain such information as in the judgment of the Comptroller of the Currency shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Comptroller to inform himself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the association under the same conditions as govern its own condition reports. The Comptroller shall also have power to call for additional reports with respect to any such affiliate whenever in his judgment the same are necessary in order to obtain a full and complete knowledge of the conditions of the association with which it is affiliated. Such additional reports shall be transmitted to the Comptroller of the Currency in such form as he may prescribe. Any such affiliated bank which fails to obtain and furnish any report required under this section shall be subject to a penalty of $100 for each day during which such failure continues."

SEC. 28. (a) The first paragraph of section 5240 of the Revised Statutes, as amended (U.S.C., title 12, sec. 481), is amended by inserting before the period at the end thereof a colon and the following proviso: " *Provided*, That in making the examination of any national bank the examiners shall include such an examination of

the affairs of all its affiliates other than member banks as shall be necessary to disclose fully the relations between such bank and such affiliates and the effect of such relations upon the affairs of such bank; and in the event of the refusal to give any information required in the course of the examination of any such affiliate, or in the event of the refusal to permit such examination, all the rights, privileges, and franchises of the bank shall be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 141, 222–225, 281–286, and 502). The Comptroller of the Currency shall have power, and he is hereby authorized, to publish the report of his examination of any national banking association or affiliate which shall not within one hundred and twenty days after notification of the recommendations or suggestions of the Comptroller, based on said examination, have complied with the same to his satisfaction. Ninety days' notice prior to such publicity shall be given to the bank or affiliate."

(b) Section 5240 of the Revised Statutes, as amended (U.S.C., title 12, sec. 481), is further amended by adding after the first paragraph thereof the following new paragraph:

"The examiner making the examination of any affiliate of a national bank shall have power to make a thorough examination of all the affairs of the affiliate, and in doing so he shall have power to administer oaths and to examine any of the officers, directors, employees, and agents thereof under oath and to make a report of his findings to the Comptroller of the Currency. The expense of examinations of such affiliates may be assessed by the Comptroller of the Currency upon the affiliates examined in proportion to assets or resources held by the affiliates upon the dates of examination of the various affiliates. If any such affiliate shall refuse to pay such expenses or shall fail to do so within sixty days after the date of such assessment, then such expenses may be assessed against the affiliated national bank and, when so assessed, shall be paid by such national bank: *Provided, however*, That, if the affiliation is with two or more national banks, such expenses may be assessed against, and collected from, any or all of such national banks in such proportions as the Comptroller of the Currency may prescribe. The examiners and assistant examiners making the examinations of national banking associations and affiliates thereof herein provided for and the chief examiners, reviewing examiners and other persons whose services may be required in connection with such examinations or the reports thereof, shall be employed by the Comptroller of the Currency with the approval of the Secretary of the Treasury; the employment and compensation of examiners, chief examiners, reviewing examiners, assistant examiners, and of the other employees of the office of the Comptroller of the Currency whose compensation is paid from assessments on banks or affiliates thereof shall be without regard to the provisions of other laws applicable to officers or employees of the United States. The funds derived from such assessments may be deposited by the Comptroller of the Currency in accordance with the provisions of section 5234 of the Revised Statutes (U.S.C., title 12, sec. 192) and shall not be construed to be Government funds or appropriated monies; and the Comptroller of the Currency is authorized and empowered to prescribe regulations governing the

computation and assessment of the expenses of examinations herein provided for and the collection of such assessments from the banks and/or affiliates examined. If any affiliate of a national bank shall refuse to permit an examiner to make an examination of the affiliate or shall refuse to give any information required in the course of any such examination, the national bank with which it is affiliated shall be subject to a penalty of not more than $100 for each day that any such refusal shall continue. Such penalty may be assessed by the Comptroller of the Currency and collected in the same manner as expenses of examinations."

SEC. 29. In any case in which, in the opinion of the Comptroller of the Currency, it would be to the advantage of the depositors and unsecured creditors of any national banking association whose business has been closed, for such association to resume business upon the retention by the association, for a reasonable period to be prescribed by the Comptroller, of all or any part of its deposits, the Comptroller is authorized, in his discretion, to permit the association to resume business if depositors and unsecured creditors of the association representing at least 75 per centum of its total deposit and unsecured credit liabilities consent in writing to such retention of deposits. Nothing in this section shall be construed to affect in any manner any powers of the Comptroller under the provisions of law in force on the date of enactment of this Act with respect to the reorganization of national banking associations.

SEC. 30. Whenever, in the opinion of the Comptroller of the Currency, any director or officer of a national bank, or of a bank or trust company doing business in the District of Columbia, or whenever, in the opinion of a Federal reserve agent, any director or officer of a State member bank in his district shall have continued to violate any law relating to such bank or trust company or shall have continued unsafe or unsound practices in conducting the business of such bank or trust company, after having been warned by the Comptroller of the Currency or the Federal reserve agent, as the case may be, to discontinue such violations of law or such unsafe or unsound practices, the Comptroller of the Currency or the Federal reserve agent, as the case may be, may certify the facts to the Federal Reserve Board. In any such case the Federal Reserve Board may cause notice to be served upon such director or officer to appear before such Board to show cause why he should not be removed from office. A copy of such order shall be sent to each director of the bank affected, by registered mail. If after granting the accused director or officer a reasonable opportunity to be heard, the Federal Reserve Board finds that he has continued to violate any law relating to such bank or trust company or has continued unsafe or unsound practices in conducting the business of such bank or trust company after having been warned by the Comptroller of the Currency or the Federal reserve agent to discontinue such violation of law or such unsafe or unsound practices, the Federal Reserve Board, in its discretion, may order that such director or officer be removed from office. A copy of such order shall be served upon such director or officer. A copy of such order shall also be served upon the bank of which he is a director or officer, whereupon such director or officer shall cease to be a director or officer of such bank: *Provided*, That

such order and the findings of fact upon which it is based shall not be made public or disclosed to anyone except the director or officer involved and the directors of the bank involved, otherwise than in connection with proceedings for a violation of this section. Any such director or officer removed from office as herein provided who thereafter participates in any manner in the management of such bank shall be fined not more than $5,000, or imprisoned for not more than five years, or both, in the discretion of the court.

SEC. 31. After one year from the date of enactment of this Act, notwithstanding any other provision of law, the board of directors, board of trustees, or other similar governing body of every national banking association and of every State bank or trust company which is a member of the Federal Reserve System shall consist of not less than five nor more than twenty-five members; and every director, trustee, or other member of such governing body shall be the bona fide owner in his own right of shares of stock of such banking association, State bank or trust company having a par value in the aggregate of not less than $2,500, unless the capital of the bank shall not exceed $50,000, in which case he must own in his own right shares having a par value in the aggregate of not less than $1,500, or unless the capital of the bank shall not exceed $25,000, in which case he must own in his own right shares having a par value in the aggregate of not less than $1,000. If any national banking association violates the provisions of this section and continues such violation after thirty days' notice from the Comptroller of the Currency, the said Comptroller may appoint a receiver or conservator therefor, in accordance with the provisions of existing law. If any State bank or trust company which is a member of the Federal Reserve System violates the provisions of this section and continues such violation after thirty days' notice from the Federal Reserve Board, it shall be subject to the forfeiture of its membership in the Federal Reserve System in accordance with the provisions of section 9 of the Federal Reserve Act, as amended.

SEC. 32. From and after January 1, 1934, no officer or director of any member bank shall be an officer, director, or manager of any corporation, partnership, or unincorporated association engaged primarily in the business of purchasing, selling, or negotiating securities, and no member bank shall perform the functions of a correspondent bank on behalf of any such individual, partnership, corporation, or unincorporated association and no such individual, partnership, corporation, or unincorporated association shall perform the functions of a correspondent for any member bank or hold on deposit any funds on behalf of any member bank, unless in any such case there is a permit therefor issued by the Federal Reserve Board; and the Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest, and to revoke any such permit whenever it finds after reasonable notice and opportunity to be heard, that the public interest requires such revocation.

SEC. 33. The Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes", approved October 15, 1914, as amended (U.S.C., title 15, sec. 19), is

hereby amended by adding after section 8 thereof the following new section:

"SEC. 8A. That from and after the 1st day of January 1934, no director, officer, or employee of any bank, banking association, or trust company, organized or operating under the laws of the United States shall be at the same time a director, officer, or employee of a corporation (other than a mutual savings bank) or a member of a partnership organized for any purpose whatsoever which shall make loans secured by stock or bond collateral to any individual, association, partnership, or corporation other than its own subsidiaries."

SEC. 34. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Approved, June 16, 1933, 11.45 a.m.

BANKING ACT OF 1935

74TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 742

BANKING ACT OF 1935

APRIL 19, 1935.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. STEAGALL, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany H. R. 7617]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 7617) to provide for the sound, effective, and uninterrupted operation of the banking system, and for other purposes having considered the same, report favorably thereon and recommend that the bill do pass.

GENERAL STATEMENT

Title I of the bill deals with Federal deposit insurance and places it on a permanent basis by consolidating the temporary Federal deposit insurance fund and the fund for mutuals into the permanent insurance fund for deposits, operative immediately upon enactment of the title.

Title II contains certain amendments to the Federal Reserve Act. The fundamental purposes of these amendments are as follows:

1. To increase the ability of the banking system to promote stability of employment and business, insofar as this is possible within the scope of monetary action and credit administration.
2. To concentrate the authority and responsibility for the formulation of national monetary policy in a body representing the general public interest.
3. To modify the structure of the Federal Reserve System to the extent necessary for the accomplishment of these purposes, but without interfering with regional autonomy in matters of local concern.
4. To relieve the banks of the country of unnecessary and hampering restrictions, and thus enable them to meet the credit needs of their communities more adequately and contribute more effectively to the acceleration of recovery.

Title III consists of a number of technical amendments to the National Bank Act, the Federal Reserve Act, the Banking Act of

1933, and related statutes. These amendments make no fundamental changes in the existing banking laws but are designed to improve and facilitate the administration of these laws by eliminating unnecessary inconveniences and hardships and by revising certain provisions which have been found difficult to administer in their present form.

There follows a summary of the bill by titles.

TITLE I. FEDERAL DEPOSIT INSURANCE

Through the existing insurance in more than 14,000 of our 15,000 banks, there is universal justified confidence among the depositors in insured banks and the provisions in title I will place Federal deposit insurance on a permanent basis by consolidating the temporary Federal deposit insurance fund and the fund for mutuals into the permanent insurance fund for deposits, operative immediately upon the enactment of the title (subdivision 12).

It has now been reliably determined that the $5,000 maximum insurance protection to each depositor insures in full the deposits of more than 98 percent of the depositors in insured banks and the committee has been impressed that it is neither necessary nor expedient at this time to increase the insured deposit liability carried by the Federal Deposit Insurance Corporation to give added protection to the remaining one and a fraction percent of the bank depositors. Consequently, the provisions of title I (subdivision 12) continue hereafter the present maximum insurance protection of $5,000 to each depositor and repeal the existing provisions of law which call for insurance of larger amounts after July 1, 1935.

It has also been determined by the committee that insurance assessments, based upon the insured deposit liability alone, place too large a burden upon small banking institutions, especially when reasonable regard is given to the necessity for general safety in the banking structure and to the comparative benefits. Adequate funds can be supplied to provide sound insurance with a lower original rate of levy than that provided in the Banking Act of 1933, and without subjecting the insured banks to unlimited liability for assessments. Title I (subdivision 8) therefore provides that insured banks shall pay an annual assessment of one-eighth of 1 percent payable in two installments, upon total deposit liabilities, without liability for added assessments, and repeals the provision of existing law requiring an assessment on July 1, 1935, of one-fourth of 1 percent upon total deposit liabilities as the purchase price of class A stock, with unlimited liability for subsequent assessments as needed. Under the annual assessment plan of title I a reserve fund will be gradually amassed to provide against periods when the Corporation might be called upon to pay large amounts of insured deposit liabilities.

The Corporation has received as capital funds approximately $290,000,000 from the sale of its stock to the United States and to the Federal Reserve banks. The Corporation is relieved of all requirements calling for the paying of dividends on any stock issued by it. In addition to these capital funds and the annual assessments to be paid by insured banks, provision is made, in case of need, for making available to the Corporation added funds from the sale of its obligations up to the extent of more than a billion dollars. These obliga-

tions to be sold by the Corporation may be guaranteed as to principal and interest by the Government of the United States.

Title I continues the feature of the Banking Act of 1933 that it is compulsory for all member banks of the Federal Reserve System to be insured banks.

The right of nonmember banks, which voluntarily had their deposits insured for the temporary period, to terminate their relationship with the Corporation as of July 1, 1935, is preserved, but nonmember banks seeking to so terminate their insurance are required to give notice to their depositors, to the Corporation and, in certain instances, to the Reconstruction Finance Corporation (subdivision 9). This is required in the interest of fairness to their depositors, as well as to the Corporation and the Reconstruction Finance Corporation.

Title I makes it possible for the Corporation to be advised at all times of the elements affecting its insurance hazard and gives means to reasonably protect the funds against the consequences of unsound or dangerous practices on the part of insured banks. Title I makes available to the Corporation all of the reports of examinations made to the Comptroller of the Currency and to the Federal Reserve Board and it requires the Corporation to examine nonmember insured banks. With the consent of the Comptroller of the Currency or the Federal Reserve Board, the examiners of the Corporation may examine National or State member banks. The Corporation is authorized to terminate the insurance in any bank which persists in unsound practices, giving adequate protection to the depositors, however, for a reasonable time thereafter. No bank is permitted to continue as a member bank of the Federal Reserve System after its insurance has been terminated.

Under the existing law, every bank must become or apply to become a member bank of the Federal Reserve System by July 1, 1937, in order to continue as an insured bank after that date. More than 7,500 insured banks are not now members of the Federal Reserve System. The committee, after careful consideration of the factors involved, has come to the conclusion that membership in the Federal Reserve System, however desirable it may be from the viewpoint of bringing about a unified banking system, should not be rendered practically compulsory by requiring insured banks to either join the System or terminate their insurance. The committee has therefore eliminated this requirement of existing law.

Under the present law, where the Corporation makes an insurance payment to a depositor in a closed bank, it is subrogated to the entire claim of the depositor, even though he has more than $5,000, and it is given the right to collect dividends up to $5,000, after which the residue is paid over to the depositor. Under title I the subrogation right of the Corporation would extend only to such dividends as would have been payable to the depositor on a claim for the insured deposit. The Corporation is given authority to regulate interest payable by nonmember insured banks on deposits similar to the authority the Federal Reserve Board now exercises in regulating interest payable by member banks on deposits. The Corporation may prescribe different rates for different classes of banks or different classes of deposits, subject to the requirement that the rates fixed must be reasonable.

Under the existing law the Corporation may make loans to or purchase assets from closed member banks. This power is changed so that the Corporation is authorized to make loans to and purchase assets from insured banks closed on account of inability to meet the demands of depositors.

For a limited time the Corporation is given power to make loans to and purchase assets from closed or open insured banks, in connection with consolidations or mergers, to facilitate stabilization of such banks. In like manner the Corporation may, for a limited time, guarantee other banks against loss which assume the liabilities and purchase the assets of insured banks.

Provision is made in title I for appointing in each State, Territory, and jurisdiction where insured banks are located, an agent for the service of summons in suits against the Corporation.

Under the provisions of title I, Federal courts have jurisdiction over suits to which the Corporation is a party where the amount involved exceeds $3,000, but an exception is made where the Corporation is a party in its capacity as receiver of a State bank.

Members of the board of directors, who become such after the enactment of title I, are restricted from being financially interested in insured banks by similar restrictions to those imposed upon members of the Federal Reserve Board, with respect to member banks, by the Federal Reserve Act.

Further, the Corporation is given the right to require insured banks to maintain adequate fidelity and burglary insurance. The Corporation's approval is required before a merger or consolidation of any insured bank with a noninsured bank, or before reduction of capital of a nonmember takes place and nonmember insured banks are required to make reports of condition which the Corporation may order to be published.

In accordance with the policy established in the Banking Act of 1933 of relaxing, to the extent of insurance protection, statutory requirements of giving security in case of certain deposits which are insured and also required under law to be secured, sections 338 and 339 in title III eliminate the double protection to deposits in insured banks of bankruptcy funds and of funds of receivers of national banks by relaxing, to the extent that such deposits are protected by insurance, the statutory requirement of giving security.

TITLE II. AMENDMENTS TO THE FEDERAL RESERVE ACT

There follows a section by section analysis of title II with a brief statement of the reasons for each section.

Section 201. Consolidation of Offices of Governor and Chairman of Federal Reserve Bank

Section 201 amends section 4 of the Federal Reserve Act so as to combine the offices of chairman of the board of directors and governor of the Federal Reserve banks and to provide for the appointment of the governor to the combined office to be made annually by the directors of each bank subject to approval every 3 years by the Federal Reserve Board. The governor would be the chief executive officer of the bank, chairman of its board of directors, and a class C director.

A vice governor would be selected in the same manner and would perform the executive functions of the governor in his absence. In the discretion of the Federal Reserve Board the vice governor might also be a class C director, and in such case might be appointed as deputy chairman of the board of directors. The offices of Federal Reserve agent and assistant Federal Reserve agent would be abolished and all duties prescribed by law for the Federal Reserve agent would be performed by the governor of the bank or such person as he may designate.

Under the present law, the Federal Reserve Board appoints the three class C directors of each Federal Reserve bank and designates one of them as a Federal Reserve agent and chairman of the board of directors. It appears to have been the intention of the framers of the original Federal Reserve Act that the chairman of the board of directors be the principal executive officer of each bank, and the law makes him also the official representative of the Federal Reserve Board at the bank. In practice, however, the directors appoint an executive officer for whom they have adopted the title of governor, a title that is not mentioned in the law, and these governors have become the active heads of the Federal Reserve banks.

The amendment recognizes the existing situation by giving the governor of a Reserve bank a status in the law, and combines his office with that of the Federal Reserve agent and chairman of the board of directors. The holders of these combined offices will be appointed by the board of directors subject to the approval of the Federal Reserve Board, and their reappointment will be subject to approval by the Federal Reserve Board every 3 years. The Federal Reserve Board will no longer appoint a chairman of the board, but will merely have the power to approve or disapprove the appointment of the governor, who will also be chairman of the board. When the appointment of the governor is approved by the Board he will automatically become a class C director.

This proposal merely reestablishes the original principle of the Federal Reserve Act that the Federal Reserve Board, which has responsibility for national policies and for general supervision over the Reserve banks, shall be a party to the selection of the active heads of the 12 Reserve banks. This change will work toward smoother cooperation between the Board and the banks. What is equally important, it will establish within the banks a greater unity of administrative control than now exists. It will also result in considerable saving through the elimination of one of the two highest-salaried officers in each Federal Reserve bank.

Section 4 of the Federal Reserve Act is also amended to provide that no member of the board of directors of a Federal Reserve bank, other than the governor and vice governor, shall serve as a director for more than two consecutive terms of 3 years each, but this shall not prevent the present incumbents from serving out the remainders of their present terms.

The purpose of this provision is to prevent the crystallization in the directorates of the Reserve banks of the influence of any one individual or group of individuals. Continuity of service is provided for by allowing directors to serve as long as 6 years, and there is nothing to prevent directors who have served for 6 years from again becoming directors after the lapse of a year or more.

SECTION 202. ADMISSION OF INSURED NONMEMBER BANKS

Section 202 would amend section 9 of the Federal Reserve Act so as to authorize the Federal Reserve Board, in its discretion, to waive any requirements imposed by statute or otherwise as a condition to admitting insured nonmember banks to membership in the Federal Reserve System.

The purpose of this amendment is to facilitate the admission of thousands of small banks into the Federal Reserve System. There are now about 2,000 State banks and trust companies which have been admitted to deposit insurance by the Federal Deposit Insurance Corporation but which have capital insufficient to make them eligible for membership in the Federal Reserve System. About 1,500 of these banks are located in towns with a population of less than 3,000 inhabitants.

In some States, numerous banks have been reorganized since the banking holiday under plans involving the issuance of deferred certificates of beneficial interest to depositors who have waived portions of their deposits. In these cases, the condition of the banks has been materially improved and new deposits are fully protected; but the banks in many instances are not technically eligible for membership in the Federal Reserve System because they are under absolute liability to pay the amounts stated in the deferred certificates issued to waiving depositors, although such liabilities are subordinated to the liabilities of the bank to depositors and other creditors.

Other banks which the amendment would permit to join the Federal Reserve System are those which have sold preferred stock or capital notes or debentures, thereby strengthening the position of the depositors, but which have not been able to eliminate losses constituting a technical impairment of capital because of provisions of State laws making it impossible to reduce the common capital to the extent necessary to charge off the losses.

SECTION 203(1). QUALIFICATIONS OF MEMBERS OF THE FEDERAL RESERVE BOARD

Section 203(1) would amend section 10 of the Federal Reserve Act by striking out the present requirement that, in selecting members of the Board, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commerical interests and geographical divisions of the country, and substituting a requirement that they shall be well qualified by education or experience, or both, to participate in the formulation of national economic and monetary policies. The requirement that not more than one member of the Board shall be from any one Federal Reserve district is preserved, but it is made inapplicable to the Governor of the Board.

This amendment is for the purpose of describing the qualifications of Board members in terms of the Board's principal function, which is the formulation of national economic and monetary policies. It is important to emphasize in the law that Board action should reflect, not the opinion of a majority of special interests, but rather the well considered judgment of a body that takes into consideration all phases of the national economic life.

The selection of the Governor of the Federal Reserve Board should be as free from arbitrary limitations and restrictions as possible. If the President has in mind a man who in his judgment qualifies for the position, he ought not to be restrained from appointing him by the fact that he happens to live in a district which is represented by some other member of the Board.

Section 203(2). Retirement of Members of Federal Reserve Board

Section 203(2) amends section 10 of the Federal Reserve Act so as to permit present appointive members of the Federal Reserve Board to retire upon reaching the age of 70 when they have served for as long as 5 years, and to require members hereafter appointed to retire upon reaching that age; but it would not prevent the President from reappointing any of the present members of the Board. Any member of the Board whose term expires and who is not reappointed would be eligible for retirement if he has served for as long as 5 years, except that, if his term expires before he reaches the age of 65 and he is offered and declines to accept reappointment, he would not be eligible for retirement. Members of the Board who have served for as long as 12 years would receive a maximum retirement pay of $12,000 per annum and members who have served for less than 12 years but not less than 5 years would receive retirement pay at the rate of $1,000 per annum for each year of such service. All of the funds for such retirement pay would be provided by assessments on the Federal Reserve banks and none of it would come from appropriations or from the revenues of the Government.

This amendment is for the purpose of making the members of the Board more independent by eliminating the possibility of their official actions being influenced by the necessity of seeking positions in the banking world after the expiration of their terms as members of the Board if they are not reappointed. This is especially desirable in view of the increased responsibilities which will be placed upon the Federal Reserve Board by the other provisions of this bill.

Section 203(3). Governor of the Federal Reserve Board

Section 203(3) amends section 10 of the Federal Reserve Act so that, if the Governor of the Federal Reserve Board should resign from membership on the Board within 90 days after he ceases to be Governor, he could reenter the banking business without waiting 2 years as now required by law. However, he could serve out his full term as a member of the Board if he chose to do so.

This provision is intended to make it easier for the President to induce successful bankers of outstanding ability to accept the position of Governor of the Federal Reserve Board. Any outstanding man probably would resign from membership on the Board if his designation as Governor were terminated by the President before the expiration of his term as a member of the Board; and, under existing law, a Governor who resigned in such circumstances would be precluded from reentering the banking business until 2 years after his resignation. This seriously discourages outstanding bankers from accepting the

position of Governor of the Federal Reserve Board when tendered by the President. This is an obstacle which should be removed.

The amendment makes no substantive change so far as the designation by the President of the Board's Governor is concerned. The present law states that "of the six persons thus appointed, one shall be designated by the President as Governor." This has been consistently interpreted to mean that the Governor serves as Governor at the pleasure of the President. The bill follows this interpretation without changing it, by including the additional words "to serve as such until the further order of the President."

Section 203(4). Board Members Holding Over

Section 203(4) would amend section 10 of the Federal Reserve Act so that, upon the expiration of their terms of office, members of the Federal Reserve Board could continue to serve until their successors are appointed and have qualified.

In view of the fact that the terms of most of the members of the Board expire in August, this amendment would reduce the occasions when the President has to make recess appointments to the Board and would make it possible for members who have been confirmed by the Senate to continue to serve until their successors have been appointed and confirmed by the Senate. It would also reduce the chances of vacancies existing on a board which is charged with very heavy responsibilities and therefore ahould have its full quota of membership at all times.

Section 204 (a). Assignment of Duties

Section 204 amends section 11 of the Federal Reserve Act so as to authorize the Federal Reserve Board to assign to designated members of the Board or its representatives, under rules and regulations prescribed by the Board, the performance of specific duties and functions. It would prohibit such assignment from including the determination of national or system policies, or any power to make rules and regulations, or any power which under the act is required to be exercised by a specified number of members of the Board.

The purpose of this provision is to relieve the Board of the necessity of handling details and to give it a better opportunity to concentrate on problems of national importance. The Board should be able to concentrate on studies and inquiries that would enable it to reach decisions on matters of national importance. This is an exacting task and one that should not be interrupted by the necessity of giving attention to innumerable details.

The assignment of specific duties to individuals would also expedite matters before the Board that require immediate decision. The Board could greatly improve its relations with the Federal Reserve banks and member banks through prompt and systematic disposition of numerous details by assigning them to individual members or officers of the Board or to its representatives at the Federal Reserve banks, to be acted upon in accordance with rules and regulations prescribed by the Board and policies laid down by it.

One of the important consequences of these provisions would be that the Board would have authority to assign to the governor or

board of directors of a Federal Reserve bank such duties as the admission of banks into the system; the issuance of voting permits to holding companies; authority to grant acceptances up to 100 percent of its capital; and other matters on which the local bank is in a better position to have the necessary contacts and information. This would tend to decentralize administrative duties and to utilize to a greater extent the regional features of the Federal Reserve System.

Section 204 (b). Statement of Objectives

Section 204 (b) amends section 11 of the Federal Reserve Act in order to redefine and clarify the powers and duties of the Federal Reserve Board. The section as amended requires the Federal Reserve Board—

to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration.

In view of the added powers proposed to be conferred on the Federal Reserve Board, and to insure that these powers will be exercised in the public interest, it is desirable for Congress to lay down as definite instructions as are practicable. The present objective, the accommodation of commerce, industry, and agriculture, is inadequate as an expression of the will of Congress. It is felt that what the people really expect of monetary management is that it should be directed toward promoting business stability.

This objective is unequivocally specific and definite as to aims and yet leaves to the Federal Reserve Board discretion as to the choice of means. It would furnish a criterion by which the public and its Representatives in Congress could assess the merits of monetary policy. It would provide an added assurance that monetary control would be exercised in the interest of the Nation as a whole.

Section 205. Open Market Policies

Section 205 of the bill amends section 12A of the Federal Reserve Act so as to provide for an Open Market Advisory Committee consisting of 5 representatives of the Federal Reserve banks elected annually by the governors of the 12 Federal Reserve banks. It will be the duty of the committee to consult and advise with, and make recommendations to, the Federal Reserve Board from time to time with regard to the open-market policy of the Federal Reserve System and to aid in the execution of open-market policies. The Federal Reserve Board will be required to consult the committee before making any changes in the open-market policy, discount rates of Federal Reserve banks, or in the reserves required of member banks. After consulting with and considering the recommendations of the committee, however, the Federal Reserve Board will be empowered to prescribe the open-market policy of the Federal Reserve System, and this policy will be binding on all Federal Reserve banks.

Having enlarged the duties of the Federal Reserve Board with regard to the economic objectives of monetary action and credit administration, it is essential that the Board be given the same definite responsibility and final authority with respect to the open-market

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policies of the Federal Reserve System as it already possesses with respect to the discount rates of the Federal Reserve banks and the reserves required of member banks.

Under the present law, open-market policies are formulated by the Federal Open Market Committee, which consists of the governors of the 12 Federal Reserve banks. The recommendations of the committee are subject to the approval of the Federal Reserve Board, and the boards of directors of each Federal Reserve bank retain the authority to refuse participation in the policy adopted. We have, therefore, an arrangement by which there is a policy-making body of 12, which has power to formulate policies, but not to put them into effect. We have the Federal Reserve Board, consisting of 8 members, who have the authority to approve or disapprove of the recommendations of the committee; and we have 108 directors of the Reserve banks, who have the final determination as to whether the policy is to be carried out or not. It would be difficult to conceive of an arrangement better calculated than this for diffusing responsibility and creating an elaborate system of obstructions.

The amendment will cure this situation by placing responsibility for national monetary and credit policies squarely upon the Federal Reserve Board. It will eliminate conflicts of jurisdiction and policy because the final decision as to all matters affecting national policies would be vested in the Federal Reserve Board. The participation of Federal Reserve bank governors in the deliberations leading to the adoption of open-market policies will be preserved. Open-market operations may be initiated either by the committee of the governors or by the Board, but the ultimate responsibility for making a final decision and the power for adopting and carrying out national policies will be concentrated in a national body, as they properly should be in the public interest.

The Federal Reserve Board is appointed by the President and confirmed by the Senate. It has a national viewpoint and has long been accustomed to considering matters as they affect the country as a whole, without regard to the special interests of any particular group or locality. It was created for the purpose of supervising and coordinating the activities of the 12 Federal Reserve banks "in order that they may pursue a banking policy which shall be uniform and harmonious for the country as a whole" (report of the Banking and Currency Committee of the House of Representatives on the original Federal Reserve Act, Rept. No. 69, 63d Cong., 1st sess., p. 16). It is for this reason that the original Federal Reserve Act gave the Federal Reserve Board final authority over discount rates. Since open-market operations have in more recent years come to be recognized as a much greater factor in credit policy than discount rates, it is entirely consistent with the philosophy of the original Federal Reserve Act to vest in the Federal Reserve Board final authority with respect to the open-market policies of the Federal Reserve System.

Section 206. Eligibility for Discount

Section 206 amends section 13 of the Federal Reserve Act so as to authorize the Federal Reserve banks, subject to regulations of the Federal Reserve Board, to discount for member banks any commercial,

agricultural, or industrial paper, and to make advances to member banks on their promissory notes secured by any sound assets.

The purpose of this provision is to relax or remove stringent technical limitations on the character of paper that can be used as a basis of borrowing from the Federal Reserve banks, and thus to give member banks the assurance they need so that it will be possible for them to meet the needs of their communities for both short-time and long-time funds.

Existing limitations had to be suspended during the emergency, but this was accomplished only after they had done a great deal of harm and after many banks had failed because of a lack of assets technically eligible for obtaining accommodation at a Federal Reserve bank. Since in practice existing restrictions must be relaxed whenever they become really restrictive, it is best not to have them in the law, but to place full regulatory responsibility on the Board, which is always in session and in a position to take prompt action when it is required.

Changes in the country's economic life, notably in the methods of financing business enterprise, have materially reduced the volume of short-term self-liquidating paper of the classes to which the discount privileges of the Reserve banks are largely restricted by law. In times of stress, therefore, when the help of the Federal Reserve System has been most urgently needed, many banks, though holding sound assets in their portfolios, have been devoid of the particular kinds of paper available under the law for borrowing at the Reserve banks.

This amendment, by removing many of the technical restrictions of the present law, will enable the Federal Reserve banks to render better service to their member banks in times of need. This will not only make membership in the Federal Reserve System much more attractive but will encourage the member banks to invest their savings deposits, which are essentially capital funds, in longer-term loans, a course that would greatly facilitate business recovery.

This amendment will also make it possible for banks, without relaxing prudence or care, to meet local needs both for short-time and for long-time funds, and to be assured that in case of need they can obtain advances from the Reserve banks on the basis of all their sound assets, regardless of their form or of the nature of the collateral. Soundness of assets (a term which is here for the first time introduced into the Federal Reserve Act) is a greater safeguard to the banks than short maturity of loans or the particular form of the underlying transaction.

Section 207. Purchase of United States Guaranteed Obligations

Section 207 amends section 14 of the Federal Reserve Act so as to make eligible for purchase by Federal Reserve banks all obligations which are fully guaranteed by the United States as to principal and interest, without regard to maturity.

This is for the purpose of placing obligations fully guaranteed by the United States Government on the same basis with direct obligations of the Government in respect to eligibility for purchase by the Federal Reserve banks. There is no logic in discriminating against

obligations which, being in effect obligations of the United States Government, differ from other such obligations only in that they are not issued directly by the Government.

SECTION 208. COLLATERAL FOR FEDERAL RESERVE NOTES

This section would repeal the requirement in section 16 of the Federal Reserve Act that Federal Reserve notes must be secured at all times by the specific pledge of collateral. It would also repeal the prohibition against one Federal Reserve bank paying out the notes of another and would eliminate many of the present technical provisions regarding the issue, redemption and retirement of Federal Reserve notes. It would preserve the present requirement of a 40-percent reserve in gold certificates, and would provide that Federal Reserve notes and Federal Reserve bank notes shall not be counted as reserves of a Federal Reserve bank.

Federal Reserve notes, being prior liens on all the assets of the issuing Reserve banks as well as obligations of the United States Government and protected by a 40-percent gold reserve, require no specific pledging of collateral in order to insure their safety.

The Reserve banks have two principal classes of liabilities, deposits, and notes. Back of these are all of the assets of a Federal Reserve bank, including its gold and lawful money and all of its rediscounted paper. The volume of either notes or deposits can be increased only through a reduction in the other kind of liability or through the acquisition by the Reserve banks of an additional asset. For example, a member bank having a balance with a Federal Reserve bank can withdraw part of it in the form of Federal Reserve notes, with the consequence that the Reserve bank's note liability will expand by the same amount that its deposit liability contracts; or a member bank having more Federal Reserve notes than it requires can taken them to the Federal Reserve bank and have them credited to its account, with the consequence that the bank's note liability will diminish and its deposit liability will correspondingly increase. The combined liability on notes and deposits can increase only through the acquisition by the Reserve bank of additional assets.

It is at the time an asset is acquired that the determination is made that it is good enough to be held by the Federal Reserve bank; and this determination is made without reference to whether the asset is ultimately to become backing for a deposit liability or for a note liability. The assets of the Federal Reserve banks are the reserves back of all deposits of member banks. Assets that are good enough to constitute the backing for deposit liabilities of the Reserve banks are also good enough to back Federal Reserve notes.

A holder of a deposit with a Federal Reserve bank has the right to withdraw it in notes at any time, and consequently the Federal Reserve bank should be in a position to use the asset acquired at the time the deposit was created as backing for the notes into which this deposit is convertible.

Neither the elasticity of our currency supply nor the safety of Federal Reserve currency is in any way affected by the proposed change in the law. Its only practical effect is to eliminate the cumbersome and useless requirement that certain specific collateral be segregated, and held at considerable expense and in a privileged position, as backing exclusively for Federal Reserve notes.

The elastic character of our currency is based primarily on the fact that the public does not carry any more currency in its pockets than it needs for day-to-day use and the banks themselves do not carry any more than is necessary for their over-the-counter requirements. Therefore, any excess of currency quickly finds its way back to the Federal Reserve banks. On the other hand, insufficiency of currency is quickly remedied by member banks borrowing at the Federal Reserve banks.

The present collateral requirements caused serious difficulty in 1931–32 when there was a foreign drain on the country's gold. At that time it was necessary to pledge against Federal Reserve notes a billion dollars of gold over and above reserve requirements, and it was not possible for the Federal Reserve banks to increase the amount of their eligible paper to release the gold, except by the sale of Government securities, which would in turn have forced more borrowing by member banks, thus increasing the burden of debt on these banks and giving an added impetus to deflation.

In those circumstances collateral requirements prevented the Reserve System from adopting a monetary policy that was clearly in the interests of combating the prevailing deflation. The situation was met by an emergency measure, which, however, was greatly delayed. Such a state of affairs should not be permitted to occur again.

Section 209. Reserve Requirements

Section 209 amends section 19 of the Federal Reserve Act, as amended by the Thomas amendment, so as to permit the Federal Reserve Board, without the necessity of approval of the President and without declaring the existence of an emergency, to decrease the reserve requirements in order to prevent injurious credit contraction as well as to increase the reserve requirements in order to prevent injurious credit expansion. Changes might be made applicable to demand or time deposits or both and might be made different in two different classes of cities: (1) Reserve and central reserve cities and (2) nonreserve cities.

This proposal represents a clarification and modification of a power which the Board now possesses under the Thomas amendment. The present law provides that the Board, in order to change reserve requirements, must obtain authority from the President. It does not seem desirable to require Presidential approval for action which should be within the competence of the Federal Reserve Board.

It is essential to give the Board more authority in controlling credit conditions in view of the possibility of dangerous credit expansion on the basis of existing member bank reserves, and also in order to give the Board another instrument for easing credit conditions if at some time in the future that policy should become in the public interest.

Changes in reserve requirements are similar in their effects to open-market operations, although they differ from those operations in the fact that they directly and immediately affect a wider group of banks. It is probable that ordinarily these powers would not be used; but, in view of the very large volume of available excess reserves and the possibility of credit expansion on these reserves, it is important to clarify the Federal Reserve Board's power to arrest inflation.

SECTION 210. REAL-ESTATE LOANS

Section 210 would amend section 24 of the Federal Reserve Act so that the conditions under which real-estate loans may be made by national banks will be prescribed henceforth by regulations of the Federal Reserve Board, except that (1) the amount of any such loan hereafter made shall not exceed 60 percent of the appraised value of the real estate at the time the loan is made; and (2) the aggregate amount of such loans which any bank may make shall not exceed the capital and surplus of the bank or 60 percent of its time and savings deposits, whichever is the greater.

The purposes of this amendment are to increase the ability of commercial banks to serve their communities, to provide a greater outlet for the banks' funds, and to promote business recovery by opening up the mortgage market and reviving the construction industry.

Few banks are purely commercial, since a large part of the deposits in the banks represents savings. Member banks hold in the aggregate as much as $10,000,000,000 of savings funds. Separation of commercial banking from savings banking in this country at the present time is an academic question, as it could not be accomplished now without disrupting the banking system. So long, moreover, as commercial banks continue to accept and hold a large amount of the people's savings they should use at least a part of these funds in long-time loans and investments.

In using savings funds for long-time investments, there are no outlets that would serve a more useful economic purpose at the present time than real-estate loans. The restoration of building activity to something like a normal level is absolutely essential to further business recovery, and to this end reestablishment of an active mortgage market would greatly contribute. At the present time the banks of the country have a vast amount of funds for which they can find no profitable outlet. Increased activity in real-estate loans would, therefore, be of importance to the banks in helping them to make reasonable earnings and would at the same time enable them to render the proper service to their communities, as well as to contribute to recovery.

Member banks have an enormous volume of excess reserves, and at the same time they are neglecting a broad field of real-estate loans in which there is an opportunity to place their funds. Commercial banks, which are surfeited with funds, are refraining from making real-estate loans in any considerable volume, while building and loan associations, which are anxious to make such loans, lack funds for the purpose and are endeavoring to obtain funds from the Government. The Government, on the other hand, is pouring money into the real-estate loan field through various agencies, such as the Home Owners' Loan Corporation, the Reconstruction Finance Corporation, and the lending agencies under the Farm Credit Administration. If commercial banks increased the volume of their loans on real estate, special Government agencies would not be under the same pressure to make these loans, the banks' ability to make a living would improve, and their usefulness to their communities would increase.

There is no logic in prescribing rigid limitations as to the proportion of a bank's funds that can be invested in real-estate loans, when the

proportion of their funds that can go into bonds and other kinds of long-time uses is not restricted.

The record of real-estate loans during the depression has not been worse than that of many other classes of loans and investments. Real-estate loans, however, have differed from other long-time investments, such as bonds, in that there was no organized market where they could be sold even at a reduced value. As compared with commercial loans, real-estate loans have also suffered from ineligibility as a basis of borrowing at a Federal Reserve bank. In consequence, real-estate loans which might have been good in substance, despite being temporarily uncollectible, have had to be considered entirely frozen because, until the emergency legislation of February 1932, temporary accommodation could not be obtained from the Reserve banks on these loans as security. The elimination by this bill of rigid eligibility requirements would remove from real-estate loans this serious disability.

TITLE III. TECHNICAL AMENDMENTS TO THE BANKING LAWS

There follows a statement summarizing the effect of the amendments contained in each section of title III.

SECTION 301. "ACCIDENTAL" HOLDING COMPANY AFFILIATES ELIMINATED

Section 301 amends section 2 (c) of the Banking Act of 1933 so as to exclude from the very broad definition of the term "holding company affiliate", and hence from all provisions of law regarding such affiliates (except the provisions of sec. 23A of the Federal Reserve Act regarding loans to and investments in the securities of such affiliates), every corporation wholly owned by the United States and every organization which, in the judgment of the Federal Reserve Board, "is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks, or trust companies."

The following actual cases illustrate the types of so-called "accidental" holding-company affiliates which the amendment would exclude from the broad definition contained in the present law, because they are not believed to be within the intent of the provisions of law regarding holding-company affiliates:

A corporation owning and operating large department stores in several cities in the United States owns the stock of a small member bank located on the premises of one of its stores, which bank is operated primarily for the convenience of its customers and employees.

An unincorporated labor union owns a majority of the stock of a member bank in New York City and a subsidiary organization of the labor union owns the stock of a member bank located in Chicago.

A corporation organized to hold real and personal property of a church owns or controls two member banks.

A charitable foundation established for the purpose of aiding young men and women in obtaining an education owns the stock of a member bank.

A large corporation engaged primarily in the lumber business, and having some subsidiaries in the United States and Canada, owns the stock of a small member bank which it operates for its own convenience and that of its employees.

An industrial-development company owns the stock of a small member bank.

Although these organizations come within the broad definition of "holding-company affiliate" contained in the existing law, it is believed that no useful purpose is served by requiring them and similar organizations to obtain voting permits and to submit to examination and regulation by the Federal Reserve Board.

SECTION 302. DIVORCEMENT OF SECURITIES COMPANIES IN LIQUIDATION NOT REQUIRED

Section 302 amends section 20 of the Banking Act of 1933 so as to make it clear, in conformity with a previous ruling of the Federal Reserve Board, that member banks need not go through the formality of divorcing securities affiliates which have been placed in formal liquidation.

SECTION 303 (a). SECTION 21 OF BANKING ACT CLARIFIED; INAPPLICABLE TO BANKS SELLING MORTGAGES

Section 303 (a) amends section 21 (a) (1) of the Banking Act of 1933 so as to make it clear that it does not prohibit any financial institution or private banker from engaging in the securities business to the limited extent permitted to national banks under section 5136 of the Revised Statutes. (Section 5136 limits national banks, in dealing and underwriting, to United States Government obligations, general obligations of States or subdivisions, and obligations issued under the Federal Farm Loan Act or by the Federal Home Loan Banks or the Home Owners' Loan Corporation.) The amendment would also make it clear that section 21 (a) (1) does not prohibit a bank from selling, without recourse or agreement to repurchase, obligations evidencing loans on real estate.

SECTION 303 (b). FEDERAL EXAMINATIONS OF PRIVATE BANKERS ABOLISHED

Section 303 (b) would repeal entirely paragraph (2) of section 21 (a) of the Banking Act of 1933, which makes it a crime for any person, firm, corporation, association, business trust, or other similar organization, other than a financial institution or private banker which is subject to examination and regulation under State or Federal law, to engage to any extent whatever in the business of receiving deposits, unless such person, firm, corporation, association, business trust, or other similar organization submits to examinations and makes reports to the Comptroller of the Currency or the Federal Reserve bank of the district. Furthermore, this paragraph has given rise to many administrative difficulties because of the division of authority between the Comptroller of the Currency and the Federal Reserve banks, the lack of any provision for defraying the costs of examinations, and the lack of any provision for requiring corrective actions when unsatisfactory conditions are discovered.

The Comptroller of the Currency recommended some amendments to this paragraph but the committee voted to repeal the paragraph altogether, not only because of doubts as to its constitutionality but because it did not appear that the paragraph could be amended in a practicable manner so as to eliminate difficulties inherent in the situation. Inasmuch as dangerous conditions found to exist in such institutions are not subject to correction under the law, the present situation tends to deceive the public by causing it to have a false confidence in such institutions, based on the knowledge that they are subject to Federal examination, because the public will assume that being subject to such examination they are also subject to supervisory regulation and control.

Section 304. Double Liability on National Bank Stock Terminated

Section 22 of the Banking Act of 1933 abolished double liability of stockholders on national-bank stock issued after June 16, 1933, and section 304 of the bill would add a provision terminating on July 1, 1937, the double liability on previously issued stock in national banks operating on July 1, 1937, provided the banks publish notice of such termination of liability 6 months before the date of termination.

Section 305. Directors of Nonmember National Banks Relieved of Stock Ownership Requirement

Section 4 of the act of June 16, 1934, which relieved directors of member banks from the stock ownership requirement of section 31 of the Banking Act of 1933, is amended to eliminate such requirement also as to nonmember national banks, such as those in Alaska and Hawaii.

Section 306. Interlocking Relationships between Member Banks and Securities Companies

Section 306 would revise section 32 of the banking act of 1933, which prohibits interlocking relationships between member banks and securities companies, so as to extend the provisions thereof to employees as well as officers and directors and so as to include individuals engaged in the securities business as well as officers, directors, and managers of organizations engaged in such business. The description of this type of business would be revised so as to conform to other provisions of the Banking Act of 1933 and the prohibition against "correspondent relationships" between member banks and securities companies would be eliminated. Whereas the existing law authorizes the Federal Reserve Board to make exceptions by granting permits in individual cases, the revised section would authorize the Board to make exceptions only by general regulations dealing with limited classes of cases when, in the judgment of the Board, such relationships would not unduly influence the investment policies of such member banks or the advice they give their customers regarding investments.

Section 307 (a). Change in Amount of Investment Securities of One Obligor That May Be Held by Member Bank

Section 307 (a) amends section 5136 of the Revised Statutes so as to eliminate the existing prohibition against a member bank purchasing and holding more than 10 percent of a particular issue of securities; but reduces the total obligations of one obligor which may be purchased and held by a member bank from 15 percent of the bank's capital and 25 percent of its surplus, to 10 percent of each.

Section 307 (b). Purchase of Stocks for Account of Customers

Section 307 (b) would amend section 5136 of the Revised Statutes so as to make it clear that national banks and other member banks may purchase and sell stocks for the account of their customers but not for their own accounts.

Section 308. Surplus Required for Organization of National Banks

Section 308 amends section 5138 of the Revised Statutes so as to require a newly organized national bank to have a paid-in surplus equal to 20 percent of its capital; but the Comptroller of the Currency would be permitted to waive this requirement as to a State bank converting into a National bank.

Section 309.—Separation of National Bank Stock Certificates from Those of Other Corporations

Section 309 amends the requirement of section 5139 of the Revised Statutes that stock certificates of national banks may not "represent the stock" of any other corporation, except a member bank or a corporation existing on the date the paragraph took effect "engaged solely in holding the bank premises of such association", so as to provide that such certificates may not "bear any statement purporting to represent the stock" of any other corporation, except a member bank or a corporation existing on the date the paragraph took effect "engaged primarily in holding the bank premises." A provision is also added to the effect that the section shall not operate to prevent the transfer of stock of another corporation being conditioned upon the transfer of a national bank stock certificate.

Section 310 (a). Provisions re Voting Stock of National Banks

Section 310 (a) revises the first paragraph of section 5144 of the Revised Statutes so as to make the following changes in existing law:

1. It makes it clear that nothing in this paragraph limits the voting rights of the Reconstruction Finance Corporation and other holders of preferred stock under the provisions of articles of association or amendments thereto adopted pursuant to the provisions of section 302 (a) of the Emergency Banking Act of March 9, 1933, as amended.
2. It permits shares of its own stock held in trust by a national bank to be voted when the donor or beneficiary of the trust actually directs how such shares shall be voted.

3. It eliminates the necessity for voting permits in cases where shares of a member bank held by holding company affiliates are to be voted merely in favor of placing the bank in voluntary liquidation or taking any other action pertaining to its voluntary liquidation.

4. A provision is added to the effect, whenever shares of stock cannot be voted because they are held by the bank as sole trustee, such shares shall be excluded in determining whether matters voted upon by the shareholders were adopted by the requisite percentage of shares.

Section 310 (b). Limited Voting Permits and Cumulative Voting Clarified

Section 310 (a) amends section 5144 of the Revised Statutes so as to make it clear that holding company affiliates which have obtained voting permits are entitled to the right of cumulative voting given other shareholders and also so as to make it clear that the Federal Reserve Board may issue limited voting permits and is not confined to issuing general voting permits.

Section 311. Retention of Ineligible Assets by Converting Banks

Section 311 amends section 5154 of the Revised Statutes so as to authorize the Comptroller of the Currency to permit State banks converting into national banks to retain and carry, at a value determined by the Comptroller, assets not permitted to be acquired and held by national banks.

Section 312. Comptroller May Delegate Countersigning

Section 312 amends section 5162 of the Revised Statutes so as to authorize the Comptroller of the Currency to designate a person or persons to countersign on his behalf assignments and transfers of bonds.

Section 313. Interest Rates Charged by National Bank Branches Outside United States

Section 313 amends section 5197 of the Revised Statutes so as to permit national bank branches located outside the States of the United States and the District of Columbia to charge interest at the rate permitted by local law.

Section 314. Accumulation of Surplus by National Bank

Section 314 amends section 5199 of the Revised Statutes so that, before the declaration of dividends, national banks must carry not less than one-tenth part of their net profits of the preceding half year to surplus until same is built up to an amount equal to the common capital instead of present requirement that same need equal only 20 percent of capital. This change is deemed desirable in connection with the provision that assessment liability be eliminated from bank stock and is further desirable from the standpoint of building up a proper capital structure.

Section 315. Criminal Provisions Re Embezzlements, False Entries, Etc., Extended to Insured Banks

Section 315 extends the criminal provisions of section 5209 of the Revised Statutes relating to embezzlements, false entries, etc. so as to apply to officers, directors, and employees, etc., of insured nonmember banks.

Section 316. Voluntary Liquidation of National Banks

Section 316 adds a paragraph to section 5220 of the Revised Statutes to provide a procedure to be followed in cases of voluntary liquidation of national banks. Liquidation is to be accomplished by a liquidating agent or committee which is to be responsible to the bank's directors and stockholders, and the bank is to remain subject to examination by the Comptroller of the Currency.

Section 317. Prohibition of Use of Words "National", "Federal", and "United States"

Section 317 amends section 5243 of the Revised Statutes, which now prohibits the use of the word "national" in certain cases, so as to prohibit the use of the words "national", "Federal", and "United States" as a part of the name or title of any person, firm, or corporation doing the business of bankers, brokers, or trust or savings institutions, unless they are organized under the laws of the United States or are permitted by the laws of the United States to use such names or are now lawfully using such names.

Section 318. Reduction in Federal Reserve Bank Stock to Conform to Reduction in Member Bank's Surplus

Section 318 amends section 5 of the Federal Reserve Act so as to require member banks to reduce their holdings of Federal Reserve bank stock upon a reduction in their own surplus, just as they are already required to do upon a reduction in their own capital. It would also repeal the provisions of sections 5 and 6 of the Federal Reserve Act which require the board of directors of a Federal Reserve bank to execute a certificate to the Comptroller of the Currency showing an increase or decrease in the capital stock of the Federal Reserve bank. Inasmuch as every adjustment in Federal Reserve bank stock is approved by the Federal Reserve Board before the stock is issued or canceled, the filing of such certificates with the Comptroller of the Currency is a useless formality involving duplication of work.

Section 319. Publication of Condition Reports of State Member Banks

Section 319 amends section 9 of the Federal Reserve Act so as to require State member banks to publish the reports of condition which the law already requires them to submit to the Federal Reserve banks. The amendment would also authorize the Federal Reserve Board to prescribe the form of such reports and the information to be contained therein.

Section 320 (a). Limitation on Loans by Member Banks on Government Obligations

Section 320 (a) amends section 11 (m) of the Federal Reserve Act so as to place State member banks on a parity with national banks in lending on the security of bonds, notes, certificates of indebtedness, and Treasury bills of the United States, by changing the limitation on loans to one individual on such security, from 10 percent of the bank's unimpaired capital and surplus to 25 percent thereof, as provided for national banks in section 5200 of the Revised Statutes.

Section 320 (b). Limitation on Loans by National Banks on Treasury Bills

Section 320 (b) amends section 5200 of the Revised Statutes so as to extend the eighth exception thereof, which pertains to loans secured by bonds, notes, and certificates of indebtedness of the United States, so as to apply also to loans secured by Treasury bills of the United States.

Section 321. Indorsement or Other Security Sufficient for Reserve Bank Discounts for Individuals

Section 321 amends section 13 of the Federal Reserve Act so as to require either indorsement or other security, rather than both, for paper discounted by Federal Reserve banks for individuals or corporations unable to secure adequate credit accommodations from other banks.

Section 322. Changes in Wording of Section 13 (b) of Federal Reserve Act

This section makes certain changes in the language of section 13 (b) of the Federal Reserve Act, making it conform to the amendment in title I of the bill whereby stock of the Federal Deposit Insurance Corporation subscribed for by the Federal Reserve banks is changed to no par value. These changes are in form only and do not alter the effect of the existing law.

Section 323 (a). Definition of Various Classes of Deposits by Federal Reserve Board

Section 323 (a) amends section 19 of the Federal Reserve Act so as to repeal the rigid statutory definitions of "demand deposits" and "time deposits" and authorizes the Federal Reserve Board to define for the purposes of the section the terms: "Demand deposits", "gross demand deposits", "deposits payable on demand", "time deposits", "savings deposits" and "trust funds", to determine what is to be deemed a payment of interest and to prescribe regulations to effectuate the purposes of the section.

Section 323 (b). Deduction of "Amounts Due From Banks" in Computing Reserves

Section 323 (b) amends section 19 of the Federal Reserve Act so that, for purposes of computing member bank reserves, amounts due from other banks (including checks in process of collection) may be

deducted from gross demand deposits rather than from balances due to other banks, thus extending the benefits of this deduction to country banks which have no balances due to other banks.

Section 323 (c). Board's Control Over Payment of Deposits and Interest Made More Flexible

Section 323 (c) amends section 19 of the Federal Reserve Act so as to add to the classes of deposits exempted from the prohibition against the payment of interest on demand deposits the following: (1) Contracts existing when a bank joins the System; (2) deposits payable outside the States of the United States and the District of Columbia (rather than merely those payable in foreign countries); (3) deposits of trust funds on which interest is required by State law; and (4) deposits of the United States, its territories, districts or possessions on which interest is required by law.

The section is also amended to make more flexible the Federal Reserve Board's power to classify time and savings deposits and limit the rates of interest to be paid thereon. The absolute prohibition against the payment of time deposits before maturity is relaxed to permit such payments under conditions prescribed by the Board; and deposits payable only at offices of member banks located outside the States of the United States, and the District of Columbia are exempted from all restrictions on payment before maturity and all restrictions on interest rates.

Section 323 (d). Reserves Required on Government Deposits

Section 323 (d) amends section 19 of the Federal Reserve Act by adding a new paragraph requiring member banks to keep the same reserves against deposits of the United States as against other deposits, thus repealing the exemption contained in the Liberty bond acts.

Section 324. Waiver of Reports or Examinations of Affiliates

Section 324 adds a new paragraph to section 21 of the Federal Reserve Act, authorizing the Federal Reserve Board or the Comptroller of the Currency, as the case may be, to waive examinations of, or reports from, affiliates of a member bank, when they are not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank.

Section 325 (a). Criminal Provisions Clarified, Extended to Insured Banks

Section 325 (a) amends section 22 (a) of the Federal Reserve Act so as to make it clear that the prohibitions against loans or gratuities to bank examiners from member banks, and their officers and employees, apply only to banks subject to examination by such examiners; and also so as to make it clear that these prohibitions and the prohibitions against thefts by examiners apply to State examiners examining member banks as well as to Federal examiners but not to private examiners. The prohibitions are extended to cover insured nonmember banks.

Section 325 (b). Federal Deposit Insurance Corporation Examiners Subjected to Criminal Provisions

Section 325 (b) amends section 22 (b) of the Federal Reserve Act so that the prohibition against a national bank examiner receiving compensation from any bank, or any officer or employee thereof, is extended to examiners of the Federal Deposit Insurance Corporation; and the restrictions against examiners revealing the names of borrowers or collateral to loans is extended to cover insured nonmember banks.

Section 325 (c). Borrowings by Executive Officers of Member Banks—Elimination of Criminal Penalty

Section 325 (c) revises section 22 (g) of the Federal Reserve Act which forbids executive officers of member banks to borrow from their banks. The period permitted for renewing such loans that were outstanding on June 16, 1933, is extended from June 16, 1935, to June 16, 1938, but conditioned on a finding by the bank directors that such renewal is in the bank's interest and that the officer has made reasonable effort to reduce his obligation must be spread on the bank's minute book. An exception is made permitting any member bank to lend not more than $2,500 to any executive officer with the prior approval of a majority of its entire board of directors. Borrowing by a partnership in which one or more executive officers have individually or collectively a majority interest is stated to be within the prohibition, whereas the existing law is construed to prohibit loans to partnerships in which an executive officer has any interest. It is made clear that, in order to aid or protect the bank, executive officers may endorse paper previously taken by the bank in good faith, or may incur any indebtedness to the bank. The Federal Reserve Board is given power to define terms used in the section and to prescribe regulations to effect its purposes. The present criminal penalties are repealed and there is substituted a provision for the removal of offending officers.

Section 326. Restrictions on Loans to Affiliates

Section 326 amends section 23A of the Federal Reserve Act, which limits member banks' loans to affiliates and loans on and investments in the securities of affiliates, so as to add to the exemptions from its provisions: (1) Affiliates engaged "primarily" in holding the bank premises (the existing law requires them to be "solely" so engaged), (2) affiliates primarily engaged in maintaining and operating properties acquired for banking purposes prior to enactment of the bill, (3) wholly owned subsidiaries of foreign banking corporations organized under the Federal Reserve Act, (4) wholly owned subsidiaries of similar corporations in which national banks are authorized to invest under section 25 of the Federal Reserve Act, (5) affiliates which became such through a bona fide previous debt, and (6) affiliates which are such because their shares are held by the bank as fiduciary (except when the beneficiaries are a majority of the bank's stockholders). The section is also made inapplicable (a) to affiliate indebtedness arising from the unpaid balance due on assets purchased

from the bank, and (b) to loans and extensions of credit secured by obligations of the United States or obligations fully guaranteed by the United States as to principal and interest. The latter, of course, is intended to apply only to loans fully secured by such obligations.

SECTION 327. "WORKING CAPITAL" LOANS RELIEVED OF REAL-ESTATE RESTRICTIONS

Section 327 amends section 24 of the Federal Reserve Act so as to exempt from the restrictions of that section on real-estate loans, all "working capital" loans in which the Reconstruction Finance Corporation or a Federal Reserve bank has participated or made a commitment, or which it has discounted, loaned upon, or purchased.

SECTION 328. INTERLOCKING BANK DIRECTORATES

Section 328 repeals section 8A of the Clayton Act, which restricts interlocking relationships between banks and trust companies organized or operating under the laws of the United States and institutions which "make loans secured by stock or bond collateral", and revises section 8 of the Clayton Act. The latter is made to apply to all member banks rather than banks organized or operating under the laws of the United States; and a simple prohibition against a private banker, or a director, officer, or employee of any other bank, savings bank (other than a mutual savings bank), or trust company serving as officer, director, or employee of a member bank, is substituted for the complicated provisions of existing law that depend upon the size of the banks and of the cities in which they are located. Authority for the Federal Reserve Board to relax this prohibition by general regulations in limited classes of cases, when the classes of institutions involved are not in substantial competition, is substituted for its existing power to allow the service of particular individuals to a limited number of institutions by issuing individual permits when "not incompatible with the public interest."

SECTION 329. NATIONAL BANK CONSOLIDATIONS

Section 329 amends section 1 of the act of November 7, 1918, so as to clarify the provisions relating to consolidations of national banks, particularly with respect to dissenting stockholders.

SECTION 330. CONSOLIDATION OF STATE AND NATIONAL BANKS

Section 330 amends section 3 of the act of November 7, 1918, so as to clarify the provisions relating to consolidations of State and National banks, particularly with respect to dissenting stockholders.

SECTION 331. LIMITATION ON USE OF WORDS "DEPOSIT INSURED"

Section 2 of the act of May 24, 1926, forbidding the misleading use of the words "Federal", "United States", and "Reserve" by banks, insurance companies, and similar financial institutions, is amended to forbid such use of the words "Deposit Insurance."

SECTION 332. ROBBERY OF INSURED BANK PUNISHED

The act of May 18, 1934, punishing robberies of member banks and of banking institutions organized or operating under Federal law is amended to extend such protection to insured nonmember banks.

SECTION 333. DISTRIBUTION OF ASSETS UPON REDUCTION OF CAPITAL OF NATIONAL BANKS

Section 333 amends section 5143 of the Revised Statutes so as to make it clear that, in approving reductions of capital stock by national banks, the Comptroller of the Currency in order to conserve the assets for the protection of the banks, may specify that such banks shall not distribute a corresponding amount of their assets to their shareholders. The amendment would also strike out the words which make it necessary for capital stock reductions to be approved by the Federal Reserve Board in addition to the Comptroller of the Currency, thus eliminating an unnecessary duplication of work.

SECTION 334. CERTIFICATES OF NATIONAL BANK STOCK

Section 334 amends section 5139 of the Revised Statutes by adding a paragraph specifying certain information to be stated on certificates hereafter issued representing shares of stock in national banks.

SECTION 335. CERTIFICATE OF COMPTROLLER AS TO ISSUANCE OF PREFERRED STOCK

Section 335 amends the last sentence of section 301 of the Emergency Banking Act of March 9, 1933, so as to require, in connection with the issuance of preferred stock, the same kind of a certificate by the Comptroller of the Currency as to the validity of such issue as is now required in the case of the issuance of common stock.

SECTION 336. TERMINATION OF LIABILITY OF SHAREHOLDERS OF BANKS IN DISTRICT OF COLUMBIA

Section 336 would terminate the liability of shareholders of banks and trust companies in the District of Columbia as of July 1, 1937, in a manner similar to that provided elsewhere in the bill for terminating the liability of shareholders of national banks.

SECTION 337. BRANCHES OF STATE MEMBER BANKS

Section 337 amends section 9 of the Federal Reserve Act so as to correct a technical error in the Banking Act of 1933 which results in State member banks being required to obtain the approval of the Comptroller of the Currency, instead of the Federal Reserve Board, before establishing out-of-town branches or retaining such branches upon admission to the Federal Reserve System, if they were established after February 25, 1927.

The amendment would neither enlarge nor diminish the right of State banks to establish or retain branches but would merely require

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them to obtain the approval of the Federal Reserve Board instead of the Comptroller of the Currency.

Section 338. Security for Bank Receivership Funds on Deposit in Insured Banks

Section 338 removes the requirement of furnishing security in case of bank receivership funds deposited in banks whose deposits are protected by insurance under section 12B of the Federal Reserve Act.

Section 339. Security for Bankruptcy Funds on Deposit in Insured Banks

Section 339 removes the requirement of furnishing security in case of bankruptcy funds deposited in banks whose deposits are protected by insurance under section 12B of the Federal Reserve Act.

Section 340. Interest on Postal Savings Deposits

Section 340 clarifies the amendment made in section 10 (c) of the Banking Act of 1933 relating to withdrawal of postal savings deposits, and adds provisions relating to interest on postal savings deposits and to deposits in member banks by postal savings depositories.

SUPPLEMENTAL VIEWS OF MR. BROWN OF MICHIGAN

With the general purposes of the bill (H. R. 7617) I am in accord. But to one familiar, in a measure, with the banking system, some of the sections and some of the omissions of the bill seem detrimental to the interests of the country.

The adoption of this measure, as amended in committee, will tend to drive many banks out of the national banking system and out of the Federal Reserve System. This is directly contrary to the purpose of the bill as first introduced (H. R. 5357). Changes in committee, certainly not in line with the desire of the administration, if the original bill expressed that desire, were made. No one ventured to assert in committee that the changes made, which will be presently discussed, were desired by the President, the Comptroller, or the Federal Deposit Insurance Corporation, but many times the committee was informed that the bill as introduced (H. R. 5357) had the approval of the various agencies affected.

A fairly well unified banking system could be brought about by legislation which would encourage the chartering and extension of national banks and inclusion of State banks in the Federal Reserve System. This bill, together with the existing law unaffected by it, will discourage national banking. It will break down and reverse the policy of our last two banking bills which encouraged a unified, democratic form of banking where each bank was independent in the matter of local credit and at the same time was able to call on the system for aid in extending credit and for aid in time of financial stress.

Under existing law the nonmember banks of the county were admitted as insured banks in the Federal Deposit Insurance Corporation with the understanding that in 1937 such insured banks would have to join the Federal Reserve System or terminate their member-

ship in the Federal Deposit Insurance Corporation. Under the bill as reported, the committee definitely abandons this policy and permits for all time nonmember banks to participate in the Federal Deposit Insurance Corporation without membership in the Federal Reserve System. Every act of Congress heretofore passed relating to this subject has announced the policy that insured banks must become members of the Federal Reserve System. In my judgment, if this provision is repealed as is contemplated in H. R. 7617, the pending bill, a unified system of banking with individual autonomy and control of the separate banks is gone.

Some reasons that will drive banks out of the national system are now given. Why should a national bank subject itself to the somewhat more drastic control of the Treasury Department (which I think is highly desirable and beneficial to the depositors) if it no longer has the power of issuing money to the amount of its capital, a right which was taken away by the recent action of the administration? It is in competition with State banks which in most States are permitted to have branches—a valuable right. Small national banks are denied the privilege of so doing, although this right is accorded to national banks with a capital of a half million dollars. In other words the National Bank of Detroit can now establish a branch in a hamlet in Gogebic County, Mich., 700 miles away, but the national bank in the county seat cannot do so. It is a strange situation of law which gives a big city bank the right to establish branches at any place in the State and permits State banks of any size to do likewise, but denies to national banks of capital under $500,000 the same privilege.

In many places of 800 to 3,000 population, banks have disappeared and the national county-seat banks are ready and willing to establish offices where deposits may be made and checks cashed. They cannot do so under the present law. People in these towns, too small to establish banks, want this service. If their county-seat bank is a State bank they may get the service, but if a national bank they cannot. However, the big city bank can establish it.

One of three results will follow: Either under-capitalized, weak, banks will be established in these places; branches of large national banks will go in; or the town will have no service. Why not give to these people the safe service that could be provided by county branch banking and prevent thousands of under-capitalized small banks to start up.

The following insert sets out in roman type the existing law and the language starting with "(3)" and ending with the words "clause (c) (3)" contains an amendment first adopted by the committee under a free vote, then rejected, under extreme pressure, on reconsideration, after the lines were adroitly reformed.

Section 5155 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 36).

> (c) A national banking association may, with the approval of the Comptroller of the Currency, establish and operate new branches: (1) Within the limits of the city, town, or village in which said association is situated, if such establishment and operation are at the time expressly authorized to State banks by the law of the State in question; and (2) at any point within the State in which said association is situated, if such establish-

ment and operation are at the time authorized to State banks by the statute law of the State in question by language specifically granting such authority affirmatively and not merely by implication or recognition, and subject to the restrictions as to location imposed by the law of the State on State banks; **and (3), in any State in which State banks are permitted by statute law to maintain branches within the county or within a 40-mile radius of the place in which the State bank is located, if no bank is located and doing business in the place where the proposed branch is to be located, any such national banking association may, independent of the capital requirements of this section, establish and operate new branches at any place within the county or within a 40-mile radius of the place in which said association is situated, but not to exceed four in number and subject to such capital requirements as the Comptroller of the Currency may impose. Except as provided in clause (c) (3)** no such association shall establish a branch outside of the city, town, or village in which it is situated unless it has a paid-in and unimpaired capital stock of not less than $500,000: *Provided,* That in States with a population of less than one million, and which have no cities located therein with a population exceeding one hundred thousand, the capital shall be not less than $250,000: *Provided,* That in States with a population of less than one-half million, and which have no cities located therein with a population exceeding fifty thousand, the capital shall not be less than $100,000.

When the issue of county branch banking was finally presented in committee, an aroused leadership refused to permit small national banks to have county branches and at the same time declined to approve a measure which would prevent a further extension of branch banking by large national banks. It is difficult to write without some heat of the inconsistent attitude of some experienced majority members of the committee, who assert great solicitude for the small banks and vote great exclusive powers to large ones, but my affection for them, nurtured in three busy sessions of Congress, aided by a few hours of contemplation, cools my pen.

I think limited county branch banking highly desirable for two reasons:

First. It will give service to many small towns now without it.

Second. It will discourage the opening of the pawn shop, corner grocery type of small bank.

Why should a medium-sized town bank now remain a member of the Federal Reserve System when it must maintain about 10 percent of its deposit liability with the Federal Reserve bank, getting nothing for it, when it is a well-known fact that the town bank (I am speaking of the town of 25,000 and less), neither asks nor gets much accommodation from the Federal Reserve System because little of its paper is eligible? State requirements on reserves are usually more liberal. Character loans have no standing with the Federal Reserve System, and character is the basis of much of the solidity of our small-town banks.

Smaller national banks and smaller member banks by withdrawing will save much expense of examination, much drastic regulation, much remote bureaucratic domination, all of which is anathema to the

bankers. So why continue in the National and Federal Reserve System?

As independent State banks they can establish branches in most States, they will be subject to much less regulation. They will be members of the Federal Deposit Insurance Corporation, which will give confidence to the public. This was a prime factor in bringing banks into the National and Federal Reserve Systems before Federal deposit insurance. That incentive goes if this bill is enacted as reported.

I believe Federal examination and Federal control has been beneficial. The figures show it. But with the right to issue national-bank currency gone, with no right to establish branches, except by big banks, with interest on Federal Reserve balances gone to the town banker, the National and Federal Reserve Systems look like "all give and no get". With State charters more liberal, with less control, with branch banking permitted, and with Federal protection of deposits, the banker sees a condition where he has every reason for giving up his national charter and every reason for going into a nonmember State bank status.

But while such a tendency is inevitable because the bankers will do what they think best for themselves it is decidedly unfortunate for the depositors and the country, because Government supervision by the Comptroller's Office and by the Federal Reserve examiners, although it may seem drastic, is highly desirable in the interest of the depositors.

One cannot contemplate the record of the past without realizing that national and Federal control is highly desirable from the standpoint of the depositor whose interest is paramount. Let's look at the record:

The record of national, State member and nonmember banks from 1921 to 1932 shows the superior safety of national banks. Mutual savings banks are not included in these figures with nonmember banks as they are of a different character. The figures are based on the 1933 report of the Federal Reserve Board.

In 1921, there were 8,150 national banks with total deposits of $12,991,000,000. There were 1,595 member State banks with deposits of $7,646,000,000. There were 20,181 nonmember banks with deposits of $9,529,000,000. In 1932, open national banks had diminished in number from 8,150, 12 years before, to 6,080; the State member banks from 1,595 to 824; the nonmember banks from 20,181 to 11,296.

During the 12-year period just before the abnormal situation of 1933, the average annual number of national banks closing per year were 138, or 1.6 percent of the 1921 total; State member banks 35 per year, or 2.2 percent; nonmember banks 732 per year, or 3.6 percent.

In the matter of deposits, the 12-year period shows that the total deposits in national banks suspended, was $1,187,000,000; in State member banks $680,000,000; and in nonmember banks $3,017,000,000.

When one stops to consider that the 1932 member banks' deposits were three and one-half times the nonmember deposits and that the deposits in suspended nonmember banks for the 12 preceding years were practically twice the amount of deposits in suspended member banks, it is plain and apparent that a unified system is im-

mensely superior in safety to depositors. The National and Federal Reserve Systems have proven their superiority in the commercial banking field. Figures for the period from 1933 to date are not available, but I am assured, on authority I consider reliable, that the record when written will fully sustain the conclusions here reached.

These figures demonstrate that a unified system such as we have should be continued, encouraged, and perfected. This bill (H. R. 7617) will break it down. Give national banks the same rights and privileges State banks have and no more. Give the little bank the same right as you do the big bank, and extend insurance of deposits to all banks that will join the Federal Reserve System and assist in the general unification and strengthening of our banking structure.

The results desired can best be achieved by restoring section 23 of title I of H. R. 5357, requiring insured nonmember banks, within a reasonable time, to join the Federal Reserve System, which will be offered on the floor by Representative Hancock of North Carolina, and by adopting an amendment permitting county branch banking where State banks are permitted by statute law to have branches. These measures, in conjunction with the patent benefits of the bill, either H. R. 5357 or H. R. 7617, will do much toward achieving a sound, effective, uninterrupted operation of a unified banking system with local community control of its own credit.

While several members of the committee are in accord with my views on much that is here said, I have not asked anyone to join me in this statement. For the information of the House I add a short statement, as of March 27, 1935, of the present status of State laws concerning branch banking.

PRENTISS M. BROWN.

STATES WHERE BRANCH BANKING IS PERMITTED, WITH SHORT SUMMARY OF CONDITIONS

Alabama.—County-wide branch banking in counties of 250,000 population.

Arizona.—State-wide branch banking.

California.—State-wide branch banking.

Connecticut.—State-wide branch banking permitted if town is without banking facilities or if bank takes over or consolidates with another bank located at any place within the State.

Delaware.—State-wide branch banking.

Georgia.—Permits branch banking within limits of municipality in which main office is located provided such municipality has a population of not less than 80,000.

Idaho.—Permits State-wide branch banking if town is without bank, or if applying bank takes over existing bank that has operated for 5 years, or gets consent of existing banks.

Indiana.—County-wide branch banking provided there is no bank in such place.

Iowa.—Branch banking permitted in same county or counties contiguous to the county in which home office is located, subject exclusion of cities and towns in which there is already an established bank in operation.

Kentucky.—Branch banking permitted within limits of municipality in which main office is located.

Louisiana.—Parish-wide branch banking permitted. Amended by special act providing that any bank with principal office in the parishes of Allen, Calcasieu, or Jefferson Davis may establish branches in any one or more of these parishes.

Maine.—State-wide branch banking permitted if there is no local bank in place where branch is to be located, or a unit bank or branch or another bank is taken over by applying bank.

Maryland.—State-wide branch banking.

Massachusetts.—Branch banking permitted within town where main office is located, or in any other town within the same county if such other town does not have commercial banking facilities.

Michigan.—State-wide branch banking.

Mississippi.—National banks may establish branches: First, in the city of their location; second, within the limits of the county; third, within the limits of adjacent counties; fourth, anywhere within a 100-mile radius of the parent bank, except that beyond counties adjacent to the county of the bank's location a branch may not be established in a town of less than 3,500 population where a going bank has its main office.

Montana.—National bank consolidating with a State bank in the same or an adjoining county may operate a branch in the location of either consolidating bank.

Nevada.—State-wide branch banking.

New Jersey.—County-wide branch banking provided existing bank is taken over.

New Mexico.—Branch banking permitted (1) anywhere in the same county in which the parent bank is located; (2) in any adjacent county if there is no bank operating in said county; (3) anywhere within a 100-mile radius from the parent bank if there is no bank in operation in the county in which such branch is to operate.

New York.—Branch banking permitted within limits of banking district in which main office is located. There are nine banking districts in the State of New York.

North Carolina.—State-wide branch banking.

Ohio.—Branch banking permitted within limits of municipality in which main office is located, and in city or village contiguous thereto, or in other parts of the county or counties in which the municipality containing the main office is located.

Oregon.—State-wide branch banking permitted. In situation where town with population under 50,000 with bank or banks operating there, a bank must be taken over.

Pennsylvania.—Branches may be established in a city, borough, or township in which the bank has its principal place of business if a national bank located in that place was on March 1, 1927, operating a branch therein, such privilege being limited to the corporate limits of the place as they existed on March 1, 1927.

Rhode Island.—State-wide branch banking.

South Carolina.—State-wide branch banking.

South Dakota.—State-wide branch banking permitted subject to following conditions: In towns of a population less than 3,000 a branch cannot be established where there is an existing National or State bank transacting a customary banking business except through purchase of or consolidation with said existing banks. In cities or towns of a population more than 3,000 or less than 15,000 in which there are two or more existing banks transacting a customary banking business a branch cannot be established except by purchase of or consolidation with one of said existing banks for each branch desired to be established in that community.

Tennessee.—County-wide branch banking.

Utah.—State-wide branch banking permitted in cities of first class or in cities, towns, or villages in which no bank or banks are regurarly transacting business. In all others must take over existing bank or get consent from local existing bank.

Vermont.—State-wide branch banking.

Virginia.—National banks may establish branches in same or adjoining counties or within 25 miles of main office providing this is in connection with merger or consolidation.

Washington.—State-wide branch banking permitted if there is no local bank or branch operating, or same is taken over.

Wisconsin.—Branch banking permitted within 30 miles of parent bank.

STATES WHERE BRANCH BANKING IS PROHIBITED

Arkansas, Colorado, Florida, Illinois, Kansas, Minnesota, Nebraska, New Hampshire, Oklahoma, Texas, and West Virginia.

STATES WHERE STATE STATUTES ARE SILENT

Missouri.—No law providing for branch banking in any form.

New Mexico.—No law providing for branch banking in any form.

Wyoming.—No law providing for branch banking in any form.

North Dakota.—No law providing for branch banking in any form.

STATES WHERE BRANCH BANKING LEGISLATION IS PENDING

Colorado, Nebraska, and Missouri.

NOTE.—The fact that States permit branch banking does not aid a national bank with capital of less than $500,000, because the Federal law prohibits it beyond city limits.

MINORITY VIEWS OF THE COMMITTEE ON BANKING AND CURRENCY (TO ACCOMPANY REPORT ON H. R. 7617)

The undersigned members of the committee find themselves unable to concur in the majority report filed.

Title I and III of the bill H. R. 7617 as reported are in the main satisfactory, but title II, while containing some provisions of merit, is in its entirety such a radical departure from the sound principles of central banking that the evils it contains more than counteract the advantages of title I and III.

The chief objections to title II are the changes in the control of the governors of the Federal Reserve banks, changes in the control of the Governor of the Federal Reserve Board, increases in the power of the Federal Reserve Board, and too great liberalization of the discount and borrowing provisions of the Federal Reserve member banks.

PURPOSE OF THE FEDERAL RESERVE SYSTEM

The history of the establishment of the Federal Reserve System is a long and interesting one. Far-sighted men realized almost 30 years ago that there should be a central system to bring about the control of credit and the concentration of reserves, together with certain reforms in the currency proper. Some desired to put this system entirely under Government control. Many private bankers fought bitterly to eliminate any Government control whatsoever. Various plans were studied carefully for several years, and the system worked out more than 20 years ago was a compromise whereby the Federal Reserve Board members, though appointed by the President, were assured of tenure through long terms. The right of the President to appoint one of the Board as Governor, and the ex-officio membership on the Board of the Secretary of the Treasury and of the Comptroller of the Currency gave the administration an important voice in the Board's deliberations. It was supposed, however, to be an independent supervisory body for the whole Federal Reserve System.

The Federal Reserve banks, on the other hand, are private institutions, whose capital is subscribed by the various member banks. They hold the deposits of member banks, discounting for them certain types of obligations, and are the vehicle for the issue of Federal Reserve notes. They are controlled through their boards of directors, two-thirds named by the member banks, and one-third by the Federal Reserve Board, thus assuring that the views of the central board will receive careful consideration.

This separation of the Reserve banks from governmental control is in accordance with central banking practice in most of the more highly civilized countries under a democratic form of government. The best known central bank, for instance, is the Bank of England, which is a private institution entirely separate from direct govern-

mental control, even though it cooperates closely with the Government. Conversely, countries under close dictatorship, like Italy and Russia, have central banks entirely under Government domination. One of the first and essential steps in any dictatorship is to extend power over the credit resources of the country.

THE EFFECT OF TITLE II OF THE BILL

At the present time the Governor of each Federal Reserve bank, its chief executive officer, is elected annually by the directors of the bank. He is responsible to his board, and not to the Federal Reserve Board. Under this bill he must be subject to the approval of the Federal Reserve Board when first designated as Governor, and each 3 years thereafter, if redesignated, he must again be subject to the Board's approval, thus removing to a great extent the independence which he has enjoyed in the past.

At the present time the Governor and Vice Governor of the Federal Reserve Board are designated as such by the President from the membership of the Board. Under this bill they would be removable by the President at will, thus taking away whatever independence they now have. To realize the extent of this change, it must be remembered that the Governor has always been the dominant figure on the Board, and the Board is thus made more subject to control by the Executive.

At the present time open-market operations, that is, the buying and selling of Government obligations by the Federal Reserve banks, are recommended by a committee of governors of the Reserve banks, but no such bank may be compelled to take part in these operations if it prefers not to do so. Under this bill the Federal Reserve Board becomes the open-market committee and its decision as to buying and selling of Government bonds is mandatory on all the Federal Reserve banks.

Open-market operations are always conducted for all the banks by the New York Federal Reserve Bank, for New York is the money and bond market of the country. If this new provision becomes law, it means that the resources of the Federal Reserve banks from the 12 districts may be drained to New York for the purpose of acquiring bonds, no matter how unwise it might appear to bankers generally. Thus the board of directors of a particular Federal Reserve bank might consider that it was already overloaded with Government bonds, and yet be forced to buy more.

At the present time reserve requirements of member banks may be changed from certain statutory limits only in times of emergency by a vote of five members of the Federal Reserve Board, and with the consent of the President. Under this bill the Federal Reserve Board (acting perhaps by a bare majority of a bare quorum) could raise or lower reserve requirements at will. The right to raise is the right to curtail or even stop entirely the normal banking function of lending. The right to lower brings the possibility of endangering deposits by requiring insufficient reserves. Neither power should be lightly exercised.

One of the chief evils of title II is that it is tied in with titles I and III, for it is entirely separate and distinct, and has little connection with their subject matter. The enactment of title I in the near future is most desirable, and title III is also of value. It must be obvious that there was a purpose in sandwiching title II between titles I and III and insisting that they be passed as an entirety.

NEED OF FURTHER STUDY

The original set-up of the Federal Reserve System was the result of many years of study. Any drastic changes in it today should be the result of similar study. Plenty of time should be given, and all viewpoints should be sought. The present title II is not even the original title II as presented in the bill, but is almost without change an amended title II submitted by Governor Eccles of the Federal Reserve Board after he had entirely completed his testimony before the committee.

While the committee was assured that the first draft was the joint work of all the various financial departments of the Government, and had their joint approval, we have had no assurance that title II in its amended form has received any approval except that of Governor Eccles, or has even been submitted to anyone else. It is a clear example of hasty and ill-advised legislation on a matter of vital importance to the country.

DANGER OF COMPULSORY FINANCING OF DEFICITS

One of the things most dreaded today by thinking people is the possibility of the weakening, or perhaps collapse of Government credit because of continued deficits. Government financing should be on the same basis as private financing; that is, a free and open market where the savings of the people are voluntarily used in the purchase of Government obligations. Whenever the Government is in a position to compel the use of the savings of the people to acquire such obligations, such financing becomes a forced loan and is one of the most vicious inroads on liberty. Weakening of the market for Government obligations is a danger signal in the spending program of any government, and this bill would make it easy to ignore such a danger signal. What most people do not realize is that whenever banks may be forced to acquire Government bonds against their will, or at rates which they would not recognize if the transaction were voluntary, as far as the actual credit of the Government is concerned, deficits might just as well be financed by fiat money.

CONCLUSION

No emergency has been shown requiring the passage of this title II. No immediate need for it has been evidenced. The inherent dangers in it are obvious. Its presence in the bill jeopardizes the early passage by Congress of titles I and III.

In the interests of the general banking situation in the country title II should be removed from the bill, to be given further con-

sideration by the committee or by a special commission in a position to give it careful and expert study. If title II remains in this bill in substantially its present form, it is our recommendation that the bill do not pass.

JOHN B. HOLLISTER.
JESSE P. WOLCOTT.
PETER A. CAVICCHIA.
HAMILTON FISH, JR.
CHARLES L. GIFFORD.
EVERETT M. DIRKSEN.
CLARE G. FENERTY.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows: Existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman.

Amendments made by title I of the bill in section 12B of the Federal Reserve Act, as amended.

Sec. 12B. [(a) There is hereby created a Federal Deposit Insurance Corporation (hereinafter referred to as the "Corporation" whose duty it shall be to purchase, hold, and liquidate, as hereinafter provided, the assets of national banks which have been closed by action of the Comptroller of the Currency, or by vote of their directors, and the assets of State member banks which have been closed by action of the appropriate State authorities, or by vote of their directors; and to insure, as hereinafter provided, the deposits of all banks which are entitled to the benefits of insurance under this section.]

(a) *There is hereby created a Federal Deposit Insurance Corporation (hereinafter referred to as the "Corporation"), which shall insure, as hereinafter provided, the deposits of all banks which are entitled to the benefits of insurance under this section and which shall have the right to exercise all powers hereinafter granted.*

(b) The management of the Corporation shall be vested in a board of directors consisting of three members, one of whom shall be the Comptroller of the Currency, and two of whom shall be citizens of the United States to be appointed by the President, by and with the advice and consent of the Senate. One of the appointive members shall be the chairman of the board of directors of the Corporation and not more than two of the members of such board of directors shall be members of the same political party. Each such appointive member shall hold office for a term of six years and shall receive compensation at the rate of $10,000 per annum, payable monthly out of the funds of the Corporation, but the Comptroller of the Currency shall not receive additional compensation for his services as such member. *In the event of a vacancy in the office of the Comptroller of the Currency, and pending the apppointment of his successor, the Acting Comptroller of the Currency shall be a member of the board of directors in his place and stead. In the absence of the Comptroller of the Currency any Deputy Comptroller of the Currency, as designated from time to time by the Comptroller, may, within the limits prescribed by the Comptroller, act as a member of the board of directors in the place and stead of the Comptroller. In the event of a vacancy in the office of the chairman of the board of directors, and pending the appointment of his successor, the Comptroller of the Currency shall act as chairman. The Comptroller of the Currency shall be ineligible during the time he is in office and for two years thereafter to hold any office, position, or employment in any insured bank. The appointive members of the board of directors shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any insured bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. No member of the board of directors shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the board of directors he shall certify under oath that he has complied with this requirement and such certification shall be filed with the secretary of the board of directors. No member of the board of directors serving on the board of directors at the effective date shall be subject to any of the provisions of the three preceding sentences until the expiration of his present term of office.*

(c) As used in this section—

(1) The term "State bank" means any bank, banking association, trust company, savings bank, or other banking institution which is engaged in the business of receiving deposits and which is incorporated under the laws of any State or the Territories of Hawaii or Alaska or which is operating under the Code of the District of Columbia (except a national bank).

(2) The term "State member bank" means any State bank which is a member of the Federal Reserve System, and the term "State nonmember bank" means any other State bank.

(3) The term "District bank" means any State bank operating under the Code of the District of Columbia.

(4) The term "national member bank" means any national bank located in the States of the United States, the District of Columbia, or the Territories of Hawaii or Alaska, except a national nonmember bank as hereinafter defined.

(5) The term "national nonmember bank" means any national bank located in the Territory of Hawaii or Alaska which is not a member of the Federal Reserve System.

(6) The term "mutual savings bank" means a bank without capital stock transacting a savings bank business, the net earnings of which inure wholly to the benefit of its depositors after payment of obligations for any advances by its organizers.

(7) The term "savings bank" means a bank, other than a mutual savings bank, transacting a strictly savings-bank business under State laws imposing special requirements on such banks governing the manner of investing their funds and of conducting their business: Provided, That the bank maintains, until maturity date or until withdrawn, all deposits made with it, exclusive of funds held by it in a fiduciary capacity, as time savings deposits of the specific term type or of the type where the right to require written notice before permitting withdrawal is reserved: Provided further, That such bank to be considered a savings bank must elect to become subject to regulations of the Corporation respecting the redeposit of maturing deposits and prohibiting withdrawal of deposits by checking except from specifically designated deposit accounts totaling not more than 15 per centum of the bank's total deposits.

(8) The term "insured bank" means any bank the deposits of which are insured in accordance with the provisions of this section, and the term "noninsured bank" means any other bank.

(9) The term "new bank" means a new national banking association organized by the Corporation to assume the insured deposits of an insured bank closed on account of inability to meet the demands of its depositors and otherwise to perform temporarily the functions prescribed in this section.

(10) The term "receiver" shall include a receiver, liquidating agent, conservator, commission, person, or other agency charged by law with the duty of winding up the affairs of a bank.

(11) The term "board of directors" means the board of directors of the Corporation.

(12) The term "deposit" means the unpaid balance of money or its equivalent received by a bank in the usual course of business and for which it has given or is obligated to give unconditional credit to a commercial, checking, savings, time or thrift account, or which is evidenced by its certificate of deposit, and trust funds held by such bank whether retained or deposited in any department of such bank or deposited in another bank, together with such other obligations of a bank as the board of directors shall find and shall prescribe by its regulations to be deposit liabilities by general usage: Provided, That any obligation of a bank which is payable only at an office of the bank located outside the States of the United States, the District of Columbia, and the Territories of Hawaii and Alaska shall not be a deposit for purposes of this section or be included as a part of total deposits or of an insured deposit. The board of directors may by regulation further define the terms used in this paragraph.

(13) The term "insured deposit" means such part of the net amount of money due to any depositor for deposits in an insured bank, after deducting offsets, as shall not exceed the maximum prescribed by paragraph (1) of subsection (l) of this section. Such amount shall be determined according to such regulations as the board of directors may prescribe. In determining the amount due to any depositor there shall be added together all deposits in the bank maintained in the same capacity and the same right for his benefit either in his own name or in the names of others, except trust funds which shall be insured as provided in paragraph (8) of subsection (h) of this section.

(14) The term "transferred deposit" means a deposit in a new bank or other insured bank made available to a depositor by the Corporation as payment of the insured deposit of such depositor in a closed bank, and assumed by such new bank or other insured bank.

(15) The term "effective date" means the date of enactment of the Banking Act of 1935.

[(c)] *(d)* There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $150,000,000, which shall be available for payment by the Secretary of the Treasury for capital stock of the Corporation in an equal amount, which shall be subscribed for by him on behalf of the United States. Payments upon such subscription shall be subject to call

in whole or in part by the board of directors of the Corporation. Such stock shall be in addition to the amount of capital stock required to be subscribed for by Federal Reserve banks [and member and nonmember banks as hereinafter provided, and the United States shall be entitled to the payment of dividends on such stock to the same extent as member and nonmember banks are entitled to such payment on the class A stock of the Corporation held by them]. *Receipts for payments by the United States for or account of such stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership of the United States.*

[(d) The capital stock of the Corporation shall be divided into shares of $100 each. Certificates of stock of the Corporation shall be of two classes—class A and class B. Class A stock shall be held by member and nonmember banks as hereinafter provided and they shall be entitled to payment of dividends out of net earnings at the rate of six per centum on the capital stock paid in by them, which dividends shall be cumulative, or to the extent of thirty per centum of such net earnings in any one year, whichever amount shall be the greater, but such stock shall have no vote at meetings of stockholders. Class B stock shall be held by Federal Reserve banks only and shall not be entitled to the payment of dividends.] Every Federal Reserve bank shall subscribe to shares of [class B] stock in the Corporation to an amount equal to one-half of the surplus of such bank on January 1, 1933, and its subscriptions shall be accompanied by a certified check payable to the Corporation in an amount equal to one-half of such subscription. The remainder of such subscription shall be subject to call from time to time by the board of directors upon ninety days' notice. *The capital stock of the corporation shall consist of the shares subscribed for prior to the effective date. Such stock shall be without nominal or par value, and shares issued prior to the effective date shall be exchanged and reissued at the rate of one share for each $100 paid into the corporation for capital stock. The consideration received by the corporation for the capital stock shall be allocated to capital and to surplus in such amounts as the board of directors shall prescribe. Such stock shall have no vote and shall not be entitled to the payment of dividends.*

[(e) Every bank which is or which becomes a member of the Federal Reserve System on or before July 1, 1935, shall take all steps necessary to enable it to become a class A stockholder of the Corporation on or before July 1, 1935; and thereafter no State bank or trust company or mutual savings bank shall be admitted to membership in the Federal Reserve System until it becomes a class A stockholder of the Corporation, no national bank in the continental United States shall be granted a certificate by the Comptroller of the Currency authorizing it to commence the business of banking until it becomes a member of the Federal Reserve System and a class A stockholder of the Corporation, and no national bank in the continental United States for which a receiver or conservator has been appointed shall be permitted to resume the transaction of its banking business until it becomes a class A stockholder of the Corporation. Every member bank shall apply to the Corporation for class A stock of the Corporation in an amount equal to one-half of 1 per centum of its total deposit liabilities as computed in accordance with regulations prescribed by the Federal Reserve Board; except that in the case of a member bank organized after the date this section takes effect, the amount of such class A stock applied for by such member bank during the first twleve months after its organization shall equal 5 per centum of its paid up capital and surplus, and beginning after the expiration of such twelve months' period the amount of such class A stock of such member bank shall be adjusted annually in the same manner as in the case of other member banks. Upon receipt of such application the Corporation shall request the Federal Reserve Board, in the case of a State member bank, or the Comptroller of the Currency, in the case of a national bank, to certify upon the basis of a thorough examination of such bank whether or not the assets of the applying bank are adequate to enable it to meet all of its liabilities to depositors and other creditors as shown by the books of the bank; and the Federal Reserve Board or the Comptroller of the Currency shall make such certification as soon as practicable. If such certification be in the affirmative, the Corporation shall grant such application and the applying bank shall pay one-half of its subscription in full and shall thereupon become a class A stockholder of the Corporation: *Provided*, That no member bank shall be required to make such payment or become a class A stockholder of the Corporation before July 1, 1935. The remainder of such subscription shall be subject to call from time to time by the board of directors of the Corporation. If such certification be in the negative, the Corporation shall deny such application. If any national bank shall not have

become a class A stockholder of the Corporation on or before July 1, 1935, the Comptroller of the Currency shall appoint a receiver or conservator therefor in accordance with the provisions of existing law. Except as provided in subsection (g) of this section, if any State member bank shall not have become a class A stockholder of the Corporation on or before July 1, 1935, the Federal Reserve Board shall terminate its membership in the Federal Reserve System in accordance with the provisions of section 9 of this Act.]

(e) (1) Every operating member bank, including a bank incorporated since March 10, 1933, licensed on or before the effective date by the Secretary of the Treasury shall be and continue without application or approval an insured bank and shall be subject to the provisions of this section.

(2) After the effective date any national member bank authorized to commence or resume the business of banking, State bank converting into a national member bank, or State bank becoming a member of the Federal Reserve System shall be an insured bank from the time the certificate herein prescribed shall be issued to the Corporation by the Comptroller of the Currency in the case of such national member bank, or by the Federal Reserve Board in the case of such State member bank: Provided, That in the case of an insured bank admitted to membership in the Federal Reserve System or insured State bank converting into a national member bank, such certificate shall not be required, and the bank shall continue as an insured bank. Such certificate shall state that the bank is authorized to transact the business of banking in the case of a national member bank, or is a member of the Federal Reserve System in the case of a State member bank, and that consideration has been given to the factors enumerated in subsection (g) of this section.

[(f) Any State bank or trust company or mutual savings bank which applies for membership in the Federal Reserve System or for conversion into a national banking association on or after July 1, 1936, may, with the consent of the Corporation, obtain the benefits of this section, pending action on such application by subscribing and paying for the same amount of stock of the Corporation as it would be required to subscribe and pay for upon becoming a member bank. Thereupon the provisions of this section applicable to member banks shall be applicable to such State bank or trust company or mutual savings bank to the same extent as if it were already a member bank: *Provided*, That if the application of such State bank or trust company or mutual savings bank for membership in the Federal Reserve System or for conversion into a national banking association be approved and it shall not complete its membership in the Federal Reserve System or its conversion into a national banking association within a reasonable time, or if such application shall be disapproved, then the amount paid by such State bank or trust company or mutual savings bank on account of its subscription to the capital stock of the Corporation shall be repaid to it and it shall no longer be subject to the provisions or entitled to the privileges of this section.]

(f) (1) Every bank not a member of the Federal Reserve System which on the effective date is a member of the Temporary Federal Deposit Insurance Fund or of the Fund for Mutuals created pursuant to the provisions of the Banking Act of 1933, as amended (48 Stat. 168, 969; chs. 89, 546), shall be and continue without application or approval an insured bank and shall be subject to the provisions of this section, unless in accordance with regulations to be prescribed by the board of directors such bank shall give to the Corporation and to the Reconstruction Finance Corporation, if it owns or holds as pledgee any preferred stock, capital notes, or debentures of such bank, within thirty days after the effective date written notice of its election not to continue after June 30, 1935, as an insured bank and shall give to its depositors, by publication or by any reasonable means, as the board of directors may prescribe, not less than twenty days' notice prior to June 30, 1935, of such election: Provided, That any State nonmember bank which was admitted to said Temporary Federal Deposit Insurance Fund or Fund for Mutuals but which did not file on or before the effective date an October 1, 1934, certified statement and make the payments thereon required by law as it existed prior to the effective date, shall cease to be an insured bank on June 30, 1935: Provided further, That no bank admitted to the said Temporary Federal Deposit Insurance Fund or the Fund for Mutuals prior to the effective date shall, after June 30, 1935, be an insured bank or have its deposits insured by the Corporation, if such bank shall have permanently discontinued its banking operations prior to the effective date. Deposits of the bank giving such notice shall continue to be insured until June 30, 1935, and the rights of the bank shall be as provided by law existing prior to the effective date, and such bank shall not be insured by the Corporation beyond June 30, 1935.

(2) Subject to the provisions of this section, any national nonmember bank, on application by the bank and certification by the Comptroller of the Currency in the

manner prescribed in subsection (e) of this section, and any State nonmember bank, upon application to and examination by the Corporation and approval by the board of directors, may become an insured bank. Before approving the application of any such State nonmember bank, the board of directors shall give consideration to the factors enumerated in subsection (g) of this section and shall determine, upon the basis of a thorough examination of such bank, that its assets in excess of its capital requirements are adequate to enable it to meet all of its liabilities as shown by the books of the bank to depositors and other creditors.

[(g) If any State bank or trust company, or mutual savings bank (referred to in this subsection as "State bank") which is or which becomes a member of the Federal Reserve System is not permitted by the laws under which it was organized to purchase stock in the Corporation, it shall apply to the Corporation for admission to the benefits of this section and, if such application be granted after appropriate certification in accordance with this section, it shall deposit with the Corporation an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock of the Corporation. Thereafter such deposit shall be adjusted in the same manner as subscriptions for stock by class A stockholders. Such deposit shall be subject to the same conditions with respect to repayment as amounts paid on subscriptions to class A stock by other member banks and the Corporation shall pay interest thereon at the same rate as dividends are actually paid on outstanding shares of class A stock. As long as such deposit is maintained with the Corporation, such State bank shall, for the purposes of this section, be deemed to be a class A stockholder of the Corporation. If the laws under which such State bank was organized be amended so as to authorize State banks to subscribe for class A stock of the Corporation, such State bank shall within six months thereafter subscribe for an appropriate amount of such class A stock and the deposit hereinafter provided for in lieu of payment upon class A stock shall be applied upon such subscription. If the law under which such State bank was organized be not amended at the next session of the State legislature following the admission of such State bank to the benefits of this section so as to authorize State banks to purchase such class A stock, or, if the law be so amended and such State bank shall fail within six months thereafter to purchase such class A stock, the deposit previously made with the Corporation shall be returned to such State bank and it shall no longer be entitled to the benefits of this section, unless it shall have been closed in the meantime on account of inability to meet the demands of its depositors.]

(g) The factors to be enumerated in the certificate required under subsection (e) and to be considered by the board of directors under subsection (f) shall be the financial condition of the bank and the adequacy of its capital structure.

[(h) The amount of the outstanding class A stock of the Corporation held by member banks shall be annually adjusted as hereinafter provided as of the last preceding call date as member banks increase their time and demand deposits or as additional banks become members or subscribe to the stock of the Corporation, and such stock may be decreased in amount as member banks reduce their time and demand deposits or cease to be members. Shares of the capital stock of the corporation owned by member banks shall not be transferred or hypothecated. When a member bank increases its time and demand deposits it shall, at the beginning of each calendar year, subscribe for an additional amount of capital stock of the Corporation equal to one-half of 1 per centum of such increase in deposits. One-half of the amount of such additional stock shall be paid for at the time of the subscription therefor, and the balance shall be subject to call by the board of directors of the Corporation. A bank organized on or before the date this section takes effect and admitted to membership in the Federal Reserve System at any time after the organization of the Corporation shall be required to subscribe for an amount of class A capital stock equal to one-half of 1 per centum of the time and demand deposits of the applicant bank as of the date of such admission, paying therefor its par value plus one-half of 1 percentum a month from the period of the last dividend on the class A stock of the Corporation. When a member bank reduces its time and demand deposits it shall surrender, not later than the last day of January thereafter, a proportionate amount of its holdings in the capital stock of the Corporation, and when a member bank voluntarily liquidates it shall surrender all its holdings of the capital stock of the Corporation and be released from its stock subscription not previously called. The shares so surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Corporation, a sum equal to its cash paid subscriptions on the shares surrendered and its proportionate share of dividends not to exceed one-half of 1 per centum a month, from the period of the last dividend on such stock less any liability of such member bank to the Corporation.]

(h) (1) The assessment rate shall be one-eighth of 1 per centum per annum based upon the average of the total amount of the liability of the bank for deposits (according to the definition of the term "deposit" in and pursuant to paragraph (12) of subsection (c) of this section, without any deduction for indebtedness of depositors). The average of such total shall be determined as of the close of business on one day of each of three or more months preceding July and January of each year, such days to be designated by the directors in the manner provided in the next succeeding paragraph. In the event a separate fund for mutuals be established the board of directors from time to time may fix a lower rate operative for such period as the board may determine applicable to insured mutual savings banks only.

(2) During the months of June and December of each year the board of directors shall designate three or more dates, one in each of three or more months of the current semiannual period, for which the insured banks shall report their deposit liabilities for the purpose of assessment. On or before the 15th day of July of each year, each insured bank shall file with the Corporation a certified statement under oath showing the total amount of its liability for deposits as of the close of business on the three or more days so designated and shall pay to the Corporation the portion of the annual assessment equal to one-half of the annual rate fixed by this subsection (h) multiplied by the average of its total deposits for such days as are designated. On or before the 15th day of January of each year each insured bank shall file a like statement showing the total amount of its liability for deposits as of the close of business on the three or more days designated as hereinbefore provided, and shall pay to the Corporation the portion of the annual assessment equal to one-half of the annual rate fixed by this subsection (h) multiplied by the average of its total deposits for such days as are designated.

(3) Every bank which becomes an insured bank after the effective date shall be admitted without liability for the current semiannual payment but it shall file with the Corporation a certified statement under oath showing the total amount of its liability for deposits at the close of business on the fifteenth day after it becomes an insured bank and it shall pay to the Corporation as an initial assessment the prorated portion for the period between the date such bank became an insured bank and the next succeeding last day of June or December, as the case may be, of an amount equal to one-half the annual assessment rate provided in this section multiplied by such total deposits. The first semiannual payment after the initial payment shall be made according to the provisions of paragraphs (1) and (2) of this subsection in all cases where the bank shall have been in operation throughout the preceding semiannual period and in all other cases according to its certified statement under oath showing the deposit liability at a date designated by the board of directors.

(4) Each bank which shall be and continue without application or approval an insured bank in accordance with the provisions of subsection (e) or (f) of this section, shall, in lieu of all right to refund, be credited with any balance to which such bank shall become entitled upon the termination of said Temporary Federal Deposit Insurance Fund or the Fund for Mutuals. The credit shall be applied by the Corporation toward the payment of the assessment next becoming due from such bank and upon succeeding assessments until the credit is exhausted.

(5) Any insured bank which fails to file such certified statement or statements as it is lawfully required to file in connection with determining the amount of assessment or assessments due the Corporation, may be compelled to file such statement or statements by mandatory injunction or other appropriate remedy in a suit brought by the Corporation against the bank and any officer or officers thereof, for the purpose stated, in any court of the United States of competent jurisdiction in the district or territory in which such bank is located.

(6) The Corporation, in a suit brought at law or in equity in any court of competent jurisdiction, shall be entitled to recover from any insured bank any unpaid assessment or assessments lawfully due from such insured bank to the Corporation, regardless of whether or not such bank shall have filed the certified statement or statements it is lawfully required to file, and regardless of whether or not suit shall have been brought to compel such statement or statements to be filed.

(7) Should any national member bank now or hereafter organized, or should any national nonmember bank which is now or hereafter becomes an insured bank, omit to file any certified statement required to be filed by such bank under any provision of this section, or to pay the assessment required to be paid under any provision of this section by such bank on any certified statement filed by it, and should any such bank not correct such omission to file or to pay within thirty days after written notice has been given by the Corporation to an officer of the bank, citing this paragraph, and stating that the bank has omitted to file or pay as required by law, all the rights, privileges, and franchises of the offending bank granted to it under the National

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Bank Act or under the provisions of the Federal Reserve Act, as amended, shall be thereby forfeited. Whether or not the penalty provided in this paragraph has been incurred shall be determined and adjudged in the manner provided in the sixth paragraph of section 2 of this Act, as amended. The remedies provided in this paragraph and in the two preceding paragraphs shall not be construed as limiting any other remedies against any bank, but shall be in addition thereto.

(8) Trust funds held by an insured bank in a fiduciary capacity whether held in its trust or deposited in any other department or in another bank shall be insured subject to a $5,000 limit for each trust estate and when deposited by the fiduciary bank in another insured bank, shall be similarly insured to the fiduciary bank according to the trust estates represented. Notwithstanding any other provision of this section, such insurance shall be separate from and additional to that covering other deposits of the owners of such trust funds or beneficiaries of such trust estates: Provided, That where the fiduciary bank deposits any of such trust funds in other insured banks, the amount so held by other insured banks on deposit shall not for the purpose of the certified statement required under paragraphs (2) or (3) of subsection (h) of this section, be considered to be a deposit liability of the fiduciary bank, but shall be considered a deposit liability of the bank in which such funds are so deposited by such fiduciary bank. The board of directors shall have power by regulation to prescribe the manner of reporting and of depositing such funds.

[(i) If any member or nonmember bank shall be declared insolvent, or shall cease to be a member bank (or in the case of a nonmember bank, shall cease to be entitled to the benefits of insurance under this section), the stock held by it in the Corporation shall be canceled, without impairment of the liability of such bank, and all cash paid subscriptions on such stock, with its proportionate share of dividends not to exceed one half of 1 per centum per month from the period of last dividend on such stock shall be first applied to all debts of the insolvent bank or the receiver thereof to the Corporation, and the balance, if any, shall be paid to the receiver of the insolvent bank.]

(i) (1) Any insured bank (except a national member bank or State member bank) may, upon not less than ninety days' written notice to the Corporation, and to the Reconstruction Finance Corporation if it owns or holds as pledgee any preferred stock, capital notes, or debentures of such bank, terminate its status as an insured bank. Wherever the board of directors shall find that an insured bank or its directors or trustees have continued unsafe or unsound practices in conducting the business of such bank or have knowingly or negligently permitted any of its officers or agents to violate any provision of this section or of any material regulation made thereunder, or of any law or material regulation made pursuant to law to which the insured bank is subject, the board of directors shall first give to the Comptroller of the Currency in the case of a national bank or district bank, to the authority having supervision in case of a State bank, and also to the Federal Reserve Board in case of a State member bank, a statement of such violation by the bank for the purpose of securing a correction of such practices or conditions. Unless such correction shall be made within one hundred and twenty days or such shorter period of time as the Comptroller of the Currency, the State authority, or Federal Reserve Board, as the case may be, shall require, the board of directors, if it shall determine to proceed further, shall give to the bank not less than thirty days' written notice of intention to terminate the status of the bank as an insured bank, fixing a time and place for a hearing before the board of directors or before a person designated by it to conduct such hearing, at which evidence may be produced, and upon such evidence the board of directors shall make written findings which shall be conclusive. Unless the bank shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the termination of its status as an insured bank. If the board of directors shall find that any violation specified in such notice has been established, the board of directors may order that the insured status of the bank be terminated on a date subsequent to such finding and to the expiration of the time specified in such notice of intention. The Corporation may publish notice of such termination and the bank shall give notice of such termination to its depositors, in such manner and at such time as the board of directors may find necessary and may order for the protection of depositors. After termination of the insured status of any bank under the provisions of this paragraph, the insured deposits of each depositor in the bank on the date of such termination, less all subsequent withdrawals from any deposits of such depositor, shall continue for a period of two years to be insured and the bank shall continue to pay to the Corporation assessments as in the case of an insured bank for such period of two years from such termination, but no additions to any deposits or any new deposits shall be insured by the Corporation, and the bank shall not advertise or hold itself out as having insured deposits unless in the same connection it shall state with equal prominence that additions to deposits and new

deposits made after the date of such termination, specifying such date, are not insured. Such bank shall in all other respects be subject to the duties and obligations of an insured bank for the period of two years from such termination and in the event of being closed on account of inability to meet the demands of its depositors within such period of two years, the Corporation shall have the same powers and rights with respect to such bank as in case of an insured bank.

(2) Whenever the insured status of a member bank shall be terminated by action of the board of directors, the Federal Reserve Board in the case of a State member bank shall terminate its membership in the Federal Reserve System in accordance with the provisions of section 9 of this Act and in the case of a national member bank the Comptroller of the Currency shall appoint a receiver for the bank (to be the Corporation whenever the bank shall be unable to meet the demands of its depositors).

(3) When the liabilities of an insured bank for deposits shall have been assumed by another insured bank or banks, the insured status of the bank whose liabilities are so assumed shall terminate on the date of receipt by the Corporation of satisfactory evidence of such assumption with like effect as if terminated on said date by the board of directors after proceedings under paragraph (1) of this subsection (i): Provided, That if the bank whose liabilities are so assumed gives to its depositors notice of such assumption within thirty days after such assumption takes effect, by publication or by any reasonable means, in accordance with regulations to be prescribed by the board of directors, the insurance of its deposits shall terminate at the end of six months from the date such assumption takes effect and such bank shall be relieved of all future obligations to the Corporation, including the obligation to pay future assessments.

(j) Upon the date of enactment of the Banking Act of 1933, the Corporation shall become a body corporate and as such shall have power—

First. To adopt and use a corporate seal.

Second. To have succession until dissolved by an Act of Congress.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity, State or Federal. *All suits of a civil nature at common law or in equity to which the Federal Deposit Insurance Corporation shall be a party shall be deemed to arise under the laws of the United States: Provided, That any such suit to which the Corporation is a party in its capacity as receiver of a State bank and which involves only the rights or obligations of depositors, creditors, stockholders and such State bank under State law shall not be deemed to arise under the laws of the United States. No attachment or execution shall be issued against the Corporation or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court. The board of directors shall designate an agent upon whom service of process may be made in any State, Territory, or jurisdiction in which any insured bank is located.*

Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this section, to define their duties, fix their compensation, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. Nothing in this or any other Act shall be construed to prevent the appointment and compensation as an officer or employee of the Corporation of any officer or employee of the United States in any board, commission, independent establishment, or executive department thereof.

Sixth. To prescribe by its board of directors bylaws 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 section and such incidental powers as shall be necessary to carry out the powers so granted.

Eighth. To make examinations of and to require information and reports from banks, as provided in this section.

Ninth. To act as receiver.

Tenth. To prescribe by its board of directors such rules and regulations as it may deem necessary to carry out the provisions of this section.

[k] *(k) (1)* The board of directors shall administer the affairs of the Corporation fairly and impartially and without discrimination. The board of directors of the Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government. The Corporation with the consent of any Federal Reserve bank or of any board, commission, independent establishment, or executive department of the Government, including any field service

thereof, may avail itself of the use of information, services, and facilities thereof in carrying out the provisions of this section.

(2) The board of directors shall appoint examiners, who shall have power on behalf of the Corporation (except as to a District bank) to examine any insured State nonmember bank, State nonmember bank making application to become an insured bank, or closed insured bank, whenever considered necessary. Such examiners shall have like power to examine, with the written consent of the Comptroller of the Currency, any national bank, or District bank and, with the written consent of the Federal Reserve Board, any State member bank. Each examiner shall have power to make a thorough examination of all of the affairs of the bank and in doing so he shall have power to administer oaths and to examine and take and preserve the testimony of any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of the bank to the Corporation. The board of directors in like manner shall appoint claim agents who shall have power to investigate and examine all claims for insured deposits and transferred deposits. Each claim agent shall have power to administer oaths and to examine under oath and take and preserve testimony of any persons relating to such claims. Any such examiner or claim agent in relation to any such examination, investigation, or taking of testimony may apply to any judge or clerk of any court of the United States to issue subpenas and to compel the appearance of witnesses and the production and taking of any such testimony and to punish disobedience in like manner as provided in sections 184 to 186 of the Revised Statutes (U. S. C., title 5, secs. 94 to 96).

(3) Each insured State nonmember bank (except a District bank) shall make to the Corporation reports of condition in such form and at such times as the board of directors may require of such bank. The board of directors may require such reports to be published in such manner, not inconsistent with any applicable law, as it may direct. Every such bank which fails to make or publish any such report within such time, not less than five days, as the board of directors may require, may be subject to a penalty of $100 for each day of such failure, recoverable by the Corporation for its use.

(4) The Corporation shall have access to reports of examinations made by and reports of condition made to the Comptroller of the Currency or any Federal Reserve bank, and may accept any report made by or to any commission, board, or authority having supervision of a State nonmember bank (except a District bank), and may furnish to the Comptroller of the Currency, or any such Federal Reserve bank, commission, board, or authority reports of examinations made on behalf of and reports of condition made to the Corporation.

[(l) Effective on and after July 1, 1935 (thus affording ample time for examination and preparation), unless the President shall by proclamation fix an earlier date, the Corporation shall insure as hereinafter provided the deposits of all member banks, and on and after such date and until July 1, 1937, of all nonmember banks, which are class A stockholders of the Corporation. Notwithstanding any other provision of law, whenever any national bank which is a class A stockholder of the Corporation shall have been closed by action of its board of directors or by the Comptroller of the Currency, as the case may be, on account of inability to meet the demands of its depositors, the Comptroller of the Currency shall appoint the Corporation receiver for such bank. As soon as possible thereafter the Corporation shall organize a new national bank to assume the insured deposit liabilities of such closed bank, to receive new deposits and otherwise to perform temporarily the functions provided for it in this paragraph. For the purposes of this subsection, the term "insured deposit liability" shall mean with respect to the owner of any claim arising out of a deposit liability of such closed bank the following percentages of the net amount due to such owner by such closed bank on account of deposit liabilities: 100 per centum of such net amount not exceeding $10,000; and 75 per centum of the amount, if any, by which such net amount exceeds $10,000 but does not exceed $50,000; and 50 per centum of the amount, if any, by which such net amount exceeds $50,000: *Provided*, That in determining the amount due to such owner for the purpose of fixing such percentage, there shall be added together all net amounts due to such owner in the same capacity or the same right, on account of deposits, regardless of whether such deposits be maintained in his name or in the names of others for his benefit. For the purposes of this subsection, the term "insured deposit liabilities" shall mean the aggregate amount of all such insured deposit liabilities of such closed bank. The Corporation shall determine as expeditiously as possible the net amounts due to depositors of the closed bank and shall make available to the new bank an amount equal to the insured deposit liabilities of such closed bank, whereupon such new bank shall assume the insured deposit liability of such

closed bank to each of its depositors, and the Corporation shall be subrogated to all rights against the closed bank of the owners of such deposits and shall be entitled to receive the same dividends from the proceeds of the assets of such closed bank as would have been payable to each such depositor until such dividends shall equal the insured deposit liability to such depositor assumed by the new bank, whereupon all further dividends shall be payable to such depositor. Of the amount thus made available by the Corporation to the new bank, such portion shall be paid to it in cash as may be necessary to enable it to meet immediate cash demands and the remainder shall be credited to it on the books of the Corporation subject to withdrawal on demand and shall bear interest at the rate of 3 per centum per annum until withdrawn. The new bank may, with the approval of the Corporation, accept new deposits, which, together with all amounts made available to the new bank by the Corporation, shall be kept on hand in cash, invested in direct obligations of the United States, or deposited with the Corporation or with a Federal reserve bank. Such new bank shall maintain on deposit with the Federal reserve bank of its district the reserves required by law of member banks but shall not be required to subscribe for stock of the Federal reserve bank until its own capital stock has been subscribed and paid for in the manner hereinafter provided. The articles of association and organization certificate of such new bank may be executed by such representatives of the Corporation as it may designate; the new bank shall not be required to have any directors at the time of its organization, but shall be managed by an executive officer to be designated by the Corporation; and no capital stock need be paid in by the Corporation; but in other respects such bank shall be organized in accordance with the existing provisions of law relating to the organization of national banks; and, until the requisite amount of capital stock for such bank has been subscribed and paid for in the manner hereinafter provided, such bank shall transact no business except that authorized by this subsection and such business as may be incidental to its organization. When in the judgment of the Corporation it is desirable to do so, the Corporation shall offer capital stock of the new bank for sale on such terms and conditions as the Corporation shall deem advisable, in an amount sufficient in the opinion of the Corporation to make possible the conduct of the business of the new bank on a sound basis, but in no event less than that required by section 5138 of the Revised Statutes, as amended (U. S. C., title 12, sec. 51), for the organization of a national bank in the place where such new bank is located, giving the stockholders of the closed bank the first opportunity to purchase such stock. Upon proof that an adequate amount of capital stock of the new bank has been subscribed and paid for in cash by subscribers satisfactory to the Comptroller of the Currency, he shall issue to such bank a certificate of authority to commence business and thereafter it shall be managed by directors elected by its own shareholders and may exercise all of the powers granted by law to national banking associations. If an adequate amount of capital for such new bank is not subscribed and paid in, the Corporation may offer to transfer its business to any other banking institution in the same place which will take over its assets, assume its liabilities, and pay to the Corporation for such business such amount as the Corporation may deem adequate. Unless the capital stock of the new bank is sold or its assets acquired and its liabilities assumed by another banking institution, in the manner herein prescribed, within two years from the date of its organization, the Corporation shall place the new bank in voluntary liquidation and wind up its affairs. The Corporation shall open on its books a deposit insurance account and, as soon as possible after taking possession of any closed national bank, the Corporation shall make an estimate of the amount which will be available from all sources for application in satisfaction of the portion of the claims of depositors to which it has been subrogated and shall debit to such deposit insurance account the excess, if any, of the amount made available by the Corporation to the new bank for depositors over and above the amount of such estimate. It shall be the duty of the Corporation to realize upon the assets of such closed bank, having due regard to the condition of credit in the district in which such closed bank is located; to enforce the individual liability of the stockholders and directors thereof; and to wind up the affairs of such closed bank in conformity with the provisions of law relating to the liquidation of closed national banks, except as herein otherwise provided, retaining for its own account such portion of the amount realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors and paying to depositors and other creditors the amount available for distribution to them, after deducting therefrom their share of the costs of the liquidation of the closed bank. If the total amount realized by the Corporation on account of its subrogation to the claims of depositors be less than

the amount of the estimate hereinabove provided for, the deposit insurance account shall be charged with the deficiency and, if the total amount so realized shall exceed the amount of such estimate, such account shall be credited with such excess. With respect to such closed national banks, the Corporation shall have all the rights, powers, and privileges now possessed by or hereafter given receivers of insolvent national banks and shall be subject to the obligations and penalties not inconsistent with the provisions of this paragraph to which such receivers are now or may hereafter become subject.]

[Whenever any State member bank which is a class A stockholder of the Corportation shall have been closed by action of its board of directors or by the appropriate State authority, as the case may be, on account of inability to meet the demands of its depositors the Corporation shall accept appointment as receiver thereof, if such appointment be tendered by the appropriate State authority and be authorized or permitted by State law. Thereupon the Corporation shall organize a new national bank, in accordance with the provisions of this subsection, to assume the insured deposit liabilities of such closed State member bank, to receive new deposits and otherwise to perform temporarily the functions provided for in this subsection. Upon satisfactory recognition of the right of the Corporation to receive dividends on the same basis as in the case of a closed national bank under this subsection, such recognition being recorded by State law, by allowance of claims by the appropriate State authority, by assignment of claims by depositors, or by any other effective method, the Corporation shall make available to such new national bank, in the manner prescribed by this subsection, an amount equal to the insured deposit liabilities of such closed State member bank, and the Corporation and such new national bank shall perform all of the functions and duties and shall have all the rights and privileges with respect to such State member bank and the depositors thereof which are prescribed by this subsection with respect to closed national banks holding class A stock in the Corporation: *Provided*, That the rights of depositors and other creditors of such State member bank shall be determined in accordance with the applicable provisions of State law: *And provided further*, That with respect to such State member bank, the Corporation shall possess the powers and privileges provided by State law with respect to a receiver of such State member bank, except insofar as the same are in conflict with the provisions of this subsection.]

[Whenever any State member bank which is a class A stockholder of the Corporation shall have been closed by action of its board of directors or by the appropriate State authority, as the case may be, on account of inability to meet the demands of its depositors, and the applicable State law does not permit the appointment of the Corporation as receiver of such bank, the Corporation shall organize a new national bank, in accordance with the provisions of this subsection, to assume the insured deposit liabilities of such closed State member bank, to receive new deposits, and otherwise to perform temporarily the functions provided for in this subsection. Upon satisfactory recognition of the right of the Corporation to receive dividends on the same basis as in the case of a closed national bank under this subsection, such recognition being accorded by State law, by allowance of claims by the appropriate State authority, by assignment of claims by depositors, or by any other effective method, the Corporation shall make available to such new bank, in accordance with the provisions of this subsection, the amount of insured deposit liabilities as to which such recognition has been accor ed; and such new bank shall assume such insured deposit liabilities and shall in other respects comply with the provisions of this subsection respecting new banks organized to assume insured deposit liabilities of closed national banks. Insofar as possible in view of the applicable provisions of State law, the Corporation shall proceed with respect to the receiver of such closed bank and with respect to the new bank organized to assume its insured deposit liabilities in the manner prescribed by this subsection with respect to closed national banks and new banks organized to assume their insured deposit liabilities; except that the Corporation shall have none of the powers, duties, or responsibilities of a receiver with respect to the winding up of the affairs of such closed State member bank. The Corporation, in its discretion, however, may purchase and liquidate any or all of the assets of such bank.]

[Whenever the net debit balance of the deposit insurance account of the Corporation shall equal or exceed one-fourth of 1 per centum of the total deposit liabilities of all class A stockholders as of the date of the last preceding call report, the Corporation shall levy upon such stockholders an assessment equal to one-fourth of 1 per centum of their total deposit liabilities and shall credit the amount collected from such assessment to such deposit insurance account. No bank

which is a holder of class A stock shall pay any dividends until all assessments levied upon it by the Corporation shall have been paid in full, and any director or officer of any such bank who participates in the declaration or payment of any such dividend may, upon conviction, be fined not more than $1,000, or imprisoned for not more than one year, or both.]

[The term "receiver" as used in this section shall mean a receiver, liquidating agent, or conservator of a national bank, and a receiver, liquidating agent, conservator, commission, person, or other agency charged by State law with the responsibility and the duty of winding up the affairs of an insolvent State member bank.]

[For the purposes of this section only, the term "national bank" shall include all national banking associations and all banks, banking associations, trust companies, saving banks, and other banking institutions located in the District of Columbia which are members of the Federal Reserve System, and the term "State member bank" shall include all State banks, banking associations, trust companies, savings banks, and other banking institutions organized under the laws of any State, which are members of the Federal Reserve System.]

[In any determination of the insured deposit liabilities of any closed bank or of the total deposit liabilities of any bank which is a holder of class A stock of the Corporation, or a member of the Fund provided for in subsection (y), for the purposes of this section, there shall be excluded the amounts of all deposits of such bank which are payable only at an office thereof located in a foreign country.]

[The Corporation may make such rules, regulations, and contracts as it may deem necessary in order to carry out the provisions of this section.]

(l) (1) The Temporary Federal Deposit Insurance Fund and the Fund for Mutuals are hereby consolidated into the permanent insurance fund for deposits created by this section and the assets therein shall be held by the Corporation for the uses and purposes of the Corporation: Provided, That the obligations to and rights of the Corporation, depositors, banks, and other persons arising out of any event or transaction prior to the effective date shall remain unimpaired. From the effective date the Corporation shall insure the deposits of all insured banks as defined and provided in this section. The maximum amount of the insured deposit of any depositor shall be $5,000. The Corporation, in the discretion of the board of directors, may open on its books solely for the benefit of mutual savings banks and depositors therein a separate fund for mutuals. If such a fund is opened, all assessments of each mutual savings bank shall be made part of such fund and the other permanent insurance funds of the Corporation shall cease to be liable for losses sustained in mutual savings banks: Provided, That the capital assets of the Corporation shall be so liable and all expenses of operation of the Corporation shall be allocated on an equitable basis.

(2) An insured bank shall, for the purposes of this section, be deemed to have been closed on account of inability to meet the demands of its depositors in any case where it has been closed for the purpose of liquidation without adequate provision for payment of its depositors.

(3) Notwithstanding any other provision of law, whenever any insured national bank or insured District bank shall have been closed by action of its board of directors or the Comptroller of the Currency, as the case may be, on account of inability to meet the demands of its depositors, the Comptroller of the Currency shall appoint the Corporation receiver for such closed bank and no other person shall be appointed as receiver of such closed bank.

(4) It shall be the duty of the Corporation as such receiver to realize upon the assets of such closed bank, having due regard to the condition of credit in the locality; to enforce the individual liability of the stockholders and directors thereof; and to wind up the affairs of such closed bank in conformity with the provisions of law relating to the liquidation of closed national banks, except as herein otherwise provided, retaining for its own account such portion of the amount realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors and paying to depositors and other creditors the net amount available for distribution to them. With respect to such closed bank, the Corporation, as such receiver, shall have all the rights, powers, and privileges now possessed by or hereafter given a receiver of an insolvent national bank.

(5) Whenever any insured State bank, except a District bank, shall have been closed by action of its board of directors or by the authority having supervision of such bank, as the case may be, on account of inability to meet the demands of its depositors, the Corporation shall accept appointment as receiver thereof, if such appointment be tendered by the authority having supervision of such bank and be authorized or permitted by State law. With respect to such insured State bank, the Corporation shall possess the power and privileges given by State law to a receiver of such State bank.

(6) When an insured bank shall have been closed on account of inability to meet the demands of its depositors, payment of the insured deposits shall be made by the Corporation as soon as possible, subject to the provisions of paragraph (7) of this subsection (l), either (a) by making available to each depositor a transferred deposit in a new bank in the same community or in another insured bank in an amount equal to the insured deposit of such depositor and subject to withdrawal on demand, or (b) in accordance with any other procedure adopted by the board of directors: Provided, That the Corporation, in its discretion, may require proof of claims to be filed before paying the insured deposits, and that in any case where the Corporation is not satisfied as to the validity of a claim for an insured deposit, it may require the final determination of a court of competent jurisdiction before paying such claim.

(7) In the case of a closed national bank or District bank the Corporation, upon payment of any depositor as provided in paragraph (6) of this subsection (l), shall become and be subrogated to all rights of the depositor to the extent of such payment. In the case of any other closed insured bank, the Corporation shall not pay any depositor until the right of the Corporation to be subrogated to the rights of such depositor on the same basis as provided in the case of a closed national bank under this section shall have been recognized, by express provisions of State law, by allowance of claims by the authority having supervision of such bank, by assignment of claims by depositors, or by any other effective method. Such subrogation in the case of any closed bank shall include the right to receive the same dividends from the proceeds of the assets of such closed bank and recoveries on account of stockholders' liability as would have been payable to such depositor on a claim for the insured deposit, such depositor retaining his claim for any uninsured portion of his deposit: Provided, That the rights of depositors and other creditors of any State bank shall be determined in accordance with the applicable provisions of State law.

(8) As soon as possible, the Corporation, if it finds that it is advisable and in the interest of the depositors of the closed bank or the public, shall organize a new bank to assume the insured deposits of such closed bank and otherwise to perform temporarily the functions provided for in this section. The new bank shall have its place of business in the same community as the closed bank.

(9) The articles of association and the organization certificate of the new bank shall be executed by representatives designated by the Corporation. No capital stock need be paid in by the Corporation. The new bank shall not have a board of directors, but shall be managed by an executive officer appointed by the board of directors of the Corporation and who shall be subject to its directions. In other respects such bank shall be organized in accordance with the existing provisions of the law relating to the organization of national banking associations. The new bank may, with the approval of the Corporation, accept new deposits which shall be subject to withdrawal on demand and which, except where the new bank is the only bank in the community, shall not exceed $5,000 from any depositor. The new bank, without application or approval, shall be an insured bank and shall maintain on deposit with the Federal Reserve bank of its district the reserves required by law for member banks, but shall not be required to subscribe for stock of the Federal Reserve bank. Funds of the new bank shall be kept on hand in cash, invested in securities of the Government of the United States, or in securities guaranteed as to principal and interest by the Government of the United States, or deposited with the Corporation, or with a Federal Reserve bank, or, to the extent of the insurance coverage thereon, with an insured bank. The new bank, unless otherwise authorized by the Comptroller of the Currency, shall transact no business except that authorized by this section and such business as may be incidental to its organization. Notwithstanding any other provision of law, it, its franchise, property, and income shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority.

(10) On the organization of a new bank, the Corporation shall promptly make available to the new bank an amount equal to the estimated insured deposit of such closed bank plus the amount of its estimated expenses of operation and shall determine as soon as possible the amount due each depositor for his insured deposit in the closed bank, and the total expenses of operation of the new bank. Upon determination thereof, the amounts so estimated and made available shall be adjusted to conform to the amounts so determined. Earnings of the new bank shall be paid over or credited to the Corporation in such adjustment. If any new bank, during the period it continues its status as such, sustains any losses with respect to which it is not effectively protected except by reason of being an insured bank, the Corporation shall furnish to it additional funds in the amount of such losses. The new bank shall assume as transferred deposits the payment of the insured deposits of such closed bank to each of its depositors. Of the amount so made available, the Corporation shall transfer to

the new bank, in cash, such amount as is necessary to enable it to meet expenses and immediate cash demands on such transferred deposits and the remainder shall be subject to withdrawal by the new bank on demand.

(11) When in the judgment of the board of directors it is desirable to do so, the Corporation shall cause capital stock of the new bank to be offered for sale on such terms and conditions as the board of directors shall deem advisable, in an amount sufficient, in the opinion of the board of directors, to make possible the conduct of the business of the new bank on a sound basis, but in no event less than that required by section 5138 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 51), for the organization of a national bank in the place where such new bank is located, giving the stockholders of the closed bank the first opportunity to purchase any shares of common stock so offered. Upon proof that an adequate amount of capital stock in the new bank has been subscribed and paid for in cash, the Comptroller of the Currency shall require the articles of association and the organization certificate to be amended to conform to the requirements for the organization of a national bank, and thereafter, when the requirements of law with respect to the organization of a national bank have been complied with, he shall issue to the bank a certificate of authority to commence business, which shall thereupon cease to have the status of a new bank and shall be managed by directors elected by its own shareholders and may exercise all the powers granted by law and shall be subject to all of the provisions of law relating to national banks. Such bank shall thereafter be an insured national bank, without certification to or approval by the Corporation.

(12) If the capital stock of the new bank shall not be offered for sale, or if an adequate amount of capital for such new bank is not subscribed and paid in, the board of directors may offer to transfer its business to any insured bank in the same community which will take over its assets, assume its liabilities, and pay to the Corporation for such business such amount as the board of directors may deem adequate; or the board of directors in its discretion may change the location of the new bank to the office of the Corporation or to some other place or may at any time wind up its affairs as herein provided. Unless the capital stock of the new bank is sold or its assets acquired and its liabilities assumed by an insured bank, as provided above, within two years from the date of its organization, the Corporation shall wind up its affairs, after giving such notice, if any, as the Comptroller of the Currency may require, and shall certify to the Comptroller of the Currency the termination of the new bank and thenceforth the Corporation shall be liable for its obligations and be the owner of its assets. The provisions of sections 5220 and 5221 of the Revised Statutes (U. S. C., title 12, secs. 181 and 182) shall not apply to such new banks.

(m) (1) The Corporation as receiver of a closed national bank or District bank shall not be required to furnish bond and shall have the right to appoint an agent or agents to assist it in its duties as such receiver, and all fees, compensation, and expenses of liquidation and administration thereof shall be fixed by the Corporation, subject to the approval of the Comptroller of the Currency, and may be paid by it out of funds coming into its possession as such receiver. The Comptroller of the Currency is authorized and empowered to waive and relieve the Corporation from complying with any regulations of the Comptroller of the Currency with respect to receiverships where in his discretion such action is deemed advisable to simplify administration.

(2) Payment of an insured deposit to any person by the Corporation shall discharge the Corporation, and payment of a transferred deposit to any person by the new bank or the other insured bank shall discharge the Corporation and such new bank or other insured bank, to the same extent that payment to such person by the closed bank would have discharged it from liability for the insured deposit.

(3) Except as otherwise prescribed by the board of directors, neither the Corporation, such new bank, nor such other insured bank, shall be required to recognize as the owner of any portion of a deposit appearing on the records of the closed bank under a name other than that of the claimant, any person whose name or interest as such owner is not disclosed on the records of such closed bank, or on its outstanding certificates or passbooks, as part owner of said account, where such recognition would increase the aggregate amount of the insured deposits in such closed bank.

"(4) The Corporation may withhold payment of such portion of the insured deposit of any depositor in a closed bank as may be required to provide for the payment of any liability of such depositor as a stockholder of the bank, or of any liability of such depositor to the bank or its receiver, not offset against a claim due from the bank, pending the determination and payment of such liability by such depositor or any other person liable therefor.

(5) If, after the Corporation shall have given at least three months' notice to the depositor by mailing a copy thereof to his last known address appearing on the records

of the closed bank, any depositor in a closed bank shall fail to claim his insured deposit from the Corporation within eighteen months after the appointment of the receiver for the closed bank, or shall fail to claim or arrange to continue the transferred deposit with the new bank or other bank assuming liability therefor within such eighteen months' period, all rights of the depositor against the Corporation in respect to the insured deposit or against the new bank and such other bank in respect to the transferred deposit shall be barred, and all rights of the depositor against the closed bank, its shareholders or the receivership estate to which the Corporation may have become subrogated shall thereupon revert to the depositor. The amount of any transferred deposits not claimed within such eighteen months' period, shall be refunded to the Corporation.

(n) (1) Money of the Corporation not otherwise employed shall be invested in securities of the Government of the United States[,] *or in securities guaranteed as to principal and interest by the Government of the United States*, except that for temporary periods, in the discretion of the board of directors, funds of the Corporation may be deposited in any Federal Reserve bank or with the Treasurer of the United States. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depositary of public moneys and financial agent of the Government as may be required of it.

[(m)] *(2)* Nothing [herein] *in this section* contained shall be construed to prevent the Corporation from making loans to national banks closed by action of the Comptroller of the Currency, or by vote of their directors, or to State member banks closed by action of the appropriate State authorities, or by vote of their directors, or from entering into negotiations to secure the reopening of such banks.

[(n)] *(3)* Receivers or liquidators of [member bankswhich are now or may hereafter become insolvent or suspended] *insured banks closed on account of inability to meet the demands of depositors* shall be entitled to offer assets of such banks for sale to the Corporation or as security for loans from the Corporation, upon receiving permission from the appropriate State authority in accordance with express provisions of State law in the case of [State member] *insured State* banks, or from the Comptroller of the Currency in the case of national banks *or district banks*. The proceeds of every such sale or loan shall be utilized for the same purposes and in the same manner as other funds realized from the liquidation of the assets of such banks. The Comptroller of the Currency may, in his discretion, pay dividends or proved claims at any time after the expiration of the period of advertisement made pursuant to section 5235 of the Revised Statutes (U. S. C., title 12, sec. 193), and no liability shall attach to the Comptroller of the Currency or to the receiver of any national bank by reason of any such payment for failure to pay dividends to a claimant whose claim is not proved at the time of any such payment. *The Corporation, in its discretion, may make loans on the security of or may purchase and liquidate or sell any part of the assets of an insured bank which is now or may hereafter be closed on account of inability to meet the demands of its depositors. In any case where the Corporation is acting as receiver of such insured bank such loan or purchase shall not be made without approval of a court of competent jurisdiction.*

(4) Until July 1, 1936, whenever in the judgment of the board of directors such action will reduce the risk or avert a threatened loss to the Corporation and will facilitate a merger or consolidation, or facilitate the sale of the assets of an open or closed insured bank to and assumption of its liabilities by another insured bank, the Corporation may, upon such terms and conditions as it may determine, make loans secured in whole or in part by assets of such open or closed insured bank, which loans may be in subordination to the rights of depositors and other creditors, or it may purchase such assets, or may guarantee any other insured bank against loss by reason of assuming the liabilities and purchasing the assets of such open or closed insured bank. Any insured national bank or District bank or, with the approval of the Comptroller of the Currency, any receiver thereof is authorized to contract for such sales or loans and to pledge any assets of the bank to secure such loans.

[(o)] The Corporation is authorized and empowered to issue and to have outstanding at any one time in an amount aggregating not more than three times the amount of its capital, its notes, debentures, bonds, or other such obligations, to be redeemable at the option of the Corporation before maturity in such manner as may be stipulated in such obligations, and to bear such rate or rates of interest, and to mature at such time or times as may be determined by the Corporation: *Provided*, That the Corporation may sell on a discount basis short-term obliga-

tions payable at maturity without interest. The notes, debentures, bonds, and other such obligations of the Corporation may be secured by assets of the Corporation in such manner as shall be prescribed by its board of directors. Such obligations may be offered for sale at such price or prices as the Corporation may determine.]

(o) (1) *The Corporation is authorized and empowered to issue and to have outstanding its notes, debentures, bonds, or other such obligations, in a par amount aggregating not more than three times the amount received by the Corporation in payment of its capital stock and of the first annual assessments. Notes, debentures, bonds, or other such obligations issued under this subsection shall be redeemable at the option of the Corporation before maturity in such manner as may be stipulated in such obligations, and shall bear such rate or rates of interest, and shall mature at such time or times as may be determined by the Corporation: Provided, That the Corporation may sell on a discount basis short-term obligations payable at maturity without interest. The notes, debentures, bonds, and other such obligations of the Corporation may be secured by assets of the Corporation in such manner as shall be prescribed by its board of directors. Such obligations may be offered for sale at such price or prices as the Corporation may determine.*

(2) *Such of the obligations authorized to be issued under this subsection, as the Corporation, with the approval of the Secretary of the Treasury, may determine, shall be fully and unconditionally guaranteed, both as to interest and principal, by the United States and such guaranty shall be expressed on the face thereof. In the event that the Corporation shall be unable to pay upon demand, when due, principal of or interest on notes, debentures, bonds, or other such obligations issued by it and guaranteed by the United States under this pargaraph, the Secretary of the Treasury shall pay the amount thereof, which is hereby authorized to be appropriated out of any money in the Treasury not otherwise approriated, and thereupon, to the extent of the amounts so paid, the Secretary of the Treasury shall succeed to all the rights of the holders of such notes, debentures, or other obligations.*

(3) *The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations of the Corporation which are guaranteed by the United States under this subsection, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include any purchases of the Corporation's obligations hereunder. The Secretary of the Treasury may, at any time, sell any of the obligations of the Corporation acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of the obligations of the Corporation shall be treated as public-debt transactions of the United States.*

(4) *The Secretary of the Treasury, at the request of the Corporation, is authorized to market for the Corporation such of its notes, debentures, bonds, and other such obligations as are guaranteed by the United States under this subsection, using therefor all the facilities of the Treasury Department now authorized by law for the marketing of the obligations of the United States. The proceeds of the obligations of the Corporation so marketed shall be deposited in the same manner as proceeds derived from the sale of the obligations of the United States, and the amount thereof shall be credited to the Corporation on the books of the Treasury.*

(s) Whoever, for the purpose of obtaining any loan from the Corporation, or any extension or renewal thereof, or the acceptance, release, or substitution of security therefor, or for the purpose of inducing the Corporation to purchase any assets, *or for the purpose of obtaining the payment of any insured deposit or transferred deposit or the allowance, approval, or payment of any claim,* or for the purpose of influencing in any way the action of the Corporation under this section, makes any statement, knowing it to be false, or willfully overvalues any security, shall be punished by a fine of not more than $5,000, or by imprisonment for not more than two years, or both.

[v] (*v*) (*1*) No individual, association, partnership, or corporation shall use the words "Federal Deposit Insurance Corporation", or a combination of any three of these four words, as the name or a part thereof under which he or it shall do business. No individual, association, partnership, or corporation shall advertise or otherwise represent falsely by any device whatsoever that his or its deposit liabilities are insured or in anywise guaranteed by the Federal Deposit Insurance Corporation, or by the Government of the United States, or by any instrumentality thereof; and no [class A stockholder of the Federal Deposit Insurance Corporation] *insured bank* shall advertise or otherwise represent falsely by any device whatsoever the extent to which or the manner in which its deposit liabilities are

insured by the Federal Deposit Insurance Corporation. Every individual, partnership, association, or corporation violating this subsection shall be punished by a fine of not exceeding $1,000, or by imprisonment not exceeding one year or both.

[Every insured bank shall display at each place of business maintained by it a sign or signs to the effect that its deposits are insured by the Federal Deposit Insurance Corporation. The Corporation shall prescribe by regulation the form of such sign and the manner of its display. Such regulation may impose a maximum penalty of $100 for each day an insured bank continues to violate any lawful provisions of said regulation.]

(2) Every insured bank shall display at each place of business maintained by it a sign or signs, and shall include in advertisements relating to deposits a statement to the effect that its deposits are insured by the Corporation. The board of directors shall prescribe by regulation the forms of such signs and the manner of display and the forms of such statements and the manner of use. For each day an insured bank continues to violate any provision of this paragraph or any lawful provision of said regulations, it may be subject to a penalty of $100, recoverable by the Corporation for its use."

(3) No insured bank shall pay any dividends on its capital stock or interest on its capital notes or debentures (if such interest is required to be paid only out of net profits) while it remains in default in the payment of any assessment due to the Corporation: Provided, That if such default is due to a dispute between the insured bank and the Corporation over such assessment, this paragraph shall not apply, if such bank shall deposit security satisfactory to the Corporation for payment upon final determination of the issue.

(4) Unless, in addition to compliance with other provisions of law, it shall have the prior written consent of the Corporation, no insured bank shall enter into any consolidation or merger with any noninsured bank, or assume liability to pay any deposits made in any noninsured bank, or transfer assets to any noninsured bank in consideration of the assumption of liability for any portion of the deposits made in such insured bank, and no insured State nonmember bank (except a District bank) without such consent shall reduce the amount or retire any part of its common or preferred capital stock, or retire any part of its capital notes or debentures.

(5) The Corporation may require any insured bank to provide protection and indemnity against burglary, defalcation, and other similar insurable losses. Whenever any insured bank refuses to comply with any such requirement, the Corporation may contract for such protection and indemnity and add the cost thereof to the assessment otherwise payable by such bank.

(6) Whenever an insured bank, except a national bank or district bank, for a period of one hundred and twenty days after written notice of the recommendations of the Corporation, based on a report of examination of such bank by an examiner of the Corporation, shall fail to comply with such recommendations, the Corporation shall have the power, and is hereby authorized, to publish any part of such report of examination in such manner as it may determine: Provided, That such notice of intention to make such publication shall be given at the time such recommendations are made, or at any time thereafter and at least ninety days before such publication.

(7) The board of directors shall by regulation prohibit the payment of interest on demand deposits in insured nonmember banks and for such purpose may define the terms "demand deposits", provided such exceptions from said prohibition shall be made as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks by section 19 of this Act, as amended, or by regulation of the Federal Reserve Board. From time to time the board of directors shall limit by regulation the rates of interest or dividends payable by insured nonmember banks on deposits other than demand deposits, provided such regulations shall be consistent with the contractual obligations of such banks to their depositors. For the purpose of fixing rates the board of directors may classify deposits according to maturities, conditions respecting receipt, withdrawal, or repayment, and may classify banks according to locations or kinds of banking business chiefly done as it may deem necessary in the public interest. It may prescribe different rates for different classes of deposits or different classes of banks, provided such different rates are reasonable when the bases for the classifications are considered. The board of directors by regulations shall define what constitutes savings deposits in an insured nonmember bank. Such regulations shall prohibit insured nonmember banks from paying deposits prior to maturity and from waiving any notice requirement with respect to withdrawal of deposits: Provided, That exceptions may be prescribed where by reason of special circumstances the prohibitions respecting withdrawal would cause unnecessary hardship to depositors and provided the prohibitions respecting withdrawal shall not apply to savings deposits. For each violation of any provision of this paragraph or any

lawful provision of the Corporation's regulations relating to paying interest or dividends on deposits or to withdrawal of deposits the offending bank shall be subject to a penalty of $100, recoverable by the Corporation for its use.

[(y) The Corporation shall open on its books a temporary Federal deposit insurance fund (hereinafter referred to as the "fund"), which shall become operative on January 1, 1934, unless the President shall by proclamation fix an earlier date, and it shall be the duty of the Corporation to insure deposits as hereinafter provided until July 1, 1935.]

[Each member bank licensed before January 1, 1934, by the Secretary of the Treasury pursuant to the authority vested in him by the Executive order of the President issued March 10, 1933, shall, on or before January 1, 1934, become a member of the fund, each member bank so licensed after such date, and each State bank trust company or mutual savings bank (referred to in this subsection as "State bank", which term shall also include all banking institutions located in the District of Columbia and the Territories of Hawaii and Alaska) which becomes a member of the Federal Reserve System on or after such date, shall, upon being so licensed or so admitted to membership, become a member of the fund, and any State bank which is not a member of the Federal Reserve System, with the approval of the authority having supervision of such State bank and certification to the Corporation by such authority that such State bank is in solvent condition, shall, after examination by, and with the approval of, the Corporation, be entitled to become a member of the fund and to the privileges of this subsection upon agreeing to comply with the requirements thereof and upon paying to the Corporation an amount equal to the amount that would be required of it under this subsection if it were a member bank. The Corporation is authorized to prescribe rules and regulations for the further examination of such State bank, and to fix the compensation of examiners employed to make examinations of State banks.]

[Each member of the fund shall file with the Corporation on or before the date of its admission a certified statement under oath showing, as of the fifteenth day of the month preceding the month in which it was so admitted, the number of its depositors and the total amount of its deposits which are eligible for insurance under this subsection, and shall pay to the Corporation an amount equal to one-half of 1 per centum of the total amount of the deposits so certified. One-half of such payment shall be paid in full at the time of the admission of such member to the fund, and the remainder of such payment shall be subject to call from time to time by the board of directors of the Corporation. Within a reasonable time fixed by the Corporation each such member shall file a similar statement showing, as of October 1, 1934, the number of its depositors and the total amount of its deposits which are eligible for such insurance and shall pay to the Corporation in the same manner an amount equal to one-half of 1 per centum of the increase, if any, in the total amount of such deposits since the date covered by the statement filed upon its admission to membership in the fund.]

[If at any time prior to July 1, 1935, the Corporation requires additional funds with which to meet its obligations under this subsection, each member of the fund shall be subject to one additional assessment only in an amount not exceeding the total amount theretofore paid to the Corporation by such member.]

[On and after July 1, 1934, the amount eligible for insurance under this subsection for the purposes of the October 1, 1934, certified statement, any entrance assessment, and, if levied, the additional assessment, shall be the amounts not in excess of $5,000 of the deposits of each depositor.]

[Each mutual savings bank, unless it becomes subject to the provisions of the preceding paragraph in the manner hereinafter provided, shall be excepted from the operation of the preceding paragraph and for each such bank which is so excepted the amount eligible for insurance under this subsection for the purposes of the October 1, 1934, certified statement, any entrance assessment, and, if levied, the additional assessment, shall be the amounts not in excess of $2,500 for the deposits of each depositor. In the event any mutual savings banks shall be closed on account of inability to meet its deposit liabilities the Corporation shall pay net more then $2,500 on account of the net approved claim of any owner of deposits in such bank: *Provided, however,* That should any mutual savings bank make manifest to the Corporation its election to be subject to the provisions of the preceding paragraph the Corporation may, in the discretion of the board of directors, permit such bank to become so subject and the insurance of its deposits to continue on the same basis and to the same extent as that of fund members other than mutual savings banks.]

[The Corporation, in the discretion of the board of directors, may open on its books solely for the benefit of mutual savings banks an additional temporary

Federal deposit insurance fund (hereinafter referred to as the "fund for mutuals") which, if opened, shall become operative on or after July 1, 1934, but prior to August 1, 1934, and shall continue to July 1, 1935. If the fund for mutuals is opened on the books of the Corporation, each mutual savings bank which is or becomes entitled to the benefits of insurance during the period of its operation shall be a member thereof and shall not be a fund member. All assessments on each mutual savings bank, including payments heretofore made to the Corporation less an equitable deduction for liabilities and expenses of the fund incurred prior to the opening of the fund for mutuals, if opened, shall be transferred or paid, as the case may be, to the fund for mutuals. All provisions of this section applicable to the and not inconsistent with this paragraph shall be applicable to the fund for mutuals if opened, except that as to any period the two are in operation the fund shall not be subject to the liabilities of the fund for mutuals and the fund for mutuals shall not be subject to the liabilities of the fund. Each mutual savings bank admitted to the fund shall bear its equitable share of the liabilities of the fund for the period it is a member thereof, including expenses of operation and allowing for anticipated recoveries.]

[If any member of the fund shall be closed on or before June 30, 1935, on account of inability to meet its deposit liabilities, the Corporation shall proceed in accordance with the provisions of subsection (1) of this section to pay the insured deposit liabilities of such member, except that the Corporation shall pay not more than $2,500 on account of the net approved claim of the owner of any deposit, if the member closed on or before June 30, 1934, and not more than $5,000 if closed on or after July 1, 1934. The provisions of such subsection (1) relating to State member banks shall be extended for the purposes of this subsection to members of the fund which are not members of the Federal Reserve System; and the provisions of such subsection (1) relating to the appointment of the Corporation as receiver shall be applicable to all members of the fund. The provisions of this subsection shall apply only to deposits of members of the fund which have been made available since March 10, 1933, for withdrawal in the usual course of the banking business.]

[Before July 1, 1935, the Corporation shall make an estimate of the balance, if any, which will remain in the fund after providing for all liabilities of the fund, including expenses of operation thereof under this subsection and allowing for anticipated recoveries. The Corporation shall refund such estimated balance, on such basis as the Corporation shall find to be equitable, to the members of the fund other than those which have been closed prior to July 1, 1935. The Corporation shall prescribe by regulations the manner of exercise of the right of nonmember banks to withdraw from membership in the fund on July 1, 1934, except that no bank shall be permitted to withdraw unless ten days prior thereto it has given written notice to the Corporation of its election so to do. Banks which withdrew from the fund on July 1, 1934, shall be entitled to a refund of their proportion to share of any estimated balance in the fund on the same basis as if the fund had terminated on July 1, 1934.]

[Each State bank which is a member of the fund, in order to obtain the benefits of this section after July 1, 1935, shall, on or before such date, subscribe and pay for the same amount of class A stock of the Corporation as it would be required to subscribe and pay for upon becoming a member bank, or if such State bank is not permitted by the laws under which it was organized to purchase such stock, it shall deposit with the Corporation an amount equal to the amount it would have been required to pay in on account of a subscription to such stock; and thereafter such State bank shall be entitled to such benefits until July 1, 1937.]

(*y*) (*1*) *For the purposes of this section, and notwithstanding any other provision thereof, any unincorporated bank which continues to be an insured bank without application or approval under the provisions of paragraph (1) of subsection (f) of this section shall be included in the term "State bank" and "State nonmember bank".*

(*2*) It is not the purpose of this section to discriminate, in any manner, against State nonmember, and in favor of, national or member banks; but the purpose is to provide all banks with the same opportunity to obtain and enjoy the benefits of this section. No bank shall be discriminated against because its capital stock is less than the amount required for eligibility for admission into the Federal Reserve System.

AMENDMENTS MADE BY TITLE II OF THE BILL IN VARIOUS SECTIONS OF THE FEDERAL RESERVE ACT, AS AMENDED

Section 201 (a) of the bill amends section 4 of the Federal Reserve Act.

SEC. 4. * * *

Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the [district] *districts* for which they are appointed, [one of whom shall be designated by said board as chairman of the board of directors of the Federal Reserve bank and as "Federal Reserve agent." He shall be a person of tested banking experience, and in addition to his duties as chairman of the board of directors of the Federal Reserve bank he shall be required to maintain, under regulations to be established by the Federal Reserve Board, a local office of said board on the premises of the Federal Reserve bank. He shall make regular reports to the Federal Reserve Board and shall act as its official representative for the performance of the functions conferred upon it by this Act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal Reserve bank to which he is designated.] *except that this requirement shall not apply to the Governor and Vice Governor of the bank. Each class C director shall hold office for a term of three years except that the Governor's term as a class C director shall expire when he ceases to be Governor of the bank and, if the Vice Governor be designated as a class C director, his term as a class C director shall expire when he ceases to be Vice Governor.* One of the directors of class C shall be appointed by the Federal Reserve Board as deputy chairman to exercise the powers of the chairman of the board when necessary. In [the] case of the absence of the chairman and deputy chairman, the third class C director shall preside at meetings of the Board.

[Subject to the approval of the Federal Reserve Board the Federal Reserve agent shall appoint one or more assistants. Such assistants, who shall be persons of tested banking experience, shall assist the Federal Reserve agent in the performance of his duties and shall also have power to act in his name and stead during his absence or disability. The Federal Reserve Board shall require such bonds of the assistant Federal Reserve agents as it may deem necessary for the protection of the United States. Assistants to the Federal Reserve agent shall receive an annual compensation, to be fixed and paid in the same manner as that of the Federal Reserve agent.]

Effective ninety days after the enactment of the Banking Act of 1935, the offices of Governor and chairman of the board of directors of each Federal Reserve bank shall be combined. The Governor shall be the chief executive officer of the bank and shall be appointed annually by the board of directors. His first appointment shall be subject to the approval of the Federal Reserve Board. He shall not take office until approved by the Federal Reserve Board and thereupon he shall become a class C director of the bank for the unexpired portion of the term held by his predecessor as chairman of the board of directors or, if such term was completed, then for the next regular term of three years. At the expiration of such term as a class C director, and of each term of three years thereafter, his continuance in office shall be subject to the approval of the Federal Reserve Board, and he shall cease to be Governor at the expiration of any such term unless his reappointment be approved by the Federal Reserve Board. Upon such approval he shall become a class C director for the ensuing term of three years. He shall be ex officio chairman of the board of directors and chairman of the executive committee; and all other officers and employees of the bank shall be directly responsible to him. For each Federal Reserve bank there shall be appointed annually in the same manner as the Governor, a Vice Governor, who shall, in the absence or disability of the Governor or during a vacancy in the office of Governor, serve as the chief executive officer of the bank and act as chairman of the executive committee of the bank. His appointment and reappointment shall be subject to approval by the Federal Reserve Board in the same manner as that of the Governor. He may be appointed by the Federal Reserve Board as a class C director of the bank and, in such case, may be appointed as deputy chairman of the board of directors. Whenever a vacancy shall occur in the office of the Governor or Vice Governor of a Federal Reserve bank, it shall be filled in the manner provided for original appointments; and the person so appointed shall hold office until the expiration of the term of his predecessor.

Effective ninety days after the enactment of the Banking Act of 1935, any Federal Reserve agent who shall not have been appointed Governor of the bank shall cease to be a class C director and chairman of the board of directors. All duties prescribed by law for the Federal Reserve agent shall be performed by the Governor of the bank or by such other person or persons as he shall designate.

No member of the board of directors of a Federal Reserve bank, other than the Governor and Vice Governor, shall serve as a director for more than two consecutive terms of three years each, but nothing in this paragraph shall prevent the present incumbents from serving out the remainders of their present terms.

Section 201 (b) of the bill amends the last paragraph of section 4 of the Federal Reserve Act.

SEC. 4. * * *

* * * Thereafter [every] *each* director of [a Federal Reserve bank] *class A and each director of class B* chosen as hereinbefore provided shall hold office for a term of three years. * * *

SEC. 4. * * *

Section 201 (c) amends the paragraph of such section 4 which commences "such board of directors shall be selected".

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, [holding office for three years, and] divided into three classes, designated as classes "A", "B", and "C".

Section 202 of the bill amends section 9 of the Federal Reserve Act, as amended, by inserting after the tenth paragraph thereof a new paragraph.

SEC. 9.* * *

Upon application to the Federal Reserve Board by any nonmember bank which at the time of such application has been admitted to the benefits of insurance by the Federal Deposit Insurance Corporation under section 12B of this Act, the Federal Reserve Board, in its discretion, in order to facilitate the admission of such bank to membership in the Federal Reserve System, may waive in whole or in part the requirements of this section relating to the admission of such bank to membership: Provided, That, if such bank is admitted with a capital less than that required for the organization of a national bank in the same place and its capital and surplus are not, in the judgment of the Federal Reserve Board, adequate in relation to its liabilities to depositors and other creditors, the Federal Reserve Board may, in its discretion, require such bank to increase its capital and surplus to such amount as the Board may deem necessary within such period prescribed by the Board as in its judgment shall be reasonable in view of all the circumstances: Provided, however, That no such bank shall be required to increase its capital to an amount in excess of that required for the organization of a national bank in the same place.

Section 203 (1) of the bill amends the first paragraph of section 10 of the Federal Reserve Act.

SEC. 10. * * * In selecting the six appointive members of the Federal Reserve [Board, not] *Board the President shall choose persons well qualified by education or experience or both to participate in the formulation of national economic and monetary policies. Not* more than one of [whom] *the appointive members* shall be selected from any one Federal reserve district, *except that this limitation shall not apply to the selection of the Governor.* [the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country.] The six members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of $12,000, payable monthly, together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of $7,000 annually for his services as a member of said Board. *Each appointive member of the Federal Reserve Board heretofore appointed may retire from service upon reaching the age of seventy or at any time thereafter, and all members hereafter appointed shall retire upon reaching the age of seventy. Each member of the Board so retired from service who shall have served for as long as twelve years shall, during the re-*

mainder of his life, receive an annual retirement pay in an amount equal to his annual salary at the time of retirement: Provided, That if he shall have served for as long as five years but less than twelve years, his annual retirement pay shall be at the rate of one-twelfth of such annual salary for each year served and for any fraction of an additional year of such service: Provided further, That any member whose term expires and who is not reappointed shall receive retirement pay upon the same basis as if he had been retired under the provisions of this paragraph, except that, if his term expire before he reaches the age of sixty-five and he be offered and decline to accept reappointment, he shall not receive any retirement pay. The funds necessary for such retirement pay shall be provided by the Federal Reserve banks in such manner as the Federal Reserve Board shall prescribe. Nothing in this section shall prevent the President from reappointing any member of the Federal Reserve Board holding office on July 1, 1935.

Section 203 (3) of the bill amends the second paragraph of section 10 of the Federal Reserve Act.

Sec. 10. * * *

* * * Upon the expiration of the term of any appointive member of the Federal Reserve Board in office when this paragraph as amended takes effect, the President shall fix the term of the successor to such member at not to exceed twelve years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one appointive member in any two-year period, and thereafter each appointive member shall hold office for a term of twelve years from the expiration of the term of his predecessor. Of the six [persons thus appointed,] *appointive members of the Board* one shall be designated by the President as Governor and one as Vice Governor of the Federal Reserve Board, *to serve as such until the further order of the President, and the provisions of the next preceding sentence of this paragraph shall not apply to the member designated as Governor. If the Governor's designation as such be terminated, he may continue to serve as a member of the Board for the remainder of his term as such; but, if he resign within 90 days from the date of the termination of his designation as Governor, he shall not be subject thereafter to any restriction of this section with respect to holding any office, position, or employment in any member bank.* The Governor of the Federal Reserve Board, subject to its supervision, shall be its active executive officer. * * * *Upon the expiration of their terms of office, members of the Federal Reserve Board shall continue to serve until their successors are appointed and have qualified.*

Section 204 (a) of the bill amends subsection (i) of section 11 of the Federal Reserve Act, by adding at the end thereof the following new paragraph:

(*i*) * * * To require bonds of Federal Reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money, or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same. *The Board may assign to designated members of the Board or officers or representatives of the Board, under rules and regulations prescribed by the Board, the performance of any of its duties, functions, or services; but any such assignment shall not include the determination of any national or system policy or any power to make rules and regulations or any power which under the terms of this Act is required to be exercised by a specified number of members of the Board.*

Section 204 (b) of the bill amends section 11 of the Federal Reserve Act by adding at the end thereof, the following new subsection:

(*o*) *It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration.*

* * * * * * *

Section 205 of the bill, effective 90 days after its enactment, amends section 12A of the Federal Reserve Act.

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SEC. 12A. [(a) There is hereby created a Federal Open Market Committee (hereinafter referred to as the "committee"), 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 one member of said committee. The meetings of said committee shall be held at Washington, District of Columbia, at least four times each year, upon the call of the governor of the Federal Reserve Board or at the request of any three members of the committee, and, in the discretion of the Board, may be attended by the members of the Board.

[(b) No Federal reserve bank shall engage in open-market operations under section 14 of this Act except in accordance with regulations adopted by the Federal Reserve Board. The Board shall consider, adopt, and transmit to the committee and to the several Federal reserve banks regulations relating to the open-market transactions of such banks and the relations of the Federal Reserve System with foreign central or other foreign banks.

[(c) The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

[(d) If any Federal reserve bank shall decide not to participate in open-market operations recommended and approved as provided in paragraph (b) hereof, it shall file with the chairman of the committee within thirty days a notice of its decision, and transmit a copy thereof to the Federal Reserve Board.]

(a) There is hereby created an Open Market Advisory Committee (hereinafter referred to as the "Committee"), which shall consist of five representatives of the Federal Reserve banks. The members of the Committee and an alternate to serve in the absence of each of them shall be elected annually by the governors of the twelve Federal Reserve banks in accordance with procedure prescribed by regulations of the Federal Reserve Board. Vacancies shall be filled in the same manner. The terms of the members of the Committee shall expire at the end of each calendar year, and a person elected to fill a vacancy shall serve for the remainder of the term of his predecessor. The Committee shall elect its own chairman. Meetings of the Committee shall be held from time to time upon the call of the chairman or upon the call of the Governor of the Federal Reserve Board. Meetings shall be called whenever requested by a majority of members of the Committee or by a majority of the members of the Federal Reserve Board.

(b) The Committee shall consult and advise with, and make recommendations to, the Federal Reserve Board from time to time with regard to the open-market policy of the Federal Reserve System. The Committee shall also aid in the execution of open-market policies adopted from time to time by the Federal Reserve Board and shall perform such other duties relating thereto as the Federal Reserve Board may prescribe. The Federal Reserve Board shall consult the Committee before making any changes on its own initiative in the open-market policy, in the rates of interest or discount to be charged by the Federal Reserve banks, or in the reserve balances required to be maintained by member banks.

(c) After consulting with and considering the recommendations of the Committee, the Federal Reserve Board, from time to time, shall prescribe the open-market policy of the Federal Reserve System. Each Federal Reserve bank shall purchase or sell obligations of the United States, bankers' acceptances, bills of exchange, and other obligations of the kinds and maturities made eligible for purchase under the provisions of section 14 of this Act to such extent and in such manner as may be required by the Federal Reserve Board in order to effectuate the open-market policies adopted by the Board from time to time under the provisions of this section and each Federal Reserve bank shall cooperate fully, in every way, in making such policies effective.

(d) All transactions of Federal Reserve banks under authority of section 14 of this Act shall be subject to such regulations, limitations, and restrictions as the Federal Reserve Board may prescribe.

Section 206 of the bill adds a new paragraph at the end of section 13 of the Federal Reserve Act.

SEC. 13. * * *

Notwithstanding any other provision of law, upon the endorsement of any member bank, which shall be deemed a waiver of demand, notice and protest as to its own endorsement exclusively, and subject to such regulations as to maturities and other matters as the Federal Reserve Board may prescribe, any Federal Reserve bank may discount any commercial, agricultural, or industrial paper and may make advances

to any such member bank on its promissory notes secured by any sound assets of such member bank.

Section 207 of the bill amends section 14 (b) of the Federal Reserve Act.

SEC. 14. * * *

Every Federal Reserve bank shall have power:

* * * * * * *

(b) To buy and sell, at home or abroad, bonds and notes of the United States, bonds of the Federal Farm Mortgage Corporation having maturities from date of purchase of not exceeding six months (Act January 31, 1934), bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, and having maturities from date of purchase of not exceeding six months (Act April 27, 1934), and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board: *Provided, That any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities;*

Section 208 (1) of the bill amends section 16 of the Federal Reserve Act.

[SEC. 16. Federal Reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal Reserve banks through the Federal Reserve agents 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 by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank.]

SEC. 16. *Each Federal Reserve bank may issue Federal Reserve notes, which shall be obligations of the United States, secured by a first and paramount lien on all of the assets of such bank. Federal Reserve notes shall be issued by Federal Reserve banks and retired under such rules and regulations as the Federal Reserve Board may prescribe and shall be legal tender for all purposes.*

[Any Federal Reserve bank may 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 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, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange indorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates: *Provided, however,* That until March 3, 1935, or until the expiration of such additional period not exceeding two years as the President may prescribe, the Federal Reserve Board may, should it deem it in the public interest, upon the affirmative vote of not less than a majority of its members, authorize the Federal Reserve banks to offer, and the Federal agents to accept, as such collateral security, direct obligations of the United States. On such date or upon the expiration of such period so prescribed by the President, or sooner should the Federal Reserve Board so decide, such authorization shall terminate and such obligations of the United States be retired as security for Federal Reserve notes. In no event shall such collateral security be less than the amount of Federal Reserve notes applied for. 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 may at any time call upon a Federal Reserve bank for additional security to protect the Federal Reserve notes issued to it.]

Every Federal Reserve bank shall maintain reserves in [gold certificates of] lawful money (*other than Federal Reserve notes or Federal Reserve bank notes*) of not less than 35 per centum against its deposits and reserves in gold certificates of not less than 40 per centum against its Federal Reserve notes in actual circulation: [*Provided, however,* That when the Federal Reserve agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation. 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.] *Each Federal Reserve note shall bear upon its face a distinctive letter, which shall be assigned by the Federal Reserve Board to each Federal Reserve bank, and also a serial number.* [Whenever Federal Reserve notes issued through one Federal Reserve bank shall be received by another Federal Reserve bank, they shall be promptly returned for credit or redemption to the Federal Reserve bank through which they were originally issued or, upon direction of such Federal Reserve bank, they shall be forwarded direct to the Treasurer of the United States to be retired. 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 returned to the Federal Reserve banks through which they were originally issued, and thereupon such Federal Reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal Reserve notes have been redeemed by the Treasurer in gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold certificates, and such Federal Reserve bank shall, so long as any of its Federal Reserve notes remain outstanding, maintain with the Treasurer in gold certificates an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal Reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold certificates out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal Reserve notes unfit for circulation shall be returned by the Federal Reserve agents to the Comptroller of the Currency for cancellation and destruction.[1]]

[The Federal Reserve Board shall require each Federal Reserve bank to maintain on deposit in the Treasury of the United States a sum in gold certificates sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued to such bank, but in no event less than five per centum of the total amount of notes issued less the amount of gold certificates held by the Federal Reserve agent as collateral security, but such deposit of gold certificates shall be counted and included as part of the forty per centum reserve hereinbefore required. The Board shall have the right, acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes, but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section eighteen of this Act upon security of United States two per centum Government bonds, 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 depositing with the Federal Reserve agent its Federal Reserve notes, gold certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.]

[The Federal Reserve agent shall hold such gold certificates, or lawful money available exclusively for exchange for the outstanding Federal Reserve notes when offered by the Reserve bank of which he is a director. Upon the request of

[1] Similar provision added at end of section.

the Secretary of the Treasury the Federal Reserve Board shall require the Federal Reserve agent to transmit to the Treasurer of the United States so much of the gold certificates held by him as collateral security for Federal Reserve notes as may be required for the exclusive purpose of the redemption of such Federal Reserve notes, but such gold certificates when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal Reserve agent.]

[Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes issued to it and shall at the same time substitute therefor other collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board. Any Federal reserve bank may retire any of its Federal reserve notes by depositing them with the Federal reserve agent or with the Treasurer of the United States, and such Federal reserve bank shall thereupon be entitled to receive back the collateral deposited with the Federal reserve agent for the security of such notes. Federal reserve banks shall not be required to maintain the reserve or the redemption fund heretofore provided for against Federal reserve notes which have been retired. Federal reserve notes so deposited shall not be reissued except upon compliance with the conditions of an original issue.]

[All Federal reserve notes and all gold certificates and lawful money issued to or deposited with any Federal reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal reserve bank to which he is accredited. Such agent and such Federal reserve bank shall be jointly liable for the safe-keeping of such Federal reserve notes, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal reserve agent from depositing gold certificates with the Federal Reserve Board, to be held by such Board subject to his order, or with the Treasurer of the United States for the purposes authorized by law.]

When received by the Treasurer of the United States from a source other than a Federal Reserve bank, Federal Reserve notes unfit for further use shall be canceled and retired; and, upon receipt of advice of such cancelation and retirements, the issuing Federal Reserve bank shall reimburse the Treasurer of the United States for the notes so canceled and retired. When received by a Federal Reserve bank, Federal Reserve notes unfit for further use shall be canceled and forwarded to the Treasurer of the United States for retirement; and, if issued by another Federal Reserve bank, such issuing bank shall reimburse the Federal Reserve bank which canceled such notes and forwarded them to the Treasurer of the United States.

In order to furnish suitable notes for circulation as 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] *counterfeiting* and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of $5, $10, $20, $50, $100, $500, $1,000, $5,000, and $10,000 as may be required to supply the Federal Reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury [under the provisions of this Act] and shall bear the distinctive [numbers] *letters* of the several Federal Reserve banks through which they are issued. When such notes have been prepared, they shall be [deposited] *held* in the Treasury [, or in the subtreasury or mint of the United States nearest the place of business of each Federal Reserve bank and shall be held for the use of such bank] subject to the order of the Comptroller of the Currency for [their] delivery [, as provided by this Act.] *to the Federal Reserve banks. Federal Reserve notes unfit for circulation shall be returned to the Comptroller of the Currency for cancelation and destruction.*

* * * * * * *

Section 208 (2) of the bill amends the sixteenth paragraph of section 16 of the Federal Reserve Act.

The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold or of gold certificates with the Treasurer [or any assistant treasurer] of the United States when tendered by any Federal reserve bank [or Federal reserve agent] for credit to its [or his] account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer [or assistant treasurer] to the Federal reserve bank [or Federal

reserve agent] making the deposit, and a duplicate of such receipt shall be deliverd to the Federal reserve Board [by the Treasurer at Washington upon proper advices from any assistant treasurer that such deposit has been made]. Deposits so made shall be held subject to the orders of the Federal Reserve Board-and shall be payable in gold certificates on the order of the Federal Reserve Board to and Federal reserve bank [or Federal reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal reserve bank or such Federal reserve agent]. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury.

Section 209 of the bill amends the sixth paragraph of section 19 of the Federal Reserve Act.

Notwithstanding the [foregoing] *other* provisions of this section, the Federal Reserve Board, [upon the affirmative vote of not less than five of its members and with the approval of the President, may declare that an emergency exists by reason of credit expansion, and may by regulation during such emergency increase or decrease from time to time, in its discretion, the reserve balances required to be maintained against either demand or time deposits] *in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both by member banks in reserve and central reserve cities or by member banks not in reserve or central reserve cities or by all member banks.*

Section 210 of the bill amends the first paragraph of section 24 of the Federal Reserve Act.

[SEC. 24. Any national banking association may make loans secured by first lien upon improved real estate, including improved farm land, situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines. A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by mortgage, trust deed, or other such instrument upon real estate when the entire amount of such obligation or obligations is made or is sold to such association. The amount of any such loan shall not exceed 50 per centum of the actual value of the real estate offered for security, but no such loan upon such security shall be made for a longer term than five years: *Provided*, That in the case of loans secured by real estate which are insured under the provisions of title II of the National Housing Act, such restrictions as to the amount of the loan in relation to the actual value of the real estate and as to the five-year limit on the terms of such loans shall not apply. Any such bank may make such loans in an aggregate sum including in such aggregate any such loans on which it is liable as indorser or guarantor or otherwise equal to 25 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund, or to one-half of its savings deposits, at the election of the association, subject to the general limitation contained in section 5200 of the Revised Statutes of the United States. Such banks may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such banks may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State wherein such national banking association is located.]

SEC. *24. Subject to such regulations as the Federal Reserve Board may prescribe, any national banking association may make real-estate loans secured by first liens upon improved real estate, including improving farm land and improved business and residential properties. The amount of any such loan hereafter made shall not exceed 60 per centum of the appraised value of the real estate; but this limitation shall not prevent the renewal or extension of loans heretofore made and shall not apply to real-estate loans which are insured under the provisions of Title II of the National Housing Act. No bank shall make such loans in an aggregate sum in excess of the amount of the capital stock of such association paid in and unimpaired plus its unimpaired surplus fund, or in excess of 60 per centum of the amount of its time and savings deposits, whichever is the greater. The Federal Reserve Board is authorized to prescribe from time to time regulations defining the term "real-estate loans" and other terms used in this section and regulating and limiting the making of real-estate*

loans by member banks, with a view of preventing an unreasonably large proportion of each bank's assets from being invested in real estate and real-estate loans, preventing such loans from exceeding a reasonable percentage of the appraised value of the real estate in view of the circumstances existing at the time and otherwise requiring the banks to conform to sound practices in making real-estate loans.

AMENDMENTS MADE BY THE BILL IN VARIOUS PROVISIONS OF THE BANKING LAWS

Section 301 of the bill amends section 2 (c) of the Banking Act of 1933.

SEC. 2. As used in this Act and in any provision of law amended by this Act—

* * * * * * *

(c) The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election of a majority of the directors of any one bank; or

(2) For the benefit of whose shareholders or members all or substantially all the capital stock of a member bank is held by trustees.

Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States of America or any organization which, in the judgment of the Federal Reserve Board, is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.

Section 302 of the bill amends the first paragraph of section 20 of the Banking Act of 1933.

SEC. 20. After one year from the date of the enactment of this Act, no member bank shall be affiliated in any manner described in section 2 (b) hereof with any corporation, association, business trust, or other similar organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities: *Provided, That nothing in this paragraph shall apply to any such organization which shall have been placed in formal liquidation and which shall transact no business except such as may be incidental to the liquidation of its affairs.*

Section 303 (a) of the bill amends section 21 (a) (1) of the Banking Act of 1933.

SEC. 21. (a) After the expiration of one year after the date of enactment of this Act it shall be unlawful—

(1) For any person, firm, corporation, association, business trust, or other similar organization, engaged in the business of issuing, underwriting, selling, or distributing, at wholesale or retail, or through syndicate participation, stocks, bonds, debentures, notes, or other securities, to engage at the same time to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook certificate of deposit, or other evidence of debt, or upon request of the depositor: *Provided, That the provisions of this paragraph shall not prohibit national banks or State banks or trust companies (whether or not members of the Federal Reserve System) or other financial institutions or private bankers from dealing in, underwriting, purchasing, and selling investment securities to the extent permitted to national banking associations by the provisions of section 5136 of the Revised Statutes, as amended (U. S. C., title 12, sec. 24; Supp. VII, title 12, sec. 24): Provided further, That nothing in this paragraph shall be construed as affecting in any way such right as any bank, banking association, savings bank, trust company, or other banking institution, may otherwise possess to sell, without recourse or agreement to repurchase, obligations evidencing loans on real estate.*

Section 303 (b) of the bill repeals section 21 (a) (2) of the Banking Act of 1933.

SEC. 21 (a) After the expiration of one year after the date of enactment of this Act it shall be unlawful—

* * * * * * *

[(2) For any person, firm, corporation, association, business trust, or other similar organization, other than a financial institution or private banker subject to examination and regulation under State or Federal law, to engage to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor, unless such person, firm, corporation, association, business trust, or other similar organization shall submit to periodic examination by the Comptroller of the Currency or by the Federal reserve bank of the district and shall make and publish periodic reports of its condition, exhibiting in detail its resources and liabilities, such examination and reports to be made and published at the same times and in the same manner and with like effect and penalties as are now provided by law in respect of national banking associations transacting business in the same locality.]

Section 304 of the bill amends section 22 of the Banking Act of 1933.

SEC. 22. The additional liability imposed upon shareholders in national banking associations by the provisions of section 5151 of the Revised Statutes, as amended, and section 23 of the Federal Reserve Act, as amended (U. S. C., title 12, secs. 63 and 64), shall not apply with respect to shares in any such association issued after the date of enactment of this Act. *Such additional liability shall cease on July 1, 1937, with respect to all shares issued by any association which shall be transacting the business of banking on July 1, 1937: Provided, That not less than six months prior to such date, such association shall have caused notice of such prospective termination of liability to be published in a newspaper published in the city, town, or county in which such association is located, and if no newspaper is published in such city, town, or county, then in a newspaper of general circulation therein. If the association fail to give such notice as and when above provided, a termination of such additional liability may thereafter be accomplished as of the date six months subsequent to publication, in the manner above provided.*

Section 305 of the bill amends section 4 of the act approved June 16, 1934, entitled "An act to amend section 12B of the Federal Reserve Act so as to extend for one year the temporary plan for deposit insurance, and for other purposes."

SEC. 4. So much of section 31 of the Banking Act of 1933, *as amended*, as relates to stock ownership by directors, trustees, or members of similar governing bodies of [member banks] *any national banking association or of any State bank or trust company which is a member* of the Federal Reserve System, is hereby repealed.

Section 306 of the bill, effective January 1, 1936, amends section 32 of the Banking Act of 1933.

[SEC. 32. From and after January 1, 1934, no officer or director of any member bank shall be an officer, director, or manager of any corporation, partnership, or unincorporated association engaged primarily in the business of purchasing, selling, or negotiating securities, and no member bank shall perform the functions of a correspondent bank on behalf of any such individual, partnership, corporation, or unincorporated association and no such individual, partnership, corporation, or unincorporated association shall perform the functions of a correspondent for any member bank or hold on deposit any funds on behalf of any member bank, unless in any such case there is a permit therefor issued by the Federal Reserve Board; and the Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest, and to revoke any such permit whenever it finds after reasonable notice and opportunity to be heard, that the public interest requires such revocation.]

SEC. 32. No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale

or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve at the same time as an officer, director, or employee of any member bank except in limited classes of cases in which the Federal Reserve Board may allow such service by general regulations when in the judgment of the Federal Reserve Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments.

Section 307 (a) of the bill amends the second sentence of paragraph "Seventh" of section 5136 of the Revised Statutes, as amended.

SEC. 5136. * * *
Seventh. * * *
The business of dealing in [investments] securities *and stock* by the association shall be limited to purchasing and selling such securities *and stock* without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities *or stock: Provided,* That the association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe [, but in]. *In* no event [(1)] shall the total amount of [any issue of] *the* investment securities of any one obligor or maker [, purchased after this section, as amended, takes effect and] held by the association for its own account, exceed at any time 10 per centum of [the total amount of such issue outstanding, but this limitation shall not apply to any such issue the total amount of which does not exceed $100,000 and does not exceed 50 per centum of the capital of the association, nor (2) shall the total amount of the investment securities of any one obligor or maker purchased after this section as amended takes effect and held by the association for its own account exceed at any time 15 per centum of the amount of the capital stock of the association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund.] *its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund, except that this limitation shall not require any association to dispose of any securities lawfully held by it on the date of enactment of the Banking Act of 1935."*

Section 307 (b) of the bill amends the fourth sentence of such paragraph seventh:

Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association *for its own account* of any shares of stock of any corporation.

Section 308 of the bill amends section 5138 of the Revised Statutes, as amended, by adding a sentence at the end thereof.

Section 5138 * * *. *No such association shall hereafter be authorized to commence the business of banking until it shall have a paid-in surplus equal to 20 per centum of its capital: Provided, That the Comptroller of the Currency may waive this requirement as to a State bank converting into a national banking association.*

Section 309 of the bill amends the last paragraph of section 5139 of the Revised Statutes, as amended.

After [one year from] the date of the enactment of the Banking Act of [1933] *1935* no certificate [representing] *evidencing* the stock of any such association shall *bear any statement purporting to* represent the stock of any other corporation, except a member bank or a corporation existing on [the] *such* date [this paragraph takes effect] engaged [solely] *primarily* in holding the bank premises of such association, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank [.] *or a corporation existing on the date this paragraph takes effect engaged primarily in holding the bank premises of such association: Provided, That this section shall not operate to prevent the ownership, sale, or transfer of stock of any other corporation being conditioned upon the ownership, sale, or transfer of a certificate representing stock of a national banking association.*

Section 310 (a) of the bill amends the first sentence of section 5144 of the Revised Statutes, as amended.

SEC. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit; and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him [except (1) that shares of its own stock held by a national bank as sole trustee shall not be voted, and shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (2) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote.] *except that (1) this shall not be construed as limiting the voting rights of holders of preferred stock under the terms and provisions of articles of association, or amendments thereto, adopted pursuant to the provisions of section 302 (a) of the Emergency Banking Act of March 9, 1933, as amended, (2) in the election of directors, shares of its own stock held by a national bank as sole trustee, whether registered in its own name as such trustee or in the name of its nominee, shall not be voted by the registered owner unless under the terms of the trust the manner in which such shares shall be voted may be determined by a donor or beneficiary of the trust and unless such donor or beneficiary actually directs how such shares shall be voted, (3) shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (4) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding comapny affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted, but such holding company affiliate may, without obtaining such permit, vote in favor of placing the association in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such association. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote. Whenever shares of stock cannot be voted by reason of being held by the bank as sole trustee, such shares shall be excluded in determining whether matters voted upon by the shareholders were adopted by the requisite percentage of shares."*

Section 310 (c) of the bill amends the first sentence of the third paragraph of section 5144 of the Revised Statutes, as amended.

SEC. 5144 * * * Any such holding company affiliate may make application to the Federal Reserve Board for a voting permit entitling it to [cast one vote at all elections of directors and in deciding all questions at meetings of shareholders of such bank on each share of] *vote the* stock controlled by it *at any or all meetings of shareholders of such bank* or authorizing the trustee or trustees holding the stock for its benefit or for the benefit of its shareholders so to vote the same. * * *

Section 311 of the bill adds a new paragraph to section 5154 of the Revised Statutes.

SEC. 5154. Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency: *Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall

declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. 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 the Federal Reserve Act and by the national banking act for associations originally organized as national banking associations.

The Comptroller of the Currency may, in his discretion and subject to such conditions as he may prescribe, permit such converting bank to retain and carry at a value determined by the Comptroller such of the assets of such converting bank as do not conform to the legal requirements relative to assets acquired and held by national banking associations.

Section 312 of the bill amends section 5162 of the Revised Statutes.

SEC. 5162. All transfers of United States bonds, made by any association under the provisions of this title, shall be made to the Treasurer of the United States in trust for the association, with a memorandum written or printed on each bond, and signed by the cashier, or some other officer of the association making the deposit. A receipt shall be given to the association, by the Comptroller of the Currency, or by a clerk appointed by him for that purpose, stating that the bond is held in trust for the association on whose behalf the transfer is made, and as security for the redemption and payment of any circulating notes that have been or may be delivered to such association. No assignment or transfer of any such bond by the Treasurer shall be deemed valid unless countersigned by the Comptroller of the Currency.

The Comptroller of the Currency may designate one or more persons to countersign in his name and on his behalf such assignments or transfers of bonds as require his countersignature.

Section 313 of the bill amends section 5197 of the Revised Statutes by inserting a new sentence after the second sentence thereof.

SEC. 5197. Any association may take, receive, reserve, and charge on any loan or discount made, or upon any notes, bills of exchange, or other evidences of debt, interest at the rate allowed by the laws of the State, Territory, or District where the bank is located, or at a rate of 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where the bank is located, whichever may be the greater, and no more, except that where, by the laws of any State, a different rate is limited for banks organized under State laws, the rate so limited shall be allowed for associations organized or existing in any such State under this title. When no rate is fixed by the laws of the State, or Territory, or District, the bank may take, receive, reserve, or charge a rate not exceeding 7 per centum, or 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where the bank is located, whichever may be the greater, and such interest may be taken in advance, reckoning the days for which the note, bill, or other evidence of debt has to run. *The maximum amount of interest or discount to be charged at a branch of an association located outside of the States of the United States and the District of Columbia shall be at the rate allowed by the laws of the country, territory, dependency, province, dominion, insular possession, or other political subdivision where the branch is located.* And the purchase, discount, or sale of a bona fide bill of exchange, payable at another place than the place of such purchase, discount, or sale, at not more than the current rate of exchange for sight drafts in addition to the interest, shall not be considered as taking or receiving a greater rate of interest.

Section 314 of the bill amends section 5199 of the Revised Statutes.

SEC. 5199. The directors of any association may, semiannually, declare a dividend of so much of the net profits of the association as they shall judge expedient;

but each association shall, before the declaration of a dividend *on its shares of common stock*, carry *not less than* one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall [amount to 20 per centum of its capital stock] *equal the amount of its common capital.*

Section 315 of the bill amends section 5209 of the Revised Statutes.

SEC. 5209. Any officer, director, agent, or employee of any Federal reserve bank, or of any member bank as defined in the Act of December twenty-third, nineteen hundred and thirteen, known as the Federal Reserve Act *or of any insured bank as defined in subsection (c) of section 12B of the Federal Reserve Act*, who embezzles, abstracts, or willfully misapplies any of the moneys, funds, or credits of such Federal Reserve bank or member bank *or insured bank*, or who, without authority from the directors of such Federal Reserve bank or member bank *or insured bank*, issues or puts in circulation any of the notes of such Federal Reserve bank or member bank *or insured bank*, or who, without such authority, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, draft, bill of exchange, mortgage, judgment, or decree, or who makes any false entry in any book, report, or statement of such Federal Reserve bank or member bank *or insured bank*, with intent in any case to injure or defraud such Federal Reserve bank or member bank *or insured bank*, or any other company, body politic or corporate, or any individual person, or to deceive any officer of such Federal Reserve bank or member bank *or insured bank*, or the Comptroller of the Currency, *or the Federal Deposit Insurance Corporation*, or any agent or examiner appointed to examine the affairs of such Federal Reserve bank or member bank *or insured bank*, or the Federal Reserve Board; and every receiver of a national banking association who, with like intent to defraud or injure, embezzles, abstracts, purloins, or willfully misapplies any of the moneys, funds, or assets of his trust, and every person who, with like intent, aids or abets any officer, director, agent, employee, or receiver in any violation of this section shall be deemed guilty of a misdemeanor, and upon conviction thereof in any district court of the United States shall be fined not more than $5,000 or shall be imprisoned for not more than five years, or both, in the discretion of the court.

Any Federal Reserve Agent, or any agent or employee of such Federal Reserve Agent, or of the Federal Reserve Board, who embezzles, abstracts, or willfully misapplies any moneys, funds, or securities intrusted to his care, or without complying with or in violation of the provisions of the Federal Reserve Act, issues or puts in circulation any Federal Reserve notes shall be guilty of a misdemeanor and upon conviction in any district court of the United States shall be fined not more than $5,000 or imprisoned for not more than five years, or both, in the discretion of the court.

Section 316 of the bill amends section 5220 of the Revised Statutes.

SEC. 5220. Any association may go into liquidation and be closed by the vote of its shareholders owning two-thirds of its stock.

The shareholders shall designate one or more persons to act as liquidating agent or committee, who shall conduct the liquidation in accordance with law and under the supervision of the board of directors, who shall require a suitable bond to be given by said agent or committee. The liquidating agent or committee shall render annual reports to the Comptroller of the Currency on the 31st day of December of each year showing the progress of said liquidation until the same is completed. The liquidating agent or committee shall also make an annual report to a meeting of the shareholders to be held on the date fixed in the articles of association for the annual meeting, at which meeting the shareholders may, if they see fit, by a vote representing a majority of the entire stock of the bank, remove the liquidating agent or committee and appoint one or more others in place thereof. A special meeting of the shareholders may be called at any time in the same manner as if the bank continued an active bank and at said meeting the shareholders may, by vote of the majority of the stock, remove the liquidating agent or committee. The Comptroller of the Currency is authorized to have an examination made at any time into the affairs of the liquidating bank until the claims of all creditors have been satisfied, and the expense of making such examinations shall be assessed against such bank in the same manner as in the case of examinations made pursuant to section 5240 of the Revised Statutes, as amended (U. S. C., title 12, secs. 484, 485; Supp. VII, title 12, secs. 481–483).

Section 317 of the bill amends section 5243 of the Revised Statutes.

SEC. 5243. [All banks not organized and transacting business under the national currency laws, or under chapter 2, and all persons or corporations doing

the business of bankers, brokers, or savings institutions, except savings banks authorized by Congress to use the word "national" as a part of their corporate name, are prohibited from using the word "national" as a portion of the name or title of such bank, corporation, firm, or partnership,] *The use of the word "national", the word "Federal", or the words "United States", separately, in any combination thereof, or in combination with other words or syllables, as part of the name or title used by any person, corporation, firm, partnership, business trust, association or other business entity, doing the business of bankers, brokers, or trust or savings institutions is prohibited except where such institution is organized under the laws of the United States, or is otherwise permitted by the laws of the United States to use such name or title, or is lawfully using such name or title on the date when this section, as amended, takes effect,* [and any violation of this prohibition shall subject the party chargeable therewith to a penalty of $50 for each day during which it is committed or repeated.]

Section 318 (a) of the bill amends the last three sentences of section 5 of the Federal Reserve Act.

When a member bank reduces its capital stock OR SURPLUS it shall surrender a proportionate amount of its holdings in the capital STOCK of said Federal Reserve bank[, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called]. *Any member bank which holds capital stock of a Federal Reserve bank in excess of the amount required on the basis of 6 per centum of its paid-up capital stock and surplus shall surrender such excess stock. When a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal Reserve bank and be released from its stock subscription not previously called.* In [either] *any such* case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal Reserve bank.

Section 318 (b) repeals the last paragraph of section 6 of the Federal Reserve Act.

[Whenever the capital stock of a Federal Reserve bank is reduced either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank or on account of the appointment of a receiver for a national bank following discontinuance of its banking operations as provided in this section, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.]

Section 319 of the bill amends the fifth paragraph of section 9 of the Federal Reserve Act.

SEC. 9 * * *

All banks admitted to membership under authority of this section shall be required to comply with the reserve and capital requirements of this act and to conform to those provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, which relate to the withdrawal or impairment of their capital stock, and which relates to the payment of unearned dividends. Such banks and the officers, agents, and employes thereof shall also be subject to the provisions of and to the penalties prescribed by section fifty-two hundred and nine of the Revised Statutes, and shall be required to make reports of condition and of the payment of dividends to the Federal Reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal Reserve bank on dates to be fixed by the Federal Reserve Board. Failure to make such reports within ten days after the date they are called for shall subject the offending bank to a penalty of $100 a day for each day that it fails to transmit such report; such penalty to be collected by the Federal Reserve bank by suit or otherwise. *Such reports of condition shall be in such form and shall contain such information as the Federal Reserve Board may require and shall be published by the reporting banks in such manner and in accordance with such regulations as the said board may prescribe.*

Section 320 (a) of the bill amends the first sentence of paragraph (m) of section 11 of the Federal Reserve Act.

SEC. 11. (m) Upon the affirmative vote of not less than six of its members the Federal Reserve Board shall have the power to fix from time to time for each Federal Reserve district the percentage of individual bank capital and surplus, which may be represented by loans secured by stock or bond collateral made by member banks within such district, but no such loan shall be made by any such bank to any person in an amount in excess of 10 per centum of the unimpaired capital and surplus of such bank [.] *: Provided, That with respect to loans represented by obligations in the form of notes secured by not less than a like amount of bonds or notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, or Treasury bills of the United States, such limitation of 10 per centum on loans to any person shall not apply, but State member banks shall be subject to the same limitations and conditions as are applicable in the case of national banks under paragraph (8) of section 5200 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 84).*

Section 320 (b) of the bill amends paragraph (8) of section 5200 of the Revised Statutes.

(8) Obligations of any person, copartnership, association, or corporation in the form of notes secured by not less than a like amount of bonds or notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, *or Treasury bills of the United States*, shall (except to the extent permitted by rules and regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury) be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

Section 321 of the bill amends the third paragraph of section 13 of the Federal Reserve Act.

SEC. 13. * * *

In unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal Reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed [and] *or* otherwise secured to the satisfaction of the Federal Reserve bank: *Provided*, That before discounting any such note, draft, or bill of exchange for an individual or a partnership or corporation the Federal Reserve bank shall obtain evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals, partnerships, or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe.

* * * * * * *

Section 322 of the bill amends subsection (e) of section 13b of the Federal Reserve Act.

SEC. 13b (e). In order to enable the Federal Reserve banks to make the loans, discounts, advances, purchases, and commitments provided for in this section, the Secretary of the Treasury [upon the date this section takes effect] *on and after June 19, 1934*, is authorized, under such rules and regulations as he shall prescribe, to pay to each Federal Reserve bank not to exceed such portion of the sum of $139,299,557 as may be represented by [the par value of the holdings of each Federal Reserve bank of Federal Deposit Insurance Corporation stock] *the amount paid by each Federal Reserve bank for stock of the Federal Deposit Insurance Corporation*, upon the execution by each Federal Reserve bank of its agreement (to be endorsed on the certificate of such stock) to hold such stock unencumbered and to pay to the United States all dividends, all payments on liquidation, and all other proceeds of such stock, for which dividends, payments, and proceeds the United States shall be secured by such stock itself up to the total amount paid to each Federal Reserve bank by the Secretary of the Treasury under this section. * * *

Section 323 (a) amends the first paragraph of section 19 of the Federal Reserve Act.

[SEC. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.]

SEC. 19. The Federal Reserve Board is authorized, for the purposes of this section, to define the terms "demand deposits", "gross demand deposits", "deposits payable on demand", "time deposits", "savings deposits", and "trust funds", to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof: Provided, That, within the meaning of the provisions of this section regarding the reserves required of member banks, the term "time deposits" shall include "savings deposits".

Section 323 (b) amends the tenth paragraph of section 19 of the Federal Reserve Act.

In estimating the *Reserve* balances [required by this Act, the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with Federal reserve banks shall be determined.] *Member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks), and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Federal Reserve Board.*

Section 323 (c) amends the last two paragraphs of section 19 of the Federal Reserve Act.

No member bank shall, directly or indirectly[,] by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided,* That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract [heretofore] entered into in good faith which is in force on the date [of the enactment of this paragraph] *on which the bank becomes subject to the provisions of this paragraph;* but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided*[, however,] *further,* That this paragraph shall not apply (*1*) to any deposit of such bank which is payable only at an office thereof located [in a foreign country,] *outside of the States of the United States and the District of Columbia;* [and shall not apply] (*2*) to any deposit made by a mutual savings bank[, nor]; (*3*) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, [with respect to which payment of interest] *or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds* is required [under] *by* State law[.]; *or (4) to any deposit of funds by the United States, any Territory, District, or possession thereof (including the Philippine Islands) or any public instrumentality or agency of the foregoing, with respect to which interest is required by law to be paid.*

The Federal Reserve Board shall from time to time limit by regulation the rate of interest which may be paid by member banks on time *and savings* deposits [, and may prescribe different rates for such payment on time and savings deposits having different maturities or subject to different conditions respecting withdrawal or repayment or subject to different conditions by reason of different locations]*; may classify time and savings deposits according to maturities, locations of banks, conditions respecting receipt, withdrawal, or repayment, or otherwise as it may deem necessary in the public interest; and may prescribe different rates for deposits of different classes.* No member bank shall pay any time deposit before its maturity[,]*except upon such conditions and in accordance with such rules and regulations as may be prescribed by the Federal Reserve Board,* or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement[.]*: Provided, That the provisions of this paragraph shall not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.*

Section 323 (d) of the bill amends section 19 of the Federal Reserve Act, by adding a new paragraph at the end thereof.

SEC. 19. * * *

Notwithstanding the provisions of the First Liberty Bond Act, as amended, the Second Liberty Bond Act, as amended, and the Third Liberty Bond Act, as amended, member banks shall be required to maintain the same reserves against deposits of public moneys by the United States as they are required by this section to maintain against other deposits.

Section 324 of the bill amends section 21 of the Federal Reserve Act, by adding a paragraph at the end thereof.

SEC. 21. * * *

Whenever member banks are required to obtain reports from affiliates, or whenever affiliates of member banks are required to submit to examination, the Federal Reserve Board or the Comptroller of the Currency, as the case may be, may waive such requirements with respect to any such report or examination of any affiliate if in the judgment of the said Board or Comptroller, respectively, such report or examination is not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank.

Section 325 (a) of the bill amends section 22 (a) of the Federal Reserve Act.

SEC. 22. (a) No member bank *and no insured bank as defined in subsection (c) of section 12B of this Act* and no officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner *or assistant examiner, who examines or has authority to examine such bank.* Any bank officer, director, or employee 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, and may be fined a further sum equal to the money so loaned or gratuity given.

Any examiner or assistant examiner who shall accept a loan or gratuity from any bank examined by him, or from an officer, director, or employee thereof, or who shall steal, or unlawfully take, or unlawfully conceal any money, note, draft, bond, or security or any other property of value in the possession of any member bank *or insured bank* or from any safe-deposit box in or adjacent to the premises of such bank, shall be deemed guilty of a misdemeanor and shall, upon conviction thereof in any district court of the United States, be imprisoned for not exceeding one year, or fined not more than $5,000, or both, and may be fined a further sum equal to the money so loaned, gratuity given, or property stolen, and shall forever thereafter be disqualified from holding office as a national-bank examiner *or Federal Deposit Insurance Corporation examiner.*

The provisions of this subsection shall apply to all public examiners and assistant examiners who examine member banks of the Federal Reserve System or insured banks, whether appointed by the Comptroller of the Currency, by the Federal Reserve Board, by a Federal Reserve agent, by a Federal Reserve bank, or by the Federal Deposit Insurance Corporation, or appointed or elected under the laws of any State, but shall not apply to private examiners or assistant examiners employed only by a clearing-house association or by the directors of a bank.

Section 325 (b) of the bill amends section 22 (b) of the Federal Reserve Act.

(b) No national-bank examiner *and no Federal Deposit Insurance Corporation examiner* shall perform any other service for compensation while holding such office for any bank or officer, director or employee thereof.

No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank *or insured bank* to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency *as to a national bank, the Federal Reserve Board as to a State member bank, or the Federal Deposit Insurance Corporation as to any other insured bank,* or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress, or of either House duly authorized. Any bank examiner violating the provisions of this subsection shall be imprisoned not more than one year or fined not more than $5,000, or both.

Section 325 (c) of the bill amends section 22 (g) of the Federal Reserve Act.

(g) No executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers: *Provided*, That loans [heretofore] made to any such officer *prior to June 16, 1933*, may be renewed or extended *for periods expiring* not more than [two] *five* years from [the] *such* date [this paragraph takes effect, if in accord with sound banking practice]. *Where the board of directors of the member bank shall have satisfied themselves that such extension or renewal is in the best interest of the bank and that the officer indebted has made reasonable effort to reduce his obligation, these findings to be evidenced by resolution of the board of directors spread upon the minute book of the bank: Provided further, That with the prior approval of a majority of the entire board of directors any member bank may extend credit to any executive officer thereof, and such officer may become indebted thereto, in an amount not exceeding $2,500.* If any executive officer of any member bank borrow from or if he be or become indebted to any bank other than a member bank of which he is an executive officer, he shall make a written report to the [chairman of the] board of directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor, and the purpose for which the proceeds have been or are to be used. [Any executive officer of any member bank violating the provisions of this paragraph shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year, or fined not more than $5,000, or both; and any member bank violating the provisions of this paragraph shall be fined not more than $10,000, and may be fined a further sum equal to the amount so loaned or credit so extended.] *Borrowing by, or loaning to, a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in said partnership, shall be considered within the prohibition of this subsection. Nothing contained in this subsection shall prohibit any executive officer of a member bank from endorsing or guaranteeing for the protection of such bank any loan or other asset which shall have been previously acquired by such bank in good faith or from incurring any indebtedness to such bank for the purpose of protecting such bank against loss or giving financial assistance to it. The Federal Reserve Board is authorized to define the term "executive officer", to determine what shall be deemed to be a borrowing, indebtedness, loan, or extension of credit, for the purposes of this subsection, and to prescribe such rules and regulations as it may deem necessary to effectuate the provisions of this subsection in accordance with its purposes and to prevent evasions of such provisions. Any executive officer of a member bank accepting a loan or extension of credit which is in violation of the provisions of this subsection shall be subject to removal from office in the manner prescribed in section 30 of the Banking Act of 1933: Provided, That for each day that a loan or extension of credit made in violation of this subsection exists, it shall be deemed to be a continuation of such violation within the meaning of said section 30.*

Section 326 of the bill amends the third paragraph of section 23A of the Federal Reserve Act.

SEC. 23A. * * *.

For the purposes of this section [,] the term "affiliate" shall include holding company affiliates as well as other affiliates, and the provisions of this section shall not apply to any affiliate (1) engaged [solely] *primarily* in holding the bank premises of the member bank with which it is affiliated *or in maintaining and operating properties acquired for banking purposes prior to the date this section, as amended, takes effect*; (2) engaged solely in conducting a safe-deposit business or the business of an agricultural credit corporation or livestock loan company; (3) in the capital stock of which a national banking association is authorized to invest pursuant to section 25 of [the Federal Reserve] *this* Act, as amended, *or a subsidiary of such affiliate, all the stock of which (except qualifying shares of directors in an amount not to exceed 10 per centum) is owned by such affiliate;* (4) organized under section 25 (a) of [the Federal Reserve] *this* Act, as amended, *or a subsidiary of such affiliate, all the stock of which (except qualifying shares of directors in an amount not to exceed 10 per centum) is owned by such affiliate*; or (5) engaged solely in holding obligations of the United States Government, the Federal intermediate credit banks, the Federal land banks, the Federal [Home Loan] *home-loan* banks, or the Home Owners' Loan Corporation *or obligations fully guaranteed by the United States as to principal and interest*; (6) *where the affiliate relationship has arisen out of a bona fide debt contracted prior to the date of the creation of such relationship; or* (7) *where the affiliate relationship exists by reason of the ownership or control of any voting shares thereof by a member bank as executor,*

administrator, trustee, receiver, agent, depositary, or in any other fiduciary capacity except where such shares are held for the benefit of all or a majority of the stockholders of such member bank; but as to any such affiliate, member banks shall continue to be subject to other provisions of law applicable to loans by such banks *and investments by such banks* in stocks, bonds, debentures, or other such obligations. *The provisions of this section shall likewise not apply to indebtedness of any affiliate for unpaid balances due a bank on assets purchased from such bank, or to loans secured by, extensions of credit against, or purchases under repurchase agreement of obligations of the United States Government or obligations fully guaranteed by the United States Government as to principal and interest.*

Section 327 of the bill adds a new paragraph to section 24 of the Federal Reserve Act.

SEC. 24. (For provisions of first paragraph of sec. 24 of the Federal Reserve Act, see sec. 210 of the bill.)

Loans made to established industrial or commercial businesses (a) which are in whole or in part discounted or purchased or loaned against as security by a Federal Reserve bank under the provisions of section 13b of this Act, (b) for any part of which a commitment shall have been made by a Federal Reserve bank under the provisions of said section, (c) in the making of which a Federal Reserve bank participates under the provisions of said section, or (d) in which the Reconstruction Finance Corporation cooperates or purchases a participation under the provisions of section 5d of the Reconstruction Finance Corporation Act, shall not be subject to the restrictions or limitations of this section upon loans secured by real estate.

Section 328 of the bill, effective January 1, 1936, amends section 8 and repeals section 8A, of the act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes" (the Clayton Act).

[SEC. 8. That from and after two years from the date of the approval of this Act no person shall at the same time be a director or other officer or employee of more than one bank, banking association, or trust company organized or operating under the laws of the United States, either of which has deposits, capital, surplus, and undivided profits aggregating more than $5,000,000, and no private banker or person who is a director in any bank or trust company organized and operating under the laws of a State, having deposits, capital, surplus, and undivided profits aggregating more than $5,000,000, shall be eligible to be a director in any bank or banking association organized or operating under the laws of the United States. The eligibility of a director, officer, or employee under the foregoing provisions shall be determined by the average amount of deposits, capital, surplus, and undivided profits as shown in the official statements of such bank, banking association, or trust company filed as provided by law during the fiscal year next preceding the date set for the annual election of directors, and when a director, officer, or employee has been elected or selected in accordance with the provisions of this Act it shall be lawful for him to continue as such for one year thereafter under said election or employment.]

[No bank, banking association, or trust company organized or operating under the laws of the United States, in any city or incorporated town or village of more than two hundred thousand inhabitants, as shown by the last preceding decennial census of the United States, shall have as a director or other officer or employee any private banker or any director or other officer or employee of any other bank, banking association, or trust company located in the same place: *Provided*, That nothing in this section shall apply to mutual savings banks not having a capital stock represented by shares, to joint-stock land banks organized under the provisions of the Federal Farm Loan Act, or to other banking institutions which do no commercial banking business: *Provided further*, That a director or other officer or employee of such bank, banking association, or trust company may be a director or other officer or employee of not more than one other bank or trust company organized under the laws of the United States or any State where the entire capital stock of one is owned by stockholders in the other: *And provided further*, That nothing contained in this section shall forbid a director of class A of a Federal Reserve bank, as defined in the Federal Reserve Act, from being an officer or director, or both an officer and director, in one member bank: *And provided further*, That nothing in this Act shall prohibit any private banker from being an officer, director, or employee of not more than two banks, banking associations, or trust companies, or prohibit any officer, director, or employee of any bank, banking association, or trust company, or any class A director of a Federal

Reserve bank, from being an officer, director, or employee of not more than two other banks, banking associations, or trust companies, whether organized under the laws of the United States or any State, if in any such case there is in force a permit therefor issued by the Federal Reserve Board; and the Federal Reserve Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest, and to revoke any such permit whenever it finds, after reasonable notice and opportunity to be heard, that the public interest requires its revocation.]

[The consent of the Federal Reserve Board may be procured before the person applying therefor has been elected as a class A director of a Federal Reserve bank or as a director of any member bank.]

SEC. 8. *No director, officer, or employee of any member bank of the Federal Reserve System shall be at the same time a private banker or a director, officer, or employee of any other bank, banking association, savings bank (other than a mutual savings bank), or trust company except in limited classes of cases in which the Federal Reserve Board may allow such service by general regulations when in the judgment of the Federal Reserve Board such classes of institutions are not in substantial competition.*

* * * * * * *

When any person elected or chosen as a director of officer or selected as a employee of any bank or other corporation subject to the provisions of this Act is eligible at the time of his election or selection to act for such bank or other corporation in such capacity his eligibility to act in such capacity shall not be affected and he shall not become or be deemed amenable to any of the provisions hereof by reason of any change in the affairs of such bank or other corporation from whatsoever cause, whether specifically excepted by any of the provisions hereof or not, until the expiration of one year from the date of his election or employment.

[SEC. 8A. That from and after the 1st day of January 1934, no director, officer, or employee of any bank, banking association, or trust company, organized or operating under the laws of the United States shall be at the same time a director, officer, or employee of a corporation (other than a mutual savings bank) or a member of a partnership organized for any purpose whatsoever which shall make loans secured by stock or bond collateral to any individual, association, partnership, or coporation other than its own subsidiaries.]

Sections 329 (a) and 329 (b) of the bill amend section 1 of the act of November 7, 1918 (U. S. C., title 12, sec. 33).

SECTION 1. That any two or more national banking associations located within the same State, county, city, town, or village may, with the approval of the Comptroller of the Currency, consolidate into one association under the charter of either existing banks, on such terms and conditions as may be lawfully agreed upon by a majority of the board of directors of each association proposing to consolidate, and be ratified and confirmed by the affirmative vote of the shareholders of each such association owning at least two-thirds of its capital stock outstanding, at a meeting to be held on the call of the directors after publishing notice of the time, place, and object of the meeting for four consecutive weeks in some newspaper published in the place where the said association is located, and if no newspaper is published in the place, then in a paper published nearest thereto, and after sending such notice to each shareholder of record by registered mail at least ten days prior to said meeting: *Provided*, That the capital stock of such consolidated association shall not be less than that required under existing law for the organization of a national bank in the place in which it is located: [*And provided further*, That when such consolidation shall have been effected and approved by the comptroller any shareholder of either of the associations so consolidated who has not voted for such consolidation may give notice to the directors of the association in which he is interested within twenty days from the date of the certificate of approval of the comptroller that he dissents from the plan of consolidation as adopted and approved, whereupon he shall be entitled to receive the value of the shares so held by him, to be ascertained] *and provided further, that if such consolidation shall be voted for at said meetings by the necessary majorities of the shareholders of each of the associations proposing to consolidate, any shareholder of any of the associations so consolidated who has voted against such consolidation at the meeting of the association of which he is a shareholder or has given notice in writing at or prior to said meeting to the presiding officer that he dissents from the plan of consolidation, shall be entitled to receive the value of the shares so held by him if and when said consolidation shall be approved by the Comptroller of the Currency, such value to be ascertained as of the date of the Comptroller's approval* by an appraisal made by a committee of three persons, one to be selected by the shareholder, one by the directors,

and the third by the two so chosen; and in case the value so fixed shall not be satisfactory to the shareholder he may within five days after being notified of the appraisal appeal to the Comptroller of the Currency, who shall cause a reappraisal to be made, which shall be final and binding; and if said reappraisal shall exceed the value fixed by said committee, the bank shall pay the expenses of the reappraisal; otherwise the appellant shall pay said expenses, and the value so ascertained and determined shall be deemed to be a debt due and be forthwith paid to said shareholder from said bank, and the share so paid shall be surrendered and after due notice sold at public auction within thirty days after the final appraisement for in this Act.

Publication of notice and notification by registered mail of the meeting provided for in the foregoing paragraph may be waived by unanimous action of the shareholders of the respective associations. Where a dissenting shareholder has given notice as above provided to the association of which he is a shareholder of his dissent from the plan of consolidation, and the directors thereof fail for more than thirty days thereafter to appoint an appraiser of the value of his shares, said shareholder may request the comptroller of the currency to appoint such appraiser to act on the appraisal committee for and on behalf of such association.

If shares, when sold at public auction in accordance with this section, realize a price greater than their final appraised value, the excess in such sale price shall be paid to the shareholder. The consolidated association shall be liable for all liabilities of the respective consolidating associations. In the event one of the appraisers fails to agree with the others as to the value of said shares, then the valuation of the remaining appraisers shall govern.

Sections 330 (a) and 330 (b) of the bill amends Section 3 of the Act of November 7, 1918 (U. S. C., Title 12, sec. 34 (a)).

SEC. 3. * * *.

[When such consolidation shall have been effected and approved by the comptroller any shareholder of either the association or of the State or District bank so consolidated, who has not voted for such consolidation, may give notice to the directors of the consolidated association within twenty days from the date of the certificate of approval of the comptroller that he dissents from the plan of consolidation as adopted and approved, whereupon he shall be entitled to receive the value of the shares so held by him, to be ascertained] *and provided further, if such consolidation shall be voted for at said meetings by the necessary majorities of the shareholders of the association and of the State or other bank proposing to consolidate, and thereafter the consolidation shall be approved by the Comptroller of the Currency, any shareholder of either the association or the State or other bank so consolidated, who has voted against such consolidation at the meeting of the association of which he is a stockholder, and has given notice in writing thereat to the presiding officer that he dissents from the plan of consolidation, shall be entitled to receive the value of the shares so held by him if and when said consolidation shall be approved by the Comptroller of the Currency, such value to be ascertained as of the date of the Comptroller's approval* by an appraisal made by a committee of three persons, one to be selected by the shareholder, one by the directors of the consolidated association, and the third by the two so chosen; and in case the value so fixed shall not be satisfactory to such shareholder he may within five days after being notified of the appraisal appeal to the Comptroller of the Currency, who shall cause a reappraisal to be made, which shall be final and binding; and the consolidated association shall pay the expenses of reappraisal, and the value as ascertained by such appraisal or reappraisal shall be deemed to be a debt due and shall be forthwith paid to said shareholder by said consolidated association, and the shares so paid for shall be surrendered and, after due notice, sold at public auction within thirty days after the final appraisement provided for in this section; and if the shares so sold at public auction shall be sold at a price greater than the final appraisal value, the excess in such sale price shall be paid to the said shareholder; and the consolidated association shall have the right to purchase such shares at public auction, if it is the highest bidder therefor, for the purpose of reselling such shares within thirty days thereafter to such person or persons and at such price as its board of directors by resolution may determine. The liquidation of such shares of stock in any State bank shall be determined in the manner prescribed by the law of the State in such cases if such provision is made in the State law; otherwise as hereinbefore provided. No such consolidation shall be in contravention of the law of the State under which such bank is incorporated.

The words "State bank", "State banks", "bank", or "banks", as used in this section, shall be held to include trust companies, savings banks, or other such

corporations or institutions carrying on the banking business under the authority of State laws.

Publication of notice and notification by registered mail of the meeting provided for in the foregoing paragraph may be waived by unanimous action of the shareholders of the respective associations. Where a dissenting shareholder has given notice as above provided to the association of which he is a shareholder of his dissent from the plan of consolidation, and the directors thereof fail for more than thirty days thereafter to appoint an appraiser of the value of his shares, said shareholder may request the Comptroller of the Currency to appoint such appraiser to act on the appraisal committee for and on behalf of such association.

If shares, when sold at public auction in accordance with this section, realize a price greater than their final appraised value, the excess in such sale price shall be paid to the shareholder. The consolidated association shall be liable for all liabilities of the respective consolidating associations. In the event one of the appraisers fails to agree with the others as to the value of said shares, then the valuation of the remaining appraisers shall govern.

Section 331 of the bill amends sections 2 and 4 of the act of May 24, 1926, entitled "Act to prohibit offering for sale as Federal farm-loan bonds any securities not issued under the terms of the Farm Loan Act, to limit the use of the words 'Federal', 'United States', or 'reserve', or a combination of such words, to prohibit false advertising and for other purposes" (U. S. C., title 12, secs. 584–588).

SEC. 2. That no bank, banking association, trust company, corporation, association, firm, partnership, or person engaged in the banking, loan, building and loan, brokerage, factorage, insurance, indemnity, or trust business shall use the word "Federal", the words "United States", *the words "deposit insurance"*, or the word "reserve", or any combination of such words, as a portion of its corporate, firm, or trade name or title or of the name under which it does business: *Provided, however,* That the provisions of this section shall not apply to the Federal Reserve Board, the Federal Farm Loan Board, the Federal Trade Commission, or any other department, bureau, or independent establishment of the Government of the United States, nor to any Federal Reserve bank, Federal land bank, or Federal Reserve agent, nor to the Federal Advisory Council, nor to any corporation organized under the laws of the United States, *nor to any new bank organized by the Federal Deposit Insurance Corporation as provided in section 12B of the Federal Reserve Act, as amended,* nor to any bank, banking association, trust company, corporation, association, firm, partnership, or person actually engaged in business under such name or title prior to the passage of this Act.

SEC. 3. * * *

SEC. 4. That any bank, banking association, trust company, corporation, association, firm, or partnership violating any of the provisions of this Act shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding $1,000. Any person violating any of the provisions of this Act, or any officer of any bank, banking association, trust company, corporation, or association, or member of any firm or partnership violating any of the provisions of this Act who participates in, or knowingly acquiesces in, such violations shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding $1,000 or imprisonment not exceeding one year, or both. Any such illegal use of such word or words, or any combination of such words, or any other violation of any of the provisions of this Act, may be enjoined by the United States district court having jurisdiction, at the instance of any United States district attorney, any Federal land bank, joint-stock land bank, Federal Reserve bank, or the Federal Farm Loan Board or the Federal Reserve [Board.] *Board, or the Federal Deposit Insurance Corporation.*

Section 332 of the bill amends the act of May 18, 1934, entitled "An Act to provide punishment for certain offenses committed against banks organized or operating under laws of the United States or any member of the Federal Reserve System" (48 Stat. 783).

As used in this Act the term "bank" includes any member bank of the Federal Reserve System, and any bank, banking association, trust company, savings bank, or other banking institution organized or operating under the laws of the United States, *and any insured bank as defined in subsection (c) of section 12B of the Federal Reserve Act, as amended.*

SEC. 2. (a) Whoever, by force and violence, or by putting in fear, feloniously takes, or feloniously attempts to take, from the person or presence of another any property or money or any other thing of value belonging to, or in the care, custody, control, management, or possession of, any bank shall be fined not more than $5,000 or imprisoned not more than twenty years, or both.

(b) Whoever, in committing, or in attempting to commit, any offense defined in subsection (a) of this section, assaults any person, or puts in jeopardy the life of any person by the use of a dangerous weapon or device, shall be fined not less than $1,000 nor more than $10,000 or imprisoned not less than five years nor more than twenty-five years, or both.

SEC. 3. Whoever, in committing any offense defined in this Act, or in avoiding or attempting to avoid apprehension for the commission of such offense, or in freeing himself or attempting to free himself from arrest or confinement for such offense, kills any person, or forces any person to accompany him without the consent of such person, shall be punished by imprisonment for not less than 10 years, or by death if the verdict of the jury shall so direct.

SEC. 4. Jurisdiction over any offense defined by this Act shall not be reserved exclusively to courts of the United States.

Section 333 of the bill amends section 5143 of the Revised Statutes.

SEC. 5143. Any association formed under this title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and [such reduction has been approved by the said Comptroller of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board] *no shareholder shall be entitled to any distribution of cash or other assets by reason of any reduction of the common capital of any association unless such distribution shall have been approved by the Comptroller of the Currency and by the affirmative vote of at least two-thirds of the shares of each class of stock outstanding, voting as classes.*

* * * * * * *

Section 334 of the bill amends section 5139 of the Revised Statutes by adding a new paragraph at the end thereof.

SEC. 5139. * * *

Certificates hereafter issued representing shares of stock of the association shall state (1) the name and location of the association, (2) the name of the holder of record of the stock represented thereby, (3) the number and class of shares which the certificate represents, and (4) if the association shall issue stock of more than one class, the respective rights, preferences, privileges, voting rights, powers, restrictions, limitations, and qualifications of each class of stock issued shall be stated in full or in summary upon the front or back of the certificates or shall be incorporated by a reference to the articles of association set forth on the front of the certificates. Every certificate shall be signed by the president and the cashier of the association, or by such other officers as the bylaws of the association shall provide, and shall be sealed with the seal of the association.

* * * * * * *

Section 335 of the bill amends the last sentence of section 301 of the Emergency Banking Act of March 9, 1933, as amended.

SEC. 301. Notwithstanding any other provision of law, any national banking association may, with the approval of the Comptroller of the Currency and by vote of shareholders owning a majority of the stock of such association, upon not less than five days' notice, given by registered mail pursuant to action taken by its board of directors, issue preferred stock of one or more classes, in such amount and with such par value as shall be approved by said Comptroller, and make such amendments to its articles of association as may be necessary for this purpose; but, in the case of any newly organized national banking association which has not yet issued common stock, the requirement of notice to and vote of shareholders shall not apply. No issue of preferred stock shall be valid until the par value of all stock so issued shall be paid [in.] *in and notice thereof, duly acknowledged before a notary public by the president, vice president, or cashier of said association, has been transmitted to the Comptroller of the Currency and his certificate*

obtained specifying the amount of such issue of preferred stock and his approval thereof and that the amount has been duly paid in as a part of the capital of such association; which certificate shall be deemed to be conclusive evidence that such preferred stock has been duly and validly issued.

* * * * * * *

Section 336 of the bill renders inoperative on July 1, 1937, but not by express amendment, the act of March 3, 1901, as amended, and section 4 of the act of March 4, 1933, relating to stockholders' liability in District of Columbia banks. The pertinent sections of these acts are set forth for the information of the House.

Act of March 4, 1933 (regulating banking in the District of Columbia) (D. C. Code, Supp. I, secs. 300a (a) and 300a (b)).

SEC. 4. (a) The shareholders of every savings bank or savings company other than building associations now or hereafter organized under authority of any Act of Congress to do business in the District of Columbia and of every banking institution organized by virtue of the laws of any of the States of the Union to do or doing a banking business in the District of Columbia, who acquire in any manner the shares of any such savings bank or savings company or such banking institutions other than building asspciations after the enactment of this Act, shall be held individually responsible equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank or company, to the extent of the amount of their stock so acquired therein, at the par value thereof, in addition to the amount invested in such shares.

(b) The shareholders, at the date of the enactment of this Act, of every savings bank or savings company other than building associations organized under authority of any Act of Congress to do business in the District of Columbia, and of every banking institution organized by virtue of the laws of any of the States of this Union to do or doing a banking business in the District of Columbia, shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such savings bank, savings company, or banking institution, entered into or incurred subsequent to the date of the enactment of this Act to the extent of the amount of their stock therein at the par value thereof, in addition to the amount invested in such shares. The words "entered into or incurred" as used in this section, shall be held to include any extension or renewal of any contracts, debt, and engagement renewed or extended after the enactment of this Act.

* * * * * * *

Act of March 3, 1901 (D. C. Code, Title 5, sec. 361).

SEC. 734. All stockholders of every company incorporated under this subchapter, or availing itself of its provisions under section 725, shall be severally and individually liable to the creditors of such company to an amount equal to and in addition to the amount of stock held by them respectively for all debts and contracts made by such company.

Section 337 of the bill amends the second paragraph of section 9 of the Federal Reserve Act.

SEC. 9. * * *

Any such State bank which, at the date of the approval of this Act, has established and is operating a branch or branches in conformity with the State law, may retain and operate the same while remaining or upon becoming a stockholder of such Federal Reserve bank; but no such State bank may retain or acquire stock in a Federal Reserve bank except upon relinquishment of any branch or branches established after the date of the approval of this Act beyond the limits of the city, town, or village in which the parent bank is situated: *Provided, however*, That nothing herein contained shall prevent any State member bank from establishing and operating branches in the United States or any dependency or insular possession thereof or in any foreign country, on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national [banks.] *banks, except that the approval of the Federal Reserve Board, instead of the Comptroller of the Currency, shall be obtained before any State member bank may hereafter establish any branch and before any State bank hereafter admitted to membership may retain any branch established after February 25, 1927, beyond the limits of the city, town, or village in which the parent bank is situated.*

Section 338 of the bill amends section 5234 of the Revised Statutes.

SEC. 5234. On becoming satisfied, as specified in sections fifty-two hundred and twenty-six and fifty-two hundred and twenty-seven, that any association has refused to pay its circulating notes as therein mentioned, and is in default, the Comptroller of the Currency may forthwith appoint a receiver, and require of him such bond and security as he deems proper. Such receiver, under the direction of the Comptroller, shall take possession of the books, records, and assets of every description of such association, collect all debts, dues, and claims belonging to it, and, upon the order of a court of record of competent jurisdiction, may sell or compound all bad or doubtful debts, and, on a like order, may sell all the real and personal property of such association, on such terms as the court shall direct; and may, if necessary to pay the debts of such association, enforce the individual liability of the stockholders. Such receiver shall pay over all money so made to the Treasurer of the United States, subject to the order of the Comptroller, and also make report to the Comptroller of all his acts and proceedings. *Provided,* That the Comptroller may, if he deems proper, deposit any of the money so made in any regular Government depositary, or in any State or national bank either of the city or town in which the insolvent bank was located, or of a city or town as adjacent thereto as practicable; if such deposit is made he shall require the depositary to deposit United States bonds or other satisfactory securities with the Treasurer of the United States for the safe-keeping and prompt payment of the money so deposited: *Provided, That no security in the form of deposit of United States bonds, or otherwise, shall be required in the case of such parts of the deposits as are insured under section 12B of the Federal Reserve Act, as amended.* Such depositary shall pay upon such money interest at such rate as the Comptroller may prescribe, not less, however, than two per centum per annum upon the average monthly amount of such deposits.

Section 339 of the bill amends section 61 of the National Bankruptcy Act.

SEC. 61. DEPOSITORIES FOR MONEY.—a Courts of bankruptcy shall designate by order, banking institutions as depositories for the money of bankrupt estates, as convenient as may be to the residences of trustees, and shall require bonds to the United States, subject to their approval, to be given by such banking institutions, and may from time to time as occasion may require, by like order increase the number of depositories or the amount of any bond or change such depositories [.] *: Provided, That no security in form of a bond or otherwise shall be required in the case of such part of the deposits as are insured under section 12B of the Federal Reserve Act, as amended.*

Section 340 of the bill amends section 8 of the Postal Savings Depository Act of June 25, 1910.

SEC. 8. * * *

[Any depositor may withdraw the whole or any part of the funds deposited to his or her credit with the accrued interest only on notice given sixty days in advance and under such regulations as the Postmaster General may prescribe; but withdrawal of any part of such funds may be made upon demand, but no interest shall be paid on any funds so withdrawn except interest accrued to the date of enactment of the Banking Act of 1933: *Provided,* That Postal Savings depositories may deposit funds in member banks on time under regulations to be prescribed by the Postmaster General.] *Subject to such regulations as the Postmaster General may prescribe, any depositor may withdraw the whole or any part of the funds deposited to his or her credit with the accrued interest after the expiration of sixty days after giving notice in writing of intention to withdraw, and any depositor may withdraw the whole or any part of such funds without such notice only on condition that there be deducted from the funds to his or her credit derived from interest an amount equivalent to interest for a period of not less than three months on the amount withdrawn. Notwithstanding any other provision of law, no interest shall be paid on any deposit in any postal savings depository office at a rate in excess of that which may lawfully be paid on savings deposits under regulations prescribed by the Federal Reserve Board pursuant to the Federal Reserve Act for member banks of the Federal Reserve System located in or nearest to the place where such depository office is situated. Postal savings depositories may deposit funds on time in member banks of the Federal Reserve System subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board regarding the payment of time deposits and interest thereon.*

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Calendar No. 1053

74TH CONGRESS, 1st Session | SENATE | REPORT No. 1007

BANKING ACT OF 1935

MAY 13 (calendar day JULY 2), 1935.—Ordered to be printed

Mr. GLASS, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany H. R. 7617]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 7617) to provide for the sound, effective, and uninterrupted operation of the banking system, and for other purposes, having considered the same, report favorably thereon with an amendment in the nature of a substitute, and as amended recommend that the bill do pass.

GENERAL STATEMENT

The provisions of title I of the bill relating to Federal deposit insurance do not differ in many respects from those contained in title I of the bill as it passed the House, and the material changes in substance will be noted in the attached statement in explanation of the various provisions of the bill as reported by the committee. The form in which the title appears in the amendment recommended by the committee is substantially different, however, from that in which it passed the House, and this is accounted for by the fact that the committee recommendation rewrites section 12B of the Federal Reserve Act (which covers the entire subject of Federal deposit insurance) and includes the provisions of existing law which were not affected by the specific amendments made to various subsections by the House bill. It is believed that the form recommended by the committee is preferable in that all of the provisions of the amended section will be found in one place when the amended section takes effect.

Title II of the House bill has been altered considerably and the differences between the proposals contained in the House bill and in the amendments recommended by the committee will be indicated in the attached statement.

Many of the provisions of title III of the House bill are the same as those contained in the corrresponding sections of the Senate amendment, and the changes that have been made by way of addition or otherwise will also be indicated in the following section-by-section analysis of that title.

TITLE I. FEDERAL DEPOSIT INSURANCE

(The following references in this title are to the various subsections of section 12B of the Federal Reserve Act as it is proposed to be amended by the reported bill.)

Subsection (a): The provisions of existing law which relate to the authority of the Federal Deposit Insurance Corporation to purchase, hold, and liquidate assets of closed national and State member banks are eliminated from this subsection, but the duty and power of the Corporation to insure deposits in banks are provided for, with an inclusive clause added to permit the Corporation to exercise all the powers granted by the provisions of the section.

Subsection (b): To subsection (b) there has been added a provision to make the Acting Comptroller of the Currency a member of the board of directors of the Corporation in the event of a vacancy in the office of the Comptroller and, in the event of a vacancy in the office of chairman of the board of directors, pending the appointment of his successor, the Comptroller of the Currency is required to act as chairman. Provision is further made rendering the Comptroller of the Currency and appointive members of the board of directors ineligible during the time they are in office and for 2 years thereafter to hold any office, position, or employment in any insured bank, but an exception is made in the case of a director who has served the full term for which he was appointed. The directors are further prohibited from being officers or directors of any banking institution, trust company, or Federal Reserve bank and from holding stock in any banking institution or trust company, and are required to certify compliance with such requirements. Members serving at the effective date of the act are excepted from these disabilities and prohibitions.

Subsection (c) defines the following terms, each definition being stated in separate numbered paragraphs: State bank, State member bank, district bank, national member bank, national nonmember bank, mutual savings bank, savings bank, insured bank, new bank, receiver, board of directors, deposit, insured deposit, transferred deposit, and effective date. The definitions are made for the purpose of clarifying the meaning wherever such terms are used throughout the bill. The definitions of the terms "State bank", "national member bank", and "national nonmember bank", and the appropriate use of these terms elsewhere in the act make eligible for insurance banking institutions of the types defined, in Hawaii, Alaska, Puerto Rico, and the Virgin Islands. The bill, as reported, adds "Puerto Rico" and the "Virgin Islands" to the Territories as enumerated in the bill as it passed the House. In defining the term "deposit", the definition contained in the bill as it passed the House has been similarly extended to cover deposits in Puerto Rico and the Virgin Islands and a proviso has been added which makes the insurance of deposits in branches located in Hawaii, Alaska, Puerto Rico, or the Virgin Islands optional. The definition of the term "savings bank" as contained in the bill as it passed the House is altered so as to provide that, in order to come within the definition, banks must subject themselves to regulation by the Corporation prohibiting withdrawal by checking except in cases where such withdrawal is now permitted by law from specifically designated accounts totaling not more than 15 percent of the banks' total deposits.

Subsection (d) incorporates the provisions of the existing law with reference to the capitalization of the Corporation. It strikes out the provisions classifying the stock into "A stock" and "B stock" and eliminates the requirements for banks to subscribe for stock in the Corporation and for the payment of dividends on such stock. It also provides that the stock shall be without nominal or par value and that the consideration received for the capital stock shall be allocated to capital and to surplus.

Subsection (e): In lieu of the requirements of the existing law for application for insurance, for subscription for class A stock of the Corporation by banks, and for certification of member banks as to solvency by the Comptroller of the Currency, in the case of national banks, and by the Board of Governors of the Federal Reserve System (which, under title II of the bill, is the new name for the Federal Reserve Board), in the case of State member banks, it is provided for the continuation of existing insurance on a permanent basis by member banks which are now insured without further application or approval. Member banks subsequently authorized to commence or resume business are to be insured upon certification by the Comptroller of the Currency, in the case of national member banks, and by the Board of Governors of the Federal Reserve System, in the case of State member banks.

Subsection (f): In lieu of the provisions of the existing law with respect to insuring State banks, trust companies, and mutual savings banks pending application for membership in the Federal Reserve System, this subsection of the reported bill provides for continuing the insurance of nonmember banks which are members of the Temporary Federal Deposit Insurance Fund or the Fund for Mutuals. The period for insurance in the Temporary Fund and the Fund for Mutuals expires under the existing law (as extended by S. J. Res. No. 152, approved June 28, 1935) on August 31, 1935, and provision is made that banks now members of the Temporary Fund or the Fund for Mutuals and which may elect not to participate in the permanent plan will be insured only until August 31, 1935. The notice provisions with respect to withdrawal which are contained in the bill as it passed the House are likewise modified accordingly. Further provision is made for admitting to the status of insured banks national nonmember and State nonmember banks which apply for insurance after the date of enactment of the Banking Act of 1935.

Subsection (g) prescribes the contents of the certificate required to support an application by a bank for an insured status. The bill as reported enlarges upon the requirements in the bill as it passed the House by including other factors which are deemed proper for consideration in determining whether the applying bank should be insured. These factors are similar to those which are considered by the Comptroller of the Currency in authorizing national banks to commence business.

Subsection (h) contains the provisions with respect to the obligation of the banks for assessments. The assessment rate is fixed at one-twelfth of 1 percent per annum of the deposit liability of each bank in lieu of one-eighth of 1 percent as contained in the bill as it passed the House. The provision for such assessments is in lieu of the provisions of existing law requiring a subscription by each bank to stock of the Corporation in an amount equal to one-half of 1

percent of the deposit liability of the bank with an added liability for such future assessments as may be needed to meet losses. Semi-annual assessments are provided for by applying one-half the annual rate to the average deposit liability after deducting "float" or uncollected items which may have been credited to deposit accounts. The insured banks are not liable beyond the assessments specifically provided for. The Corporation is authorized to set up a special fund for mutual savings banks and, in the event such fund be set up, a lower rate is permissible for such banks, if in the discretion of the board of directors it is justified.

Provision is made for automatically terminating the assessments upon the banks when the value of the assets of the Corporation, as shown by its books, exceeds its liabilities by $500,000,000 or more, and for resuming the assessments when such assets do not exceed $425,000,000. There was no corresponding provision in the bill as it passed the House.

A provision is also included for crediting to assessment payments the refunds which will be due to the banks which are members of the Temporary Fund or the Fund for Mutuals. Remedies for collection are also outlined and suitable penalties for noncompliance are prescribed. The inclusion of provisions with respect to automatic termination of liability of the banks for assessments when the Corporation reaches the prescribed asset position and with respect to the method of determining the average deposits for the purpose of applying the rate made it necessary to rewrite the assessment provisions contained in the bill as it passed the House.

Provision is also made in this subsection for the insurance of uninvested trust funds.

Subsection (i): In lieu of the provisions of the existing law governing the cancelation of the class A stock of banks which became insolvent or ceased to be members of the Federal Reserve System, this subsection deals with the subject of the termination of insurance of an insured bank.

The right of voluntary withdrawal from insurance is given only to nonmember banks, which must give 90 days' notice to the Corporation.

The insured status of member and nonmember banks may be terminated by the board of directors of the Corporation for cause, which includes continuation of unsafe or unsound practices in conducting the business of the bank or repeated violation of any provision of law to which the bank is subject.

Before the board of directors of the Corporation may proceed to terminate the insurance of any bank, it must give notice of the violations complained of to the authority having supervision of the bank, including the Board of Governors of the Federal Reserve System, in the case of State member banks, for the purpose of securing a correction of the practices complained of where possible. A period of 120 days is allowed for correcting such practices, and unless the correction is effected within this period, the board of directors of the Corporation gives 30 days' notice to the bank, fixing a time and place for a hearing. At the hearing the bank may appear and present evidence. If the board of directors of the Corporation finds the charges to be sustained, it may order the insured status of the bank terminated. Notice of termination is required to be given to depositors. Instead of requiring banks to give notice of the termination of insurance to "its depositors" as in the bill as it passed the House, banks are

required to give notice to each depositor at his last address of record on the books of the bank.

For a period of 2 years after the termination of the insured status of any bank, its old deposits continue to be insured, and the bank is required to pay assessments and otherwise to be subject to the obligations of an insured bank for such period.

Whenever the insured status of a member bank is terminated, the Board of Governors of the Federal Reserve System is required to terminate its membership in the Federal Reserve System. This corresponds to the provision in the present law which is applicable to member banks which do not purchase class A stock of the Corporation.

Provision is also made for termination of the insured status of a bank which sells its assets to another bank which assumes its liabilities, upon satisfying the Corporation that its liabilities have been so assumed and upon giving notice to its depositors. Insurance of its deposits terminates at the end of 6 months from the date such assumption takes effect.

Subsection (j): The existing provisions of this subsection (relating to the powers of the Corporation) are not amended or revised. However, new matter is added giving jurisdiction, in the case of suits of a civil nature to which the Corporation is a party, to courts having jurisdiction of suits arising under the laws of the United States. It is provided that any suit to which the Corporation is a party in its capacity as receiver of a State bank and which involves only rights to be determined according to State laws shall not be deemed to arise under the laws of the United States. Provisions are also included relieving the Corporation from attachment and execution before final judgment and for appointment of agents in various jurisdictions upon whom service of process may be made. The powers to make examinations and to act as receiver are also given to the Corporation, and the provisions relating to the authority of the Corporation to make rules and regulations necessary to carry out provisions of the act are transferred from subsection (l) of the existing law to this subsection.

Subsection (k): Subsection (k) of the existing law is retained. It provides for the management of the Corporation by the board of directors and makes the facilities of certain governmental departments available. A new paragraph is added providing for the appointment of examiners and claim agents and fixing their powers. This provision is substantially similar to section 5240 of the Revised Statutes which deals with the appointment of national-bank examiners. The number of examinations to be made is left to the discretion of the board of directors. The right of examination is confined to nonmember banks, except that where some special purpose may require, the examiners of the Corporation may examine national or State member banks with the approval of the Comptroller of the Currency or the Board of Governors of the Federal Reserve System.

Nonmember banks are required to make reports of condition to the Corporation on call. Such reports must be published, and a penalty is prescribed for failure to make or publish the reports.

Subsection (l): This subsection contains provisions dealing with the obligation of the Corporation to depositors of closed insured banks and much of the substance of the existing law is retained.

The subsection provides for consolidating the present Temporary Federal Deposit Insurance Fund and the Fund for Mutuals into the

permanent insurance fund without prejudice to the rights acquired under the present law. It provides that the Corporation shall insure the deposits of all insured banks from the effective date of the act. A new provision is added, which was not contained in the bill as it passed the House, limiting the insurance coverage to unrestricted deposits, unless restrictions or deferments be modified with the consent of the Corporation.

The maximum amount of the insured deposit of any depositor is fixed at $5,000.

It is also provided that an insured bank shall be deemed to be closed on account of inability to meet the demands of its depositors in any case where it is closed for liquidation without adequate provision for payment of its depositors. The language used in the existing law fixing the obligation of the Corporation to pay is closely followed in view of the fact that a number of States have enacted legislation recognizing the subrogation rights of the Corporation predicated upon such language.

The existing law is also followed in providing for the appointment of the Corporation as receiver of insured national banks, and insured member banks of the Federal Reserve System located in the District of Columbia, which are closed on account of inability to meet the demands of their depositors.

It is further provided that the Corporation may pay the insured deposits of the closed insured bank either (1) by making available a transferred deposit of an equivalent amount in a new national bank or another insured bank; or (2) in accordance with any other procedure adopted by the board of directors of the Corporation. This provision is more flexible than the existing law which does not permit payment otherwise than by organizing a new national bank. The Corporation is given the right to require the final determination of a court of competent jurisdiction as to the validity of a claim where it is not satisfied that the same should be allowed and paid.

The right of the Corporation to be subrogated to the rights of depositors paid by it is also expressed. In the existing law the Corporation is subrogated to the entire claim of a depositor having more than $5,000 on deposit, and it is given the right to collect dividends up to $5,000, after which the residue is paid over to the depositor. Under the proposed amendment to the law, the subrogation right of the Corporation would extend only to that portion of the deposits paid by it.

The bill also makes the organization of a new national bank optional with the Corporation instead of mandatory, as in existing law. It is required to be organized only where it is advisable and in the interest of the depositors in the closed bank or the public. The provisions dealing with the manner of organizing the new bank and limiting the character of business which may be transacted by it are substantially a restatement of the existing law. They differ, however, in the following respects: (*a*) The new bank is given the right to invest in securities guaranteed by the United States; (*b*) the new bank may be permitted to transact other business than that specified in the statute if authorized by the Comptroller of the Currency; and (*c*) the new bank, while uncapitalized, is expressly exempted from all taxation.

Administrative provisions are incorporated in this subsection governing the payment of insured deposits and expenses of the new bank after its organization.

The provisions of the existing law authorizing the Corporation to sell the capital stock of the new bank are retained in substance.

Authority is given for moving the place of business of the new banks to central locations or to Washington, D. C., for the purpose of winding up their affairs, and a procedure is outlined for terminating the corporate existence of the banks where they are not capitalized.

Subsection (m): This subsection contains provisions to facilitate the administration of receiverships where the Corporation is receiver, and to relieve the Corporation of its liability as insurer where payment is made, and where claims for payment are not made, within 18 months. The Corporation is also protected against added liability where a depositor attempts to assign portions of his account to other persons in order to secure greater protection than $5,000, and it is authorized to withhold such amounts as may be necessary to satisfy claims for stockholder's liability and any other liability of a depositor to the bank which is not subject to offset.

Subsection (n): This subsection contains the provisions of the existing law relating to investment of moneys of the Corporation which were formerly contained in the last paragraph of subsection (l). The existing law is changed only to the extent of allowing the moneys of the Corporation to be invested in securities guaranteed as to principal and interest by the Government of the United States, as well as in securities of the Government of the United States. The subsection also contains the provisions of the old subsection (m) which provided that the Corporation should not be prevented from making loans to closed national or State member banks or from entering into negotiations to secure the reopening of such banks. It also contains subsection (n) of the existing law, amended so as to extend the authority and powers of the Corporation with reference to loans upon and purchase of assets to all insured banks, rather than to member banks only.

A new provision is added giving the Corporation the right, until July 1, 1936, to make loans or purchase assets when such action will reduce the risk or avert a threatened loss to the Corporation and facilitate a merger or consolidation of insured banks. The Corporation may, for the same purpose, guarantee against loss other banks which assume the liabilities and purchase the assets of insured banks.

Subsection (o): Paragraph (1) of this subsection corresponds to subsection (o) of the existing law which relates to the issuance of notes, debentures, bonds, and other obligations of the Corporation. However, since the class A stock of the Corporation has been eliminated by the provisions of the bill, the limitation upon the aggregate amount of such obligations that may be outstanding at any one time is now fixed at three times the amounts received by the Corporation in payment of its capital stock and the first two semiannual assessments upon insured banks, instead of at three times the capital of the Corporation.

The provisions contained in the bill as it passed the House which authorized a Government guaranty of such of the obligations of the Corporation as might be issued with the approval of the Secretary of the Treasury have been eliminated by the committee.

Paragraph (2) of this subsection authorizes the Secretary of the Treasury in his discretion to purchase any of the obligations of the Corporation. In addition, it is provided that if the Reconstruction Finance Corporation should fail for any reason to purchase obligations of the Federal Deposit Insurance Corporation, which it is required to

purchase, the Secretary of the Treasury is authorized and directed to purchase an amount equal thereto. The latter provision was not contained in the bill as it passed the House.

The direction to the Secretary of the Treasury to market the obligations of the Corporation at its request, which was contained in the bill as it passed the House, has been eliminated by the committee.

Subsections (p), (q), and (r) of the existing law are incorporated in the section as rewritten without change in any respect. These subsections provide for the exemption from taxation of the obligations of the Corporation and of its franchises, etc., authorize the Secretary of the Treasury to prepare suitable forms of notes, debentures, bonds, or other obligations which the Corporation may need, and prescribe the duty of the Corporation to make an annual report to Congress of its operations.

Subsection (s) of the existing law, which prescribes penalties for fraudulent impositions upon the Corporation is amended to cover false representations for the purpose of obtaining payment of insured deposits or other claims.

Subsections (t) and (u) are incorporated in the revised section 12B without amendment. These are likewise penal provisions protecting against forgeries, counterfeiting, embezzlements, false entries, theft, and the like.

Subsection (v): The existing subsection (v) prohibits unauthorized use of the words "Federal Deposit Insurance Corporation" and prohibits false advertisements of insurance. The subsection is amended by substituting for "class A stockholder" the term "insured bank." To the existing requirement that every insured bank shall display signs indicating that its deposits are insured is added the requirement that the bank shall include a statement to like effect in advertisements relating to deposits.

The provision of subsection (l) of existing law which prescribes the penalties incurred by directors or officers who participate in the declaration of dividends while a bank is in default in the payment of an assessment due the Corporation and which was omitted from the bill as it passed the House has been restored and added to this subsection.

The consent of the Corporation is required where a State nonmember insured bank consolidates or merges with a noninsured bank, and also where such an insured bank reduces the amount of or retires any part of its common or preferred capital stock or retires any part of its capital notes or debentures. The consent of the Corporation is also required for such an insured bank to establish or operate any branch or to move a branch from one location to another.

It is also provided that the Corporation may require insured banks to maintain adequate protection against burglary, defalcation, and other similar insurable losses.

The Corporation is also given the right to publish any part of a report of examination, after 90 days' notice to the bank, which relates to recommendations of the Corporation that are not complied with after 120 days have elapsed from the time the bank is given written notice of such recommendations. In the bill as it passed the House it was provided that any part of such a report might be published.

Under the bill as it passed the House, the board of directors was authorized to regulate the rates of interest payable on deposits in insured banks which are not members of the Federal Reserve System.

This would have subjected insured nonmember banks to regulations promulgated by the Federal Deposit Insurance Corporation on principles similar to the regulations prescribed by the Federal Reserve Board governing member banks. The committee has eliminated this provision and substituted therefor a provision making such banks subject to all the provisions of the Federal Reserve Act and regulations thereunder relating to the withdrawal and payment of deposits, and interest on deposits, which are applicable to member banks. Exceptions are made, however, in the case of savings banks, mutual savings banks, and Morris Plan banks.

Subsections (w) and (x) of the existing law are not changed in any respect. They make applicable to contracts or agreements with the Corporation certain enumerated provisions of the Criminal Code and extend to the Corporation the facilities of the secret service division of the Treasury Department.

Subsection (y) of the existing law which relates to the Temporary Federal Deposit Insurance Fund and the Fund for Mutuals (except the last paragraph) is eliminated. Subsection (y) of the reported bill requires that every State bank organized after the date of enactment of the Banking Act of 1935 must become a member of the Federal Reserve System by July 1, 1937, in order to be an insured bank or to continue to have its deposits insured. It is also provided that any State bank organized on or before the effective date of the Act and which shall have average deposits of $1,000,000 or more during the calendar year 1936 or any succeeding calendar year shall be required to become a member of the Federal Reserve System or cease to have its deposits insured after July 1 of the year following any such calendar year during which it shall have had such amount of average deposits. Exceptions are made in the case of savings banks, mutual savings banks, Morris Plan banks or other incorporated banking institutions engaged only in a business similar to that transacted by Morris Plan banks, State trust companies doing no commercial banking business, and banks located in Hawaii, Alaska, Puerto Rico, and the Virgin Islands. There was no such restriction in the bill as it passed the House with respect to eligibility for insurance after July 1, 1937, in the case of nonmember State banks.

The existing provisions of the last paragraph of subsection (y) which declare that it is not the purpose of the section to discriminate in favor of national or member banks but to provide all banks with the same opportunity to obtain and enjoy the benefits of the section are retained.

Subsection (z) contains a separability clause which is applicable to the provisions of the section limiting the amount of insurance that may be obtained by any depositor in an insured bank. When the broad purposes of the section are considered, namely, the insurance of bank deposits, it is seen that the limitation upon the amount of insurance is not an essential feature, and it is deemed appropriate to declare that the provisions imposing such limitation are subservient to the general plan of insurance and not an indispensable part of it.

TITLE II—AMENDMENTS TO THE FEDERAL RESERVE ACT

Section 201 of the bill as it passed the House amended section 4 of the Federal Reserve Act so as to combine the offices of chairman of the board of directors and Governor of the Federal Reserve banks

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and to provide for the appointment of the Governor to be made annually by the directors of each bank subject to approval every 3 years by the Federal Reserve Board. The Governor would be the chief executive officer of the bank, chairman of its board of directors and a class C director. The Vice Governor would be Governor in his absence. It was also provided that the offices of Federal Reserve agent and assistant Federal Reserve agent would be abolished and that all duties prescribed by law for the Federal Reserve agent would be performed by the Governor of the bank or such person as he might designate. This section of the bill as it passed the House has been eliminated by the committee.

Section 201 of the bill as reported by the committee amends the provisions of section 4 of the Federal Reserve Act relating to appointment of officers and employees of the Federal Reserve banks so as to provide for the appointment of a president and vice president for each such bank. It is provided that the president shall be the chief executive officer of the bank and shall be appointed by the board of directors with the approval of the Board of Governors of the Federal Reserve System (which under section 202 of the bill as reported is the new name for the Federal Reserve Board) for a term of 5 years, and all other executive officers and all employees of the bank are to be directly responsible to him. The vice president of the bank is to be appointed in the same manner and for the same term as the president and is to serve as chief executive officer of the bank in the absence or disability of the president or during a vacancy in the office of president. Whenever a vacancy occurs in either office it is to be filled in the same manner as provided for in the case of original appointments and the person so appointed is to hold office until the expiration of the term of his predecessor.

Section 202 of the bill as it passed the House contained a provision authorizing the Federal Reserve Board to waive in whole or in part the requirements of section 9 of the Federal Reserve Act relating to admission to membership of any nonmember bank, which at the time of its application for membership is insured by the Federal Deposit Insurance Corporation under section 12B of the Federal Reserve Act. The purpose of this provision was to facilitate the admission of small banks into the Federal Reserve System, but since banks with average deposits of less than $1,000,000 are not required, under title I of the bill as reported by the committee, to become members of the Federal Reserve System in order to continue their status as insured banks after July 1, 1937, this section has been omitted by the committee.

Section 203 of the bill as it passed the House changed the qualifications of members of the Federal Reserve Board by striking out the requirement of existing law that in selecting such members the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests and geographical divisions of the country, and substituting a requirement that they should be well qualified by education or experience, or both, to participate in the formulation of nationa' economic and monetary policies. The requirement of existing law that not more than one member of the Board should be selected from any one Federal Reserve district, was preserved for all appointive members of the Board except the governor. It was also provided that the governor and vice governor

of the Board should serve as such until the further order of the President, and that if the governor's designation as such be terminated he might continue to serve as a member of the Board for the remainder of his term. This section of the bill as it passed the House was eliminated in view of the changes in the organization and membership of the Board provided for in section 202 as reported.

Section 202 of the bill as reported by the committee provides for changing the name of the Federal Reserve Board to the Board of Governors of the Federal Reserve System, and for changing the name of the governor and vice governor of the Federal Reserve Board to chairman and vice chairman, respectively. It is provided that the Board of Governors of the Federal Reserve System shall be composed of seven members to be appointed by the President, by and with the advice and consent of the Senate, after the date of enactment of the act, for terms of 14 years, but that the present appointive members of the Federal Reserve Board and the Secretary of the Treasury and the Comptroller of the Currency may continue to serve as such members for not longer than 90 days after such date. The provision of existing law with respect to qualifications of members of the new Board is retained, namely, that the President shall have due regard for a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country, and a further requirement is added that at least two of such members shall be persons of tested banking experience. The annual salary of members of the Board is fixed at $15,000, and it is provided that not more than four of the members of the Board shall be members of the same political party. The successors to the present members of the Board are to be appointed in such manner that the term of not more than one member will expire in any 2-year period, and their successors will hold office for a term of 14 years, unless sooner removed for cause by the President. The President is also to designate the chairman and vice chairman of the Board to serve as such for terms of 4 years. It is also provided that any person appointed as a member of the Board after the date of enactment of the act shall not be eligible for reappointment as such member after he shall have served a full term of 14 years.

A provision is also included in this section providing that the Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and the Federal Open Market Committee upon all questions of policy relating to open-market operations, together with the votes taken and the reasons underlying the action of the Board and the Committee in each instance. A similar record is to be kept by the Board with respect to all questions of policy determined by it, and a copy of such records is to be included in the annual report of the Board to the Congress.

Section 203 of the bill as reported reenacts and makes permanent law the provisions of section 10b of the Federal Reserve Act which expired on March 3, 1935, and which will enable any member bank that has no eligible and acceptable assets to enable it to obtain adequate credit accommodations through rediscounting at a Federal Reserve bank, or any other method provided by the Federal Reserve Act (other than that provided by sec. 10 (a)), to apply to the Federal Reserve bank, under rules and regulations prescribed by the Board, for advances on its time or demand notes secured to the satisfaction

of the bank. The provision that each such note shall bear interest at a rate not less than 1 percent per annum higher than the highest discount rate in effect at the Federal Reserve bank at the date of the note, is also retained, but the limitation of existing law that such advances may be made only "in exceptional and exigent circumstances" is eliminated.

Section 204 of the bill as it passed the House authorized the Federal Reserve Board to assign to designated members of the Board or its representatives under rules and regulations prescribed by the Board the performance of specific duties and functions, not including, however, the determination of any national or System policies, or any power to make rules and regulations, or any power which is required to be exercised by specified members of the Board.

There was also a provision in this section stating that it shall be the duty of the Board to exercise its powers

in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration.

These provisions have been omitted from the bill reported by the committee.

Section 205 of the bill as it passed the House provided for an Open Market Advisory Committee, consisting of five representatives of the Federal Reserve banks, to take the place of the Federal Open Market Committee provided for in existing law. The Advisory Committee was authorized to consult and advise with and make recommendations to the Federal Reserve Board. It had no vote in determining open-market policies, but the Board was required to consult the Committee before making any changes on its own initiative in open-market policies, in rates of interest and discount to be charged by Federal Reserve banks, or in the reserve balances required to be maintained by member banks. In lieu of this provision, the committee in section 204 of the reported bill amends existing law so as to provide for a Federal Open Market Committee, consisting of the members of the Board of Governors of the Federal Reserve System, and five representatives of the Federal Reserve banks to be selected annually. Four of such representatives are to be elected by the boards of directors of the Federal Reserve banks by regions, that is to say, 1 to represent the Boston, New York, and Philadelphia banks, 1 to represent the Cleveland, Chicago, and St. Louis banks, 1 to represent the Richmond, Atlanta, and Dallas banks, and 1 to represent the Minneapolis, Kansas City, and San Francisco banks. The fifth representative, who is to be chosen from the country at large, is to be elected annually by the presidents of the 12 Federal Reserve banks. An alternate to serve in the absence of each such representative is to be elected annually in the same manner.

It is provided that no Federal Reserve bank shall engage or decline to engage in open-market operations under section 14 of the Federal Reserve Act, except in accordance with regulations adopted by the Committee. The provision of existing law which allowed a Federal Reserve bank to decline to participate in open-market operations recommended and approved by the Committee, upon filing a notice of its decision within 30 days, is eliminated. The provision of existing law is retained which states that the time, character, and volume of all

purchases and sales of paper described in section 14 of the Federal Reserve Act as eligible for open-market operations, shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

The provision of section 206 of the bill as it passed the House providing that upon the endorsement of any member bank, subject to such regulations as to maturities and other matters as the Federal Reserve Board might prescribe, any Federal Reserve bank might discount any commercial, agricultural, or industrial paper and make advances to such bank on its promissory notes secured by any sound assets of the bank, is eliminated.

Section 207 of the bill as it passed the House amended section 14 of the Federal Reserve Act, so as to make eligible for purchase by Federal Reserve banks without regard to maturities direct obligations of the United States or obligations which are fully guaranteed by the United States as to principal and interest. This provision has been modified by secton 205 of the reported bill so as to provide that direct obligations of the United States and such guaranteed obligations may be purchased only in the open market. Section 205 also amends existing law with respect to rates of discount to be established by the Federal Reserve banks, providing that such rate shall be established every 14 days or oftener if deemed necessary by the Board of Governors of the Federal Reserve System.

Section 208 of the bill as it passed the House amended section 16 of the Federal Reserve Act so as to repeal the requirements that Federal Reserve notes be secured at all times by the specific pledge of collateral, and it also eliminated the provision of existing law prohibiting a Federal Reserve bank from paying out the notes of any such bank and made certain technical changes with respect to issue, redemption, and retirement of Federal Reserve notes. It was provided that such notes should be obligations of the United States and legal tender for all purposes, should be secured by a first and paramount lien on all the assets of the issuing bank, and should be issued and retired under such rules and regulations as the Federal Reserve Board might prescribe. This provision of the bill has been omitted by the committee.

Section 209 of the bill as it passed the House authorized the Federal Reserve Board, in order to prevent injurious credit expansion or contraction, to change by regulation the requirements as to reserves to be maintained against demand or time deposits or both by member banks in reserve and central reserve cities or by member banks not in reserve or central reserve cities or by all member banks. This provision has been modified by section 206 of the bill as reported by the committee so as to provide that the power to change the requirements as to reserves be conditioned upon an affirmative vote of not less than five members of the Board of Governors of the Federal Reserve System, and a limitation has been added that the amount of the statutory reserves required to be maintained under existing law may not be decreased, nor increased to more than twice such amount.

Section 210 of the bill as it passed the House amended section 24 of the Federal Reserve Act so as to provide that the conditions under which real-estate loans might be made by national banks would be prescribed by regulations of the Federal Reserve Board, with the limitations that the amount of any such loan hereafter made should not exceed 60 percent of the appraised value of the real estate at the

time the loan is made and that the aggregate amount of such loans by any such bank should not exceed the capital and surplus of the bank, or 60 percent of its time and savings deposits, whichever is the greater.

Section 207 of the bill reported by the committee retains the limitation of existing law that real-estate loans by national banks should be limited to those upon properties situated within the Federal Reserve district of such bank or within a radius of 100 miles of the place in which the association is located, irrespective of district lines. It is further provided that any such loan hereafter made should not exceed 50 percent of the appraised value of the real estate offered as security and that no such loan should be made for a longer term than 5 years, except that any such loan may be made in an amount not to exceed 60 percent of the appraised value of the real estate and for a term not longer than 10 years if the loan is secured by an amortized mortgage under the terms of which the installment payments are sufficient to amortize 50 percent or more of the principal of the loan within a period of not more than 10 years. Renewals or extensions of loans heretofore made and real estate loans which are insured under the provisions of title II of the National Housing Act are exempted under both the House and Senate provisions. The provisions authorizing the Federal Reserve Board to prescribe the conditions under which such loans might be made have been eliminated, but the committee retained the provision of the bill as it passed the House with respect to the aggregate amount of real-estate loans which might be made by any such bank.

Section 208 of the bill reported by the committee fixes the salary of the Comptroller of the Currency at $12,000 a year and removes the provision of existing law which provides that his appointment be made upon the recommendation of the Secretary of the Treasury. Under existing law the salary of the Comptroller is $12,000, but he receives $7,000 of this amount by reason of his being a member of the Federal Reserve Board.

TITLE III.—TECHNICAL AMENDMENTS TO THE BANKING LAWS

Section 301 amends section 2 (c) of the Banking Act of 1933 so as to exclude from the definition of a "holding company affiliate", and from the provisions of law relative to such affiliates (except the provisions of section 23A of the Federal Reserve Act covering loans to and investments in the securities of holding company affiliates), any corporation all of the stock of which is owned by the United States and any organization which the Board of Governors of the Federal Reserve System (which, under title II of the bill, is the new name for the Federal Reserve Board) determines is not engaged as a business in holding the stock of, managing, or controlling banks. Experience in administering the present law has revealed instances of a bank being controlled by an organization, such as a church, labor union, charitable foundation, etc., the principal activities of which are entirely outside the banking field. The effect of the amendment is to relieve such organizations from the limitations and requirements to which holding companies engaged as a business in controlling banks are subject.

Section 302 amends section 20 of the Banking Act of 1933 so as to eliminate the necessity of a bank going through the formality of divorcing a securities affiliate in those cases where the securities

affiliate is in formal liquidation and transacts no business other than that incidental to liquidation.

Section 303 (a) amends section 21 (a) (1) of the Banking Act of 1933 so as to provide that it should not be construed as prohibiting banks, bankers, or financial institutions from engaging in securities activities within the limits expressly permitted in the case of national banks under section 5136 of the Revised Statutes. It is further provided that this paragraph shall not be construed as limiting such rights as banks may otherwise possess to sell obligations evidencing loans on real estate without recourse or obligation to repurchase.

Section 303 (b) of the House bill repealed section 21 (a) (2) of the Banking Act of 1933 which prohibits any person or organization not subject to examination and regulation under State or Federal law from engaging in the business of receiving deposits unless such person or organization submits to the examination by the Comptroller of the Currency or by a Federal Reserve bank. Instead of repealing this paragraph, the committee recommends that it be amended so as to prohibit any person or organization from engaging in the business of receiving deposits with others than his or its own officers, agents, or employees unless such person or organization is incorporated under and authorized to engage in such business by Federal or State law, or is permitted to engage in such business by any State, Territory, or District and is subject under the laws thereof to examination and regulation, or submits to examination by the banking authorities of the State, Territory, or District where the business is conducted and makes and publishes periodic reports of condition under the same conditions as required by local law of an incorporated banking institution. It has been deemed advisable to retain the prohibition on unregulated private banking so far as practicable and at the same time to relieve the Comptroller of the Currency and the Federal Reserve banks of many problems which have made the administration of the law highly burdensome. Furthermore, as a result of the amendment it will no longer be possible for such institutions to advertise that they are subject to Federal examination, which has a tendency to deceive the public into thinking that such institutions are also subject to Federal supervisory regulation and control.

Section 304: Under section 22 of the Banking Act of 1933 double liability of stockholders in national banks was abolished as to stock issued after June 16, 1933. This section amends section 22 to eliminate all double liability on stock issued prior to June 16, 1933, such liability to terminate on July 1, 1937, as to banks then in active operation, provided the bank in question publishes notice of such termination of liability not less than 6 months prior to such date.

Section 305 amends paragraph (c) of section 5155 of the Revised Statutes so as to permit national banks to operate a seasonal agency in a resort community within the county in which the bank has its main office, if there is no bank located or doing business in such resort, and if State banks are permitted by the laws of the State to maintain branches within county limits. The authority thus granted is to be revoked upon the opening of a State or national bank in the community in question. Exemption is given from the capital requirements otherwise provided by paragraph (c) for the operation of branches where the branch in question is of the seasonal resort type.

Section 306 remedies a defect in the act of June 16, 1934, which relieved directors of member banks from the additional stock ownership requirements imposed by section 31 of the Banking Act of 1933 and under which national banks in Alaska and Hawaii which are not members of the Federal Reserve System were accidentally excluded from the benefit of this repeal.

Section 307 amends section 32 of the Banking Act of 1933, effective January 1, 1936, to authorize the Board of Governors of the Federal Reserve System to permit interlocking relationships between member banks and securities companies otherwise prohibited by such section 32, such authorization to be by general regulation in those cases where the Board determines the relationship would not unduly influence the investment policies of the bank or the advice it gives its customers regarding investments. Under existing law, the Federal Reserve Board is authorized to permit such relationships only by individual permits rather than by general regulation and by issuance of such permits in those cases deemed not incompatible with the public interest. The amendment extends the prohibitions on such interlocking relationships to employees of securities companies and banks, to individuals engaged in the securities business, and to officers, directors, etc., of institutions engaged in such business. The prohibition of existing law against "correspondent relationships" is eliminated.

Section 308 (a) amends section 5136 of the Revised Statutes (relating to purchasing and holding investment securities by national banks) so as to eliminate the existing limitation against purchasing and holding more than 10 percent of a particular issue of securities, and it also changes the limitation against a bank purchasing and holding securities of any one obligor in excess of 15 percent of capital and 25 percent of surplus so as to reduce said limitation to 10 percent of each. This reduction of limitation is not to apply to securities lawfully held in excess of this amount when the act takes effect. An additional amendment to this section which was not incorporated in the House bill would permit national banks under regulations by the Comptroller of the Currency to underwrite and sell bonds, debentures, and notes, such sales to be limited to sales on a national securities exchange or directly to dealers or brokers (other than banks) registered with the Securities Exchange Commission, or at public auction or otherwise as may be prescribed by the Comptroller of the Currency. Such underwriting is limited to 20 percent of any one issue, or $100,000, whichever is the greater, and is further limited as to the total obligations of any one issuer to 10 percent of the bank's capital and surplus. The aggregate of all underwriting engagements is limited to twice the bank's capital and surplus. While these amendments are specifically made to the law relating to the powers of national banks, they also affect private bankers, and all State banks whether or not they are members of the Federal Reserve System. The provisions of section 9 of the Federal Reserve Act subject State member banks to the same limitations and conditions as to purchase, sale, underwriting, and holding of investment securities as are applicable to national banks, and private bankers and State banks are relieved from the operation of section 21 (a) (1) of the Banking Act of 1933 to the extent that their securities operations are permitted in the case of national banks.

Section 308 (b) merely clarifies section 5136 of the Revised Statutes so as to provide that national banks (and consequently member banks) may not buy and sell stocks for their own account.

Section 308 (c) includes within the group of securities that may be dealt in by member banks free from the restrictions of section 5136 of the Revised Statutes, obligations insured by the Federal Housing Administrator if debentures guaranteed by the United States as to principal and interest are to be issued in payment of such insured obligations.

Section 309 amends section 5138 of the Revised Statutes to require a newly organized national bank to have a paid-in surplus equal to 20 percent of its capital, thus expressly providing by law a condition which has long been imposed by the Comptroller of the Currency. This requirement may be waived by the Comptroller as to a State bank converting into a national bank. An additional condition not embraced in the House bill has been added to the effect that any such converting State bank shall carry not less than one-half of its net profits for the preceding half year to its surplus fund before declaring dividends, until its surplus equals 20 percent of its capital. Further provision is made for giving any such bank credit as surplus for amounts paid into a preferred stock retirement fund.

Section 310 (a) amends the provisions of section 5139 of the Revised Statutes which provide that stock certificates of national banks may not represent the stock of any other corporation except a member bank or a corporation engaged solely in holding the bank premises of the association, so as to provide that such certificate may not bear any statement purporting to represent the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934, in holding the bank premises. This amendment differs from the provision in the House bill in that it exempts corporations engaged in holding the bank premises on June 16, 1934, whereas the House provision limits the exception to a corporation primarily engaged in holding such premises. ~~It is further provided that the law shall not operate to prevent the ownership, sale, and transfer of stock of other corporations being conditioned upon the ownership, sale, and transfer of national-bank stock.~~

Section 310 (b) adds a provision not incorporated in the House bill which amends section 9 of the Federal Reserve Act and makes the same changes in the law relative to stock certificates of State member banks as was made by section 310 (a) as to stock certificates of national banks.

Section 311 (a) revises the first paragraph of section 5144 of the Revised Statutes so as to eliminate any question as to the voting rights of the Reconstruction Finance Corporation or other holders of preferred stock of national banks being limited to one vote per share where under the terms of the articles of association under which such preferred stock was issued a stockholder is entitled to more than one vote per share. It also changes the present prohibition against voting of shares of bank stock held by a national bank as sole trustee so as to limit such prohibition only to the election of directors, and it permits such shares to be voted in any case where, under the terms of the trust, the donor or beneficiary may and does direct how such shares shall be voted. It also permits shares held by a holding-company

affiliate to be voted without a permit, in favor of placing the bank in voluntary liquidation or taking other action pertaining to voluntary liquidation.

Section 311 (b) amends said section 5144 so as to clearly indicate that when a holding-company affiliate obtains a voting permit it is entitled to the cumulative voting rights possessed by other shareholders. The amendment further eliminates any question as to the power of the Board of Governors of the Federal Reserve System to issue limited, as distinguished from general, voting permits.

Section 311 (c) was not included in the House bill. It amends section 5144 of the Revised Statutes by relieving a holding-company affiliate, to the extent that the shares of bank stock owned by it are not subject to statutory liability, from the requirements of subsection (b) of section 5144 which requires a holding-company affiliate to maintain and possess readily marketable assets other than bank stock in an amount not less than 12 percent of the aggregate par value of all such stock controlled by the affiliate, and requires it to increase such amount by 2 percent per annum until such amount equals 25 percent of the par value of such bank stock. In lieu of the foregoing requirement, any such holding-company affiliate, to the extent that the shares of bank stock held by it are not subject to statutory liability, is only required to maintain a reserve out of net earnings above 6 percent of such readily marketable assets in an amount equal to 12 percent of the par value of bank stocks controlled by it.

Section 312 amends section 5154 of the Revised Statutes to permit the Comptroller of the Currency to allow a State bank converting into a national bank to retain and carry at a value determined by him such assets of the bank as do not conform to the legal requirements governing assets which may be acquired and held by a national bank.

Section 313 authorizes the Comptroller of the Currency to designate persons in his place and stead to countersign his name on such assignments and transfers of bonds as require his countersignature.

Section 314 amends section 5197 of the Revised Statutes to permit national-bank branches located outside the United States to charge the rate of interest permitted under local law.

Section 315 amends section 5199 of the Revised Statutes to provide that national banks shall carry not less than one-tenth part of their net profits of the preceding half year to surplus before the declaration of a dividend until the surplus is built up to equal the amount of the common capital. The existing law only requires the surplus to be built up to an amount equal to 20 percent of the bank's capital before declaring a dividend. This amendment is deemed essential inasmuch as provision elsewhere in the bill has been made for elimination of assessment liability on shareholders. An additional provision not contained in the House bill allows a national bank to treat as an addition to its surplus fund amounts paid into its preferred-stock retirement fund.

Section 316 extends the criminal provisions of section 5209 of the Revised Statutes as to embezzlement, false entries, etc., so as to apply to officers, directors, and employees of insured nonmember banks.

Section 317 amplifies section 5220 of the Revised Statutes to make definite provision for the procedure to be followed in the case of voluntary liquidation of national banks, permitting the Comptroller

of the Currency to examine the affairs of such liquidating bank and making its liquidating agent subject to removal by the shareholders of the bank.

Section 318 extends the present prohibitions of section 5243 of the Revised Statutes against improper use of the word "national" to include a combination of such word with other words or syllables, and brings the improper use of the word "Federal" and the words "United States" within the same prohibitions of the statute.

Sections 319 (a) and (b) amend section 5 of the Federal Reserve Act by requiring banks to reduce their holdings of Federal Reserve stock upon reducing their surplus, as they are now required to do by existing law upon reducing their capital. Sections 5 and 6 of the Federal Reserve Act are also amended so as to eliminate the present useless formality of Federal Reserve banks executing a certificate to the Comptroller of the Currency showing increase or decrease in the capital stock of Federal Reserve banks. Since such changes in capital are now approved by the Federal Reserve Board before the change is made, the filing of such certificates serves no useful purpose.

Section 320 amends section 9 of the Federal Reserve Act to authorize the Board of Governors of the Federal Reserve System to prescribe the form for reports of condition of State member banks and the information to be contained therein. It further requires the reporting banks to publish such reports in such manner and in accordance with such regulations as may be prescribed by the Board of Governors of the Federal Reserve System.

Section 321 (a) amends section 11 (m) of the Federal Reserve Act to extend to State member banks the provisions applicable to national banks which enlarges the maximum limitation on loans to one individual from 10 percent of the bank's unimpaired capital and surplus to 25 percent thereof, where such loans are secured by bonds, notes, certificates, or Treasury bills of the United States, or secured by obligations fully guaranteed as to principal and interest by the United States. The provisions with respect to such guaranteed obligations were not included in the House bill.

Section 321 (b) amends paragraph 8 of section 5200 of the Revised Statutes so as to provide a maximum limit of 25 percent instead of 10 percent of the bank's capital and surplus on loans secured by various obligations of the United States. The amendment adds to such obligations, Treasury bills of the United States and obligations fully guaranteed both as to principal and interest by the United States. The provisions with respect to such guaranteed obligations were not included in the House bill.

Section 322 amends section 13 of the Federal Reserve Act so as to permit Federal Reserve banks to discount paper for individuals or corporations unable to secure adequate credit accommodation from other banks where such paper is either endorsed or otherwise secured to the satisfaction of the Federal Reserve bank, and thus modifies the present requirements of law that such paper be both endorsed and so secured.

Section 323 amends subsection (e) of section 13b of the Federal Reserve Act to make it conform with the provisions of title I of the bill, so as to substitute "amount paid" for "the par value of" stock of the Federal Deposit Insurance Corporation owned by the Federal Reserve banks. This change is necessary because under title I stock of the Federal Deposit Insurance Corporation will be without par value.

Section 324 (a) amends section 19 of the Federal Reserve Act to permit the Board of Governors of the Federal Reserve System to define for the purposes of the section, the terms "demand deposits", "gross demand deposits", "deposits payable on demand", "time deposits", "savings deposits", and "trust funds", and to further determine what shall be a payment of interest under the section and to make regulations to effectuate the purposes of the section. It is further provided that within the provisions of the section regarding the reserves of member banks the term "time deposits" shall include "savings deposits."

Section 324 (b) amends the tenth paragraph of section 19 of the Federal Reserve Act to provide, for purposes of computing bank reserves, that amounts due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable upon presentation in the United States, may be deducted from gross demand deposits rather than from balances due to other banks, thus insuring to country banks which have no balances due to other banks, the benefits of such deduction.

Section 324 (c) amends section 19 of the Federal Reserve Act to add to the classes of deposits exempted from the prohibition against the payment of interest on demand deposits, deposit contracts existing when a bank joins the Federal Reserve System. It is also provided that deposits payable outside the States of the United States and the District of Columbia shall likewise be exempt, rather than "those payable in foreign countries" as is provided in the existing law. An amendment not included in the House bill prohibits payment of interest after the expiration of 2 years from the date of enactment of the act, on demand deposits made by savings banks as defined in section 12B of the Federal Reserve Act, as amended, and by mutual savings banks, demand deposits of public funds made by or on behalf of any State, county, school district, or any subdivision or municipality, and demand deposits of trust funds, upon which interest is required to be paid by State law. The House provision, permitting payment of interest on demand deposits made by any such savings bank or mutual savings bank, by the United States or any Territory, District, or possession thereof, including the Philippine Islands, or any public instrumentality or agency thereof with respect to which interest is required by law, or by any State, etc., and on demand deposits of trust funds, is eliminated. A new provision is added repealing so much of existing law as requires payment of interest on deposits of public funds made by the United States, etc. In conformity with the House provision, the amendment makes more flexible the power of the Board of Governors of the Federal Reserve System to classify time and savings deposits and prescribe the rates of interest to be paid thereon. The absolute prohibition against payment of time deposits before maturity is relaxed under conditions to be prescribed by the Board, and deposits payable only at offices of member banks located outside of the United States and the District of Columbia are exempted from the restrictions on interest rates and the prohibitions on payment before maturity.

Section 324 (d) amends section 19 of the Federal Reserve Act to require member banks to maintain the same reserves against Government deposits as are required against other deposits, thus repealing the exemption contained in the Liberty Bond Acts.

Section 325 amends section 21 of the Federal Reserve Act to permit the Comptroller of the Currency and the Board of Governors of the Federal Reserve System to waive the requirement of a report from or an examination of an affiliate of a member bank when in the judgment of the Comptroller or the Board the report or examination is not necessary to disclose fully the relations between such affiliate and the bank and the effect thereof upon the affairs of the bank.

Section 326 (a) amends section 22 (a) of the Federal Reserve Act to extend the existing prohibitions against loans or gratuities to bank examiners by member banks, and their officers and employees so as to include insured nonmember banks and the examiners thereof, and State examiners of member banks and insured banks, but not private examiners thereof. The prohibitions do not apply, however, either to the bank or the examiner if the bank is not subject to examination by such examiner, as for example, where a loan is made by a State member bank to a national bank examiner.

Section 326 (b) amends section 22 (b) of the Federal Reserve Act to extend existing prohibitions against a national bank examiner receiving compensation from any bank, officer, or employee thereof, so as to include examiners of the Federal Deposit Insurance Corporation. This section also extends the existing restrictions against examiners revealing the names of borrowers or the collateral for loans so as to cover insured nonmember banks.

Section 326 (c) revises section 22 (g) of the Federal Reserve Act which prohibits loans to executive officers of member banks by extending the time within which such loans may be renewed to June 16, 1938, provided the directors by resolution determine that such renewal is in the bank's interest and that the indebted officer has made proper effort to reduce his obligation. Provision is also made for permitting an executive officer to borrow from his bank in an amount not exceeding $2,500, if a majority of the bank's entire board approves. Borrowing by a partnership, a majority interest in which is held by one or more executive officers, is prohibited. Executive officers may endorse paper previously taken by the bank in good faith or may incur indebtedness to the bank where the object is to aid or protect the bank. The existing rigid provisions of the law are somewhat relaxed to permit the Board of Governors of the Federal Reserve System to prescribe regulations and define terms in connection therewith, and a provision for the removal of any officer who violates the provisions of the section is substituted for the criminal penalty provided for by existing law.

Section 327 amends section 23A of the Federal Reserve Act which limits loans to affiliates, and loans on and investments in securities of affiliates, and prescribes certain conditions by way of collateral requirements to such loans. It also enumerates certain types of affiliates which are exempt from such conditions and requirements.

Section 328 adds a provision to section 24 of the Federal Reserve Act so as to exempt from the restrictions of that section on real-estate loans "working-capital" loans participated in by a Federal Reserve bank or the Reconstruction Finance Corporation, loans as to which any such bank or the Corporation has made a commitment and loans of which a part has been discounted, purchased, or loaned against as security by a Federal Reserve bank.

Section 329 of the bill as reported by the committee repeals section 8A of the Clayton Act relating to interlocking relationships between banks and institutions making loans secured by stock or bond collateral, and repeals the provisions of sections 25 and 25 (a) of the Federal Reserve Act which relate to interlocking relationships. The first three paragraphs of section 8 of the Clayton Act are also amended, but the provision in the bill reported by the committee differs from that in the House bill. The House bill prohibited any director, officer or employee of a member bank from being at the same time a private banker or a director, officer, or employee of another banking institution (other than a mutual savings bank) except in limited classes of cases in which the Federal Reserve Board might allow such service by general regulation when in its judgment such classes of institutions were not in substantial competition. As amended by the committee, the provision prohibits a director, officer, or employee of a member bank or branch thereof from being at the same time a private banker, or a director, officer, or employee of more than one other bank or trust company or branch thereof, except in the following cases:

(1) Where such other bank is more than 90 percent controlled by the United States or a corporation in which the United States owns more than 90 percent of the stock.

(2) Where such other bank has been placed in liquidation or is in the hands of a receiver or conservator.

(3) Where such other bank is principally engaged in international or foreign banking in a possession of the United States and has entered into an agreement with the Board of Governors of the Federal Reserve System as provided by section 25 of the Federal Reserve Act.

(4) A bank more than 50 percent of the common stock of which is owned by persons owning more than 50 percent of the common stock of a member bank.

(5) A bank not located and having no branch in the same place in which a member bank or a branch thereof is located or in a place contiguous thereto.

(6) A bank not engaged in a class of business in which a member bank is engaged.

(7) A mutual savings bank having no capital stock.

A further provision not contained in the House bill suspends the operation of the amendment until February 1, 1939, insofar as it affects interlocking relationships of any director, officer, or employee of a member bank or branch thereof lawfully existing on the date the act takes effect.

Sections 330 (a) and (b) amend section 1 of the act of November 7, 1918, so as to clarify the law relating to consolidation of national banks, particularly as to the rights and obligations of dissenting shareholders.

Sections 331 (a) and (b) make the same clarifying amendments with respect to the provisions of existing law relating to consolidation of State and national banks.

Section 332 amends section 2 of the act of May 24, 1926, forbidding the misleading use of the words "Federal", "United States", and "Reserve" by banks, insurance companies, etc., so as to prohibit such use of the words "deposit insurance".

Section 333 extends the provisions of the act of May 18, 1934, relating to criminal penalties for robbery of member banks, so as to include insured nonmember banks.

Section 334 amends section 5143 of the Revised Statutes so as to provide that as a condition to approving a reduction of the capital stock of a national bank the Comptroller of the Currency may specify that such bank shall not make a distribution of assets to its shareholders. It also repeals the requirement that capital stock reductions by national banks be approved by the Federal Reserve Board inasmuch as the Comptroller of the Currency must also approve such reductions.

Section 335 amends section 5139 of the Revised Statutes to prescribe a standard form for stock certificates hereafter issued by national banks.

Section 336 amends section 301 of the Emergency Banking Act of March 9, 1933, so as to provide that no issue of preferred stock by a national bank will be valid until the Comptroller of the Currency has issued a certificate of approval.

Section 337 terminates the liability of shareholders of banks and trust companies in the District of Columbia on July 1, 1937, under the same conditions as are applicable under section 304 of the bill in the case of national banks. Each such institution is required to carry one-tenth part of its net profits of the preceding half year to surplus before declaring a dividend and to continue to do so until the surplus equals the amount of its common stock, but it is allowed to treat as surplus any amounts paid into a fund for retiring its preferred stock or debentures.

Section 338 amends section 9 of the Federal Reserve Act so as to no longer make it necessary for State member banks to obtain the approval of the Comptroller of the Currency for the establishment of branches or retention of branches, and requiring them instead to obtain the consent of the Board of Governors of the Federal Reserve System. This amendment merely corrects a technical error in the Banking Act of 1933 with respect to the supervisory authority from whom approval must be obtained.

Section 339 eliminates the requirements of section 5234 of the Revised Statutes that national bank receivership funds deposited in other banks be secured by collateral, to the extent that such deposits are protected by insurance by the Federal Deposit Insurance Corporation.

Section 340 makes a similar provision as to deposits of bankruptcy funds required to be secured by section 61 of the Bankruptcy Act.

Section 341 of the House bill which amended the provisions of section 8 of the Postal Savings Depository Act of June 25, 1910, relating to the withdrawal of and interest on postal savings deposits, has been eliminated by the committee.

Section 341 of the reported bill amends section 11 (k) of the Federal Reserve Act to provide that State banking authorities may have access to the reports of examination of trust departments of national banks made by the Comptroller of the Currency. This provision was not included in the House bill.

Section 342 amends section 5240 of the Revised Statutes, relating to payment of compensation of employees of the Office of the Comptroller of the Currency by means of assessments on banks, so as to include the payment of retirement annuities for such employees. There was no corresponding provision in the House bill.

Section 343, which was not included in the House bill, makes several minor clarifying amendments to the provisions of the National Housing Act relating to suits brought under such act, the insurance of loans for financing alterations, repairs, and improvements on real property, and mortgage insurance.

Section 344 adds a provision which was not contained in the House bill relating to preferred stock, capital notes, and debentures of member banks of the Federal Reserve System and the consideration to be given to such securities in determining whether the capital stock of any such bank is impaired. It is also provided that the dividends on preferred stock of national banks shall not exceed 6 percent of the original purchase price of such stock, and that in the event of the retirement of such stock or the liquidation of the bank the holders of the stock shall be entitled to receive not more than the original purchase price plus accumulative dividends.

Section 345 contains the usual provision relating to separability in the event any part of the act should be held unconstitutional.

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74TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 1822

BANKING ACT OF 1935

AUGUST 17, 1935.—Ordered to be printed

Mr. STEAGALL, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H. R. 7617]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 7617) to provide for the sound, effective, and uninterrupted operation of the banking system, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the amendment of the Senate insert the following:

That this Act may be cited as the "Banking Act of 1935".

TITLE I—FEDERAL DEPOSIT INSURANCE

SECTION 101. Section 12B of the Federal Reserve Act, as amended (U. S. C., Supp. VII, title 12, sec. 264), is amended to read as follows:

"SEC. 12B. (a) There is hereby created a Federal Deposit Insurance Corporation (hereinafter referred to as the 'Corporation') which shall insure, as hereinafter provided, the deposits of all banks which are entitled to the benefits of insurance under this section, and which shall have the powers hereinafter granted.

"(b) The management of the Corporation shall be vested in a board of directors consisting of three members, one of whom shall be the Comptroller of the Currency, and two of whom shall be citizens of the United States to be appointed by the President, by and with the advice and consent of the Senate. One of the appointive members shall be the chairman of the board of directors of the Corporation and not more than two of the members of such board of directors shall be members of the same political party. Each such appointive member shall hold office for a term of six years and shall receive compensation at the rate of $10,000 per

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annum, payable monthly out of the funds of the Corporation, but the Comptroller of the Currency shall not receive additional compensation for his services as such member. In the event of a vacancy in the office of the Comptroller of the Currency, and pending the appointment of his successor, or during the absence of the Comptroller from Washington, the Acting Comptroller of the Currency shall be a member of the board of directors in the place and stead of the Comptroller. In the event of a vacancy in the office of the chairman of the board of directors, and pending the appointment of his successor, the Comptroller of the Currency shall act as chairman. The Comptroller of the Currency shall be ineligible during the time he is in office and for two years thereafter to hold any office, position, or employment in any insured bank. The appointive members of the board of directors shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any insured bank, except that this restriction shall not apply to any appointive member who has served the full term for which he was appointed. No member of the board of directors shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the board of directors he shall certify under oath that he has complied with this requirement and such certification shall be filed with the secretary of the board of directors. No member of the board of directors serving on the board of directors on the effective date shall be subject to any of the provisions of the three preceding sentences until the expiration of his present term of office.

"(c) As used in this section—

"(1) The term 'State bank' means any bank, banking association, trust company, savings bank, or other banking institution which is engaged in the business of receiving deposits and which is incorporated under the laws of any State, Hawaii, Alaska, Puerto Rico, or the Virgin Islands, or which is operating under the Code of Law for the District of Columbia (except a national bank), and includes any unincorporated bank the deposits of which are insured on the effective date under the provisions of this section.

"(2) The term 'State member bank' means any State bank which is a member of the Federal Reserve System, and the term 'State nonmember bank' means any State bank which is not a member of the Federal Reserve System.

"(3) The term 'District bank' means any State bank operating under the Code of Law for the District of Columbia.

"(4) The term 'national member bank' means any national bank located in any of the States of the United States, the District of Columbia, Hawaii, Alaska, Puerto Rico, or the Virgin Islands which is a member of the Federal Reserve System.

"(5) The term 'national nonmember bank' means any national bank located in Hawaii, Alaska, Puerto Rico, or the Virgin Islands which is not a member of the Federal Reserve System.

"(6) The term 'mutual savings bank' means a bank without capital stock transacting a savings bank business, the net earnings of which inure wholly to the benefit of its depositors after payment of obligations for any advances by its organizers.

"(7) The term 'savings bank' means a bank (other than a mutual savings bank) which transacts its ordinary banking business strictly as a savings bank under State laws imposing special requirements on such

banks governing the manner of investing their funds and of conducting their business: Provided, That the bank maintains, until maturity date or until withdrawn, all deposits made with it (other than funds held by it in a fiduciary capacity) as time savings deposits of the specific term type or of the type where the right is reserved to the bank to require written notice before permitting withdrawal: Provided further, That such bank to be considered a savings bank must elect to become subject to regulations of the Corporation with respect to the redeposit of maturing deposits and prohibiting withdrawal of deposits by checking except in cases where such withdrawal is permitted by law on the effective date from specifically designated deposit accounts totaling not more than 15 per centum of the bank's total deposits.

"(8) The term 'insured bank' means any bank the deposits of which are insured in accordance with the provisions of this section; and the term 'noninsured bank' means any bank the deposits of which are not so insured.

"(9) The term 'new bank' means a new national banking association organized by the Corporation to assume the insured deposits of an insured bank closed on account of inability to meet the demands of its depositors and otherwise to perform temporarily the functions prescribed in this section.

"(10) The term 'receiver' includes a receiver, liquidating agent, conservator, commission, person, or other agency charged by law with the duty of winding up the affairs of a bank.

"(11) The term 'board of directors' means the board of directors of the Corporation.

"(12) The term 'deposit' means the unpaid balance of money or its equivalent received by a bank in the usual course of business and for which it has given or is obligated to give credit to a commercial, checking, savings, time or thrift account, or which is evidenced by its certificate of deposit, and trust funds held by such bank whether retained or deposited in any department of such bank or deposited in another bank, together with such other obligations of a bank as the board of directors shall find and shall prescribe by its regulations to be deposit liabilities by general usage: Provided, That any obligation of a bank which is payable only at an office of the bank located outside the States of the United States, the District of Columbia, Hawaii, Alaska, Puerto Rico, and the Virgin Islands, shall not be a deposit for any of the purposes of this section or be included as a part of total deposits or of an insured deposit: Provided further, That any insured bank having its principal place of business in any of the States of the United States or in the District of Columbia which maintains a branch in Hawaii, Alaska, Puerto Rico, or the Virgin Islands may elect to exclude from insurance under this section its deposit obligations which are payable only at such branch, and upon so electing the insured bank with respect to such branch shall comply with the provisions of this section applicable to the termination of insurance by nonmember banks: Provided further, That the bank may elect to restore the insurance to such deposits at any time its capital stock is unimpaired.

"(13) The term 'insured deposit' means the net amount due to any depositor for deposits in an insured bank (after deducting offsets) less any part thereof which is in excess of $5,000. Such net amount shall be determined according to such regulations as the board of directors may prescribe, and in determining the amount due to any depositor there shall be added together all deposits in the bank maintained in the same capacity

and the same right for his benefit either in his own name or in the names of others, except trust funds which shall be insured as provided in paragraph (9) of subsection (h) of this section.

"(14) The term 'transferred deposit' means a deposit in a new bank or other insured bank made available to a depositor by the Corporation as payment of the insured deposit of such depositor in a closed bank, and assumed by such new bank or other insured bank.

"(15) The term 'branch' includes any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State of the United States or in Hawaii, Alaska, Puerto Rico, or the Virgin Islands at which deposits are received or checks paid or money lent.

"(16) The term 'effective date' means the date of enactment of the Banking Act of 1935.

"(d) There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $150,000,000, which shall be available for payment by the Secretary of the Treasury for capital stock of the Corporation in an equal amount, which shall be subscribed for by him on behalf of the United States. Payments upon such subscription shall be subject to call in whole or in part by the board of directors of the Corporation. Such stock shall be in addition to the amount of capital stock required to be subscribed for by Federal Reserve banks. Receipts for payments by the United States for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership of the United States. Every Federal Reserve bank shall subscribe to shares of stock in the Corporation to an amount equal to one-half of the surplus of such bank on January 1, 1933, and its subscriptions shall be accompanied by a certified check payable to the Corporation in an amount equal to one-half of such subscription. The remainder of such subscription shall be subject to call from time to time by the board of directors upon ninety days' notice. The capital stock of the Corporation shall consist of the shares subscribed for prior to the effective date. Such stock shall be without nominal or par value, and shares issued prior to the effective date shall be exchanged and reissued at the rate of one share for each $100 paid into the Corporation for capital stock. The consideration received by the Corporation for the capital stock shall be allocated to capital and to surplus in such amounts as the board of directors shall prescribe. Such stock shall have no vote and shall not be entitled to the payment of dividends.

"(e) (1) Every operating State or national member bank, including a bank incorporated since March 10, 1933, licensed on or before the effective date by the Secretary of the Treasury shall be and continue to be, without application or approval, an insured bank and shall be subject to the provisions of this section.

"(2) After the effective date, every national member bank which is authorized to commence or resume the business of banking, and every State bank which is converted into a national member bank or which becomes a member of the Federal Reserve System, shall be an insured bank from the time it is authorized to commence or resume business or becomes a member of the Federal Reserve System. The certificate herein prescribed shall be issued to the Corporation by the Comptroller of the Currency in the case of such national member bank, or by the Board of Governors of the Federal Reserve System in the case of such State member bank: Provided, That in the case of an insured bank which is admitted

to membership in the Federal Reserve System or an insured State bank which is converted into a national member bank, such certificate shall not be required, and the bank shall continue as an insured bank. Such certificate shall state that the bank is authorized to transact the business of banking in the case of a national member bank, or is a member of the Federal Reserve System in the case of a State member bank, and that consideration has been given to the factors enumerated in subsection (g) of this section.

"(f) (1) Every bank which is not a member of the Federal Reserve System which on June 30, 1935 was or thereafter became a member of the Temporary Federal Deposit Insurance Fund or of the Fund For Mutuals heretofore created pursuant to the provisions of this section, shall be and continue to be, without application or approval, an insured bank and shall be subject to the provisions of this section: Provided, That any State nonmember bank which was admitted to the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals but which did not file on or before the effective date an October 1, 1934 certified statement and make the payments thereon required by law, shall cease to be an insured bank on August 31, 1935: Provided further, That no bank admitted to the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals prior to the effective date shall, after August 31, 1935, be an insured bank or have its deposits insured by the Corporation, if such bank shall have permanently discontinued its banking operations prior to the effective date.

"(2) Subject to the provisions of this section, any national nonmember bank, upon application by the bank and certification by the Comptroller of the Currency in the manner prescribed in subsection (e) of this section, and any State nonmember bank, upon application to and examination by the Corporation and approval by the board of directors, may become an insured bank. Before approving the application of any such State nonmember bank, the board of directors shall give consideration to the factors enumerated in subsection (g) of this section and shall determine, upon the basis of a thorough examination of such bank, that its assets in excess of its capital requirements are adequate to enable it to meet all its liabilities to depositors and other creditors as shown by the books of the bank.

"(g) The factors to be enumerated in the certificate required under subsection (e) and to be considered by the board of directors under subsection (f) shall be the following: The financial history and condition of the bank, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served by the bank, and whether or not its corporate powers are consistent with the purposes of this section.

"(h) (1) The assessment rate shall be one-twelfth of 1 per centum per annum. The semiannual assessment for each insured bank shall be in the amount of the product of one-half the annual assessment rate multiplied by an assessment base which shall be the average for six months of the differences at the end of each calendar day between the total amount of liability of the bank for deposits (according to the definition of the term 'deposit' in and pursuant to paragraph (12) of subsection (c) of this section, without any deduction for indebtedness of depositors) and the total of such uncollected items as are included in such deposits and credited subject to final payment: Provided, however, That the daily total of such uncollected items shall be determined according to regulations prescribed

by the board of directors upon a consideration of the factors of general usage and ordinary time of availability, and for the purposes of such deduction no item shall be regarded as uncollected for longer periods than those prescribed by such regulations. Each insured bank shall, as a condition to the right to deduct any specific uncollected item in determining its assessment base, maintain such records as will readily permit verification of the correctness of the particular deduction claimed. The certified statements required to be filed with the Corporation under paragraphs (2), (3), and (4) of this subsection shall be in such form and set forth such supporting information as the board of directors shall prescribe. The assessment payments required from insured banks under paragraphs (2), (3), and (4) of this subsection shall be made in such manner and at such time or times as the board of directors shall prescribe, provided the time or times so prescribed shall not be later than sixty days after filing the certified statement setting forth the amount of the assessment. In the event that a separate Fund For Mutuals is established as provided in subsection (l), the board of directors from time to time may fix a lower assessment rate operative for such period as the board may determine which shall be applicable to insured mutual savings banks only, and the remainder of this paragraph shall not be applicable to such banks.

"(2) On or before the 15th day of July of each year, each insured bank shall file with the Corporation a certified statement under oath showing for the six months ending on the preceding June 30 the amount of the assessment base and the amount of the semiannual assessment due to the Corporation, determined in accordance with paragraph (1) of this subsection. Each insured bank shall pay to the Corporation the amount of the semiannual assessment it is required to certify. On or before the 15th day of January of each year after 1936 each insured bank shall file with the Corporation a similar certified statement for the six months ending on the preceding December 31 and shall pay to the Corporation the amount of the semiannual assessment it is required to certify.

"(3) Each bank which becomes an insured bank according to the provisions of subsection (e) or (f) of this section shall, on or before the 15th day of November 1935, file with the Corporation a certified statement under oath showing the amount of the assessment due to the Corporation for the period ending December 31, 1935, which shall be an amount equal to the product of one-third the annual assessment rate multiplied by the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the 31 days in the month of October 1935, and payment shall be made to the Corporation of the amount of the assessment so required to be certified. Each such bank shall, on or before the 15th day of January 1936, file with the Corporation a certified statement under oath showing the amount of the semiannual assessment due to the Corporation for the period ending June 30, 1936, which shall be an amount equal to the product of one-half the annual assessment rate multiplied by the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the days of the months of October, November and December of 1935, and payment shall be made to the Corporation of the amount of the assessment so required to be certified.

"(4) Each bank which becomes an insured bank after the effective date shall be relieved from complying with the provisions of paragraph (2) of this subsection until it has operated as an insured bank for a full semiannual period ending on June 30 or December 31 as the case may be.

Each such bank, on or before the forty-fifth day after its first day of operation as an insured bank, shall file with the Corporation its first certified statement which shall be under oath and shall show the amount of the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the first thirty-one calendar days it operates as an insured bank. Each such certified statement shall also show as the amount of the first assessment due to the Corporation the prorated portion (for the period between its first day of operation as an insured bank and the next succeeding last day of June or December, as the case may be) of an amount equal to the product of one-half the annual assessment rate multiplied by the base required to be set forth on its first certified statement. Each bank which becomes an insured bank after the effective date which has not operated as an insured bank for a full semiannual period ending on June 30 or December 31, as the case may be, shall, on or before the 15th day of the first month thereafter (except that banks becoming insured in June or December shall have thirty-one additional days) file with the Corporation its second certified statement under oath showing the amount of the assessment base and the amount of the semiannual assessment due to the Corporation. Such assessment base and amount shall be determined in accordance with paragraph (1) of this subsection, except that if the bank became an insured bank in the month of December or June the assessment base shall be the average for the first thirty-one calendar days it operates as an insured bank, and except that if it became an insured bank in any other month than December or June the assessment base shall be the average for the days between its first day of operation as an insured bank and the next succeeding last day of June or December, as the case may be. Each bank required to file a certified statement under this paragraph shall pay to the Corporation the amount of the assessment the bank is required to certify.

"(5) Each bank which shall be and continue without application or approval an insured bank in accordance with the provisions of subsection (e) or (f) of this section, shall, in lieu of all right to refund (except as authorized in paragraph (3) of subsection (i)), be credited with any balance to which such bank shall become entitled upon the termination of the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals. The credit shall be applied by the Corporation toward the payment of the assessment next becoming due from such bank and upon succeeding assessments until the credit is exhausted.

"(6) Any insured bank which fails to file any certified statement required to be filed by it in connection with determining the amount of any assessment payable by the bank to the Corporation may be compelled to file such statement by mandatory injunction or other appropriate remedy in a suit brought for such purpose by the Corporation against the bank and any officer or officers thereof in any court of the United States of competent jurisdiction in the district or territory in which such bank is located.

"(7) The Corporation, in a suit brought at law or in equity in any court of competent jurisdiction, shall be entitled to recover from any insured bank the amount of any unpaid assessment lawfully payable by such insured bank to the Corporation, whether or not such bank shall have filed any such certified statement and whether or not suit shall have been brought to compel the bank to file any such statement.

"(8) Should any national member bank or any insured national nonmember bank fail to file any certified statement required to be filed by such bank under any provision of this subsection, or fail to pay any assessment required to be paid by such bank under any provision of this section, and should the bank not correct such failure within thirty days after written notice has been given by the Corporation to an officer of the bank, citing this paragraph, and stating that the bank has failed to file or pay as required by law, all the rights, privileges, and franchises of the bank granted to it under the National Bank Act or under the provisions of this Act, as amended, shall be thereby forfeited. Whether or not the penalty provided in this paragraph has been incurred shall be determined and adjudged in the manner provided in the sixth paragraph of section 2 of this Act, as amended. The remedies provided in this paragraph and in the two preceding paragraphs shall not be construed as limiting any other remedies against any insured bank, but shall be in addition thereto.

"(9) Trust funds held by an insured bank in a fiduciary capacity whether held in its trust or deposited in any other department or in another bank shall be insured in an amount not to exceed $5,000 for each trust estate, and when deposited by the fiduciary bank in another insured bank such trust funds shall be similarly insured to the fiduciary bank according to the trust estates represented. Notwithstanding any other provision of this section, such insurance shall be separate from and additional to that covering other deposits of the owners of such trust funds or the beneficiaries of such trust estates: Provided, That where the fiduciary bank deposits any of such trust funds in other insured banks, the amount so held by other insured banks on deposit shall not for the purpose of any certified statement required under paragraph (2), (3), or (4) of this subsection be considered to be a deposit liability of the fiduciary bank, but shall be considered to be a deposit liability of the bank in which such funds are so deposited by such fiduciary bank. The board of directors shall have power by regulation to prescribe the manner of reporting and of depositing such trust funds.

"(i) (1) Any insured bank (except a national member bank or State member bank) may, upon not less than ninety days' written notice to the Corporation, and to the Reconstruction Finance Corporation if it owns or holds as pledgee any preferred stock, capital notes, or debentures of such bank, terminate its status as an insured bank. Whenever the board of directors shall find that an insured bank or its directors or trustees have continued unsafe or unsound practices in conducting the business of such bank, or have knowingly or negligently permitted any of its officers or agents to violate any provision of any law or regulation to which the insured bank is subject, the board of directors shall first give to the Comptroller of the Currency in the case of a national bank or a District bank, to the authority having supervision of the bank in the case of a State bank, or to the Board of Governors of the Federal Reserve System in the case of a State member bank, a statement with respect to such practices or violations for the purpose of securing the correction thereof. Unless such correction shall be made within one hundred and twenty days or such shorter period of time as the Comptroller of the Currency, the State authority, or Board of Governors of the Federal Reserve System, as the case may be, shall require, the board of directors, if it shall determine to proceed further, shall give to the bank not less than thirty days' written notice of intention to terminate the status of the bank as an insured bank, and shall fix a time and place for a hearing before the board of directors or before a

person designated by it to conduct such hearing, at which evidence may be produced, and upon such evidence the board of directors shall make written findings which shall be conclusive. Unless the bank shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the termination of its status as an insured bank. If the board of directors shall find that any violation specified in such notice has been established, the board of directors may order that the insured status of the bank be terminated on a date subsequent to such finding and to the expiration of the time specified in such notice of intention. The Corporation may publish notice of such termination and the bank shall give notice of such termination to each of its depositors at his last address of record on the books of the bank, in such manner and at such time as the board of directors may find to be necessary and may order for the protection of depositors. After the termination of the insured status of any bank under the provisions of this paragraph, the insured deposits of each depositor in the bank on the date of such termination, less all subsequent withdrawals from any deposits of such depositor, shall continue for a period of two years to be insured, and the bank shall continue to pay to the Corporation assessments as in the case of an insured bank during such period. No additions to any such deposits and no new deposits in such bank made after the date of such termination shall be insured by the Corporation, and the bank shall not advertise or hold itself out as having insured deposits unless in the same connection it shall also state with equal prominence that such additions to deposits and new deposits made after such date are not so insured. Such bank shall, in all other respects, be subject to the duties and obligations of an insured bank for the period of two years from the date of such termination, and in the event that such bank shall be closed on account of inability to meet the demands of its depositors within such period of two years, the Corporation shall have the same powers and rights with respect to such bank as in case of an insured bank.

"(2) Whenever the insured status of a State member bank shall be terminated by action of the board of directors, the Board of Governors of the Federal Reserve System shall terminate its membership in the Federal Reserve System in accordance with the provisions of section 9 of this Act, and whenever the insured status of a national member bank shall be so terminated the Comptroller of the Currency shall appoint a receiver for the bank, which shall be the Corporation whenever the bank shall be unable to meet the demands of its depositors. Whenever a member bank shall cease to be a member of the Federal Reserve System, its status as an insured bank shall, without notice or other action by the board of directors, terminate on the date the bank shall cease to be a member of the Federal Reserve System, with like effect as if its insured status had been terminated on said date by the board of directors after proceedings under paragraph (1) of this subsection.

"(3) If any nonmember bank which becomes an insured bank under the provisions of paragraph (1) of subsection (f) of this section shall elect, within thirty days after the effective date, not to continue as an insured bank, and shall within such period give written notice to the Corporation of its election, in accordance with regulations to be prescribed by the board of directors, and to the Reconstruction Finance Corporation if it owns or holds as pledgee any preferred stock, capital notes, or debentures of such bank, it shall cease to be an insured bank and cease to be subject to the provisions of this section and the rights of

the bank (including its right to any refund) shall be as provided by law existing prior to the effective date. The board of directors shall cause notice of termination of insurance to be given to the depositors of such bank by publication or otherwise as the board of directors may determine, and the deposits in such bank shall continue to be insured for twenty days beyond such thirty day period.

"(4) Whenever the liabilities of an insured bank for deposits shall have been assumed by another insured bank or banks, the insured status of the bank whose liabilities are so assumed shall terminate on the date of receipt by the Corporation of satisfactory evidence of such assumption with like effect as if its insured status had been terminated on said date by the board of directors after proceedings under paragraph (1) of this subsection: Provided, That if the bank whose liabilities are so assumed gives to its depositors notice of such assumption within thirty days after such assumption takes effect, by publication or by any reasonable means, in accordance with regulations to be prescribed by the board of directors, the insurance of its deposits shall terminate at the end of six months from the date such assumption takes effect, and such bank shall thereupon be relieved of all future obligations to the Corporation, including the obligation to pay future assessments.

"(j) Upon the date of enactment of the Banking Act of 1933, the Corporation shall become a body corporate and as such shall have power—

"First. To adopt and use a corporate seal.

"Second. To have succession until dissolved by an Act of Congress.

"Third. To make contracts.

"Fourth. To sue and be sued, complain and defend, in any court of law or equity, State or Federal. All suits of a civil nature at common law or in equity to which the Corporation shall be a party shall be deemed to arise under the laws of the United States: Provided, That any such suit to which the Corporation is a party in its capacity as receiver of a State bank and which involves only the rights or obligations of depositors, creditors, stockholders and such State bank under State law shall not be deemed to arise under the laws of the United States. No attachment or execution shall be issued against the Corporation or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court. The board of directors shall designate an agent upon whom service of process may be made in any State, Territory, or jurisdiction in which any insured bank is located.

"Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this section, to define their duties, fix their compensation, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. Nothing in this or any other Act shall be construed to prevent the appointment and compensation as an officer or employee of the Corporation of any officer or employee of the United States in any board, commission, independent establishment, or executive department thereof.

"Sixth. To prescribe by its board of directors, bylaws 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 section and such incidental powers as shall be necessary to carry out the powers so granted.

"Eighth. To make examinations of and to require information and reports from banks, as provided in this section.

"Ninth. To act as receiver.

"Tenth. To prescribe by its board of directors such rules and regulations as it may deem necessary to carry out the provisions of this section.

"(k) (1) The board of directors shall administer the affairs of the Corporation fairly and impartially and without discrimination. The board of directors of the Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government. The Corporation with the consent of any Federal Reserve bank or of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, and facilities thereof in carrying out the provisions of this section.

"(2) The board of directors shall appoint examiners who shall have power, on behalf of the Corporation, to examine any insured State nonmember bank (except a District bank), any State nonmember bank making application to become an insured bank, and any closed insured bank, whenever in the judgment of the board of directors an examination of the bank is necessary. Such examiners shall have like power to examine, with the written consent of the Comptroller of the Currency, any national bank or District bank, and, with the written consent of the Board of Governors of the Federal Reserve System, any State member bank. Each such examiner shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine and take and preserve the testimony of any of the officers and agents thereof, and shall make a full and detailed report of the condition of the bank to the Corporation. The board of directors in like manner shall appoint claim agents who shall have power to investigate and examine all claims for insured deposits and transferred deposits. Each claim agent shall have power to administer oaths and to examine under oath and take and preserve the testimony of any persons relating to such claims. The provisions of sections 184 to 186 (both inclusive) of the Revised Statutes (U. S. C., title 5, secs. 94 to 96) are hereby extended to examinations and investigations authorized by this paragraph.

"(3) Each insured State nonmember bank (except a District bank) shall make to the Corporation reports of condition in such form and at such times as the board of directors may require. The board of directors may require such reports to be published in such manner, not inconsistent with any applicable law, as it may direct. Every such bank which fails to make or publish any such report within such time, not less than five days, as the board of directors may require, shall be subject to a penalty of not more than $100 for each day of such failure recoverable by the Corporation for its use.

"(4) The Corporation shall have access to reports of examinations made by, and reports of condition made to, the Comptroller of the Currency or any Federal Reserve bank, may accept any report made by or to any commission, board, or authority having supervision of a State nonmember bank (except a District bank), and may furnish to the Comptroller of the Currency, to any Federal Reserve bank, and to any such commission, board, or authority, reports of examinations made on behalf of, and reports of condition made to, the Corporation.

"(l) (1) *The Temporary Federal Deposit Insurance Fund and the Fund For Mutuals heretofore created pursuant to the provisions of this section are hereby consolidated into a Permanent Insurance Fund for insuring deposits, and the assets therein shall be held by the Corporation for the uses and purposes of the Corporation: Provided, That the obligations to and rights of the Corporation, depositors, banks, and other persons arising out of any event or transaction prior to the effective date shall remain unimpaired. On and after the effective date, the Corporation shall insure the deposits of all insured banks as provided in this section: Provided, That the insurance shall apply only to deposits of insured banks which have been made available since March 10, 1933, for withdrawal in the usual course of the banking business: Provided further, That if any insured bank shall, without the consent of the Corporation, release or modify restrictions on or deferments of deposits which had not been made available for withdrawal in the usual course of the banking business on or before the effective date, such deposits shall not be insured. The maximum amount of the insured deposit of any depositor shall be $5,000. The Corporation, in the discretion of the board of directors, may open on its books solely for the benefit of mutual savings banks and depositors therein a separate Fund For Mutuals. If such Fund is opened, all assessments upon mutual savings banks shall be paid into such Fund and the Permanent Insurance Fund of the Corporation shall cease to be liable for insurance losses sustained in mutual savings banks: Provided, That the capital assets of the Corporation shall be so liable and all expenses of operation of the Corporation shall be allocated between such Funds on an equitable basis.*

"(2) *For the purposes of this section, an insured bank shall be deemed to have been closed on account of inability to meet the demands of its depositors in any case in which it has been closed for the purpose of liquidation without adequate provision being made for payment of its depositors.*

"(3) *Notwithstanding any other provision of law, whenever any insured national bank or insured District bank shall have been closed by action of its board of directors, or by the Comptroller of the Currency, as the case may be, on account of inability to meet the demands of its depositors, the Comptroller of the Currency shall appoint the Corporation receiver for such closed bank, and no other person shall be appointed as receiver of such closed bank.*

"(4) *It shall be the duty of the Corporation as such receiver to realize upon the assets of such closed bank, having due regard to the condition of credit in the locality; to enforce the individual liability of the stockholders and directors thereof; and to wind up the affairs of such closed bank in conformity with the provisions of law relating to the liquidation of closed national banks, except as herein otherwise provided. The Corporation shall retain for its own account such portion of the amounts realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors, and it shall pay to depositors and other creditors the net amounts available for distribution to them. With respect to any such closed bank, the Corporation as such receiver shall have all the rights, powers, and privileges now possessed by or hereafter granted by law to a receiver of an insolvent national bank.*

"(5) *Whenever any insured State bank (except a District bank) shall have been closed by action of its board of directors or by the authority having supervision of such bank, as the case may be, on account of*

inability to meet the demands of its depositors, the Corporation shall accept appointment as receiver thereof, if such appointment is tendered by the authority having supervision of such bank and is authorized or permitted by State law. With respect to any such insured State bank, the Corporation as such receiver shall possess all the rights, powers and privileges granted by State law to a receiver of a State bank.

"(6) Whenever an insured bank shall have been closed on account of inability to meet the demands of its depositors, payment of the insured deposits in such bank shall be made by the Corporation as soon as possible, subject to the provisions of paragraph (7) of this subsection, either (A) by making available to each depositor a transferred deposit in a new bank in the same community or in another insured bank in an amount equal to the insured deposit of such depositor and subject to withdrawal on demand, or (B) in such other manner as the board of directors may prescribe: Provided, That the Corporation, in its discretion, may require proof of claims to be filed before paying the insured deposits, and that in any case where the Corporation is not satisfied as to the validity of a claim for an insured deposit, it may require the final determination of a court of competent jurisdiction before paying such claim.

"(7) In the case of a closed national bank or District bank, the Corporation, upon the payment of any depositor as provided in paragraph (6) of this subsection, shall be subrogated to all rights of the depositor against the closed bank to the extent of such payment. In the case of any other closed insured bank, the Corporation shall not make any payment to any depositor until the right of the Corporation to be subrogated to the rights of such depositor on the same basis as provided in the case of a closed national bank under this section shall have been recognized either by express provision of State law, by allowance of claims by the authority having supervision of such bank, by assignment of claims by depositors, or by any other effective method. In the case of any closed insured bank, such subrogation shall include the right on the part of the Corporation to receive the same dividends from the proceeds of the assets of such closed bank and recoveries on account of stockholders' liability as would have been payable to the depositor on a claim for the insured deposit, but such depositor shall retain his claim for any uninsured portion of his deposit: Provided, That the rights of depositors and other creditors of any State bank shall be determined in accordance with the applicable provisions of State law.

"(8) As soon as possible after the closing of an insured bank, the Corporation, if it finds that it is advisable and in the interest of the depositors of the closed bank or the public, shall organize a new national bank to assume the insured deposits of such closed bank and otherwise to perform temporarily the functions hereinafter provided for. The new bank shall have its place of business in the same community as the closed bank.

"(9) The articles of association and the organization certificate of the new bank shall be executed by representatives designated by the Corporation. No capital stock need be paid in by the Corporation. The new bank shall not have a board of directors, but shall be managed by an executive officer appointed by the board of directors of the Corporation who shall be subject to its directions. In all other respects the new bank shall be organized in accordance with the then existing provisions of law relating to the organization of national banking associations. The new bank may, with the approval of the Corporation, accept new deposits which shall be subject to withdrawal on demand and which, except where

the new bank is the only bank in the community, shall not exceed $5,000 from any depositor. The new bank, without application to or approval by the Corporation, shall be an insured bank and shall maintain on deposit with the Federal Reserve bank of its district reserves in the amount required by law for member banks, but it shall not be required to subscribe for stock of the Federal Reserve bank. Funds of the new bank shall be kept on hand in cash, invested in obligations of the United States, or in obligations guaranteed as to principal and interest by the United States, or deposited with the Corporation, with a Federal Reserve bank, or, to the extent of the insurance coverage thereon, with an insured bank. The new bank, unless otherwise authorized by the Comptroller of the Currency, shall transact no business except that authorized by this section and as may be incidental to its organization. Notwithstanding any other provision of law the new bank, its franchise, property, and income shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority.

"(10) Upon the organization of a new bank, the Corporation shall promptly make available to it an amount equal to the estimated insured deposits of such closed bank plus the estimated amount of the expenses of operating the new bank, and shall determine as soon as possible the amount due each depositor for his insured deposit in the closed bank, and the total expenses of operation of the new bank. Upon such determination, the amounts so estimated and made available shall be adjusted to conform to the amounts so determined. Earnings of the new bank shall be paid over or credited to the Corporation in such adjustment. If any new bank, during the period it continues its status as such, sustains any losses with respect to which it is not effectively protected except by reason of being an insured bank, the Corporation shall furnish to it additional funds in the amount of such losses. The new bank shall assume as transferred deposits the payment of the insured deposits of such closed bank to each of its depositors. Of the amounts so made available, the Corporation shall transfer to the new bank, in cash, such sums as may be necessary to enable it to meet its expenses of operation and immediate cash demands on such transferred deposits, and the remainder of such amounts shall be subject to withdrawal by the new bank on demand.

"(11) Whenever in the judgment of the board of directors it is desirable to do so, the Corporation shall cause capital stock of the new bank to be offered for sale on such terms and conditions as the board of directors shall deem advisable in an amount sufficient, in the opinion of the board of directors, to make possible the conduct of the business of the new bank on a sound basis, but in no event less than that required by section 5138 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 51), for the organization of a national bank in the place where such new bank is located. The stockholders of the closed insured bank shall be given the first opportunity to purchase any shares of common stock so offered. Upon proof that an adequate amount of capital stock in the new bank has been subscribed and paid for in cash, the Comptroller of the Currency shall require the articles of association and the organization certificate to be amended to conform to the requirements for the organization of a national bank, and thereafter, when the requirements of law with respect to the organization of a national bank have been complied with, he shall issue to the bank a certificate of authority to commence business, and thereupon the bank shall cease to have the status of a new

bank, shall be managed by directors elected by its own shareholders and may exercise all the powers granted by law, and it shall be subject to all the provisions of law relating to national banks. Such bank shall thereafter be an insured national bank, without certification to or approval by the Corporation.

"(12) If the capital stock of the new bank is not offered for sale, or if an adequate amount of capital for such new bank is not subscribed and paid for, the board of directors may offer to transfer its business to any insured bank in the same community which will take over its assets, assume its liabilities, and pay to the Corporation for such business such amount as the board of directors may deem adequate; or the board of directors in its discretion may change the location of the new bank to the office of the Corporation or to some other place or may at any time wind up its affairs as herein provided. Unless the capital stock of the new bank is sold or its assets are taken over and its liabilities are assumed by an insured bank as above provided within two years from the date of its organization, the Corporation shall wind up the affairs of such bank, after giving such notice, if any, as the Comptroller of the Currency may require, and shall certify to the Comptroller of the Currency the termination of the new bank. Thereafter the Corporation shall be liable for the obligations of such bank and shall be the owner of its assets. The provisions of sections 5220 and 5221 of the Revised Statutes (U. S. C., title 12, secs. 181 and 182) shall not apply to such new banks.

"(m) (1) The Corporation as receiver of a closed national bank or District bank shall not be required to furnish bond and shall have the right to appoint an agent or agents to assist it in its duties as such receiver, and all fees, compensation, and expenses of liquidation and administration thereof shall be fixed by the Corporation, subject to the approval of the Comptroller of the Currency, and may be paid by it out of funds coming into its possession as such receiver. The Comptroller of the Currency is authorized and empowered to waive and relieve the Corporation from complying with any regulations of the Comptroller of the Currency with respect to receiverships where in his discretion such action is deemed advisable to simplify administration.

"(2) Payment of an insured deposit to any person by the Corporation shall discharge the Corporation, and payment of a transferred deposit to any person by the new bank or by an insured bank in which a transferred deposit has been made available shall discharge the Corporation and such new bank or other insured bank, to the same extent that payment to such person by the closed bank would have discharged it from liability for the insured deposit.

"(3) Except as otherwise prescribed by the board of directors, neither the Corporation nor such new bank or other insured bank shall be required to recognize as the owner of any portion of a deposit appearing on the records of the closed bank under a name other than that of the claimant, any person whose name or interest as such owner is not disclosed on the records of such closed bank as part owner of said deposit, if such recognition would increase the aggregate amount of the insured deposits in such closed bank.

"(4) The Corporation may withhold payment of such portion of the insured deposit of any depositor in a closed bank as may be required to provide for the payment of any liability of such depositor as a stockholder of the closed bank, or of any liability of such depositor to the closed bank or its receiver, which is not offset against a claim due from such bank,

pending the determination and payment of such liability by such depositor or any other person liable therefor.

"(5) If, after the Corporation shall have given at least three months' notice to the depositor by mailing a copy thereof to his last known address appearing on the records of the closed bank, any depositor in the closed bank shall fail to claim his insured deposit from the Corporation within eighteen months after the appointment of the receiver for the closed bank, or shall fail within such period to claim or arrange to continue the transferred deposit with the new bank or with the other insured bank which assumes liability therefor, all rights of the depositor against the Corporation with respect to the insured deposit, and against the new bank and such other insured bank with respect to the transferred deposit, shall be barred, and all rights of the depositor against the closed bank and its shareholders, or the receivership estate to which the Corporation may have become subrogated, shall thereupon revert to the depositor. The amount of any transferred deposits not claimed within such eighteen months' period, shall be refunded to the Corporation.

"(n) (1) Money of the Corporation not otherwise employed shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States, except that for temporary periods, in the discretion of the board of directors, funds of the Corporation may be deposited in any Federal Reserve bank or with the Treasurer of the United States. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depositary of public moneys and financial agent of the Government as may be required of it.

"(2) Nothing contained in this section shall be construed to prevent the Corporation from making loans to national banks closed by action of the Comptroller of the Currency, or by vote of their directors, or to State member banks closed by action of the appropriate State authorities, or by vote of their directors, or from entering into negotiations to secure the reopening of such banks.

"(3) Receivers or liquidators of insured banks closed on account of inability to meet the demands of their depositors shall be entitled to offer the assets of such banks for sale to the Corporation or as security for loans from the Corporation, upon receiving permission from the appropriate State authority in accordance with express provisions of State law in the case of insured State banks, or from the Comptroller of the Currency in the case of national banks or District banks. The proceeds of every such sale or loan shall be utilized for the same purposes and in the same manner as other funds realized from the liquidation of the assets of such banks. The Comptroller of the Currency may, in his discretion, pay dividends on proved claims at any time after the expiration of the period of advertisement made pursuant to section 5235 of the Revised Statutes (U. S. C., title 12, sec. 193), and no liability shall attach to the Comptroller of the Currency or to the receiver of any national bank by reason of any such payment for failure to pay dividends to a claimant whose claim is not proved at the time of any such payment. The Corporation, in its discretion, may make loans on the security of or may purchase and liquidate or sell any part of the assets of an insured bank which is now or may hereafter be closed on account of inability to meet the demands of its

depositors, but in any case in which the Corporation is acting as receiver of a closed insured bank, no such loan or purchase shall be made without the approval of a court of competent jurisdiction.

"(4) Until July 1, 1936, whenever in the judgment of the board of directors such action will reduce the risk or avert a threatened loss to the Corporation and will facilitate a merger or consolidation of an insured bank with another insured bank, or will facilitate the sale of the assets of an open or closed insured bank to and assumption of its liabilities by another insured bank, the Corporation may, upon such terms and conditions as it may determine, make loans secured in whole or in part by assets of an open or closed insured bank, which loans may be in subordination to the rights of depositors and other creditors, or the Corporation may purchase any such assets or may guarantee any other insured bank against loss by reason of its assuming the liabilities and purchasing the assets of an open or closed insured bank. Any insured national bank or District bank, or, with the approval of the Comptroller of the Currency, any receiver thereof, is authorized to contract for such sales or loans and to pledge any assets of the bank to secure such loans.

"(o) (1) The Corporation is authorized and empowered to issue and to have outstanding its notes, debentures, bonds, or other such obligations, in a par amount aggregating not more than three times the amount received by the Corporation in payment of its capital stock and in payment of the assessments upon insured banks for the year 1936. The notes, debentures, bonds, and other such obligations issued under this subsection shall be redeemable at the option of the Corporation before maturity in such manner as may be stipulated in such obligations, and shall bear such rate or rates of interest, and shall mature at such time or times, as may be determined by the Corporation: Provided, That the Corporation may sell on a discount basis short-term obligations payable at maturity without interest. The notes, debentures, bonds, and other such obligations of the Corporation may be secured by assets of the Corporation in such manner as shall be prescribed by its board of directors. Such obligations may be offered for sale at such price or prices as the Corporation may determine.

"(2) The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations of the Corporation to be issued hereunder, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include such purchases: Provided, That if the Reconstruction Finance Corporation fails for any reason to purchase any of the obligations of the Corporation as provided in subsection (b) of section 5e of the Reconstruction Finance Corporation Act, as amended, the Secretary of the Treasury is authorized and directed to purchase such obligations in an amount equal to the amount of such obligations the Reconstruction Finance Corporation so fails to purchase: Provided further, That the Secretary of the Treasury is authorized and directed, whenever in the judgment of the board of directors of the Corporation additional funds are required for insurance purposes, to purchase obligations of the Corporation in an additional amount of not to exceed $250,000,000 par value: Provided further, That the proceeds derived from the purchase by the Secretary of the Treasury of any such obligations shall be used by the Corporation solely in carrying out its

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functions with respect to such insurance. The Secretary of the Treasury may, at any time, sell any of the obligations of the Corporation acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of the obligations of the Corporation shall be treated as public-debt transactions of the United States.

"(p) All notes, debentures, bonds, or other such obligations issued by the Corporation shall be exempt, both as to principal and interest, from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. The Corporation, including its franchise, its capital, reserves, and surplus, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property of the Corporation shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

"(q) In order that the Corporation may be supplied with such forms of notes, debentures, bonds, or other such obligations as it may need for issuance under this Act, the Secretary of the Treasury is authorized to prepare such forms as shall be suitable and approved by the Corporation, to be held in the Treasury subject to delivery, upon order of the Corporation. The engraved plates, dies, bed pieces, and other material executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such notes, debentures, bonds, or other such obligations.

"(r) The Corporation shall annually make a report of its operations to the Congress as soon as practicable after the 1st day of January in each year.

"(s) Whoever, for the purpose of obtaining any loan from the Corporation, or any extension or renewal thereof, or the acceptance, release, or substitution of security therefor, or for the purpose of inducing the Corporation to purchase any assets, or for the purpose of obtaining the payment of any insured deposit or transferred deposit or the allowance, approval, or payment of any claim, or for the purpose of influencing in any way the action of the Corporation under this section, makes any statement, knowing it to be false, or willfully overvalues any security, shall be punished by a fine of not more than $5,000, or by imprisonment for not more than two years, or both.

"(t) Whoever (1) falsely makes, forges, or counterfeits any obligation or coupon, in imitation of or purporting to be an obligation or coupon issued by the Corporation, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited obligation or coupon purporting to have been issued by the Corporation, knowing the same to be false, forged, or counterfeited, or (3) falsely alters any obligation or coupon issued or purporting to have been issued by the Corporation, or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true, any falsely altered or spurious obligation or coupon, issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

"(u) Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys,

funds, securities, or other things of value, whether belonging to it or pledged, or otherwise entrusted to it, or (2) with intent to defraud the Corporation or any other body, politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or without being duly authorized draws any order or issues, puts forth, or assigns any note, debenture, bond, or other such obligation, or draft, bill of exchange, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

"(v) (1) No individual, association, partnership, or corporation shall use the words 'Federal Deposit Insurance Corporation', or a combination of any three of these four words, as the name or a part thereof under which he or it shall do business. No individual, association, partnership, or corporation shall advertise or otherwise represent falsely by any device whatsoever that his or its deposit liabilities are insured or in anywise guaranteed by the Federal Deposit Insurance Corporation or by the United States or any instrumentality thereof; and no insured bank shall advertise or otherwise represent falsely by any device whatsoever the extent to which or the manner in which its deposit liabilities are insured by the Federal Deposit Insurance Corporation. Every individual, partnership, association, or corporation violating this subsection shall be punished by a fine of not exceeding $1,000, or by imprisonment not exceeding one year, or both.

"(2) Every insured bank shall display at each place of business maintained by it a sign or signs, and shall include in advertisements relating to deposits a statement to the effect that its deposits are insured by the Corporation. The board of directors shall prescribe by regulation the forms of such signs and the manner of display and the substance of such statements and the manner of use. For each day an insured bank continues to violate any provision of this paragraph or any lawful provision of said regulations, it shall be subject to a penalty of not more than $100, recoverable by the Corporation for its use.

"(3) No insured bank shall pay any dividends on its capi al stock or interest on its capital notes or debentures (if such interest is required to be paid only out of net profits) while it remains in default in the payment of any assessment due to the Corporation; and any director or officer of any insured bank who participates in the declaration or payment of any such dividend shall, upon conviction, be fined not more than $1,000, or imprisoned not more than one year, or both: Provided, That if such default is due to a dispute between the insured bank and the Corporation over the amount of such assessment, this paragraph shall not apply, if such bank shall deposit security satisfactory to the Corporation for payment upon final determination of the issue.

"(4) Unless, in addition to compliance with other provisions of law, it shall have the prior written consent of the Corporation, no insured bank shall enter into any consolidation or merger with any nonin ured bank, or assume liability o pay any deposits made in any noninsured bank, or transfer assets to any noninsured bank in consideration of the assumption of liability for any portion of the deposits made in such insured bank, and no insured State nonmember bank (except a District bank) without such consent shall reduce the amount or retire any part of its common or preferred capital stock, or retire any part of its capital notes or debentures.

"(5) No State nonmember insured bank (except a District bank) shall establish and operate any new branch after thirty days after the effective date unless it shall have the prior written consent of the Corporation, and no branch of any State nonmember insured bank shall be moved from one location to another after thirty days af e the effective date wi hout such consent. The factors to be considered in gran ing or withholding the consent of the Corporation under th s paragraph shall be those enumerated in subsection (g) of this section.

"(6) The Corporation may require any insured bank to provide protection and indemnity against burglary, defalcation, and other similar insurable losses. Whenever any insured bank refuses to comply with any such requirement the Corporation may contract for such protection and indemnity and add the cost thereof to the assessment otherwise payable by such bank.

"(7) Whenever any insured bank (except a national bank or a District bank), after written notice of the recommendations of the Corporation based on a report of examination of such bank by an examiner of the Corporation, shall fail to comply with such recommendations within one hundred and twenty days after such notice, the Corporation shall have the power, and is hereby authorized, to publish only such part of such report of examination as relates to any recommendation not complied with: Provided, That notice of intention to make such publication shall be given to the bank at least ninety days before such publication is made.

"(8) The board of directors shall by regulation prohibit the payment of interest on demand deposits in insured nonmember banks and for such purpose it may define the term 'demand deposits'; but such exceptions from this prohibition shall be made as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks by section 19 of this Act, as amended, or by regulation of the Board of Governors of the Federal Reserve System. The board of directors shall from time to time limit by regulation the rates of interest or dividends which may be paid by insured nonmember banks on time and savings deposits, but such regulations shall be consistent with the contractual obligations of such banks to their depositors. For the purpose of fixing such rates of interest or dividends, the board of directors shall by regulation prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. The board of directors shall by regulation define what constitutes time and savings deposits in an insured nonmember bank. Such regulations shall prohibit any insured nonmember bank from paying any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the board of directors, and from waiving any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement. For each violation of any provision of this paragraph or any lawful provision of such regulations relating to the payment of interest or dividends on deposits or to withdrawal of deposits, the offending bank shall be subject to a penalty or not more than $100, recoverable by the Corporation for its use.

"(w) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U. S. C., title 18, ch. 5, secs.

202 to 207, inclusive), insofar as applicable, are extended to apply to contracts or agreements with the Corporation under this section, which for the purposes hereof shall be held to include loans, advances, extensions, and renewals thereof, and acceptances, releases, and substitutions of security therefor, purchases or sales of assets, and all contracts and agreements pertaining to the same.

"(x) The Secret Service Division of the Treasury Department is authorized to detect, arrest, and deliver into the custody of the United States marshal having jurisdiction any person committing any of the offenses punishable under this section.

"(y) (1) No State bank which during the calendar year 1941 or any succeeding calendar year shall have average deposits of $1,000,000 or more shall be an insured bank or continue to have any part of its deposits insured after July 1 of the year following any such calendar year during which it shall have had such amount of average deposits, unless such bank shall be a member of the Federal Reserve System: Provided, That for the purposes of this paragraph the term 'State bank' shall not include a savings bank, a mutual savings bank, a Morris Plan bank or other incorporated banking institution engaged only in a business similar to that transacted by Morris Plan banks, a State trust company doing no commercial banking business, or a bank located in Hawaii, Alaska, Puerto Rico, or the Virgin Islands.

"(2) It is not the purpose of this section to discriminate, in any manner, against State nonmember, and in favor of, national or member banks; but the purpose is to provide all banks with the same opportunity to obtain and enjoy the benefits of this section. No bank shall be discriminated against because its capital stock is less than the amount required for eligibility for admission into the Federal Reserve System.

"(z) The provisions of this section limiting the insurance of the deposits of any depositor to a maximum less than the full amount shall be independent and separable from each and all of the provisions of this section."

TITLE II—AMENDMENTS TO THE FEDERAL RESERVE ACT

SECTION 201. Paragraph "Fifth" of section 4 of the Federal Reserve Act, as amended, is amended, effective March 1, 1936, to read as follows:

"Fifth. To appoint by its board of directors a president, vice presidents, and such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds for them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. The president shall be the chief executive officer of the bank and shall be appointed by the board of directors, with the approval of the Board of Governors of the Federal Reserve System, for a term of five years; and all other executive officers and all employees of the bank shall be directly responsible to him. The first vice president of the bank shall be appointed in the same manner and for the same term as the president, and shall, in the absence or disability of the president or during a vacancy in the office of president, serve as chief executive officer of the bank. Whenever a vacancy shall occur in the office of the president or the first vice president, it shall be filled in the manner provided for original appointments; and the person so appointed shall hold office until the expiration of the term of his predecessor."

SEC. 202. Section 9 of the Federal Reserve Act, as amended, is amended by inserting after the tenth paragraph thereof the following new paragraph:

"In order to facilitate the admission to membership in the Federal Reserve System of any State bank which is required under subsection (y) of section 12B of this Act to become a member of the Federal Reserve System in order to be an insured bank or continue to have any part of its deposits insured under such section 12B, the Board of Governors of the Federal Reserve System may waive in whole or in part the requirements of this section relating to the admission of such bank to membership: Provided, That, if such bank is admitted with a capital less than that required for the organization of a national bank in the same place and its capital and surplus are not, in the judgment of the Board of Governors of the Federal Reserve System, adequate in relation to its liabilities to depositors and other creditors, the said Board may, in its discretion, require such bank to increase its capital and surplus to such amount as the Board may deem necessary within such period prescribed by the Board as in its judgment shall be reasonable in view of all the circumstances: Provided, however, That no such bank shall be required to increase its capital to an amount in excess of that required for the organization of a national bank in the same place."

SEC. 203. (a) Hereafter the Federal Reserve Board shall be known as the "Board of Governors of the Federal Reserve System", and the governor and the vice governor of the Federal Reserve Board shall be known as the "chairman" and the "vice chairman", respectively, of the Board of Governors of the Federal Reserve System.

(b) The first two paragraphs of section 10 of the Federal Reserve Act, as amended, are amended to read as follows:

"SEC. 10. The Board of Governors of the Federal Reserve System (hereinafter referred to as the 'Board') shall be composed of seven members, to be appointed by the President, by and with the advice and consent of the Senate, after the date of enactment of the Banking Act of 1935, for terms of fourteen years except as hereinafter provided, but each appointive member of the Federal Reserve Board in office on such date shall continue to serve as a member of the Board until February 1, 1936, and the Secretary of the Treasury and the Comptroller of the Currency shall continue to serve as members of the Board until February 1, 1936. In selecting the members of the Board, not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country. The members of the Board shall devote their entire time to the business of the Board and shall each receive an annual salary of $15,000, payable monthly, together with actual necessary traveling expenses.

"The members of the Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Upon the expiration of the term of any appointive member of the Federal Reserve Board in office on the date of enactment of the Banking Act of 1935, the President shall fix the term of the successor to such member at not to exceed fourteen years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one member in any two-year period, and thereafter each member shall hold office for a term of fourteen years from the expiration of the term of his predecessor, unless sooner removed for cause by the President. Of the persons thus appointed, one shall be designated by

the President as chairman and one as vice chairman of the Board, to serve as such for a term of four years. The chairman of the Board, subject to its supervision, shall be its active executive officer. Each member of the Board shall within fifteen days after notice of appointment make and subscribe to the oath of office. Upon the expiration of their terms of office, members of the Board shall continue to serve until their successors are appointed and have qualified. Any person appointed as a member of the Board after the date of enactment of the Banking Act of 1935 shall not be eligible for reappointment as such member after he shall have served a full term of fourteen years."

(c) The fourth paragraph of section 10 of the Federal Reserve Act, as amended, is amended by striking out the second, third, and fourth sentences thereof and inserting in lieu thereof the following: "At meetings of the Board the chairman shall preside, and, in his absence, the vice chairman shall preside. In the absence of the chairman and the vice chairman, the Board shall elect a member to act as chairman pro tempore."

(d) Section 10 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof the following new paragraph:

"The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph."

SEC. 204. Section 10 (b) of the Federal Reserve Act, as amended, is amended to read as follows:

"SEC. 10 (b). Any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, may make advances to any member bank on its time or demand notes having maturities of not more than four months and which are secured to the satisfaction of such Federal Reserve bank. Each such note shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note."

SEC. 205. Section 12A of the Federal Reserve Act, as amended, is amended, effective March 1, 1936, to read as follows:

"SEC. 12A. (a) There is hereby created a Federal Open Market Committee (hereinafter referred to as the 'Committee'), which shall consist of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks to be selected as hereinafter provided. Such representatives of the Federal Reserve banks shall be elected annually as follows: One by the boards of directors of the Federal Reserve Banks of Boston and New York, one by the boards of directors of the Federal Reserve Banks of Philadelphia and Cleveland, one by the boards of directors of the Federal Reserve Banks of Chicago and Saint Louis, one by the boards of directors of the Federal Reserve Banks of Richmond, Atlanta, and Dallas, and one by the boards of

directors of the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco. An alternate to serve in the absence of each such representative shall be elected annually in the same manner. The meetings of said Committee shall be held at Washington, District of Columbia, at least four times each year upon the call of the chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the Committee.

"(b) No Federal Reserve bank shall engage or decline to engage in open-market operations under section 14 of this Act except in accordance with the direction of and regulations adopted by the Committee. The Committee shall consider, adopt, and transmit to the several Federal Reserve banks, regulations relating to the open-market transactions of such banks.

"(c) The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country."

SEC. 206. (a) Subsection (b) of section 14 of the Federal Reserve Act, as amended, is amended by inserting before the semicolon at the end thereof a colon and the following: Provided, That any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities but only in the open market".

(b) Subsection (d) of section 14 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following: "but each such bank shall establish such rates every fourteen days, or oftener if deemed necessary by the Board;"

SEC. 207. The sixth paragraph of section 19 of the Federal Reserve Act, as amended, is amended to read as follows:

"Notwithstanding the other provisions of this section, the Board of Governors of the Federal Reserve System, upon the affirmative vote of not less than four of its members, in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both by member banks in reserve and central reserve cities or by member banks not in reserve or central reserve cities or by all member banks; but the amount of the reserves required to be maintained by any such member bank as a result of any such change shall not be less than the amount of the reserves required by law to be maintained by such bank on the date of enactment of the Banking Act of 1935 nor more than twice such amount."

SEC. 208. The first paragraph of section 24 of the Federal Reserve Act, as amended, is amended to read as follows:

"SEC. 24. Any national banking association may make real-estate loans secured by first liens upon improved real estate, including improved farm land and improved business and residential properties. A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by mortgage, trust deed, or other such instrument upon real estate, and any national banking association may purchase any obligation so secured when the entire amount of such obligation is sold to the association. The amount of any such loan hereafter made shall not exceed 50 per centum of the appraised value of the real estate offered as security and no such loan shall be made for a longer

term than five years; except that (1) any such loan may be made in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 per centum or more of the principal of the loan within a period of not more than ten years, and (2) the foregoing limitations and restrictions shall not prevent the renewal or extension of loans heretofore made and shall not apply to real-estate loans which are insured under the provisions of Title II of the National Housing Act. No such association shall make such loans in an aggregate sum in excess of the amount of the capital stock of such association paid in and unimpaired plus the amount of its unimpaired surplus fund, or in excess of 60 per centum of the amount of its time and savings deposits, whichever is the greater. Any such association may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such association may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such association is located."

SEC. 209. Section 325 of the Revised Statutes is amended to read as follows:

"SEC. 325. The Comptroller of the Currency shall be appointed by the President, by and with the advice and consent of the Senate, and shall hold his office for a term of five years unless sooner removed by the President, upon reasons to be communicated by him to the Senate; and he shall receive a salary at the rate of $15,000 a year."

TITLE III—TECHNICAL AMENDMENTS TO THE BANKING LAWS

SECTION 301. Subsection (c) of section 2 of the Banking Act of 1933, as amended, is amended by adding at the end thereof the following paragraph:

"Notwithstanding the foregoing, the term 'holding company affiliate' shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States, or any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies."

SEC. 302. The first paragraph of section 20 of the Banking Act of 1933, as amended, is amended by inserting before the period at the end thereof a colon and the following: "Provided, That nothing in this paragraph shall apply to any such organization which shall have been placed in formal liquidation and which shall transact no business except such as may be incidental to the liquidation of its affairs".

SEC. 303. (a) Paragraph (1) of subsection (a) of section 21 of the Banking Act of 1933, as amended, is amended by inserting before the semicolon at the end thereof a colon and the following: "Provided, That the provisions of this paragraph shall not prohibit national banks or State banks or trust companies (whether or not members of the Federal Reserve System) or other financial institutions or private bankers from dealing in,

underwriting, purchasing, and selling investment securities to the extent permitted to national banking associations by the provisions of section 5136 of the Revised Statutes, as amended (U. S. C., title 12, sec. 24; Supp. VII, title 12, sec. 24): Provided further, That nothing in this paragraph shall be construed as affecting in any way such right as any bank, banking association, savings bank, trust company, or other banking institution, may otherwise possess to sell, without recourse or agreement to repurchase, obligations evidencing loans on real estate".

(b) Paragraph (2) of subsection (a) of such section 21 is amended to read as follows:

"(2) For any person, firm, corporation, association, business trust, or other similar organization to engage, to any extent whatever with others than his or its officers, agents or employees, in the business of receiving deposits subject to check or to repayment upon presentation of a pass book, certificate of deposit, or other evidence of debt, or upon request of the depositor, unless such person, firm, corporation, association, business trust, or other similar organization (A) shall be incorporated under, and authorized to engage in such business by, the laws of the United States or of any State, Territory, or District, or (B) shall be permitted by any State, Territory, or District to engage in such business and shall be subjected by the law of such State, Territory, or District to examination and regulation, or (C) shall submit to periodic examination by the banking authority of the State, Territory, or District where such business is carried on and shall make and publish periodic reports of its condition, exhibiting in detail its resources and liabilities, such examination and reports to be made and published at the same times and in the same manner and under the same conditions as required by the law of such State, Territory, or District in the case of incorporated banking institutions engaged in such business in the same locality."

SEC. 304. Section 22 of the Banking Act of 1933, as amended, is amended by adding at the end thereof the following sentences: "Such additional liability shall cease on July 1, 1937, with respect to all shares issued by any association which shall be transacting the business of banking on July 1, 1937: Provided, That not less than six months prior to such date, such association shall have caused notice of such prospective termination of liability to be published in a newspaper published in the city, town, or county in which such association is located, and if no newspaper is published in such city, town, or county, then in a newspaper of general circulation therein. If the association fail to give such notice as and when above provided, a termination of such additional liability may thereafter be accomplished as of the date six months subsequent to publication, in the manner above provided."

SEC. 305. Paragraph (c) of section 5155 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 36), is amended (1) by inserting after the first sentence thereof the following new sentence: "In any State in which State banks are permitted by statute law to maintain branches within county or greater limits, if no bank is located and doing business in the place where the proposed agency is to be located, any national banking association situated in such State may, with the approval of the Comptroller of the Currency, establish and operate, without regard to the capital requirements of this section, a seasonal agency in any resort community within the limits of the county in which the main office of such association is located, for the purpose of receiving and paying out deposits, issuing and cashing checks and drafts, and doing business

incident thereto: Provided, That any permit issued under this sentence shall be revoked upon the opening of a State or national bank in such community."; and (2) by striking out the first word in the last sentence of such paragraph (c) and inserting in lieu thereof the following: "Except as provided in the immediately preceding sentence, no".

SEC. 306. Section 4 of the Act entitled "An Act to amend section 12B of the Federal Reserve Act so as to extend for one year the temporary plan for deposit insurance, and for other purposes", approved June 16, 1934 (48 Stat. 969), is amended to read as follows:

"SEC. 4. So much of section 31 of the Banking Act of 1933, as amended, as relates to stock ownership by directors, trustees, or members of similar governing bodies of any national banking association, or of any State bank or trust company which is a member of the Federal Reserve System, is hereby repealed."

SEC. 307. Effective January 1, 1936, section 32 of the Banking Act of 1933, as amended, is amended to read as follows:

"SEC. 32. No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve the same time as an officer, director, or employee of any member bank except in limited classes of cases in which the Board of Governors of the Federal Reserve System may allow such service by general regulations when in the judgment of the said Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments."

SEC. 308. (a) The second sentence of paragraph Seventh of section 5136 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 24), is amended to read as follows: "The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities or stock: Provided, That the association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe. In no event shall the total amount of the investment securities of any one obligor or maker, held by the association for its own account, exceed at any time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund, except that this limitation shall not require any association to dispose of any securities lawfully held by it on the date of enactment of the Banking Act of 1935."

(b) The fourth sentence of such paragraph Seventh is amended to read as follows: "Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation."

(c) The last sentence of such paragraph Seventh is amended by inserting before the colon after the words "Home Owners' Loan Corporation" a comma and the following: "or obligations which are insured by the Federal Housing Administrator pursuant to section 207 of the National Housing Act, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States".

SEC. 309 Section 5138 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec 51), is amended by adding the following sentences at the end thereof: "No such association shall hereafter be authorized to commence the business of banking until it shall have a paid-in surplus equal to 20 per centum of its capital: Provided, That the Comptroller of the Currency may waive this requirement as to a State bank converting into a national banking association, but each such State bank which is converted into a national banking association shall, before the declaration of a dividend on its shares of common stock, carry not less than one-half part of its net profits of the preceding half year to its surplus fund until it shall have a surplus equal to 20 per centum of its capital: Provided, That for the purposes of this section any amounts paid into a fund for the retirement of any preferred stock of any such converted State bank out of its net earnings for such half-year period shall be deemed to be an addition to its surplus fund if, upon the retirement of such preferred stock, the amount so paid into such retirement fund for such period may then properly be carried to surplus. In any such case the converted State bank shall be obligated to transfer to surplus the amount so paid into such retirement fund for such period on account of the preferred stock as such stock is retired."

SEC. 310. (a) The last paragraph of section 5139 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 52), is amended to read as follows:

"After the date of the enactment of the Banking Act of 1935, no certificate evidencing the stock of any such association shall bear any statement purporting to represent the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such association, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoveer upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such association: Provided, That this section shall not operate to prevent the ownership, sale, or transfer of stock of any other corporation being conditioned upon the ownership, sale, or transfer of a certificate representing stock of a national banking association."

(b) The nineteenth paragraph of section 9 of the Federal Reserve Act, as amended, is amended to read as follows:

"After the date of the enactment of the Banking Act of 1935, no certificate evidencing the stock of any State member bank shall bear any statement purporting to represent the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such member bank, nor shall the ownership, sale, or transfer of any certificate representing the stock of any State member bank be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such member bank: Provided, That this section shall not operate to prevent the ownership, sale, or transfer of stock of any other corporation being conditioned upon the ownership, sale, or transfer of a certificate representing stock of a State member bank."

SEC. 311. (a) The first paragraph of section 5144 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 61), is amended to read as follows:

"SEC. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit; and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him; except that (1) this shall not be construed as limiting the voting rights of holders of preferred stock under the terms and provisions of articles of association, or amendments thereto, adopted pursuant to the provisions of section 302 (a) of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, (2) in the election of directors, shares of its own stock held by a national bank as sole trustee, whether registered in its own name as such trustee or in the name of its nominee, shall not be voted by the registered owner unless under the terms of the trust the manner in which such shares shall be voted may be determined by a donor or beneficiary of the trust and unless such donor or beneficiary actually directs how such shares shall be voted, (3) shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (4) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted, but such holding company affiliate may, without obtaining such permit, vote in favor of placing the association in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such association. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote. Whenever shares of stock cannot be voted by reason of being held by the bank as sole trustee, such shares shall be excluded in determining whether matters voted upon by the shareholders were adopted by the requisite percentage of shares."

(b) The first sentence of the third paragraph of such section 5144 is amended to read: "Any such holding company affiliate may make application to the Board of Governors of the Federal Reserve System for a voting permit entitling it to vote the stock controlled by it at any or all meetings of shareholders of such bank or authorizing the trustee or turstees holding the stock for its benefit or for the benefit of its shareholders so to vote the same."

(c) Section 5144 of the Revised Statutes, as amended, is further amended by adding at the end of subsection (c) thereof the following: "and the provisions of this subsection, instead of subsection (b), shall apply to all holding company affiliates with respect to any shares of bank stock owned or controlled by them as to which there is no statutory liability imposed upon the holders of such bank stock;".

SEC. 312. Section 5154 of the Revised Statutes, as amended (U. S. C., title 12, sec. 35), is amended by adding at the end thereof the following paragraph:

"The Comptroller of the Currency may, in his discretion and subject to such conditions as he may prescribe, permit such converting bank to retain and carry at a value determined by the Comptroller such of the

assets of such converting bank as do not conform to the legal requirements relative to assets acquired and held by national banking associations."

SEC. 313. Section 5162 of the Revised Statutes (U. S. C., title 12, sec. 170) is amended by adding at the end thereof the following paragraph:

"The Comptroller of the Currency may designate one or more persons to countersign in his name and on his behalf such assignments or transfers of bonds as require his countersignature."

SEC. 314. Section 5197 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 85), is amended by inserting after the second sentence thereof the following new sentence: "The maximum amount of interest or discount to be charged at a branch of an association located outside of the States of the United States and the District of Columbia shall be at the rate allowed by the laws of the country, territory, dependency, province, dominion, insular possession, or other political subdivision where the branch is located."

SEC. 315. Section 5199 of the Revised Statutes (U. S. C., title 12, sec. 60), is amended to read as follows:

"SEC. 5199. The directors of any association may, semiannually, declare a dividend of so much of the net profits of the association as they shall judge expedient; but each association shall, before the declaration of a dividend on its shares of common stock, carry not less than one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall equal the amount of its common capital: Provided, That for the purposes of this section, any amounts paid into a fund for the retirement of any preferred stock of any such association out of its net earnings for such half-year period shall be deemed to be an addition to its surplus fund if, upon the retirement of such preferred stock, the amount so paid into such retirement fund for such period may then properly be carried to surplus. In any such case the association shall be obligated to transfer to surplus the amounts so paid into such retirement fund for such period on account of the preferred stock as such stock is retired."

SEC. 316. Section 5209 of the Revised Statutes (U. S. C., title 12, sec. 592), is hereby amended by inserting after the words "known as the Federal Reserve Act", the words "or of any national banking association, or of any insured bank as defined in subsection (c) of section 12B of the Federal Reserve Act"; and by inserting after the words "such Federal Reserve bank or member bank", wherever they appear in such section, the words "or such national banking association or insured bank"; and by inserting after the words "or the Comptroller of the Currency", the words "or the Federal Deposit Insurance Corporation,".

SEC. 317. Section 5220 of the Revised Statutes (U. S. C., title 12, sec. 181), is amended by adding at the end thereof the following paragraph:

"The shareholders shall designate one or more persons to act as liquidating agent or committee, who shall conduct the liquidation in accordance with law and under the supervision of the board of directors, who shall require a suitable bond to be given by said agent or committee. The liquidating agent or committee shall render annual reports to the Comptroller of the Currency on the 31st day of December of each year showing the progress of said liquidation until the same is completed. The liquidating agent or committee shall also make an annual report to a meeting of the shareholders to be held on the date fixed in the articles of association for the annual meeting, at which meeting the shareholders may, if they see fit, by a vote representing a majority of the entire stock of the bank, remove the liquidating agent or committee and appoint one

or more others in place thereof. A special meeting of the shareholders may be called at any time in the same manner as if the bank continued an active bank and at said meeting the shareholders may, by vote of the majority of the stock, remove the liquidating agent or committee. The Comptroller of the Currency is authorized to have an examination made at any time into the affairs of the liquidating bank until the claims of all creditors have been satisfied, and the expense of making such examinations shall be assessed against such bank in the same manner as in the case of examinations made pursuant to section 5240 of the Revised Statutes, as amended (U. S. C., title 12, secs. 484, 485; Supp. VII, title 12, secs. 481–483)."

SEC. 318. Section 5243 of the Revised Statutes (U. S. C., title 12, sec. 583) is amended by striking out the semicolon therein and all that precedes it and substituting the following:

"SEC. 5243. The use of the word 'national', the word 'Federal' or the words 'United States', separately, in any combination thereof, or in combination with other words or syllables, as part of the name or title used by any person, corporation, firm, partnership, business trust, association or other business entity, doing the business of bankers, brokers, or trust or savings institutions is prohibited except where such institution is organized under the laws of the United States, or is otherwise permitted by the laws of the United States to use such name or title, or is lawfully using such name or title on the date when this section, as amended, takes effect;".

SEC. 319. (a) Section 5 of the Federal Reserve Act, as amended, is amended by striking out the last three sentences thereof and inserting in lieu thereof the following: "When a member bank reduces its capital stock or surplus it shall surrender a proportionate amount of its holdings in the capital stock of said Federal Reserve bank. Any member bank which holds capital stock of a Federal Reserve bank in excess of the amount required on the basis of 6 per centum of its paid-up capital stock and surplus shall surrender such excess stock. When a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal Reserve bank and be released from its stock subscription not previously called. In any such case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Board of Governors of the Federal Reserve System, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of 1 per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal Reserve bank."

(b) Section 6 of the Federal Reserve Act, as amended, is amended by striking out the last paragraph thereof.

SEC. 320. The fifth paragraph of section 9 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following sentence: "Such reports of condition shall be in such form and shall contain such information as the Board of Governors of the Federal Reserve System may require and shall be published by the reporting banks in such manner and in accordance with such regulations as the said Board may prescribe."

SEC. 321. (a) The first sentence of paragraph (m) of section 11 of the Federal Reserve Act, as amended, is amended by inserting before the period at the end thereof a colon and the following: "Provided, That with respect to loans represented by obligations in the form of notes secured by not less than a like amount of bonds or notes of the United

States issued since April 24, 1917, certificates of indebtedness of the United States, Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States, such limitation of 10 per centum on loans to any person shall not apply, but State member banks shall be subject to the same limitations and conditions as are applicable in the case of national banks under paragraph (8) of section 5200 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 84)".

(b) Paragraph (8) of section 5200 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 84), is amended by inserting after the comma following the words "certificates of indebtedness of the United States", the words "Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States,".

SEC. 322. The third paragraph of section 13 of the Federal Reserve Act, as amended, is amended by changing the words "indorsed and otherwise secured to the satisfaction of the Federal Reserve bank" in that paragraph to read "indorsed or otherwise secured to the satisfaction of the Federal Reserve bank".

SEC. 323. Subsection (e) of section 13b of the Federal Reserve Act, as amended, is amended by striking out "upon the date this section takes effect", and inserting in lieu thereof "on and after June 19, 1934"; and by striking out "the par value of the holdings of each Federal Reserve bank of Federal Deposit Insurance Corporation stock", and inserting in lieu thereof "the amount paid by each Federal Reserve bank for stock of the Federal Deposit Insurance Corporation".

SEC. 324. (a) The first paragraph of section 19 of the Federal Reserve Act, as amended, is amended to read as follows:

"SEC. 19. The Board of Governors of the Federal Reserve System is authorized, for the purposes of this section, to define the terms 'demand deposits', 'gross demand deposits', 'deposits payable on demand', 'time deposits', 'savings deposits', and 'trust funds', to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof: Provided, That, within the meaning of the provisions of this section regarding the reserves required of member banks, the term 'time deposits' shall include 'savings deposits'."

(b) The tenth paragraph of such section 19 is amended to read as follows:

"In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System."

(c) The last two paragraphs of such section 19 are amended to read as follows:

"No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: Provided, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this para-

graph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: Provided further, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: Provided further, That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed.

"The Board of Governors of the Federal Reserve System shall from time to time limit by regulation the rate of interest which may be paid by member banks on time and savings deposits, and shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. No member bank shall pay any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement: Provided, That the provisions of this paragraph shall not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia."

(d) Such section 19 is amended by adding at the end thereof the following new paragraph:

"Notwithstanding the provisions of the First Liberty Bond Act, as amended, the Second Liberty Bond Act, as amended, and the Third Liberty Bond Act, as amended, member banks shall be required to maintain the same reserves against deposits of public moneys by the United States as they are required by this section to maintain against other deposits."

SEC. 325. Section 21 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following paragraph:

"Whenever member banks are required to obtain reports from affiliates, or whenever affiliates of member banks are required to submit to examination, the Board of Governors of the Federal Reserve System or the Comptroller of the Currency, as the case may be, may waive such requirements with respect to any such report or examination of any affiliate if in the judgment of the said Board or Comptroller, respectively, such report or examination is not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank."

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SEC. 326. (a) Subsection (a) of section 22 of the Federal Reserve Act, as amended, is amended by inserting in the first paragraph thereof after "No member bank" the following: "and no insured bank as defined in subsection (c) of section 12B of this Act"; by inserting before the period at the end of the first sentence of such paragraph "or assistant examiner, who examines or has authority to examine such bank"; and by inserting after "any member bank" in the second paragraph thereof "or insured bank"; by inserting before the period at the end thereof "or Federal Deposit Insurance Corporation examiner"; and by adding at the end of such subsection a new paragraph, as follows:

"The provisions of this subsection shall apply to all public examiners and assistant examiners who examine member banks of the Federal Reserve System or insured banks, whether appointed by the Comptroller of the Currency, by the Board of Governors of the Federal Reserve System, by a Federal Reserve agent, by a Federal Reserve bank, or by the Federal Deposit Insurance Corporation, or appointed or elected under the laws of any State; but shall not apply to private examiners or assistant examiners employed only by a clearing-house association or by the directors of a bank."

(b) Subsection (b) of such section 22 is amended by inserting therein after "no national bank examiner" the following: "and no Federal Deposit Insurance Corporation examiner"; and by inserting after "member bank" the following: "or insured bank"; and by inserting after "from the Comptroller of the Currency," the following: "as to a national bank, the Board of Governors of the Federal Reserve System as to a State member bank, or the Federal Deposit Insurance Corporation as to any other insured bank,".

(c) Subsection (g) of such section 22 is amended to read as follows:

"(g) No executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers: Provided, That loans made to any such officer prior to June 16, 1933, may be renewed or extended for periods expiring not more than five years from such date where the board of directors of the member bank shall have satisfied themselves that such extension or renewal is in the best interest of the bank and that the officer indebted has made reasonable effort to reduce his obligation, these findings to be evidenced by resolution of the board of directors spread upon the minute book of the bank: Provided further, That with the prior approval of a majority of the entire board of directors, any member bank may extend credit to any executive officer thereof, and such officer may become indebted thereto, in an amount not exceeding $2,500. If any executive officer of any member bank borrow from or if he be or become indebted to any bank other than a member bank of which he is an executive officer, he shall make a written report to the board of directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor, and the purpose for which the proceeds have been or are to be used. Borrowing by, or loaning to, a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in said partnership, shall be considered within the prohibition of this subsection. Nothing contained in this subsection shall prohibit any executive officer of a member bank from endorsing or guaranteeing for the protection of such bank any loan or

other asset which shall have been previously acquired by such bank in good faith or from incurring any indebtedness to such bank for the purpose of protecting such bank against loss or giving financial assistance to it. The Board of Governors of the Federal Reserve System is authorized to define the term 'executive officer', to determine what shall be deemed to be a borrowing, indebtedness, loan, or extension of credit, for the purposes of this subsection, and to prescribe such rules and regulations as it may deem necessary to effectuate the provisions of this subsection in accordance with its purposes and to prevent evasions of such provisions. Any executive officer of a member bank accepting a loan or extension of credit which is in violation of the provisions of this subsection shall be subject to removal from office in the manner prescribed in section 30 of the Banking Act of 1933: Provided, That for each day that a loan or extension of credit made in violation of this subsection exists, it shall be deemed to be a continuation of such violation within the meaning of said section 30."

SEC. 327. The third paragraph of section 23A of the Federal Reserve Act, as amended, is amended to read as follows:

"For the purpose of this section, the term 'affiliate' shall include holding-company affiliates as well as other affiliates, and the provisions of this section shall not apply to any affiliate (1) engaged on June 16, 1934, in holding the bank premises of the member bank with which it is affiliated or in maintaining and operating properties acquired for banking purposes prior to such date; (2) engaged solely in conducting a safe-deposit business or the business of an agricultural credit corporation or livestock loan company; (3) in the capital stock of which a national banking association is authorized to invest pursuant to section 25 of this Act, as amended, or a subsidiary of such affiliate, all the stock of which (except qualifying shares of directors in an amount not to exceed 10 per centum) is owned by such affiliate; (4) organized under section 25 (a) of this Act, as amended, or a subsidiary of such affiliate, all the stock of which (except qualifying shares of directors in an amount not to exceed 10 per centum) is owned by such affiliate; (5) engaged solely in holding obligations of the United States or obligations fully guaranteed by the United States as to principal and interest, the Federal intermediate credit banks, the Federal land banks, the Federal Home Loan Banks, or the Home Owners' Loan Corporation; (6) where the affiliate relationship has arisen out of a bona fide debt contracted prior to the date of the creation of such relationship; or (7) where the affiliate relationship exists by reason of the ownership or control of any voting shares thereof by a member bank as executor, administrator, trustee, receiver, agent, depositary, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member bank; but as to any such affiliate, member banks shall continue to be subject to other provisions of law applicable to loans by such banks and investments by such banks in stocks, bonds, debentures, or other such obligations. The provisions of this section shall likewise not apply to indebtedness of any affiliate for unpaid balances due a bank on assets purchased from such bank or to loans secured by, or extensions of credit against, obligations of the United States or obligations fully guaranteed by the United States as to principal and interest."

SEC. 328. Section 24 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following new paragraph:

"Loans made to established industrial or commercial businesses (a) which are in whole or in part discounted or purchased or loaned against as security by a Federal Reserve bank under the provisions of section 13b

of this Act, (b) for any part of which a commitment shall have been made by a Federal Reserve bank under the provisions of said section, (c) in the making of which a Federal Reserve bank participates under the provisions of said section, or (d) in which the Reconstruction Finance Corporation cooperates or purchases a participation under the provisions of section 5d of the Reconstruction Finance Corporation Act, shall not be subject to the restrictions or limitations of this section upon loans secured by real estate."

SEC. 329. Section 25 of the Federal Reserve Act, as amended, is further amended by striking out the last paragraph of such section; the paragraph of section 25 (a) of the Federal Reserve Act, as amended, which commences with the words "A majority of the shares of the capital stock of any such corporation" is amended by striking out all of said paragraph except the first sentence thereof; and the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes" (38 Stat. 730), approved October 15, 1914, as amended, is further amended (a) by striking out section 8A thereof and (b) by substituting for the first three paragraphs of section 8 thereof the following:

"SEC. 8. No private banker or director, officer, or employee of any member bank of the Federal Reserve System or any branch thereof shall be at the same time a director, officer, or employee of any other bank, banking association, savings bank, or trust company organized under the National Bank Act or organized under the laws of any State or of the District of Columbia, or any branch thereof, except that the Board of Governors of the Federal Reserve System may by regulation permit such service as a director, officer, or employee of not more than one other such institution or branch thereof; but the foregoing prohibition shall not apply in the case of any one or more of the following or any branch thereof:

"(1) A bank, banking association, savings bank, or trust company, more than 90 per centum of the stock of which is owned directly or indirectly by the United States or by any corporation of which the United States directly or indirectly owns more than 90 per centum of the stock.

"(2) A bank, banking association, savings bank, or trust company which has been placed formally in liquidation or which is in the hands of a receiver, conservator, or other official exercising similar functions.

"(3) A corporation principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which has entered into an agreement with the Board of Governors of the Federal Reserve System pursuant to section 25 of the Federal Reserve Act.

"(4) A bank, banking association, savings bank, or trust company, more than 50 per centum of the common stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per centum of the common stock of such member bank.

"(5) A bank, banking association, savings bank, or trust company not located and having no branch in the same city, town, or village as that in which such member bank or any branch thereof is located, or in any city, town, or village contiguous or adjacent thereto.

"(6) A bank, banking association, savings bank, or trust company not engaged in a class or classes of business in which such member bank is engaged.

"(7) A mutual savings bank having no capital stock.

"Until February 1, 1939, nothing in this section shall prohibit any director, officer, or employee of any member bank of the Federal Reserve

System, or any branch thereof, who is lawfully serving at the same time as a private banker or as a director, officer, or employee of any other bank, banking association, savings bank, or trust company, or any branch thereof, on the date of enactment of the Banking Act of 1935, from continuing such service.

"The Board of Governors of the Federal Reserve System is authorized and directed to enforce compliance with this section, and to prescribe such rules and regulations as it deems necessary for that purpose."

SEC. 330. (a) Section 1 of the Act of November 7, 1918, as amended (U. S. C., title 12, sec. 33; Supp. VII, title 12, sec. 33), is amended by striking out the second proviso down to and including the words "to be ascertained" and inserting in lieu thereof the following: "And provided further, That if such consolidation shall be voted for at said meetings by the necessary majorities of the shareholders of each of the associations proposing to consolidate, any shareholder of any of the associations so consolidated, who has voted against such consolidation at the meeting of the association of which he is a shareholder or has given notice in writing at or prior to such meeting to the presiding officer that he dissents from the plan of consolidation, shall be entitled to receive the value of the shares so held by him if and when said consolidation shall be approved by the Comptroller of the Currency, such value to be ascertained as of the date of the Comptroller's approval".

(b) Such section 1 is further amended by adding at the end thereof the following paragraphs:

"Publication of notice and notification by registered mail of the meeting provided for in the foregoing paragraph may be waived by unanimous action of the shareholders of the respective associations. Where a dissenting shareholder has given notice as above provided to the association of which he is a shareholder of his dissent from the plan of consolidation, and the directors thereof fail for more than thirty days thereafter to appoint an appraiser of the value of his shares, said shareholder may request the Comptroller of the Currency to appoint such appraiser to act on the appraisal committee for and on behalf of such association.

"If shares, when sold at public auction in accordance with this section, realize a price greater than their final appraised value, the excess in such sale price shall be paid to the shareholder. The consolidated association shall be liable for all liabilities of the respective consolidating associations. In the event one of the appraisers fails to agree with the others as to the value of said shares, then the valuation of the remaining appraisers shall govern."

SEC. 331. (a) Section 3 of the Act of November 7, 1918, as amended (U. S. C., Supp. VII, title 12, sec. 34 (a)), is amended by striking out the first sentence following the proviso down to and including the words "to be ascertained" and inserting in lieu thereof the following: "If such consolidation shall be voted for at said meetings by the necessary majorities of the shareholders of the association and of the State or other bank proposing to consolidate, and thereafter the consolidation shall be approved by the Comptroller of the Currency, any shareholder of either the association or the State or other bank so consolidated, who has voted against such consolidation at the meeting of the association of which he is a stockholder, or has given notice in writing at or prior to such meeting to the presiding officer that he dissents from the plan of consolidation, shall be entitled to receive the value of the shares so held by him if and when said

consolidation shall be approved by the Comptroller of the Currency, such value to be ascertained as of the date of the Comptroller's approval."

(b) Such section 3 is further amended by adding at the end thereof the following paragraph:

"Where a dissenting shareholder has given notice as provided in this section to the bank of which he is a shareholder of his dissent from the plan of consolidation, and the directors thereof fail for more than thirty days thereafter to appoint an appraiser of the value of his shares, said shareholder may request the Comptroller of the Currency to appoint such appraiser to act on the appraisal committee for and on behalf of such bank. In the event one of the appraisers fails to agree with the others as to the value of said shares, then the valuation of the remaining appraisers shall govern."

SEC. 332. The Act entitled "An Act to prohibit offering for sale as Federal farm-loan bonds any securities not issued under the terms of the Farm Loan Act, to limit the use of the words 'Federal', 'United States', or 'reserve', or a combination of such words, to prohibit false advertising, and for other purposes", approved May 24, 1926 (U. S. C., Supp. VII, title 12, secs. 584–588), is amended by inserting in section 2 thereof after "the words 'United States'", the following: "the words 'Deposit Insurance'"; and by inserting in said section after the words "the laws of the United States", the following: "nor to any new bank organized by the Federal Deposit Insurance Corporation as provided in section 12B of the Federal Reserve Act, as amended,"; and by striking out the period at the end of section 4 and inserting the following: "or the Federal Deposit Insurance Corporation."

SEC. 333. The Act entitled "An Act to provide punishment for certain offenses committed against banks organized or operating under laws of the United States or any member of the Federal Reserve System", approved May 18, 1934 (48 Stat. 783), is amended by striking out the period after "United States" in the first section thereof and inserting the following: "and any insured bank as defined in subsection (c) of section 12B of the Federal Reserve Act, as amended."

SEC. 334. Section 5143 of the Revised Statutes, as amended, is hereby amended by striking out everything following the words "Comptroller of the Currency", where such words last appear in such section, and substituting the following: "and no shareholder shall be entitled to any distribution of cash or other assets by reason of any reduction of the common capital of any association unless such distribution shall have been approved by the Comptroller of the Currency and by the affirmative vote of at least two-thirds of the shares of each class of stock outstanding, voting as classes."

SEC. 335. Section 5139 of the Revised Statutes, as amended, is amended by adding at the end of the first paragraph the following new paragraph:

"Certificates hereafter issued representing shares of stock of the association shall state (1) the name and location of the association, (2) the name of the holder of record of the stock represented therby, (3) the number and class of shares which the certificate represents, and (4) if the association shall issue stock of more than one class, the respective rights, preferences, privileges, voting rights, powers, restrictions, limitations, and qualifications of each class of stock issued shall be stated in full or in summary upon the front or back of the certificates or shall be incorporated by a

reference to the articles of association set forth on the front of the certificates. Every certificate shall be signed by the president and the cashier of the association, or by such other officers as the bylaws of the association shall provide, and shall be sealed with the seal of the association."

SEC. 336. The last sentence of section 301 of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, is amended to read as follows: "No issue of preferred stock shall be valid until the par value of all stock so issued shall be paid in and notice thereof, duly acknowledged before a notary public by the president, vice president, or cashier of said association, has been transmitted to the Comptroller of the Currency and his certificate obtained specifying the amount of such issue of preferred stock and his approval thereof and that the amount has been duly paid in as a part of the capital of such association; which certificate shall be deemed to be conclusive evidence that such preferred stock has been duly and validly issued."

SEC. 337. The additional liability imposed by section 4 of the Act of March 4, 1933, as amended (D. C. Code, Supp. I, title 5, sec. 300a), upon the shareholders of savings banks, savings companies, and banking institutions and the additional liability imposed by section 734 of the Act of March 3, 1901 (D. C. Code, title 5, sec. 361), upon the shareholders of trust companies, shall cease to apply on July 1, 1937, with respect to such savings banks, savings companies, banking institutions, and trust companies which shall be transacting business on such date: Provided, That not less than six months prior to such date, the savings bank, savings company, banking institution, or trust company, desiring to take advantage hereof, shall have caused notice of such prospective termination of liability to be published in a newspaper published in the District of Columbia and having general circulation therein. In the event of failure to give such notice as and when above provided, a termination of such additional liability may thereafter be accomplished as of the date six months subsequent to publication in the manner above provided. Each such savings bank, savings company, banking institution, and trust company shall, before the declaration of a dividend on its shares of common stock, carry not less than one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall equal the amount of its common stock: Provided, That for the purposes of this section, any amounts paid into a fund for the retirement of any preferred stock or debentures of any such savings bank, savings company, banking institution, or trust company, out of its net earnings for such half-year period shall be deemed to be an addition to its surplus if, upon the retirement of such preferred stock or debentures, the amount so paid into such retirement fund for such period may then properly be carried to surplus. In any such case the savings bank, savings company, banking institution, or trust company shall be obligated to transfer to surplus the amount so paid into such retirement fund for such period on account of the preferred stock or debentures as such stock or debentures are retired.

SEC. 338. The second paragraph of section 9 of the Federal Reserve Act, as amended, is amended by striking out the period at the end thereof and adding thereto the following: "except that the approval of the Board of Governors of the Federal Reserve System, instead of the Comptroller of the Currency, shall be obtained before any State member bank may hereafter establish any branch and before any State bank hereafter admitted

to membership may retain any branch established after February 25, 1927, beyond the limits of the city, town, or village in which the parent bank is situated."

SEC. 339. Section 5234 of the Revised Statutes, as amended (U. S. C., title 12, sec. 192), is amended by striking out the period after the words "money so deposited" at the end of the next to the last sentence of such section and inserting in lieu of such period a colon and the following: "Provided, That no security in the form of deposit of United States bonds, or otherwise, shall be required in the case of such parts of the deposits as are insured under section 12B of the Federal Reserve Act, as amended."

SEC. 340. Section 61 of the Act entitled "An Act to establish a uniform system of bankruptcy throughout the United States", approved July 1, 1898, as amended, is amended by inserting before the period at the end thereof a colon and the following: "Provided, That no security in form of a bond or otherwise shall be required in the case of such part of the deposits as are insured under section 12B of the Federal Reserve Act, as amended".

SEC. 341. Section 8 of the Act entitled "An Act to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof, and for other purposes", approved June 25, 1910, as amended (U. S. C., title 39, sec. 758; Supp. VII, title 39, sec. 758), is amended by striking out the first sentence thereof and inserting in lieu thereof the following: "Notwithstanding any other provision of law, (1) each deposit in a postal savings depository office shall be a savings deposit, and interest thereon shall be allowed and entered to the credit of the depositor once for each quarter beginning with the first day of the month following the date of such deposit, but no interest shall be allowed to any such depositor with respect to the whole or any part of the funds to his or her credit for any period of less than three months; (2) no interest shall be paid on any such deposit at a rate in excess of that which may lawfully be paid on savings deposits under regulations prescribed by the Board of Governors of the Federal Reserve System pursuant to the Federal Reserve Act, as amended, for member banks of the Federal Reserve System located in or nearest to the place where such depository office is situated; and (3) postal savings depositories may deposit funds on time in member banks of the Federal Reserve System subject to the provisions of the Federal Reserve Act, as amended, and the regulations of the Board of Governors of the Federal Reserve System, with respect to the payment of time deposits and interest thereon."

SEC. 342. The last sentence of the third paragraph of subsection (k) of section 11 of the Federal Reserve Act, as amended (U. S. C., title 12, sec. 248(k)), is amended to read as follows: "The State banking authorities may have access to reports of examination made by the Comptroller of the Currency insofar as such reports relate to the trust department of such bank, but nothing in this Act shall be construed as authorizing the State banking authorities to examine the books, records, and assets of such bank."

SEC. 343. The first sentence after the third proviso of section 5240 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, secs. 481 and 482), is amended by striking out the word "is" after the words "whose compensation" and inserting in lieu thereof a comma and the following: "including retirement annuities to be fixed by the Comptroller of the Currency, is and shall be"; and such section 5240 is further amended

by striking out "The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency," and inserting in lieu thereof "The Comptroller of the Currency".

SEC. 344. (a) Section 1 of the National Housing Act is amended by adding at the end thereof the following new sentence: "The Administrator shall, in carrying out the provisions of this title and titles II and III, be authorized, in his official capacity, to sue and be sued in any court of competent jurisdiction, State or Federal."

(b) The first sentence of section 2 of the National Housing Act, as amended, is further amended by striking out the words "including the the installation of equipment and machinery" and inserting in lieu thereof the words "and the purchase and installation of equipment and machinery on real property".

(c) Subsection (a) of section 203 of the National Housing Act is amended by inserting the words "property and" before the word "projects" in clause (1) of such subsection.

(d) The last sentence of section 207 of the National Housing Act is amended by inserting the words "property or" before the word "project"

SEC. 345. If any part of the capital of a national bank, State member bank, or bank applying for membership in the Federal Reserve System consists of preferred stock, the determination of whether or not the capital of such bank is impaired and the amount of such impairment shall be based upon the par value of its stock even though the amount which the holders of such preferred stock shall be entitled to receive in the event of retirement or liquidation shall be in excess of the par value of such preferred stock. If any such bank or trust company shall have outstanding any capital notes or debentures of the type which the Reconstruction Finance Corporation is authorized to purchase pursuant to the provisions of section 304 of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, the capital of such bank may be deemed to be unimpaired if the sound value of its assets is not less than its total liabilities, including capital stock, but excluding such capital notes or debentures and any obligations of the bank expressly subordinated thereto. Notwithstanding any other provision of law, the holders of preferred stock issued by a national banking association pursuant to the provisions of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, shall be entitled to receive such cumulative dividends at a rate not exceeding six per centum per annum on the purchase price received by the association for such stock and, in the event of the retirement of such stock, to receive such retirement price, not in excess of such purchase price plus all accumulated dividends, as may be provided in the articles of association with the approval of the Comptroller of the Currency. If the association is placed in voluntary liquidation, or if a conservator or a receiver is appointed therefor, no payment shall be made to the holders of common stock until the holders of preferred stock shall have been paid in full such amount as may be provided in the articles of association with the approval of the Comptroller of the Currency, not in excess of such purchase price of such preferred stock plus all accumulated dividends.

SEC. 346. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act,

and the application of such provision to other persons and circumstances, shall not be affected thereby.

And the Senate agree to the same.

HENRY B. STEAGALL,
T. ALAN GOLDSBOROUGH,
JOHN B. HOLLISTER,
Managers on the part of the House.

CARTER GLASS,
DUNCAN U. FLETCHER,
ROBERT J. BULKLEY,
JOHN G. TOWNSEND, JR.,
WM. G. MCADOO,
PETER NORBECK,
Managers on the part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 7617) to provide for the sound, effective, and uninterrupted operation of the banking system, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon and recommended in the accompanying conference report:

TITLE I—FEDERAL DEPOSIT INSURANCE

The provisions of title I of the House bill, which amended various subsections of section 12B of the Federal Reserve Act (relating to the subject of Federal deposit insurance), did not differ in many respects from those contained in title I of the Senate amendment. However, the Senate amendment rewrote such section 12B so as to include the provisions of existing law which were not affected by the specific amendments made by title I of the House bill in order that all the provisions of the amended section might be found in one place when the amended section takes effect. The conference agreement retains the form of the Senate amendment, and the material differences in substance between its provisions and those of the House bill, and the conference action with respect thereto, are indicated below. Certain formal and clarifying amendments of a minor nature have also been made in other parts of Title I which are not specifically mentioned.

The House bill contained a provision which was omitted in the Senate amendment authorizing a Deputy Comptroller of the Currency to serve as a member of the board of directors of the Federal Deposit Insurance Corporation in the absence of the Comptroller. The conference agreement provides that the Acting Comptroller of the Currency may serve as a member of the board of directors of the Corporation during the absence of the Comptroller from Washington as well as in the case of a vacancy in the office of the Comptroller as was provided for by both the House bill and the Senate amendment.

The Senate amendment extended the benefits of deposit insurance to banks in Puerto Rico and the Virgin Islands. There was no corresponding provision in the House bill. The conference agreement retains the provision of the Senate amendment.

The House bill prohibited insured savings banks from withdrawing deposits by checking except from specific accounts totaling not more than 15 percent of the bank's total deposits. The Senate amendment limited this exception to cases where such withdrawal is permitted by law on the date of enactment of the Act. The conference agreement retains the provision of the Senate amendment.

The Senate amendment permitted any insured bank with a branch in Hawaii, Alaska, Puerto Rico, or the Virgin Islands to exclude from insurance deposits payable only at such branch. There was no corresponding provision in the House bill. The conference agreement retains the provision of the Senate amendment.

The House bill permitted the board of directors of the Federal Deposit Insurance Corporation to further define terms used in connection with the definition of the word "deposit." The Senate amendment omitted this provision, and the conference agreement also omits it.

The House bill permitted nonmember banks to terminate their insured status on June 30, 1935, but this was extended to August 31, 1935, by the Senate amendment since the Temporary Federal Deposit Insurance Fund was extended to that date by S. J. Res. No. 152, approved June 28, 1935. The conference agreement permits such banks to terminate their insured status within 30 days after the effective date by giving written notice to the Corporation. In such event, the directors of the Corporation are required to give notice to the depositors, and the insurance of the deposits continues for 20 days beyond such 30-day period.

The House bill provided that the factors to be considered by the Federal Deposit Insurance Corporation in connection with the admission of banks to the benefits of deposit insurance should be their financial condition and adequacy of capital structure. The Senate amendment added to these factors, the financial history of the banks, their future earning prospects, the general character of their management, the convenience and needs of the community, and whether or not their corporate powers were consistent with the act. The conference agreement retains the provisions of the Senate amendment.

The House bill provided for assessments upon insured banks at the rate of one-eighth of 1 percent upon their average deposit liability as determined on 1 day of each of 3 or more months preceding July and January of each year. Payments were required to be made semiannually. The Senate amendment provided for assessments at the rate of one-twelfth of 1 percent on the average deposit liability of insured banks over a 6 months' period and payments were also to be made semiannually. The Senate amendment added a provision under which assessments would be terminated when the assets of the Corporation exceeded $500,000,000, with an automatic restoration of assessments when the excess was reduced to $425,000,000. The conference agreement retains the assessment rate and base provided for in the Senate amendment, eliminates the provision relating to the termination of assessments, and provides for adjusting the first assessment according to the period remaining between the effective date of the act and the first of next year.

The Senate amendment provided for the termination of the insured status of member banks when their membership in the Federal Reserve System was terminated. There was no corresponding provision in the House bill. The conference agreement retains the Senate amendment.

The House bill provided that insured banks "may" be subject to a penalty of $100 for each day they fail to make or publish reports or to display signs indicating that their deposits are insured. The Senate amendment provided that in such cases a penalty "shall" be imposed but the amount was fixed at "not more than $100." The conference agreement retains the provisions of the Senate amendment.

The Senate amendment provided for limiting the insurance coverage to deposits which have been made available since March 10, 1933, for

withdrawal in the usual course of the banking business, and prohibited insurance of deposits which had not been so made available for withdrawal by the date of enactment of the act and with respect to which the insured bank had released or modified restrictions or deferments without the consent of the Corporation. There was no similar provision in the House bill, but the temporary insurance was so limited under the existing law. The conference agreement retains the provision of the Senate amendment.

The House bill provided for the guarantee by the United States of obligations issued by the Corporation. This provision was omitted in the Senate amendment, and the conference agreement also omits it.

The House bill authorized the Secretary of the Treasury to purchase the guaranteed obligations of the Corporation. The Senate amendment authorized the Secretary to purchase any of the obligations of the Corporation and provided that if the Reconstruction Finance Corporation failed for any reason to purchase such obligations as required by section 5e of the Reconstruction Finance Corporation Act, the Secretary should purchase such obligations in an amount equal to the amount the Reconstruction Finance Corporation so failed to purchase. The conference agreement retains the provisions of the Senate amendment and adds a provision requiring the Secretary of the Treasury to purchase an additional $250,000,000 of the obligations of the Corporation.

The House bill also authorized the Secretary of the Treasury to market the guaranteed obligations of the Federal Deposit Insurance Corporation. This provision was omitted in the Senate amendment. The conference agreement also omits it.

The Senate amendment restored the penalty of existing law applicable to directors of insured banks who participated in the declaration of dividends while their banks were in default in the payment of assessments to the Corporation. This provision was not included in the House bill. The conference agreement retains this provision.

The Senate amendment prohibited State nonmember insured banks from establishing and operating new branches, and from moving branches from one location to another, after 30 days after the date of enactment of the act, without the consent of the Corporation. There was no corresponding provision in the House bill. The conference agreement retains the provision of the Senate amendment.

The House bill authorized the board of directors of the Corporation to limit by regulation the rates of interest or dividends payable by insured nonmember banks on deposits other than demand deposits, and directed the board to prohibit the payment of interest on demand deposits except to the extent that exceptions are prescribed under section 19 of the Federal Reserve Act, or by regulation of the Federal Reserve Board, in the case of demand deposits in member banks. The board of directors was authorized to define demand and savings deposits and in fixing rates it was empowered but not directed to classify deposits according to maturities, conditions respecting receipt, withdrawal, or repayment, and to classify banks according to locations or kinds of banking business chiefly done as the board might deem necessary in the public interest. The board was also authorized to prescribe different rates for different classes of deposits or different classes of banks provided the different rates were reasonable when the bases for the classifications were considered. Payment of deposits

prior to maturity was to be prohibited by regulations of the board of directors as well as the waiving of any notice requirement with respect to withdrawal of deposits, but the prohibitions with respect to such withdrawals were not to apply to savings banks and exceptions might be made when by reason of special circumstances such prohibitions would cause unnecessary hardship to depositors. For each violation of any of these provisions or of the Corporation's regulations the offending bank was subject to a penalty of $100. The Senate amendment subjected insured State nonmember banks (other than savings banks, mutual savings banks, and Morris Plan banks) to the provisions of the Federal Reserve Act and regulations thereunder relating to the withdrawal and payment of deposits, and the payment of interest thereon, which are applicable to insured member banks. For each violation the offending bank was to be subject to a penalty of "not more than" $100. The conference agreement provides that the regulation of these matters in the case of insured State nonmember banks is to be left to the board of directors of the Corporation, as in the House bill, rather than to the Board of Governors of the Federal Reserve System as would have been the case under the Senate amendment. The board is directed to consider the same factors in fixing rates as are applicable when the Board of Governors acts under section 19 of the Federal Reserve Act with respect to member banks, and the board is authorized to define what constitutes demand time, and savings deposits in insured nonmember banks. The provisions with respect to the payment of deposits before maturity and the waiving of notice requirements before payment of savings deposits are also made to correspond to the provisions of such section 19. The penalty provision corresponds to that in the Senate amendment.

The Senate amendment included a provision not contained in the House bill which required every State bank organized after the date of enactment of the act, and every State bank which has average deposits of $1,000,000 or more during 1936 or any subsequent calendar year, to become a member of the Federal Reserve System in order to get the benefit of insurance after July 1, 1937. Exceptions were made, however, in the case of savings banks, mutual savings banks, Morris Plan banks, State trust companies doing no commercial business, and banks in Hawaii, Alaska, Puerto Rico, and the Virgin Islands. The conference agreement limits the requirement of the Senate amendment to State nonmember banks having average deposits of $1,000,000 or more and extends to July 1, 1942 the date upon which such banks are required to become members of the Federal Reserve System. The effect of the provision agreed to is to liberalize the provisions of existing law so that more than 6,500 State nonmember banks having average deposits of less than $1,000,000 will not be required to join the Federal Reserve System in order to continue their insured status.

The Senate amendment included a separability provision especially applicable to the provisions relating to the maximum limitation upon the amount of insurance payable to each depositor. There was no corresponding provision in the House bill. The conference agreement retains this provision.

TITLE II—AMENDMENTS TO THE FEDERAL RESERVE ACT

Section 201 of the House bill amended section 4 of the Federal Reserve Act so as to combine the offices of chairman of the board of directors and Governor of the Federal Reserve banks and to provide for the appointment of the Governor to be made annually by the directors of each bank subject to approval every 3 years by the Federal Reserve Board. The Governor would be the chief executive officer of the bank, chairman of its board of directors and a class C director. The Vice Governor would be Governor in his absence. It was also provided that the offices of Federal Reserve agent and assistant Federal Reserve agent would be abolished and that all duties prescribed by law for the Federal Reserve agent would be performed by the Governor of the bank or such person as he might designate. This section of the bill was not included in the Senate amendment. The conference agreement omits this section.

Section 201 of the Senate amendment amended the provisions of section 4 of the Federal Reserve Act relating to appointment of officers and employees of the Federal Reserve banks so as to provide for the appointment of a president and vice president for each such bank. It was provided that the president shall be the chief executive officer of the bank and shall be appointed by the board of directors with the approval of the Board of Governors of the Federal Reserve System (which under section 202 of the Senate amendment is the new name for the Federal Reserve Board) for a term of 5 years, and all other executive officers and all employees of the bank are to be directly responsible to him. The vice president of the bank is to be appointed in the same manner and for the same term as the president and is to serve as chief executive officer of the bank in the absence or disability of the president or during a vacancy in the office of president. Whenever a vacancy occurs in either office it is to be filled in the same manner as provided for in the case of original appointments and the person so appointed is to hold office until the expiration of the term of his predecessor. This provision was not included in the House bill. The conference agreement allows for the appointment of more than one vice president for each bank and provides that the first vice president shall be appointed in the same manner as the president. It is also provided that the section shall take effect March 1, 1936.

Section 202 of the House bill contained a provision authorizing the Federal Reserve Board to waive in whole or in part the requirements of section 9 of the Federal Reserve Act relating to admission to membership of any nonmember bank which at the time of its application for membership is insured by the Federal Deposit Insurance Corporation under section 12B of the Federal Reserve Act. The conference agreement restores the provision of section 202 of the House bill but limits its application to State banks which are required under subsection (y) of section 12B to become members of the Federal Reserve System in order to have their deposits insured after July 1, 1942.

Section 203 of the House bill changed the qualifications of members of the Federal Reserve Board by striking out the requirement of existing law that in selecting such members the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests and geographical divisions of the country,

and substituting a requirement that they should be well qualified by education or experience, or both, to participate in the formulation of national economic and monetary policies. The requirement of existing law that not more than one member of the Board should be selected from any one Federal Reserve district, was preserved for all appointive members of the Board except the governor. It was also provided that the governor and vice governor of the Board should serve as such until the further order of the President, and that if the governor's designation as such be terminated he might continue to serve as a member of the Board for the remainder of his term. This section of the bill was eliminated from the Senate amendment in view of the changes in the organization and membership of the Board provided for in section 202. The conference agreement also eliminates this section.

Section 202 of the Senate amendment provided for changing the name of the Federal Reserve Board to the Board of Governors of the Federal Reserve System, and for changing the name of the governor and vice governor of the Federal Reserve Board to chairman and vice chairman, respectively. It was provided that the Board of Governors of the Federal Reserve System shall be composed of seven members to be appointed by the President, by and with the advice and consent of the Senate, after the date of enactment of the act, for terms of 14 years, but that the present appointive members of the Federal Reserve Board and the Secretary of the Treasury and the Comptroller of the Currency may continue to serve as such members for not longer than 90 days after such date. The provision of existing law with respect to qualifications of members of the new Board were retained, namely, that the President shall have due regard for a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country, and a further requirement was added that at least two of such members shall be persons of tested banking experience. The annual salary of members of the Board was fixed at $15,000, and it was provided that not more than four of the members of the Board shall be members of the same political party. The successors to the present members of the Board were to be appointed in such manner that the term of not more than one member will expire in any 2-year period, and their successors will hold office for a term of 14 years, unless sooner removed for cause by the President. The President was also to designate the chairman and vice chairman of the Board to serve as such for terms of 4 years. It was also provided that any person appointed as a member of the Board after the date of enactment of the act shall not be eligible for reappointment as such member after he shall have served a full term of 14 years. A provision was also included in this section providing that the Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and the Federal Open Market Committee upon all questions of policy relating to open-market operations, together with the votes taken and the reasons underlying the action of the Board and the Committee in each instance. Similar records were required to be kept by the Board with respect to all questions of policy determined by it, and a copy of such records was to be included in the annual report of the Board to the Congress. The conference agreement modifies the provisions of the Senate amendment by eliminating the requirement that two

members of the Board shall be persons of tested banking experience and also the provision relating to the political affiliations of the members of the Board. The date upon which the change in the organization of the Board is to take effect is extended to February 1, 1936.

Section 203 of the Senate amendment reenacted and made permanent law the provisions of section 10b of the Federal Reserve Act which expired on March 3, 1935, and under which any member bank that had no eligible and acceptable assets to enable it to obtain adequate credit accommodations through rediscounting at a Federal Reserve bank, or any other method provided by the Federal Reserve Act (other than that provided by sec. 10 (a)), might apply to the Federal Reserve bank, under rules and regulations prescribed by the Board, for advances on its time or demand notes secured to the satisfaction of the bank. The provision that each such note shall bear interest at a rate not less than 1 percent per annum higher than the highest discount rate in effect at the Federal Reserve bank on the date of the note, was also retained, but the limitation of existing law that such advances may be made only "in exceptional and exigent circumstances" was eliminated. There was no corresponding provision in the House bill but section 206 provided that upon the endorsement of any member bank, subject to such regulations as to maturities and other matters as the Federal Reserve Board might prescribe, any Federal Reserve bank might discount any commercial, agricultural, or industrial paper and make advances to such member bank on its promissory notes secured by any sound assets of the bank. This section was eliminated from the Senate amendment. The conference agreement eliminates from the Senate amendment the provision requiring the exhausting of eligible and acceptable assets before securing advances, changes the 1-percent rate to one-half of 1 percent, and adds a provision that the notes of the member banks shall have maturities of not more than 4 months.

Section 204 of the House bill authorized the Federal Reserve Board to assign to designated members of the Board or its representatives under rules and regulations prescribed by the Board the performance of specific duties and functions, not including, however, the determination of any national or System policies, or any power to make rules and regulations, or any power which is required to be exercised by specified members of the Board. There was also a provision in this section stating that it shall be the duty of the Board to exercise its powers "in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration." These provisions were omitted from the Senate amendment. The conference agreement also omits them.

Section 205 of the House bill provided for an Open Market Advisory Committee, consisting of five representatives of the Federal Reserve banks, to take the place of the Federal Open Market Committee provided for in existing law. The Advisory Committee was authorized to consult and advise with and make recommendations to the Federal Reserve Board. It had no vote in determining open-market policies, but the Board was required to consult the Committee before making any changes on its own initiative in open-market policies, in rates of

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interest and discount to be charged by Federal Reserve banks, or in the reserve balances required to be maintained by member banks. It was also provided that all transactions of the Federal Reserve banks under section 14 of the Federal Reserve Act should be subject to such regulations, limitations, and restrictions as the Federal Reserve Board might prescribe. In lieu of this section, the Senate amendment in section 204 amended existing law so as to provide for a Federal Open Market Committee, consisting of the members of the Board of Governors of the Federal Reserve System, and five representatives of the Federal Reserve banks to be selected annually. Four of such representatives were to be elected by the boards of directors of the Federal Reserve banks by regions; that is to say, 1 to represent the Boston, New York, and Philadelphia banks; 1 to represent the Cleveland, Chicago, and St. Louis banks; 1 to represent the Richmond, Atlanta, and Dallas banks; and 1 to represent the Minneapolis, Kansas City, and San Francisco banks. The fifth representative, who was to be chosen from the country at large, was to be elected annually by the presidents of the 12 Federal Reserve banks. An alternate to serve in the absence of each such representative was to be elected annually in the same manner. It was also provided that no Federal Reserve bank shall engage or decline to engage in open-market operations under section 14 of the Federal Reserve Act except in accordance with regulations adopted by the Committee and that the Committee should make regulations relating to the open-market transactions of the Federal Reserve banks and the relations of the Federal Reserve System with foreign central or other foreign banks. The provision of existing law which allowed a Federal Reserve bank to decline to participate in open-market operations recommended and approved by the Committee, upon filing a notice of its decision within 30 days, was eliminated, but the provision of existing law was retained which states that the time, character, and volume of all purchases and sales of paper described in section 14 of the Federal Reserve Act as eligible for open-market operations, shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country. The conference agreement retains the provisions of the Senate amendment in substance as section 205 but instead of providing for a representative-at-large of the banks, it provides for 5 representatives to be elected as follows: 1 by the board of directors of the Boston and New York banks; 1 by the board of directors of the Philadelphia and Cleveland banks; 1 by the board of directors of the Chicago and St. Louis banks; 1 by the board of directors of the Richmond, Atlanta, and Dallas banks; and 1 by the board of directors of the Kansas City, Minneapolis and San Francisco banks. The conference agreement also eliminates the power of the Committee to make regulations with respect to the relations of the Federal Reserve System with foreign central or other foreign banks since this would be in conflict with the general authority over such matters which is granted to the Federal Reserve Board under existing law. This provision becomes effective March 1, 1936.

Section 207 of the House bill amended section 14 of the Federal Reserve Act so as to make eligible for purchase by Federal Reserve banks, without regard to maturities, direct obligations of the United States or obligations which are fully guaranteed by the United States

as to principal and interest. This provision was modified by section 205 of the Senate amendment so as to provide that direct obligations of the United States and such guaranteed obligations may be purchased only in the open market. The conference agreement retains the provisions of the Senate amendment as section 208.

Section 205 of the Senate amendment also amended existing law with respect to rates of discount to be established by the Federal Reserve banks by providing that such rates shall be established every 14 days, or oftener if deemed necessary by the Board of Governors of the Federal Reserve System. There was no corresponding provision in the House bill. The conference agreement retains the provisions of the Senate amendment as section 206.

Section 208 of the House bill amended section 16 of the Federal Reserve Act so as to repeal the requirements that Federal Reserve notes be secured at all times by the specific pledge of collateral, and it also eliminated the provision of existing law prohibiting a Federal Reserve bank from paying out the notes of any such bank and made certain technical changes with respect to issue, redemption, and retirement of Federal Reserve notes. It was provided that such notes should be obligations of the United States and legal tender for all purposes, should be secured by a first and paramount lien on all the assets of the issuing bank, and should be issued and retired under such rules and regulations as the Federal Reserve Board might prescribe. This provision of the bill was not included in the Senate amendment. The conference agreement omits this provision.

Section 209 of the House bill authorized the Federal Reserve Board, in order to prevent injurious credit expansion or contraction, to change by regulation the requirements as to reserves to be maintained against demand or time deposits or both by member banks in reserve and central reserve cities or by member banks not in reserve or central reserve cities or by all member banks. This provision was modified by section 206 of the Senate amendment so as to provide that the power to change the requirements as to reserves be conditioned upon an affirmative vote of not less than five members of the Board of Governors of the Federal Reserve System, and a limitation was added that the amount of the statutory reserves required to be maintained under existing law may not be decreased, nor increased to more than twice such amount. The conference agreement modifies the Senate amendment so as to require the affirmative vote of not more than four members of the Board.

Section 210 of the House bill amended section 24 of the Federal Reserve Act so as to provide that the conditions under which real-estate loans might be made by national banks would be prescribed by regulations of the Federal Reserve Board, with the limitations that the amount of any such loan hereafter made should not exceed 60 percent of the appraised value of the real estate at the time the loan is made and that the aggregate amount of such loans by any such bank should not exceed the capital and surplus of the bank, or 60 percent of its time and savings deposits, whichever is the greater. Section 207 of the Senate amendment retained the limitation of existing law that real-estate loans by national banks should be limited to those upon properties situated within the Federal Reserve district of such bank or within a radius of 100 miles of the place in which the bank is located, irrespective of district lines, and it also retained the requirement that

a real-estate loan should be in the form of an obligation secured by a mortgage or similar instrument when the entire amount of the obligation was made or sold to the bank. It was further provided that any such loan hereafter made should not exceed 50 percent of the appraised value of the real estate offered as security and that no such loan should be made for a longer term than 5 years, except that any such loan might be made in an amount not to exceed 60 percent of the appraised value of the real estate and for a term not longer than 10 years if the loan was secured by an amortized mortgage under the terms of which the installment payments were sufficient to amortize 50 percent or more of the principal of the loan within a period of not more than 10 years. Renewals or extensions of loans heretofore made and real-estate loans which are insured under the provisions of title II of the National Housing Act were exempted under both the House and Senate provisions. The provisions authorizing the Federal Reserve Board to prescribe the conditions under which such loans might be made were eliminated in the Senate amendment, but the provision of the House bill with respect to the aggregate amount of real-estate loans which might be made by any such bank was retained in the Senate amendment. The conference agreement retains the provisions of section 207 of the Senate amendment, except that the territorial limitation upon loans is eliminated and the requirement as to the form of the loans when the entire amount of the obligations securing them are made or sold to the banks is modified so as to permit more than one such bank to participate in making real estate loans but to permit any such bank to purchase obligations secured by mortgages only when the entire amount of the obligations are sold to the bank. The amortization requirement is also reduced from 50 to 40 percent. A provision of existing law is also restored relating to the receipt of time and savings deposits by such banks and the payment of interest thereon.

Section 208 of the Senate amendment provided for fixing the salary of the Comptroller of the Currency at $12,000 a year and removed the provision of existing law which provides that his appointment be made upon the recommendation of the Secretary of the Treasury. There was no corresponding provision in the House bill. The conference agreement retains the Senate provision but fixes the salary of the Comptroller at $15,000 to correspond to the salaries provided for members of the Board of Governors of the Federal Reserve System.

TITLE III—TECHNICAL AMENDMENTS TO THE BANKING LAWS

In this title many of the sections are identical both in form and in substance in the House bill and in the Senate amendment. Other sections of the Senate amendment, which are the same in substance as the corresponding sections of the House bill, contain formal and clarifying changes which are retained in the conference agreement. Many of the alterations thus made are the result of changing the name of the Federal Reserve Board to the Board of Governors of the Federal Reserve System. Certain clerical and typographical errors are also corrected. The sections in these two general groups are not specifically referred to but those in which there are material differences between the House and Senate provisions and which contain matter

not included in the House bill, together with the conference action with respect thereto, are indicated below.

Section 303 (b) of the House bill repealed section 21 (a) (2) of the Banking Act of 1933 which prohibits any person or organization not subject to examination and regulation under State or Federal law from engaging in the business of receiving deposits unless such person or organization submits to the examination by the Comptroller of the Currency or by a Federal Reserve bank. Instead of repealing this paragraph, the Senate amendment amended it so as to prohibit any person or organization from engaging in the business of receiving deposits with others than his or its own officers, agents, or employees unless such person or organization is incorporated under and authorized to engage in such business by Federal or State law, or is permitted to engage in such business by any State, Territory, or District and is subject under the laws thereof to examination and regulation, or submits to examination by the banking authorities of the State, Territory, or District where the business is conducted and makes and publishes periodic reports of condition under the same conditions as required by local law of an incorporated banking institution. The conference agreement retains the provision of the Senate amendment.

Section 308 (a) of the Senate amendment contained a provision which was not included in the House bill amending paragraph seventh of section 5136 of the Revised Statutes so as to permit national banks under regulations by the Comptroller of the Currency and with other restrictions to underwrite and sell bonds, debentures, and notes. The conference agreement eliminates this provision.

Section 308 (c) of the Senate amendment provided for including within the group of securities that may be dealt in by member banks free from the restrictions of section 5136 of the Revised Statutes, obligations insured by the Federal Housing Administrator if debentures guaranteed by the United States as to principal and interest are to be issued in payment of such insured obligations. There was no corresponding provision in the House bill. The conference agreement retains the provision of the Senate amendment.

Section 309 of the House bill amended section 5138 of the Revised Statutes to require a newly organized national bank to have a paid-in surplus equal to 20 percent of its capital, thus expressly providing by law a condition which has long been imposed by the Comptroller of the Currency. This requirement may be waived by the Comptroller as to a State bank converting into a national bank. An additional condition not included in the House bill was added by the Senate amendment to the effect that any such converting State bank shall carry not less than one-half of its net profits for the preceding half year to its surplus fund before declaring dividends, until its surplus equals 20 percent of its capital. Further provision was also made for giving any such bank credit as surplus for amounts paid into a preferred stock retirement fund. The conference agreement retains the provision of the Senate amendment.

Section 310 (a) of the Senate amendment amended the provisions of section 5139 of the Revised Statutes which provide that stock certificates of national banks may not represent the stock of any other corporation except a member bank or a corporation engaged solely in holding the bank premises of the association, so as to provide that such

certificate may not bear any statement purporting to represent the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934, in holding the bank premises. This amendment differs from the provision in the House bill in that it exempts corporations engaged in holding the bank premises on June 16, 1934, whereas the House provision limited the exception to a corporation primarily engaged in holding such premises. The conference agreement retains the provisions of the Senate amendment.

Section 310 (b) of the Senate amendment added a provision not incorporated in the House bill which amends section 9 of the Federal Reserve Act and makes the same changes in the law relative to stock certificates of State member banks as was made by section 310 (a) as to stock certificates of national banks. The conference agreement retains the provisions of the Senate amendment.

Section 311 (c) of the Senate amendment was not included in the House bill. It amends section 5144 of the Revised Statutes by relieving a holding company affiliate, to the extent that the shares of bank stock owned by it are not subject to statutory liability, from the requirements of subsection (b) of section 5144 which requires a holding company affiliate to maintain and possess readily marketable assets other than bank stock in an amount not less than 12 percent of the aggregate par value of all such stock controlled by the affiliate, and requires it to increase such amount by 2 percent per annum until such amount equals 25 percent of the par value of such bank stock. In lieu of the foregoing requirement, any such holding company affiliate, to the extent that the shares of bank stock held by it are not subject to statutory liability, is only required to maintain a reserve out of net earnings above 6 percent of such readily marketable assets in an amount equal to 12 percent of the par value of bank stocks controlled by it. The conference agreement retains the provisions of the Senate amendment.

Section 315 of the House bill amended section 5199 of the Revised Statutes to provide that national banks shall carry not less than one-tenth part of their net profits of the preceding half year to surplus before the declaration of a dividend until the surplus is built up to equal the amount of the common capital. The Senate amendment added a provision which was not contained in the House bill which would allow a national bank to treat as an addition to its surplus fund amounts paid into its preferred-stock retirement fund. The conference agreement retains the provision of the Senate amendment.

Section 316 extends the criminal provisions of section 5209 of the Revised Statutes as to embezzlement, false entries, etc., so as to apply to officers, directors, and employees of insured nonmember banks. The conference agreement adds a provision to make certain that nonmember national banks in the Territories are included within the terms of the section whether or not they are insured.

Section 321 (a) of the Senate amendment amended section 11 (m) of the Federal Reserve Act to extend to State member banks the provisions applicable to national banks which enlarge the maximum limitation on loans to one individual from 10 percent of the bank's unimpaired capital and surplus to 25 percent thereof where such loans are secured by bonds, notes, certificates, or Treasury bills of the United States, or secured by obligations fully guaranteed as to principal and interest by the United States. The provisions with

respect to such guaranteed obligations were not included in the House bill. The conference agreement retains the provisions of the Senate amendment.

Section 321 (b) of the Senate amendment amended paragraph 8 of section 5200 of the Revised Statutes so as to provide a maximum limit of 25 percent instead of 10 percent of the bank's capital and surplus on loans secured by various obligations of the United States. The amendment adds to such obligations, Treasury bills of the United States and obligations fully guaranteed both as to principal and interest by the United States. The provisions with respect to such guaranteed obligations were not included in the House bill. The conference agreement retains the provisions of the Senate amendment.

Section 324 (c) of the Senate amendment amended section 19 of the Federal Reserve Act to add to the classes of deposits exempted from the prohibition against the payment of interest on demand deposits, deposit contracts existing when a bank joins the Federal Reserve System. It was also provided that deposits payable outside the States of the United States and the District of Columbia shall likewise be exempt, rather than "those payable in foreign countries" as is provided in the existing law. A provision not included in the House bill prohibited payment of interest after the expiration of 2 years from the date of enactment of the act, on demand deposits made by savings banks as defined in section 12B of the Federal Reserve Act, as amended, and by mutual savings banks, demand deposits of public funds made by or on behalf of any State, county, school district, or any subdivision or municipality, and demand deposits of trust funds, upon which interest is required to be paid by State law. The House provision, permitting payment of interest on demand deposits made by any such savings bank or mutual savings bank, by the United States or any Territory, district, or possession thereof, including the Philippine Islands, or any public instrumentality or agency thereof with respect to which interest is required by law, or by any State, etc., and on demand deposits of trust funds, was eliminated. A new provision was also added repealing so much of existing law as requires payment of interest on deposits of public funds made by the United States, etc. In conformity with the House provision, the Senate amendment made more flexible the power of the Board of Governors of the Federal Reserve System to classify time and savings deposits and prescribe the rates of interest to be paid thereon. The absolute prohibition against payment of time deposits before maturity may be relaxed under conditions to be prescribed by the Board, and deposits payable only at offices of member banks located outside of the United States and the District of Columbia are exempted from the restrictions on interest rates and the prohibitions on payment before maturity. The conference agreement retains the provisions of the Senate amendment.

Section 327 of the House bill amended section 23A of the Federal Reserve Act which limits loans to affiliates, and loans on and investments in securities of affiliates, and prescribed certain conditions by way of collateral requirements to such loans. It also enumerated certain types of affiliates which are to be exempt from such conditions and requirements. The Senate amendment made a change in the

provision exempting an affiliate engaged "primarily" in holding bank premises so that the exemption would apply only to an affiliate engaged "on June 16, 1934" in holding such premises. The conference agreement retains the provision of the Senate amendment.

Section 329 of the Senate amendment repealed section 8A of the Clayton Act relating to interlocking relationships between banks and institutions making loans secured by stock or bond collateral, and repealed the provisions of sections 25 and 25 (a) of the Federal Reserve Act which relate to interlocking relationships. The first three paragraphs of section 8 of the Clayton Act were also amended, but the provision in the Senate amendment was materially different from that in the House bill. The House bill prohibited any director, officer, or employee of a member bank from being at the same time a private banker or a director, officer, or employee of another banking institution (other than a mutual savings bank) except in limited classes of cases in which the Federal Reserve Board might allow such service by general regulation when in its judgment such classes of institutions were not in substantial competition. The provision in the Senate amendment prohibited a director, officer, or employee of a member bank or branch thereof from being at the same time a private banker, or a director, officer, or employee of more than one other bank or trust company or branch thereof, except in the following cases:

(1) Where such other bank is more than 90 percent controlled by the United States or a corporation in which the United States owns more than 90 percent of the stock.

(2) Where such other bank has been placed in liquidation or is in the hands of a receiver or conservator.

(3) Where such other bank is principally engaged in international or foreign banking in a possession of the United States and has entered into an agreement with the Board of Governors of the Federal Reserve System as provided by section 25 of the Federal Reserve Act.

(4) A bank more than 50 percent of the common stock of which is owned by persons owning more than 50 percent of the common stock of a member bank.

(5) A bank not located and having no branch in the same place in which a member bank or a branch thereof is located or in a place contiguous thereto.

(6) A bank not engaged in a class of business in which a member bank is engaged.

(7) A mutual savings bank having no capital stock.

A further provision not contained in the House bill suspended the operation of the amendment until February 1, 1939, insofar as it affects interlocking relationships of any director, officer, or employee of a member bank or branch thereof lawfully existing on the date the act takes effect.

The conference agreement amends section 8 of the Clayton Act so as to provide that no private banker or director, officer, or employee of any member bank or any branch thereof shall be at the same time a director, officer, or employee of any other bank or branch thereof, except that the Board of Governors of the Federal Reserve System may by regulation permit such service as a director, officer, or employee of not more than one other such institution or branch thereof. The prohibitions are not to apply, however, to the cases excepted under the provisions of the Senate amendment, and the remaining provisions of the Senate amendment are also retained.

Section 337 of the House bill provided for terminating the liability of shareholders of banks and trust companies in the District of Columbia on July 1, 1937, under the same conditions as are applicable under section 304 of the bill in the case of national banks. Each such nstitution is required to carry one-tenth part of its net profits of the preceding half year to surplus before declaring a dividend and to continue to do so until the surplus equals the amount of its common stock, and under the Senate amendment it is allowed to treat as surplus any amounts paid into a fund for retiring its preferred stock or debentures. The conference agreement retains the provisions of the Senate amendment.

Section 341 of the House bill which amended the provisions of section 8 of the Postal Savings Depository Act of June 25, 1910, relating to the withdrawal of and interest on postal savings deposits, was eliminated by the Senate amendment. Under this provision of the House bill any depositor was allowed to withdraw the whole or any part of his deposit with accrued interest after giving 60 days' written notice but subject to regulations of the Postmaster General. It was further provided that in the absence of such notice withdrawal would be permitted only on condition that not less than 3 months' interest be deducted. Provisions were also included requiring that the interest rate paid on any such deposit should not exceed that which might lawfully be paid on savings deposits in member banks located in or nearest to the place where the depository office is located and authorizing such depositories to deposit funds on time in member banks subject to the provisions of the Federal Reserve Act with respect to payment and interest. The conference agreement restores the last two provisions referred to, and provides that postal savings deposits shall be savings deposits, that interest shall be allowed and credited quarterly, and that no interest shall be allowed to any depositor for any period of less than 3 months.

Section 341 of the Senate amendment amended section 11 (k) of the Federal Reserve Act to provide that State banking authorities may have access to the reports of examination of trust departments of national banks made by the Comptroller of the Currency. This provision was not included in the House bill. The conference agreement retains this provision as section 342.

Section 342 of the Senate amendment amended section 5240 of the Revised Statutes, relating to payment of compensation of employees of the Office of the Comptroller of the Currency by means of assessments on banks, so as to include the payment of retirement annuities for such employees. There was no corresponding provision in the House bill. The conference agreement retains it as section 343.

Section 343 of the Senate amendment, which was not included in the House bill, amends the National Housing Act in several respects. Subsection (a) authorizes the Federal Housing Administrator, in carrying out the provisions of titles I, II, and III of such act, to sue and be sued in any court of competent jurisdiction, State or Federal. Subsection (b) is intended merely to clarify and not to extend the provisions of existing law relating to insured loans for financing alterations, repairs, and improvements on real property so that the purchase and installation of equipment and machinery on real property may be included. Subsections (c) and (d) also clarify existing law with respect to mortgage insurance in connection with low-cost

housing projects and property. The conference agreement retains the provisions of the Senate amendment as section 344.

Section 344 of the Senate amendment added a provision which was not contained in the House bill relating to preferred stock, capital notes, and debentures of member banks of the Federal Reserve System and the consideration to be given to such securities in determining whether the capital stock of any such bank is impaired. It was also provided that the dividends on preferred stock of national banks shall not exceed 6 percent of the original purchase price of such stock, and that in the event of the retirement of such stock or the liquidation of the bank the holders of the stock shall be entitled to receive not more than the original purchase price plus accumulative dividends. The conference agreement retains the provisions of the Senate amendment with clarifying amendments.

Section 345 of the Senate amendment contains the usual provision relating to separability in the event any part of the act should be held unconstitutional. There was no corresponding provision in the House bill. The conference agreement retains it.

HENRY B. STEAGALL,
T. ALAN GOLDSBOROUGH,
JOHN B. HOLLISTER,
Managers on the part of the House.

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[PUBLIC—NO. 305—74TH CONGRESS]

[H. R. 7617]

AN ACT

To provide for the sound, effective, and uninterrupted operation of the banking system, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Banking Act of 1935".

TITLE I—FEDERAL DEPOSIT INSURANCE

SECTION 101. Section 12B of the Federal Reserve Act, as amended (U. S. C., Supp. VII, title 12, sec. 264), is amended to read as follows:

"SEC. 12B. (a) There is hereby created a Federal Deposit Insurance Corporation (hereinafter referred to as the 'Corporation') which shall insure, as hereinafter provided, the deposits of all banks which are entitled to the benefits of insurance under this section, and which shall have the powers hereinafter granted.

"(b) The management of the Corporation shall be vested in a board of directors consisting of three members, one of whom shall be the Comptroller of the Currency, and two of whom shall be citizens of the United States to be appointed by the President, by and with the advice and consent of the Senate. One of the appointive members shall be the chairman of the board of directors of the Corporation and not more than two of the members of such board of directors shall be members of the same political party. Each such appointive member shall hold office for a term of six years and shall receive compensation at the rate of $10,000 per annum, payable monthly out of the funds of the Corporation, but the Comptroller of the Currency shall not receive additional compensation for his services as such member. In the event of a vacancy in the office of the Comptroller of the Currency, and pending the appointment of his successor, or during the absence of the Comptroller from Washington, the Acting Comptroller of the Currency shall be a member of the board of directors in the place and stead of the Comptroller. In the event of a vacancy in the office of the chairman of the board of directors, and pending the appointment of his successor, the Comptroller of the Currency shall act as chairman. The Comptroller of the Currency shall be ineligible during the time he is in office and for two years thereafter to hold any office, position, or employment in any insured bank. The appointive members of the board of directors shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any insured bank, except that this restriction shall not apply to any appointive member who has served the full term for which he was appointed. No member of the board of directors shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold stock in any bank, banking institu-

tion, or trust company; and before entering upon his duties as a member of the board of directors he shall certify under oath that he has complied with this requirement and such certification shall be filed with the secretary of the board of directors. No member of the board of directors serving on the board of directors on the effective date shall be subject to any of the provisions of the three preceding sentences until the expiration of his present term of office.

"(c) As used in this section—

"(1) The term 'State bank' means any bank, banking association, trust company, savings bank, or other banking institution which is engaged in the business of receiving deposits and which is incorporated under the laws of any State, Hawaii, Alaska, Puerto Rico, or the Virgin Islands, or which is operated under the Code of Law for the District of Columbia (except a national bank), and includes any unincorporated bank the deposits of which are insured on the effective date under the provisions of this section.

"(2) The term 'State member bank' means any State bank which is a member of the Federal Reserve System, and the term 'State nonmember bank' means any State bank which is not a member of the Federal Reserve System.

"(3) The term 'District bank' means any State bank operating under the Code of Law for the District of Columbia.

"(4) The term 'national member bank' means any national bank located in any of the States of the United States, the District of Columbia, Hawaii, Alaska, Puerto Rico, or the Virgin Islands which is a member of the Federal Reserve System.

"(5) The term 'national nonmember bank' means any national bank located in Hawaii, Alaska, Puerto Rico, or the Virgin Islands which is not a member of the Federal Reserve System.

"(6) The term 'mutual savings bank' means a bank without capital stock transacting a savings bank business, the net earnings of which inure wholly to the benefit of its depositors after payment of obligations for any advances by its organizers.

"(7) The term 'savings bank' means a bank (other than a mutual savings bank) which transacts its ordinary banking business strictly as a savings bank under State laws imposing special requirements on such banks governing the manner of investing their funds and of conducting their business: *Provided*, That the bank maintains, until maturity date or until withdrawn, all deposits made with it (other than funds held by it in a fiduciary capacity) as time savings deposits of the specific term type or of the type where the right is reserved to the bank to require written notice before permitting withdrawal: *Provided further*, That such bank to be considered a savings bank must elect to become subject to regulations of the Corporation with respect to the redeposit of maturing deposits and prohibiting withdrawal of deposits by checking except in cases where such withdrawal is permitted by law on the effective date from specifically designated deposit accounts totaling not more than 15 per centum of the bank's total deposits.

"(8) The term 'insured bank' means any bank the deposits of which are insured in accordance with the provisions of this section; and the term 'noninsured bank' means any bank the deposits of which are not so insured.

"(9) The term 'new bank' means a new national banking association organized by the Corporation to assume the insured deposits of an insured bank closed on account of inability to meet the demands of its depositors and otherwise to perform temporarily the functions prescribed in this section.

"(10) The term 'receiver' includes a receiver, liquidating agent, conservator, commission, person, or other agency charged by law with the duty of winding up the affairs of a bank.

"(11) The term 'board of directors' means the board of directors of the Corporation.

"(12) The term 'deposit' means the unpaid balance of money or its equivalent received by a bank in the usual course of business and for which it has given or is obligated to give credit to a commercial, checking, savings, time or thrift account, or which is evidenced by its certificate of deposit, and trust funds held by such bank whether retained or deposited in any department of such bank or deposited in another bank, together with such other obligations of a bank as the board of directors shall find and shall prescribe by its regulations to be deposit liabilities by general usage: *Provided*, That any obligation of a bank which is payable only at an office of the bank located outside the States of the United States, the District of Columbia, Hawaii, Alaska, Puerto Rico, and the Virgin Islands, shall not be a deposit for any of the purposes of this section or be included as a part of total deposits or of an insured deposit: *Provided further*, That any insured bank having its principal place of business in any of the States of the United States or in the District of Columbia which maintains a branch in Hawaii, Alaska, Puerto Rico, or the Virgin Islands may elect to exclude from insurance under this section its deposit obligations which are payable only at such branch, and upon so electing the insured bank with respect to such branch shall comply with the provisions of this section applicable to the termination of insurance by nonmember banks: *Provided further*, That the bank may elect to restore the insurance to such deposits at any time its capital stock is unimpaired.

"(13) The term 'insured deposit' means the net amount due to any deposit or deposits in an insured bank (after deducting offsets) less any part thereof which is in excess of $5,000. Such net amount shall be determined according to such regulations as the board of directors may prescribe, and in determining the amount due to any depositor there shall be added together all deposits in the bank maintained in the same capacity and the same right for his benefit either in his own name or in the names of others, except trust funds which shall be insured as provided in paragraph (9) of subsection (h) of this section.

"(14) The term 'transferred deposit' means a deposit in a new bank or other insured bank made available to a depositor by the Corporation as payment of the insured deposit of such depositor in a closed bank, and assumed by such new bank or other insured bank.

"(15) The term 'branch' includes any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State of the United States or in Hawaii, Alaska, Puerto Rico, or the Virgin Islands at which deposits are received or checks paid or money lent.

"(16) The term 'effective date' means the date of enactment of the Banking Act of 1935.

"(d) There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $150,000,000, which shall be available for payment by the Secretary of the Treasury for capital stock of the Corporation in an equal amount, which shall be subscribed for by him on behalf of the United States. Payments upon such subscription shall be subject to call in whole or in part by the board of directors of the Corporation. Such stock shall be in addition to the amount of capital stock required to be subscribed for by Federal Reserve banks. Receipts for payments by the United States for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership of the United States. Every Federal Reserve bank shall subscribe to shares of stock in the Corporation to an amount equal to one-half of the surplus of such bank on January 1, 1933, and its subscriptions shall be accompanied by a certified check payable to the Corporation in an amount equal to one-half of such subscription. The remainder of such subscription shall be subject to call from time to time by the board of directors upon ninety days' notice. The capital stock of the Corporation shall consist of the shares subscribed for prior to the effective date. Such stock shall be without nominal or par value, and shares issued prior to the effective date shall be exchanged and reissued at the rate of one share for each $100 paid into the Corporation for capital stock. The consideration received by the Corporation for the capital stock shall be allocated to capital and to surplus in such amounts as the board of directors shall prescribe. Such stock shall have no vote and shall not be entitled to the payment of dividends.

"(e) (1) Every operating State or national member bank, including a bank incorporated since March 10, 1933, licensed on or before the effective date by the Secretary of the Treasury shall be and continue to be, without application or approval, an insured bank and shall be subject to the provisions of this section.

"(2) After the effective date, every national member bank which is authorized to commence or resume the business of banking, and every State bank which is converted into a national member bank or which becomes a member of the Federal Reserve System, shall be an insured bank from the time it is authorized to commence or resume business or becomes a member of the Federal Reserve System. The certificate herein prescribed shall be issued to the Corporation by the Comptroller of the Currency in the case of such national member bank, or by the Board of Governors of the Federal Reserve System in the case of such State member bank: *Provided*, That in the case of an insured bank which is admitted to membership in the Federal Reserve System or an insured State bank which is converted into a national member bank, such certificate shall not be required, and the bank shall continue as an insured bank. Such certificate shall state that the bank is authorized to transact the business of banking in the case of a national member bank, or is a member of the Federal Reserve System in the case of a State member bank, and that consideration has been given to the factors enumerated in subsection (g) of this section.

"(f) (1) Every bank which is not a member of the Federal Reserve System which on June 30, 1935 was or thereafter became a member of the Temporary Federal Deposit Insurance Fund or of the Fund For Mutuals heretofore created pursuant to the provisions of this section, shall be and continue to be, without application or approval, an insured bank and shall be subject to the provisions of this section: *Provided*, That any State nonmember bank which was admitted to the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals but which did not file on or before the effective date an October 1, 1934 certified statement and make the payments thereon required by law, shall cease to be an insured bank on August 31, 1935: *Provided further*, That no bank admitted to the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals prior to the effective date shall, after August 31, 1935, be an insured bank or have its deposits insured by the Corporation, if such bank shall have permanently discontinued its banking operations prior to the effective date.

"(2) Subject to the provisions of this section, any national nonmember bank, upon application by the bank and certification by the Comptroller of the Currency in the manner prescribed in subsection (e) of this section, and any State nonmember bank, upon application to and examination by the Corporation and approval by the board of directors, may become an insured bank. Before approving the application of any such State nonmember bank, the board of directors shall give consideration to the factors enumerated in subsection (g) of this section and shall determine, upon the basis of a thorough examination of such bank, that its assets in excess of its capital requirements are adequate to enable it to meet all its liabilities to depositors and other creditors as shown by the books of the bank.

"(g) The factors to be enumerated in the certificate required under subsection (e) and to be considered by the board of directors under subsection (f) shall be the following: The financial history and condition of the bank, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served by the bank, and whether or not its corporate powers are consistent with the purposes of this section.

"(h) (1) The assessment rate shall be one-twelfth of 1 per centum per annum. The semiannual assessment for each insured bank shall be in the amount of the product of one-half the annual assessment rate multiplied by an assessment base which shall be the average for six months of the differences at the end of each calendar day between the total amount of liability of the bank for deposits (according to the definition of the term 'deposit' in and pursuant to paragraph (12) of subsection (c) of this section, without any deduction for indebtedness of depositors) and the total of such uncollected items as are included in such deposits and credited subject to final payment: *Provided, however*, That the daily total of such uncollected items shall be determined according to regulations prescribed by the board of directors upon a consideration of the factors of general usage and ordinary time of availability, and for the purposes of such deduction no item shall be regarded as uncollected for longer periods than those prescribed by such regulations. Each insured bank shall, as a condi-

tion to the right to deduct any specific uncollected item in determining its assessment base, maintain such records as will readily permit verification of the correctness of the particular deduction claimed. The certified statements required to be filed with the Corporation under paragraphs (2), (3), and (4) of this subsection shall be in such form and set forth such supporting information as the board of directors shall prescribe. The assessment payments required from insured banks under paragraphs (2), (3), and (4) of this subsection shall be made in such manner and at such time or times as the board of directors shall prescribe, provided the time or times so prescribed shall not be later than sixty days after filing the certified statement setting forth the amount of the assessment. In the event that a separate Fund For Mutuals is established as provided in subsection (l), the board of directors from time to time may fix a lower assessment rate operative for such period as the board may determine which shall be applicable to insured mutual savings banks only, and the remainder of this paragraph shall not be applicable to such banks.

"(2) On or before the 15th day of July of each year, each insured bank shall file with the Corporation a certified statement under oath showing for the six months ending on the preceding June 30 the amount of the assessment base and the amount of the semiannual assessment due to the Corporation, determined in accordance with paragraph (1) of this subsection. Each insured bank shall pay to the Corporation the amount of the semiannual assessment it is required to certify. On or before the 15th day of January of each year after 1936 each insured bank shall file with the Corporation a similar certified statement for the six months ending on the preceding December 31 and shall pay to the Corporation the amount of the semiannual assessment it is required to certify.

"(3) Each bank which becomes an insured bank according to the provisions of subsection (e) or (f) of this section shall, on or before the 15th day of November 1935, file with the Corporation a certified statement under oath showing the amount of the assessment due to the Corporation for the period ending December 31, 1935, which shall be an amount equal to the product of one-third the annual assessment rate multiplied by the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the 31 days in the month of October 1935, and payment shall be made to the Corporation of the amount of the assessment so required to be certified. Each such bank shall, on or before the 15th day of January 1936, file with the Corporation a certified statement under oath showing the amount of the semiannual assessment due to the Corporation for the period ending June 30, 1936, which shall be an amount equal to the product of one-half the annual assessment rate multiplied by the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the days of the months of October, November and December of 1935, and payment shall be made to the Corporation of the amount of the assessment so required to be certified.

"(4) Each bank which becomes an insured bank after the effective date shall be relieved from complying with the provisions of paragraph (2) of this subsection until it has operated as an insured bank

for a full semiannual period ending on June 30 or December 31 as the case may be. Each such bank, on or before the forty-fifth day after its first day of operation as an insured bank, shall file with the Corporation its first certified statement which shall be under oath and shall show the amount of the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the first thirty-one calendar days it operates as an insured bank. Each such certified statement shall also show as the amount of the first assessment due to the Corporation the prorated portion (for the period between its first day of operation as an insured bank and the next succeeding last day of June or December, as the case may be) of an amount equal to the product of one-half the annual assessment rate multiplied by the base required to be set forth on its first certified statement. Each bank which becomes an insured bank after the effective date which has not operated as an insured bank for a full semiannual period ending on June 30 or December 31, as the case may be, shall, on or before the 15th day of the first month thereafter (except that banks becoming insured in June or December shall have thirty-one additional days) file with the Corporation its second certified statement under oath showing the amount of the assessment base and the amount of the semiannual assessment due to the Corporation. Such assessment base and amount shall be determined in accordance with paragraph (1) of this subsection, except that if the bank became an insured bank in the month of December or June the assessment base shall be the average for the first thirty-one calendar days it operates as an insured bank, and except that if it became an insured bank in any other month than December or June the assessment base shall be the average for the days between its first day of operation as an insured bank and the next succeeding last day of June or December, as the case may be. Each bank required to file a certified statement under this paragraph shall pay to the Corporation the amount of the assessment the bank is required to certify.

"(5) Each bank which shall be and continue without application or approval an insured bank in accordance with the provisions of subsection (e) or (f) of this section, shall, in lieu of all right to refund (except as authorized in paragraph (3) of subsection (i)), be credited with any balance to which such bank shall become entitled upon the termination of the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals. The credit shall be applied by the Corporation toward the payment of the assessment next becoming due from such bank and upon succeeding assessments until the credit is exhausted.

"(6) Any insured bank which fails to file any certified statement required to be filed by it in connection with determining the amount of any assessment payable by the bank to the Corporation may be compelled to file such statement by mandatory injunction or other appropriate remedy in a suit brought for such purpose by the Corporation against the bank and any officer or officers thereof in any court of the United States of competent jurisdiction in the district or territory in which such bank is located.

"(7) The Corporation, in a suit brought at law or in equity in any court of competent jurisdiction, shall be entitled to recover from any insured bank the amount of any unpaid assessment lawfully payable

by such insured bank to the Corporation, whether or not such bank shall have filed any such certified statement and whether or not suit shall have been brought to compel the bank to file any such statement.

"(8) Should any national member bank or any insured national nonmember bank fail to file any certified statement required to be filed by such bank under any provision of this subsection, or fail to pay any assessment required to be paid by such bank under any provision of this section, and should the bank not correct such failure within thirty days after written notice has been given by the Corporation to an officer of the bank, citing this paragraph, and stating that the bank has failed to file or pay as required by law, all the rights, privileges, and franchises of the bank granted to it under the National Bank Act or under the provisions of this Act, as amended, shall be thereby forfeited. Whether or not the penalty provided in this paragraph has been incurred shall be determined and adjudged in the manner provided in the sixth paragraph of section 2 of this Act, as amended. The remedies provided in this paragraph and in the two preceding paragraphs shall not be construed as limiting any other remedies against any insured bank, but shall be in addition thereto.

"(9) Trust funds held by an insured bank in a fiduciary capacity whether held in its trust or deposited in any other department or in another bank shall be insured in an amount not to exceed $5,000 for each trust estate, and when deposited by the fiduciary bank in another insured bank such trust funds shall be similarly insured to the fiduciary bank according to the trust estates represented. Notwithstanding any other provision of this section, such insurance shall be separate from and additional to that covering other deposits of the owners of such trust funds or the beneficiaries of such trust estates: *Provided*, That where the fiduciary bank deposits any of such trust funds in other insured banks, the amount so held by other insured banks on deposit shall not for the purpose of any certified statement required under paragraph (2), (3), or (4) of this subsection be considered to be a deposit liability of the fiduciary bank, but shall be considered to be a deposit liability of the bank in which such funds are so deposited by such fiduciary bank. The board of directors shall have power by regulation to prescribe the manner of reporting and of depositing such trust funds.

"(i) (1) Any insured bank (except a national member bank or State member bank) may, upon not less than ninety days' written notice to the Corporation, and to the Reconstruction Finance Corporation if it owns or holds as pledgee any preferred stock, capital notes, or debentures of such bank, terminate its status as an insured bank. Whenever the board of directors shall find that an insured bank or its directors or trustees have continued unsafe or unsound practices in conducting the business of such bank, or have knowingly or negligently permitted any of its officers or agents to violate any provision of any law or regulation to which the insured bank is subject, the board of directors shall first give to the Comptroller of the Currency in the case of a national bank or a District bank, to the authority having supervision of the bank in the case of a State bank, or to the Board of Governors of the Federal Reserve System in the case of a State member bank, a statement with respect to such prac-

tices or violations for the purpose of securing the correction thereof. Unless such correction shall be made within one hundred and twenty days or such shorter period of time as the Comptroller of the Currency, the State authority, or Board of Governors of the Federal Reserve System, as the case may be, shall require, the board of directors, if it shall determine to proceed further, shall give to the bank not less than thirty days' written notice of intention to terminate the status of the bank as an insured bank, and shall fix a time and place for a hearing before the board of directors or before a person designated by it to conduct such hearing, at which evidence may be produced, and upon such evidence the board of directors shall make written findings which shall be conclusive. Unless the bank shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the termination of its status as an insured bank. If the board of directors shall find that any violation specified in such notice has been established, the board of directors may order that the insured status of the bank be terminated on a date subsequent to such finding and to the expiration of the time specified in such notice of intention. The Corporation may publish notice of such termination and the bank shall give notice of such termination to each of its depositors at his last address of record on the books of the bank, in such manner and at such time as the board of directors may find to be necessary and may order for the protection of depositors. After the termination of the insured status of any bank under the provisions of this paragraph, the insured deposits of each depositor in the bank on the date of such termination, less all subsequent withdrawals from any deposits of such depositor, shall continue for a period of two years to be insured, and the bank shall continue to pay to the Corporation assessments as in the case of an insured bank during such period. No additions to any such deposits and no new deposits in such bank made after the date of such termination shall be insured by the Corporation, and the bank shall not advertise or hold itself out as having insured deposits unless in the same connection it shall also state with equal prominence that such additions to deposits and new deposits made after such date are not so insured. Such bank shall, in all other respects, be subject to the duties and obligations of an insured bank for the period of two years from the date of such termination, and in the event that such bank shall be closed on account of inability to meet the demands of its depositors within such period of two years, the Corporation shall have the same powers and rights with respect to such bank as in case of an insured bank.

"(2) Whenever the insured status of a State member bank shall be terminated by action of the board of directors, the Board of Governors of the Federal Reserve System shall terminate its membership in the Federal Reserve System in accordance with the provisions of section 9 of this Act, and whenever the insured status of a national member bank shall be so terminated the Comptroller of the Currency shall appoint a receiver for the bank, which shall be the Corporation whenever the bank shall be unable to meet the demands of its depositors. Whenever a member bank shall cease to be a member of the Federal Reserve System, its status as an insured bank shall,

without notice or other action by the board of directors, terminate on the date the bank shall cease to be a member of the Federal Reserve System, with like effect as if its insured status had been terminated on said date by the board of directors after proceedings under paragraph (1) of this subsection.

"(3) If any nonmember bank which becomes an insured bank under the provisions of paragraph (1) of subsection (f) of this section shall elect, within thirty days after the effective date, not to continue as an insured bank, and shall within such period give written notice to the Corporation of its election, in accordance with regulations to be prescribed by the board of directors, and to the Reconstruction Finance Corporation if it owns or holds as pledgee any preferred stock, capital notes, or debentures of such bank, it shall cease to be an insured bank and cease to be subject to the provisions of this section and the rights of the bank (including its right to any refund) shall be as provided by law existing prior to the effective date. The board of directors shall cause notice of termination of insurance to be given to the depositors of such bank by publication or otherwise as the board of directors may determine, and the deposits in such bank shall continue to be insured for twenty days beyond such thirty day period.

"(4) Whenever the liabilities of an insured bank for deposits shall have been assumed by another insured bank or banks, the insured status of the bank whose liabilities are so assumed shall terminate on the date of receipt by the Corporation of satisfactory evidence of such assumption with like effect as if its insured status had been terminated on said date by the board of directors after proceedings under paragraph (1) of this subsection: *Provided*, That if the bank whose liabilities are so assumed gives to its depositors notice of such assumption within thirty days after such assumption takes effect, by publication or by any reasonable means, in accordance with regulations to be prescribed by the board of directors, the insurance of its deposits shall terminate at the end of six months from the date such assumption takes effect, and such bank shall thereupon be relieved of all future obligations to the Corporation, including the obligation to pay future assessments.

"(j) Upon the date of enactment of the Banking Act of 1933, the Corporation shall become a body corporate and as such shall have power—

"First. To adopt and use a corporate seal.

"Second. To have succession until dissolved by an Act of Congress.

"Third. To make contracts.

"Fourth. To sue and be sued, complain and defend, in any court of law or equity, State or Federal. All suits of a civil nature at common law or in equity to which the Corporation shall be a party shall be deemed to arise under the laws of the United States: *Provided*, That any such suit to which the Corporation is a party in its capacity as receiver of a State bank and which involves only the rights or obligations of depositors, creditors, stockholders and such State bank under State law shall not be deemed to arise under the laws of the United States. No attachment or execution shall be issued against the Corporation or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or

United States court. The board of directors shall designate an agent upon whom service of process may be made in any State, Territory, or jurisdiction in which any insured bank is located.

"Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this section, to define their duties, fix their compensation, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. Nothing in this or any other Act shall be construed to prevent the appointment and compensation as an officer or employee of the Corporation of any officer or employee of the United States in any board, commission, independent establishment, or executive department thereof.

"Sixth. To prescribe by its board of directors, bylaws 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 section and such incidental powers as shall be necessary to carry out the powers so granted.

"Eighth. To make examinations of and to require information and reports from banks, as provided in this section.

"Ninth. To act as receiver.

"Tenth. To prescribe by its board of directors such rules and regulations as it may deem necessary to carry out the provisions of this section.

"(k) (1) The board of directors shall administer the affairs of the Corporation fairly and impartially and without discrimination. The board of directors of the Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government. The Corporation with the consent of any Federal Reserve bank or of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, and facilities thereof in carrying out the provisions of this section.

"(2) The board of directors shall appoint examiners who shall have power, on behalf of the Corporation, to examine any insured State nonmember bank (except a District bank), any State nonmember bank making application to become an insured bank, and any closed insured bank, whenever in the judgment of the board of directors an examination of the bank is necessary. Such examiners shall have like power to examine, with the written consent of the Comptroller of the Currency, any national bank or District bank, and, with the written consent of the Board of Governors of the Federal Reserve System, any State member bank. Each such examiner shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine and take and preserve the testimony of any of the officers and agents thereof, and shall make a full and detailed report of the condition of the bank to the Corporation. The board of directors in

like manner shall appoint claim agents who shall have power to investigate and examine all claims for insured deposits and transferred deposits. Each claim agent shall have power to administer oaths and to examine under oath and take and preserve the testimony of any persons relating to such claims. The provisions of sections 184 to 186 (both inclusive) of the Revised Statutes (U. S. C., title 5, secs. 94 to 96) are hereby extended to examinations and investigations authorized by this paragraph.

"(3) Each insured State nonmember bank (except a District bank) shall make to the Corporation reports of condition in such form and at such times as the board of directors may require. The board of directors may require such reports to be published in such manner, not inconsistent with any applicable law, as it may direct. Every such bank which fails to make or publish any such report within such time, not less than five days, as the board of directors may require, shall be subject to a penalty of not more than $100 for each day of such failure recoverable by the Corporation for its use.

"(4) The Corporation shall have access to reports of examinations made by, and reports of condition made to, the Comptroller of the Currency or any Federal Reserve bank, may accept any report made by or to any commission, board, or authority having supervision of a State nonmember bank (except a District bank), and may furnish to the Comptroller of the Currency, to any Federal Reserve bank, and to any such commission, board, or authority, reports of examinations made on behalf of, and reports of condition made to, the Corporation.

"(l) (1) The Temporary Federal Deposit Insurance Fund and the Fund For Mutuals heretofore created pursuant to the provisions of this section are hereby consolidated into a Permanent Insurance Fund for insuring deposits, and the assets therein shall be held by the Corporation for the uses and purposes of the Corporation: *Provided*, That the obligations to and rights of the Corporation, depositors, banks, and other persons arising out of any event or transaction prior to the effective date shall remain unimpaired. On and after the effective date, the Corporation shall insure the deposits of all insured banks as provided in this section: *Provided*, That the insurance shall apply only to deposits of insured banks which have been made available since March 10, 1933, for withdrawal in the usual course of the banking business: *Provided further*, That if any insured bank shall, without the consent of the Corporation, release or modify restrictions on or deferments of deposits which had not been made available for withdrawal in the usual course of the banking business on or before the effective date, such deposits shall not be insured. The maximum amount of the insured deposit of any depositor shall be $5,000. The Corporation, in the discretion of the board of directors, may open on its books solely for the benefit of mutual savings banks and depositors therein a separate Fund For Mutuals. If such Fund is opened, all assessments upon mutual savings banks shall be paid into such Fund and the Permanent Insurance Fund of the Corporation shall cease to be liable for insurance losses sustained in mutual savings banks: *Provided*, That the capital assets of the Corporation shall be so liable and all expenses of operation of the Corporation shall be allocated between such Funds on an equitable basis.

"(2) For the purposes of this section, an insured bank shall be deemed to have been closed on account of inability to meet the demands of its depositors in any case in which it has been closed for the purpose of liquidation without adequate provision being made for payment of its depositors.

"(3) Notwithstanding any other provision of law, whenever any insured national bank or insured District bank shall have been closed by action of its board of directors, or by the Comptroller of the Currency, as the case may be, on account of inability to meet the demands of its depositors, the Comptroller of the Currency shall appoint the Corporation receiver for such closed bank, and no other person shall be appointed as receiver of such closed bank.

"(4) It shall be the duty of the Corporation as such receiver to realize upon the assets of such closed bank, having due regard to the condition of credit in the locality; to enforce the individual liability of the stockholders and directors thereof; and to wind up the affairs of such closed bank in conformity with the provisions of law relating to the liquidation of closed national banks, except as herein otherwise provided. The Corporation shall retain for its own account such portion of the amounts realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors, and it shall pay to depositors and other creditors the net amounts available for distribution to them. With respect to any such closed bank, the Corporation as such receiver shall have all the rights, powers, and privileges now possessed by or hereafter granted by law to a receiver of an insolvent national bank.

"(5) Whenever any insured State bank (except a District bank) shall have been closed by action of its board of directors or by the authority having supervision of such bank, as the case may be, on account of inability to meet the demands of its depositors, the Corporation shall accept appointment as receiver thereof, if such appointment is tendered by the authority having supervision of such bank and is authorized or permitted by State law. With respect to any such insured State bank, the Corporation as such receiver shall possess all the rights, powers and privileges granted by State law to a receiver of a State bank.

"(6) Whenever an insured bank shall have been closed on account of inability to meet the demands of its depositors, payment of the insured deposits in such bank shall be made by the Corporation as soon as possible, subject to the provisions of paragraph (7) of this subsection, either (A) by making available to each depositor a transferred deposit in a new bank in the same community or in another insured bank in an amount equal to the insured deposit of such depositor and subject to withdrawal on demand, or (B) in such other manner as the board of directors may prescribe: *Provided*, That the Corporation, in its discretion, may require proof of claims to be filed before paying the insured deposits, and that in any case where the Corporation is not satisfied as to the validity of a claim for an insured deposit, it may require the final determination of a court of competent jurisdiction before paying such claim.

"(7) In the case of a closed national bank or District bank, the Corporation, upon the payment of any depositor as provided in paragraph (6) of this subsection, shall be subrogated to all rights of the depositor against the closed bank to the extent of such payment.

In the case of any other closed insured bank, the Corporation shall not make any payment to any depositor until the right of the Corporation to be subrogated to the rights of such depositor on the same basis as provided in the case of a closed national bank under this section shall have been recognized either by express provision of State law, by allowance of claims by the authority having supervision of such bank, by assignment of claims by depositors, or by any other effective method. In the case of any closed insured bank, such subrogation shall include the right on the part of the Corporation to receive the same dividends from the proceeds of the assets of such closed bank and recoveries on account of stockholders' liability as would have been payable to the depositor on a claim for the insured deposit, but such depositor shall retain his claim for any uninsured portion of his deposit: *Provided*, That the rights of depositors and other creditors of any State bank shall be determined in accordance with the applicable provisions of State law.

"(8) As soon as possible after the closing of an insured bank, the Corporation, if it finds that it is advisable and in the interest of the depositors of the closed bank or the public, shall organize a new national bank to assume the insured deposits of such closed bank and otherwise to perform temporarily the functions hereinafter provided for. The new bank shall have its place of business in the same community as the closed bank.

"(9) The articles of association and the organization certificate of the new bank shall be executed by representatives designated by the Corporation. No capital stock need be paid in by the Corporation. The new bank shall not have a board of directors, but shall be managed by an executive officer appointed by the board of directors of the Corporation who shall be subject to its directions. In all other respects the new bank shall be organized in accordance with the then existing provisions of law relating to the organization of national banking associations. The new bank may, with the approval of the Corporation, accept new deposits which shall be subject to withdrawal on demand and which, except where the new bank is the only bank in the community, shall not exceed $5,000 from any depositor. The new bank, without application to or approval by the Corporation, shall be an insured bank and shall maintain on deposit with the Federal Reserve bank of its district reserves in the amount required by law for member banks, but it shall not be required to subscribe for stock of the Federal Reserve bank. Funds of the new bank shall be kept on hand in cash, invested in obligations of the United States, or in obligations guaranteed as to principal and interest by the United States, or deposited with the Corporation, with a Federal Reserve bank, or, to the extent of the insurance coverage thereon, with an insured bank. The new bank, unless otherwise authorized by the Comptroller of the Currency, shall transact no business except that authorized by this section and as may be incidental to its organization. Notwithstanding any other provision of law the new bank, its franchise, property, and income shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority.

"(10) Upon the organization of a new bank, the Corporation shall promptly make available to it an amount equal to the estimated insured deposits of such closed bank plus the estimated amount of the expenses of operating the new bank, and shall determine as soon as possible the amount due each depositor for his insured deposit in the closed bank, and the total expenses of operation of the new bank. Upon such determination, the amounts so estimated and made available shall be adjusted to conform to the amounts so determined. Earnings of the new bank shall be paid over or credited to the Corporation in such adjustment. If any new bank, during the period it continues its status as such, sustains any losses with respect to which it is not effectively protected except by reason of being an insured bank, the Corporation shall furnish to it additional funds in the amount of such losses. The new bank shall assume as transferred deposits the payment of the insured deposits of such closed bank to each of it [1] depositors. Of the amounts so made available, the Corporation shall transfer to the new bank, in cash, such sums as may be necessary to enable it to meet its expenses of operation and immediate cash demands on such transferred deposits, and the remainder of such amounts shall be subject to withdrawal by the new bank on demand.

"(11) Whenever in the judgment of the board of directors it is desirable to do so, the Corporation shall cause capital stock of the new bank to be offered for sale on such terms and conditions as the board of directors shall deem advisable in an amount sufficient, in the opinion of the board of directors, to make possible the conduct of the business of the new bank on a sound basis, but in no event less than that required by section 5138 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 51), for the organization of a national bank in the place where such new bank is located. The stockholders of the closed insured bank shall be given the first opportunity to purchase any shares of common stock so offered. Upon proof that an adequate amount of capital stock in the new bank has been subscribed and paid for in cash, the Comptroller of the Currency shall require the articles of association and the organization certificate to be amended to conform to the requirements for the organization of a national bank, and thereafter, when the requirements of law with respect to the organization of a national bank have been complied with, he shall issue to the bank a certificate of authority to commence business, and thereupon the bank shall cease to have the status of a new bank, shall be managed by directors elected by its own shareholders and may exercise all the powers granted by law, and it shall be subject to all the provisions of law relating to national banks. Such bank shall thereafter be an insured national bank, without certification to or approval by the Corporation.

"(12) If the capital stock of the new bank is not offered for sale, or if an adequate amount of capital for such new bank is not subscribed and paid for, the board of directors may offer to transfer its business to any insured bank in the same community which will take over its assets, assume its liabilities, and pay to the Corporation for such business such amount as the board of directors may deem adequate; or the board of directors in its discretion may change the location of the new bank to the office of the Corporation or to some other place or may at any time wind up its affairs as herein provided.

[1] So in original.

Unless the capital stock of the new bank is sold or its assets are taken over and its liabilities are assumed by an insured bank as above provided within two years from the date of its organization, the Corporation shall wind up the affairs of such bank, after giving such notice, if any, as the Comptroller of the Currency may require, and shall certify to the Comptroller of the Currency the termination of the new bank. Thereafter the Corporation shall be liable for the obligations of such bank and shall be the owner of its assets. The provisions of sections 5220 and 5221 of the Revised Statutes (U. S. C., title 12, secs. 181 and 182) shall not apply to such new banks.

"(m) (1) The Corporation as receiver of a closed national bank or District bank shall not be required to furnish bond and shall have the right to appoint an agent or agents to assist it in its duties as such receiver, and all fees, compensation, and expenses of liquidation and administration thereof shall be fixed by the Corporation, subject to the approval of the Comptroller of the Currency, and may be paid by it out of funds coming into its possession as such receiver. The Comptroller of the Currency is authorized and empowered to waive and relieve the Corporation from complying with any regulations of the Comptroller of the Currency with respect to receiverships where in his discretion such action is deemed advisable to simplify administration.

"(2) Payment of an insured deposit to any person by the Corporation shall discharge the Corporation, and payment of a transferred deposit to any person by the new bank or by an insured bank in which a transferred deposit has been made available shall discharge the Corporation and such new bank or other insured bank, to the same extent that payment to such person by the closed bank would have discharged it from liability for the insured deposit.

"(3) Except as otherwise prescribed by the board of directors, neither the Corporation nor such new bank or other insured bank shall be required to recognize as the owner of any portion of a deposit appearing on the records of the closed bank under a name other than that of the claimant, any person whose name or interest as such owner is not disclosed on the records of such closed bank as part owner of said deposit, if such recognition would increase the aggregate amount of the insured deposits in such closed bank.

"(4) The Corporation may withhold payment of such portion of the insured deposit of any depositor in a closed bank as may be required to provide for the payment of any liability of such depositor as a stockholder of the closed bank, or of any liability of such depositor to the closed bank or its receiver, which is not offset against a claim due from such bank, pending the determination and payment of such liability by such depositor or any other person liable therefor.

"(5) If, after the Corporation shall have given at least three months' notice to the depositor by mailing a copy thereof to his last known address appearing on the records of the closed bank, any depositor in the closed bank shall fail to claim his insured deposit from the Corporation within eighteen months after the appointment of the receiver for the closed bank, or shall fail within such period to claim or arrange to continue the transferred deposit with the new bank or with the other insured bank which assumes liability therefor, all rights of the depositor against the Corporation with

respect to the insured deposit, and against the new bank and such other insured bank with respect to the transferred deposit, shall be barred, and all rights of the depositor against the closed bank and its shareholders, or the receivership estate to which the Corporation may have become subrogated, shall thereupon revert to the depositor. The amount of any transferred deposits not claimed within such eighteen months' period, shall be refunded to the Corporation.

"(n) (1) Money of the Corporation not otherwise employed shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States, except that for temporary periods, in the discretion of the board of directors, funds of the Corporation may be deposited in any Federal Reserve bank or with the Treasurer of the United States. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depositary of public moneys and financial agent of the Government as may be required of it.

"(2) Nothing contained in this section shall be construed to prevent the Corporation from making loans to national banks closed by action of the Comptroller of the Currency, or by vote of their directors, or to State member banks closed by action of the appropriate State authorities, or by vote of their directors, or from entering into negotiations to secure the reopening of such banks.

"(3) Receivers or liquidators of insured banks closed on account of inability to meet the demands of their depositors shall be entitled to offer the assets of such banks for sale to the Corporation or as security for loans from the Corporation, upon receiving permission from the appropriate State authority in accordance with express provisions of State law in the case of insured State banks, or from the Comptroller of the Currency in the case of national banks or District banks. The proceeds of every such sale or loan shall be utilized for the same purposes and in the same manner as other funds realized from the liquidation of the assets of such banks. The Comptroller of the Currency may, in his discretion, pay dividends on proved claims at any time after the expiration of the period of advertisement made pursuant to section 5235 of the Revised Statutes (U. S. C., title 12, sec. 193), and no liability shall attach to the Comptroller of the Currency or to the receiver of any national bank by reason of any such payment for failure to pay dividends to a claimant whose claim is not proved at the time of any such payment. The Corporation, in its discretion, may make loans on the security of or may purchase and liquidate or sell any part of the assets of an insured bank which is now or may hereafter be closed on account of inability to meet the demands of its depositors, but in any case in which the Corporation is acting as receiver of a closed insured bank, no such loan or purchase shall be made without the approval of a court of competent jurisdiction.

"(4) Until July 1, 1936, whenever in the judgment of the board of directors such action will reduce the risk or avert a threatened loss to the Corporation and will facilitate a merger or consolidation of an

insured bank with another insured bank, or will facilitate the sale of the assets of an open or closed insured bank to and assumption of its liabilities by another insured bank, the Corporation may, upon such terms and conditions as it may determine, make loans secured in whole or in part by assets of an open or closed insured bank, which loans may be in subordination to the rights of depositors and other creditors, or the Corporation may purchase any such assets or may guarantee any other insured bank against loss by reason of its assuming the liabilities and purchasing the assets of an open or closed insured bank. Any insured national bank or District bank, or, with the approval of the Comptroller of the Currency, any receiver thereof, is authorized to contract for such sales or loans and to pledge any assets of the bank to secure such loans.

"(o) (1) The Corporation is authorized and empowered to issue and to have outstanding its notes, debentures, bonds, or other such obligations, in a par amount aggregating not more than three times the amount received by the Corporation in payment of its capital stock and in payment of the assessments upon insured banks for the year 1936. The notes, debentures, bonds, and other such obligations issued under this subsection shall be redeemable at the option of the Corporation before maturity in such manner as may be stipulated in such obligations, and shall bear such rate or rates of interest, and shall mature at such time or times, as may be determined by the Corporation: *Provided*, That the Corporation may sell on a discount basis short-term obligations payable at maturity without interest. The notes, debentures, bonds, and other such obligations of the Corporation may be secured by assets of the Corporation in such manner as shall be prescribed by its board of directors. Such obligations may be offered for sale at such price or prices as the Corporation may determine.

"(2) The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations of the Corporation to be issued hereunder, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include such purchases: *Provided*, That if the Reconstruction Finance Corporation fails for any reason to purchase any of the obligations of the Corporation as provided in subsection (b) of section 5e of the Reconstruction Finance Corporation Act, as amended, the Secretary of the Treasury is authorized and directed to purchase such obligations in an amount equal to the amount of such obligations the Reconstruction Finance Corporation so fails to purchase: *Provided further*, That the Secretary of the Treasury is authorized and directed, whenever in the judgment of the board of directors of the Corporation additional funds are required for insurance purposes, to purchase obligations of the Corporation in an additional amount of not to exceed $250,000,000 par value: *Provided further*, That the proceeds derived from the purchase by the Secretary of the Treasury of any such obligations shall be used by the Corporation solely in carrying out its functions with respect to such insurance. The Secretary of the Treasury may, at any time, sell any of the obligations of the Corporation acquired by him under this subsection. All redemp-

tions, purchases, and sales by the Secretary of the Treasury of the obligations of the Corporation shall be treated as public-debt transactions of the United States.

"(p) All notes, debentures, bonds, or other such obligations issued by the Corporation shall be exempt, both as to principal and interest, from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. The Corporation, including its franchise, its capital, reserves, and surplus, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property of the Corporation shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as the other real property is taxed.

"(q) In order that the Corporation may be supplied with such forms of notes, debentures, bonds, or other such obligations as it may need for issuance under this Act, the Secretary of the Treasury is authorized to prepare such forms as shall be suitable and approved by the Corporation, to be held in the Treasury subject to delivery, upon order of the Corporation. The engraved plate, dies, bed pieces, and other material executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such notes, debentures, bonds, or other such obligations.

"(r) The Corporation shall annually make a report of its operations to the Congress as soon as practicable after the 1st day of January in each year.

"(s) Whoever, for the purpose of obtaining any loan from the Corporation, or any extension or renewal thereof, or the acceptance, release, or substitution of security therefor, or for the purpose of inducing the Corporation to purchase any assets, or for the purpose of obtaining the payment of any insured deposit or transferred deposit or the allowance, approval, or payment of any claim, or for the purpose of influencing in any way the action of the Corporation under this section, makes any statement, knowing it to be false, or willfully overvalues any security, shall be punished by a fine of not more than $5,000, or by imprisonment for not more than two years or both.

"(t) Whoever (1) falsely makes, forges, or counterfeits any obligation or coupon, in imitation of or purporting to be an obligation or coupon issued by the Corporation, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited obligation or coupon purporting to have been issued by the Corporation, knowing the same to be false, forged, or counterfeited, or (3) falsely alters any obligation or coupon issued or purporting to have been issued by the Corporation, or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true, any falsely altered or spurious obligation or coupon, issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

"(u) Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged, or otherwise entrusted to it, or (2) with intent to defraud the Corporation or any other body, politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or without being duly authorized draws any order or issues, puts forth, or assigns any note, debenture, bond, or other such obligation, or draft, bill of exchange, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

"(v) (1) No individual, association, partnership, or corporation shall use the words 'Federal Deposit Insurance Corporation', or a combination of any three of these four words, as the name or a part thereof under which he or it shall do business. No individual, association, partnership, or corporation shall advertise or otherwise represent falsely by any device whatsoever that his or its deposit liabilities are insured or in anywise guaranteed by the Federal Deposit Insurance Corporation or by the United States or any instrumentality thereof; and no insured bank shall advertise or otherwise represent falsely by any device whatsoever the extent to which or the manner in which its deposit liabilities are insured by the Federal Deposit Insurance Corporation. Every individual, partnership, association, or corporation violating this subsection shall be punished by a fine of not exceeding $1,000, or by imprisonment not exceeding one year, or both.

"(2) Every insured bank shall display at each place of business maintained by it a sign or signs, and shall include in advertisements relating to deposits a statement to the effect that its deposits are insured by the Corporation. The board of directors shall prescribe by regulation the forms of such signs and the manner of display and the substance of such statements and the manner of use. For each day an insured bank continues to violate any provision of this paragraph or any lawful provision of said regulations, it shall be subject to a penalty of not more than $100, recoverable by the Corporation for its use.

"(3) No insured bank shall pay any dividends on its capital stock or interest on its capital notes or debentures (of such interest is required to be paid only out of net profits) while it remains in default in the payment of any assessment due to the Corporation; and any director or officer of any insured bank who participates in the declaration or payment of any such dividend shall, upon conviction, be fined not more than $1,000, or imprisoned not more than one year, or both: *Provided*, That if such default is due to a dispute between the insured bank and the Corporation over the amount of such assessment, this paragraph shall not apply, if such bank shall deposit security satisfactory to the Corporation for payment upon final determination of the issue.

"(4) Unless, in addition to compliance with other provisions of law, it shall have the prior written consent of the Corporation, no insured bank shall enter into any consolidation or merger with any noninsured bank, or assume liability to pay any deposits made in any

noninsured bank, or transfer assets to any noninsured bank in consideration of the assumption of liability for any portion of the deposits made in such insured bank, and no insured State nonmember bank (except a District bank) without such consent shall reduce the amount or retire any part of its common or preferred capital stock, or retire any part of its capital notes or debentures.

"(5) No State nonmember insured bank (except a District bank) shall establish and operate any new branch after thirty days after the effective date unless it shall have the prior written consent of the Corporation, and no branch of any State nonmember insured bank shall be moved from one location to another after thirty days after the effective date without such consent. The factors to be considered in granting or withholding the consent of the Corporation under this paragraph shall be those enumerated in subsection (g) of this section.

"(6) The Corporation may require any insured bank to provide protection and indemnity against burglary, defalcation, and other similar insurable losses. Whenever any insured bank refuses to comply with any such requirement the Corporation may contract for such protection and indemnity and add the cost thereof to the assessment otherwise payable by such bank.

"(7) Whenever any insured bank (except a national bank or a District bank), after written notice of the recommendations of the Corporation based on a report of examination of such bank by an examiner of the Corporation, shall fail to comply with such recommendations within one hundred and twenty days after such notice, the Corporation shall have the power, and is hereby authorized, to publish only such part of such report of examination as relates to any recommendation not complied with: *Provided*, That notice of intention to make such publication shall be given to the bank at least ninety days before such publication is made.

"(8) The board of directors shall by regulation prohibit the payment of interest on demand deposits in insured nonmember banks and for such purpose it may define the term 'demand deposits'; but such exceptions from this prohibition shall be made as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks by section 19 of this Act, as amended, or by regulation of the Board of Governors of the Federal Reserve System. The board of directors shall from time to time limit by regulation the rates of interest or dividends which may be paid by insured nonmember banks on time and savings deposits, but such regulations shall be consistent with the contractual obligations of such banks to their depositors. For the purpose of fixing such rates of interest or dividends, the board of directors shall by regulation prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. The board of directors shall by regulation define what constitutes time and savings deposits in an insured nonmember bank. Such regulations shall prohibit any insured nonmember bank from paying any time deposit before its maturity except upon such conditions and in

accordance with such rules and regulations as may be prescribed by the board of directors, and from waiving any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement. For each violation of any provision of this paragraph or any lawful provision of such regulations relating to the payment of interest or dividends on deposits or to withdrawal of deposits, the offending bank shall be subject to a penalty or [1] not more than $100, recoverable by the Corporation for its use.

"(w) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U. S. C., title 18, ch. 5, secs. 202 to 207, inclusive), insofar as applicable, are extended to apply to contracts or agreements with the Corporation under this section, which for the purposes hereof shall be held to include loans, advances, extensions, and renewals thereof, and acceptances, releases, and substitutions of security therefor, purchases or sales of assets, and all contracts and agreements pertaining to the same.

"(x) The Secret Service Division of the Treasury Department is authorized to detect, arrest, and deliver into the custody of the United States marshal having jurisdiction any person committing any of the offenses punishable under this section.

"(y) (1) No State bank which during the calendar year 1941 or any succeeding calendar year shall have average deposits of $1,000,000 or more shall be an insured bank or continue to have any part of its deposits insured after July 1 of the year following any such calendar year during which it shall have had such amount of average deposits, unless such bank shall be a member of the Federal Reserve System: *Provided*, That for the purposes of this paragraph the term 'State bank' shall not include a savings bank, a mutual savings bank, a Morris Plan bank or other incorporated banking institution engaged only in a business similar to that transacted by Morris Plan banks, a State trust company doing no commercial banking business, or a bank located in Hawaii, Alaska, Puerto Rico, or the Virgin Islands.

"(2) It is not the purpose of this section to discriminate, in any manner, against State nonmember, and in favor of, national or member banks; but the purpose is to provide all banks with the same opportunity to obtain and enjoy the benefits of this section. No bank shall be discriminated against because its capital stock is less than the amount required for eligibility for admission into the Federal Reserve System.

"(z) The provisions of this section limiting the insurance of the deposits of any depositor to a maximum less than the full amount shall be independent and separable from each and all of the provisions of this section."

TITLE II—AMENDMENTS TO THE FEDERAL RESERVE ACT

SECTION 201. Paragraph "Fifth" of section 4 of the Federal Reserve Act, as amended, is amended, effective March 1, 1936, to read as follows:

"Fifth. To appoint by its board of directors a president, vice presidents, and such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds for them

[1] So in original.

and fix the penalty thereof, and to dismiss at pleasure such officers or employees. The president shall be the chief executive officer of the bank and shall be appointed by the board of directors, with the approval of the Board of Governors of the Federal Reserve System, for a term of five years; and all other executive officers and all employees of the bank shall be directly responsible to him. The first vice president of the bank shall be appointed in the same manner and for the same term as the president, and shall, in the absence or disability of the president or during a vacancy in the office of president, serve as chief executive officer of the bank. Whenever a vacancy shall occur in the office of the president or the first vice president, it shall be filled in the manner provided for original appointments; and the person so appointed shall hold office until the expiration of the term of his predecessor."

SEC. 202. Section 9 of the Federal Reserve Act, as amended, is amended by inserting after the tenth paragraph thereof the following new paragraph:

"In order to facilitate the admission to membership in the Federal Reserve System of any State bank which is required under subsection (y) of section 12B of this Act to become a member of the Federal Reserve System in order to be an insured bank or continue to have any part of its deposits insured under such section 12B, the Board of Governors of the Federal Reserve System may waive in whole or in part the requirements of this section relating to the admission of such bank to membership: *Provided*, That, if such bank is admitted with a capital less than that required for the organization of a national bank in the same place and its capital and surplus are not, in the judgment of the Board of Governors of the Federal Reserve System, adequate in relation to its liabilities to depositors and other creditors, the said Board may, in its discretion, require such bank to increase its capital and surplus to such amount as the Board may deem necessary within such period prescribed by the Board as in its judgment shall be reasonable in view of all the circumstances: *Provided, however*, That no such bank shall be required to increase its capital to an amount in excess of that required for the organization of a national bank in the same place."

SEC. 203. (a) Hereafter the Federal Reserve Board shall be known as the "Board of Governors of the Federal Reserve System", and the governor and the vice governor of the Federal Reserve Board shall be known as the "chairman" and the "vice chairman", respectively, of the Board of Governors of the Federal Reserve System.

(b) The first two paragraphs of section 10 of the Federal Reserve Act, as amended, are amended to read as follows:

"SEC. 10. The Board of Governors of the Federal Reserve System (hereinafter referred to as the 'Board') shall be composed of seven members, to be appointed by the President, by and with the advice and consent of the Senate, after the date of enactment of the Banking Act of 1935, for terms of fourteen years except as hereinafter provided, but each appointive member of the Federal Reserve Board in office on such date shall continue to serve as a member of the Board until February 1, 1936, and the Secretary of the Treasury and the Comptroller of the Currency shall continue to serve as members of the Board until February 1, 1936. In selecting the members of the

Board, not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country. The members of the Board shall devote their entire time to the business of the Board and shall each receive an annual salary of $15,000, payable monthly, together with actual necessary traveling expenses.

"The members of the Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Upon the expiration of the term of any appointive member of the Federal Reserve Board in office on the date of enactment of the Banking Act of 1935, the President shall fix the term of the successor to such member at not to exceed fourteen years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one member in any two-year period, and thereafter each member shall hold office for a term of fourteen years from the expiration of the term of his predecessor, unless sooner removed for cause by the President. Of the persons thus appointed, one shall be designated by the President as chairman and one as vice chairman of the Board, to serve as such for a term of four years. The chairman of the Board, subject to its supervision, shall be its active executive officer. Each member of the Board shall within fifteen days after notice of appointment make and subscribe to the oath of office. Upon the expiration of their terms of office, members of the Board shall continue to serve until their successors are appointed and have qualified. Any person appointed as a member of the Board after the date of enactment of the Banking Act of 1935 shall not be eligible for reappointment as such member after he shall have served a full term of fourteen years."

(c) The fourth paragraph of section 10 of the Federal Reserve Act, as amended, is amended by striking out the second, third, and fourth sentences thereof and inserting in lieu thereof the following: "At meetings of the Board the chairman shall preside, and, in his absence, the vice chairman shall preside. In the absence of the chairman and the vice chairman, the Board shall elect a member to act as chairman pro tempore."

(d) Section 10 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof the following new paragraph:

"The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph."

SEC. 204. Section 10 (b) of the Federal Reserve Act, as amended, is amended to read as follows:

"SEC. 10 (b). Any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, may make advances to any member bank on its time or demand notes having maturities of not more than four months and which are secured to the satisfaction of such Federal Reserve bank. Each such note shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note."

SEC. 205. Section 12A of the Federal Reserve Act, as amended, is amended, effective March 1, 1936, to read as follows:

"SEC. 12A. (a) There is hereby created a Federal Open Market Committee (hereinafter referred to as the 'Committee'), which shall consist of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks to be selected as hereinafter provided. Such representatives of the Federal Reserve banks shall be elected annually as follows: One by the boards of directors of the Federal Reserve Banks of Boston and New York, one by the boards of directors of the Federal Reserve Banks of Philadelphia and Cleveland, one by the boards of directors of the Federal Reserve Banks of Chicago and Saint Louis, one by the boards of directors of the Federal Reserve Banks of Richmond, Atlanta, and Dallas, and one by the boards of directors of the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco. An alternate to serve in the absence of each such representative shall be elected annually in the same manner. The meetings of said Committee shall be held at Washington, District of Columbia, at least four times each year upon the call of the chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the Committee.

"(b) No Federal Reserve bank shall engage or decline to engage in open-market operations under section 14 of this Act except in accordance with the direction of and regulations adopted by the Committee. The Committee shall consider, adopt, and transmit to the several Federal Reserve banks, regulations relating to the open-market transactions of such banks.

"(c) The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country."

SEC. 206. (a) Subsection (b) of section 14 of the Federal Reserve Act, as amended, is amended by inserting before the semicolon at the end thereof a colon and the following: *Provided*, That any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities but only in the open market".

(b) Subsection (d) of section 14 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following: "but each such bank shall establish such rates every fourteen days, or oftener if deemed necessary by the Board;".

SEC. 207. The sixth paragraph of section 19 of the Federal Reserve Act, as amended, is amended to read as follows:

"Notwithstanding the other provisions of this section, the Board of Governors of the Federal Reserve System, upon the affirmative vote of not less than four of its members, in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both by member banks in reserve and central reserve cities or by member banks not in reserve or central reserve cities or by all member banks; but the amount of the reserves required to be maintained by any such member bank as a result of any such change shall not be less than the amount of the reserves required by law to be maintained by such bank on the date of enactment of the Banking Act of 1935 nor more than twice such amount."

SEC. 208. The first paragraph of section 24 of the Federal Reserve Act, as amended, is amended to read as follows:

"SEC. 24. Any national banking association may make real-estate loans secured by first liens upon improved real estate, including improved farm land and improved business and residential properties. A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by mortgage, trust deed, or other such instrument upon real estate, and any national banking association may purchase any obligation so secured when the entire amount of such obligation is sold to the association. The amount of any such loan hereafter made shall not exceed 50 per centum of the appraised value of the real estate offered as security and no such loan shall be made for a longer term than five years; except that (1) any such loan may be made in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 per centum or more of the principal of the loan within a period of not more than ten years, and (2) the foregoing limitations and restrictions shall not prevent the renewal or extension of loans heretofore made and shall not apply to real-estate loans which are insured under the provisions of Title II of the National Housing Act. No such association shall make such loans in an aggregate sum in excess of the amount of the capital stock of such association paid in and unimpaired plus the amount of its unimpaired surplus fund, or in excess of 60 per centum of the amount of its time and savings deposits, whichever is the greater. Any such association may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such association may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such association is located."

SEC. 209. Section 325 of the Revised Statutes is amended to read as follows:

"SEC. 325. The Comptroller of the Currency shall be appointed by the President, by and with the advice and consent of the Senate, and

shall hold his office for a term of five years unless sooner removed by the President, upon reasons to be communicated by him to the Senate; and he shall receive a salary at the rate of $15,000 a year."

TITLE III—TECHNICAL AMENDMENTS TO THE BANKING LAWS

SECTION 301. Subsection (c) of section 2 of the Banking Act of 1933, as amended, is amended by adding at the end thereof the following paragraph:

"Notwithstanding the foregoing, the term 'holding company affiliate' shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States, or any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies."

SEC. 302. The first paragraph of section 20 of the Banking Act of 1933, as amended, is amended by inserting before the period at the end thereof a colon and the following: "*Provided*, That nothing in this paragraph shall apply to any such organization which shall have been placed in formal liquidation and which shall transact no business except such as may be incidental to the liquidation of its affairs".

SEC. 303. (a) Paragraph (1) of subsection (a) of section 21 of the Banking Act of 1933, as amended, is amended by inserting before the semicolon at the end thereof a colon and the following: "*Provided*, That the provisions of this paragraph shall not prohibit national banks or State banks or trust companies (whether or not members of the Federal Reserve System) or other financial institutions or private bankers from dealing in, underwriting, purchasing, and selling investment securities to the extent permitted to national banking associations by the provisions of section 5136 of the Revised Statutes, as amended (U. S. C., title 12, sec. 24; Supp. VII, title 12, sec. 24): *Provided further*, That nothing in this paragraph shall be construed as affecting in any way such right as any bank, banking association, savings bank, trust company, or other banking institution, may otherwise possess to sell, without recourse or agreement to repurchase, obligations evidencing loans on real estate".

(b) Paragraph (2) of subsection (a) of such section 21 is amended to read as follows:

"(2) For any person, firm, corporation, association, business trust, or other similar organization to engage, to any extent whatever with others than his or its officers, agents or employees, in the business of receiving deposits subject to check or to repayment upon presentation of a pass book, certificate of deposit, or other evidence of debt, or upon request of the depositor, unless such person, firm, corporation, association, business trust, or other similar organization (A) shall be incorporated under, and authorized to engage in such business by, the laws of the United States or of any State, Territory, or District, or (B) shall be permitted by any State, Territory, or District to engage in such business and shall be subjected by the law of such State, Territory, or District to examination and regulation, or (C) shall submit to periodic examination by the banking authority of the

State, Territory, or District where such business is carried on and shall make and publish periodic reports of its condition, exhibiting in detail its resources and liabilities, such examination and reports to be made and published at the same times and in the same manner and under the same conditions as required by the law of such State, Territory, or District in the case of incorporated banking institutions engaged in such business in the same locality."

SEC. 304. Section 22 of the Banking Act of 1933, as amended, is amended by adding at the end thereof the following sentences: "Such additional liability shall cease on July 1, 1937, with respect to all shares issued by any association which shall be transacting the business of banking on July 1, 1937: *Provided*, That not less than six months prior to such date, such association shall have caused notice of such prospective termination of liability to be published in a newspaper published in the city, town, or county in which such association is located, and if no newspaper is published in such city, town, or county, then in a newspaper of general circulation therein. If the association fail to give such notice as and when above provided, a termination of such additional liability may thereafter be accomplished as of the date six month [1] subsequent to publication, in the manner above provided."

SEC. 305. Paragraph (c) of section 5155 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 36), is amended (1) by inserting after the first sentence thereof the following new sentence: "In any State in which State banks are permitted by statute law to maintain branches within county or greater limits, if no bank is located and doing business in the place where the proposed agency is to be located, any national banking association situated in such State may, with the approval of the Comptroller of the Currency, establish and operate, without regard to the capital requirements of this section, a seasonal agency in any resort community within the limits of the county in which the main office of such association is located, for the purpose of receiving and paying out deposits, issuing and cashing checks and drafts, and doing business incident thereto: *Provided*, That any permit issued under this sentence shall be revoked upon the opening of a State or national bank in such community."; and (2) by striking out the first word in the last sentence of such paragraph (c) and inserting in lieu thereof the following: "Except as provided in the immediately preceding sentence, no".

SEC. 306. Section 4 of the Act entitled "An Act to amend section 12B of the Federal Reserve Act so as to extend for one year the temporary plan for deposit insurance, and for other purposes", approved June 16, 1934 (48 Stat. 969), is amended to read as follows:

"SEC. 4. So much of section 31 of the Banking Act of 1933, as amended, as relates to stock ownership by directors, trustees, or members of similar governing bodies of any national banking association, or of any State bank or trust company which is a member of the Federal Reserve System, is hereby repealed."

SEC. 307. Effective January 1, 1936, section 32 of the Banking Act of 1933, as amended, is amended to read as follows:

"SEC. 32. No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or

[1] So in original.

through syndicate participation, of stocks, bonds, or other similar securities, shall serve the same time as an officer, director, or employee of any member bank except in limited classes of cases in which the Board of Governors of the Federal Reserve System may allow such service by general regulations when in the judgment of the said Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments."

SEC. 308. (a) The second sentence of paragraph Seventh of section 5136 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 24), is amended to read as follows: "The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities or stock: *Provided*, That the association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe. In no event shall the total amount of the investment securities of any one obligor or maker, held by the association for its own account, exceed at any time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund, except that this limitation shall not require any association to dispose of any securities lawfully held by it on the date of enactment of the Banking Act of 1935."

(b) The fourth sentence of such paragraph Seventh is amended to read as follows: "Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation."

(c) The last sentence of such paragraph Seventh is amended by inserting before the colon after the words "Home Owners' Loan Corporation" a comma and the following: "or obligations which are insured by the Federal Housing Administrator pursuant to section 207 of the National Housing Act, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States".

SEC. 309. Section 5138 of the Revised Statutes, as amended, (U. S. C., Supp. VII, title 12, sec. 51), is amended by adding the following sentences at the end thereof: "No such association shall hereafter be authorized to commence the business of banking until it shall have a paid-in surplus equal to 20 per centum of its capital: *Provided*, That the Comptroller of the Currency may waive this requirement as to a State bank converting into a national banking association, but each such State bank which is converted into a national banking association shall, before the declaration of a dividend on its shares of common stock, carry not less than one-half part of its net profits of the preceding half year to its surplus fund until it shall have a surplus equal to 20 per centum of its capital: *Provided*, That for the purposes of this section any amounts paid into a fund for the retirement of any preferred stock of any such converted State bank out of its net earnings for such half-year period shall be deemed to be an addition to its surplus fund if, upon the retirement of such preferred stock, the amount so paid into such retirement fund for

such period may then properly be carried to surplus. In any such case the converted State bank shall be obligated to transfer to surplus the amount so paid into such retirement fund for such period on account of the preferred stock as such stock is retired."

SEC. 310. (a) The last paragraph of section 5139 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 52), is amended to read as follows:

"After the date of the enactment of the Banking Act of 1935, no certificate evidencing the stock of any such association shall bear any statement purporting to represent the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such association, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such association: *Provided*, That this section shall not operate to prevent the ownership, sale, or transfer of stock of any other corporation being conditioned upon the ownership, sale, or transfer of a certificate representing stock of a national banking association."

(b) The nineteenth paragraph of section 9 of the Federal Reserve Act, as amended, is amended to read as follows:

"After the date of the enactment of the Banking Act of 1935, no certificate evidencing the stock of any State member bank shall bear any statement purporting to represent the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such member bank, nor shall the ownership, sale, or transfer of any certificate representing the stock of any State member bank be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such member bank: *Provided*, That this section shall not operate to prevent the ownership, sale, or transfer of stock of any other corporation being conditioned upon the ownership, sale, or transfer of a certificate representing stock of a State member bank."

SEC. 311. (a) The first paragraph of section 5144 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 61), is amended to read as follows:

"SEC. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit; and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him; except that (1) this shall not be construed as limiting the voting rights of holders of preferred stock under the terms and provisions of articles of association, or amendments thereto, adopted pursuant to the provisions of section 302 (a) of the Emergency Banking and Bank Conservation Act, approved

March 9, 1933, as amended, (2) in the election of directors, shares of its own stock held by a national bank as sole trustee, whether registered in its own name as such trustee or in the name of its nominee, shall not be voted by the registered owner unless under the terms of the trust the manner in which such shares shall be voted may be determined by a donor or beneficiary of the trust and unless such donor or beneficiary actually directs how such shares shall be voted, (3) shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (4) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted, but such holding company affiliate may, without obtaining such permit, vote in favor of placing the association in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such association. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote. Whenever shares of stock cannot be voted by reason of being held by the bank as sole trustee, such shares shall be excluded in determining whether matters voted upon by the shareholders were adopted by the requisite percentage of shares."

(b) The first sentence of the third paragraph of such section 5144 is amended to read: "Any such holding company affiliate may make application to the Board of Governors of the Federal Reserve System for a voting permit entitling it to vote the stock controlled by it at any or all meetings of shareholders of such bank or authorizing the trustee or trustees holding the stock for its benefit or for the benefit of its shareholders so to vote the same."

(c) Section 5144 of the Revised Statutes, as amended, is further amended by adding at the end of subsection (c) thereof the following: " and the provisions of this subsection, instead of subsection (b), shall apply to all holding company affiliates with respect to any shares of bank stock owned or controlled by them as to which there is no statutory liability imposed upon the holders of such bank stock; ".

SEC. 312. Section 5154 of the Revised Statutes, as amended (U. S. C., title 12, sec. 35), is amended by adding at the end thereof the following paragraph:

" The Comptroller of the Currency may, in his discretion and subject to such conditions as he may prescribe, permit such converting bank to retain and carry at a value determined by the Comptroller such of the assets of such converting bank as do not conform to the legal requirements relative to assets acquired and held by national banking associations."

SEC. 313. Section 5162 of the Revised Statutes (U. S. C., title 12, sec. 170) is amended by adding at the end thereof the following paragraph:

" The Comptroller of the Currency may designate one or more persons to countersign in his name and on his behalf such assignments or transfers of bonds as require his countersignature."

SEC. 314. Section 5197 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 85), is amended by inserting after the second sentence thereof the following new sentence: "The maximum amount of interest or discount to be charged at a branch of an association located outside of the States of the United States and the District of Columbia shall be at the rate allowed by the laws of the country, territory, dependency, province, dominion, insular possession, or other political subdivision where the branch is located."

SEC. 315. Section 5199 of the Revised Statutes (U. S. C., title 12, sec. 60), is amended to read as follows:

"SEC. 5199. The directors of any association may, semiannually, declare a dividend of so much of the net profits of the association as they shall judge expedient; but each association shall, before the declaration of a dividend on its shares of common stock, carrying not less than one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall equal the amount of its common capital: *Provided*, That for the purposes of this section, any amounts paid into a fund for the retirement of any preferred stock of any such association out of its net earnings for such half-year period shall be deemed to be an addition to its surplus fund if, upon the retirement of such preferred stock, the amount so paid into such retirement fund for such period may then properly be carried to surplus. In any such case the association shall be obligated to transfer to surplus the amounts so paid into such retirement fund for such period on account of the preferred stock as such stock is retired."

SEC. 316. Section 5209 of the Revised Statutes (U. S. C., title 12, sec. 592), is hereby amended by inserting after the words "known as the Federal Reserve Act", the words "or of any national banking association, or of any insured bank as defined in subsection (c) of section 12B of the Federal Reserve Act"; and by inserting after the words "such Federal Reserve bank or member bank", wherever they appear in such section, the words "or such national banking association or insured bank"; and by inserting after the words "or the Comptroller of the Currency", the words "or the Federal Deposit Insurance Corporation,".

SEC. 317. Section 5220 of the Revised Statutes (U. S. C., title 12, sec. 181), is amended by adding at the end thereof the following paragraph:

"The shareholders shall designate one or more persons to act as liquidating agent or committee, who shall conduct the liquidation in accordance with law and under the supervision of the board of directors, who shall require a suitable bond to be given by said agent or committee. The liquidating agent or committee shall render annual reports to the Comptroller of the Currency on the 31st day of December of each year showing the progress of said liquidation until the same is completed. The liquidating agent or committee shall also make an annual report to a meeting of the shareholders to be held on the date fixed in the articles of association for the annual meeting, at which meeting the shareholders may, if they see fit, by a vote representing a majority of the entire stock of the bank, remove the liquidating agent or committee and appoint one or more others in place thereof. A special meeting of the shareholders may be called at any time in the same manner as if the bank continued an active bank and at said meeting the shareholders may, by vote of the

majority of the stock, remove the liquidating agent or committee. The Comptroller of the Currency is authorized to have an examination made at any time into the affairs of the liquidating bank until the claims of all creditors have been satisfied, and the expense of making such examinations shall be assessed against such bank in the same manner as in the case of examinations made pursuant to section 5240 of the Revised Statutes, as amended (U. S. C., title 12, secs. 484, 485; Supp. VII, title 12, secs. 481–483)."

SEC. 318. Section 5243 of the Revised Statutes (U. S. C., title 12, sec. 583) is amended by striking out the semicolon therein and all that precedes it and substituting the following:

"SEC. 5243. The use of the word 'national', the word 'Federal' or the words 'United States', separately, in any combination thereof, or in combination with other words or syllables, as part of the name or title used by any person, corporation, firm, partnership, business trust, association or other business entity, doing the business of bankers, brokers, or trust or savings institutions is prohibited except where such institution is organized under the laws of the United States, or is otherwise permitted by the laws of the United States to use such name or title, or is lawfully using such name or title on the date when this section, as amended, takes effect;".

SEC. 319. (a) Section 5 of the Federal Reserve Act, as amended, is amended by striking out the last three sentences thereof and inserting in lieu thereof the following: "When a member bank reduces its capital stock or surplus it shall surrender a proportionate amount of its holdings in the capital stock of said Federal Reserve bank. Any member bank which holds capital stock of a Federal Reserve bank in excess of the amount required on the basis of 6 per centum of its paid-up capital stock and surplus shall surrender such excess stock. When a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal Reserve bank and be released from its stock subscription not previously called. In any such case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Board of Governors of the Federal Reserve System, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of 1 per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal Reserve bank."

(b) Section 6 of the Federal Reserve Act, as amended, is amended by striking out the last paragraph thereof.

SEC. 320. The fifth paragraph of section 9 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following sentence: "Such reports of condition shall be in such form and shall contain such information as the Board of Governors of the Federal Reserve System may require and shall be published by the reporting banks in such manner and in accordance with such regulations as the said Board may prescribe."

SEC. 321. (a) The first sentence of paragraph (m) of section 11 of the Federal Reserve Act, as amended, is amended by inserting before the period at the end thereof a colon and the following: "*Provided*, That with respect to loans represented by obligations in the form of notes secured by not less than a like amount of bonds

or notes of the United States issued since April 24, 1917, certificates of indebtedness of the United States, Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States, such limitation of 10 per centum on loans to any person shall not apply, but State member banks shall be subject to the same limitations and conditions as are applicable in the case of national banks under paragraph (8) of section 5200 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 84)".

(b) Paragraph (8) of section 5200 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 84), is amended by inserting after the comma following the words " certificates of indebtedness of the United States ", the words " Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States ".

SEC. 322. The third paragraph of section 13 of the Federal Reserve Act, as amended, is amended by changing the words " indorsed and otherwise secured to the satisfaction of the Federal Reserve bank " in that paragraph to read " indorsed or otherwise secured to the satisfaction of the Federal Reserve bank ".

SEC. 323. Subsection (e) of section 13b of the Federal Reserve Act, as amended, is amended by striking out " upon the date this section takes effect ", and inserting in lieu thereof " on and after June 19, 1934 "; and by striking out " the par value of the holdings of each Federal Reserve bank of Federal Deposit Insurance Corporation stock ", and inserting in lieu thereof " the amount paid by each Federal Reserve bank for stock of the Federal Deposit Insurance Corporation ".

SEC. 324. (a) The first paragraph of section 19 of the Federal Reserve Act, as amended, is amended to read as follows:

" SEC. 19. The Board of Governors of the Federal Reserve System is authorized, for the purposes of this section, to define the terms ' demand deposits ', ' gross demand deposits ', ' deposits payable on demand ', ' time deposits ', ' savings deposits ', and ' trust funds ', to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof: *Provided*, That, within the meaning of the provisions of this section regarding the reserves required of member banks, the term ' time deposits ' shall include ' savings deposits '."

(b) The tenth paragraph of such section 19 is amended to read as follows:

" In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System."

(c) The last two paragraphs of such section 19 are amended to read as follows:

" No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided*, That nothing herein contained shall be con-

strued as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further*, That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed.

"The Board of Governors of the Federal Reserve System shall from time to time limit by regulation the rate of interest which may be paid by member banks on time and savings deposits, and shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. No member bank shall pay any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement: *Provided*, That the provisions of this paragraph shall not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia."

(d) Such section 19 is amended by adding at the end thereof the following new paragraph:

"Notwithstanding the provisions of the First Liberty Bond Act, as amended, the Second Liberty Bond Act, as amended, and the Third Liberty Bond Act, as amended, member banks shall be required to maintain the same reserves against deposits of public moneys by the United States as they are required by this section to maintain against other deposits."

SEC. 325. Section 21 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following paragraph:

"Whenever member banks are required to obtain reports from affiliates, or whenever affiliates of member banks are required to sub-

mit to examination, the Board of Governors of the Federal Reserve System or the Comptroller of the Currency, as the case may be, may waive such requirements with respect to any such report or examination of any affiliate if in the judgment of the said Board or Comptroller, respectively, such report or examination is not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank."

SEC. 326. (a) Subsection (a) of section 22 of the Federal Reserve Act, as amended, is amended by inserting in the first paragraph thereof after "No member bank" the following: "and no insured bank as defined in subsection (c) of section 12B of this Act"; by inserting before the period at the end of the first sentence of such paragraph "or assistant examiner, who examines or has authority to examine such bank"; and by inserting after "any member bank" in the second paragraph thereof "or insured bank"; by inserting before the period at the end thereof "or Federal Deposit Insurance Corporation examiner"; and by adding at the end of such subsection a new paragraph, as follows:

"The provisions of this subsection shall apply to all public examiners and assistant examiners who examine member banks of the Federal Reserve System or insured banks, whether appointed by the Comptroller of the Currency, by the Board of Governors of the Federal Reserve System, by a Federal Reserve agent, by a Federal Reserve bank, or by the Federal Deposit Insurance Corporation, or appointed or elected under the laws of any State; but shall not apply to private examiners or assistant examiners employed only by a clearing-house association or by the directors of a bank."

(b) Subsection (b) of such section 22 is amended by inserting therein after "no national bank examiner" the following: "and no Federal Deposit Insurance Corporation examiner"; and by inserting after "member bank" the following: "or insured bank"; and by inserting after "from the Comptroller of the Currency," the following: "as to a national bank, the Board of Governors of the Federal Reserve System as to a State member bank, or the Federal Deposit Insurance Corporation as to any other insured bank,".

(c) Subsection (g) of such section 22 is amended to read as follows:

"(g) No executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers: *Provided*, That loans made to any such officer prior to June 16, 1933, may be renewed or extended for periods expiring not more than five years from such date where the board of directors of the member bank shall have satisfied themselves that such extension or renewal is in the best interest of the bank and that the officer indebted has made reasonable effort to reduce his obligation, these findings to be evidenced by resolution of the board of directors spread upon the minute book of the bank: *Provided further*, That with the prior approval of a majority of the entire board of directors, any member bank may extend credit to any executive officer thereof, and such officer may become indebted thereto, in an amount not exceeding $2,500. If any executive officer of any member bank borrow from or if he be or become indebted to any bank other than a member bank

of which he is an executive officer, he shall make a written report to the board of directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor, and the purpose for which the proceeds have been or are to be used. Borrowing by, or loaning to, a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in said partnership, shall be considered within the prohibition of this subsection. Nothing contained in this subsection shall prohibit any executive officer of a member bank from endorsing or guaranteeing for the protection of such bank any loan or other asset which shall have been previously acquired by such bank in good faith or from incurring any indebtedness to such bank for the purpose of protecting such bank against loss or giving financial assistance to it. The Board of Governors of the Federal Reserve System is authorized to define the term 'executive officer', to determine what shall be deemed to be a borrowing, indebtedness, loan, or extension of credit, for the purposes of this subsection, and to prescribe such rules and regulations as it may deem necessary to effectuate the provisions of this subsection in accordance with its purposes and to prevent evasions of such provisions. Any executive officer of a member bank accepting a loan or extension of credit which is in violation of the provisions of this subsection shall be subject to removal from office in the manner prescribed in section 30 of the Banking Act of 1933: *Provided*, That for each day that a loan or extension of credit made in violation of this subsection exists, it shall be deemed to be a continuation of such violation within the meaning of said section 30."

SEC. 327. The third paragraph of section 23A of the Federal Reserve Act, as amended, is amended to read as follows:

"For the purpose of this section, the term 'affiliate' shall include holding-company affiliates as well as other affiliates, and the provisions of this section shall not apply to any affiliate (1) engaged on June 16, 1934, in holding the bank premises of the member bank with which it is affiliated or in maintaining and operating properties acquired for banking purposes prior to such date; (2) engaged solely in conducting a safe-deposit business or the business of an agricultural credit corporation or livestock loan company; (3) in the capital stock of which a national banking association is authorized to invest pursuant to section 25 of this Act, as amended, or a subsidiary of such affiliate, all the stock of which (except qualifying shares of directors in an amount not to exceed 10 per centum) is owned by such affiliate; (4) organized under section 25 (a) of this Act, as amended, or a subsidiary of such affiliate, all the stock of which (except qualifying shares of directors in an amount not to exceed 10 per centum) is owned by such affiliate; (5) engaged solely in holding obligations of the United States or obligations fully guaranteed by the United States as to principal and interest, the Federal intermediate credit banks, the Federal land banks, the Federal Home Loan Banks, or the Home Owners' Loan Corporation; (6) where the affiliate relationship has arisen out of a bona fide debt contracted prior to the date of the creation of such relationship; or (7) where the affiliate relationship exists by reason of the ownership or control of any voting shares thereof by a member bank as executor, administrator, trustee, receiver,

agent, depositary, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member bank; but as to any such affiliate, member banks shall continue to be subject to other provisions of law applicable to loans by such banks and investments by such banks in stocks, bonds, debentures, or other such obligations. The provisions of this section shall likewise not apply to indebtedness of any affiliate for unpaid balances due a bank on assets purchased from such bank or to loans secured by, or extensions of credit against, obligations of the United States or obligations fully guaranteed by the United States as to principal and interest."

SEC. 328. Section 24 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following new paragraph:

"Loans made to established industrial or commercial businesses (a) which are in whole or in part discounted or purchased or loaned against as security by a Federal Reserve bank under the provisions of section 13b of this Act, (b) for any part of which a commitment shall have been made by a Federal Reserve bank under the provisions of said section, (c) in the making of which a Federal Reserve bank participates under the provisions of said section, or (d) in which the Reconstruction Finance Corporation cooperates or purchases a participation under the provisions of section 5d of the Reconstruction Finance Corporation Act, shall not be subject to the restrictions or limitations of this section upon loans secured by real estate."

SEC. 329. Section 25 of the Federal Reserve Act, as amended, is further amended by striking out the last paragraph of such section; the paragraph of section 25 (a) of the Federal Reserve Act, as amended, which commences with the words "A majority of the shares of the capital stock of any such corporation" is amended by striking out all of said paragraph except the first sentence thereof; and the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes" (38 Stat. 730), approved October 15, 1914, as amended, is further amended (a) by striking out section 8A thereof and (b) by substituting for the first three paragraphs of section 8 thereof the following:

"SEC. 8. No private banker or director, officer, or employee of any member bank of the Federal Reserve System or any branch thereof shall be at the same time a director, officer, or employee of any other bank, banking association, savings bank, or trust company organized under the National Bank Act or organized under the laws of any State or of the District of Columbia, or any branch thereof, except that the Board of Governors of the Federal Reserve System may by regulation permit such service as a director, officer, or employee of not more than one other such institution or branch thereof; but the foregoing prohibition shall not apply in the case of any one or more of the following or any branch thereof:

"(1) A bank, banking association, savings bank, or trust company, more than 90 per centum of the stock of which is owned directly or indirectly by the United States or by any corporation of which the United States directly or indirectly owns more than 90 per centum of the stock.

"(2) A bank, banking association, savings bank, or trust company which has been placed formally in liquidation or which is in the

hands of a receiver, conservator, or other official exercising similar functions.

"(3) A corporation, principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which has entered into an agreement with the Board of Governors of the Federal Reserve System pursuant to section 25 of the Federal Reserve Act.

"(4) A bank, banking association, savings bank, or trust company, more than 50 per centum of the common stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per centum of the common stock of such member bank.

"(5) A bank, banking association, savings bank, or trust company not located and having no branch in the same city, town, or village as that in which such member bank or any branch thereof is located, or in any city, town, or village contiguous or adjacent thereto.

"(6) A bank, banking association, savings bank, or trust company not engaged in a class or classes of business in which such member bank is engaged.

"(7) A mutual savings bank having no capital stock.

"Until February 1, 1939, nothing in this section shall prohibit any director, officer, or employee of any member bank of the Federal Reserve System, or any branch thereof, who is lawfully serving at the same time as a private banker or as a director, officer, or employee of any other bank, banking association, savings bank, or trust company, or any branch thereof, on the date of enactment of the Banking Act of 1935, from continuing such service.

"The Board of Governors of the Federal Reserve System is authorized and directed to enforce compliance with this section, and to prescribe such rules and regulations as it deems necessary for that purpose."

SEC. 330. (a) Section 1 of the Act of November 7, 1918, as amended (U. S. C., title 12, sec. 33; Supp. VII, title 12, sec. 33), is amended by striking out the second proviso down to and including the words "to be ascertained" and inserting in lieu thereof the following: "*And provided further*, That if such consolidation shall be voted for at said meetings by the necessary majorities of the shareholders of each of the associations proposing to consolidate, any shareholder of any of the associations so consolidated, who has voted against such consolidation at the meeting of the association of which he is a shareholder or has given notice in writing at or prior to such meeting to the presiding officer that he dissents from the plan of consolidation, shall be entitled to receive the value of the shares so held by him if and when said consolidation shall be approved by the Comptroller of the Currency, such value to be ascertained as of the date of the Comptroller's approval".

(b) Such section 1 is further amended by adding at the end thereof the following paragraphs:

"Publication of notice and notification by registered mail of the meeting provided for in the foregoing paragraph may be waived by unanimous action of the shareholders of the respective associations. Where a dissenting shareholder has given notice as above provided to the association of which he is a shareholder of his dissent from the plan of consolidation, and the directors thereof fail for more than

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thirty days thereafter to appoint an appraiser of the value of his shares, said shareholder may request the Comptroller of the Currency to appoint such appraiser to act on the appraisal committee for and on behalf of such association.

"If shares, when sold at public auction in accordance with this section, realize a price greater than their final appraised value, the excess in such sale price shall be paid to the shareholder. The consolidated association shall be liable for all liabilities of the respective consolidating associations. In the event one of the appraisers fails to agree with the others as to the value of said shares, then the valuation of the remaining appraisers shall govern."

SEC. 331. (a) Section 3 of the Act of November 7, 1918, as amended (U. S. C., Supp. VII, title 12, sec. 34 (a)), is amended by striking out the first sentence following the proviso down to and including the words "to be ascertained" and inserting in lieu thereof the following: "If such consolidation shall be voted for at said meetings by the necessary majorities of the shareholders of the association and of the State or other bank proposing to consolidate, and thereafter the consolidation shall be approved by the Comptroller of the Currency, any shareholder of either the association or the State or other bank so consolidated, who has voted against such consolidation at the meeting of the association of which he is a stockholder, or has given notice in writing at or prior to such meeting to the presiding officer that he dissents from the plan of consolidation, shall be entitled to receive the value of the shares so held by him if and when said consolidation shall be approved by the Comptroller of the Currency, such value to be ascertained as of the date of the Comptroller's approval."

(b) Such section 3 is further amended by adding at the end thereof the following paragraph:

"Where a dissenting shareholder has given notice as provided in this section to the bank of which he is a shareholder of his dissent from the plan of consolidation, and the directors thereof fail for more than thirty days thereafter to appoint an appraiser of the value of his shares, said shareholder may request the Comptroller of the Currency to appoint such appraiser to act on the appraisal committee for and on behalf of such bank. In the event one of the appraisers fails to agree with the others as to the value of said shares, then the valuation of the remaining appraisers shall govern."

SEC. 332. The Act entitled "An Act to prohibit offering for sale as Federal farm-loan bonds any securities not issued under the terms of the Farm Loan Act, to limit the use of the words 'Federal', 'United States', or 'reserve', or a combination of such words, to prohibit false advertising, and for other purposes", approved May 24, 1926 (U. S. C., Supp. VII, title 12, secs. 584–588), is amended by inserting in section 2 thereof after "the words 'United States'", the following: "the words 'Deposit Insurance'"; and by inserting in said section after the words "the laws of the United States", the following: "nor to any new bank organized by the Federal Deposit Insurance Corporation as provided in section 12B of the Federal Reserve Act, as amended,"; and by striking out the period at the end of section 4 and inserting the following: "or the Federal Deposit Insurance Corporation."

SEC. 333. The Act entitled "An Act to provide punishment for certain offenses committed against banks organized or operating under laws of the United States or any member of the Federal Reserve System", approved May 18, 1934 (48 Stat. 783), is amended by striking out the period after "United States" in the first section thereof and inserting the following: "and any insured bank as defined in subsection (c) of section 12B of the Federal Reserve Act, as amended."

SEC. 334. Section 5143 of the Revised Statutes, as amended, is hereby amended by striking out everything following the words "Comptroller of the Currency", where such words last appear in such section, and substituting the following: "and no shareholder shall be entitled to any distribution of cash or other assets by reason of any reduction of the common capital of any association unless such distribution shall have been approved by the Comptroller of the Currency and by the affirmative vote of at least two-thirds of the shares of each class of stock outstanding, voting as classes."

SEC. 335. Section 5139 of the Revised Statutes, as amended, is amended by adding at the end of the first paragraph the following new paragraph:

"Certificates hereafter issued representing shares of stock of the association shall state (1) the name and location of the association, (2) the name of the holder of record of the stock represented thereby, (3) the number and class of shares which the certificate represents, and (4) if the association shall issue stock of more than one class, the respective rights, preferences, privileges, voting rights, powers, restrictions, limitations, and qualifications of each class of stock issued shall be stated in full or in summary upon the front or back of the certificates or shall be incorporated by a reference to the articles of association set forth on the front of the certificates. Every certificate shall be signed by the president and the cashier of the association, or by such other officers as the bylaws of the association shall provide, and shall be sealed with the seal of the association."

SEC. 336. The last sentence of section 301 of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, is amended to read as follows: "No issue of preferred stock shall be valid until the par value of all stock so issued shall be paid in and notice thereof, duly acknowledged before a notary public by the president, vice president, or cashier of said association, has been transmitted to the Comptroller of the Currency and his certificate obtained specifying the amount of such issue of preferred stock and his approval thereof and that the amount has been duly paid in as a part of the capital of such association; which certificate shall be deemed to be conclusive evidence that such preferred stock has been duly and validly issued."

SEC. 337. The additional liability imposed by section 4 of the Act of March 4, 1933, as amended (D. C. Code, Supp. I, title 5, sec. 300a), upon the shareholders of savings banks, savings companies, and banking institutions and the additional liability imposed by section 734 of the Act of March 3, 1901 (D. C. Code, title 5, sec. 361), upon the shareholders of trust companies, shall cease to apply on July 1, 1937, with respect to such savings banks, savings companies, banking institutions, and trust companies which shall be transacting business

on such date: *Provided*, That not less than six months prior to such date, the savings bank, savings company, banking institution, or trust company, desiring to take advantage hereof, shall have caused notice of such prospective termination of liability to be published in a newspaper published in the District of Columbia and having general circulation therein. In the event of failure to give such notice as and when above provided, a termination of such additional liability may thereafter be accomplished as of the date six months subsequent to publication in the manner above provided. Each such savings bank, savings company, banking institution, and trust company shall, before the declaration of a dividend on its shares of common stock, carry not less than one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall equal the amount of its common stock: *Provided*, That for the purposes of this section, any amounts paid into a fund for the retirement of any preferred stock or debentures of any such savings bank, savings company, banking institution, or trust company, out of its net earnings for such half-year period shall be deemed to be an addition to its surplus if, upon the retirement of such preferred stock or debentures, the amount so paid into such retirement fund for such period may then properly be carried to surplus. In any such case the savings bank, savings company, banking institution, or trust company shall be obligated to transfer to surplus the amount so paid into such retirement fund for such period on account of the preferred stock or debentures as such stock or debentures are retired.

SEC. 338. The second paragraph of section 9 of the Federal Reserve Act, as amended, is amended by striking out the period at the end thereof and adding thereto the following: "except that the approval of the Board of Governors of the Federal Reserve System, instead of the Comptroller of the Currency, shall be obtained before any State member bank may hereafter establish any branch and before any State bank hereafter admitted to membership may retain any branch established after February 25, 1927, beyond the limits of the city, town, or village in which the parent bank is situated."

SEC. 339. Section 5234 of the Revised Statutes, as amended (U. S. C., title 12, sec. 192), is amended by striking out the period after the words "money so deposited" at the end of the next to the last sentence of such section and inserting in lieu of such period a colon and the following: "*Provided*, That no security in the form of deposit of United States bonds, or otherwise, shall be required in the case of such parts of the deposits as are insured under section 12B of the Federal Reserve Act, as amended."

SEC. 340. Section 61 of the Act entitled "An Act to establish a uniform system of bankruptcy throughout the United States", approved July 1, 1898, as amended, is amended by inserting before the period at the end thereof a colon and the following: "*Provided*, That no security in form of a bond or otherwise shall be required in the case of such part of the deposits as are insured under section 12B of the Federal Reserve Act, as amended".

SEC. 341. Section 8 of the Act entitled "An Act to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof, and for other purposes", approved June 25, 1910, as amended (U. S. C., title 39, sec.

758; Supp. VII, title 39, sec. 758), is amended by striking out the first sentence thereof and inserting in lieu thereof the following: "Notwithstanding any other provision of law, (1) each deposit in a postal savings depository office shall be a savings deposit, and interest thereon shall be allowed and entered to the credit of the depositor once for each quarter beginning with the first day of the month following the date of such deposit, but no interest shall be allowed to any such depositor with respect to the whole or any part of the funds to his or her credit for any period of less than three months; (2) no interest shall be paid on any such deposit at a rate in excess of that which may lawfully be paid on savings deposits under regulations prescribed by the Board of Governors of the Federal Reserve System pursuant to the Federal Reserve Act, as amended, for member banks of the Federal Reserve System located in or nearest to the place where such depository office is situated; and (3) postal savings depositories may deposit funds on time in member banks of the Federal Reserve System subject to the provisions of the Federal Reserve Act, as amended, and the regulations of the Board of Governors of the Federal Reserve System, with respect to the payment of time deposits and interest thereon."

SEC. 342. The last sentence of the third paragraph of subsection (k) of section 11 of the Federal Reserve Act, as amended (U. S. C., title 12, sec. 248 (k)), is amended to read as follows: "The State banking authorities may have access to reports of examination made by the Comptroller of the Currency insofar as such reports relate to the trust department of such bank, but nothing in this Act shall be construed as authorizing the State banking authorities to examine the books, records, and assets of such bank."

SEC. 343. The first sentence after the third proviso of section 5240 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, secs. 481 and 482), is amended by striking out the word "is" after the words "whose compensation" and inserting in lieu thereof a comma and the following: "including retirement annuities to be fixed by the Comptroller of the Currency, is and shall be"; and such section 5240 is further amended by striking out "The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency," and inserting in lieu thereof "The Comptroller of the Currency".

SEC. 344. (a) Section 1 of the National Housing Act is amended by adding at the end thereof the following new sentence: "The Administrator shall, in carrying out the provisions of this title and titles II and III, be authorized, in his official capacity, to sue and be sued in any court of competent jurisdiction, State or Federal."

(b) The first sentence of section 2 of the National Housing Act, as amended, is further amended by striking out the words "including the installation of equipment and machinery" and inserting in lieu thereof the words "and the purchase and installation of equipment and machinery on real property".

(c) Subsection (a) of section 203 of the National Housing Act is amended by inserting the words "property and" before the word "projects" in clause (1) of such subsection.

(d) The last sentence of section 207 of the National Housing Act is amended by inserting the words "property or" before the word "project".

SEC. 345. If any part of the capital of a national bank, State member bank, or bank applying for membership in the Federal Reserve System consists of preferred stock, the determination of whether or not the capital of such bank is impaired and the amount of such impairment shall be based upon the par value of its stock even though the amount which the holders of such preferred stock shall be entitled to receive in the event of retirement or liquidation shall be in excess of the par value of such preferred stock. If any such bank or trust company shall have outstanding any capital notes or debentures of the type which the Reconstruction Finance Corporation is authorized to purchase pursuant to the provisions of section 304 of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, the capital of such bank may be deemed to be unimpaired if the sound value of its assets is not less than its total liabilities, including capital stock, but excluding such capital notes or debentures and any obligations of the bank expressly subordinated thereto. Notwithstanding any other provision of law, the holders of preferred stock issued by a national banking association pursuant to the provisions of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, shall be entitled to receive such cumulative dividends at a rate not exceeding six per centum per annum on the purchase price received by the association for such stock and, in the event of the retirement of such stock, to receive such retirement price, not in excess of such purchase price plus all accumulated dividends, as may be provided in the articles of association with the approval of the Comptroller of the Currency. If the association is placed in voluntary liquidation, or if a conservator or a receiver is appointed therefor, no payment shall be made to the holders of common stock until the holders of preferred stock shall have been paid in full such amount as may be provided in the articles of association with the approval of the Comptroller of the Currency, not in excess of such purchase price of such preferred stock plus all accumulated dividends.

SEC. 346. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons and circumstances, shall not be affected thereby.

Approved, August 23, 1935.

BANK HOLDING COMPANY ACT OF 1955

84TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 609

BANK HOLDING COMPANY ACT OF 1955

MAY 20, 1955.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. SPENCE, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany H. R. 6227]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 6227) to provide for the control and regulation of bank holding companies, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

THE NEED FOR BANK HOLDING COMPANY LEGISLATION

INTRODUCTION

The need for immediate legislation which would at the same time control the future expansion of bank holding companies and force them to divest themselves of nonbanking business has been established to the complete satisfaction of your committee. It held exhaustive public hearings on H. R. 2674 (since superseded by H. R. 6227) from February 28 through March 9, 1955. Executive sessions extended from April 20 to May 13. The views of the Federal Reserve System were presented by the Honorable William McChesney Martin, Chairman of its Board of Governors, while those of the Office of the Comptroller of the Currency were presented by the Honorable Ray M. Gidney. Other witnesses representing all shades of opinion in regard to bank holding companies appeared and were afforded every opportunity to set forth their views. All witnesses were subjected to unusually lengthy and searching interrogation by the membership of your committee. The printed hearings, including appropriate exhibits, cover 645 pages.

Evidence developed during the hearings has convinced your committee that bank holding companies are not in accord with the very

precepts upon which our banking system rests. The United States early in its history, it should be recalled, adopted a democratic ideal of banking. Other countries, for the most part, have preferred to rely on a few large banks controlled by a banking elite. There has developed in this country, on the other hand, a conception of the independent unit bank as an institution having its ownership and origin in the local community and deriving its business chiefly from the community's industrial and commercial activities and from the farming population within its vicinity or trade area. Its activities are usually fully integrated with the local economic and social organization. The bank holding company device threatens to destroy this democratic grassroots institution.

Your committee believes that the destruction of the American unit banking system, resulting in the further concentration of credit facilities, would have revolutionary effects upon our free-enterprise system. Ultimately, monopolistic control of credit could entirely remold our fundamental political and social institutions.

The time for action is now. We dare wait no longer, for already we are rapidly following the example of England whose many banks became the Big Five. She finally passed a law against further concentration. The Bank of England has been nationalized. France has nationalized its few banks. The same will inevitably come to pass here unless we forestall it by legislation.

There is no question about what the reaction of the American people would be to such a condition. A nation that would not allow a monopoly over tobacco certainly will not condone one over the lifeblood of its economy, money, and credit. Through their Representatives in Congress and the State legislatures they have at various periods erected legal barriers against centralization of credit. Some of these have fallen, some have corroded. It is urgently necessary that we stop the remaining laws from being evaded. H. R. 6227 would do this. Its adoption by the Congress is necessary if we are to preserve our free-enterprise banking system, the economic counterpart of our political system. Each is essential to the other.

The four fundamental reasons for enacting this legislation are set forth below.

BANK HOLDING COMPANIES THWART NATIONAL BANKING POLICY

While our banking structure has evolved down through the years to meet changing economic requirements, this country has held steadfast to the doctrine that competition should prevail in the banking industry. Our national banking policy has aimed at protecting and fostering the growth of independent unit banks.

Repeatedly Congress has been urged to break down the restrictions in the national banking law regarding branches of national banks. Congress has been urged to permit branches, regardless of State bank laws, on a trade area basis, on an interstate or Federal Reserve district basis, and in fact on a nationwide basis. Each time, however, Congress has declared its approval of the American system of local independent and competitive banks, and has left the matter of branches to the States to determine, each State for itself. In spite of these rebuffs, those who have sought to concentrate banking control into fewer and fewer hands have been able, in certain areas of the

country, to accomplish their purpose to a substantial extent through the holding company device, acquiring control of a group of banks which, can thereafter be operated, in effect, as branches.

The opponents of H. R. 6227, it is true, have contended that to base holding company legislation on branch banking law is wrong, because there is a difference between branches and affiliated, or subsidiary, banks. Great stress has been placed on their difference in form, which everyone of course recognizes. Your committee feels, however, in a large measure they are differences without a distinction. Other than in form, what is the practical difference between a branch and a bank the stock of which is owned by a holding company that can select the bank's directors and change them at its pleasure, even holding repurchase rights to the directors' qualifying shares; that can hire and fire the bank's personnel and otherwise supervise its operations; that can make its investments, handle its insurance, buy its supplies, originate and place its advertising; can pass on its loans to local firms and individuals, usually receiving a fee for services performed?

Bankers certainly should know whether bank holding company subsidiaries can in effect be operated as branches. A bankers' association asked the bankers of the country this question: "Do you consider holding company banking, in effect, branch banking"? More than 97 percent of the replies were "Yes."

Your committee believes it is obvious that the declared will of Congress in favor of independent competitive banking is being thwarted by indirect branch banking, through the mechanism of the holding company.

BANK HOLDING COMPANIES CIRCUMVENT STATE BANKING LAWS

In the past, Congress has repeatedly been urged both to permit national banks to carry on branch banking across State lines and to allow them to operate interstate branches without regard to State branch banking laws. The Congress however has steadfastly respected the rights of the States to specify the extent to which branch banking shall be practiced within their respective borders. In fact, the Federal law authorizes National banks to have branches only to the extent that State banks are so permitted under the law of the State in which the national bank is located. This establishes parallel treatment of branches as regards banks whether State or federally chartered. Although this equality exists with respect to branches, States have no way to protect themselves against an outside bank holding company coming in and buying stock in banks, especially national banks, located within their borders.

Just recently, for example, the General Contract Corp. of St. Louis (a holding company) purchased two banks in the southern part of Illinois; namely the Bank of Benton and the Bank of Ziegler. A commercial bank, under both existing Federal and State laws, is not only prohibited from buying stock in banks located in another State, but is also prohibited from purchasing stock in banks located in the same State.

This bank holding company would not have been permitted to buy these banks which are now subsidiaries of this corporation if H. R. 6227 was then on the statute books. This corporation already owned the Illinois State Bank of Quincy which now gives it control

of 3 banks in Illinois; 4 banks in St. Louis, Mo.; 1 in Memphis, Tenn.; besides 3 insurance companies operating in 42 States; a dealer finance and personal loan company, blanketing 7 States; and approximately 30 finance and personal loan offices extending from St. Louis, Mo., to New Orleans, La.

The General Contract Corp. is by no means unique. Bank holding companies of the type which would be controlled under the bill now reach into 31 States, and no State is immune from invasion. The operations of the principal interstate bank holding companies are very extensive. As of December 31, 1954, 1 company, the Northwest Bancorporation, operated 72 banks with 22 branches located in 7 States; the Equity and Morris Plan Corps. operated 10 banks with 19 branches located in 4 States and the District of Columbia; the Transamerica Corp. operated 6 banks, with 167 branches, located in 5 States; the First Bank Stock Corp. operated 75 banks with 6 branches located in 4 States; the First Security Corp. operated 3 banks with 45 branches located in 3 States.

The bank holding company moreover circumvents our State banking laws on an additional major count, engaging in nonbanking businesses.

Most States restrict banks to the banking business and forbid banks to engage in or control nonbanking businesses. Through the device of the bank holding company, however, one organization can bring under centralized control an unlimited number and variety of businesses.

A wholly owned subsidiary of Morris Plan Corporation of America, the National Industrial Credit Corp., has direct or indirect interests in six companies engaged in the fire, casualty, reinsurance, and life-insurance business. Transamerica in addition to its banking interests in five States, controls corporations engaged in such widely diversified businesses as life, fire, automobile, and marine insurance, oil and gas, fish canning and processing, frozen foods, castings, forge equipment, kitchen tools, and agricultural equipment.

BANK HOLDING COMPANIES ARE SUSCEPTIBLE TO ABUSE

Your committee, of course, does not contend that all, or even most, holding companies were organized by promoters for unethical purposes, but the mechanism of the holding company in the field of banking, just as in other fields, is particularly susceptible to abuse by such individuals.

It is known, however, that there have been cases such as occurred not too long ago where a finance company from Texas acquired control of two banks in Chicago and was in the process of acquiring a third bank in Indiana, for the evident purpose of loading these institutions with questionable paper belonging to the holding company. This action resulted in the temporary closing of these Chicago banks. Their reopening was only made possible by a change in control and a very substantial advance by the Federal Deposit Insurance Corporation.

There have been other cases in which bank holding companies have been mismanaged and exploited for the benefit of those who controlled them. This fact was lucidly demonstrated during the banking crisis of the early 1930's. The Bank of the United States, a New York State-chartered institution that was placed in the hands of receivers late in 1930, for example, was found to have no less than 55 affiliates,

many of them mere dummy enterprises that had been created to serve as holding companies in which poor or doubtful paper could be hidden, without having to show it on the books of the parent bank.

In 1930 the head of the Guardian National Bank of Commerce of Detroit appeared before your committee and boastfully told of the new era that had been brought to the Detroit area through acquisitions by holding companies of carefully selected, well-managed and strong banks; how, through the supermanagerial ability of the men who dominated the holding company stronger institutions, better-managed institutions, more profitable institutions, rendering greater service to every corner of the city and its environs, had come to bless the Detroit area. Within a matter of only a few months both the Guardian and the Detroit Bankers—two gigantic Detroit holding company groups of banks—began to totter. In 1932 the vast financial empire lay in ruins, 297 controlled banks and branch offices, $785 millions in deposits—the scars of which disaster still mar the lives of millions of people. Your committee at that time developed that 12 men, each of whom invested $100 apiece, had gained control of a Detroit chain of more than 250 banks. In other cases banks had lent heavily to their officers to finance speculation in the stock of their holding companies. Subsidiary banks had been compelled to pay unwarranted dividends in the face of operating losses to enable holding companies to maintain their dividend policies. Holding companies borrowed from the banks which they owned to finance speculative dealings. The Banking Act of 1933, it is true, aimed at preventing a repetition of such abuses. Your committee wishes to point out, however, that under the terms of that act, a bank holding company can be regulated only if it happens to own a bank which is a member of the Federal Reserve System and only if it desires to vote the stock of that bank.

BANK HOLDING COMPANIES NOT AS CONDUCIVE TO ECONOMIC DEVELOPMENT AS INDEPENDENT UNIT BANKS

Independent unit banks, by their willingness to bear substantial local risks, have accelerated the economic development of the United States. Most of our leading companies, it should be recalled, were once small, and got started because local banks had confidence n the ability of the founders. Ideas and ability are to be found everywhere. And who is so likely to recognize these as the local banker who has the power to act on his intimate knowledge, and who will benefit his bank and his community by developing a substantial customer and employer. As the Commercial and Financial Chronicle has so well stated:

> Unit banking is peculiarly suited to the genius of the American people, to the democratic republican form of government which we have developed, to the nature of our business and industrial organization, to our social institutions, and to the individualism which is the foundation of our national progress * * *. Let us never despise the day of small beginnings nor the virtue inherent in small things.

The local independent bank is itself, of course, an ideal small-business enterprise. Local people get together, they invest their own capital, they select their own management and solicit the deposits of the community in which they are located. They then take those deposits and put them out to work for the benefit of the people living in that community. Moreover, because of the FDIC, the

Federal Reserve System, and its corresponding banks, the local bank is in an advantageous position to meet the changing needs of its community.

Your committee should like to reemphasize the fact that this is the only country left where most communities are served by home-owned and home-managed banks which are aware of and responsive to the needs of the people of their areas. Our independent banking system has been a vital factor in the development of the United States. Like yeast cells in a loaf of bread, each working in its immediate area, our banks scattered throughout the country have cooperated to produce the greatest and most general economic development the world has known.

Other countries must depend on 3, 4, or 5 banks having up to thousands of branches. Policies and important credit decisions are made hundreds or thousands of miles from many of the branches. The interest of an enterprising local customer may run counter to that of a large main office account, in which event the former might suffer. This inevitably tends toward concentration in all lines, cartels, the stifling of new enterprises, and stagnation—what has been termed the "mature economy."

The Origin of Group Banking

During the history of banking in the United States there have been in operation three distinct types of banking. They are commonly referred to as (1) independent unit banking, representing a bank with 1 office or with 1 office and branches and having only 1 board of directors and 1 capital structure; (2) chain banking, in which 1 individual owns or controls a number of independent unit banks; and (3) group banking, which is the ownership and control of a group of individual banks by a corporate holding company or control of bank shares by a trustee or a group of trustees or control through a majority ownership of bank shares for investment purposes. This bill, H. R. 6227, is concerned only with group banking through what is commonly referred to as ownership or control of banks by a bank holding company.

The most rapid as well as the greatest expansion in group banking came during the years 1927–29. This was a period of substantial corporate promotional activity which in many cases was activated by a desire for promotional and speculative profit. It was during this era that most of the bank holding companies were formed including the major bank holding companies that are operating at the present time. One of the main reasons for the formation of bank holding companies was the limitation on branch banking which existed during that time. Through the bank holding company device the ownership of banks could be acquired in different locations within the same State and also in different States. Until 1927 national banks were not permitted to open branches and most States did not authorize branch banking or if they did so it was limited to areas adjacent to the bank's home office. Thus through the bank holding company device ownership and control of banks could be achieved whereas bank growth could not be expanded through the medium of branches.

Bank holding companies are engaged basically in one or two types of businesses or both. Some bank holding companies own only the stocks of banks and are primarily engaged in managing or controlling such banks through such stock ownership. Other bank holding com-

panies not only own and control banks but also own or control several nonbanking businesses. Historically, National banks and State banks (excluding mutual savings banks) have been prohibited from investing in the stock of any corporation and their investments are limited to investment securities of a debt character, that is notes, bonds, or debentures which do not represent an equity ownership. The fundamental reason for this limitation on bank investment in common stocks is for the protection of the depositors in our banks. If banks were permitted to own nonbanking businesses they would be compelled in many instances to extend credit to such businesses to the detriment of other competitive businesses in the community and possibly also to a degree which would be unsound from a banking viewpoint. A bank should always be at arms' length with its borrowers and such a position could not be maintained were banks permitted to own nonbanking businesses and make credit available to them. Through the bank holding company device these restraints which are placed upon banks generally are absent.

Since the bank holding company device can be used to acquire control of banks and nonbanking businesses the question might be asked as to why such operations have not been controlled previously. There is no constitutional basis by which a State could prohibit a corporation chartered in another State from owning or controlling a national bank located within its borders. The only effective means by which bank holding companies can be regulated and controlled is through Federal legislation.

The Present Situation

As previously mentioned there are now on the statute books certain provisions enacted in 1933 and 1935 regulating affiliates and holding company affiliates of banks which are members of the Federal Reserve System. Any holding company affiliate which desires to vote the stock owned by it in any member bank must first obtain from the Board of Governors of the Federal Reserve System a voting permit and, as a condition to the permit, the company must agree to submit itself and its controlled banks to examination, to establish certain reserve funds, to dispose of any interest in securities companies, and to declare dividends only out of actual net earnings.

The term "holding company affiliate" as defined in the Banking Act of 1933, as amended, essentially includes any corporation, business trust, association, or other similar organization (1) which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50 percent of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election of a majority of the directors of any one bank, or (2) for the benefit of whose shareholders or members all or substantially all the capital stock of a member bank is held by trustees. Any corporation all of the stock of which is owned by the United States is excluded and the Board of Governors of the Federal Reserve System is also given authority to exclude any organization which the Board determines not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.

Information with respect to the number of bank holding company groups operating in the country is not complete. Control of nonmember banks by corporations, business trusts, associations, and other similar organizations is not generally required to be reported pursuant to existing Federal law. Undoubtedly, examination of sources of information other than required reports would disclose bank holding companies other than the presently known cases for which information is readily available. The Federal Reserve has compiled a list of 114 known cases in which corporations, business trusts, associations, and other similar organizations own or control 50 percent or more of the capital stocks of one or more banks including both member and nonmember banks. Such groups as of December 31, 1954, had 1,313 banking offices (including branches) with total deposits of $23.2 billion. The following table sets forth a breakdown of these groups.

TABLE I.—*Characteristics and size of 114 bank holding company groups (as of Dec. 31, 1954)*

Type of group	Cases	Banks	Branches	Total offices	Deposits
Groups presently regulated by Federal Reserve Board	18	254	578	832	$10,781,929,000
1 bank group where the controlled bank is a member bank	[1] 63	78	197	275	9,622,904,000
1 bank group where the controlled bank is a nonmember bank	15	21	41	62	682,820,000
More than 1 bank group where the controlled banks are nonmember banks	8	59	35	94	1,117,417,000
Other groups with 2 or more banks of which at least 1 controlled bank is a member bank	[2] 10	40	10	50	1,043,691,000
Total	114	452	861	1,313	23,248,761,000

[1] Of which 61 have been exempted by the Federal Reserve Board.
[2] Of which 6 have been exempted by the Federal Reserve Board.

As of December 31, 1954, there were 18 holding company affiliate bank groups operating in the country which had obtained voting permits from the Board of Governors of the Federal Reserve System and thus were subject to the regulation provided for in existing law. These 18 holding company groups operated in 22 States, had 832 banking offices (including branches) with total deposits of $10.8 billion. As of the same date all commercial banks in the United States had 19,948 banking offices (including branches) with total deposits of $183.6 billion.

While the holding company affiliate bank group totals related to national totals appear relatively modest (4.17 percent for number of banking offices and 5.87 percent for deposits) a quite different picture is presented by examination of the data on a State basis. In 11 States more than 20 percent of deposits in all commercial banks in those States is controlled by one or more of these 18 holding company affiliate bank groups. Detail by States is set forth in the following table.

TABLE II.—*Control of bank deposits in certain States*

State	Percent of deposits of 18 holding company groups to deposits of all commercial banks in State	Number of regulated holding company groups operating in the State
Nevada	78.29	1
Minnesota	57.04	3
Oregon	44.88	1
Montana	44.19	2
Washington	32.76	4
Idaho	32.26	1
South Dakota	32.19	2
North Dakota	29.13	2
Utah	24.14	1
Wisconsin	22.09	2
Arizona	21.13	1

In the case of Nevada, Oregon, and Arizona, just one holding company through its controlled banking offices had 74.29, 44.88, and 21.13 percent of all deposits of all commercial banks in those States respectively. Of the 18 holding company affiliate bank groups under the supervision of the Federal Reserve Board, 4 of these groups operate across State lines. One of these groups has banking offices in 7 States which are located in 3 Federal Reserve districts.

The provisions of existing law providing for the regulation of the activities of a bank holding company apply only if the bank holding company controls at least one member bank of the Federal Reserve System and only if the holding company desires to vote the stock of that member bank. A bank holding company may avoid regulation by the Federal Reserve Board through electing not to vote the stock of any member bank. For instance there is one bank holding company which owns more than 50 percent of the stock of 5 national banks, 2 State nonmember banks, and in addition has substantial minority interests in 3 other national banks. Although approximately 36 percent of the par value of all the bank stocks owned by the holding company is represented by its stock investment in the five national banks, the holding company has not elected to obtain a voting permit enabling it to vote the shares of these banks in which in each case it owns more than 50 percent of their outstanding capital stocks.

There are a number of bank holding companies which are not subject to regulation by the Federal Reserve Board due to the fact that they own controlling interests in only nonmember banks. One such holding company owns the controlling stock interest in 8 State banks located in 3 States.

One holding company which has extensive nonbanking investments also owns through a subsidiary the controlling interest in 10 banks located in 4 States and the District of Columbia. All of these banks are State banks and hence the bank holding company is not subject to Federal Reserve Board regulation. However, the activities of this holding company are such as to make it subject to regulation by the Securities and Exchange Commission under the Investment Company Act of 1940. While such regulation is extensive in scope it is designed principally to protect the interests of share owners as contrasted with

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holding company regulation by the Federal Reserve Board which is concerned principally with protecting the soundness of the banks in the group.

There is nothing in existing law which prevents the combination under the same control, through the holding company device, of both banking and nonbanking enterprises. Of the 18 holding company affiliate groups now under regulation by the Federal Reserve Board 13 of the groups had stock investments in one or more nonbanking organizations. In all, 90 nonbanking organizations were included in the holdings of these groups as of December 31, 1953 (latest date for which complete year end figures are available). The following table sets forth pertinent information as to these holdings.

TABLE III.—*Nonbanking organizations in 18 holding company affiliate groups as of Dec. 31, 1953* [1]

Type of business	Number of groups	Number of nonbanking organizations	Total assets of nonbanking organizations
Safe deposit	1	2	$625,000
Bank buildings	6	8	10,169,000
Liquidation of assets	3	4	1,749,000
Liquidation of assets and insurance agency	1	1	208,000
In liquidation	3	4	852,000
Inactive	4	6	97,000
Service organizations of groups	2	2	1,307,000
Trustees under deeds of trust	1	2	763,000
Insurance agencies	7	13	1,997,000
Owning and operating real estate	5	8	1,039,000
Real estate activities and oil development	1	1	19,453,000
Real estate sales and insurance	1	1	329,000
Real estate sales, rentals, and property management	1	1	27,000
Real estate sales and liquidations	1	1	58,000
Real estate insurance agency	1	1	334,000
Financing and servicing real estate	3	3	58,646,000
Home construction and improvement	1	9	324,000
Building and loan association	1	1	1,331,000
Automobile financing	1	1	2,899,000
Installment financing	1	1	1,595,000
Installment service agency	2	2	125,000
Abstract and title insurance	1	2	1,657,000
Investment of own funds	3	5	5,552,000
Insurance underwriting (life, fire, casualty, or automobile)	2	8	498,899,000
Catching, processing, and selling fish and fish products	1	1	11,761,000
Metals manufacturing (and subsidiary sales and service company)	1	2	25,697,000
Total	[2] 13	90	647,493,000

[1] The "holding company affiliates" in these groups are those which are now subject to the limited regulation provided by existing law.
[2] Omitting duplications.

One of the regulated bank holding companies which owns more than 50 percent of the capital stocks of banks with total deposits of slightly over $2 billion, in its annual report for the year ending December 31, 1954, sets forth considerable information as to its holdings and operations of nonbanking subsidiaries. This holding company owns all of the capital stock of a life insurance company with total assets of $447 million. This insurance company with over $5 billion of life insurance in force operates in 47 States, 7 Canadian Provinces, Hawaii, Alaska, and the District of Columbia. In addition the holding company owned from 92.5 to 100 percent of the capital stock of 4 fire and casualty insurance companies which write practically all forms of insurance other than life. The combined assets of these companies were over $98 million and their premium income in 1954 was over $46 million. The holding company owned a 94.4 percent stock interest

in a company which manufactures hydraulic pumps, diesel engines, and precision metal products. This manufacturing company with assets of $23.7 million had net sales in 1954 of over $35 million. The holding company owned a 75.6 percent stock interest in a seafood packing company which cans salmon and tuna and also sells frozen seafoods as well as precooked fish sticks. Assets of this packing company exceeded $11.3 million and 1954 sales volume was almost $15 million. The holding company owned all the capital stock of a finance company dealing in mortgages and home-improvement loans. The finance company had assets of over $36.6 million and at the end of 1954 was servicing notes and mortgages totaling slightly over $171 million. The holding company owned all of the capital stock of a real-estate investment company with assets of $19.3 million. This investment company develops on its own account or participates with others in the development of home and shopping-center projects. It realizes income from the sale of oil from 118 producing wells which it owns or in which it has an interest together with royalties and rentals from 130 properties leased to major oil companies. The company owns subsurface rights to approximately 400,000 acres of lands.

Major Provisions of H. R. 6227

Your committee is convinced from the evidence presented during its recent hearings that this bill represents the minimum legislation necessary to deal with the bank holding company problem. The committee wishes to make clear that the legislation which it proposes is not designed to abolish bank holding companies or to prohibit the expansion, within certain limits, of existing bank holding companies. The bill would impose controls which the committee deems desirable over the creation and expansion of bank holding companies and would require them to separate their business of managing and controlling banks from unrelated businesses. The bill contains five major provisions.

First, the bill would set forth a declaration that it is the policy of the Congress (*a*) to control the creation and expansion of bank holding companies, (*b*) to separate their business of managing and controlling banks from unrelated business, (*c*) generally to maintain competition among banks and to minimize the danger inherent in concentration of economic power through centralized control of banks, and (*d*) to subject bank holding companies to examination and regulation. It is the opinion of your committee that bank holding companies should be subject, insofar as practicable, to the same type of examination as the banks which they control.

Second, the bill would define a bank holding company as any company which either (*a*) controls 25 percent or more of the voting shares of 2 or more banks or of a bank holding company, or (*b*) is found by the Board of Governors of the Federal Reserve System, after notice and opportunity for hearing, to exercise a controlling influence over 2 or more banks. Certain exemptions from the definition of "bank holding company" are, however, provided. These are as follows: (*a*) Any corporation a majority of the shares of which are owned by the United States or any State, (*b*) banks which own or control shares solely in a fiduciary capacity (except where such shares are held for the benefit of all or a majority of the persons beneficially

interested in such bank), and (*c*) any mutual savings bank, and any nonprofit organization operating exclusively for charitable, religious, and similar purposes which would otherwise be a bank holding company by reason of its ownership of bank stock on the effective date of the act.

Third, the bill would require bank holding companies to obtain the prior approval of the Board of the Federal Reserve System before acquiring additional bank stocks or assets. The Board, before granting approval of any application, would be required to ask for the recommendation of the agency that chartered the bank or banks involved, the Comptroller of the Currency in the case of a National bank and the State supervisor in the case of a State bank. If such an agency denied approval within 30 days that action would be final, but if approval was granted then the Board, of course, in the light of the overall situation still could make its own determination.

Fourth, the bill would require bank holding companies within a maximum of 5 years to divest themselves of interests in nonbanking enterprises. Suitable tax relief on the distribution of such interests made at the order of the Board, or where because of such an order a company chooses to distribute its holdings of bank shares so as to cease to be a bank holding company, is provided.

Fifth, the bill would prohibit a bank subsidiary of a bank holding company from investing any of its funds in, or lending any of its funds on the security of the stock or other securities of the holding company of which it is a subsidiary, and other subsidiaries thereof, and would prohibit the bank from making loans to its bank holding company and other subsidiaries.

Definition of a Bank Holding Company

The bill defines a bank holding company as any company which either (*a*) controls 25 percent or more of the voting shares of 2 or more banks or of a bank holding company, or (*b*) is found by the Board of Governors of the Federal Reserve System, after notice and opportunity for hearing, to exercise a controlling influence over 2 or more banks. Certain exemptions from the definition of "bank holding company" are, however, provided. These are as follows: (*a*) Any corporation a majority of the shares of which are owned by the United States or any State, (*b*) banks which own or control shares solely in a fiduciary capacity (except where such shares are held for the benefit of all or a majority of the persons beneficially interested in such bank), and (*c*) any mutual savings bank, or any organization operating exclusively for charitable, religious, and similar purposes which would otherwise be a bank holding company by reason of its ownership of bank stock on the effective date of the act.

Your committee is unable to endorse the definition of "bank holding company" proposed by the Federal Reserve Board. It recommended that a "bank holding company" be defined as any company which owns or controls, directly or indirectly, a majority of the shares of one or more banks. Such a definition would perpetuate the long-recognized deficiencies of the definition of the term "holding company affiliate" contained in present law. This definition is based primarily on ownership or control of a majority of the shares of a bank or of the shares voted in the last election of directors of a bank. Congress and

the courts have recognized the fact that control is often exercised through ownership of much less than a majority of the shares of a corporation. In the Public Utilities Holding Company Act of 1930, for example, the Congress defines a holding company as follows:

> * * * any company which directly or indirectly owns, controls, or holds with power to vote, 10 per centum or more of the outstanding voting securities of a public-utility company or of a company which is a holding company by virtue of this clause or clause (B), unless the Commission, as hereinafter provided, by order declares such company not to be a holding company.

In the Investment Companies and Advisers Act, "control" is defined in this manner:

> Control means the power to exercise a controlling influence over the management or policies of a company, unless such power is solely the result of an official position with such company.
>
> Any person who owns beneficially, either directly or through one or more controlled companies, more than 25 per centum of the voting securities of a company shall be presumed to control such company.

Ownership of a majority of the shares voted in the preceeding election of directors is equally unrealistic. In marked contrast to its present position the Board in its 1943 annual report acknowledged it when it stated:

> In the Board's experience, the case in which regulation is most necessary is likely also to be the case in which advantage has been taken of the gaps in the statutory definition with respect to the number of shares owned or controlled. The Board believes that these gaps should be filled in by incorporating in the statute a more realistic definition envisaging the manner and means by which effective control actually is exercised.

The type of definition now proposed by the Federal Reserve Board would not cover some existing groups which are in effect bank holding companies. More important, it is quite possible it would not cover arrangements for control of a number of banking units which could easily be devised in the future to escape coverage of the definition proposed by the Board. In contrast, your committee believes the definition of "bank holding company" contained in H. R. 6227 is a realistic definition fully adequate to meet these possibilities of evasion.

As pointed out previously this bill does not deal with banks owned by an individual. The definition of "company" contained in the bill does not include an individual, and it also specifically excludes the administrator of a person's estate, the executor of a person's will, and the trustees of a testamentary trust. Also excluded would be an irrevocable trust the corpus of which is donated by one person and consists only of such person's property. In connection with the latter exclusion, however, your committee desires to point out that the exclusion is only intended to cover bona fide trusts created for specifically named beneficiaries. The exclusion is not to be used to evade the purposes of the act. For instance, if a number of individuals owning stock in the same banks create such trusts for the purpose of controlling the banks through the voting of the trustees in concert, such trusts would not be bona fide trusts entitled to exclusion from the provisions of this bill. Your committee desires to alert the Federal Reserve Board in this respect, and requests the Board to inform your committee and the Congress in its annual reports of attempts to use this particular exclusion for the purpose of evading the purposes of the bill.

Control of Bank Holding Company Expansion

The bill would control the future expansion of bank holding companies. The problem of how far bank holding company systems should be permitted to expand has long been of serious concern. It is in this area that one of the greatest potential evils of bank holding company operations exists.

A chartered bank may be prevented by Federal or State law or by the appropriate regulatory agency to which it is subject from expanding its banking offices either by the establishment of new branches or by taking over and operating the offices of other banks as branches.

In order to establish branches, national banks must first obtain permission from the Comptroller of the Currency, State member banks from the Federal Reserve Board, and nonmember insured banks from the Federal Deposit Insurance Corporation. But a bank holding company is not limited by any such requirements.

Through the acquisition by the holding company of the stock of an existing bank which thereafter may be operated essentially as a branch of the holding company system, the denial of a branch application of a controlled bank may become almost meaningless.

The holding company device lends itself readily to the amassing of vast resources obtained largely from the public, which can be controlled by the relatively few who comprise the management of the holding company, giving them a decided advantage in acquiring additional properties and in carrying out a program of expansion. Such power can be used to acquire independent banks by measures which leave local management and minority stockholders little with which to defend themselves except their own protests.

The enactment into law of H. R. 6227, your committee feels, is necessary to correct this situation. Section 5 of the bill provides that no action could be taken which would make a company a bank holding company without obtaining the approval of the Federal Reserve Board, nor could any voting stock in any bank or the assets of a bank be acquired by a bank holding company without obtaining approval of the Board. The only exception to these provisions is the acquisition by a bank holding company of voting stock acquired as a stock dividend.

Before granting approval to any application, the Board would be required to ask for the recommendations of the agency that chartered the bank or banks involved, the Comptroller of the Currency in the case of a national bank and the State supervisor in the case of a State bank. If such agency denied approval within 30 days, that action would be final, but if approval was granted then the Board, of course, in the light of the overall situation still could make its own determination.

The argument made by the Federal Reserve Board for centering all decisions on expansion in its hands is not convincing. It is apparently the position of the Federal Reserve Board that to give the Comptroller in the case of a National bank and the State supervisor in the case of a State bank, the right to deny approval of acquisition of the stock or assets of a bank would bring about diffusion of authority, involve dual application of effort and give rise to administrative difficulties.

Your committee regards this position as fallacious and untenable. The Federal Reserve Board agrees that the respective Federal and State supervisory authority should be consulted, and their views should be considered by the Board. We are unable to see how making a recommendation by the State supervisors would entail any less investigative work upon their part, create less diffusion of responsibility, or give rise to less administrative difficulties than the making of a definite decision that would be final on the Board.

As a matter of fact, if the Federal Reserve's recommendation were adopted both the Comptroller and the State supervisor and the Federal Reserve would have to make an investigation, but under the terms of the bill reported by your committee, if the State supervisor said "No," that would mean no investigation would be necessary by the Federal Reserve. The decision would be final and no administrative work would follow.

Section 5 further provides that in no case could further expansion outside of the home State of a bank holding company or a subsidiary thereof be approved and applications within the home State could be approved only within the area within which branches of banks are permitted or where by State statute such expansion is specifically exempted from branch banking restrictions.

The essence of section 5, your committee believes, is the placing of bank holding company expansion on the same basis as expansion in offices of banks. It establishes equity between holding companies and banks as to the area in which they can expand. The statutes of the States contain provisions clearly calculated to control the extent of banking operations by geographic limitations. It has been a generally recognized principle that such control could best be exercised by the individual State, depending on the banking needs of such State. This principle was given recognition by the Congress in the Banking Acts of 1927 and 1933, which authorized the Comptroller of the Currency to approve branches for a National bank only within State boundaries, and subject to the restrictions as to location imposed by the laws of the State on State banks.

Nearly all of the States already have legislated on the subject of branch banking. There is no reason to force a State again to legislate on branch banking. Your committee concurs with R. M. Evans, a former member of the Board of Governors of the Federal Reserve System, who said:

> * * * Once we acknowledge what has been officially ruled in at least two States—that is, that holding company banking is a type of branch banking—then holding company legislation should do what our present National banking legislation does; namely, permit branches when State law permits them and deny branches when State law does not permit them.

Finally, section 5 enumerates the standards which would guide the Federal Reserve Board in deciding whether to approve any such expansion. First, it would have to consider the financial history and conditions of the applicant and the banks concerned; their prospects; character of their management; and the needs of the communities involved.

These are in general the considerations now specified in the law as the basis for administrative action in connection with the admission of State banks to membership in the Federal Reserve System and the granting of deposit-insurance coverage.

However, under H. R. 6227, the Federal Reserve Board would also have to consider whether the proposed expansion of a bank holding company or of any banking subsidiary in a bank holding company group would extend the operation of the holding company group beyond limits consistent with adequate and sound banking and the public interest.

Divestment of Nonbanking Businesses

The bill provides for the divestment by bank holding companies of investments in businesses extraneous to banking within a period of 2 years which period can be extended to a maximum of 5 years by the Federal Reserve Board. Suitable tax relief on such distributions made at the order of the Board, or where because of such an order a company chooses to distribute its holdings of bank shares so as to cease to be a bank holding company, is provided.

The reasons underlying the divestment requirement are simple. As a general rule, banks are prohibited from engaging in any other type of enterprise than banking itself. This is because of the danger to the depositors which might result where the bank finds itself in effect both the borrower and the lender. It is for this reason, among others, that statutes limiting the investments of banks have been passed by both the Congress and State legislatures.

The bank holding company is under no such restriction. It may acquire and operate as many nonbanking businesses as it has funds and the disposition to acquire. There are in the country today, as has been pointed out previously, bank holding companies which, in addition to their investments in the stocks of banks, also control the operations of such nonbanking businesses as insurance, manufacture, real estate, mining, and a number of others.

Whenever a holding company thus controls both banks and nonbanking businesses, it is apparent that the holding company's nonbanking businesses may thereby occupy a preferred position over that of their competitors in obtaining bank credit. It is also apparent that in critical times the holding company which operates nonbanking businesses may be subjected to strong temptation to cause the banks which it controls to make loans to its nonbanking affiliates even though such loans may not at that time be entirely justified in the light of current banking standards. In either situation the public interest becomes directly involved.

Your committee finds itself unable to accede to the desire of the Federal Reserve Board for discretionary authority to exempt business determined by it "to be so closely related to the business of banking * * * as to make it unnecessary for the prohibitions of this section to apply * * *."

Your committee finds itself in full accord with the views expressed by former Comptroller of the Currency Preston Delano, when he testified before the Senate Banking and Currency Committee in 1950 on the Board's proposal. He stated:

> Under this provision, a holding company could engage through its subsidiaries in any other business which the Board, in its discretion, determines to be a "proper incident" to the business of managing, operating, or controlling banks.
>
> By way of illustrating the possible effect of this sweeping discretionary power, it might be pointed out that if the Board of Governors considered the business of acquiring consumer paper by purchase or otherwise and the servicing and sale of

that paper to be a "proper incident" to the business of managing, operating, or controlling banks, a large bank holding company would be in a position to organize and control subsidiary companies in every city in the Nation to engage in this business in competition with independent banks operating in their respective business areas, and such subsidiary companies could funnel this business into the banks of the holding company system.

Freedom to engage in such activities would give to the bank holding company systems a tremendous competitive advantage over independent banks, which cannot engage in similar activities away from their home offices except through duly authorized branches, which in no case can be established beyond State lines.

Your committee has, however, exempted certain specific businesses which it believes to be obviously incidental to the business of banking. A bank holding company would not be required to divest itself of any company engaged solely in holding or operating properties used wholly or in part by any subsidiary that is a bank in its operations or acquired for such future use, or engaged solely in conducting a safe deposit business, or solely in the business of serving such holding company and its subsidiaries in auditing, appraising, investment counsel, or in liquidating assets acquired from such bank holding company and its subsidiaries. Neither would a bank holding company be required to divest itself of securities which are eligible for investment by national banks or general investments of limited amounts.

Your committee has examined the various proposals to "freeze" bank holding companies' nonbanking investments. All of these, it was found, have a common defect. They would leave any company, controlled by a bank holding company, free to expand its capital structure by issuing preferred stock or bonds, by merger, or the organization of subsidiaries of its own.

The fallacy of any attempt to "freeze" nonbanking investments will best be understood by a concrete illustration. Transamerica owns 75 percent of the outstanding voting stock, carried at $2,665,000, in Columbia River Packers. Now let us assume that Transamerica's investment in this company was completely frozen; that is, the amount of money it had invested, the number of shares it held, and the percentage of voting shares it held could not be changed. The Columbia River Packers, nevertheless, could expand its operations by issuing additional securities to others than the holding company. This company could also absorb other companies and could expand into other fields—in fact into any line of business which its charter permitted. It could organize subsidiaries, raising capital funds from outsiders, thereby enlarging its financial structure and its operations without dissipating the control of the holding company. Last year it broadened its tuna packing operations and its frozen seafood lines. It added precooked fish sticks this year. Your committee has no reason to believe the company might not expand into canned fruits and vegetables, or other food processing lines, by merger or otherwise. Similar expansion could be accomplished by subsidiaries of any bank holding company.

Self-Dealing Limitations

The bill would prohibit a bank subsidiary from investing any of its funds in, or loaning any funds on the securities of, its parent bank holding company or subsidiaries thereof. Such a subsidiary bank would also be prohibited from loaning any of its funds to its parent bank holding company or subsidiaries thereof. Your com-

mittee believes that such prohibitions are essential to prevent unsound banking practices.

While these prohibitions would prevent so-called "upstream" financial transactions between a subsidiary bank up to or through its parent bank holding company, the prohibitions would not prevent reverse operations. The committee recognizes that a bank holding company should be able to make loans and investments in its subsidiaries and in the case of subsidiary banks may perform a very useful function in this regard in supplying needed capital funds.

The inadequacy of existing law with respect to self-dealing between bank holding companies and their subsidiary banks was plainly presented to the banking world in 1953 when the Bankers Discount Corp. of Dallas, Tex., which operated a chain of small-loan companies in Texas, Tennessee, Arizona, and California, purchased the controlling interest in three banks in the Chicago area which later were forced to close temporarily. The almost unbelievable story of the Bankers Discount Corp. was recounted to the Senate Banking and Currency Committee on June 12, 1953, by H. Earl Cook, chairman of the board of directors of the Federal Deposit Insurance Corporation, during the hearings on S. 76 and S. 1118, bills to provide for the control and regulation of bank holding companies.

Briefly stated, this is the story as told by Mr. Cook:

On February 6, 1953, Bankers Discount Corp., of Dallas, Tex., which was incorporated in 1946 and operated a chain of small-loan companies in Texas, Tennessee, Arizona, and California, purchased the controlling interest in the First State Bank of Elmwood Park, Elmwood Park, Ill. Bankers Discount acquired 10,800 shares of the outstanding 20,000 shares of stock at $25 per share. On February 6 and 25 Bankers Discount Corp. purchased 6,800 shares of the outstanding 10,000 shares of stock of the Devon-North Town State Bank, of Chicago, Ill., at $90 a share. In both instances the stock acquired by the Bankers Discount was purchased from Henry J. Beutel, president of the two banks, who was also president of West Irving State Bank, Chicago, Ill., and his associates.

Concurrently with the acquisition of the stock in the two banks, Bankers Discount obtained unsecured loans from each bank in the amount of the banks' legal lending limit. In the case of First State Bank of Elmwood Park a $50,000 unsecured loan was obtained and in the Devon-North Town State Bank an $85,000 unsecured loan was granted. In the case of Devon a contract was entered into on February 16 whereunder the bank agreed to purchase notes from Bankers Discount Corp. without recourse for the full value of such notes less a 2-percent discount to be held in a reserve account. Up to April 1 the bank purchased approximately $925,000 of such notes which subsequent payments reduced to approximately $837,000. In the case of the Elmwood Park Bank a similar agreement was entered into on or about March 23, and between that date and April 3 the bank acquired approximately $2,180,000 of personal notes previously held by Bankers Discount Corp.

On March 31, the auditor of public accounts of the State of Illinois advised the Federal Deposit Insurance Corporation it was his intention to take over the Elmwood Park and Devon banks for examination and adjustment on April 2 unless the Bankers Discount Corp.'s loans and the notes which had been purchased by the banks were removed. He made other requirements with regard to the management. Subsequently an extension of time was granted the banks by the auditor in order to permit them to endeavor to have the Bankers Discount obligations removed. This measure failing, the auditor, on the morning of Saturday, April 11, took over the Devon and Elmwood Park banks for examination and adjustment and also took over the West Irving State Bank which had just agreed to purchase approximately $800,000 of Bankers Discount Corp. notes and had granted the Bankers Discount a $65,000 unsecured loan.

As a result of the action taken by the auditor of public accounts the $800,000 proceeds of the sale of the notes could not be drawn upon by Bankers Discount, the sale was canceled and the West Irving State Bank was permitted to reopen without financial assistance from this corporation on April 20 after the $65,000 loan was refinanced by Bankers Discount Corp.

Through the extension of financial aid of approximately $4,820,000 by the Federal Deposit Insurance Corporation in accordance with the provisions of section 13 (e) of the Federal Deposit Insurance Act, the deposit liabilities of First State Bank of Elmwood Park were assumed by the newly organized bank of Elmwood Park as of the close of business on May 26.

On May 28, the Devon-North Town State Bank reopened for business, after disposing of the Bankers Discount Corp. notes held by it, without the financial assistance of this Corporation.

Your committee feels that to fail to prohibit self-dealing between bank holding companies and their subsidiary banks would be to invite a repetition of the situation described above.

Tax Relief for Distributions Made Under the Act

The bill would add a new part VIII to subchapter O of the Internal Revenue Code of 1954. Under this new part, tax relief is accorded to distributions which are made pursuant to the Bank Holding Company Act of 1955 within the period prescribed in the act.

In general, a corporation which comes within the terms of the act as a bank holding company is given its choice of two alternative routes (that is, to remain a bank holding company, or to dispose of its interests in banks).

If the corporation decides to remain a bank holding company subject to the supervision of the Federal Reserve Board, it may distribute any "prohibited property," which the Board certifies is necessary or appropriate to comply with the act, to its shareholders without the recognition of gain by the shareholders on the distribution. For this purpose "prohibited property," in general, means stock, securities and other obligations, or other assets of nonbanking businesses to the extent the bank holding company is required to divest itself of such assets under section 6 (a) of the bill. The term, however, does not include cash, Government bonds, or certain short-term obligations. In the ordinary case cash and cash equivalents, such as Government bonds and short-term obligations, will not come within section 6 (a) of the bill as property which must be disposed of by the bank holding company. It is believed desirable, however, to expressly exclude cash, etc., from the definition of "prohibited property," since a similar exclusion is contained in the comparable provisions of part VI of subchapter O, relating to exchanges in obedience to SEC orders.

With respect to the distributing corporation, the usual provisions of the Internal Revenue Code of 1954 apply. Under these provisions, gain generally is not recognized to the distributing corporation except under unusual circumstances such as the distribution of LIFO inventory, the distribution of property subject to a liability in excess of the adjusted basis, or the distribution of certain installment obligations.

The distribution of "prohibited property" may be made either directly to the shareholders of the corporation which is a bank holding company or may be transferred to a wholly owned subsidiary expressly created for purposes of receiving the prohibited property. The stock of the subsidiary must be immediately distributed to the shareholders of the corporation which is a bank holding company if the distribution is to be made under this bill without the recognition of gain to the shareholders.

If a corporation which qualifies as a bank holding company under the act chooses the second alternative route, it may distribute to its shareholders any bank stock or other property of a kind which causes

it to be a bank holding company, without the recognition of gain to the recipient stockholders. The Board must certify, however, that distribution of property of that kind is necessary or appropriate to effectuate the policies of the act. In such a case, the corporation may, for example, distribute to its shareholders all of its shares of bank stock without the recognition of gain even though it would be possible to retain shares of stock in one bank without being classified as a bank holding company. Your committee believes that this treatment is necessary because a corporation which is compelled to divest itself of part of its bank stock by reason of the act may wish to distribute all of its shares of bank stock, so that no possibility will exist that it will be classified as a bank holding company in the future.

Your committee contemplates that the Federal Reserve Board in the discharge of its functions in making certifications that exchanges and distributions are necessary or appropriate to effectuate the purposes of the act will carefully scrutinize the facts and circumstances in each case to prevent abuses and will cooperate fully with the Treasury Department to this end. Although the time of recognition of gain may be legitimately shifted under the provisions of this part, nothing in these provisions is to be construed or applied in such manner as to permit tax evasion or sham transactions entered into for avoiding tax.

Your committee has restricted the nonrecognition treatment described above to property which was owned on May 15, 1955. This restriction is deemed necessary to prevent corporations from purchasing interests in banks or other property in order that their shareholders may get the benefit of the tax treatment provided in the act. The restriction would not apply, however, if the property was received in a transaction in which gain was not recognized because of the general rules described above. For example, if prohibited property was distributed by a subsidiary to its parent in a corporate chain without recognition of gain to the parent by reason of these provisions, the parent, in turn, may distribute the property to its own shareholders without recognition of gain under a certification by the Board, even though the property was acquired by the parent after May 15, 1955. Similarly, the May 15, 1955, cutoff date is not applicable where the prohibited property or bank stock (or other similar property) certified by the Board is transferred to a wholly owned subsidiary created for that purpose and the stock of the subsidiary is immediately distributed by the qualified bank holding corporation to its shareholders.

As in the case of the first alternative route, nonrecognition treatment is available whether the bank stock or other similar property certified by the Board is distributed directly to shareholders or whether it is first transferred to a wholly owned subsidiary expressly created for that purpose and the stock of the subsidiary is then immediately distributed to the shareholders of the parent.

To prevent certain tax avoidance possibilities that might otherwise exist, your committee's bill does not extend nonrecognition treatment, under the general rules described above, to any portion of a distribution attributable to a contribution to the capital of any corporation where the contribution is made after May 15, 1955. This restriction applies whether or not the contribution to capital is made by a shareholder of the corporation receiving such contribution. In the case of a contribution to the capital of a bank, however, the limitation does not

apply if it is determined that avoidance of Federal income tax was not a principal purpose of the contribution.

Where the nonrecognition treatment has been extended to "prohibited property" which has been distributed by the corporation which is a bank holding company, a final certification must be obtained from the Board that the corporation has divested itself of all property necessary for compliance with the act within the statutory period permitted for divestment. If this final certification is not obtained, the transactions previously permitted to be made without recognition of gain are reopened and tax may be imposed in such cases. For this purpose the statute of limitations on assessment of a deficiency resulting solely from such a transaction does not expire until 1 year after the date on which the corporation gives notification that a final certification by the Board has been made.

A similar final certification is required where nonrecognition treatment has been originally accorded to the distribution of bank stock or similar property of a kind which the Board has certified as necessary so that the corporation will cease to be a bank holding company. In this case the tax provisions of the bill provide that the Board must give a final certification that the corporation has ceased to be a bank holding company within 2 years after the date of enactment unless the time has been extended by the Board for 1-year renewals not to exceed 5 years from date of enactment.

Miscellaneous Provisions

The bill contains a number of miscellaneous provisions, some of which are of substantive importance, and some of which are technical in nature.

The basis of stock or other property received by a distributee without recognition of gain under the provisions of the bill is determined by allocating the adjusted basis of the stock with respect to which the distribution was made between such stock and the property so distributed. This rule is similar to the general rule for allocation of basis in the case of a stock dividend. The bill provides that the allocation shall be made under regulations provided by the Secretary or his delegate.

REGISTRATION, REPORTS, AND EXAMINATION

The bill would require each bank holding company to register with the Board of Governors of the Federal Reserve System. It would be required to do this within 6 months after the effective date of the act or within 6 months after becoming a bank holding company, whichever was later, and the Board may grant extensions up to an additional 6 months. When registering, it would be required to give such information about its finances and operations as the Board deemed necessary to carry out the purposes of the act. The bill would also authorize the Board, to enable it to carry out the purposes of the act, to issue regulations and orders, require reports under oath, and make examinations of each bank holding company and subsidiary thereof.

The Board of Governors would be required within 1 year after the effective date of the act, and each year thereafter in the Board's

annual report to report to Congress the results of the administration of the act, stating what, if any, substantial difficulties had been encountered in carrying out the purposes of the act and any recommendation as to changes in the law which the Board believed desirable.

RESERVATION OF RIGHTS TO STATES

The bill, in a clear-cut statement, would preserve all the rights which States, now or hereafter, may have to regulate banks or bank holding companies.

HEARINGS AND REVIEW

The bill would give any person affected by the Federal Reserve Board's action or omission to act under the bill a right to judicial review with a trial of the facts de novo in an appropriate court proceeding. Your committee believes that simple justice requires any action or inaction of the Federal Reserve Board should be subject to hearings and the aggrieved party should have the right to court review.

PENALTIES

The bill would provide penalties for willful violation of the act or any regulations or orders issued by the Board pursuant thereto. Upon conviction a company may be fined $1,000 for each day the violation continues and an individual upon conviction may be subjected to a $10,000 fine or 1 year imprisonment or both. Officers or employees of a bank holding company are made subject to the same penalties for making false entries in books, reports, or statements that are applicable to officers or employees of Federal Reserve member banks ($5,000 fine or 5 years' imprisonment or both).

SECTION-BY-SECTION ANALYSIS OF THE BILL

Section 1.—This section provides that this act may be cited as the Bank Holding Company Act of 1955.

Section 2.—This section sets forth a declaration of policy by the Congress that the creation and expansion of bank holding companies be subjected to control, that bank holding companies be required to separate their business of managing and controlling banks from unrelated businesses and that bank holding companies be subjected to the same type of examination and regulation as the banks which they control. The section further provides that it is a policy of the Congress generally to maintain competition among banks and to minimize the danger inherent in the concentration of economic power through centralized control of banks.

Section 3.—Subsection (a) defines the term "bank holding company" to mean any company which directly or indirectly owns or controls 25 percent or more of the voting shares of 2 or more banks or of a company which is or becomes a bank holding company by virtue of this act; or any company which, after notice and hearing, is determined by the Board of Governors of the Federal Reserve System to exercise directly or indirectly a controlling influence over the management or policies of 2 or more banks. A successor to any such bank holding company for purpose of the act is deemed to be a bank holding company as of the date the predecessor company became a bank

holding company. However, no (1) mutual savings bank, (2) nonprofit religious, charitable, scientific, or educational organization, nor (3) company owning banks with aggregate deposits of less than $15 million as of December 31, 1954, shall be classed as or held to be a bank holding company by reason of the ownership of the stock of any bank as of the effective date of the act. A provision of the definition specifically excludes any corporation wholly owned by the United States, or any bank owning or controlling shares in a fiduciary capacity except where such shares are beneficially held for all or a majority of the persons interested in the bank.

Subsection (b) defines a "subsidiary" of a specified bank holding company in terms of the ownership and control tests applicable to a bank holding company.

Subsection (c) defines the term "company" to include any bank, corporation, partnership, joint-stock company, business trust, voting trust, association, or any similar organized group of persons whether incorporated of not. However, any such company the majority of the shares of which are owned by the Federal Government or by any State are excluded.

Subsection (d) defines the term "bank" to include any national or State bank, savings bank or trust company, but excludes any organization which does not do business within the United States. The subsection also defines the terms "State member bank" and "district bank."

Subsection (e) defines the term "successor" and gives the Board of Governors of the Federal Reserve System the right by regulation to further define the term "successor" to the extent necessary to prevent evasion of the purposes of the act.

Subsection (f) makes clear that where the term "Board" is used in the act the reference is to the Board of Governors of the Federal Reserve System.

Section 4.—This section sets forth powers and duties with respect to the registration, making of reports and examination of bank holding companies.

Subsection (a) requires bank holding companies to register and file requisite information with the Board within a period of 180 days and grants the Board the right to extend such period for not to exceed an additional 180 days.

Subsection (b) authorizes the Board to issue regulations and orders necessary in administration of the act.

Subsection (c) gives the Board authority to require reports from and make examinations of bank holding companies and their subsidiaries. To avoid duplication of effort, use, so far as possible, will be made of examination reports of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or appropriate State bank supervisory authorities.

Subsection (d) requires the Board within a year and annually thereafter to report to the Congress on operations under the act and to make any recommendations as to changes in the law which appear desirable to the Board.

Section 5.—The provisions of this section relate to future acquisitions of bank shares or bank assets by bank holding companies or by companies which thereby would become bank holding companies.

Subsection (a) makes it unlawful, except with prior approval of the Board of Governors of the Federal Reserve System (1) for any action to be taken which results in a company becoming a bank holding company; (2) for any bank holding company or subsidiary thereof to acquire directly or indirectly, any voting shares of a bank (other than those received as a stock dividend); or (3) for any bank holding company or subsidiary thereof, other than a bank, to acquire all or substantially all of the assets of a bank.

Subsection (b) requires the Board before approving an application for the acquisition of voting shares or assets of a bank to give 30 days notice to the Comptroller of the Currency if the applicant or the bank involved is a national or district bank or to the appropriate State supervisory authority if the applicant or the bank involved is a State bank. If the supervisory authority so notified files a written disapproval of the application within the 30-day period the application cannot be approved by the Board.

Subsection (c) confines future bank acquisitions by bank holding companies to the State within which the bank holding company or subsidiary thereof maintains its principal office or in which it conducts its principal operations. Within a State, future bank acquisitions by a bank holding company or subsidiary thereof are required to conform to the geographic limitations which apply to the establishment of branch banks unless State law otherwise affirmatively permits other acquisition.

Subsection (d) sets forth standards to be considered by the Board in connection with applications for bank acquisitions under section 5. These relate to financial history and status, prospects, management of the holding company and banks involved, needs and welfare of the communities, and the public interest.

Section 6.—This section relates to bank holding company interests in nonbanking organizations and provides for separation of banking and nonbanking interests.

Subsection (a) makes it unlawful (except as otherwise provided) for a bank holding company to own any shares or other securities or obligations of any company other than a bank or to engage in any business other than (1) banking, (2) managing or controlling banks, or (3) businesses of the kind enumerated in subsection (c) (1) of this section. Such ownership or activities become unlawful 2 years after the effective date of the act except that the Board upon application may extend such period up to a maximum of 5 years after the date of enactment or after a company becomes a bank holding company, whichever is later.

Subsection (b) prohibits a bank holding company after 2 years from date of enactment from (1) making any statement on its shares that they represent shares of any other company except a bank or a bank holding company, or (2) conditioning in any manner ownership, sale, or transfer of its shares upon the ownership, sale or transfer of shares of any other company except a bank or a bank holding company.

Subsection (c) provides appropriate exemptions to the blanket prohibitions on bank holding company investments or activities set forth in subsection (a).

Paragraph (1) exempts investments by a bank holding company in companies obviously incidental to the business of banking, such as holding bank premises, conducting a safe deposit business, or providing services such as auditing, appraisal, and investment counsel, or in

liquidating assets acquired from the bank holding company or its subsidiaries.

Paragraph (2) exempts for a 2-year period investments acquired by a bank holding company which is a bank, in satisfaction of a debt previously contracted.

Paragraph (3) exempts for a 2-year period investments acquired by a bank holding company from any subsidiary which is requested to dispose of such investment by a Federal or State examining authority.

Paragraph (4) exempts investments held by a bank (which is a bank holding company) in a fiduciary capacity and those of the kinds and amounts eligible for national bank investment under section 5136 of the Revised Statutes. The paragraph also exempts shares lawfully acquired and owned prior to the enactment of this act by such a bank or any of its wholly owned subsidiaries.

Paragraph (5) exempts investments held by a bank (which is a bank holding company) if such investments may be owned under the laws of the State in which such bank is operating.

Paragraph (6) exempts limited general investments of a bank holding company from the investment prohibitions of the act. A bank holding company may own investments in any company provided such investment does not include more than 5 percent of the outstanding voting securities of such company and provided the value of the investment does not exceed 5 percent of the total assets of the holding company. A bank holding company may also indirectly so invest through an investment company provided the investment company does not own more than 5 percent of the voting securities of any company and does not own any single security having a value greater than 5 percent of the total assets of the holding company.

Section 7.—This section prohibits a bank subsidiary from investing any of its funds in or lending any of its funds to its parent bank holding company or subsidiaries thereof and the subsidiary bank may not accept the securities of its parent bank holding company or subsidiaries thereof as collateral for any loan except for debts previously contracted. The subsidiary bank may not purchase assets or securities under a repurchase agreement from its parent holding company or from any of the subsidiaries of that holding company. Routine banking transactions between subsidiary banks are not treated as extensions of credit and do not fall within the prohibitions of this section. Also exempted from the self-dealing prohibitions of this section are securities of (1) a company described in section 6 (c) (1) (activities incidental to bank operations), (2) a company the subsidiary status of which arises out of a previously contracted bona fide debt or (3) a company the subsidiary status of which arises through ownership of securities in a fiduciary capacity, except where such ownership is for the benefit of all or a majority of the stockholders of the bank.

Section 8.—This section makes clear that there is reservation of the rights of any State for exercise of such powers as it has or may hereafter have with respect to banks, bank holding companies and the subsidiaries thereof.

Section 9.—This section provides that any person adversely affected or aggrieved shall have the right to a judicial review of the action or nonaction of the Board of Governors of the Federal Reserve System, and that the action or nonaction which is the subject thereof shall not be considered to be action committed to agency discretion within

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section 10 of the Administrative Procedure Act. The facts shall be subject to trial de novo in an appropriate court proceeding.

Section 10.—This section provides penalties for willful violation of the act or any regulations or orders issued by the Board pursuant thereto. Upon conviction a company may be fined $1,000 for each day the violation continues and an individual upon conviction may be subjected to a $10,000 fine or 1 year imprisonment or both. Officers or employees of a bank holding company are made subject to the same penalties for making false entries in books, reports, or statements that are applicable to officers or employees of Federal Reserve member banks ($5,000 fine or 5 years imprisonment or both).

Section 11.—This section contains technical amendments to banking acts and other acts to reflect the provisions of this act.

Subsection (a) amends the 16th paragraph of section 4 of the Federal Reserve Act which pertains to the nomination and election of class A and class B directors of Federal Reserve banks.

Subsection (b) provides for repeal of the last sentence of paragraph 19 and all of paragraph 22 of section 9 of the Federal Reserve Act. These paragraphs respectively deal with the penalty imposed on a State member bank for failure to obtain reports of holding company affiliates and the applicability of voting permit conditions to State member banks affiliated with a holding company affiliate.

Subsection (c) provides for repeal of subsection (c) of section (2) of the Banking Act of 1933, as amended. That subsection contains the definition of a "holding company affiliate" under that act.

Subsection (d) rewrites section 5144 of the Revised Statutes, as amended, so as to delete the provisions of that section relating to voting permits of holding company affiliates of national banks.

Subsection (e) amends section 5211 of the Revised Statutes so as to remove a sentence subjecting holding company affiliates to the reporting provisions of that section.

Subsection (f) amends subchapter O of chapter 1 of the Internal Revenue Code of 1954 by adding a new part VIII. This part VIII specifies the extent to which (during a transition period after the enactment of the bill) gain will not be recognized upon receipt of property by a shareholder of a bank holding company, if such distribution is made pursuant to a certification by the Board of Governors of the Federal Reserve System that such distribution is necessary or appropriate to effectuate the Bank Holding Company Act of 1955. The provisions of the new part VIII are restricted by their own terms to the gain directly attributable to the receipt of property in the distributions specifically described.

The rules contained in part VIII are in addition to the other provisions of subtitle A of the Internal Revenue Code of 1954 (such as provisions relating to the recognition or nonrecognition of gain to a corporation making distributions, the provisions under which tax-free reorganizations may be effectuated, etc.). Many of these other provisions are contained in subchapter C of chapter 1 of such code (relating to corporate distributions and reorganizations). The provisions of part VIII supersede the other provisions of chapter 1 only in the cases qualifying under part VIII, and in those cases only to the extent specific provision is contained in part VIII.

Section 1101 sets forth the conditions for nonrecognition of gain attributable to distributions of property by a qualified bank holding corporation when received by the shareholder with respect to his stock

in such corporation. In addition rules are provided as to the date the qualified bank holding corporation must have acquired the property before it can be distributed with no gain recognized to its shareholders as a result of the distribution. This section also prescribes certain conditions which must be fulfilled before any such distributions of property will obtain the nonrecognition of gain benefits of its provisions.

Subsection (a) of section 1101 provides that a distribution of prohibited property by a qualified bank holding corporation with respect to its stock and without the surrender by the shareholder of any stock or securities in such corporation will not result in any gain being recognized on the receipt of such property by the shareholder if the Board has, before the distribution, certified that the distribution of such property is necessary or appropriate to carry out the first sentence of section 6 (a) of the Bank Holding Company Act of 1955. On the date of distribution the distributing corporation must have been a qualified bank holding corporation. The first sentence of section 6 (a) provides in general that it shall be unlawful for any bank holding company, after 2 years from the effective date of the Bank Holding Company Act of 1955, to own any shares or other securities or obligations of any company other than a bank or to engage in any business other than that of banking, or of managing or controlling banks, or of the kind of businesses enumerated in section 6 (c) (1) of the act. However, such section 6 (c) sets forth certain exceptions and permits the holding by a bank holding company of certain types of property.

Subsection (b) of section 1101 applies to a distribution of property by a qualified bank holding corporation, with respect to its stock, to a shareholder without the surrender by the shareholder of stock or securities in such corporation where the Board has before the distribution certified that (1) such property is of a kind which causes such corporation to be a bank holding company, (2) the disposition of property of that kind is necessary to enable such corporation to cease being a bank holding company, and (3) the distribution is necessary or appropriate to effectuate the policies of the Bank Holding Company Act of 1955. In the case of a distribution falling within subsection (b), no gain to the shareholder upon the receipt of such property is to be recognized. Property which is intended to be covered by subsection (b) of section 1101 is that property or properties which is of a kind which causes a company to be a bank holding company within the provisions of section 3 (a) of the Bank Holding Company Act of 1955. Thus, assuming that all the conditions of this part are met, a qualified bank holding corporation may distribute to its shareholders without the recognition of gain to them upon such distribution, part or all of the voting shares of one or more of the banks the ownership of which voting shares was the basis upon which such corporation is a bank holding company, if the Board makes the certification required by paragraph (2) of subsection (b). Furthermore, if any corporation was held by the Board to be a bank holding company under clause 2 of section 3 (a) of the Bank Holding Company Act, and if such corporation is a qualified bank holding corporation as required by this part, such corporation would be permitted to distribute whatever property it owned upon the basis of which such determination was made by the Board to its shareholders without recognition of the gain

on the distribution, if the Board certifies in accord with paragraph (2).

A qualified bank holding corporation which distributes prohibited property with respect to which the Board has certified as required by paragraph (2) of subsection (a), may not have any distributions qualify under subsection (b). If the first distribution under this part falls under subsection (b), no distribution may qualify under subsection (a). It is the intent of these subsections that a qualified bank holding corporation must determine whether it will dispose of prohibited property and remain a bank holding company or whether it will dispose of the property upon the basis of which the corporation is determined to be a bank holding company.

Subsection (c) of section 1101 is a limitation upon the application of subsections (a) and (b) Subparagraph (A) of paragraph (1) of subsection (c) specifically excludes from the application of subsections (a) and (b) of section 1101 any property which a qualified bank holding corporation acquired after May 15, 1955, except to the extent such corporation received such property (even though subsequent to May 15, 1955) and gain was not recognized by reason of subsection (a) or (b), or unless the property was received by the corporation in exchange for all of its stock in an exchange to which paragraph (2) or (3) of subsection (c) applies.

Under subparagraph (B) of paragraph (1), neither subsection (a) nor (b) of section 1101 is applicable to any distribution by a qualified bank holding corporation with respect to any stock which was acquired by the shareholder of such corporation after May 15, 1955, unless such shareholder receives such stock in a distribution the gain with respect to which was not recognized by reason of subsection (a) or (b).

Paragraph (2) of subsection (c) of section 1101 is an exception to the general rule of paragraph (1) of subsection (c) that subsections (a) and (b) do not apply to any property acquired by the distributing corporation after May 15, 1955. Under paragraph (2) if a qualified bank holding corporation exchanges solely property which, under subsection (a), such corporation could distribute directly to its shareholders without the recognition of gain to such shareholders, for all of the stock of a second corporation created and availed of solely for the purpose of receiving such property, and immediately after the exchange, the qualified bank holding corporation distributes all of such stock to its shareholders with respect to its stock, then all of the stock of the second corporation may be distributed to the shareholders of such qualified bank holding corporation without recognition of gain. However, prior to such exchange the Board must certify that the exchange and distribution are necessary or appropriate to effectuate the first sentence of section 6 (a) of the Bank Holding Company Act of 1955.

Paragraph (3) of subsection (c) of section 1101 is another exception to the general rule of paragraph (1) of subsection (c) that subsections (a) and (b) do not apply to any property acquired by the distributing corporation after May 15, 1955. Under paragraph (3) if any qualified bank holding corporation exchanges solely property which, under subsection (b), such corporation could distribute directly to its shareholders without the recognition of gain to such shareholders, for all of the stock of a second corporation created and availed of solely for

the purpose of receiving such property and immediately after the exchange, the qualified bank holding corporation distributes all of such stock to its shareholders with respect to its stock, then all of the stock of the second corporation may be distributed to the shareholders of such qualified bank holding corporation without the recognition of gain. However, prior to such exchange the Board must have certified that such property is of a kind which causes such corporation to be a bank holding company, that the disposition of property of that kind is necessary to enable such corporation to cease being a bank holding company, and that the exchange and distribution are necessary or appropriate to effectuate the policies of the Bank Holding Company Act of 1955.

Under subsection (d) of section 1101 the nonrecognition of gain provided by subsection (a) or (b) shall not apply to that portion of any distribution which is attributable to any contribution to capital of any corporation made after May 15, 1955. Thus, assume that corporation A (a qualified bank holding corporation) owns all of the stock of corporation X (such stock being property falling within the provisions of subsection (a) of section 1101). Assume further that corporation A, after May 15, 1955, makes a contribution to the capital of corporation X in the amount of $50,000. Thereafter, corporation A makes a distribution to which subsection (a) of section 1101 applies of the stock of corporation X to the shareholders of corporation A. Under subsection (d), the nonrecognition of gain provided by subsection (a) does not apply to that portion of the distribution which is attributable to the contribution of capital, that is, $50,000. The amount of the distribution to the extent of the contribution to capital, $50,000, is a distribution subject to the provisions of section 301 of the Internal Revenue Code of 1954.

Paragraph (2) of subsection (d), however, provides an exception to the rule established in paragraph (1). Paragraph (2) provides that paragraph (1) shall not apply with respect to any contribution to capital of a bank if the Secretary or his delegate determines that the avoidance of Federal income tax was not one of the principal purposes for making such contributions.

Subsection (e) of section 1101 provides that neither subsection (a) nor subsection (b) shall apply with respect to any distribution by a corporation unless the Board makes the certification required by the subsection.

Paragraph (1) of subsection (e) relates to certification with respect to distributions falling within subsection (a). It provides that subsection (a) shall not apply to any such distribution unless the Board certifies that, before the expiration of the period permitted under section 6 (a) of the Bank Holding Company Act of 1955 (including any extensions thereof granted to such corporation under such section 6 (a)), the corporation has disposed of all the property, the disposition of which is necessary or appropriate to effectuate the first sentence of such section 6 (a) (or would have been so necessary or appropriate if the corporation had continued to be a bank holding company). In order that subsection (a) of section 1101 is to apply to distributions of prohibited property by a qualified bank holding corporation, it is essential that such corporation dispose of all of the property which it is required to dispose of by reason of the Bank Holding Company Act of 1955, within the period (including extensions thereof) specified

in section 6 (a) of such act. During the period during which such corporation is required to dispose of all such property, distributions of prohibited property are to be considered as being within subsection (a) of section 1101, if other requirements of this part are met. Thus, no gain would be recognized to shareholders on distributions (if such distributions would otherwise qualify for the benefits of this part) during such period. If, at the close of such period, the corporation has disposed of all of the property which it is required to dispose of by the Board and the Board has made the certification required under subsection (e) of section 1101, subsection (a) of section 1101 will apply to distributions of prohibited property. However, if, at the close of such period, the corporation has not disposed of all of the property the disposition of which is necessary or appropriate to effectuate the first sentence of section 6 (a) of the Bank Holding Company Act of 1955, then subsection (a) of section 1101 will not apply to any distributions of prohibited property by the corporation. Thus, in a case where the provisions of subsection (e) (1) are not met, the tax treatment of any distribution of prohibited property by a qualified bank holding corporation to its shareholders is governed by the provisions of other sections of the Internal Revenue Code of 1954 applicable thereto.

Paragraph (2) of subsection (e) of section 1101 is applicable to distributions falling within subsection (b) of section 1101. Subparagraph (A) provides that subsection (b) shall not apply with respect to any distribution by any corporation unless the Board certifies that, before the expiration of 2 years after the enactment of this part, the qualified bank holding corporation has ceased to be a bank holding company. However, under subparagraph (B) the Board is authorized on the application of any qualified bank holding corporation to extend such period from time to time with respect to such corporation for not more than 1 year at a time if, in its judgment, such an extension would not be detrimental to the public interest. Such period may not in any case be extended beyond the date 5 years after the date of enactment of this part. In order that subsection (b) of section 1101 is to apply to distributions of property of a kind which causes a qualified bank holding corporation to be a bank holding company and the disposition of which is necessary to enable such corporation to cease being a bank holding company, it is essential that such corporation cease to be a bank holding company within the period (including extensions thereof) specified in subsection (e) (2) of section 1101. During the period during which such corporation disposes of property to enable it to cease being a bank holding company, distributions of such property are to be considered as being within subsection (b) of section 1101, if other requirements of this part are met. Thus, no gain would be recognized to shareholders on such distributions (if such distributions would otherwise qualify for the benefits of this part) during such period. If, at the close of such period specified in subsection (e) (2), the corporation has ceased to be a bank holding company, subsection (b) of section 1101 will apply to distributions of such property. However, if, at the close of such period, the corporation has not ceased being a bank holding company, then subsection (b) of section 1101 will not apply to any distributions of such property by the corporation. Thus, in a case where the provisions of subsection (e) (2) are not met, the tax treatment of any distributions of property

of a kind which causes a qualified bank holding corporation to be a bank holding company to its shareholders is governed by the provisions of other sections of the Internal Revenue Code of 1954 applicable thereto.

Section 1102 provides special rules for the application of this part.

Subsection (a) relates to the basis of property acquired in distributions under either subsection (a) or subsection (b) of section 1101. If gain is not recognized by reason of either of such subsections with respect to the receipt of any property, then the basis of such property and of the stock with respect to which it was distributed, shall, in the hands of the distributee, be determined by allocating the adjusted basis of such stock between such property and such stock. Such allocation shall be made under regulations prescribed by the Secretary or his delegate.

Subsection (b) of section 1102 relates to the periods of limitation. Under this subsection the periods of limitation provided in sections 6501 and 6502 on the making of an assessment or the collection by levy, or a proceeding in court shall not expire, with respect to any deficiency (including interest and additions to the tax) resulting solely from the receipt of property to which subsection (a) or (b) of section 1101 applies, before the date which is 1 year after the date on which the corporation notifies the Secretary or his delegate, that final certification by the Board with respect to the corporation from which such property was received has been made under section 1101 (e); and such assessment and collection may be made notwithstanding any provision of law or rule of law which would otherwise prevent such assessment and collection. Thus, if the Board does not make the certification provided in subsection (e) (1) or (2), the periods of limitation provided in sections 6501 and 6502 will not prohibit the making of an assessment or collection by levy or proceeding in court with respect to any deficiency for prior taxable years resulting solely from receipt of property which would otherwise fall within subsections (a) or (b) of section 1101.

Subsection (c) of section 1102 relates to allocation of earnings and profits. In case of any exchange described in section 1101 (c) (2) or (3), the earnings and profits of the corporation transferring the property shall be properly allocated between such corporation and the corporation receiving such property under regulations prescribed by the Secretary or his delegate.

Subsection (d) relates to itemization of property distributed. The Board is required in any certification under this part to make such specification and itemization of property as may be necessary to carry out the provisions of this part.

Section 1103 sets forth the definitions, for purposes of this part, of "bank holding company," "qualified bank holding corporation," "prohibited property," "nonexempt property," and "Board."

Subsection (a) of this section provides that the term "bank holding company" means a bank holding company as defined by section 3 of the Bank Holding Company Act of 1955.

Subsection (b) of this section defines the term "qualified bank holding corporation." In order for a corporation to be a qualified bank holding corporation, and therefore for its shareholders to receive the special tax treatment provided by this part, it must not only be a bank holding company but in addition, it must hold "prohibited property"

as defined in subsection (c). For example, if the sole assets of corporation X consist of 25 percent of the voting shares of each of 2 banks, corporation X is not a qualified bank holding corporation.

In addition, to be a qualified bank holding corporation the prohibited property must have been acquired on or before May 15, 1955, by a corporation which is a bank holding company, or must have been acquired in a distribution to it by a qualified bank holding corporation with respect to which gain is not recognized by reason of section 1101 (a). Furthermore, a bank holding company which holds prohibited property acquired by it in exchange for all of its stock in an exchange described in section 1101 (c) (2) is a qualified bank holding corporation.

The preceding paragraph may be illustrated by the following examples. (1) If the sole assets of corporation X on May 15, 1955, consist of cash and 25 percent of the voting shares of each of 2 banks and on May 30, 1955, corporation X purchases nonbanking business assets, corporation X is not a qualified bank holding corporation. (2) The sole assets of corporation Y, on May 15, 1955, consist of 25 percent of the voting shares of each of 2 banks and 4 percent of the outstanding voting securities (the value of which is less than 5 percent of the value of corporation Y's total assets) of corporation Z, a qualified bank holding corporation. Corporation Z distributes nonbanking business assets to corporation Y which are prohibited property in the hands of corporation Y, in a distribution to which section 1101 (a) applies. Corporation Y becomes a qualified bank holding corporation by reason of the distribution by Z. (3) On May 15, 1955, corporation B owns all of the stock of corporation A, a qualified bank holding corporation on such date. Corporation B, a qualified bank holding corporation by virtue of its ownership of the stock of corporation A, transfers such stock to corporation C in an exchange meeting the requirements of section 1101 (c) (2). Corporation C is a qualified bank holding corporation.

Notwithstanding that a corporation meets the requirements of paragraph (1) of subsection (b), such corporation shall not be a qualified bank holding corporation unless it meets the additional requirements of subparagraphs (A), (B), and (C) of paragraph (2).

Subparagraph (A) of paragraph (2) provides that a bank holding company shall not be a qualified bank holding corporation unless such corporation would have been a bank holding company on May 15, 1955, if the Bank Holding Company Act of 1955 had been in effect on such date, or unless such corporation is a bank holding company determined solely by reference to the following: (1) Property acquired by such corporation on or before May 15, 1955; (2) property acquired by such corporation in a distribution by a qualified bank holding corporation to such corporation wherein gain was not recognized by reason of subsection (a) or (b) of section 1101; and (3) property acquired by such corporation in exchange for all of its stock in an exchange meeting the requirements of section 1101 (c) (2) or (3).

Thus, if on May 15, 1955, the sole assets of corporation X consist of cash and business assets and on May 30, 1955, corporation X acquires 25 percent of the voting shares of each of 2 banks for cash, then, by reason of subparagraph (A) of paragraph (2), corporation X, although a bank holding company, holding prohibited property acquired by it before May 15, 1955, is not a qualified bank holding corporation. An additional example of the application of subpara-

graph (A) of paragraph (2) is where corporation X is determined, by the Board, after May 15, 1955, to be a bank holding company by reason of clause (2) of section 3 (a) of the Bank Holding Company Act of 1955, solely by reference to (1) property acquired by such corporation on or before May 15, 1955, and (2) property acquired by it from a qualified bank holding corporation in a distribution in which gain to the distributee was not recognized by reason of subsection (a) or (b) of section 1101.

Except as explained in the next paragraph, subparagraph (B) of paragraph (2) provides that a bank holding company shall not be a qualified bank holding corporation by reason of either (1) the acquisition by such bank holding company of prohibited property after May 15, 1955, in a distribution from a qualified bank holding corporation to which section 1101 (a) is applicable or (2) the acquisition by such bank holding company (which company would not have been a bank holding company on May 15, 1955, if the Bank Holding Company Act of 1955 had been in effect on such date) of property described in clause (ii) of subparagraph (A) of paragraph (2). An example of the operation of the foregoing is where, on May 15, 1955, the sole assets of corporation Y consist of cash and 25 percent of the voting shares of each of two banks. On May 30, 1955, corporation Y purchases for cash 50 percent of the stock of corporation Z, a qualified bank holding corporation. Corporation Z distributes business assets to corporation Y in a distribution in which gain to corporation Y with respect to the receipt of such property was not recognized by reason of section 1101 (a). Corporation Y is not a qualified bank holding corporation since such property was acquired by corportation Y in a distribution with respect to stock acquired after May 15, 1955.

A bank holding company may be a qualified bank holding corporation by reason of the property described in the preceding paragraph if such property was acquired in a distribution with respect to stock which was acquired by such company (1) on or before May 15, 1955, (2) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b) of section 1101, or (3) in exchange for all of the stock of the bank holding company in an exchange meeting the requirements of section 1101 (c) (2) or (3).

Subparagraph (C) of paragraph (2) states that a corporation may not be treated as a qualified bank holding corporation unless the Board certifies that it satisfies the requirements of subsection (b) of section 1103.

Subsection (c) of section 1103 defines the term "prohibited property." Such property is defined as property, other than nonexempt property, the disposition of which, in the case of any bank holding company, would be necessary or appropriate to effectuate the first sentence of section 6 (a) of the Bank Holding Company Act of 1955, if such company continued to be a bank holding company beyond the period (including any extensions thereof) specified in section 6 (a), in the case of distributions under section 1101 (a), or specified in section 1101 (e) (2) (B), in the case of distributions under section 1101 (b). The term "prohibited property" does not include shares, securities, or obligations of any company which are held by a bank holding company to the extent that the ownership by such bank holding

company of such property is not prohibited by section 6 of such act by reason of subsection (c) (6) of such section.

Subsection (d) defines the term "nonexempt property," the distribution of which may not be accorded the tax treatment provided by this part.

Subsection (e) of this section states that the term "Board" means the Board of Governors of the Federal Reserve System.

Subsection (g) amends the Investment Company Act of 1940, as amended, and the Investment Advisers Act of 1940, as amended, so as to exclude from those acts, bank holding companies as defined in the Bank Holding Company Act of 1955 rather than as defined in the Banking Act of 1933. The subsection also excludes from the Investment Company Act of 1940 and the Investment Advisers Act of 1940 any banking subsidiary or other subsidiary of a bank holding company if such subsidiary is exempt from the provisions of section 6 of the Bank Holding Company Act of 1955 by reason of the provisions of section 6 (c) (1) of that act.

Section 12. This section contains a savings clause to make clear that nothing in this act shall be construed as approving any act, action, or conduct in violation of existing law or constituting a defense in antitrust or monopolistic proceedings.

Section 13. This section contains the usual separability clause for provisions of the act.

Changes in Existing Law

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as introduced, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

FEDERAL RESERVE ACT, AS AMENDED

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SEC. 4. * * *

Paragraph 16. Nomination and election of class A and B directors

Directors of class A and class B shall be chosen in the following manner:

The Board of Governors of the Federal Reserve System shall classify the member banks of the district into three general groups or divisions, designating each group by number. Each group shall consist as nearly as may be of banks of similar capitalization. Each member bank shall be permitted to nominate to the chairman of the board of directors of the Federal Reserve bank of the district one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each member bank. Each member bank by a resolution of the board or by an amendment to its by-laws shall authorize its president, cashier, or some other officer to cast the vote of the member bank in the elections of class A and class B directors: [Provided, That whenever any two or more member banks within the same Federal Reserve district are affiliated with the same holding company affiliate, participation by such member banks in any such nomination or election shall be confined to one of such banks, which may be designated for the purpose by such holding company affiliate] *Provided, That whenever any member banks within the same Federal Reserve district are subsidiaries of the same bank holding company within the meaning of the Bank Holding Company Act of 1955, participation in any such nomination or election by such member banks, including such bank holding company if it is also a member bank shall be confined to one of such banks, which may be designated for the purpose by such holding company.*

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SEC. 9. * * *

Paragraph 19. Failure to obtain reports of affiliates

Any such affiliated member bank which fails to obtain from any of its affiliates and furnish any report provided for by the two preceding paragraphs of this section shall be subject to a penalty of $100 for each day during which such failure continues, which, by direction of the Board of Governors of the Federal Reserve System, may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located. [For the purposes of this paragraph and the two preceding paragraphs of this section, the term "affiliate" shall include holding company affiliates as well as other affiliates.]

* * * * * *

Paragraph 22. Holding company affiliates

[Each State member bank affiliated with a holding company affiliate shall obtain from such holding company affiliate, within such time as the Board of Governors of the Federal Reserve System shall prescribe, an agreement that such holding company affiliate shall be subject to the same conditions and limitations as are applicable under section 5144 of the Revised Statutes, as amended, in the case of holding company affiliates of national banks. A copy of each such agreement shall be filed with the Board of Governors of the Federal Reserve System. Upon the failure of a State member bank affiliated with a holding company affiliate to obtain such an agreement within the time so prescribed, the Board of Governors of the Federal Reserve System shall require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section. Whenever the Board of Governors of the Federal Reserve System shall have revoked the voting permit of any such holding company affiliate, the Board of Governors of the Federal Reserve System may, in its discretion, require any or all State member banks affiliated with such holding company affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section.]

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BANKING ACT OF 1933, AS AMENDED

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SEC. 2. As used in this Act and any provision of law amended by this Act—

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[(c) The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization—

[(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election or a majority of the directors of any one bank; or

[(2) For the benefit of whose shareholders or members all or substantially all the capital stock of a member bank is held by trustees.

[Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States, or any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.]

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SECTION 5144, REVISED STATUTES, AS AMENDED

SEC. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit; and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him; except that (1) this shall not be construed as limiting the voting rights of holders

of preferred stock under the terms and provisions of articles of association, or amendments thereto, adopted pursuant to the provisions of section 302 (a) of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as [amended,] *amended;* (2) in the election of directors, shares of its own stock held by a national bank as sole trustee, whether registered in its own name as such trustee or in the name of its nominee, shall not be voted by the registered owner unless under the terms of the trust the manner in which such shares shall be voted may be determined by a donor or beneficiary of the trust and unless such donor or beneficiary actually directs how such shares shall be voted[,] *; and* (3) shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee [, and (4) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted, but such holding company affiliate may, without obtaining such permit, vote in favor of placing the association in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such association]. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote. Whenever shares of stock cannot be voted by reason of being held by the bank as sole trustee, such shares shall be excluded in determining whether matters voted upon by the shareholders were adopted by the requisite percentage of shares.

[For the purposes of this section shares shall be deemed to be controlled by a holding company affiliate if they are owned or controlled directly or indirectly by such holding company affiliate, or held by any trustee for the benefit of the shareholders or members thereof.

[Any such holding company affiliate may make application to the Board of Governors of the Federal Reserve System for a voting permit entitling it to vote the stock controlled by it at any or all meetings of shareholders of such bank or authorizing the trustee or trustees holding the stock for its benefit or for the benefit of its shareholders so to vote the same. The Board of Governors of the Federal Reserve System may, in its discretion, grant or withhold such permit as the public interest may require. In acting upon such application, the Board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank, but no such permit shall be granted except upon the following conditions:

[(a) Every such holding company affiliate shall, in making the application for such permit, agree (1) to receive, on dates identical with those fixed for the examination of banks with which it is affiliated, examiners duly authorized to examine such banks, who shall make such examinations of such holding company affiliate as shall be necessary to disclose fully the relations between such banks and such holding company affiliate and the effect of such relations upon the affairs of such banks, such examinations to be at the expense of the holding company affiliate so examined; (2) that the reports of such examiners shall contain such information as shall be necessary to disclose fully the relations between such affiliate and such banks and the effect of such relations upon the affairs of such banks; (3) that such examiners may examine each bank owned or controlled by the holding company affiliate, both individually and in conjunction with other banks owned or controlled by such holding company affiliate; and (4) that publication of individual or consolidated statements of condition of such banks may be required;

[(b) After five years after the enactment of the Banking Act of 1933, every such holding company affiliate (1) shall possess, and shall continue to possess during the life of such permit, free and clear of any lien, pledge, or hypothecation of any nature, readily marketable assets other than bank stock in an amount not less than 12 per centum of the aggregate par value of all bank stocks controlled by such holding company affiliate, which amount shall be increased by not less than 2 per centum per annum of such aggregate par value until such assets shall amount to 25 per centum of the aggregate par value of such bank stocks; and (2) shall reinvest in readily marketable assets other than bank stock all net earnings over and above 6 per centum per annum on the book value of its own shares outstanding until such assets shall amount to such 25 per centum of the aggregate par value of all bank stocks controlled by it;

[(c) Notwithstanding the foregoing provisions of this section, after five years after the enactment of the Banking Act of 1933, (1) any such holding company affiliate the shareholders or members of which shall be individually and severally liable in proportion to the number of shares of such holding company affiliate held by them respectively, in addition to amounts invested therein, for all statutory liability imposed on such holding company affiliate by reason of its control of shares of stock of banks, shall be required only to establish and maintain out of net earnings over and above 6 per centum per annum on the book value of its own shares outstanding a reserve of readily marketable assets in an amount of not less than 12 per centum of the aggregate par value of bank stocks controlled by it, and (2) the assets required by this section to be possessed by such holding company affiliate may be used by it for replacement of capital in banks affilated with it and for losses incurred in such banks, but any deficiency in such assets resulting from such use shall be made up within such period as the Board of Governors of the Federal Reserve System may by regulation prescribe and the provisions of this subsection, instead of subsection (b), shall apply to all holding company affilates with respect to any shares of bank stock owned or controlled by them as to which there is no statutory liability imposed upon the holders of such bank stock;

[(d) Every officer, director, agent, and employee of every such holding company affiliate shall be subject to the same penalties for false entries in any book, report, or statement of such holding company affiliate as are applicable to officers, directors, agents, and employees of member banks under section 5209 of the Revised Statutes, as amended (U. S. C., title 12, sec. 592); and

[(e) Every such holding company affiliate shall, in its application for such voting permit, (1) show that it does not own, control, or have any interest in, and is not participating in the management or direction of, any corporation, business trust, association, or other similar organization formed for the purpose of, or engaged principally in, the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail or through syndicate participation, of stocks, bonds, debentures, notes, or other securities of any sort (hereinafter referred to as "securities company"); (2) agree that during the period that the permit remains in force it will not acquire any ownership, control or interest in any such securities company or participate in the management or direction thereof; (3) agree that if, at the time of filing the application for such permit, it owns, controls, or has an interest in, or is participating in the management or direction of, any such securities company, it will, within five years after the filing of such application, divest itself of its ownership, control, and interest in such securities company and will cease participating in the management or direction thereof, and will not thereafter, during the period that the permit remains in force, acquire any further ownership, control, or interest in any such securities company or participate in the management or direction thereof; and (4) agree that thenceforth it will declare dividends only out of actual net earnings.

[If at any time it shall appear to the Board of Governors of the Federal Reserve System that any holding company affiliate has violated any of the provisions of the Banking Act of 1933 or of any agreement made pursuant to this section, the Board of Governors of the Federal Reserve System may, in its discretion, revoke any such voting permit after giving sixty days' notice by registered mail of its intention to the holding company affiliate and affording it an opportunity to be heard. Whenever the Board of Governors of the Federal Reserve System shall have revoked any such voting permit, no national bank whose stock is controlled by the holding company affiliate whose permit is so revoked shall receive deposits of public moneys of the United States, nor shall any such national bank pay any further dividend to such holding company affiliate upon any shares of such bank controlled by such holding company affiliate.

[Whenever the Board of Governors of the Federal Reserve System shall have revoked any voting permit as hereinbefore provided, the rights, privileges, and franchises of any or all national banks the stock of which is controlled by such holding company affiliate shall, in the discretion of the Board of Governors of the Federal Reserve System, be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended.]

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SECTION 5211, REVISED STATUTES, AS AMENDED

SEC. 5211. Every association shall make to the Comptroller of the Currency not less than three reports during each year, according to the form which may be prescribed by him, verified by the oath or affirmation of the president, or of the cashier, or of a vice president, or of an assistant cashier of the association designated by its board of directors to verify such reports in the absence of the president and cashier, taken before a notary public properly authorized and commissioned by the State in which such notary resides and the association is located, or any other officer having an official seal, authorized in such State to administer oaths, and attested by the signature of at least three of the directors. Each such report shall exhibit, in detail and under appropriate heads, the resources and liabilities of the association at the close of business on any past day by him specified, and shall be transmitted to the comptroller within five days after the receipt of a request or requisition therefor from him; and the statement of resources and liabilities, together with acknowledgment and attestation in the same form in which it is made to the comptroller, shall be published in a newspaper published in the place where such association is established, or if there is no newspaper in the place, then in the one published nearest thereto in the same county, at the expense of the association; and such proof of publication shall be furnished as may be required by the comptroller. The comptroller shall also have power to call for special reports from any particular association whenever in his judgment the same are necessary in order to obtain a full and complete knowledge of its condition.

Each national banking association shall obtain from each of its affiliates other than member banks and furnish to the Comptroller of the Currency not less than three reports during each year, in such form as the Comptroller may prescribe, verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, disclosing the information hereinafter provided for as of dates identical with those for which the Comptroller shall during such year require the reports of the condition of the association. [For the purpose of this section the term "affiliate" shall include holding company affiliates as well as other affiliates.] Each such report of an affiliate shall be transmitted to the Comptroller at the same time as the corresponding report of the association, except that the Comptroller may, in his discretion, extend such time for good cause shown. Each such report shall contain such information as in the judgment of the Comptroller of the Currency shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Comptroller to inform himself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the association under the same conditions as govern its own condition reports. The Comptroller shall also have power to call for additional reports with respect to any such affiliate whenever in his judgment the same are necessary in order to obtain a full and complete knowledge of the conditions of the association with which it is affiliated. Such additional reports shall be transmitted to the Comptroller of the Currency in such form as he may prescribe. Any such affiliated bank which fails to obtain and furnish any report required under this section shall be subject to a penalty of $100 for each day during which such failure continues.

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INTERNAL REVENUE CODE OF 1954

CHAPTER I—NORMAL TAXES AND SURTAXES

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SUBCHAPTER O—GAIN OR LOSS ON DISPOSITION OF PROPERTY

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PART VIII.—DISTRIBUTIONS PURSUANT TO BANK HOLDING COMPANY ACT OF 1955

SEC. 1101. DISTRIBUTIONS PURSUANT TO BANK HOLDING COMPANY ACT OF 1955.

(a) DISTRIBUTIONS OF PROHIBITED PROPERTY.—If—

(1) a qualified bank holding corporation distributes (with respect to its stock) prohibited property to a shareholder, without the surrender by such shareholder of stock or securities in such corporation; and

(2) the Board has, before the distribution, certified that the distribution of such property is necessary or appropriate to effectuate the first sentence of section 6 (a) of the Bank Holding Company Act of 1955,

then no gain to the shareholder from the receipt of such property shall be recognized. This subsection shall not apply to any distribution by a corporation which has made any distribution pursuant to subsection (b).

(b) CORPORATION CEASING TO BE A BANK HOLDING COMPANY.—If—

(1) a qualified bank holding corporation distributes (with respect to its stock) property to a shareholder, without the surrender by such shareholder of stock or securities in such corporation; and

(2) the Board has, before the distribution, certified that (A) such property is of a kind which causes such corporation to be a bank holding company. (B) the disposition of property of that kind is necessary to enable such corporation to cease being a bank holding company, and (C) the distribution is necessary or appropriate to effectuate the policies of the Bank Holding Company Act of 1955,

then no gain to the shareholder from the receipt of such property shall be recognized. This subsection shall not apply to any distribution by a corporation which has made any distribution pursuant to subsection (a).

(c) PROPERTY ACQUIRED AFTER MAY 15, 1955.—

(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), subsection (a) or (b) shall not apply to—

(A) any property acquired by the distributing corporation after May 15, 1955, unless (i) gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) or (b), or (ii) such property was received by it in exchange for all of its stock in an exchange to which paragraph (2) or (3) applies, or

(B) any distribution with respect to any stock which was acquired by the distributee after May 15, 1955, unless gain to such distributee with respect to the receipt of such stock was not recognized by reason of subsection (a) or (b).

(2) EXCHANGES INVOLVING PROHIBITED PROPERTY.—If—

(A) any qualified bank holding corporation exchanges (i) solely property which, under subsection (a), such corporation could distribute directly to its shareholders without the recognition of gain to such shareholders, for (ii) all of the stock of a second corporation created and availed of solely for the purpose of receiving such property;

(B) immediately after the exchange, the qualified bank holding corporation distributes all of such stock to its shareholders with respect to its stock; and

(C) before such exchange, the Board has certified that the exchange and distribution are necessary or appropriate to effectuate the first sentence of section 6 (a) of the Bank Holding Company Act of 1955.

then paragraph (1) shall not apply with respect to such distribution.

(3) EXCHANGES INVOLVING INTERESTS IN BANKS.—If—

(A) any qualified bank holding corporation exchanges (i) solely property which, under subsection (b), such corporation could distribute directly to its shareholders without the recognition of gain to such shareholders, for (ii) all of the stock of a second corporation created and availed of solely for the purpose of receiving such property;

(B) immediately after the exchange, the qualified bank holding corporation distributes all of such stock to its shareholders with respect to its stock; and

(C) before such exchange, the Board has certified—

(i) that such property is of a kind which causes such corporation to be a bank holding company;

(ii) that the disposition of property of that kind is necessary to enable such corporation to cease being a bank holding company; and

(iii) that the exchange and distribution are necessary or appropriate to effectuate the policies of the Bank Holding Company Act of 1955,

then paragraph (1) shall not apply with respect to such distribution.

(d) CERTAIN CONSTRUCTION TO CAPITAL AFTER MAY 15, 1955.—

(1) IN GENERAL.—The nonrecognition of gain provided by subsection (a) or (b) shall not apply to that portion of any distribution which is attributable to any contribution to the capital of any corporation made after May 15, 1955.

(2) SPECIAL RULE FOR CONTRIBUTION TO CAPITAL OF BANKS.—Paragraph (1) shall not apply with respect to any contribution to the capital of a bank, if the Secretary or his delegate determines that the avoidance of Federal income tax was not one of the principal purposes for the making of such contribution.

(e) FINAL CERTIFICATION.—

(1) FOR SUBSECTION (a).—Subsection (a) shall not apply with respect to any distribution by a corporation unless the Board certifies that, before the expiration of the period permitted under section 6 (a) of such Act (including any extensions thereof granted to such corporation under such section 6 (a)), the corporation has disposed of all the property the disposition of which is necessary or appropriate to effectuate the first sentence of such section 6 (a) (or would have been so necessary or appropriate if the corporation had continued to be a bank holding company).

(2) FOR SUBSECTION (b).—

(A) Subsection (b) shall not apply with respect to any distribution by any corporation unless the Board certifies that, before the expiration of the period specified in subparagraph (B), the corporation has ceased to be a bank holding company.

(B) The period referred to in subparagraph (A) is the period which expires two years after the date of the enactment of this part. The Board is authorized, on application by any corporation, to extend such period from time to time with respect to such corporation for not more than one year at a time if, in its judgment, such an extension would not be detrimental to the public interest; except that such period may not in any case be extended beyond the date five years after the date of the enactment of this part.

SEC. 1102. SPECIAL RULES.

(a) BASIS OF PROPERTY ACQUIRED IN DISTRIBUTIONS.—If, by reason of section 1101, gain is not recognized with respect to the receipt of any property, then the basis of such property and of the stock with respect to which it is distributed shall, in the distributee's hands, be determined by allocating between such property and such stock the adjusted basis of such stock. Such allocation shall be made under regulations prescribed by the Secretary or his delegate.

(b) PERIODS OF LIMITATION.—The periods of limitation provided in sections 6501 and 6502 on the making of an assessment or the collection by levy or a proceeding in court shall not expire, with respect to any deficiency (including interest and additions to the tax) resulting solely from the receipt of property to which subsection (a) or (b) of section 1101 applies, before the date which is one year after the date on which the corporation notifies the Secretary or his delegate that final certification by the Board with respect to the corporation from which such property was received has been made under section 1101 (e); and such assessment and collection may be made notwithstanding any provision of law or rule of law which would otherwise prevent such assessment and collection.

(c) ALLOCATION OF EARNINGS AND PROFITS.—*In the case of any exchange described in section 1101 (c) (2) or (3), the earnings and profits of the corporation transferring the prohibited property shall be properly allocated between such corporation and the corporation receiving such property under regulations prescribed by the Secretary or his delegate.*

(d) ITEMIZATION OF PROPERTY.—*In any certification under this part, the Board shall make such specification and itemization of property as may be necessary to carry out the provisions of this part.*

SEC. 1103. DEFINITIONS.

(a) BANK HOLDING COMPANY.—*For purposes of this part, the term "bank holding company" has the meaning assigned to such term by section 3 of the Bank Holding Company Act of 1955.*

(b) QUALIFIED BANK HOLDING CORPORATION.—

(1) IN GENERAL.—*Except as provided in paragraph (2), for purposes of this part the term "qualified bank holding corporation" means any corporation which is a bank holding company and which holds prohibited property acquired by it—*

(A) on or before May 15, 1955,

(B) in a distribution in which gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) of section 1101, or

(C) in exchange for all of its stock in an exchange described in section 1101 (c) (2).

(2) LIMITATIONS.—

(A) A bank holding company shall not be a qualified bank holding corporation, unless it would have been a bank holding company on May 15, 1955, if the Bank Holding Company Act of 1955 had been in effect on such date, or unless it is a bank holding company determined solely by reference to—

(i) property acquired by it on or before May 15, 1955,

(ii) property acquired by it in a distribution in which gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) or (b) of section 1101, and

(iii) property acquired by it in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (3).

(B) A bank holding company shall not be a qualified bank holding corporation by reason of property described in subparagraph (B) of paragraph (1) or clause (ii) of subparagraph (A) of this paragraph, unless such property was acquired in a distribution with respect to stock, which stock was acquired by such bank holding company,—

(i) on or before May 15, 1955,

(ii) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b) of section 1101, or

(iii) in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (3).

(C) A corporation shall be treated as a qualified bank holding corporation only if the Board certifies that it satisfies the foregoing requirements of this subsection.

(c) PROHIBITED PROPERTY.—*For purposes of this part, the term "prohibited property" means, in the case of any bank holding company, property (other than nonexempt property) the disposition of which would be necessary or appropriate to effectuate the first sentence of section 6 (a) of the Bank Holding Company Act of 1955 if such company continued to be a bank holding company beyond the period (including any extensions thereof) specified in such section 6 (a) or in section 1101 (e) (2) (B) of this part, as the case may be. The term "prohibited property" does not include shares, securities, or obligations of any company held by a bank holding company to the extent that the prohibitions of section 6 of the Bank Holding Company Act of 1955 do not apply to the ownership by such bank holding company of such property by reason of subsection (c) (6) of such section.*

(d) NONEXEMPT PROPERTY.—*For purposes of this part, the term "nonexempt property" means—*

(1) obligations (including notes, drafts, bills of exchanges, and bankers' acceptances) having a maturity at the time of issuance of not exceeding 24 months, exclusive of days of grade;

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(2) securities issued by or guaranteed as to principal or interest by a government or subdivision thereof or by any instrumentality of a government or subdivision; or

(3) money, and the right to receive money not evidenced by a security or obligation (other than a security or obligation described in paragraph (1) or (2)).

(e) BOARD.—For purposes of this part, the term "Board" means the Board of Governors of the Federal Reserve System.

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INVESTMENT COMPANY ACT OF 1940, AS AMENDED

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SEC. 3. * * *

(c) Notwithstanding subsections (a) and (b), none of the following persons is an investment company within the meaning of this title:

* * * * * * *

[(4) Any holding company affiliate, as defined in the Banking Act of 1933, which is under the supervision of the Board of Governors of the Federal Reserve System by reason of the fact that such holding company affiliate holds a general voting permit issued to it by such Board prior to January 1, 1940; and any holding company affiliate which is under such supervision by reason of the fact that it holds a general voting permit thereafter issued to it by the Board of Governors and which is determined by such Board to be primarily engaged, directly or indirectly, in the business of holding the stock of, and managing or controlling, banks, banking associations, savings banks, or trust companies. The Commission shall be given appropriate notice prior to any such determination and shall be entitled to be heard. The definition of the term "control" in section 2 (a) shall not apply to this paragraph.]

(4) Any bank holding company which is registered with the Board of Governors of the Federal Reserve System pursuant to the Bank Holding Company Act of 1955, or any banking subsidiary or any other subsidiary thereof which is exempt from section 6 by reason of the provisions of subsection (c) (1) thereof as defined in said Act.

* * * * * * *

INVESTMENT ADVISERS ACT OF 1940, AS AMENDED

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SEC. 202 (a) * * *

(11) "Investment adviser" means any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as part of a regular business, issues or promulgates analyses or reports concerning securities; but does not include (A) a bank, [or any holding company affiliate, as defined in the Banking Act of 1933] *or any bank holding company, as defined in the Bank Holding Company Act of 1955, or any banking subsidiary or any other subsidiary thereof which is exempt from section 6 by reason of the provisions of subsection (c) (1) thereof as defined in said Act,* which is not an investment company; * * *.

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Calendar No. 1107

84TH CONGRESS, 1st Session | SENATE | REPORT No. 1095

BANK HOLDING COMPANY ACT OF 1955

JULY 25, 1955.—Ordered to be printed

Mr. ROBERTSON, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. 2577]

The Committee on Banking and Currency, to whom was referred the bill (S. 2577) to define bank holding companies, control their future expansion, and require divestment of their nonbanking interests, having considered the same, report favorably thereon with an amendment and recommend that the bill, as amended, do pass.

GENERAL STATEMENT

In the opinion of your committee, public welfare requires the enactment of legislation providing Federal regulation of the growth of bank holding companies and the type of assets it is appropriate for such companies to control. In general, the philosophy of this bill is that bank holding companies ought to confine their activities to the management and control of banks and that such activities should be conducted in a manner consistent with the public interest. Your committee believes that bank holding companies ought not to manage or control nonbanking assets having no close relationship to banking.

It is not the committee's contention that bank holding companies are evil of themselves. However, because of the importance of the banking system to the national economy, adequate safeguards should be provided against undue concentration of control of banking activities. The dangers accompanying monopoly in this field are particularly undesirable in view of the significant part played by banking in our present national economy. The extensive use of bank checking accounts in modern commerce exerts an influence on the value of money, which the Constitution empowers the Congress to regulate. Moreover, banking activities are carried on to a large extent by the use of depositors' funds rather than by the use of equity capital subscribed by bank shareholders.

Considerable care has been taken to provide regulatory control over individual banks by Federal and State authorities. Yet there is at present only a very limited control over the activities of bank holding companies that manage or control banks. The Banking Act of 1933 (commonly referred to as the Glass-Steagall Act) provides a measure of control through the Board of Governors of the Federal Reserve System, but only (1) if one bank in the holding-company group concerned is a member of the Federal Reserve System, and (2) if the holding company wishes to vote the stock it owns in such a bank. Under those limited conditions, such a bank holding company must apply to the Federal Reserve Board for a voting permit and submit itself and its subsidiaries to examination. It should be noted that under the present law, the bank holding company can remove itself from Federal Reserve Board control by abstaining from voting the shares of the member banks it owns.

As of December 31, 1954, only 18 holding company affiliate bank groups in the United States had obtained voting permits from the Federal Reserve Board. Based on information readily available to it, the Board estimates there are 46 bank holding companies in the United States that would be subjected to regulation by the Board under the terms of this bill, based upon the ownership by the company of 25 percent or more of the shares of each of two or more banks.

Testifying before your committee for the Board of Governors of the Federal Reserve System, Chairman William McChesney Martin, Jr., stated:

> Existing provisions of law, originally enacted in the Banking Act of 1933, have proved entirely inadequate to deal with the special problems presented by bank holding companies. It has been, and still is, the Board's view that additional legislation is essential to deal effectively with these problems.

Chairman Martin noted that the principal problems in the bank holding company field arise from two circumstances:

(1) The unrestricted ability of a bank holding company group to add to the number of its banking units, making possible the concentration of commercial bank facilities in a particular area under a single control and management; and

(2) The combination under single control of both banking and nonbanking enterprises, permitting departure from the principle that banking institutions should not engage in business wholly unrelated to banking. Such a combination involves the lending of depositors' money, whereas other types of business enterprise, not connected with banking, do not involve this element of trusteeship.

Your committee is of the opinion that this bill will enable the Federal Government to cope more adequately with both of these problems. Like H. R. 6227, the bank holding bill passed by the House of Representatives, this bill empowers a regulatory agency to pass upon the application of a bank holding company for the acquisition of a substantial number of voting shares in one or more additional banks. The bill also follows the principle laid down in H. R. 6227 that bank holding companies must divest themselves, within a specified period, of nonbanking assets not closely related to banking activities. Thus, under the bill, the growth of bank holding companies in the banking field would be regulated but not prohibited. However, bank holding companies would no longer be authorized to manage or control nonbanking assets unrelated to the banking business.

History

The inadequacy of current Federal legislation in the bank holding company field has led to repeated attempts to pass adequate legislation. In 1938, in a special message to Congress (S. Doc. 173, 75th Cong., 3d sess.), the President urged that the Congress enact legislation that would effectively control the operation of bank holding companies; prevent holding companies from acquiring control of any more banks, directly or indirectly; prevent banks controlled by holding companies from establishing any more branches; and make it illegal for a holding company or any corporation or enterprise in which it is financially interested to borrow from or sell securities to a bank in which it holds stock.

On January 5, 1938, Senator Glass and Senator McAdoo introduced S. 3573, a bill to provide for the regulation of bank holding companies and affiliates, and for other purposes. This bill was referred to this committee; in turn it was referred to the committee's Subcommittee on Monetary Policy, Banking, and Deposit Insurance. If enacted into law, this bill would have carried out the recommendations made by the President in his special message. However, the bill progressed no further after it was referred to the subcommittee.

On January 14, 1941, Senator Glass introduced, by request, S. 310, during the 1st session of the 77th Congress. This bill was likewise referred to the committee's Subcommittee on Monetary Policy, Banking, and Deposit Insurance, but no further action appears to have been taken on it.

During the 1st session of the 79th Congress, Senator Wagner introduced S. 792 on March 26, 1945. A companion bill (H. R. 2776) was also introduced in the House of Representatives. No further action was taken by the committee on either of these measures.

However, during the 1st session of the 80th Congress, Senator Tobey, on March 10, 1947, introduced S. 829. Hearings were held on this measure on May 26, June 2, and June 11, 1947. Following the hearings a committee print designated "2" was prepared at the direction of Senator Tobey on June 13, 1947. This committee on June 19 reported favorably to the Senate a bill to regulate bank holding companies. Senate Report 300 accompanied this bill. The companion bill in the House of Representatives bore bill number H. R. 3351. Amendments to the Senate bill were offered by Senator Buck of this committee on February 3 and March 9, 1948. The proposed legislation progressed no further during the 80th Congress.

During the 1st session of the 81st Congress, on July 22, 1949, Senator Robertson introduced, for himself and Senator Maybank, S. 2318. This bill was the same as S. 829, introduced in the 80th Congress. Hearings were held on S. 2318 on March 1, 2, 3, 15, 16, 17, and 21 in 1950, before the committee's Subcommittee on Federal Reserve Matters. Following these hearings, Senator Robertson introduced S. 3547 on March 5, 1950. Five days later five amendments were offered to S. 3547 by Senator Douglas, for himself and Senator Tobey. No further action was taken on the proposed legislation by the committee during the 81st Congress.

Proposed legislation in this field was next referred to the committee during the first session of the 83d Congress. On January 7, 1953, Senator Robertson introduced S. 76. On February 27 of that year,

Senator Capehart introduced, by request, S. 1118. Hearings on both bills were held by the committee on June 10, 11, and 12 and July 21 and 22 in 1953. Further hearings on both bills were held by the committee on June 21, 22, and 23 in 1954. During the hearings a third proposed piece of legislation was prepared as a committee print. This was also considered by the committee during the hearings held on the two bills previously mentioned. No further action was taken on the proposed legislation during the 83d Congress.

During the present Congress, Senator Capehart, for himself and Senators Beall, Douglas, Fulbright, Payne, Sparkman, and Frear, on February 1, 1955, introduced S. 880. A similar bill, H. R. 2674, was introduced in the House of Representatives. Hearings on H. R. 2674 were held by the House Committee on Banking and Currency on February 28 and March 1, 2, 3, 4, 7, 8, and 9 in 1955. Following these hearings, H. R. 6227 was introduced in the House, superseding H. R. 2674. On May 20, 1955, the House Committee on Banking and Currency favorably reported H. R. 6227, without amendment. House Report 609 accompanied the bill. After debate, H. R. 6227 was amended and passed by the House on June 14, 1955.

On June 28, 1955, Senator Robertson introduced S. 2350. On July 5, 6, 7, 11, 12, and 14, 1955, the committee's Subcommittee on Banking held hearings on S. 880, S. 2350, and H. R. 6227, as passed by the House of Representatives. Following the hearings, the subcommittee met in executive session and after thorough discussion agreed upon a compromise bill (S. 2577), which Senator Robertson, for himself and Senators Bricker and Bennett, introduced on July 19, 1955. In executive session on July 21, 1955, the committee ordered this bill reported favorably to the Senate, after adopting a comparatively minor amendment.

As is evident from the foregoing, this committee has had proposed legislation on this subject matter before it during most of the past 17 years. Ample opportunity has been afforded for interested persons to express views on legislation. Over the years it has been possible to narrow the area of difference in the views of proponents of legislation of this nature. The committee is of the opinion that the bill now favorably reported to the Senate represents adequate and fair legislation to regulate the future expansion of bank holding companies and requires divestment of their nonbanking interests.

It also contains adequate safeguards against "upstream lending" and "horizontal lending" in the bank holding company structure. While it is true that banks within a bank holding company system are subject to Federal or State supervisory authority (and sometimes both), fear has been expressed that, improperly but within the present law, a bank holding company may take undue advantage of one or more banks in its system. This it might do by discounting commercial paper at the bank with a resulting profit to the bank holding company itself but at an unwarranted risk to the bank and its shareholders. No widespread abuse of this nature has been brought to the attention of your committee, but the provision in the bill prohibiting upstream lending should adequately prevent the possibility of any such abuse. This provision, in part at least, is in accordance with the recommendations of Mr. H. Earl Cook, Chairman of the Federal Deposit Insurance Corporation who testified against permitting either upstream or downstream dealing.

The bill's requirement for divestment of nonbanking assets will help to keep bank ventures in a field of their own. The committee was informed of the danger to a bank within a bank holding company controlling nonbanking assets, should the company unduly favor its nonbanking operations by requiring the bank's customers to make use of such nonbanking enterprises as a condition to doing business with the bank. The bill's divestment provisions should prevent this fear from becoming a reality.

Definition of Bank Holding Company

The committee is satisfied that legislation in the bank holding field will be adequate if it applies to any company controlling two or more banks. In order to accomplish this result, the bill defines a bank holding company as one meeting any of the three following tests:

(1) A company which directly or indirectly owns, controls, or holds with power to vote 25 percent or more of the voting shares of each of two or more banks or of a bank holding company;

(2) A company which controls the election of the majority of the directors of each of two or more banks; or

(3) A company for the benefit of whose shareholders or members 25 percent or more of the voting shares of each of two or more banks or a bank holding company is held by trustees.

The bill also includes in its scope any successor to a bank holding company where the relationship between the successor and the bank holding company is such that the successor's acquisition of bank shares from the company causes no substantial change in control of the bank or beneficial ownership of shares.

Section 3 (a) of the bill expressly excludes from the definition of bank holding company the following:

(1) A bank controlling shares in a fiduciary capacity, unless the shares are held for the profit of the bank's shareholders;

(2) A company registered under the Investment Company Act of 1940 prior to May 15, 1955, and its affiliates, unless the company or any affiliate, as the case may be, directly owns 25 percent or more of the voting shares of each of two or more banks;

(3) A company engaged in bona fide underwriting of securities held only for a period of time permitting their sale on a reasonable basis; and

(4) A company formed for the sole purpose for participating in a proxy solicitation which acquired control of voting rights during the course of such solicitation.

The exemption for shares held in a fiduciary capacity is necessary to enable banks to carry on a normal trust business. The exemption for companies registered under the Investment Company Act of 1940 is included in the bill on the theory that any such company is adequately supervised by the Securities and Exchange Commission, which administers that act. Among the purposes listed in that act are the mitigation of undue concentration of the control of investment companies through pyramiding or inequitable methods of control, the mitigation of inequitable distribution of such companies, and the mitigation of irresponsible management of such companies. Your committee believes that SEC regulation in such cases is closely akin to the purposes of this bill and that it is therefore unnecessary

to require a registrant under the Investment Company Act of 1940 to be subjected to the additional regulatory authority granted to the Board of Governors of the Federal Reserve System by this bill. It will not be possible however, for a bank holding company to evade regulations under the proposed legislation by registering as an investment company since this exception applies only to a bank holding company registered under the Investment Company Act of 1940 prior to May 15, 1955, which does not directly own 25 percent or more of the voting shares of each of two or more banks. An affiliated company of such a company, within the meaning of the Investment Company Act of 1940, is also exempted from the definition of a bank holding company under this bill unless the affiliate directly owns 25 percent or more of the voting shares of two or more banks.

The exemption of a company engaged in the underwriting of securities is included in the bill because of the possibility that such a company might happen to acquire title, in the course of its normal underwriting business, to 25 percent or more of the voting shares of each of two or more banks. Should this transpire, it should be noted that the company must dispose of such shares within a period of time adequate to permit their sale upon a reasonable basis, in order to continue to receive the benefits of exemption from the definition of a bank holding company.

The remaining exemption from the definition of bank holding company is included to allow formation of a bona fide stockholders' committee or a similar organization for the sole purpose of soliciting proxies in order to gain control of voting rights of shares. Your committee is of the opinion that such an exemption is justified in order to prevent undue interference with proxy contests. It was pointed out that if in the course of such a contest, a company so formed acquires control of the voting rights of 25 percent or more of the voting shares of each of two or more banks, it might well find itself included within the definition of a bank holding company in this bill in the absence of a specific exemption. The provision is intended to provide an exemption only for qualified companies during the course of the proxy contest. The exemption is not intended to carry over for the benefit of any such company following the termination of the proxy contest.

DEFINITION OF COMPANY

Under the bill, only a "company" as defined in the bill can become a bank holding company. Company is expressly defined to mean any corporation, business trust, association, or similar organization. It will be noted that an individual, as such, is not included in this definition. Moreover, the definition expressly excludes: (1) any corporation the majority of whose shares are owned by the United States or any State; (2) any corporation or community chest, fund, or foundation, organized or operated exclusively as a religious, charitable, or educational organization, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda or otherwise attempting to influence legislation; and (3) any partnership.

The first exclusion is provided on the theory that any corporation the majority of whose shares are owned by the United States or any

State is subject to the control of either the United States or of the State owning such shares. The exclusion of religious and other charitable organizations is similar to that granted to such organizations under the Internal Revenue Code. The committee's attention was invited to at least one case where a bona fide religious organization controls two or more banks as well as nonbanking interests as an incident to its main purpose. In the opinion of the committee, even though these incidental business activities are organized for the primary purpose of profit, the very nature of the religious organization itself precludes the possibility of violating the spirit of this bill.

The third exemption from the definition of "company" is granted to any partnership because the attributes of a partnership are similar to those presented by an individual in the sense that neither has perpetual duration. As the individual's personal control of business activities ceases with his death, any business control exercised by a partnership will likewise terminate upon the death of either partner. Usualy, the death of an individual who controls banks is accompanied by a diffusion of ownership of such banks.

By way of contrast, corporations and similar organizations may have perpetual existence. The death of any individual member of a corporation has no effect upon continued control of banks by the corporation. This bill is designed to bring under control those types of entities that may be used as media for acquiring and maintaining in perpetuity management and control of bank shares or assets.

The exemptions previously mentioned in this report are the only ones given by this bill from the definitions of company and bank holding company. All other such organizations are required by the bill to subject themselves to such regulation as the bill prescribes as a condition to growth by means of bank share or asset acquisition.

Your committee did not deem it necessary to include within the scope of this bill any company which manages or controls no more than a single bank. It is possible to conjure up visions of monopolistic control of banking in a given area through ownership of a single bank with many and widespread branches. However, in the opinion of your committee, no present danger of such control through the bank holding company device threatens to a degree sufficient to warrant inclusion of such a company within the scope of this bill. Should legislation of that nature prove desirable in the future, the Congress is free to act upon a showing of need for such a law.

Other Definitions

This bill defines banks to include both National banks and State banks, savings banks, and trust companies. It excludes, however, organizations that do no business in the United States and those organized for foreign or international banking under section 25 (a) of the Federal Reserve Act. A District bank is defined as a State bank organized or operating under the laws of the District of Columbia. A State member bank is defined to mean a State bank which is a member of the Federal Reserve System.

The bill defines a subsidiary of a bank holding company in terms of a company owned or controlled by a bank holding company under the same general tests as laid down for ownership or control exercised by a bank holding company.

A successor is defined as a company acquiring bank shares from a bank holding company with no resulting substantial change in bank beneficial ownership or control. The Federal Reserve Board is empowered to define successor in more detail by regulation in order to prevent evasion of the purposes of this bill.

The committee is of the opinion that the definitions in this bill will adequately cover the organizations which should be included in the scope of this bill without unnecessarily encompassing organizations that need not be included in order to accomplish the purposes of the bill.

Acquiring Bank Shares or Assets

The bill makes it unlawful for a company to become a bank holding company without prior approval by the Federal Reserve Board. It also makes it unlawful, without like approval, for a bank holding company to acquire bank stocks or assets as noted in the bill or to merge or consolidate with another bank holding company. Federal Reserve Board approval is required if after the proposed acquisition of voting shares of a bank, the bank holding company will own or control, directly or indirectly, more than 5 percent of the bank's voting shares. Like approval is required if a bank holding company (or one of its nonbank subsidiaries) wishes to acquire substantially all of a bank's assets. Acquisition of assets, as well as acquisition of stock, may be used to gain practical control of a bank's operations, especially at its existing site of operations. In order to encourage competitive banking and discourage monopoly of banking, this bill provides regulatory control over both types of acquisition.

For the same reasons, the committee deems it advisable to provide for regulatory control over the merger or consolidation of bank holding companies.

In three types of transactions the committee considered it unnecessary to require Federal Reserve Board approval of the acquisition of bank shares or assets by a bank holding company. It therefore granted exemptions from this requirement—

(1) if a bank which is a bank holding company acquires bank shares in a fiduciary capacity (unless such shares are held for the benefit of the bank's shareholders);

(2) if a bank which is a bank holding company acquires bank shares in the regular course of securing or collecting a debt earlier contracted in good faith (but such shares must be disposed of within 2 years after acquisition); and

(3) if any bank holding company acquires additional shares of a bank as to which it already owns or controls a majority of the voting shares.

The first exemption listed is required to permit the conduct of trust business. The second is required to allow the conduct of normal bank-lending operations. The third exemption is granted because little if any benefit to the public could be achieved by denying a bank holding company the privilege of entrenching more strongly its existing majority control of a given bank.

Decision on Application

The bill contemplates that any Federal Reserve Board approval required under its provisions will be sought by application to the

Board. Some advocates of bank holding company control legislation thought that the bank supervisory authorities (State or Federal Comptroller of the Currency, as the case might be) ought to be given the right to decline such an application, regardless of the opinion of the Federal Reserve Board. Other advocates of such legislation urged that the power of decision be placed in the Federal Reserve Board, with the bank supervisory authorities playing only an informal consulting role. This bill represents a compromise between those two positions. It affords the bank supervisory authorities an opportunity to file with the Federal Reserve Board a formal recommendation that the application be denied. But it also provides that if such a recommendation is made, the Federal Reserve Board must provide a hearing of record after due notice at which the testimony of all interested parties may be received, including, of course, the applicant and the disapproving bank supervisory authority. After this hearing on the merits of the application has been held, the Federal Reserve Board is required to grant or deny the application by formal order. The bill then affords any party aggrieved by the order the right to a judicial review of the order by an appropriate Federal court of appeals. In such a review, the Federal Reserve Board's findings of facts are conclusive, if supported by substantial evidence.

This procedure, it appears to your committee, should afford opportunity for developing the true merits of an application upon due consideration of the facts, in instances where the bank supervisory authority involved expresses written disapproval of the application. It also assures adequate recourse to court proceedings for an aggrieved party.

At the same time, it leaves the Federal Reserve Board free to proceed in a more informal manner in handling an application as to which the appropriate bank supervisory authority expresses no written disapproval.

Application Procedure

In particular, the bill requires that upon receipt of an application for acquisition of bank shares or assets or for merger or consolidation of bank holding companies, the Federal Reserve Board shall give notice to the appropriate bank supervisory authority. If the applicant or the bank whose shares or assets are sought to be acquired is a national bank or a district bank, notice must be given to the Comptroller of the Currency. If the applicant or the bank whose shares or assets are sought to be acquired is a State bank, notice must be given to the appropriate State supervisory authority in the interested State or States. Thirty days are allowed for any notified authority to submit recommendations to the Federal Reserve Board. If within that period, any such notified authority disapproves in writing the application, the Federal Reserve Board must so notify the applicant in writing. Within 3 days after giving such notice, the Federal Reserve Board must give written notification to the applicant and each disapproving authority of the date fixed for commencement of a hearing on the application. The hearing must begin from 10 to 30 days after the Board has given the applicant written notice of the disapproving action by the appropriate supervisory authority. While the duration of the hearing is within the discretion of the Federal Reserve Board, it must last long enough to give all interested parties a reasonable opportunity to testify. Only after the conclusion of the hearing

may the Federal Reserve Board grant or deny the application. This action is to be taken on the basis of the record made at the hearing.

In acting upon any application for acquisition, merger, or consolidation, the Federal Reserve Board is required by the bill to consider these factors:

(1) the financial history and condition of each company or bank concerned in the application;

(2) the prospects of each;

(3) the character of the management of each;

(4) the convenience, needs and welfare of both the communities and the area concerned; and

(5) whether the effect of the acquisition, merger, or consolidation would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the banking field.

It is upon the basis of these factors that the Federal Reserve Board is to measure whether each application should be granted or denied in the public interest. It will be noted that these factors extend beyond the nature of those primary in importance to bank supervisory authorities in the exercise of their supervisory powers. In most instances, safety of the depositor's funds and adequate banking service to the public in the area where the bank operates are uppermost in the consideration of such bank supervisory authorities. The factors required to be taken into consideration by the Federal Reserve Board under this bill also require contemplation of the prevention of undue concentration of control in the banking field to the detriment of public interest and the encouragement of competition in banking. It is the lack of any effective requirement of this nature in present Federal laws which has led your committee to the conviction that legislation such as that contained in this bill is needed. Under its provisions, the expansion of bank holding companies in the banking field would not be prohibited, but would be regulated in the public interest.

In view of the adequate opportunity for expression of opinion on an application accorded to the Comptroller of the Currency and the State bank supervisory authorities in appropriate cases by the bill, the committee deems it unnecessary and inadvisable to insert in the bill any arbitrary prohibition against the expansion of bank holding companies across State lines. Let any application for such expansion be decided on its merits in accordance with the procedure outlined in this bill. The committee received testimony indicating the public benefits which have flowed from the interstate structure of some bank holding companies. Like bank holding companies in general, interstate bank holding companies are not evil of themselves. The provisions of this bill, in the opinion of your committee, provide adequate safeguards so that the maintenance or expansion of such bank holding companies can be regulated in the public interest.

The same reasoning led the committee to believe that the bill should contain no provision leaving solely to State control determination of the question as to whether a bank holding company can acquire an interest in a national bank. If our dual banking system is to operate as a truly dual system, the Federal authorities ought not to surrender their supervisory authority over national banks to State

decision. This is not to say the Federal authorities ought not to consider carefully the views of State authorities regarding the management and control of national banks, but the ultimate determination of public interest in the national bank system should rest with the appropriate Federal authorities. Within broad areas, banks themselves retain the choice of whether they shall operate as State or National institutions.

In any event, another provision of this bill expressly preserves to the States a right to be more restrictive regarding the formation or operation of bank holding companies within their respective borders than the Federal authorities can be or are under this bill. Under such a grant of authority, each State may, within the limits of its proper jurisdictional authority, be more severe on bank holding companies as a class than (1) this bill empowers the Federal authorities to be or (2) such Federal authorities actually are in their administration of the provisions of this bill. In the opinion of the committee, this provision adequately safeguards States' rights as to bank holding companies.

The committee decided against inclusion of a provision in the bill that would automatically apply State laws concerning branch banking to bank holding company operations. The purposes of branch banking laws are not identical with the purpose of this bill to control bank holding companies. Moreover, branch banking is mostly conducted by the use of depositors' funds, thus making the protection of these funds of prime importance. Bank holding companies, however, as such have no depositors. For operating funds they have recourse to equity capital supplied by their shareholders. It is believed the bill contains adequate provisions to regulate bank holding company operations without an arbitrary tiein with branch banking laws.

No pretense is made that this bill will regulate all forms of centralized control of financial institutions. As previously noted, it does not include chain banking, where several banks are controlled by a single individual. Nor does it attempt to regulate centralized control of such financial institutions as savings and loan associations or insurance companies. It has been designed to provide appropriate regulation of centralized control of banking institutions by bank holding companies as defined in the bill.

Divestment of Nonbanking Assets

The bill prohibits a bank holding company from acquiring, after the passage of this bill, ownership or control of any voting shares of any company which is not a bank. It also provides that existing bank holding companies cannot retain ownership or control, for more than 2 years after the date of passage of this bill, of any voting shares of a company which is not related to banking. Nor can any such company engage in a business other than banking or managing or controlling banks or furnishing or performing services for any bank of which it owns or controls 25 percent or more of the voting shares. Upon application by a bank holding company, the Federal Reserve Board is authorized to extend the 2-year deadline for periods of not more than 1 year at a time, provided that in no event can the extensions extend the total divestment period to longer than 5 years after

the date of enactment of the bill, or 5 years after the date upon which a company becomes a bank holding company, whichever is later. Appropriate exceptions are made in the bill in order to enable bank holding companies to retain ownership and control of nonbanking assets in cases where such retention will not violate the purposes of the bill. Seven classes of such exemptions are provided as follows:

(1) Shares owned or acquired by a bank holding company in a company engaged solely in holding or operating properties used primarily by a bank in the bank holding company system or acquired for future use of such bank in its operations; and shares owned or acquired by a bank holding company in any company engaged solely in conducting a safe deposit business or serving the holding company and banks in the holding company system with respect to such functions as audits, appraisals, investment counsel, or the liquidation of assets acquired from the bank holding company and the banks within the bank holding company system;

(2) Shares acquired by a bank holding company that is a bank or any of its banking subsidiaries in satisfaction of a debt previously contracted in good faith (in which event such shares must be disposed of within 2 years after their acquisition or 2 years after the passage of this bill, whichever is later);

(3) Shares acquired by a bank holding company from any of its subsidiaries by virtue of action initiated by any examining Federal or State authority (but such shares must be disposed of within 2 years after their acquisition or 2 years after the passage of this bill, whichever is later);

(4) Shares held or acquired in a fiduciary capacity by a bank holding company that is a bank or shares eligible for investment by national banks;

(5) Shares of any company that do not represent more than 5 percent of the company's outstanding voting securities and that do not have a value greater than 5 percent of the total asset value of the bank holding company;

(6) Shares of any company whose activities of a financial, fiduciary, or insurance nature are determined by the Federal Reserve Board to be so closely related to the banking business as to constitute a proper incident to that business, and to make unnecessary the divestment of such shares in order to carry out the purposes of the bill; or

(7) Any bank holding company which is a labor, agricultural, or horticultural organization.

It seems obvious that the foregoing exemptions with reference to bank premises, safe-deposit businesses, bank-servicing organizations, collection of debts, involuntary acquisition of shares, and acquisition of shares in a fiduciary capacity, or permissible investments for national banks, are all appropriate in order to enable a bank holding company to carry on operations closely related to banking. The same reasoning dictates the inclusion of exemption (5). Moreover, control of no more than 5 percent of the voting securities of a company is not deemed adequate for effective control of that company. It should be further noted that no bank holding company can enjoy the benefits of this exemption if its investment in the shares of the company exceed 5 percent of the total asset value of the bank holding company.

Exemption (6) has been included by the committee as a necessary provision to enable the administering authority under this bill to permit the retention by a bank holding company of activities found to be closely related to banking. It should be noted that the Board is required to make its determination after due notice and hearing and on the basis of the record made at the hearing. The Federal Reserve Board's action is required to be taken in the form of an order, as to which any aggrieved party can obtain a review in the appropriate court of appeals. In the opinion of your committee, certain activities of a financial, fiduciary, or insurance nature are obviously so closely related to banking as to require no divestment by a bank holding company. For example, the operation of a credit life-insurance program in connection with bank loans is clearly within the scope of banking operations as presently conducted. So is the operation of an insurance program under which the insurance proceeds retire the outstanding balance of the mortgage upon the death of the mortgagor in cases where the bank holds the mortgage. However, there are many other activities of a financial, fiduciary, or insurance nature which cannot be determined to be closely related to banking without a careful examination of the particular type of business carried on under such activity. For this reason your committee deems it advisable to provide a forum before an appropriate Federal authority in which decisions concerning the relationship of such activities to banking can be determined in each case on its merits.

Exemption (7) concerning labor, agricultural and horticultural organizations is closely akin to the similar exemption from Federal income taxes granted to such organizations. In order to be entitled to the exemption under this bill, no net income derived by any such organization can inure to the benefit of any individual. Such organizations must be formed primarily for the betterment of the working conditions of their members, in the case of labor organizations, and for the improvement in grade of agricultural or horticultural products in the case of agricultural or horticultural organizations. As in the case of the Federal income tax exemption, such agricultural and horticultural organizations as county fairs, quasi-public in nature, that are designed to encourage better products through a system of awards, would qualify for exemption under this bill. However, the growing of agricultural or horticultural products for profit by an agricultural or horticultural organization would not entitle such organization to the benefits of exemption from the divestment features of this bill.

The seven specific classes of exemption from the divestment requirements of the bill do not excuse those exempted from compliance with the remaining provisions of the bill. Such exempted organizations or companies will be required to register under the bill with the Federal Reserve Board and to obtain the approval of that Board in the event the organization or company wishes to acquire additional voting shares or assets of any bank, if such approval is otherwise required under the bill for bank holding companies.

Your committee holds the opinion that bank holding companies should confine their activities to the control and management of banks and activities closely related to banking. They should not combine management and control of banking activities with manage-

ment and control of nonbanking activities. The divestment requirements in this bill are designed to remove the danger that a bank holding company might misuse or abuse the resources of a bank it controls in order to gain an advantage in the operation of the nonbanking activities it controls.

The committee gave consideration to a suggestion that present bank holding companies be allowed to retain their existing nonbanking assets and that the bill merely prohibit such companies from acquiring additional nonbanking assets. However, the committee believes that to adopt this course of action would give an unfair competitive advantage to existing bank holding companies over bank holding companies which might be formed in the future consistent with the provisions of this bill. Your committee believes that in general all bank holding companies should be required to observe the same ground rules concerning formation and operation, insofar as Federal legislation is concerned.

ADMINISTRATION

This bill centralizes Federal administrative control under the bill in the Board of Governors of the Federal Reserve System. It requires that each bank holding company, as defined in the bill, register with the Board within 180 days after the passage of the bill, or within 180 days after becoming a bank holding company, whichever is later. Registration forms prescribed by the Federal Reserve Board are to require information deemed appropriate by the Board with respect to the financial history and condition of the registering bank holding company and the banks it controls, information concerning the operation and management of such company and banks, the relationships of such company with banks and other organizations, and similar matters appropriate to carry out the purposes of the bill. Discretion is given to the Board to extend the time within which a bank holding company must register and file the required information.

The Federal Reserve Board is granted authority to issue appropriate regulations and orders in order to carry out the purposes of the bill and to prevent evasion of its provisions. The Federal Reserve Board is also empowered to require reports under oath so that it may be informed as to compliance with the provisions of the bill and regulations and orders issued in accordance with its provisions. The Board is expressly authorized to make examinations of each bank holding company and each of its subsidiaries at the expense of the holding company. In order to prevent unnecessary duplication, the bill requires the Board, in administering the provisions of the bill, as far as possible, to make use of examination reports made by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the appropriate State bank supervisory authority.

The bill further requires the Board to submit to the Congress, within 2 years after the passage of the bill, a report of the results of the administration of the provisions of the bill, stating any substantial difficulties encountered and any recommendations for changes in the law which the Board deems advisable. Following the date of submission of the original report, the Federal Reserve Board is required thereafter to submit an annual report of the same nature. In view of the complexities which may be encountered in untangling the operations of bank holding companies in order to comply with the

provisions of the bill, your committee is of the opinion that the Board should be allowed a 2-year period within which to prepare and submit its report to the Congress.

Prohibition of Upstream or Horizontal Borrowing

Your committee received testimony to the effect that one of the dangers inherent in the bank holding company system is that the parent company may take undue advantage of the resources of its subsidiary banks. To prevent that situation from arising, the bill prohibits in general the borrowing of subsidary bank funds by a bank holding company or by another subsidiary in the bank holding company system. The bill does not prohibit the borrowing of funds by any subsidiary in the system from the parent bank holding company. Such downstream financing is one of the beneficial advantages cited to your committee in the use of the bank holding system technique. Downstream financing enables the bank holding company to draw on the equity capital of its shareholders and its own operating funds in order to strengthen the financial condition of any one or more of its subsidiaries. In the past, this has operated not only to the advantage of the bank holding company system itself, but also to the advantage of shareholders and depositors of the subsidiary bank so assisted and the public served by the subsidiary bank.

In particular, the bill makes it unlawful for a bank after the passage of the bill:

(1) To invest its funds in the capital stock, bonds, debentures or other obligations of its parent bank holding company or of any other subsidiary within the bank holding company system;

(2) To accept the capital stock, bonds, debentures or other obligations of its parent bank holding company or of any other subsidiary within the bank holding company system, as collateral security for advances made to any person or any company (except that this does not prohibit the acceptance of such securities as security for previously contracted debts, as long as the collateral is not held by the bank for more than 2 years);

(3) To purchase securities, other assets or obligations, under a repurchase agreement either from its parent bank holding company or from any other subsidiary within the bank holding company system; and

(4) To make any loan, discount or extension of credit to its parent bank holding company or to another subsidiary within the bank holding company system.

The bill makes it clear that its provisions do not prohibit noninterest bearing deposits to be made to the credit of a bank, nor do they prohibit giving immediate credit to a bank on uncollected items received in the ordinary course of business.

The bill provides three classes of exemptions from the provisions concerning borrowing from a subsidiary bank. These provide that the upstream and horizontal borrowing restrictions do not apply:

(1) To the capital stock, bonds, debentures, or other obligations of a company engaged in holding bank properties, a safe deposit business, or a bank servicing business of the nature described in section 4 (c) (1) of the bill;

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(2) To any company which became a subsidiary due to a bona fide debt to the bank contracted before it became a subsidiary; or

(3) To any company that became a subsidiary due to the ownership or control of its voting shares by the bank in a fiduciary capacity (unless the shares are held for the benefit of a majority of the bank's stockholders).

Tax Relief for Distributions Made

H. R. 6227, as passed by the House of Representatives, would add a new part VIII to subchapter O of the Internal Revenue Code of 1954. Under this new part, tax relief is accorded to distributions made pursuant to the provisions of this bill within the period prescribed therein. Your committee has adopted the tax provisions contained in the House bill with certain technical changes.

In general, a corporation which comes within the terms of the act as a bank holding company is given its choice of two alternative routes (that is, to remain a bank holding company, or to dispose of its interests in banks).

If the corporation decides to remain a bank holding company subject to the supervision of the Federal Reserve Board, it may distribute any "prohibited property," which the Board certifies is necessary or appropriate to comply with the act, to its shareholders without the recognition of gain by the shareholders on the distribution. For this purpose "prohibited property," in general, means stock, securities and other obligations, or other assets of nonbanking businesses to the extent the bank holding company is required to divest itself of such assets under section 4 (a) of the bill. The term, however, does not include cash, Government bonds, or certain short-term obligations. In the ordinary case cash and cash equivalents, such as Government bonds and short-term obligations, will not come within section 4 (a) of the bill as property which must be disposed of by the bank holding company. It is believed desirable, however, to expressly exclude cash, etc., from the definition of "prohibited property," since a similar exclusion is contained in the comparable provisions of part VI of subchapter O, relating to exchanges in obedience to SEC orders.

With respect to the distributing corporation, the usual provisions of the Internal Revenue Code of 1954 apply. Under these provisions, gain generally is not recognized to the distributing corporation except under unusual circumstances such as the distribution of LIFO inventory, the distribution of property subject to a liability in excess of the adjusted basis, or the distribution of certain installment obligations.

The distribution of "prohibited property" may be made either directly to the shareholders of the corporation which is a bank holding company or may be transferred to a wholly owned subsidiary expressly created for purposes of receiving the prohibited property. The stock of the subsidiary must be immediately distributed to the shareholders of the corporation which is a bank holding company if the distribution is to be made under this bill without the recognition of gain to the shareholders.

If a corporation which qualifies as a bank holding company under the act chooses the second alternative route, it may distribute to its shareholders any bank stock or other property of a kind which causes it to be a bank holding company, without the recognition of gain to

the recipient stockholders. The Board must certify, however, that distribution of property of that kind is necessary or appropriate to effectuate the policies of the bill. In such a case, the corporation may, for example, distribute to its shareholders all of its shares of bank stock without the recognition of gain even though it would be possible to retain shares of stock in one bank without being classified as a bank holding company. Your committee believes that this treatment is necessary because a corporation which is compelled to divest itself of part of its bank stock by reason of the bill may wish to distribute all of its shares of bank stock, so that no possibility will exist that it will be classified as a bank holding company in the future.

Your committee contemplates that the Federal Reserve Board in the discharge of its functions in making certifications that exchanges and distributions are necessary or appropriate to effectuate the purposes of the bill will carefully scrutinize the facts and circumstances in each case to prevent abuses and will cooperate fully with the Treasury Department to this end. Although the time of recognition of gain may be legitimately shifted under the provisions of this part, nothing in these provisions is to be construed or applied in such manner as to permit tax evasion or sham transactions entered into for avoiding tax.

Your committee has restricted the nonrecognition treatment described above the property which was owned on May 15, 1955. This restriction is deemed necessary to prevent corporations from purchasing interests in banks or other property in order that their shareholders may get the benefit of the tax treatment provided in the bill. The restriction would not apply, however, if the property was received in a transaction in which gain was not recognized because of the general rules described above. For example, if prohibited property was distributed by a subsidiary to its parent in a corporate chain without recognition of gain to the parent by reason of these provisions, the parent, in turn, may distribute the property to its own shareholders without recognition of gain under a certification by the Board, even though the property was acquired by the parent after May 15, 1955. Similarly, the May 15, 1955, cutoff date is not applicable where the prohibited property or bank stock (or other similar property) certified by the Board is transferred to a wholly owned subsidiary created for that purpose and the stock of the subsidiary is immediately distributed by the qualified bank holding corporation to its shareholders.

As in the case of the first alternative route, nonrecognition treatment is available whether the bank stock or other similar property certified by the Board is distributed directly to shareholders or whether it is first transferred to a wholly owned subsidiary expressly created for that purpose and the stock of the subsidiary is then immediately distributed to the shareholders of the parent.

To prevent certain tax avoidance possibilities that might otherwise exist, your committee's bill does not extend nonrecognition treatment, under the general rules described above, to any portion of a distribution attributable to a contribution to the capital of any corporation where the contribution is made after May 15, 1955. This restriction applies whether or not the contribution to capital is made by a shareholder of the corporation receiving such contribution. In the case of a contribution to the capital of a bank, however, the limitation does not

apply if it is determined that avoidance of Federal income tax was not a principal purpose of the contribution.

Where the nonrecognition treatment has been extended to "prohibited property" which has been distributed by the corporation which is a bank holding company, a final certification must be obtained from the Board that the corporation has divested itself of all property necessary for compliance with the bill within the statutory period permitted for divestment. If this final certification is not obtained, the transactions previously permitted to be made without recognition of gain are reopened and tax may be imposed in such cases. For this purpose the statute of limitations on assessment of a deficiency resulting solely from the distribution of prohibited property which has been certified by the Board under section 1101 (a) does not expire until 5 years after the corporation gives notification that the period prescribed in section 4 (a) of the bill has expired.

A similar final certification is required where nonrecognition treatment has been originally accorded to the distribution of bank stock or similar property of a kind which the Board has certified as necessary so that the corporation will cease to be a bank holding company. In this case the tax provisions of the bill provide that the Board must give a final certification that the corporation has ceased to be a bank holding company within 2 years after the date of enactment of the bill or 2 years after the date on which the corporation becomes a bank holding company, whichever is later, unless the time has been extended by the Board for 1-year renewals not to exceed 5 years from the date of enactment of the bill or the date on which the corporation becomes a bank holding company, whichever is later. The statutory period for the assessment of a deficiency resulting solely from such distribution is extended in the same manner as in the case of the distribution of prohibited property.

The basis of stock or other property received by a distributee without recognition of gain under the provisions of the bill is determined by allocating the adjusted basis of the stock with respect to which the distribution was made between such stock and the property so distributed. This rule is similar to the general rule for allocation of basis in the case of a stock dividend. The bill provides that the allocation shall be made under regulations provided by the Secretary or his delegate.

Penalties

The bill provides adequate penalties for violation of its provisions, after conviction. In particular, any company convicted of willful violation of any provision of the bill or any regulation or order issued by the Federal Reserve Board pursuant to its provisions is subject to a fine of not more than $1,000 a day for each day during which the violation continues. Any individual convicted of willful participation in a violation of any provision of the bill is subject to a fine of not more than $10,000 or imprisonment for not more than 1 year, or both. Every officer, director, agent and employee of a bank holding company is made subject to the same penalties for false entries in any book, report, or statement of the bank holding company as apply to corresponding officials and employees of member banks of the Federal Reserve System for false entries in any books, reports, or statements of such member banks under section 1005 of title 18 of the United

States Code. This section of the code provides for a maximum fine of $5,000 or a maximum term of imprisonment for not more than 5 years, or both.

Saving Provision

The bill provides that none of its provisions are to be construed as approving any act, action or conduct in violation of existing law. It also provides that nothing in the bill shall constitute a defense to any action, suit, or proceeding pending or later instituted on account of any prohibited antitrust or monopolistic act, action or conduct. In the opinion of your committee, approvals granted and action permitted under the provisions of this bill are not to supersede the provisions of other Federal laws, particularly those designed to control monopoly or break up trusts. For example, the Clayton Act has been judicially determined to apply to banks. Under the provisions of that act, the Federal Reserve Board has an administrative role to play in determining whether banks comply with the requirements of the Clayton Act. Under the provisions of this bill, any action taken by the Federal Reserve Board in accordance with its terms is not to interfere in any manner with the performance by the Board of such functions as may be assigned to it under the Clayton Act.

Conclusion

As previously outlined in this report, your committee has been giving consideration to this matter for several years. In its opinion the present bill, properly administered, will safeguard the interests of the public in the formation and operation of bank holding companies. It represents a compromise designed to meet acceptance of proponents of this type of legislation, while at the same time being fully fair to the companies to which the provisions of the bill will apply. Exemptions from its provisions have been kept to a minimum. Under its terms, the operations of bank holding companies will not be prohibited, but they will be confined to banking activities and regulated in the public interest. In view of the lack of adequate legislation concerning the formation and operation of bank holding companies, your committee strongly urges the passage of this bill. Perfecting amendments may then be considered upon their merits by any subsequent Congress. Proper observance of the Congress' duty to the citizens of this Nation demands the enactment of appropriate legislation in this field.

Section-by-Section Analysis of the Bill

Section 1.—This section provides that this act may be cited as the Bank Holding Company Act of 1955.

Section 2.—This section defines the terms used in the bill.

Subsection (a) defines the term "bank holding company" to mean (1) any company which directly or indirectly owns or controls 25 percent or more of the voting shares of 2 or more banks or of a company which is or becomes a bank holding company by virtue of this act; or (2) any company controlling the election of a majority of the directors or 2 or more banks; or (3) any company for whose shareholders trustees hold 25 percent or more of stock of 2 or more banks or of

bank holding company. A successor to any such bank holding company is deemed to be a bank holding company as of the date the predecessor company became a bank holding company. Excluded from the definition are (*a*) any bank controlling shares in a fiduciary capacity (unless controlled for benefit of the bank's shareholders); (*b*) any company or affiliate registered under Investment Company Act of 1940, prior to May 15, 1955, unless it owns 25 percent of shares of 2 or more banks; (*c*) any company engaged in underwriting securities; and (*d*) any company formed for the purpose of soliciting proxies.

Subsection (b) defines the term "company" to include any corporation, business trust, association, or similar organization. However, (1) any company the majority of the shares of which are owned by the Federal Government or by any State, (2) any nonprofit religious, charitable, or educational organization, and (3) any partnership—are excluded from the definition.

Subsection (c) defines the term "bank" to include any national or State bank, savings bank or trust company, but excludes any organization which does not do business within the United States. The subsection also defines the terms "State member bank" and "district bank."

Subsection (d) defines a "subsidiary" of a specified bank holding company in terms of the tests applicable to a bank holding company.

Subsection (e) defines the term "successor" and gives the Board of Governors of the Federal Reserve System the right by regulation to further define the term "successor" to the extent necessary to prevent evasion of the purposes of the act.

Subsection (f) makes clear that where the term "Board" is used in the act the reference is to the Board of Governors of the Federal Reserve System.

Section 3.—The provisions of this section relate to future acquisitions of bank shares or bank assets by bank holding companies or by companies which thereby would become bank holding companies and to the merger or consolidation of bank holding companies.

Subsection (a) makes it unlawful except with prior Board approval (1) for a company to become a bank holding company; (2) for a bank holding company or subsidiary to acquire more than 5 percent of the voting shares of any bank; (3) for a bank holding company or subsidiary, other than a bank, to acquire substantially all the assets of a bank; or (4) for a bank holding company to merge or consolidate with any other bank holding company. This prohibition does not apply to (*a*) any bank holding company, which is a bank acquiring shares in a fiduciary capacity (unless for benefit of its own shareholders) or in collecting debt (but must divest in 2 years), and (*b*) any bank holding company, which is a bank acquiring additional shares in a bank of which it owns a majority of the voting shares.

Subsection (b) provides that 30 days before approving any acquisition, merger or consolidation, the Board shall notify: (i) Comptroller of the Currency if bank to be acquired is a national or District bank; (ii) State supervisory authority if bank being acquired is a State bank. If such notified authority disapproves it in writing within 30 days, the Board will hold a hearing to grant or deny the application.

Subsection (c) sets forth the standards to be followed by the Board in granting or denying approval including (1) bank holding company's and bank's financial history and conditions; (2) prospects; (3) man-

agement; (4) convenience, needs, and welfare of area concerned; and (5) sound banking, public interest, and bank competition.

Section 4.—This section relates to bank holding company interests in nonbanking organizations and provides for separation of banking and nonbanking interests.

Subsection (a) prohibits a bank holding company from acquiring or retaining voting shares of any nonbank company or engaging in a business other than (1) banking, (2) managing or controlling banks, or (3) furnishing services to or providing services for a subsidiary bank. Divestment of nonbank business is required within 2 years after the date of this act or from date of becoming a bank holding company, whichever is later. The Board may extend this time up to not more than 5 years.

Subsection (b) prohibits a bank holding company after 2 years from date of enactment from (1) making any statement on its shares that they represent shares of any other company except a bank or a bank holding company, or (2) conditioning in any manner ownership, sale, or transfer of its shares upon the ownership, sale or transfer of shares of any other company except a bank or a bank holding company.

Subsection (c) provides appropriate exemptions to the blanket prohibitions on bank holding company investments or activities set forth in subsection (a).

Paragraph (1) exempts investments by a bank holding company in companies obviously incidental to the business of banking, such as holding bank premises, conducting a safe deposit business, or providing services such as auditing, appraisal, and investment counsel, or in liquidating assets acquired from the bank holding company or its subsidiaries.

Paragraph (2) exempts for a 2-year period investments acquired by a bank holding company which is a bank, in satisfaction of a debt previously contracted.

Paragraph (3) exempts for a 2-year period investments acquired by a bank holding company from any subsidiary which is requested to dispose of such investment by a Federal or State examining authority.

Paragraph (4) exempts investments held by a bank (which is a bank holding company) in a fiduciary capacity, and investments eligible for national bank investment under section 5136 of the Revised Statutes.

Paragraph (5) exempts limited general investments of a bank holding company from the investment prohibitions of the act. A bank holding company may own investments in any company provided such investment does not include more than 5 percent of the outstanding voting securities of such company and provided the value of the investment does not exceed 5 percent of the total assets of the holding company.

Paragraph (6) authorizes the Board to exempt shares of any company all the activities of which are of a financial, fiduciary, or insurance nature and are determined to be so closely related to the business of banking as to be a proper incident thereto.

Paragraph (7) exempts any bank holding company which is a labor, agricultural or horticultural organization.

Section 5.—This section sets forth powers and duties with respect to the registration, making of reports and examination of bank holding companies.

Subsection (a) requires bank holding companies to register and file requisite information with the Board within a period of 180 days and grants the Board the right to extend such period.

Subsection (b) authorizes the Board to issue regulations and orders necessary in administration of the act.

Subsection (c) gives the Board authority to require reports from and make examinations of bank holding companies and their subsidiaries. To avoid duplication of effort, use, so far as possible, will be made of examination reports of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or appropriate State bank supervisory authorities.

Subsection (d) requires the Board within 2 years and annually thereafter to report to the Congress on operations under the act and to make any recommendations as to changes in the law which appear desirable to the Board.

Section 6.—This section prohibits a bank subsidiary from investing any of its funds in or lending any of its funds to its parent bank holding company or subsidiaries thereof and the subsidiary bank may not accept the securities of its parent bank holding company or subsidiaries thereof as collateral for any loan except for debts previously contracted. The subsidiary bank may not purchase assets or securities under a repurchase agreement from its parent holding company or from any of the subsidiaries of that holding company. Routine banking transactions between subsidiary banks are not treated as extensions of credit and do not fall within the prohibitions of this section. Also exempted from the self-dealing prohibitions of this section are securities of (1) a company described in section 6 (c) (1) (activities incidental to bank operations), (2) a company the subsidiary status of which arises out of a previously contracted bona fide debt, or (3) a company the subsidiary status of which arises through ownership of securities in a fiduciary capacity, except where such ownership is for the benefit of all or a majority of the stockholders of the bank.

Section 7.—This section makes clear that there is reservation of the rights of any State for exercise of such powers as it has or may hereafter have with respect to banks, bank holding companies, and the subsidiaries thereof in a manner more restrictive than the provisions of this bill.

Section 8.—This section provides penalties for willful violation of the act or any regulations or orders issued by the Board pursuant thereto. Upon conviction a company may be fined $1,000 for each day the violation continues and an individual upon conviction may be subjected to a $10,000 fine or 1 year imprisonment or both. Officers of employees of a bank holding company are made subject to the same penalties for making false entries in books, reports, or statements that are applicable to officers or employees of Federal Reserve member banks ($5,000 fine or 5 years' imprisonment or both).

Section 9.—This section provides that any person aggrieved by an order of the Board may obtain a judicial review of such order in the United States Circuit Court of Appeals. The findings of the Board as to the facts shall be conclusive, if supported by substantial evidence.

Section 10.—This section amends subchapter O of chapter 1 of the Internal Revenue Code of 1954 by adding a new part VIII. This part VIII specifies the extent to which (during a transition period

after the enactment of the bill) gain will not be recognized upon receipt of property by a shareholder of a bank holding company, if such distribution is made pursuant to a certification by the Board of Governors of the Federal Reserve System that such distribution is necessary or appropriate to effectuate the Bank Holding Company Act of 1955. The provisions of the new part VIII are restricted by their own terms to the gain directly attributable to the receipt of property in the distributions specifically described.

The rules contained in part VIII are in addition to the other provisions of subtitle A of the Internal Revenue Code of 1954 (such as provisions relating to the recognition or nonrecognition of gain to a corporation making distributions, the provisions under which tax-free reorganizations may be effectuated, etc.). Many of these other provisions are contained in subchapter C of chapter 1 of such code (relating to corporate distributions and reorganizations). The provisions of part VIII supersede the other provisions of chapter 1 only in the cases qualifying under part VIII, and in those cases only to the extent specific provision is contained in part VIII.

Your committee has adopted the tax provisions contained in the House bill with certain technical changes.

Section 1101 sets forth the conditions for nonrecognition of gain attributable to distributions of property by a qualified bank holding corporation when received by the shareholder with respect to his stock in such corporation. In addition rules are provided as to the date the qualified bank holding corporation must have acquired the property before it can be distributed with no gain recognized to its shareholders as a result of the distribution. This section also prescribes certain conditions which must be fulfilled before any such distributions of property will obtain the nonrecognition of gain benefits of its provisions.

Subsection (a) of section 1101 provides that a distribution of prohibited property by a qualified bank holding corporation with respect to its stock and without the surrender by the shareholder of any stock or securities in such corporation will not result in any gain being recognized on the receipt of such property by the shareholder if the Board has, before the distribution, certified that the distribution of such property is necessary or appropriate to carry out the first sentence of section 6 (a) of the Bank Holding Company Act of 1955. On the date of distribution the distributing corporation must have been a qualified bank holding corporation. The first sentence of section 6 (a) provides in general that it shall be unlawful for any bank holding company, after 2 years from the effective date of the Bank Holding Company Act of 1955, to own any shares or other securities or obligations of any company other than a bank or to engage in any business other than that of banking, or of managing or controlling banks, or of the kind of businesses enumerated in section 6 (c) (1) of the act. However, such section 6 (c) sets forth certain exceptions and permits the holding by a bank holding company of certain types of property.

Subsection (b) of section 1101 applies to a distribution of property by a qualified bank holding corporation, with respect to its stock, to a shareholder without the surrender by the shareholder of stock or securities in such corporation where the Board has before the distribution certified that (1) such property is of a kind which causes such

corporation to be a bank holding company, (2) the disposition of property of that kind is necessary to enable such corporation to cease being a bank holding company, and (3) the distribution is necessary or appropriate to effectuate the policies of the Bank Holding Company Act of 1955. In the case of a distribution falling within subsection (b), no gain to the shareholder upon the receipt of such property is to be recognized. Property which is intended to be covered by subsection (b) of section 1101 is that property or properties which is of a kind which causes a company to be a bank holding company within the provisions of section 3 (a) of the Bank Holding Company Act of 1955. Thus, assuming that all the conditions of this part are met, a qualified bank holding corporation may distribute to its shareholders without the recognition of gain to them upon such distribution, part or all of the voting shares of one or more of the banks the ownership of which voting shares was the basis upon which such corporation is a bank holding company, if the Board makes the certification required by paragraph (2) of subsection (b). Furthermore, if any corporation was held by the Board to be a bank holding company under clause 2 of section 3 (a) of the Bank Holding Company Act, and if such corporation is a qualified bank holding corporation as required by this part, such corporation would be permitted to distribute whatever property it owned upon the basis of which such determination was made by the Board to its shareholders without recognition of the gain on the distribution, if the Board certifies in accord with paragraph (2).

A qualified bank holding corporation which distributes prohibited property with respect to which the Board has certified as required by paragraph (2) of subsection (a), may not have any distributions qualify under subsection (b). If the first distribution under this part falls under subsection (b), no distribution may qualify under subsection (a). It is the intent of these subsections that a qualified bank holding corporation must determine whether it will dispose of prohibited property and remain a bank holding company or whether it will dispose of the property upon the basis of which the corporation is determined to be a bank holding company.

Subsection (c) of section 1101 is a limitation upon the application of subsections (a) and (b). Subparagraph (A) of paragraph (1) of subsection (c) specifically excludes from the application of subsections (a) and (b) of section 1101 any property which a qualified bank holding corporation acquired after May 15, 1955, except to the extent such corporation received such property (even though subsequent to May 15, 1955) and gain was not recognized by reason of subsection (a) or (b), or unless the property was received by the corporation in exchange for all of its stock in an exchange to which paragraph (2) or (3) of subsection (c) applies.

Under subparagraph (B) of paragraph (1), neither subsection (a) nor (b) of section 1101 is applicable to the distribution by a qualified bank holding corporation of property which was acquired by such corporation in a distribution with respect to stock acquired by it after May 15, 1955, unless such stock was acquired by it (1) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b) of section 1101, or (2) in exchange

for all of its stock in an exchange meeting the requirements of section 1101 (c) (2) or (3).

Paragraph (2) of subsection (c) of section 1101 is an exception to the general rule of paragraph (1) of subsection (c) that subsections (a) and (b) do not apply to any property acquired by the distributing corporation after May 15, 1955. Under paragraph (2) if a qualified bank holding corporation exchanges solely property which, under subsection (a), such corporation could distribute directly to its shareholders without the recognition of gain to such shareholders, for all of the stock of a second corporation created and availed of solely for the purpose of receiving such property, and immediately after the exchange, the qualified bank holding corporation distributes all of such stock to its shareholders with respect to its stock, then all of the stock of the second corporation may be distributed to the shareholders of such qualified bank holding corporation without recognition of gain. However, prior to such exchange the Board must certify that the exchange and distribution are necessary or appropriate to effectuate the first sentence of section 6 (a) of the Bank Holding Company Act of 1955.

Paragraph (3) of subsection (c) of section 1101 is another exception to the general rule of paragraph (1) of subsection (c) that subsections (a) and (b) do not apply to any property acquired by the distributing corporation after May 15, 1955. Under paragraph (3) if any qualified bank holding corporation exchanges solely property which, under subsection (b), such corporation could distribute directly to its shareholders without the recognition of gain to such shareholders, for all of the stock of a second corporation created and availed of solely for the purpose of receiving such property and immediately after the exchange, the qualified bank holding corporation distributes all of such stock to its shareholders with respect to its stock, then all of the stock of the second corporation may be distributed to the shareholders of such qualified bank holding corporation without the recognition of gain. However, prior to such exchange the Board must have certified that such property is of a kind which causes such corporation to be a bank holding company, that the disposition of property of that kind is necessary to enable such corporation to cease being a bank holding company, and that the exchange and distribution are necessary or appropriate to effectuate the policies of the Bank Holding Company Act of 1955.

Under subsection (d) of section 1101 the nonrecognition of gain provided by subsection (a) or (b) shall not apply to that portion of any distribution which is attributable to any contribution to capital of any corporation made after May 15, 1955. The portion of any distribution which is attributable to a contribution to capital depends upon the particular facts and circumstances of each case.

The preceding paragraph may be illustrated by the following examples. (1) Assume that corporation A (a qualified bank holding corporation) owns all of the stock of corporation X (such stock being property falling within the provisions of subsec. (a) of sec. 1101). Assume further that corporation A, after May 15, 1955, makes a contribution to the capital of corporation X in the amount of $50,000. Thereafter, corporation A makes a distribution to which subsection (a) of section 1101 applies of the stock of corporation X to the share-

holders of corporation A. Under subsection (d) the nonrecognition of gain provided by subsection (a) does not apply to that portion of the distribution which is attributable to the contribution of capital, that is, $50,000. The amount of the distribution to the extent of the contribution to capital, $50,000, is a distribution subject to the provisions of section 301 of the Internal Revenue Code of 1954. (2) The facts are the same as in example (1) above, except that the value of the portion of the distribution which is attributable to the contribution to capital, at the time of the distribution, is less than $50,000. The value of that portion of the distribution which is attributable to the contribution to capital of $50,000 is a distribution subject to the provisions of section 301 of the Internal Revenue Code of 1954.

Paragraph (2) of subsection (d), however, provides an exception to the rule established in paragraph (1). Paragraph (2) provides that paragraph (1) shall not apply with respect to any contribution to capital of a bank if the Secretary or his delegate determines that the avoidance of Federal income tax was not one of the principal purposes for making such contributions.

Subsection (e) of section 1101 provides that neither subsection (a) nor subsection (b) shall apply with respect to any distribution by a corporation unless the Board makes the certification required by the subsection.

Paragraph (1) of subsection (e) relates to certification with respect to distributions falling within subsection (a). It provides that subsection (a) shall not apply to any such distribution unless the Board certifies that, before the expiration of the period permitted under section 6 (a) of the Bank Holding Company Act of 1955 (including any extensions thereof granted to such corporation under such section 6 (a)), the corporation has disposed of all the property, the disposition of which is necessary or appropriate to effectuate the first sentence of such section 6 (a) (or would have been so necessary or appropriate if the corporation had continued to be a bank holding company). In order that subsection (a) of section 1101 is to apply to distributions of prohibited property by a qualified bank holding corporation, it is essential that such corporation dispose of all of the property which it is required to dispose of by reason of the Bank Holding Company Act of 1955, within the period (including extensions thereof) specified in section 6 (a) of such act. During the period during which such corporation is required to dispose of all such property, distributions of prohibited property are to be considered as being within subsection (a) of section 1101, if other requirements of this part are met. Thus, no gain would be recognized to shareholders on distributions (if such distributions would otherwise qualify for the benefits of this part) during such period. If, at the close of such period, the corporation has disposed of all of the property which it is required to dispose of by the Board and the Board has made the certification required under subsection (e) of section 1101, subsection (a) of section 1101 will apply to distributions of prohibited property. However, if, at the close of such period, the corporation has not disposed of all of the property the disposition of which is necessary or appropriate to effectuate the first sentence of section 6 (a) of the Bank Holding Company Act of 1955, then subsection (a) of section 1101 will not apply to any distributions of prohibited property by the corporation. Thus, in a case where the provisions of subsection (e) (1) are not met, the

tax treatment of any distribution of prohibited property by a qualified bank holding corporation to its shareholders is governed by the provisions of other sections of the Internal Revenue Code of 1954 applicable thereto.

Paragraph (2) of subsection (e) of section 1101 is applicable to distributions falling within subsection (b) of section 1101. Subparagraph (A) provides that subsection (b) shall not apply unless the Board certifies that the corporation has ceased to be a bank holding company before the expiration of the period specified in subparagraph (B). Under the House bill the period specified in paragraph (B) was 2 years after the date of enactment. Your committee has modified subparagraph (B) to provide that the specified period expires 2 years after the enactment of this part or 2 years after the corporation becomes a bank holding company, whichever is later. Under subparagraph (B) of the House bill the Board is authorized on the application of any qualified bank holding corporation to extend such period from time to time with respect to such corporation for not more than 1 year at a time if, in its judgment, such an extension would not be detrimental to the public interest, but such period might not be extended beyond the date 5 years after the date of enactment of this part. Your committee has modified this provision to provide that such period may not in any case be extended beyond the date 5 years after the date of enactment of this part or 5 years after the date on which the corporation becomes a bank holding company, whichever is later. The purpose of your committee's changes is to extend the specified periods in the case of corporations which become bank holding companies after the date of enactment of this part by reason of a distribution under section 1101. This treatment makes the specified periods uniform whether such a corporation chooses to distribute prohibited property or bank stock. In order that subsection (b) of section 1101 is to apply to distributions of property of a kind which causes a qualified bank holding corporation to be a bank holding company and the disposition of which is necessary to enable such corporation to cease being a bank holding company, it is essential that such corporation cease to be a bank holding company within the period (including extensions thereof) specified in subsection (e) (2) of section 1101. During the period during which such corporation disposes of property to enable it to cease being a bank holding company, distributions of such property are to be considered as being within subsection (b) of section 1101, if other requirements of this part are met. Thus, no gain would be recognized to shareholders on such distributions (if such distributions would otherwise qualify for the benefits of this part) during such period. If, at the close of such period specified in subsection (e) (2), the corporation has ceased to be a bank holding company, subsection (b) of section 1101 will apply to distributions of such property. However, if, at the close of such period, the corporation has not ceased being a bank holding company, then subsection (b) of section 1101 will not apply to any distributions of such property by the corporation. Thus, in a case where the provisions of subsection (e) (2) are not met, the tax treatment of any distributions of property of a kind which causes a qualified bank holding corporation to be a bank holding company to its shareholders is governed by the provisions of other sections of the Internal Revenue Code of 1954 applicable thereto.

Section 1102 provides special rules for the application of this part.

Subsection (a) relates to the basis of property acquired in distributions under either subsection (a) or subsection (b) of section 1101. If gain is not recognized by reason of either of such subsections with respect to the receipt of any property, then the basis of such property and of the stock with respect to which it was distributed, shall, in the hands of the distributee, be determined by allocating the adjusted basis of such stock between such property and such stock. Such allocation shall be made under regulations prescribed by the Secretary or his delegate.

Subsection (b) of section 1102 of the House bill provided for the extension of the periods of limitation on the assessment and collection of deficiencies in tax arising from distributions to which subsection (a) or (b) of section 1101 apply. Your committee has revised this provision of the House bill in several respects: (1) it has eliminated the extension of the period under section 6502 relating to collection as unnecessary; (2) it has provided that the extension applies to distributions certified by the Board under subsection (a) or (b) of section 1101 in order to correct a technical defect; (3) it has provided that the notification by the corporation be in such manner and with such accompanying information as prescribed in regulations by the Secretary or his delegate; (4) it has provided for a 5-year period after the notification instead of a 1-year period; and (5) it has provided that the notification can only be made after the expiration of the period prescribed in section 6 (a) of the Bank Holding Company Act or section 1101 (e), whichever is applicable, instead of after a final certification by the Board. Accordingly, under subsection (b) of section 1102 of your committee's bill, the periods of limitation provided in section 6501 (relating to limitations on assessment) shall not expire, with respect to any deficiency (including interest and additions to the tax), resulting solely from the receipt of property by shareholders in a distribution by a qualified bank holding corporation which is certified by the Board under subsection (a) or (b) of section 1101, until 5 years after such corporation notifies the Secretary or his delegate (in such manner and with such accompanying information as the Secretary or his delegate may by regulations prescribe) that the period (including extensions thereof) prescribed in section 6 (a) of the Bank Holding Company Act, or section 1101 (e), whichever is applicable, has expired. Such assessment may be made notwithstanding any provisions of law or rule of law which would otherwise prevent such assessment.

Subsection (c) of section 1102 relates to allocation of earnings and profits. In case of any exchange described in section 1101 (c) (2) or (3), the earnings and profits of the corporation transferring the property shall be properly allocated between such corporation and the corporation receiving such property under regulations prescribed by the Secretary or his delegate.

Subsection (d) relates to itemization of property distributed. The Board is required in any certification under this part to make such specification and itemization of property as may be necessary to carry out the provisions of this part.

Section 1103 sets forth the definitions, for purposes of this part, of "bank holding company," "qualified bank holding corporation," "prohibited property," "nonexempt property," and "Board."

Subsection (a) of this section provides that the term "bank holding company" means a bank holding company as defined by section 3 of the Bank Holding Company Act of 1955.

Subsection (b) of this section defines the term "qualified bank holding corporation." Your committee has made a technical amendment to subsection (b) in order to make it clear that the tax provisions of this part apply to any corporation as defined in section 7701 (a) (3) of the Internal Revenue Code of 1954 if such corporation is a qualified bank holding corporation. In order for a corporation to be a qualified bank holding corporation, and therefore for its shareholders to receive the special tax treatment provided by this part, it must not only be a bank holding company but in addition, it must hold "prohibited property" as defined in subsection (c). For example, if the sole assets of corporation X consist of 25 percent of the voting shares of each of 2 banks, corporation X is not a qualified bank holding corporation.

In addition, to be a qualified bank holding corporation the prohibited property must have been acquired on or before May 15, 1955, by a corporation which is a bank holding company, or must have been acquired in a distribution to it by a qualified bank holding corporation with respect to which gain is not recognized by reason of section 1101 (a). Furthermore, a bank holding company which holds prohibited property acquired by it in exchange for all of its stock in an exchange described in section 1101 (c) (2) is a qualified bank holding corporation.

The preceding paragraph may be illustrated by the following examples. (1) If the sole assets of corporation X on May 15, 1955, consist of cash and 25 percent of the voting shares of each of 2 banks and on May 30, 1955, corporation X purchases nonbanking business assets, corporation X is not a qualified bank holding corporation. (2) The sole assets of corporation Y, on May 15, 1955, consist of 25 percent of the voting shares of each of 2 banks and 4 percent of the outstanding voting securities (the value of which is less than 5 percent of the value of corporation Y's total assets) of corporation Z, a qualified bank holding corporation. Corporation Z distributes nonbanking business assets to corporation Y which are prohibited property in the hands of corporation Y, in a distribution to which section 1101 (a) applies. Corporation Y becomes a qualified bank holding corporation by reason of the distribution by Z. (3) On May 15, 1955, corporation B owns all of the stock of corporation A, a qualified bank holding corporation on such date. Corporation B, a qualified bank holding corporation by virtue of its ownership of the stock of corporation A, transfers such stock to corporation C in an exchange meeting the requirements of section 1101 (c) (2). Corporation C is a qualified bank holding corporation.

Notwithstanding that a corporation meets the requirements of paragraph (1) of subsection (b), such corporation shall not be a qualified bank holding corporation unless it meets the additional requirements of subparagraphs (A), (B), and (C) of paragraph (2).

Subparagraph (A) of paragraph (2) provides that a bank holding company shall not be a qualified bank holding corporation unless such corporation would have been a bank holding company on May 15, 1955, if the Bank Holding Company Act of 1955 had been in effect on such date, or unless such corporation is a bank holding company determined solely by reference to the following: (1) Property

acquired by such corporation on or before May 15, 1955; (2) property acquired by such corporation in a distribution by a qualified bank holding corporation to such corporation wherein gain was not recognized by reason of subsection (a) or (b) of section 1101; and (3) property acquired by such corporation in exchange for all of its stock in an exchange meeting the requirements of section 1101 (c) (2) or (3).

Thus, if on May 15, 1955, the sole assets of corporation X consist of cash and business assets and on May 30, 1955, corporation X acquires 25 percent of the voting shares of each of 2 banks for cash, then, by reason of subparagraph (A) of paragraph (2), corporation X, although a bank holding company, holding prohibited property acquired by it before May 15, 1955, is not a qualified bank holding corporation. An additional example of the application of subparagraph (A) of paragraph (2) is where corporation X is determined, by the Board, after May 15, 1955, to be a bank holding company by reason of clause (2) of section 3 (a) of the Bank Holding Company Act of 1955, solely by reference to (1) property acquired by such corporation on or before May 15, 1955, and (2) property acquired by it from a qualified bank holding corporation in a distribution in which gain to the distributee was not recognized by reason of subsection (a) or (b) of section 1101.

Except as explained in the next paragraph, subparagraph (B) of paragraph (2) provides that a bank holding company shall not be a qualified bank holding corporation by reason of either (1) the acquisition by such bank holding company of prohibited property after May 15, 1955, in a distribution from a qualified bank holding corporation to which section 1101 (a) is applicable or (2) the acquisition by such bank holding company (which company would not have been a bank holding company on May 15, 1955, if the Bank Holding Company Act of 1955 had been in effect on such date) of property described in clause (ii) of subparagraph (A) of paragraph (2). An example of the operation of the foregoing is where, on May 15, 1955, the sole assets of corporation Y consist of cash and 25 percent of the voting shares of each of two banks. On May 30, 1955, corporation Y purchases for cash 50 percent of the stock of corporation Z, a qualified bank holding corporation. Corporation Z distributes business assets to corporation Y in a distribution in which gain to corporation Y with respect to the receipt of such property was not recognized by reason of section 1101 (a). Corporation Y is not a qualified bank holding corporation since such property was acquired by corporation Y in a distribution with respect to stock acquired after May 15, 1955.

A bank holding company may be a qualified bank holding corporation by reason of the property described in the preceding paragraph if such property was acquired in a distribution with respect to stock which was acquired by such company (1) on or before May 15, 1955, (2) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b) of section 1101, or (3) in exchange for all of the stock of the bank holding company in an exchange meeting the requirements of section 1101 (c) (2) or (3).

Subparagraph (C) of paragraph (2) states that a corporation may not be treated as a qualified bank holding corporation unless the

Board certifies that it satisfies the requirements of subsection (b) of section 1103.

Subsection (c) of section 1103 defines the term "prohibited property." Such property is defined as property, other than nonexempt property, the disposition of which, in the case of any bank holding company, would be necessary or appropriate to effectuate the first sentence of section 6 (a) of the Bank Holding Company Act of 1955, if such company continued to be a bank holding company beyond the period (including any extensions thereof) specified in section 6 (a), in the case of distributions under section 1101 (a), or specified in section 1101 (e) (2) (B), in the case of distributions under section 1101 (b). The term "prohibited property" does not include shares, securities, or obligations of any company which are held by a bank holding company to the extent that the ownership by such bank holding company of such property is not prohibited by section 6 of such act by reason of subsection (c) (6) of such section.

Subsection (d) defines the term "nonexempt property," the distribution of which may not be accorded the tax treatment provided by this part.

Subsection (e) of this section states that the term "Board" means the Board of Governors of the Federal Reserve System.

Section 10 (b) amends table of parts of chapter 1, subchapter O of Internal Revenue Code of 1954 by adding "Part VIII. Distributions pursuant to Bank Holding Company Act of 1955."

Section 10 (c) makes these tax provisions in section 10 (a) apply to taxable years ending after the enactment of the act.

Section 11.—This section contains a savings clause to make clear that nothing in this act shall be construed as approving any act, action, or conduct in violation of existing law or constituting a defense in antitrust or monopolistic proceedings.

Section 12.—This section contains the usual separability clause for provisions of the act.

Changes in Existing Law

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (new matter is printed in italics, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1954

Chapter I—Normal Taxes and Surtaxes

* * * * * * *

SUBCHAPTER O—GAIN OR LOSS ON DISPOSITION OF PROPERTY

Part I. Determination of amount and recognition of gain or loss.
Part II. Basic rules of general application.
Part III. Common nontaxable exchanges.
Part IV. Special rules.
Part V. Changes to effectuate F. C. C. policy.
Part VI. Exchanges in obedience to S. E. C. orders.
Part VII. Wash sales of stock or securities.
Part VIII. Distributions pursuant to Bank Holding Company Act of 1955.

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PART VIII.—DISTRIBUTIONS PURSUANT TO BANK HOLDING COMPANY ACT OF 1955

SEC. 1101. DISTRIBUTIONS PURSUANT TO BANK HOLDING COMPANY ACT OF 1955.

(a) DISTRIBUTIONS OF PROHIBITED PROPERTY.—*If*—

(1) *a qualified bank holding corporation distributes (with respect to its stock) prohibited property to a shareholder, without the surrender by such shareholder of stock or securities in such corporation; and*

(2) *the Board has, before the distribution, certified that the distribution of such property is necessary or appropriate to effectuate the first sentence of section 4 (a) of the Bank Holding Company Act of 1955,*

then no gain to the shareholder from the receipt of such property shall be recognized. This subsection shall not apply to any distribution by a corporation which has made any distribution pursuant to subsection (b).

(b) CORPORATION CEASING TO BE A BANK HOLDING COMPANY.—*If*—

(1) *a qualified bank holding corporation distributes (with respect to its stock) property to a shareholder, without the surrender by such shareholder of stock or securities in such corporation; and*

(2) *the Board has, before the distribution, certified that (A) such property is of a kind which causes such corporation to be a bank holding company, (B) the disposition of property of that kind is necessary to enable such corporation to cease being a bank holding company, and (C) the distribution is necessary or appropriate to effectuate the policies of the Bank Holding Company Act of 1955,*

then no gain to the shareholder from the receipt of such property shall be recognized. This subsection shall not apply to any distribution by a corporation which has made any distribution pursuant to subsection (a).

(c) PROPERTY ACQUIRED AFTER MAY 15, 1955.—

(1) IN GENERAL.—*Except as provided in paragraphs (2) and (3), subsection (a) or (b) shall not apply to—*

(A) any property acquired by the distributing corporation after May 15, 1955, unless (i) gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) or (b), or (ii) such property was received by it in exchange for all of its stock in an exchange to which paragraph (2) or (3) applies, or

(B) any property which was acquired by the distributing corporation in a distribution with respect to stock acquired by such corporation after May 15, 1955, unless such stock was acquired by such corporation (i) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b), or (ii) in exchange for all of its stock in an exchange to which paragraph (2) or (3) applies.

(2) EXCHANGES INVOLVING PROHIBITED PROPERTY.—*If*—

(A) any qualified bank holding corporation exchanges (i) solely property which, under subsection (a), such corporation could distribute directly to its shareholders without the recognition of gain to such shareholders, for (ii) all of the stock of a second corporation created and availed of solely for the purpose of receiving such property;

(B) immediately after the exchange, the qualified bank holding corporation distributes all of such stock to its shareholders with respect to its stock; and

(C) before such exchange, the Board has certified that the exchange and distribution are necessary or appropriate to effectutate the first sentence of section 4 (a) of the Bank Holding Company Act of 1955,

then paragraph (1) shall not apply with respect to such distribution.

(3) EXCHANGES INVOLVING INTERESTS IN BANKS.—*If*—

(A) any qualified bank holding corporation exchanges (i) solely property which, under subsection (b), such corporation could distribute directly to its shareholders without the recognition of gain to such shareholders, for (ii) all of the stock of a second corporation created and availed of solely for the purpose of receiving such property;

(B) immediately after the exchange, the qualified bank holding corporation distributes all of such stock to its shareholders with respect to its stock; and

(C) before such exchange, the Board has certified—

(i) that such property is of a kind which causes such corporation to be a bank holding company;

(ii) that the disposition of property of that kind is necessary to enable such corporation to cease being a bank holding company; and

(iii) that the exchange and distribution are necessary or appropriate to effectuate the policies of the Bank Holding Company Act of 1955,

then paragraph (1) shall not apply with respect to such distribution.

(d) CERTAIN CONTRIBUTIONS TO CAPITAL AFTER MAY 15, 1955.—

(1) IN GENERAL.—The nonrecognition of gain provided by subsection (a) or (b) shall not apply to that portion of any distribution which is attributable to any contribution to the capital of any corporation made after May 15, 1955.

(2) SPECIAL RULE FOR CONTRIBUTION TO CAPITAL OF BANKS.—Paragraph (1) shall not apply with respect to any contribution to the capital of a bank, if the Secretary or his delegate determines that the avoidance of Federal income tax was not one of the principal purposes for the making of such contribution.

(e) FINAL CERTIFICATION.—

(1) FOR SUBSECTION (a).—Subsection (a) shall not apply with respect to any distribution by a corporation unless the Board certifies that, before the expiration of the period permitted under section 4 (a) of the Bank Holding Company Act of 1955 (including any extensions thereof granted to such corporation under such section 4 (a)), the corporation has disposed of all the property the disposition of which is necessary or appropriate to effectuate the first sentence of such section 4 (a) (or would have been so necessary or appropriate if the corporation had continued to be a bank holding company).

(2) FOR SUBSECTION (b).—

(A) Subsection (b) shall not apply with respect to any distribution by any corporation unless the Board certifies that, before the expiration of the period specified in subparagraph (B), the corporation has ceased to be a bank holding company.

(B) The period referred to in subparagraph (A) is the period which expires 2 years after the date of the enactment of this part or 2 years after the date on which the corporation becomes a bank holding company, whichever date is later. The Board is authorized, on application by any corporation, to extend such period from time to time with respect to such corporation for not more than 1 year at a time if, in its judgment, such an extension would not be detrimental to the public interest; except that such period may not in any case be extended beyond the date 5 years after the date of the enactment of this part or 5 years after the date on which the corporation becomes a bank holding company, whichever date is later.

SEC. 1102. SPECIAL RULES.

(a) BASIS OF PROPERTY ACQUIRED IN DISTRIBUTIONS.—If, by reason of section 1101, gain is not recognized with respect to the receipt of any property, then the basis of such property and of the stock with respect to which it is distributed shall, in the distributee's hands, be determined by allocating between such property and such stock the adjusted basis of such stock. Such allocation shall be made under regulations prescribed by the Secretary or his delegate.

(b) PERIODS OF LIMITATION.—The periods of limitation provided in section 6501 (relating to limitations on assessment and collections) shall not expire, with respect to any deficiency (including interest and additions to the tax) resulting solely from the receipt of property by shareholders in a distribution by a qualified bank holding corporation which is certified by the Board under subsection (a) or (b) of section 1101, until 5 years after such corporation notifies the Secretary or his delegate (in such manner and with such accompanying information as the Secretary or his delegate may by regulations prescribe) that the period (including extensions thereof) prescribed in section 4 (a) of the Bank Holding Company Act of 1955, or section 1101 (e), whichever is applicable, has expired; and such assessment may be made notwithstanding any provision of law or rule of law which would otherwise prevent such assessment.

(c) ALLOCATION OF EARNINGS AND PROFITS.—In the case of any exchange described in section 1101 (c) (2) or (3), the earnings and profits of the corporation transferring the property shall be properly allocated between such corporation and the corporation receiving such property under regulations prescribed by the Secretary or his delegate.

(d) ITEMIZATION OF PROPERTY.—In any certification under this part, the Board shall make such specification and itemization of property as may be necessary to carry out the provisions of this part.

SEC. 1103. DEFINITIONS.

(a) BANK HOLDING COMPANY.—For purposes of this part, the term "bank holding company" has the meaning assigned to such term by section 2 of the Bank Holding Company Act of 1955.

(b) QUALIFIED BANK HOLDING CORPORATION.—

(1) IN GENERAL.—Except as provided in paragraph (2), for purposes of this part the term "qualified bank holding corporation" means any corporation (as defined in section 7701 (a) (3)) which is a bank holding company and which holds prohibited property acquired by it—

(A) on or before May 15, 1955,

(B) in a distribution in which gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) of section 1101, or

(C) in exchange for all of its stock in an exchange described in section 1101 (c) (2).

(2) LIMITATIONS.—

(A) A bank holding company shall not be a qualified bank holding corporation, unless it would have been a bank holding company on May 15, 1955, if the Bank Holding Company Act of 1955 had been in effect on such date, or unless it is a bank holding company determined solely by referenc to—

(i) property acquired by it on or before May 15, 1955,

(ii) property acquired by it in a distribution in which gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) or (b) of section 1101, and

(iii) property acquired by it in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (3).

(B) A bank holding company shall not be a qualified bank holding corporation by reason of property described in subparagraph (B) of paragraph (1) or clause (ii) of subparagraph (A) of this paragraph, unless such property was acquired in a distribution with respect to stock, which stock was acquired by such bank holding company—

(i) on or before May 15, 1955,

(ii) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b) of section 1101, or

(iii) in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (3).

(C) A corporation shall be treated as a qualified bank holding corporation only if the Board certifies that it satisfies the foregoing requirements of this subsection.

(c) PROHIBITED PROPERTY.—For purposes of this part, the term "prohibited property" means, in the case of any bank holding company, property (other than nonexempt property) the disposition of which would be necessary or appropriate to effectuate the first sentence of section 4 (a) of the Bank Holding Company Act of 1955 if such company continued to be a bank holding company beyond the period (including any extensions thereof) specified in such section 4 (a) or in section 1101 (e) (2) (B) of this part, as the case may be. The term "prohibited property" does not include shares, securities, or obligations of any company held by a bank holding company to the extent that the prohibitions of section 4 of the Bank Holding Company Act of 1955 do not apply to the ownership by such bank holding company of such property by reason of subsection (c) (5) of such section.

(d) NONEXEMPT PROPERTY.—For purposes of this part, the term "nonexempt property" means—

(1) obligations (including notes, drafts, bills of exchange, and bankers' acceptances) having a maturity at the time of issuance of not exceeding 24 months, exclusive of days of grace;

(2) securities issued by or guaranteed as to principal or interest by a government or subdivision thereof or by any instrumentality of a government or subdivision; or

(3) money, and the right to receive money not evidenced by a security or obligation (other than a security of obligation described in paragraph (1) or (2).

(e) BOARD.—For purposes of this part, the term "Board" means the Board of Governors of the Federal Reserve System.

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Calendar No. 1107

84TH CONGRESS } SENATE { REPT. 1095
2d Session } { Part 2

CONTROL OF BANK HOLDING COMPANIES

MARCH 6, 1956.—Ordered to be printed

Mr. ROBERTSON, from the Committee on Banking and Currency, reported the following additional amendments to accompany the bill S. 2577, heretofore reported

The Committee on Banking and Currency, having heretofore considered and reported the bill (S. 2577) to define bank holding companies, control their future expansion, and require divestment of their nonbanking interests, hereby report certain additional amendments, with an accompanying report, and recommend their adoption.

On July 25, 1955, the committee reported the bill (S. 2577) to define bank holding companies, control their future expansion, and require divestment of their nonbanking interests. Since the bill was reported out during the closing days of the 1st session of the 84th Congress, it was understood that the bill would not be acted upon by the Senate until the 2d session of the 84th Congress. The interim period provided an opportunity for the Members of the Senate, representatives of bank holding companies, and other interested persons to study the proposed legislation and determine if any perfecting amendments were necessary. As a result of the study, the committee has agreed to a number of technical and clarifying amendments and amendments to the tax provisions of the bill.

NONTAX AMENDMENTS

The committee wishes to emphasize that these amendments do not in any way change the principal objectives of this proposed legislation. These objectives are: (1) To regulate the future expansion of bank holding companies, and (2) to require bank holding companies to divest their nonbanking investments. The amendments are designed to correct technical errors in the bill and to clarify the language of several provisions so that any possible misinterpretation of the committee's intent can be avoided.

CHANGE OF DATE

The bill as reported by the committee bears the short title of "Bank Holding Company Act of 1955." Since the bill will be scheduled for enactment during 1956, it is necessary to change "1955" to

"1956" in the short title wherever it appears in the bill. This is accomplished by striking "1955" and inserting "1956" on page 1, line 4, and page 14, line 23, in the substantive sections of the bill. The tax amendments make the necessary date changes in the tax provisions.

SHAREHOLDERS OR MEMBERS

On page 5, line 9, of the bill as reported by the committee, a reference is made to shares held by trustees for the benefit of the "shareholders and members" of a bank holding company. The "and" is a typographical error and should read "or." This change makes the provision conform to the language on page 2, line 3, where reference is also made to "shareholders or members."

ACQUISITION SHARES IN A FIDUCIARY CAPACITY

Section 3 (a) of the bill requires prior approval by the Federal Reserve Board before any action may be taken which results in a company (including a bank) becoming a bank holding company. The bill as reported provided an exemption from this requirement for a bank which is a bank holding company in cases where the shares were acquired (i) in good faith in a fiduciary capacity or (ii) in the regular course of securing or collecting a debt. This language would seem to preclude a bank which is not a bank holding company from acquiring such shares in other banks or in bank holding companies without prior approval by the Board. It was not the intent of the committee to require approval by the Board where a bank acquired shares in a fiduciary capacity or in the regular course of securing or collecting a debt. In order to clarify the language of the exemption, the committee struck the works "which is a bank holding company" on lines 4 and 5 of page 6. Thus, the amendment exempts from the prohibition of section 3 (a)—

shares acquired by a bank (i) in good faith in a fiduciary capacity, except where such shares are held for the benefit of the shareholders of such bank, or (ii) in the regular course of securing or collecting a debt previously contracted in good faith but any shares acquired after the date of enactment of this Act in securing or collecting any such previously contracted debt shall be disposed of within a period of 2 years from the date on which they were acquired;.

SHARES IN A BANK HOLDING COMPANY

Section 4 (a) (2) of the bill as reported provides in part that no bank holding company shall, after the date of enactment of the act, "retain direct or indirect ownership or control of any voting shares of any company which is not a bank." This language would prohibit a bank holding company from holding shares in a subsidiary bank holding company. This result was not intended, since it is a common practice for bank holding companies to hold a part or all of their banking investments in a subsidiary corporation. In order to remedy this situation, line 17 on page 8 was amended by adding after the word "bank" the words "or a bank holding company." Thus, this section as amended provides that no bank holding company shall after the date of enactment of the act—

retain direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company.

SUBSIDIARY SERVICE COMPANIES

Section 4 (c) provides certain exemptions from the divestment requirements of the bill. Subparagraph (1) of section 4 (c), as reported by the committee, exempts companies engaged in serving the bank holding company and its subsidiary banks in "auditing, appraising, investment counseling." Your committee has found this provision too restrictive as there are many other legitimate types of servicing which should be permitted. Other services rendered by subsidiary companies are in the fields of advertising, public relations, developing new business, organization, operations, preparing tax returns, personnel, and many others.

In order to properly encompass this wide range of activities, your committee amended subparagraph (1) to exempt such companies solely engaged in "furnishing services to or performing services for" the bank holding company and its banking subsidiaries. Thus, the bill, as amended, would permit a bank holding company to furnish these services to its subsidiaries through a subsidiary company as well as directly by the holding company itself as provided in section 4 (a) (2).

This provision is not intended to supplant the exemption contained under section 4 (c) (6), where the Federal Reserve Board is given discretion to exempt activities of a "financial, fiduciary, or insurance nature" which are so closely related to banking as to be a proper incident thereto. Such financial, fiduciary, or insurance activities do not come within the scope of the meaning of the phrase "furnishing services to or performing services for a bank holding company." The servicing exemption should not be interpreted to include activities beyond the ordinary category of such services.

SHARES ACQUIRED IN SATISFACTION OF A DEBT

Section 4 (c) (2) of the bill as reported provides an exemption from the divestment requirements for shares acquired by a bank holding company which is a bank or "any of its banking subsidiaries" in satisfaction of a debt previously contracted in good faith. A literal reading of this language would seem to provide an exemption only for banking subsidiaries of a bank holding company which is a bank. It was intended that the exemption would apply to banking subsidiaries of any bank holding company. This provision was clarified by amending line 4 on page 10 by striking the words "any of its banking subsidiaries" and inserting in lieu thereof "by any banking subsidiary of a bank holding company." Thus, a banking subsidiary of any bank holding company could qualify under this exemption.

SHARES ACQUIRED IN A FIDUCIARY CAPACITY

Section 4 (c) (4) of the bill as reported provides an exemption from the divestment requirements of the bill for shares which are held or acquired by a bank which is a bank holding company in a fiduciary capacity. This language would not permit a banking subsidiary of a bank holding company to qualify under this exemption. Lines 19 and 20 on page 10 were amended by striking the words "which is a bank holding company in a fiduciary capacity" and inserting in lieu thereof—

holding company which is a bank or by any banking subsidiary of a bank holding company, in good faith in a fiduciary capacity, except where such shares are held for the benefit of the shareholders such bank holding company or any of its subsidiaries.

Thus the exemption applies both to a bank holding company which is a bank and to a banking subsidiary of any bank holding company with the limitation that such shares cannot be held for the benefit of the shareholders of such bank holding company or any of its subsidiaries.

OWNERSHIP AND ACQUISITION OF SHARES

Section 4 (c) (5) of the bill as reported provides an exemption from the divestment requirements for the ownership by a bank holding company of up to 5 percent of the shares of any company. This section does not refer to the acquisition of shares as is set forth in other exemptions under section 4 (c). Because of the shift in language, it could be argued that this exemption does not apply to the acquisition of shares but only to the retention of shares already owned. To clarify the situation, lines 24 and 25 on page 10 were amended by striking the words "to the ownership by a bank holding company of shares of any company" and by inserting in lieu thereof "to shares of any company which are held or acquired by a bank holding company." This amendment makes it clear that the exemption applies to both the acquisition and ownership of such shares.

LABOR, AGRICULTURAL OR HORTICULTURAL ORGANIZATIONS

Section 4 (c) (7) of the bill as reported contains an exemption from the divestment requirements for any bank holding company which is a labor, agricultural or horticultural organization. Although the committee report points out that in order to be entitled to this exemption no net income derived by any such organization can inure to the benefit of any individual, this limitation is not set forth in the language of the subsection. The intention of the committee is made explicit by inserting at the end of the subsection on line 15, page 11, the words "and which is exempt from taxation under section 501 of the Internal Revenue Code of 1954."

FOREIGN BANKING SUBSIDIARIES

Section 2 (c) of the bill as reported defines "bank" so as to exclude any organization which does not do business within the United States. Thus, technically any foreign banking subsidiary of a bank holding company would be a nonbanking investment and would be required to be divested pursuant to section 4 (a) of the bill. The Federal Reserve Board would probably exempt such foreign banking subsidiaries from divestment by applying the provisions of section 4 (c) (6), which authorizes the Board to exempt companies of a financial nature which are so closely related to the business of banking as to be a proper incident thereto.

However, in order to make it unmistakably clear that foreign banking subsidiaries are not subject to divestment, the committee added a new subparagraph (8) to section 4 (c) specifically exempting such subsidiaries. The amendment provides that the divestment requirements shall not apply—

to shares held or acquired by a bank holding company in any company which is organized under the laws of a foreign country and which is engaged principally in the banking business outside the United States.

ADMINISTRATION

The committee agreed in reporting out the bill that section 5 (a) contain the same language as set forth in section 4 (a) of H. R. 6227 in regard to the information required by a bank holding company in registering with the Federal Reserve Board. However, through inadvertence, improper language was inserted on lines 22 through 25 on page 11. This was corrected by striking the words beginning with "history" on line 22 through to the word "organizations" on line 25 and inserting in lieu thereof—

condition and operations, management, and intercompany relationships of the bank holding company and its subsidiaries,.

RESERVATION OF STATES RIGHTS

A great deal of concern has been expressed that section 7 of the bill as reported by the committee granted new authority and powers to States over national banks in general, and respecting the stocks of national banks in particular. This concern apparently has arisen as a result of the language added to this section by the committee and certain statements which appeared in the committee report. The language added by the committee in the bill as reported provided that States in the exercise of their jurisdiction and powers over banks and bank holding companies could impose "no less onerous" restrictions than were provided in the bill. The intent of the committee was to make it clear that a State could not enact legislation inconsistent with the bill and therefore nullify its effect. In view of the fact that the meaning of the no less onerous clause has apparently been misconstrued by some persons, the committee agreed to strike the clause and thus return to the language of the comparable section of H. R. 6227. However, your committee reiterates its view that section 7 in no way permits States to exercise such powers and jurisdiction in a manner inconsistent with this proposed legislation.

In order to clarify the legislative history of section 7, the committee wishes to emphasize that this section does not grant any new authority to States over national banks.. The purpose of the section is to preserve to the States those powers which they now have in our dual banking system. It is always of uppermost importance in legislation of this nature to preserve the dual system of National and State banks, and section 7 must be viewed in that light.

TIME LIMIT ON JUDICIAL REVIEW

Section 9 of the bill as reported by the committee contained no limit on the time within which an aggrieved party must seek judicial review of an order of the Federal Reserve Board. A time limit is necessary so that persons or companies affected by the Board's orders may know when they may act in reliance thereon without fear of the orders being subsequently set aside or modified by court decree. The committee amended this section by providing that any aggrieved party seeking judicial review must do so within "60 days after entry of the Board's order."

TAX AMENDMENTS

General Explanation

H. R. 6227, passed by the House of Representatives, would add a new part VIII to subchapter O of the Internal Revenue Code of 1954. Under this new part, several tax-free paths are provided for the divestment of property which this bill imposes on a bank holding company. S. 2577, as originally reported, adopted the tax provisions of the House bill with certain technical changes. Your committee's additional amendments modify these tax provisions so as to prevent abuse and to make them more flexible to meet legitimate business needs by alining them closer to similar provisions in the Internal Revenue Code of 1954.

In general, a corporation which comes within the terms of the bill as a bank holding company can choose between remaining a bank holding company or disposing of its interests in banks. The tax provisions of the bill apply only to a corporation which would have been a bank holding company on May 15, 1955, and which on that date held prohibited property.

If a corporation decides to remain a bank holding company, subject to the supervision of the Federal Reserve Board, it may distribute any prohibited property, which the Board certifies is necessary or appropriate to comply with the bill, to its shareholders without the recognition of gain by the shareholders. For this purpose prohibited property, in general, means stock or assets of nonbanking businesses to the extent the bank holding company is required to divest itself of such assets under section 4 of the bill. The term does not include cash, Government bonds, or certain short-term obligations. It is believed desirable to expressly exclude cash, and so forth, from the definition of prohibited property, since a similar exclusion is contained in the comparable provisions of part VI of subchapter O, relating to exchanges in obedience to SEC orders.

With respect to the distributing corporation, the usual provisions of the Internal Revenue Code of 1954 apply. Under these provisions, gain generally is not recognized to the distributing corporation except under unusual circumstances such as the distribution of LIFO inventory, the distribution of property subject to a liability in excess of the adjusted basis, or the distribution of certain installment obligations.

The distribution of prohibited property may be made either directly to the shareholders of the corporation which is a bank holding company or may be transferred to a wholly owned subsidiary expressly created for purposes of receiving the prohibited property, in which case all of the shares in the new corporation must be distributed directly to shareholders. Under the bill prohibited property may be placed in one or more such new corporations. Your committee's amendments differ from S. 2577, as originally reported, by providing that other assets may also be transferred to a new corporation without making the transaction taxable. This would include cash and bonds, for working capital purposes, as well as prohibited property acquired after May 15, 1955, but not controlling shares of bank stock or similar property.

Your committee's amendments also differ from S. 2577, as originally reported, by providing that the tax exemption for any particular distribution may be denied if that distribution is part of a plan with a principal purpose of avoiding dividend tax on a distribution of earnings and profits.

Your committee's amendments also differ from S. 2577, as originally reported, by making provisions for certain exchanges of stocks and bonds as part of the divestment program. Under S. 2577, as originally reported, bank holding companies having outstanding preferred stocks and bonds might encounter serious obstacles in making use of the tax provisions of the bill. The divestments required under the general provisions of the bill would remove from the corporation property that provides security for its preferred stocks or bonds. Your committee's amendments would permit the exchange of preferred stocks and bonds in the old corporation for comparable securities in the new corporations or direct distribution of prohibited property in exchange for the outstanding preferred stocks or bonds.

The bill provides that in exchanges involving the creation of a subsidiary a common shareholder may only receive common stock, a preferred shareholder may only receive preferred stock issued on substantially the same terms or common stock, and, finally, a bondholder may receive only bonds issued on substantially the same terms, or preferred or common stock. It is also provided that a bondholder in such an exchange may be taxable on any greater face value of bonds received over those given up.

If a corporation which is a qualified bank holding company under the bill chooses to divest itself of all or part of any stock or property which causes it to be a bank holding company, it may distribute directly to its shareholders or bondholders such stock or property, or it may form a subsidiary to effectuate such distribution. Your committee has made the same revisions for divestments of this type as are made in the case of divestments of prohibited property.

The Board must certify that the divestment of the bank stock or similar property is necessary or appropriate to effectuate the policies of the bill. In the case of direct distributions, for example, the corporation may distribute to its shareholders without the recognition of gain all the shares of bank stock in a bank in which it was deemed to have control within the meaning of section 2 (a) of the bill. Thus, if a corporation owned 40 percent of the voting stock of each of two banks, it could distribute all of its shares in those banks even though it ceased to be a bank holding company by distributing only 16 percent of the voting shares in one bank. If the same corporation had in addition 15 percent of the voting shares of a third bank, it would not be able to distribute tax free, under this bill, those voting shares unless the Federal Reserve Board deemed that by virtue of those shares the corporation exercised an effective control over the election of a majority of the board of directors of the particular bank.

Your committee contemplates that the Federal Reserve Board, in the discharge of its functions in making certifications that exchanges and distributions are necessary or appropriate to effectuate the purposes of the bill, will examine these from the point of view of their desirability from a banking standpoint. However, a certification by the Board that a particular divestment is necessary or appropriate is not to be considered as permitting any method of carrying out this

divestment if it is part of a plan having a principal purpose of avoiding dividend tax on a distribution of earnings and profits.

In case of direct distributions to stockholders and bondholders of either prohibited property or property which causes the distributing corporation to be a bank holding company, your committee has restricted the nonrecognition treatment to property which was owned on May 15, 1955. This restriction is deemed necessary to prevent corporations from purchasing highly marketable shares and other property as a means of transferring cash from the corporation to its shareholders. The restriction would not apply, however, if the property were received in a transaction in which gain was not recognized because of either the general rules described above or in certain types of corporate reorganizations or liquidations. For example, if prohibited property originally acquired prior to May 15, 1955, were distributed by a subsidiary to its parent in a corporate chain without recognition of gain to the parent by reason of provisions in this bill, the parent, in turn, may distribute the property to its own shareholders without recognition of gain under a certification by the Board, even though the property was acquired by the parent after May 15, 1955. Similarly, the May 15, 1955, cutoff date is not applicable where the prohibited property or controlling bank interests certified by the Board are retained at the corporate level by the transfer to a wholly owned subsidiary created for that purpose if stock of the subsidiary is distributed by the qualified bank holding company, and such distribution meets the tax avoidance test discussed previously. In the case of the creation of a subsidiary, prohibited property or controlling bank stock acquired after May 15, 1955, may be transferred to it along with prohibited property or controlling bank stock acquired prior to May 15, 1955.

In the case of a contribution to capital of any corporation made by a bank holding company after the date of enactment of this bill, the general test of a principal purpose of tax avoidance will be applied. Where a contribution has been made after May 15, 1955, and before the date of enactment under the terms described in the bill, the treatment provided in S. 2577, as originally reported, will be retained. If any part of the contribution made in this period is part of a plan for the avoidance of taxes, only a portion of the shares of the corporation to which the contribution is made will be taxable on distribution. This portion will correspond to the portion of the value of those shares attributable to the contribution.

Where the nonrecognition treatment has been extended to prohibited property which has been distributed by the corporation which is a bank-holding company, a final certification must be obtained from the Board that the corporation has divested itself of all property necessary or appropriate to comply with the bill within the statutory period permitted for divestment. If this final certification is not obtained, the transactions previously permitted to be made without recognition of gain are reopened and tax may be imposed in such cases. For this purpose the statute of limitations on assessment of deficiency resulting solely from the distribution of prohibited property which has been certified by the Board does not expire until 5 years after the corporation gives notification that the period prescribed in section 4 (a) of the bill has expired.

A similar final certification is required where nonrecognition treatment has been originally accorded to the distribution of bank stock or

similar property which the Board has certified that the corporation must divest in order to cease being a bank-holding company. In this case the tax provisions of the bill provide that the Board must give a final certification that the corporation has ceased to be a bank-holding company within 2 years after the date of enactment of the bill or within 2 years after the date on which the corporation becomes a bank-holding company, whichever is later, unless the time has been extended by the Board for 1-year renewals not to exceed 5 years from the date of enactment of the bill or the date on which the corporation becomes a bank-holding company, whichever is later. The statutory period for the assessment of a deficiency resulting solely from such distribution is extended in the same manner as in the case of the distribution of prohibited property.

The basis of stock or other property received by a distributee without recognition of gain under the provisions of the bill is determined by allocating the adjusted basis of the stock with respect to which the distribution is made between such stock and the property so distributed. In the case of any recognition of gain upon the receipt of stock or property, such gain will be taken into account in determining the adjusted basis of the stock with respect to which the distribution was made and the property which was received. These rules are similar to the general rules for allocation of basis in the case of stock dividends and corporate reorganizations. The bill provides that the allocation of basis shall be made under regulations provided by the Secretary or his delegate.

Where a bank holding company distributes stock of a subsidiary formed to receive either prohibited property or controlling bank interests which causes it to be a bank holding company, proper allocation of the earnings and profits of the bank holding company is made to the subsidiary. Your committee has extended such treatment to direct distributions of stock of a corporation where the bank holding company owns at least 80 percent of such corporation.

Except in the case of a distribution permitted to be made tax free under this part, nothing in this bill is intended to limit the applicability of other provisions of the Internal Revenue Code of 1954. For example, in a program of divestments under this bill a bank holding company could make distributions permitted under the tax provisions of this bill or under subchapter C of chapter 1 of the Internal Revenue Code of 1954 (relating to corporate distributions and adjustments).

DETAILED DISCUSSION

Section 10 of S. 2577, as reported by your committee, amends subchapter O of chapter 1 of the Internal Revenue Code of 1954 by adding a new part VIII. This part VIII specifies the extent to which (during a transition period after the enactment of the bill) gain will not be recognized upon receipt of property by a shareholder of a bank holding company, if such distribution is made pursuant to a certification by the Board of Governors of the Federal Reserve System that such distribution is necessary or appropriate to effectuate the Bank Holding Company Act of 1956. The provisions of the new part VIII are restricted by their own terms to the gain directly attributable to the receipt of property in the distributions specifically described.

The rules contained in part VIII are in addition to the other provisions of subtitle A of the Internal Revenue Code of 1954 (such as provisions relating to the recognition or nonrecognition of gain to a corporation making distributions, the provisions under which tax-free reorganizations may be effectuated, etc.). Many of these other provisions are contained in subchapter C of chapter 1 of such code (relating to corporate distributions and reorganizations). The provisions of part VIII supersede the other provisions of chapter 1 only in the cases qualifying under part VIII, and in those cases only to the extent specific provision is contained in part VIII. Accordingly, where the distribution to the shareholders of a bank holding company of 100 percent of the stock of another corporation meets the requirements of section 355 of the Internal Revenue Code of 1954, no gain or loss is recognized to such shareholders notwithstanding the fact that, under the provisions contained in part VIII, nonrecognition of gain or loss would not be granted, in some cases, with respect to 5 percent of such stock.

The additional amendments of your committee make certain changes in the tax provisions of the bill.

Section 1101 sets forth the conditions for nonrecognition of gain attributable to distributions of property by a qualified bank holding corporation when received by the shareholder with respect to his stock in such corporation. In addition rules are provided as to the date the qualified bank holding corporation must have acquired the property before it can be distributed with no gain recognized to its shareholders as a result of the distribution. This section also prescribes certain conditions which must be fulfilled before any such distributions of property will obtain the nonrecognition of gain benefits of its provisions.

The additional amendments of your committee revise subsection (a) of section 1101 in several respects: (1) Distributions of prohibited property consisting of stock received in an exchange to which section 1101 (c) (2) applies are treated separately from all other distributions of prohibited property; (2) provision is made for the nonrecognition of gain to certain shareholders and security holders on certain exchanges; and (3) it is specifically provided that nonrecognition treatment may be available whether or not a distribution is pro rata.

Section 1101 (a) (1) provides that a distribution of prohibited property, other than stock received in an exchange to which section 1101 (c) (2) applies, by a qualified bank holding corporation with respect to its stock and without the surrender by the shareholders of any stock in such corporation will not result in any gain being recognized on the receipt of such property by the shareholders if the Board has, before the distribution, certified that the distribution of such property is necessary or appropriate to carry out section 4 of the Bank Holding Company Act of 1956. Furthermore, under your committee's amendments, the qualified bank holding corporation may distribute such property to a shareholder in exchange for its preferred stock or to a security holder in exchange for its securities if the Board has certified that the distribution of such property is necessary or appropriate to carry out section 4 of the Bank Holding Company Act of 1956. On the date of distribution the distributing corporation must have been a qualified bank holding corporation. Section 4 provides in general that it shall be unlawful for any bank holding

company, after 2 years from the date of enactment of the Bank Holding Company Act of 1956, to own any voting shares of any company other than a bank or a bank holding company or to engage in any business other than that of banking or of managing or controlling banks or of furnishing services to or performing services for any bank of which it owns or controls 25 percent or more of the voting shares. However, section 4 (c) sets forth certain exceptions and permits the holding by a bank holding company of certain types of property.

Section 1101 (a) (2) of your committee's bill provides for the tax treatment of certain distributions of stock and securities received in an exchange to which section 1101 (c) (2) applies. A distribution of common stock received in an exchange to which section 1101 (c) (2) applies may be made by a qualified bank holding corporation to its shareholders (both common and preferred), with or without the surrender by such shareholders of their stock, without the recognition of any gain to the shareholders. Shareholders owning common stock in the distributing corporation may not receive preferred stock received in an exchange to which section 1101 (c) (2) applies with respect to their common stock without recognition of gain, whether or not they surrender common stock. Nor may shareholders owning preferred stock in the distributing corporation receive preferred stock obtained in an exchange to which section 1101 (c) (2) applies without recognition of gain without surrender of preferred stock. Similarly, in no case may security holders receive common stock, preferred stock, or securities received in an exchange to which section 1101 (c) (2) applies without recognition of gain without the surrender of securities. Preferred stock or common stock, or both, received in an exchange to which section 1101 (c) (2) applies may be distributed by a qualified bank holding corporation to shareholders owning preferred stock in exchange for their preferred stock without the recognition of gain if the preferred stock received (if any) has substantially the same terms as the preferred stock surrendered. Either common or preferred stock, or both, received in an exchange to which section 1101 (c) (2) applies may be distributed by a qualified bank holding corporation to its security holders, in exchange for their securities, without any recognition of gain to the security holders. A qualified bank holding corporation may also distribute securities received in an exchange to which subsection (c) (2) of section 1101 applies in exchange for its securities, without recognition of gain to the security holders, if the securities received have substantially the same terms as the securities surrendered. However, if the principal amount of the securities received by the security holder is greater than the principal amount of the securities surrendered, the excess principal amount does not receive nonrecognition treatment under section 1101 (a). In the case of any exchange of stock or securities of the distributing corporation it is not necessary that all of the stock or securities held by the distributee be surrendered.

A distribution may be entitled to nonrecognition treatment, with respect to shareholders, under paragraphs (1) or (2) of section 1101 (a) whether or not the distribution is pro rata with respect to all of the shareholders of the qualified bank holding corporation.

Section 1101 (b) deals with distributions in the case of a corporation ceasing to be a bank holding company. As in the case of subsection (a), the additional amendments of your committee revise subsec-

tion (b) of section 1101 in several respects: (1) Distributions of stock received in an exchange to which section 1101 (c) (3) applies are treated separately from all other distributions of property which cause a corporation to be a bank holding company; (2) provision is made for the nonrecognition of gain to certain shareholders and security holders on certain exchanges; and (3) it is specifically provided that nonrecognition treatment may be available whether or not a distribution is pro rata. In order to provide greater clarity, your committee has also revised the description in section 1101 (b) (1) (B) of property causing a corporation to be a bank holding company.

Section 1101 (b) (1) applies to a distribution of property, other than stock received in an exchange to which section 1101 (c) (3) applies, by a qualified bank holding corporation, with respect to its stock, to a shareholder without the surrender by such shareholder of stock in such corporation where the Board has before the distribution certified that (1) such property is all or part of the property by reason of which such corporation controls within the meaning of section 2 (a) a bank or a bank holding company, or that such property is part of the property by reason of which such corporation did control a bank or a bank holding company before any property of the same kind was distributed under section 1101 (b) or exchanged under section 1101 (c) (3), and (2) the distribution is necessary or appropriate to effectuate the policies of the Bank Holding Company Act of 1956. Under your committee's amendment, the qualified bank holding corporation may also distribute such property to a shareholder in exchange for its preferred stock or to a security holder in exchange for its securities if the Board has made a similar certification. In the case of a distribution falling within subsection (b), no gain to the shareholder or security holder upon the receipt of such property is recognized. Property which is intended to be covered by section 1101 (b) (1) is that property or properties which is of a kind which causes a company to be a bank holding company within the provisions of section 2 (a) of the Bank Holding Company Act of 1956. Thus, assuming that all the conditions of this part are met, a qualified bank holding corporation may distribute to its shareholders without the recognition of gain to them upon such distribution, part or all of the voting shares of one or more of the banks the ownership of which voting shares was the basis upon which such corporation is a bank holding company, if the Board makes the certification required by section 1101 (b) (1) (B). Furthermore, if any corporation was held by the Board to be a bank holding company under clause (2) of section 2 (a) of the Bank Holding Company Act, and if such corporation is a qualified bank holding corporation as required by this part, such corporation would be permitted to distribute whatever property it owned upon the basis of which such determination was made by the Board to its shareholders without recognition of the gain on the distribution, if the Board certifies in accord with section 1101 (b) (1) (B).

Section 1101 (b) (2) of your committee's bill provides for the tax treatment of certain distributions of stock and securities received in an exchange to which section 1101 (c) (3) applies. A distribution of common stock received in an exchange to which section 1101 (c) (3) applies may be made by a qualified bank holding corporation to its shareholders (both common and preferred), with or without the surrender by such shareholders of their stock, without the recognition of

any gain to the shareholders. Shareholders owning common stock in the distributing corporation may not receive preferred stock received in an exchange to which section 1101 (c) (3) applies with respect to their common stock without recognition of gain, whether or not they surrender common stock. Nor may shareholders owning preferred stock in the distributing corporation receive preferred stock obtained in an exchange to which section 1101 (c) (3) applies without recognition of gain without surrender of preferred stock. Similarly, in no case may security holders receive common stock, preferred stock, or securities received in an exchange to which section 1101 (c) (3) applies without recognition of gain without the surrender of securities. Preferred stock or common stock, or both, received in an exchange to which section 1101 (c) (3) applies may be distributed by a qualified bank holding corporation to shareholders owning preferred stock in exchange for their preferred stock without the recognition of gain if the preferred stock received (if any) has substantially the same terms as the preferred stock surrendered. Either common or preferred stock, or both, received in an exchange to which section 1101 (c) (3) applies may be distributed by a qualified bank holding corporation to its security holders, in exchange for their securities without any recognition of gain to the security holders. A qualified bank holding corporation may also distribute securities received in an exchange to which subsection (c) (3) of section 1101 applies in exchange for its securities, without recognition of gain to the security holders, if the securities received have substantially the same terms as the securities surrendered. However, if the principal amount of the securities received by the security holder is greater than the principal amount of the securities surrendered, the excess principal amount does not receive nonrecognition treatment under section 1101 (b). In the case of any exchange of stock or securities of the distributing corporation it is not necessary that all of the stock or securities held by the distributee be surrendered.

A distribution may be entitled to nonrecognition treatment, with respect to shareholders, under paragraphs (1) or (2) of section 1101 (b) whether or not the distribution is pro rata with respect to all of the shareholders of the qualified bank holding corporation.

It is the intent of the bill that a qualified bank holding corporation must determine whether it will dispose of prohibited property and remain a bank holding company or whether it will dispose of the property upon the basis of which the corporation is determined to be a bank holding company. Therefore, section 1101 (a) (4) and (b) (4) provide that if the first distribution under this part qualifies for nonrecognition treatment under subsection (a) no distribution may qualify under subsection (b). Similarly, if the first distribution under this part qualifies for nonrecognition treatment under subsection (b) no distribution may qualify under subsection (a).

Subsection (c) of section 1101 is a limitation upon the application of subsections (a) and (b). Subparagraph (A) of paragraph (1) of subsection (c) specifically excludes from the application of subsections (a) and (b) of section 1101 any property which a qualified bank holding corporation acquired after May 15, 1955, except to the extent such corporation received such property (even though subsequent to May 15, 1955) and (1) gain was not recognized by reason of subsection (a) or (b), or (2) the property was received by the corporation in

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exchange for all of its stock in an exchange to which paragraph (2) or (3) of subsection (c) applies, or (3) such property was acquired by the distributing corporation in a transaction in which gain was not recognized under section 305 (a) or section 332, or under section 354 by reason of a reorganization described in section 368 (a) (1) (E) or (F) (recapitalization or mere change in identity, form, or place of organization).

Under subparagraph (B) of paragraph (1), neither subsection (a) nor (b) of section 1101 is applicable to the distribution by a qualified bank holding corporation of property which was acquired by such corporation in a distribution with respect to stock acquired by it after May 15, 1955, unless such stock was acquired by it (1) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b) of section 1101, or (2) in exchange for all of its stock in an exchange meeting the requirements of section 1101 (c) (2) or (3), or (3) in a transaction in which gain was not recognized under section 305 (a) or section 332, or under section 354 by reason of a reorganization described in section 368 (a) (1) (E) or (F).

Paragraphs (2) and (3) of subsection (c) of section 1101 are exceptions to the general rule of paragraph (1) of subsection (c) that subsections (a) and (b) do not apply to any property acquired by a distributing corporation after May 15, 1955. In general paragraphs (2) and (3) permit the distribution of the stock and securities of corporations organized to receive property which could have been distributed directly. Under the tax provisions of S. 2577 as originally reported by your committee, the corporation organized under these paragraphs could receive only property which could have been distributed directly without recognition of gain to shareholders. The amendments proposed by your committee permit the transfer of additional property (including cash) when there is not a plan to avoid Federal income tax.

Under subparagraph (C) of paragraph (1), neither subsection (a) nor (b) of section 1101 is applicable to the distribution by a qualified bank holding corporation of property acquired by such corporation in a transaction in which gain was not recognized under section 332, unless such property was acquired from a corporation which, if it had been a qualified bank holding corporation, could have distributed such property under section 1101 (a) (1) or (b) (1).

Under paragraph (2) if a qualified bank holding corporation exchanges property which, under subsection (a) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain to such shareholders or security holders and other property (except property described in section 1101 (b) (1) (B) (i)) for all of the stock of a second corporation created and availed of solely for the purpose of receiving such property, and immediately after the exchange, the qualified bank holding corporation distributes all of such stock in a manner prescribed in section 1101 (a) (2) (A), then the stock and securities of the second corporation may be distributed to the shareholders and security holders of such qualified bank holding corporation in distributions meeting the requirements of section 1101 (a) (2). However, prior to such exchange, the Board must certify, with respect to the property exchanged consisting of

property which the corporation could have distributed directly to its shareholders or security holders without recognition of gain under section 1101 (a) (1), that the exchange and distribution are necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956.

Under paragraph (3) of section 1101 (c) if any qualified bank holding corporation exchanges property which it could have distributed directly to its shareholders or security holders without recognition of gain to them under section 1101 (b) (1) and other property (except prohibited property), for all of the stock of a second corporation created and availed of solely for the purpose of receiving such property, and immediately after the exchange the qualified bank holding corporation distributes all of such stock in a manner prescribed in section 1101 (b) (2) (A), then the stock and securities of the second corporation may be distributed to the shareholders and security holders of such qualified bank holding corporation in distributions meeting the requirements of section 1101 (b) (2). However, prior to such exchange the Board must have certified, with respect to the property exchanged consisting of property which the corporation could have distributed directly to its shareholders or security holders without recognition of gain under section 1101 (b) (1), that (1) such property is all or part of the property by reason of which such corporation controls within the meaning of section 2 (a) a bank or a bank holding company, or that such property is part of the property by reason of which the corporation did control a bank or a bank holding company before any property of the same kind was distributed under section 1101 (b) (1) or exchanged under section 1101 (c) (3), and (2) the exchange and distribution are necessary and appropriate to effectuate the policies of the Bank Holding Company Act of 1956.

An exchange will meet the requirements of section 1101 (c) (2) or (3) even though the only property transferred by the qualified bank holding corporation is property which could have been distributed to its shareholders or security holders directly without the recognition of gain to them. However, the distribution of the stock and securities of the corporation receiving such property will not receive the nonrecognition treatment provided in sections 1101 (a) and (b) if property of the type referred to in section 1101 (d) is retained in pursuance of a plan to avoid Federal income tax. The qualified bank holding corporation making an exchange under section 1101 (c) (2) or (3) may receive securities of the second corporation in addition to all of the stock of such corporation. However, the securities received may be distributed without recognition of gain only to the extent provided in section 1101 (a) (2) and (b) (2).

Your committee has amended the tax provisions of S. 2577, as originally reported, to provide, in section 1101 (d), that distributions which are a part of a plan to avoid Federal income tax will not qualify for nonrecognition treatment under sections 1101 (a) and (b). This amendment to the bill adopts an approach analogous to that used in section 355 (a) (1) (B) of the Internal Revenue Code of 1954. This amendment is applicable both to direct distributions of property and to distributions of the stock and securities received in an exchange to which section 1101 (c) (2) or (3) applies. Paragraph (1) of section 1101 (d) provides that section 1101 (a) shall not apply to a distribution of nonbanking property if, in connection with such distribution, the

distributing corporation retains, or transfers after May 15, 1955, to any corporation, property (other than prohibited property) as part of a plan one of the principal purposes of which is the distribution of the earnings and profits of any corporation. Similarly, paragraph (2) of section 1101 (d) provides that section 1101 (b) shall not apply to a distribution of banking property if, in connection with such distribution, the distributing corporation retains, or transfers after May 15, 1955, to any corporation property (other than property described in sec. 1101 (b) (1) (B) (i)) as part of a plan one of the principal purposes of which is the distribution of the earnings and profits of any corporation.

Your committee has adopted an amendment providing a special rule for contributions to capital of a corporation made after May 15, 1955, and prior to the date of enactment. Paragraph (3) of section 1101 (d) provides that in a case of a distribution a portion of which is attributable to a transfer which is a contribution to the capital of a corporation, made after May 15, 1955, and prior to the date of enactment, if section 1101 (a) or (b) would apply to such distribution but for the fact that such contribution to capital is part of a tax avoidance plan under paragraph (1) or (2) of section 1101 (d), then, notwithstanding paragraph (1) or (2) of subsection (d), section 1101 (a) or (b) shall apply to that portion of such distribution not attributable to such contribution to capital and shall not apply to that portion attributable to such contribution to capital.

The preceding paragraph may be illustrated by the following examples:

(1) Assume that corporation A (a qualified bank holding corporation) owns all of the stock of corporation X. Assume further that corporation A, after May 15, 1955, and prior to the date of the enactment of this bill, makes a contribution to the capital of corporation X in the amount of $50,000 in pursuance of a plan to avoid Federal income tax under paragraph (1) or (2) of section 1101 (d). Thereafter, corporation A makes a distribution of the stock of corporation X to the shareholders of corporation A which would be entitled to nonrecognition treatment but for the tax avoidance plan. Under subsection (d) the nonrecognition of gain provided by subsection (a) does not apply to that portion of the distribution which is attributable to the contribution of capital, that is, $50,000. The amount of the distribution to the extent of the contribution to capital, $50,000, is a distribution subject to the provisions of section 301 of the Internal Revenue Code of 1954.

(2) The facts are the same as in example (1) above, except that the value of the portion of the distribution which is attributable to the contribution to capital, at the time of the distribution, is less than $50,000. The value of that portion of the distribution which is attributable to the contribution to capital of $50,000 is a distribution subject to the provisions of section 301 of the Internal Revenue Code of 1954.

Subsection (e) of section 1101 provides that neither subsection (a) nor subsection (b) shall apply with respect to any distribution by a corporation unless the board makes the certification required by the subsection.

Paragraph (1) of subsection (e) relates to certification with respect to distributions falling within subsection (a). It provides that sub-

section (a) shall not apply to any such distribution unless the Board certifies that, before the expiration of the period permitted under section 4 (a) of the Bank Holding Company Act of 1956 (including any extensions thereof granted to such corporation under such sec. 4 (a)), the corporation has disposed of all the property, the disposition of which is necessary or appropriate to effectuate section 4 (or would have been so necessary or appropriate if the corporation had continued to be a bank holding company). In order that subsection (a) of section 1101 is to apply to distributions of property by a qualified bank holding corporation, it is essential that such corporation dispose of all of such property within the period (including extensions thereof) specified in section 4 (a) of such act. During the period during which such corporation is required to dispose of all such property, distributions of property are to be considered as being within subsection (a) of section 1101, if other requirements of this part are met. Thus, no gain would be recognized to shareholders on distributions (if such distributions would otherwise qualify for the benefits of this part) during such period. If, at the close of such period, the corporation has disposed of all of such property and the Board has made the certification required under subsection (e) of section 1101, subsection (a) of section 1101 will apply to distributions of property. However, if, at the close of such period, the corporation has not disposed of all of the property the disposition of which is necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956, then subsection (a) of section 1101 will not apply to any distributions of property by the corporation. Thus, in a case where the provisions of subsection (e) (1) are not met, the tax treatment of any distribution of property by a qualified bank holding corporation to its shareholders is governed by the provisions of other sections of the Internal Revenue Code of 1954 applicable thereto.

Paragraph (2) of subsection (e) of section 1101 is applicable to distributions falling within subsection (b) of section 1101. Subparagraph (A) provides that subsection (b) shall not apply unless the Board certifies that the corporation has ceased to be a bank holding company before the expiration of the period specified in subparagraph (B). Under H. R. 6227 the period specified in paragraph (B) was 2 years after the date of enactment. S. 2577, as originally reported, modified subparagraph (B) to provide that the specified period expires 2 years after the enactment of this part or 2 years after the corporation becomes a bank holding company, whichever is later. Under subparagraph (B) of H. R. 6227 the Board is authorized on the application of any qualified bank holding corporation to extend such period from time to time with respect to such corporation for not more than 1 year at a time if, in its judgment, such an extension would not be detrimental to the public interest, but such period might not be extended beyond the date 5 years after the date of enactment of this part. This provision was modified by S. 2577, as originally reported, to provide that such period may not in any case be extended beyond the date 5 years after the date of enactment of this part or 5 years after the date on which the corporation becomes a bank holding company, whichever is later. The purpose of this change was to extend the specified periods in the case of corporations which become bank holding companies after the date of enactment of this part by reason of a distribution under section 1101. This treatment makes the

specified periods uniform whether such a corporation chooses to distribute prohibited property or bank stock. In order that subsection (b) of section 1101 is to apply to distributions of property of a kind which causes a qualified bank holding corporation to be a bank holding company and the disposition of which is necessary to enable such corporation to cease being a bank holding company, it is essential that such corporation cease to be a bank holding company within the period (including extensions thereof) specified in subsection (e) (2) of section 1101. During the period during which such corporation disposes of property to enable it to cease being a bank holding company, distributions of such property are to be considered as being within subsection (b) of section 1101, if other requirements of this part are met. Thus, no gain would be recognized to shareholders on such distributions (if such distributions would otherwise qualify for the benefits of this part) during such period. If, at the close of such period specified in subsection (e) (2), the corporation has ceased to be a bank holding company, subsection (b) of section 1101 will apply to distributions of such property. However, if, at the close of such period, the corporation has not ceased being a bank holding company, then subsection (b) of section 1101 will not apply to any distributions of such property by the corporation. Thus, in a case where the provisions of subsection (e) (2) are not met, the tax treatment of any distributions of property of a kind which causes a qualified bank holding corporation to be a bank holding company to its shareholders is governed by the provisions of other sections of the Internal Revenue Code of 1954 applicable thereto.

Section 1102 provides special rules for the application of this part.

Subsection (a) relates to the basis of property acquired in distributions under either subsection (a) or subsection (b) of section 1101.

Paragraph (1) of subsection (a) relates to the basis of property received by a shareholder with respect to stock without the surrender by such shareholder of stock. If gain is not recognized by reason of section 1101 (a) or (b) with respect to the receipt of any property then, under paragraph (1), the basis of such property and of the stock with respect to which it was distributed shall, in the hands of the distributee, be determined by allocating the adjusted basis of such stock between such property and such stock. Such allocation shall be made under regulations prescribed by the Secretary or his delegate.

Paragraph (2) of subsection (a) relates to the basis of property received by a shareholder in exchange for stock or by a security holder in exchange for securities. If gain is not recognized by reason of section 1101 (a) or (b) with respect to the receipt of any property then, under regulations prescribed by the Secretary or his delegate, the basis of the property received shall, in the distributee's hands, be the same as the adjusted basis of the stock or securities exchanged, increased by (1) the amount of the property received which was treated as a dividend and (2) the amount of gain to the taxpayer recognized on the property received (not including any portion of such a gain which was treated as a dividend).

Subsection (b) of section 1102 of H. R. 6227 provided for the extension of the periods of limitation on the assessment and collection of deficiencies in tax arising from distributions to which subsection (a) or (b) of section 1101 applies. S. 2577, as originally reported, modified this provision of the House bill in several respects: (1) It eliminated

the extension of the period under section 6502 relating to collection as unnecessary; (2) it provided that the extension applies to distributions certified by the Board under subsection (a) or (b) of section 1101 in order to correct a technical defect; (3) it provided that the notification by the corporation be in such manner and with such accompanying information as prescribed in regulations by the Secretary or his delegate; (4) it provided for a 5-year period after the notification instead of a 1-year period; and (5) it provided that the notification can only be made after the expiration of the period prescribed in section 4 (a) of the Bank Holding Company Act or section 1101 (e), whichever is applicable, instead of after a final certification by the Board. The additional amendments proposed by your committee provide that the extension applies to all distributions certified by the Board under subsection (a), (b), or (c) of section 1101. Accordingly, under subsection (b) of section 1102, the periods of limitation provided in section 6501 (relating to limitations on assessment) shall not expire, with respect to any deficiency (including interest and additions to the tax) resulting solely from the receipt of property by shareholders in a distribution which is certified by the Board under subsection (a), (b), or (c) of section 1101, until 5 years after the distributing corporation notifies the Secretary or his delegate (in such manner and with such accompanying information as the Secretary or his delegate may by regulations prescribe) that the period (including extensions thereof) prescribed in section 4 (a) of the Bank Holding Company Act, or section 1101 (e) (2) (B), whichever is applicable, has expired. Such assessment may be made notwithstanding any provision of law or rule of law which would otherwise prevent such assessment.

Subsection (c) of section 1102 relates to allocation of earnings and profits. The amendments proposed by your Committee extend the rule relating to allocation of earnings and profits contained in section 1102 (c) of S. 2577 as originally reported by your committee to the distribution of stock in a controlled corporation. Your committee believes it appropriate to provide a rule which is similar to that applied under section 312 (i) in cases involving the distribution of stock of a controlled corporation under section 355. Accordingly, paragraph (1) of section 1101 (c) provides that in the case of a distribution by a qualified bank holding corporation under section 1101 (a) (1) or (b) (1) of stock in a controlled corporation, proper allocation with respect to the earnings and profits of the distributing corporation and the controlled corporation shall be made under regulations prescribed by the Secretary or his delegate. (Par. (3) of sec. 1101 (c) defines the term "controlled corporation" in the same manner as sec. 368 (c) of the Internal Revenue Code of 1954.) Paragraph (2) of section 1101 (c) provides that in the case of any exchange described in section 1101 (c) (2) or (3), the earnings and profits of the corporation transferring the property shall be properly allocated between such corporation and the corporation receiving such property under regulations prescribed by the Secretary or his delegate.

Subsection (d) relates to itemization of property distributed. The Board is required in any certification under this part to make such specification and itemization of property as may be necessary to carry out the provisions of this part.

Section 1103 sets forth the definitions, for purpose of this part, of "bank holding company," "qualified bank holding corporation," "prohibited property," "nonexempt property," and "Board."

Subsection (a) of this section provides that the term "bank holding company" means a bank holding company as defined by section 2 of the Bank Holding Company Act of 1956.

Subsection (b) of this section defines the term "qualified bank holding corporation." S. 2577, as originally reported, made a technical amendment to subsection (b) in order to make it clear that the tax provisions of this part apply to any corporation as defined in section 7701 (a) (3) of the Internal Revenue Code of 1954 if such corporation is a qualified bank holding corporation. In order for a corporation to be a qualified bank holding corporation, and therefore for its shareholders to receive the special tax treatment provided by this part, it must not only be a bank holding company but, in addition, it must hold "prohibited property" as defined in subsection (c). For example, if the sole assets of corporation X consist of 25 percent of the voting shares of each of two banks, corporation X is not a qualified bank holding corporation.

In addition, to be a qualified bank holding corporation the prohibited property must have been acquired on or before May 15, 1955, by a corporation which is a bank holding company, or must have been acquired in a distribution to it by a qualified bank holding corporation with respect to which gain is not recognized by reason of section 1101 (a) or (b). Furthermore, a bank holding company which holds prohibited property acquired by it in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (3) is a qualified bank holding corporation. (The amendments proposed by your committee add references to sec. 1101 (b) and sec. 1101 (c) (2) to par. (1) of sec. 1103 (b) in order to conform the tax provisions of this bill to the change proposed by your committee in sec. 4 (a) (2) of this bill.)

The preceding paragraph may be illustrated by the following examples:

(1) If the sole assets of corporation X on May 15, 1955, consist of cash and 25 percent of the voting shares of each of two banks and on May 30, 1955, corporation X purchases nonbanking business assets, corporation X is not a qualified bank holding corporation.

(2) The sole assets of corporation Y, on May 15, 1955, consist of 25 percent of the voting shares of each of two banks and 4 percent of the outstanding voting stocks (the value of which is less than 5 percent of the value of corporation Y's total assets) of corporation Z, a qualified bank holding corporation. Corporation Z distributes nonbanking business assets to corporation Y which are prohibited property in the hands of corporation Y, in a distribution to which section 1101 (a) applies. Corporation Y becomes a qualified bank holding corporation by reason of the distribution by Z.

Notwithstanding that a corporation meets the requirements of paragraph (1) of subsection (b), such corporation shall not be a qualified bank holding corporation unless it meets the additional requirements of subparagraphs (A), (B), and (C) of paragraph (2).

Subparagraph (A) of paragraph (2) provides that a bank holding company shall not be a qualified bank holding corporation unless such corporation would have been a bank holding company on May 15, 1955, if the Bank Holding Company Act of 1956 had been in effect on such date, or unless such corporation is a bank holding company determined solely by reference to the following: (1) Property acquired by such corporation on or before May 15, 1955; (2) property

acquired by such corporation in a distribution by a qualified bank holding corporation to such corporation wherein gain was not recognized by reason of subsection (a) or (b) of section 1101; and (3) property acquired by such corporation in exchange for all of its stock in an exchange meeting the requirements of section 1101 (c) (2) or (3).

Thus, if on May 15, 1955, the sole assets of corporation X consist of cash and business assets and on May 30, 1955, corporation X acquires 25 percent of the voting shares of each of two banks for cash, then, by reason of subparagraph (A) of paragraph (2), corporation X, although a bank holding company holding prohibited property acquired by it before May 15, 1955, is not a qualified bank holding corporation. Similarly, if corporation X acquired 25 percent or more of the voting shares of each of two banks in a tax-free reorganization, corporation X, although a bank holding company holding prohibited property acquired by it before May 15, 1955, would not be a qualified bank holding corporation. An additional example of the application of subparagraph (A) of paragraph (2) is where corporation X is determined by the Board to be a bank holding company by reason of clause (2) of section 2 (a) of the Bank Holding Corporation Act of 1956, solely by reference to (1) property acquired by such corporation on or before May 15, 1955, and (2) property acquired by it from a qualified bank holding corporation in a distribution in which gain to the distributee was not recognized by reason of subsection (a) or (b) of section 1101.

Except as explained in the next paragraph, subparagraph (B) of paragraph (2) provides that a bank holding company shall not be a qualified bank holding corporation by reason of either (1) the acquisition by such bank holding company of prohibited property after May 15, 1955, in a distribution from a qualified bank holding corporation to which section 1101 (a) is applicable or (2) the acquisition by such bank holding company (which company would not have been a bank holding company on May 15, 1955, if the Bank Holding Company Act of 1956 had been in effect on such date) of property described in clause (ii) of subparagraph (A) of paragraph (2). An example of the operation of the foregoing is where, on May 15, 1955, the sole assets of corporation Y consist of cash and 25 percent of the voting shares of each of two banks. On May 30, 1955, corporation Y purchases for cash 50 percent of the stock of corporation Z, a qualified bank holding corporation. Corporation Z distributed business assets to corporation Y in a distribution in which gain to corporation Y with respect to the receipt of such property was not recognized by reason of section 1101 (a). Corporation Y is not a qualified bank holding corporation since such property was acquired by corporation Y in a distribution with respect to stock acquired after May 15, 1955.

A bank holding company may be a qualified bank holding corporation by reason of the property described in the preceding paragraph if such property was acquired in a distribution with respect to stock which was acquired by such company (1) on or before May 15, 1955, (2) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b) of section 1101, or (3) in

exchange for all of the stock of the bank holding company in an exchange meeting the requirements of section 1101 (c) (2) or (3).

Subparagraph (C) of paragraph (2) states that a corporation may not be treated as a qualified bank holding corporation unless the Board certifies that it satisfies the requirements of subsection (b) of section 1103.

Subsection (c) of section 1103 defines the term "prohibited property." Such property is defined as property, other than nonexempt property, the disposition of which, in the case of any bank holding company, would be necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956, if such company continued to be a bank holding company beyond the period (including any extensions thereof) specified in section 4 (a), in the case of distributions under section 1101 (a), or specified in section 1101 (e) (2) (B), in the case of distributions under section 1101 (b). The term "prohibited property" does not include shares of any company which are held by a bank holding company to the extent that the ownership by such bank holding company of such property is not prohibited by section 4 of such bill by reason of subsection (c) (5) of such section.

Subsection (d) defines the term "nonexempt property," the distribution of which may not be accorded the tax treatment provided by this part.

Subsection (e) of this section states that the term "Board" means the Board of Governors of the Federal Reserve System.

Section 10 (b) amends table of parts of chapter 1, subchapter O of Internal Revenue Code of 1954 by adding "Part VIII. Distributions pursuant to Bank Holding Company Act of 1955."

Section 10 (c) makes these tax provisions in section 10 (a) apply to taxable years ending after the enactment of the act.

Changes in Existing Law

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (new matter is printed in italics, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1954

Chapter I—Normal Taxes and Surtaxes

* * * * * * *

SUBCHAPTER O—GAIN OR LOSS ON DISPOSITION OF PROPERTY

Part I. Determination of amount and recognition of gain or loss.
Part II. Basic rules of general application.
Part III. Common nontaxable exchanges.
Part IV. Special rules.
Part V. Changes to effectuate F. C. C. policy.
Part VI. Exchanges in obedience to S. E. C. orders.
Part VII. Wash sales of stock or securities.
Part VIII. Distributions pursuant to Bank Holding Company Act of 1955.

* * * * * * *

Part VIII—Distributions Pursuant to Bank Holding Company Act of 1956

Sec. 1101. Distributions pursuant to Bank Holding Company Act of 1956.
Sec. 1102. Special rules.
Sec. 1103. Definitions.

SEC. 1101. DISTRIBUTIONS PURSUANT TO BANK HOLDING COMPANY ACT OF 1956.

(a) DISTRIBUTIONS OF CERTAIN NON-BANKING PROPERTY.—

(1) DISTRIBUTIONS OF PROHIBITED PROPERTY.—

If—

(A) a qualified bank holding corporation distributes prohibited property (other than stock received in an exchange to which subsection (c) (2) applies)—

(i) to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

(ii) to a shareholder, in exchange for its preferred stock; or

(iii) to a security holder, in exchange for its securities; and

(B) the Board has, before the distribution, certified that the distribution of such prohibited property is necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956,

then no gain to the shareholder or security holder from the receipt of such property shall be recognized.

(2) DISTRIBUTIONS OF STOCK AND SECURITIES RECEIVED IN AN EXCHANGE TO WHICH SUBSECTION (c) (2) APPLIES.—If—

(A) a qualified bank holding corporation distributes—

(i) common stock received in an exchange to which subsection (c) (2) applies to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

(ii) common stock received in an exchange to which subsection (c) (2) applies to a shareholder, in exchange for its common stock; or

(iii) preferred stock or common stock received in an exchange to which subsection (c) (2) applies to a shareholder, in exchange for its preferred stock; or

(iv) securities or preferred or common stock received in an exchange to which subsection (c) (2) applies to a security holder, in exchange for its securities; and

(B) any preferred stock received has substantially the same terms as the preferred stock exchanged, and any securities received have substantially the same terms as the securities exchanged,

then, except as provided in subsection (f), no gain to the shareholder or security holder from the receipt of such stock or such securities or such stock and securities shall be recognized.

(3) NON PRO RATA DISTRIBUTIONS.—Paragraphs (1) and (2) shall apply to a distribution whether or not the distribution is pro rata with respect to all of the shareholders of the distributing qualified bank holding corporation.

(4) EXCEPTION.—This subsection shall not apply to any distribution by a corporation which has made any distribution pursuant to subsection (b).

(5) DISTRIBUTIONS INVOLVING GIFT OR COMPENSATION.—

In the case of a distribution to which paragraph (1) or (2) applies, but which—

(A) results in a gift, see section 2501, and following, or

(B) has the effect of the payment of compensation, see section 61 (a) (1).

(b) CORPORATION CEASING TO BE A BANK HOLDING COMPANY.—

(1) DISTRIBUTIONS OF PROPERTY WHICH CAUSE A CORPORATION TO BE A BANK HOLDING COMPANY.—If—

(A) a qualified bank holding corporation distributes property (other than stock received in an exchange to which subsection (c) (3) applies)—

(i) to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

(ii) to a shareholder, in exchange for its preferred stock; or

(iii) to a security holder, in exchange for its securities; and

(B) the Board has, before the distribution, certified that—

(i) such property is all or part of the property by reason of which such corporation controls (within the meaning of section 2 (a) of the Bank Holding Company Act of 1956) a bank or bank holding company, or such property is part of the property by reason of which such corporation did control a bank or a bank holding company before any property of the same kind was distributed under this subsection or exchanged under subsection (c) (3), and

(ii) the distribution is necessary or appropriate to effectuate the policies of such Act, then no gain to the shareholder or security holder from the receipt of such property shall be recognized.

(2) DISTRIBUTIONS OF STOCK AND SECURITIES RECEIVED IN AN EXCHANGE TO WHICH SUBSECTION (c) (3) APPLIES.—If—

(A) a qualified bank holding corporation distributes—

(i) common stock received in an exchange to which subsection (c) (3) applies to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

(ii) common stock received in an exchange to which subsection (c) (3) applies to a shareholder, in exchange for its common stock; or

(iii) preferred stock or common stock received in an exchange to which subsection (c) (3) applies to a shareholder, in exchange for its preferred stock; or

(iv) securities or preferred or common stock received in an exchange to which subsection (c) (3) applies to a security holder, in exchange for its securities; and

(B) any preferred stock received has substantially the same terms as the preferred stock exchanged, and any securities received have substantially the same terms as the securities exchanged,

then, except as provided in subsection (f), no gain to the shareholder or security holder from the receipt of such stock or such securities or such stock and securities shall be recognized.

(3) NON PRO RATA DISTRIBUTIONS.—Paragraphs (1) and (2) shall apply to a distribution whether or not the distribution is pro rata with respect to all of the shareholders of the distributing qualified bank holding corporation.

(4) EXCEPTION.—This subsection shall not apply to any distribution by a corporation which has made any distribution pursuant to subsection (a).

(5) DISTRIBUTIONS INVOLVING GIFT OR COMPENSATION.—

In the case of a distribution to which paragraph (1) or (2) applies, but which—

(A) results in a gift, see section 2501, and following, or

(B) has the effect of the payment of compensation, see section 61 (a) (1).

(c) PROPERTY ACQUIRED AFTER MAY 15, 1955.—

(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), subsection (a) or (b) shall not apply to—

(A) any property acquired by the distributing corporation after May 15, 1955, unless (i) gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) or (b), or (ii) such property was received by it in exchange for all of its stock in an exchange to which paragraph (2) or (3) applies, or (iii) such property was acquired by the distributing corporation in a transaction in which gain was not recognized under section 305 (a) or section 332, or under section 354 with respect to a reorganization described in section 368 (a) (1) (E) or (F), or

(B) any property which was acquired by the distributing corporation in a distribution with respect to stock acquired by such corporation after May 15, 1955, unless such stock was acquired by such corporation (i) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b), or (ii) in exchange for all of its stock in an exchange to which paragraph (2) or (3) applies, or (iii) in a transaction in which gain was not recognized under section 305 (a) or section 332, or under section 354 with respect to a reorganization described in section 368 (a) (1) (E) or (F), or

(C) any property acquired by the distributing corporation in a transaction in which gain was not recognized under section 332, unless such property was acquired from a corporation which, if it had been a qualified bank holding corporation, could have distributed such property under subsection (a) (1) or (b) (1).

(2) EXCHANGES INVOLVING PROHIBITED PROPERTY.—If—

(A) any qualified bank holding corporation exchanges (i) property, which, under subsection (a) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain to such shareholders or security holders, and other property (except property described in

subsection (b) (1) (B) (i)), for (ii) all of the stock of a second corporation created and availed of solely for the purpose of receiving such property;

(B) immediately after the exchange, the qualified bank holding corporation distributes all of such stock in a manner prescribed in subsection (a) (2) (A); and

(C) before such exchange, the Board has certified (with respect to the property exchanged which consists of property which, under subsection (a) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain) that the exchange and distribution are necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956,

then paragraph (1) shall not apply with respect to such distribution.

(3) EXCHANGES INVOLVING INTERESTS IN BANKS.—If—

(A) any qualified bank holding corporation exchanges (i) property which, under subsection (b) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain to such shareholders or security holders, and other property (except prohibited property), for (ii) all of the stock of a second corporation created and availed of solely for the purpose of receiving such property,

(B) immediately after the exchange, the qualified bank holding corporation distributes all of such stock in a manner prescribed in subsection (b) (2) (A); and

(C) before such exchange, the Board has certified (with respect to the property exchanged which consists of property which, under subsection (b) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain) that—

(i) such property is all or part of the property by reason of which such corporation controls (within the meaning of section 2 (a) of the Bank Holding Company Act of 1956) a bank or bank holding company, or such property is part of the property by reason of which such corporation did control a bank or a bank holding company before any property of the same kind was distributed under subsection (b) (1) or exchanged under this paragraph, and

(ii) the exchange and distribution are necessary or appropriate to effectuate the policies of such Act,

then paragraph (1) shall not apply with respect to such distribution.

(d) DISTRIBUTIONS TO AVOID FEDERAL INCOME TAX.—

(1) PROHIBITED PROPERTY.—Subsection (a) shall not apply to a distribution if, in connection with such distribution, the distributing corporation retains, or transfers after May 15, 1955, to any corporation, property (other than prohibited property) as part of a plan one of the principal purposes of which is the distribution of the earnings and profits of any corporation.

(2) BANKING PROPERTY.—Subsection (b) shall not apply to a distribution if, in connection with such distribution, the distributing corporation retains, or transfers after May 15, 1955, to any corporation, property (other than property described in subsection (b) (1) (B) (i)) as part of a plan one of the principal purposes of which is the distribution of the earnings and profits of any corporation.

(3) CERTAIN CONTRIBUTIONS TO CAPITAL.—In the case of a distribution a portion of which is attributable to a transfer which is a contribution to the capital of a corporation, made after May 15, 1955, and prior to the date of the enactment of this part, if subsection (a) or (b) would apply to such distribution but for the fact that, under paragraph (1) or (2) (as the case may be) of this subsection, such contribution to capital is part of a plan one of the principal purposes of which is to distribute the earnings and profits of any corporation, then, notwithstanding paragraph (1) or (2), subsection (a) or (b) (as the case may be) shall apply to that portion of such distribution not attributable to such contribution to capital, and shall not apply to that portion of such distribution attributable to such contribution to capital.

(e) FINAL CERTIFICATION.—

(1) FOR SUBSECTION (a).—Subsection (a) shall not apply with respect to any distribution by a corporation unless the Board certifies that, before the expiration of the period permitted under section 4 (a) of the Bank Holding Company Act of 1956 (including any extensions thereof granted to such corporation under such section 4 (a)), the corporation has disposed of all the property the disposition of which is necessary or appropriate to effectuate section 4 of such Act (or would have been so necessary or appropriate if the corporation had continued to be a bank holding company).

(2) FOR SUBSECTION (b).—

(A) Subsection (b) shall not apply with respect to any distribution by any corporation unless the Board certifies that, before the expiration of the period specified in subparagraph (B), the corporation has ceased to be a bank holding company.

(B) The period referred to in subparagraph (A) is the period which expires 2 years after the date of the enactment of this part or 2 years after the date on which the corporation becomes a bank holding company, whichever date is later. The Board is authorized, on application by any corporation, to extend such period from time to time with respect to such corporation for not more than one year at a time if, in its judgment, such an extension would not be detrimental to the public interest; except that such period may not in any case be extended beyond the date 5 years after the date of the enactment of this part or 5 years after the date on which the corporation becomes a bank holding company, whichever date is later.

(f) CERTAIN EXCHANGES OF SECURITIES.—In the case of an exchange described in subsection (a) (2) (A) (iv) or subsection (b) (2) (A) (iv), subsection (a) or subsection (b) (as the case may be) shall apply only to the extent that the principal amount of the securities received does not exceed the principal amount of the securities exchanged.

SEC. 1102. SPECIAL RULES.

(a) BASIS OF PROPERTY ACQUIRED IN DISTRIBUTIONS.—If, by reason of section 1101, gain is not recognized with respect to the receipt of any property, then, under regulations prescribed by the Secretary or his delegate—

(1) if the property is received by a shareholder with respect to stock, without the surrender by such shareholder of stock, the basis of the property received and of the stock with respect to which it is distributed shall, in the distributee's hands, be determined by allocating between such property and such stock the adjusted basis of such stock; or

(2) if the property is received by a shareholder in exchange for stock or by a security holder in exchange for securities, the basis of the property received shall, in the distributee's hands, be the same as the adjusted basis of the stock or securities exchanged, increased by—

(A) the amount of the property received which was treated as a dividend, and

(B) the amount of gain to the taxpayer recognized on the property received (not including any portion of such gain which was treated as a dividend).

(b) PERIODS OF LIMITATION.—The periods of limitation provided in section 6501 (relating to limitations on assessment and collection) shall not expire, with respect to any deficiency (including interest and additions to the tax) resulting solely from the receipt of property by shareholders in a distribution which is certified by the Board under subsection (a), (b), or (c) of section 1101, until 5 years after the distributing corporation notifies the Secretary or his delegate (in such manner and with such accompanying information as the Secretary or his delegate may by regulations prescribe) that the period (including extensions thereof) prescribed in section 4 (a) of the Bank Holding Company Act of 1956, or section 1101 (c) (2) (B), whichever is applicable, has expired; and such assessment may be made notwithstanding any provision of law or rule of law which would otherwise prevent such assessment.

(c) ALLOCATION OF EARNINGS AND PROFITS.—

(1) DISTRIBUTION OF STOCK IN A CONTROLLED CORPORATION.—In the case of a distribution by a qualified bank holding corporation under section 1101 (a) (1) or (b) (1) of stock in a controlled corporation, proper allocation with respect to the earnings and profits of the distributing corporation and the controlled corporation shall be made under regulations prescribed by the Secretary or his delegate.

(2) EXCHANGES DESCRIBED IN SECTION 1101 (c) (2) OR (3).—In the case of any exchange described in section 1101 (c) (2) or (3), proper allocation with respect to the earnings and profits of the corporation transferring the property and the corporation receiving such property shall be made under regulations prescribed by the Secretary or his delegate.

(3) DEFINITION OF CONTROLLED CORPORATION.—For purposes of paragraph (1), the term "controlled corporation" means a corporation with respect to which at least 80 percent of the total combined voting power of all classes of stock entitled to vote and at least 80 percent of the total number of shares of all other classes of stock is owned by the distributing qualified bank holding corporation.

(d) ITEMIZATION OF PROPERTY.—In any certification under this part, the Board shall make such specification and itemization of property as may be necessary to carry out the provisions of this part.

SEC. 1103. DEFINITIONS.

(a) BANK HOLDING COMPANY.—For purposes of this part, the term "bank holding company" has the meaning assigned to such term by section 2 of the Bank Holding Company Act of 1956.

(b) QUALIFIED BANK HOLDING CORPORATION.—

(1) IN GENERAL.—Except as provided in paragraph (2), for purposes of this part the term "qualified bank holding corporation" means any corporation (as defined in section 7701 (a) (3)) which is a bank holding company and which holds prohibited property acquired by it—

(A) on or before May 15, 1955,

(B) in a distribution in which gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) or (b) of section 1101, or

(C) in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (c) (3).

(2) LIMITATIONS.—

(A) A bank holding company shall not be a qualified bank holding corporation, unless it would have been a bank holding company on May 15, 1955, if the Bank Holding Company Act of 1956 had been in effect on such date, or unless it is a bank holding company determined solely by reference to—

(i) property acquired by it on or before May 15, 1955.

(ii) property acquired by it in a distribution in which gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) or (b) of section 1101, and

(iii) property acquired by it in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (3).

(B) A bank holding company shall not be a qualified bank holding corporation by reason of property described in subparagraph (B) of paragraph (1) or clause (ii) of subparagraph (A) of this paragraph, unless such property was acquired in a distribution with respect to stock, which stock was acquired by such bank holding company—

(i) on or before May 15, 1955.

(ii) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b) of section 1101, or

(iii) in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (3).

(C) A corporation shall be treated as a qualified bank holding corporation only if the Board certifies that it satisfies the foregoing requirements of this subsection.

(c) PROHIBITED PROPERTY.—For purposes of this part, the term "prohibited property" means, in the case of any bank holding company, property (other than nonexempt property) the disposition of which would be necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956 if such company continued to be a bank holding company beyond the period (including any extensions thereof) specified in subsection (a) of such section or in section 1101 (e) (2) (B) of this part, as the case may be. The term "prohibited property" does not include shares of any company held by a bank holding company to the extent that the prohibitions of section 4 of the Bank Holding Company Act of 1956 do not apply to the ownership by such bank holding company of such property by reason of subsection (c) (5) of such section.

(d) NONEXEMPT PROPERTY.—For purposes of this part, the term "nonexempt property" means—

(1) obligations (including notes, drafts, bills of exchange, and bankers' acceptances) having a maturity at the time of issuance of not exceeding 24 months, exclusive of days of grace;

(2) securities issued by or guaranteed as to principal or interest by a government or subdivision thereof or by any instrumentality of a government or subdivision; or

(3) money, and the right to receive money not evidenced by a security or obligation (other than a security or obligation described in paragraph (1) or (2)).

(e) BOARD.—For purposes of this part, the term "Board" means the Board of Governors of the Federal Reserve System.

C

Public Law 511 - 84th Congress
Chapter 240 - 2d Session
H. R. 6227

AN ACT

All 70 Stat. 133.

To define bank holding companies, control their future expansion, and require divestment of their nonbanking interests.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled. That this Act may be cited as the "Bank Holding Company Act of 1956". Bank Holding Company Act of 1956.

DEFINITIONS

SEC. 2 (a) "Bank holding company" means any company (1) which directly or indirectly owns, controls, or holds with power to vote, 25 per centum or more of the voting shares of each of two or more banks or of a company which is or becomes a bank holding company by virtue of this Act, or (2) which controls in any manner the election of a majority of the directors of each of two or more banks, or (3) for the benefit of whose shareholders or members 25 per centum or more of the voting shares of each of two or more banks or a bank holding company is held by trustees; and for the purposes of this Act, any successor to any such company shall be deemed to be a bank holding company from the date as of which such predecessor company became a bank holding company. Notwithstanding the foregoing (A) no bank shall be a bank holding company by virtue of its ownership or control of shares in a fiduciary capacity, except where such shares are held for the benefit of the shareholders of such bank, (B) no company shall be a bank holding company which is registered under the Investment Company Act of 1940, and was so registered prior to May 15, 1955 (or which is affiliated with any such company in such manner as to constitute an affiliated company within the meaning of such Act), unless such company (or such affiliated company), as the case may be, directly owns 25 per centum or more of the voting shares of each of two or more banks, (C) no company shall be a bank holding company by virtue of its ownership or control of shares acquired by it in connection with its underwriting of securities and which are held only for such period of time as will permit the sale thereof upon a reasonable basis, (D) no company formed for the sole purpose of participating in a proxy solicitation shall be a bank holding company by virtue of its control of voting rights of shares acquired in the course of such solicitation, and (E) no company shall be a bank holding company if at least 80 per centum of its total assets are composed of holdings in the field of agriculture. 54 Stat. 789. 15 USC 80a-51.

(b) "Company" means any corporation, business trust, association, or similar organization, but shall not include (1) any corporation the majority of the shares of which are owned by the United States or by any State, or (2) any corporation or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation, or (3) any partnership.

(c) "Bank" means any national banking association or any State bank, savings bank, or trust company, but shall not include any organization operating under section 25 (a) of the Federal Reserve Act, or any organization which does not do business within the United States. "State member bank" means any State bank which is a member of the Federal Reserve System. "District bank" means any State 41 Stat. 378. 12 USC 611,612. "State member bank". "District bank".

bank organized or operating under the Code of Law for the District of Columbia.

(d) "Subsidiary", with respect to a specified bank holding company, means (1) any company 25 per centum or more of whose voting shares (excluding shares owned by the United States or by any company wholly owned by the United States) is owned or controlled by such bank holding company; or (2) any company the election of a majority of whose directors is controlled in any manner by such bank holding company; or (3) any company 25 per centum or more of whose voting shares are held by trustees for the benefit of the shareholders or members of such bank holding company.

(e) The term "successor" shall include any company which acquires directly or indirectly from a bank holding company shares of any bank, when and if the relationship between such company and the bank holding company is such that the transaction effects no substantial change in the control of the bank or beneficial ownership of such shares of such bank. The Board may, by regulation, further define the term "successor" to the extent necessary to prevent evasion of the purposes of this Act.

(f) "Board" means the Board of Governors of the Federal Reserve System.

(g) "Agriculture", as used in section 2 (a), includes farming in all its branches including fruitgrowing, dairying, the raising of livestock, bees, fur-bearing animals, or poultry, forestry or lumbering operations, and the production of naval stores, and operations directly related thereto.

ACQUISITION OF BANK SHARES OR ASSETS

SEC. 3. (a) It shall be unlawful except with the prior approval of the Board (1) for any action to be taken which results in a company becoming a bank holding company under section 2 (a) of this Act; (2) for any bank holding company to acquire direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, such company will directly or indirectly own or control more than 5 per centum of the voting shares of such bank; (3) for any bank holding company or subsidiary thereof, other than a bank, to acquire all or substantially all of the assets of a bank; or (4) for any bank holding company to merge or consolidate with any other bank holding company. Notwithstanding the foregoing this prohibition shall not apply to (A) shares acquired by a bank, (i) in good faith in a fiduciary capacity, except where such shares are held for the benefit of the shareholders of such bank, or (ii) in the regular course of securing or collecting a debt previously contracted in good faith, but any shares acquired after the date of enactment of this Act in securing or collecting any such previously contracted debt shall be disposed of within a period of two years from the date on which they were acquired; or (B) additional shares acquired by a bank holding company in a bank in which such bank holding company owned or controlled a majority of the voting shares prior to such acquisition.

(b) Upon receiving from a company any application for approval under this section, the Board shall give notice to the Comptroller of the Currency, if the applicant company or any bank the voting shares or assets of which are sought to be acquired is a national banking association or a District bank, or to the appropriate supervisory authority of the interested State, if the applicant company or any bank the voting shares or assets of which are sought to be acquired is a State bank, and shall allow thirty days within which the views and recommendations of the Comptroller of the Currency or the State

supervisory authority, as the case may be, may be submitted. If the Comptroller of the Currency or the State supervisory authority so notified by the Board disapproves the application in writing within said thirty days, the Board shall forthwith give written notice of that fact to the applicant. Within three days after giving such notice to the applicant, the Board shall notify in writing the applicant and the disapproving authority of the date for commencement of a hearing by it on such application. Any such hearing shall be commenced not less than ten nor more than thirty days after the Board has given written notice to the applicant of the action of the disapproving authority. The length of any such hearing shall be determined by the Board, but it shall afford all interested parties a reasonable opportunity to testify at such hearing. At the conclusion thereof, the Board shall by order grant or deny the application on the basis of the record made at such hearing.

(c) In determining whether or not to approve any acquisition or merger or consolidation under this section, the Board shall take into consideration the following factors: (1) the financial history and condition of the company or companies and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether or not the effect of such acquisition or merger or consolidation would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

(d) Notwithstanding any other provision of this section, no application shall be approved under this section which will permit any bank holding company or any subsidiary thereof to acquire, directly or indirectly, any voting shares of, interest in, or all or substantially all of the assets of any additional bank located outside of the State in which such bank holding company maintains its principal office and place of business or in which it conducts its principal operations unless the acquisition of such shares or assets of a State bank by an out-of-State bank holding company is specifically authorized by the statute laws of the State in which such bank is located, by language to that effect and not merely by implication.

INTERESTS IN NONBANKING ORGANIZATIONS

SEC. 4. (a) Except as otherwise provided in this Act, no bank holding company shall—

(1) after the date of enactment of this Act acquire direct or indirect ownership or control of any voting shares of any company which is not a bank, or

(2) after two years from the date of enactment of this Act or from the date as of which it becomes a bank holding company, whichever is later, retain direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company or engage in any business other than that of banking or of managing or controlling banks or of furnishing services to or performing services for any bank of which it owns or controls 25 per centum or more of the voting shares.

The Board is authorized, upon application by a bank holding company, to extend the period referred to in paragraph (2) above from time to time as to such bank holding company for not more than one year at a time if, in its judgment, such an extension would not be detrimental to the public interest, but no such extensions shall extend beyond a date

five years after the date of enactment of this Act or five years after the date as of which a company becomes a bank holding company, whichever is later.

(b) After two years from the date of enactment of this Act, no certificate evidencing shares of any bank holding company shall bear any statement purporting to represent shares of any other company except a bank or a bank holding company, nor shall the ownership, sale, or transfer of shares of any bank holding company be conditioned in any manner whatsoever upon the ownership, sale, or transfer of shares of any other company except a bank or a bank holding company.

Nonapplicability of prohibitions.

(c) The prohibitions in this section shall not apply—

(1) to shares owned or acquired by a bank holding company in any company engaged solely in holding or operating properties used wholly or substantially by any bank with respect to which it is a bank holding company in its operations or acquired for such future use or engaged solely in conducting a safe deposit business, or solely in the business of furnishing services to or performing services for such holding company and banks with respect to which it is a bank holding company, or in liquidating assets acquired from such bank holding company and such banks;

(2) to shares acquired by a bank holding company which is a bank, or by any banking subsidiary of a bank holding company, in satisfaction of a debt previously contracted in good faith, but such bank holding company or such subsidiaries shall dispose of such shares within a period of two years from the date on which they were acquired or from the date of enactment of this Act, whichever is later;

(3) to shares acquired by a bank holding company from any of its subsidiaries which subsidiary has been requested to dispose of such shares by any Federal or State authority having statutory power to examine such subsidiary, but such bank holding company shall dispose of such shares within a period of two years from the date on which they were acquired or from the date of enactment of this Act, whichever is later;

(4) to shares which are held or acquired by a bank holding company which is a bank or by any banking subsidiary of a bank holding company, in good faith in a fiduciary capacity, except where such shares are held for the benefit of the shareholders of such bank holding company or any of its subsidiaries, or to shares which are of the kinds and amounts eligible for investment by National banking associations under the provisions of section 5136 of the Revised Statutes, or to shares lawfully acquired and owned prior to the date of enactment of this Act by a bank which is a bank holding company, or by any of its wholly owned subsidiaries;

12 USC 24.

(5) to shares of any company which are held or acquired by a bank holding company which do not include more than 5 per centum of the outstanding voting securities of such company, and do not have a value greater than 5 per centum of the value of the total assets of the bank holding company, or to the ownership by a bank holding company of shares, securities, or obligations of an investment company which is not a bank holding company and which is not engaged in any business other than investing in securities, which securities do not include more than 5 per centum of the outstanding voting securities of any company and do not include any single asset having a value greater than 5 per centum of the value of the total assets of the bank holding company;

(6) to shares of any company all the activities of which are of a financial, fiduciary, or insurance nature and which the Board after due notice and hearing, and on the basis of the record made at such hearing, by order has determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of this section to apply in order to carry out the purposes of this Act;

(7) to any bank holding company which is a labor, agricultural, or horticultural organization and which is exempt from taxation under section 501 of the Internal Revenue Code of 1954; or 68A Stat. 163. 26 USC 501.

(8) to shares held or acquired by a bank holding company in any company which is organized under the laws of a foreign country and which is engaged principally in the banking business outside the United States.

ADMINISTRATION

SEC. 5. (a) Within one hundred and eighty days after the date of enactment of this Act, or within one hundred and eighty days after becoming a bank holding company, whichever is later, each bank holding company shall register with the Board on forms prescribed by the Board, which shall include such information with respect to the financial condition and operations, management, and intercompany relationships of the bank holding company and its subsidiaries, and related matters, as the Board may deem necessary or appropriate to carry out the purposes of this Act. The Board may, in its discretion, extend the time within which a bank holding company shall register and file the requisite information.

(b) The Board is authorized to issue such regulations and orders as may be necessary to enable it to administer and carry out the purposes of this Act and prevent evasions thereof.

(c) The Board from time to time may require reports under oath to keep it informed as to whether the provisions of this Act and such regulations and orders issued thereunder have been complied with; and the Board may make examinations of each bank holding company and each subsidiary thereof, the cost of which shall be assessed against, and paid by, such holding company. The Board shall, as far as possible, use the reports of examinations made by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the appropriate State bank supervisory authority for the purposes of this section.

(d) Before the expiration of two years following the date of enactment of this Act, and each year thereafter in the Board's annual report to the Congress, the Board shall report to the Congress the results of the administration of this Act, stating what, if any, substantial difficulties have been encountered in carrying out the purposes of this Act, and any recommendations as to changes in the law which in the opinion of the Board would be desirable. Report to Congress.

BORROWING BY BANK HOLDING COMPANY OR ITS SUBSIDIARIES

SEC. 6. (a) From and after the date of enactment of this Act, it shall be unlawful for a bank—

(1) to invest any of its funds in the capital stock, bonds, debentures, or other obligations of a bank holding company of which it is a subsidiary, or of any other subsidiary of such bank holding company;

(2) to accept the capital stock, bonds, debentures, or other obligations of a bank holding company of which it is a subsidiary or any other subsidiary of such bank holding company, as collateral

security for advances made to any person or company: *Provided, however*, That any bank may accept such capital stock, bonds, debentures, or other obligations as security for debts previously contracted, but such collateral shall not be held for a period of over two years;

(3) to purchase securities, other assets or obligations under repurchase agreement from a bank holding company of which it is a subsidiary or any other subsidiary of such bank holding company; and

(4) to make any loan, discount or extension of credit to a bank holding company of which it is a subsidiary or to any other subsidiary of such bank holding company.

Non-interest-bearing deposits to the credit of a bank shall not be deemed to be a loan or advance to the bank of deposit, nor shall the giving of immediate credit to a bank upon uncollected items received in the ordinary course of business be deemed to be a loan or advance to the depositing bank.

(b) The provisions of this section shall not apply (1) to the capital stock, bonds, debentures, or other obligations of any company described in section 4 (c) (1) of this Act, or (2) to any company whose subsidiary status has arisen out of a bona fide debt to the bank contracted prior to the date of the creation of such status, or (3) to any company whose subsidiary status exists by reason of the ownership or control of voting shares thereof by the bank as executor, administrator, trustee, receiver, agent, or depositary, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such bank.

Ante, p.136.

RESERVATION OF RIGHTS TO STATES

SEC. 7. The enactment by the Congress of the Bank Holding Company Act of 1956 shall not be construed as preventing any State from exercising such powers and jurisdiction which it now has or may hereafter have with respect to banks, bank holding companies, and subsidiaries thereof.

PENALTIES

SEC. 8. Any company which willfully violates any provision of this Act, or any regulation or order issued by the Board pursuant thereto, shall upon conviction be fined not more than $1,000 for each day during which the violation continues. Any individual who willfully participates in a violation of any provision of this Act shall upon conviction be fined not more than $10,000 or imprisoned not more than one year, or both. Every officer, director, agent, and employee of a bank holding company shall be subject to the same penalties for false entries in any book, report, or statement of such bank holding company as are applicable to officers, directors, agents, and employees of member banks for false entries in any books, reports, or statements of member banks under section 1005 of title 18, United States Code.

62 Stat. 750.

JUDICIAL REVIEW

SEC. 9. Any party aggrieved by an order of the Board under this Act may obtain a review of such order in the United States Court of Appeals within any circuit wherein such party has its principal place of business, or in the Court of Appeals in the District of Columbia, by filing in the court, within sixty days after the entry of the Board's order, a petition praying that the order of the Board be set aside. A copy of such petition shall be forthwith served upon the

Board, and thereupon the Board shall certify and file in the court a transcript of the record made before the Board. Upon the filing of the transcript the court shall have jurisdiction to affirm, set aside, or modify the order of the Board and to require the Board to take such action with regard to the matter under review as the court deems proper. The findings of the Board as to the facts, if supported by substantial evidence, shall be conclusive.

AMENDMENTS TO INTERNAL REVENUE CODE OF 1954

SEC. 10. (a) Subchapter O of chapter 1 of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following new part: 68A Stat. 295. 26 USC 1001-1091.

"PART VIII—DISTRIBUTIONS PURSUANT TO BANK HOLDING COMPANY ACT OF 1956

"SEC. 1101. DISTRIBUTIONS PURSUANT TO BANK HOLDING COMPANY ACT OF 1956.

"(a) DISTRIBUTIONS OF CERTAIN NON-BANKING PROPERTY.—

"(1) DISTRIBUTIONS OF PROHIBITED PROPERTY.—If—

"(A) a qualified bank holding corporation distributes prohibited property (other than stock received in an exchange to which subsection (c) (2) applies)—

"(i) to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

"(ii) to a shareholder, in exchange for its preferred stock; or

"(iii) to a security holder, in exchange for its securities; and

"(B) the Board has, before the distribution, certified that the distribution of such prohibited property is necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956, Ante, p. 135.

then no gain to the shareholder or security holder from the receipt of such property shall be recognized.

"(2) DISTRIBUTIONS OF STOCK AND SECURITIES RECEIVED IN AN EXCHANGE TO WHICH SUBSECTION (C) (2) APPLIES.—If—

"(A) a qualified bank holding corporation distributes—

"(i) common stock received in an exchange to which subsection (c) (2) applies to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

"(ii) common stock received in an exchange to which subsection (c) (2) applies to a shareholder, in exchange for its common stock; or

"(iii) preferred stock or common stock received in an exchange to which subsection (c) (2) applies to a shareholder, in exchange for its preferred stock; or

"(iv) securities or preferred or common stock received in an exchange to which subsection (c) (2) applies to a security holder, in exchange for its securities; and

"(B) any preferred stock received has substantially the same terms as the preferred stock exchanged, and any securi-

ties received have substantially the same terms as the securities exchanged,

then, except as provided in subsection (f), no gain to the shareholder or security holder from the receipt of such stock or such securities or such stock and securities shall be recognized.

"(3) NON PRO RATA DISTRIBUTIONS.—Paragraphs (1) and (2) shall apply to a distribution whether or not the distribution is pro rata with respect to all of the shareholders of the distributing qualified bank holding corporation.

"(4) EXCEPTION.—This subsection shall not apply to any distribution by a corporation which has made any distribution pursuant to subsection (b).

"(5) DISTRIBUTIONS INVOLVING GIFT OR COMPENSATION.—

"In the case of a distribution to which paragraph (1) or (2) applies, but which—

68A Stat. 403.
26 USC 2501.
26 USC 61.

"(A) results in a gift, see section 2501, and following, or

"(B) has the effect of the payment of compensation, see section 61 (a) (1).

"(b) CORPORATION CEASING TO BE A BANK HOLDING COMPANY.—

"(1) DISTRIBUTIONS OF PROPERTY WHICH CAUSE A CORPORATION TO BE A BANK HOLDING COMPANY.—If—

"(A) a qualified bank holding corporation distributes property (other than stock received in an exchange to which subsection (c) (3) applies)—

"(i) to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

"(ii) to a shareholder, in exchange for its preferred stock; or

"(iii) to a security holder, in exchange for its securities; and

"(B) the Board has, before the distribution, certified that—

"(i) such property is all or part of the property by reason of which such corporation controls (within the meaning of section 2 (a) of the Bank Holding Company Act of 1956) a bank or bank holding company, or such property is part of the property by reason of which such corporation did control a bank or a bank holding company before any property of the same kind was distributed under this subsection or exchanged under subsection (c) (3); and

Ante, p. 133.

"(ii) the distribution is necessary or appropriate to effectuate the policies of such Act,

then no gain to the shareholder or security holder from the receipt of such property shall be recognized.

"(2) DISTRIBUTIONS OF STOCK AND SECURITIES RECEIVED IN AN EXCHANGE TO WHICH SUBSECTION (c) (3) APPLIES.—If—

"(A) a qualified bank holding corporation distributes—

"(i) common stock received in an exchange to which subsection (c) (3) applies to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

"(ii) common stock received in an exchange to which subsection (c) (3) applies to a shareholder, in exchange for its common stock; or

"(iii) preferred stock or common stock received in an exchange to which subsection (c) (3) applies to a shareholder, in exchange for its preferred stock; or

"(iv) securities or preferred or common stock received in an exchange to which subsection (c) (3) applies to a security holder, in exchange for its securities; and

"(B) any preferred stock received has substantially the same terms as the preferred stock exchanged, and any securities received have substantially the same terms as the securities exchanged,

then, except as provided in subsection (f), no gain to the shareholder or security holder from the receipt of such stock or such securities or such stock and securities shall be recognized.

"(3) NON PRO RATA DISTRIBUTIONS.—Paragraphs (1) and (2) shall apply to a distribution whether or not the distribution is pro rata with respect to all of the shareholders of the distributing qualified bank holding corporation.

"(4) EXCEPTION.—This subsection shall not apply to any distribution by a corporation which has made any distribution pursuant to subsection (a).

"(5) DISTRIBUTIONS INVOLVING GIFT OR COMPENSATION.—

"In the case of a distribution to which paragraph (1) or (2) applies, but which—

"(A) results in a gift, see section 2501, and following, or 68A Stat. 403. 26 USC 2501.

"(B) has the effect of the payment of compensation, see section 61 (a) (1). 26 USC 61.

"(c) PROPERTY ACQUIRED AFTER MAY 15, 1955.—

"(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), subsection (a) or (b) shall not apply to—

"(A) any property acquired by the distributing corporation after May 15, 1955, unless (i) gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) or (b), or (ii) such property was received by it in exchange for all of its stock in an exchange to which paragraph (2) or (3) applies, or (iii) such property was acquired by the distributing corporation in a transaction in which gain was not recognized under section 305 (a) or section 332, or under section 354 with respect to a reorganization described in section 368 (a) (1) (E) or (F), or 26 USC 305, 332, 354, 368.

"(B) any property which was acquired by the distributing corporation in a distribution with respect to stock acquired by such corporation after May 15, 1955, unless such stock was acquired by such corporation (i) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b), or (ii) in exchange for all of its stock in an exchange to which paragraph (2) or (3) applies, or (iii) in a transaction in which gain was not recognized under section 305 (a) or section 332, or under section 354 with respect to a reorganization described in section 368 (a) (1) (E) or (F), or

"(C) any property acquired by the distributing corporation in a transaction in which gain was not recognized under section 332, unless such property was acquired from a corporation which, if it had been a qualified bank holding corporation, could have distributed such property under subsection (a) (1) or (b) (1).

"(2) EXCHANGES INVOLVING PROHIBITED PROPERTY.—If—

"(A) Any qualified bank holding corporation exchanges (i) property, which, under subsection (a) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain to such shareholders or security holders, and other property (except property described in subsection (b) (1) (B) (i)), for (ii) all of the stock of a second corporation created and availed of solely for the purpose of receiving such property;

"(B) immediately after the exchange, the qualified bank holding corporation distributes all of such stock in a manner prescribed in subsection (a) (2) (A); and

"(C) before such exchange, the Board has certified (with respect to the property exchanged which consists of property which, under subsection (a) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain) that the exchange and distribution are necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956,

Ante, p. 135.

then paragraph (1) shall not apply with respect to such distribution.

"(3) EXCHANGES INVOLVING INTERESTS IN BANKS.—If—

"(A) any qualified bank holding corporation exchanges (i) property which, under subsection (b) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain to such shareholders or security holders, and other property (except prohibited property), for (ii) all of the stock of a second corporation created and availed of solely for the purpose of receiving such property;

"(B) immediately after the exchange, the qualified bank holding corporation distributes all of such stock in a manner prescribed in subsection (b) (2) (A); and

"(C) before such exchange, the Board has certified (with respect to the property exchanged which consists of property which, under subsection (b) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain) that—

"(i) such property is all or part of the property by reason of which such corporation controls (within the meaning of section 2 (a) of the Bank Holding Company Act of 1956) a bank or bank holding company, or such property is part of the property by reason of which such corporation did control a bank or a bank holding company before any property of the same kind was distributed under subsection (b) (1) or exchanged under this paragraph; and

Ante, p. 133.

"(ii) the exchange and distribution are necessary or appropriate to effectuate the policies of such Act,

then paragraph (1) shall not apply with respect to such distribution.

"(d) DISTRIBUTIONS TO AVOID FEDERAL INCOME TAX.—

"(1) PROHIBITED PROPERTY.—Subsection (a) shall not apply to a distribution if, in connection with such distribution, the distributing corporation retains, or transfers after May 15, 1955, to any corporation, property (other than prohibited property) as part of a plan one of the principal purposes of which is the distribution of the earnings and profits of any corporation.

"(2) BANKING PROPERTY.—Subsection (b) shall not apply to a distribution if, in connection with such distribution, the dis-

tributing corporation retains, or transfers after May 15, 1955, to any corporation, property (other than property described in subsection (b) (1) (B) (i)) as part of a plan one of the principal purposes of which is the distribution of the earnings and profits of any corporation.

"(3) CERTAIN CONTRIBUTIONS TO CAPITAL.—In the case of a distribution a portion of which is attributable to a transfer which is a contribution to the capital of a corporation, made after May 15, 1955, and prior to the date of the enactment of this part, if subsection (a) or (b) would apply to such distribution but for the fact that, under paragraph (1) or (2) (as the case may be) of this subsection, such contribution to capital is part of a plan one of the principal purposes of which is to distribute the earnings and profits of any corporation, then, notwithstanding paragraph (1) or (2), subsection (a) or (b) (as the case may be) shall apply to that portion of such distribution not attributable to such contribution to capital, and shall not apply to that portion of such distribution attributable to such contribution to capital.

"(e) FINAL CERTIFICATION.—

"(1) FOR SUBSECTION (a).—Subsection (a) shall not apply with respect to any distribution by a corporation unless the Board certifies that, before the expiration of the period permitted under section 4 (a) of the Bank Holding Company Act of 1956 (including any extensions thereof granted to such corporation under such section 4 (a)), the corporation has disposed of all the property the disposition of which is necessary or appropriate to effectuate section 4 of such Act (or would have been so necessary or appropriate if the corporation had continued to be a bank holding company). Ante, p. 135.

"(2) FOR SUBSECTION (b).—

"(A) Subsection (b) shall not apply with respect to any distribution by any corporation unless the Board certifies that, before the expiration of the period specified in subparagraph (B), the corporation has ceased to be a bank holding company.

"(B) The period referred to in subparagraph (A) is the period which expires 2 years after the date of the enactment of this part or 2 years after the date on which the corporation becomes a bank holding company, whichever date is later. The Board is authorized, on application by any corporation, to extend such period from time to time with respect to such corporation for not more than one year at a time if, in its judgment, such an extension would not be detrimental to the public interest; except that such period may not in any case be extended beyond the date 5 years after the date of the enactment of this part or 5 years after the date on which the corporation becomes a bank holding company, whichever date is later.

"(f) CERTAIN EXCHANGES OF SECURITIES.—In the case of an exchange described in subsection (a) (2) (A) (iv) or subsection (b) (2) (A) (iv), subsection (a) or subsection (b) (as the case may be) shall apply only to the extent that the principal amount of the securities received does not exceed the principal amount of the securities exchanged.

"SEC. 1102. SPECIAL RULES.

"(a) BASIS OF PROPERTY ACQUIRED IN DISTRIBUTIONS.—If, by reason of section 1101, gain is not recognized with respect to the receipt of any property, then, under regulations prescribed by the Secretary or his delegate— Ante, p. 139.

"(1) if the property is received by a shareholder with respect to stock, without the surrender by such shareholder of stock, the basis of the property received and of the stock with respect to which it is distributed shall, in the distributee's hands, be determined by allocating between such property and such stock the adjusted basis of such stock; or

"(2) if the property is received by a shareholder in exchange for stock or by a security holder in exchange for securities, the basis of the property received shall, in the distributee's hands, be the same as the adjusted basis of the stock or securities exchanged, increased by—

"(A) the amount of the property received which was treated as a dividend, and

"(B) the amount of gain to the taxpayer recognized on the property received (not including any portion of such gain which was treated as a dividend).

"(b) PERIODS OF LIMITATION.—The periods of limitation provided in section 6501 (relating to limitations on assessment and collection) shall not expire, with respect to any deficiency (including interest and additions to the tax) resulting solely from the receipt of property by shareholders in a distribution which is certified by the Board under subsection (a), (b), or (c) of section 1101, until five years after the distributing corporation notifies the Secretary or his delegate (in such manner and with such accompanying information as the Secretary or his delegate may by regulations prescribe) that the period (including extensions thereof) prescribed in section 4 (a) of the Bank Holding Company Act of 1956, or section 1101 (e) (2) (B), whichever is applicable, has expired; and such assessment may be made notwithstanding any provision of law or rule of law which would otherwise prevent such assessment.

68A Stat. 803.
26 USC 6501.
Ante, p. 135.
Ante, p. 143.

"(c) ALLOCATION OF EARNINGS AND PROFITS.—

"(1) DISTRIBUTION OF STOCK IN A CONTROLLED CORPORATION.—In the case of a distribution by a qualified bank holding corporation under section 1101 (a) (1) or (b) (1) of stock in a controlled corporation, proper allocation with respect to the earnings and profits of the distributing corporation and the controlled corporation shall be made under regulations prescribed by the Secretary or his delegate.

Ante, p. 139.

"(2) EXCHANGES DESCRIBED IN SECTION 1101 (c) (2) OR (3).—In the case of any exchange described in section 1101 (c) (2) or (3), proper allocation with respect to the earnings and profits of the corporation transferring the property and the corporation receiving such property shall be made under regulations prescribed by the Secretary or his delegate.

Ante, p. 142.

"(3) DEFINITION OF CONTROLLED CORPORATION.—For purposes of paragraph (1), the term 'controlled corporation' means a corporation with respect to which at least 80 percent of the total combined voting power of all classes of stock entitled to vote and at least 80 percent of the total number of shares of all other classes of stock is owned by the distributing qualified bank holding corporation.

"(d) ITEMIZATION OF PROPERTY.—In any certification under this part, the Board shall make such specification and itemization of property as may be necessary to carry out the provisions of this part.

"SEC. 1103. DEFINITIONS.

"(a) BANK HOLDING COMPANY.—For purposes of this part, the term 'bank holding company' has the meaning assigned to such term by section 2 of the Bank Holding Company Act of 1956.

Ante, p. 133.

"(b) QUALIFIED BANK HOLDING CORPORATION.—

"(1) IN GENERAL.—Except as provided in paragraph (2), for purposes of this part the term 'qualified bank holding corporation' means any corporation (as defined in section 7701 (a) (3)) which is a bank holding company and which holds prohibited property acquired by it— 68A Stat. 911. 26 USC 7701.

"(A) on or before May 15, 1955,

"(B) in a distribution in which gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) or (b) of section 1101, or Ante, p. 139.

"(C) in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (c) (3). Ante, p. 142.

"(2) LIMITATIONS.—

"(A) A bank holding company shall not be a qualified bank holding corporation, unless it would have been a bank holding company on May 15, 1955, if the Bank Holding Company Act of 1956 had been in effect on such date, or unless it is a bank holding company determined solely by reference to—

"(i) property acquired by it on or before May 15, 1955,

"(ii) property acquired by it in a distribution in which gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) or (b) of section 1101, and Ante, p. 139.

"(iii) property acquired by it in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (3). Ante, p. 142.

"(B) A bank holding company shall not be a qualified bank holding corporation by reason of property described in subparagraph (B) of paragraph (1) or clause (ii) of subparagraph (A) of this paragraph, unless such property was acquired in a distribution with respect to stock, which stock was acquired by such bank holding company—

"(i) on or before May 15, 1955,

"(ii) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b) of section 1101, or Ante, p. 139.

"(iii) in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (3). Ante, p. 142.

"(C) A corporation shall be treated as a qualified bank holding corporation only if the Board certifies that it satisfies the foregoing requirements of this subsection.

"(c) PROHIBITED PROPERTY.—For purposes of this part, the term 'prohibited property' means, in the case of any bank holding company, property (other than nonexempt property) the disposition of which would be necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956 if such company continued to be a bank holding company beyond the period (including any extensions thereof) specified in subsection (a) of such section or in section 1101 (e) (2) (B) of this part, as the case may be. The term 'prohibited property' does not include shares of any company held by a bank holding company to the extent that the prohibitions of section 4 of the Bank Holding Company Act of 1956 do not apply to the ownership by such bank holding company of such property by reason of subsection (c) (5) of such section. Ante, p. 135. "Prohibited property".

"(d) NONEXEMPT PROPERTY.—For purposes of this part, the term 'nonexempt property' means—

"(1) obligations (including notes, drafts, bills of exchange, and bankers' acceptances) having a maturity at the time of issuance of not exceeding 24 months, exclusive of days of grace;

"(2) securities issued by or guaranteed as to principal or interest by a government or subdivision thereof or by any instrumentality of a government or subdivision; or

"(3) money, and the right to receive money not evidenced by a security or obligation (other than a security or obligation described in paragraph (1) or (2)).

"(e) BOARD.—For purposes of this part, the term 'Board' means the Board of Governors of the Federal Reserve System."

68A Stat. 295. 26 USC 1001-1091.

(b) The table of parts for subchapter O of chapter 1 of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following:

"Part VIII. Distributions pursuant to Bank Holding Company Act of 1956."

(c) The amendments made by this section shall apply with respect to taxable years ending after the date of the enactment of this Act.

SAVING PROVISION

SEC. 11. Nothing herein contained shall be interpreted or construed as approving any act, action, or conduct which is or has been or may be in violation of existing law, nor shall anything herein contained constitute a defense to any action, suit, or proceeding pending or hereafter instituted on account of any prohibited antitrust or monopolistic act, action, or conduct.

SEPARABILITY OF PROVISIONS

SEC. 12. If any provision of this Act, or the application of such provision to any person or circumstance, shall be held invalid, the remainder of the Act, and the application of such provision to persons or circumstances other than those to which it is held invalid, shall not be affected thereby.

Approved May 9, 1956.