February 15, 1935

Mr. Morrill
Mr. Wyatt
Mr. Clayton
Mr. Daiger
Mr. Currie

I am sending you a draft of the arguments for Title II of the Banking Act of 1935. Dictated but not read. I thought that we might all do our revising simultaneously.

E. A. G.

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February 14, 1935

ARGUMENTS FOR TITLE II OF THE BANKING ACT OF 1935

The fundamental purposes of Title II of the Banking Act of 1935 are: (1) to increase the ability of the banking system to promote business stability; (2) for that purpose to concentrate authority and responsibility in the formulation of national monetary policies on a body representing the nation without interfering with regional autonomy in matters of local concern; (3) to modify the structure of the Federal Reserve System so as to promote these purposes and at the same time to increase the economy and effectiveness of its operation, and (4) to relieve the banking system of unnecessary restrictions that handicap it in the performance of its functions. For these purposes, the following amendments to the Federal Reserve Act are proposed, references being to Title II of the Banking Bill of 1935:

Section 201 provides for combining the offices of Chairman of the board of directors and Governor of the Federal Reserve banks, appointments to be made annually by the directors of the banks subject to approval by the Federal Reserve Board. Similar provision is made for a Vice Governor and Deputy Chairman. The purposes of these provisions is to help to unify the administrative machinery of the Federal Reserve banks and to increase the authority of the Federal Reserve Board over these banks without abandoning the advantages of the regional character of the Federal Reserve System or interfering with the local responsibility and management of local matters.

The section also provides that directors of the Federal Reserve banks shall not serve more than six consecutive years. The purpose of this provision is to prevent the crystallization in the directorates of the Reserve

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banks of influence of any one individual group of individuals. Continuity of service is provided for by allowing members to serve as long as six years and in case it is desirable there is nothing to prevent the reappointment of able and experienced directors after a lapse of a year or more after the expiration of their six years of service. This arrangement will have the additional advantage of enabling the Federal Reserve banks to retire directors whose service on the board has proved to be of little value. The proposal would increase the control of the Federal Reserve Board over the key officials of the Federal Reserve banks. In the original Federal Reserve Act it was contemplated that the Chairman of the board of directors, who is appointed by the Federal Reserve Board, shall be the principal executive officer of the bank. In practice this has developed that the board of directors appoints a governor, who is the chief executive of the bank, and who is in no way responsible to the Federal Reserve Board, except that his salary must be approved by that Board. In most cases the governors have developed into the dominating personalities at the Reserve banks. The bill proposes to recognize the office of governor in the law; to consolidate it with that of the chairman of the board, and to make the appointments to the joint office subject to the approval of the Federal Reserve Board. Technically this does not increase the powers of the board, because it has the appointment of the chairman under existing law, but in practice it will increase the board's authority because there will be no opportunity to appoint a chief executive of the bank without the board's approval. The new arrangement will work in the direction of economy by abolishing one of the two most highly paid officers in the banks and it would work towards efficiency because it would do away with the somewhat clumsy dual organization under which the Federal Reserve banks have been functioning. The only

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definite duties of the chairman and Federal Reserve agent under the Act were to have joint custody with the bank of the collateral back of the Federal Reserve notes; to maintain an office of the board at the Federal Reserve bank and to keep the board informed of all matters in which it would be interested. In practice there has grown up an organization under the Federal Reserve agent which includes examinations, bank relations, and the economic and statistical services. There was no advantage in this separation of the functions from those of the operating functions of the bank. In fact, all of the functions of the chairman's office would be consolidated to advantage with the other functions of the bank.

In the case of the economic and statistical services, a closer relationship between these services and the operating officials of the bank would be of distinct advantage, because their value to the system depends on the extent to which their product enters into the operation of the banks. It is clear that a single organization with one responsible head is likely to be more efficiently run and more effective in the performance of its functions than a dual organization ~~xxxx~~ with diffused responsibility and with many duties on the borderline between the two authorities.

Section 202 provides that at any time prior to July 1, 1937, the Federal Reserve Board may admit any insured nonmember bank to membership in the Federal Reserve System, and may waive the legal capital requirements for admission provided that such bank shall comply with all of the regular requirements of members within such time as the Federal Reserve Board shall prescribe. The purpose of this provision is to make it possible for thousands of small member banks to join the System prior to July 1937 when all insured banks must become members of the Federal Reserve System.

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There are about 1500 banks in towns with population of less than 3,000 who are members of the Insurance Corporation and have capital insufficient to admit them to the Federal Reserve System. There are 500 more banks in larger towns and cities in the same position. A table is attached giving this information in more detail. To facilitate the admission of these banks into the Federal Reserve System will make the System and the Deposit Insurance Corporation more acceptable to thousands of banks and to those who are interested. It will also work towards the unification of banking under national supervision. Unification, in turn, will increase the ability of the Government to supervise the banks. Developments during the past fifteen years have shown conclusively that the condition of nonmember banks has repurcussions on the condition of the banking system as a whole. A bank failure is likely to engender other bank failures and member banks, therefore, have been exposed to a hazard from banks that were completely outside the jurisdiction of the national Government.

Another important advantage of unification is that it will make it possible for the Reserve banks to come directly to the assistance of a number of banks which before that were excluded from this advantage. The Emergency Banking Act of 1933 recognized the necessity of taking care of nonmember banks in case of an emergency. Since the responsibility for these banks falls upon the Federal Reserve System under emergency conditions, it is obvious that the System ought to have authority to supervise them at all times.

Unification of banking will also increase the ability of the Federal Reserve System to carry out monetary policies. Deposits in nonmember banks are a considerable proportion of total deposits and changes in the volume of these deposits may become an important element in the national picture. For

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this reason they should be under the supervision and regulation of national authorities. An important weakness in the banking system has been the ability of banks to give up their national charters and their membership in the Federal Reserve System whenever it suited their purposes. Adequate legislation for the protection of depositors and adequate enforcement of existing legislation was difficult under the circumstances. The prevailing system has been described as a competition in laxity between State and national authorities. Clearly, therefore, the step in the direction of unification of banking, which is proposed in this bill, is in the public interest.

Section 203 (1). This section substitutes for the requirement in the law that the President in selecting the appointive members of the Federal Reserve Board shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests and geographical divisions of the country a provision that specifies that future appointive members of the Board shall be persons well qualified by education or experience or both to participate in the formulation of national economic and monetary policies. This change 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 monetary policy.

The reasons for this change are obvious. The language of the law at the present time is in practice meaningless. If, however, an attempt were made to select men representing all the different elemenst in the population the resulting board would likely be one of conflicting views withaut a national viewpoint and with little training and experience that would qualify it to determine monetary policy. It is important to emphasize in the law that Board action does not reflect the opinion of a majority of

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special interests, but the well considered judgment of a body that takes into consideration all phases of national economic life.

There is an additional advantage in the proposed language in that it inserts into the law a statement indicative of the main purposes for which the Federal Reserve System is in existence. The preamble to the Federal Reserve Act mentions as its purposes: elastic currency, facilities for rediscounting commercial paper, and more effective supervision of banking. It does not, therefore, recognize those functions of the System, an understanding of which has developed in post-war years. It is a definite advantage to have such language in the Act and it is appropriate that it should appear in connection with qualifications of members of the Board, since it is upon the Board and not upon the banks that responsibility for national policies must rest.

Section 203 (2) provides for an increase in the salaries of future appointive members of the Federal Reserve Board to the level of compensation received by members of the Cabinet, $20,000 per annum, with compulsory retirement at 70 years on a $12,000 pension and makes present members of the Board eligible for retirement at 70. Pensions for service of less than 12 years are to be proportionate to the length of service and no pension shall be paid to a member who has served less than five years. This section is for the purpose of providing for Board members to be appointed in the future a compensation adequate for dignified living in Washington, together with the assurance of a pension upon retirement.

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The Federal Reserve Board upon its establishment was frequently referred to as the supreme court of finance. The compensation offered the members of the Board, however, has been inadequate, making it almost impossible for men without private means to accept membership on the Board. Choice of members of the Board ought not to be limited to men of means, but the President ought to have an opportunity to select the best available men. The increase in salary proposed in the law will help in this respect and the provision for pensions will be even more helpful. A person who accepts membership on the Federal Reserve Board and wishes to make this his life service should not be obliged to worry about income in his declining years. Salaries provided for the position are not such as to enable a man to make adequate savings for the purpose, and the provision of pensions will remove the worry about support in old age from the members.

Section 203 (3) This section exempts the future Governors of the Federal Reserve Board from the geographic limitations prescribed for other members and provides that the Governor's membership on the Board shall expire when he is no longer designated as Governor by the President. These provisions are for the purpose of enabling the President to appoint as Governor of the Board the ablest available man regardless of the place of his residence. It also provides for a vacancy on the Board in case the President wishes to choose another person for the Governorship.

The selection of the Governor of the Federal Reserve Board, who is an officer of great importance, should be as free from 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 because the man happens to live in a district which is represented by some other members of the Board. There is no danger of sectional over-

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representation as a result of this provision, because the man the President would choose would be a national figure with a national point of view and his high office would impress upon him his obligation to represent the country as a whole.

The provision that the Governor's membership on the Board shall lapse if he is not redesignated as Governor is one that would not often be of importance because in most cases a person not redesignated as Governor would resign his membership on the Board, unless the President requested him not to do so. A situation may develop where the President would not wish to request a man's resignation from the Board and yet would wish to have someone else be Governor. In that case it ought to be made easy for him to make a place on the Board by providing that the Governor's term automatically expires when he is not redesignated. At the same time the fact that the Governor's term expires removes him from the disqualification of accepting a position with a member bank within two years after retirement from the Board.

Section 204 gives the Board the authority to delegate specific powers and duties not involving the determination of national or System policies to individual members of the Board or its representatives. The purpose of this provision is to relieve the Board of a large mass of details and give it a better opportunity to concentrate on problems of national importance. The provision would also tend to expedite the business of the Board.

The power to delegate specific duties to members of the Board or its representatives is essentially for the purpose of relieving the Board members of a large amount of routine duties which are likely to absorb more

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of their time than in the national interest they could afford to spare. The Board should be able to concentrate on studies and inquiries that would enable it to reach decisions on matters of national monetary policy. This is an exacting job and one that should not be interrupted by the necessity of giving attention to innumerable details. The delegation of specific duties to individuals would also result in expediting matters before the Board that require immediate decision. It is provided, however, that the Board shall not delegate any powers that involve determination of national policies, nor delegate its power to make rules and regulations. One of the important consequences of these provisions may be that where the Board has confidence in the local management of a Reserve bank it may delegate to its Governor such powers as the granting of permits for interlocking directorates, admission of banks into the System, voting permits for holding companies, authority to grant acceptances up to 100 per cent of capital, and other matters on which the local bank is in a better position to have the necessary contacts and information. The fact, however, that these matters can be handled by local authorities only by delegation from the Board makes it possible for the Board to withhold these powers unless and until it is specified that they will be properly exercised.

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Section 205 amends Section 12A of the Federal Reserve Act so as to provide for an open market committee to consist of the Governor and two members of the Board, elected annually by the Board, and two Governors of the Federal Reserve banks, elected annually by the Governors of the Federal Reserve banks. It shall be the duty of this committee to make recommendations about discount rate policies and to formulate the System's open market policies, which shall be binding on the Federal Reserve banks. The purpose of this provision is to concentrate the responsibility for the formulation of national credit policies in a small body that could act effectively, and in which the point of view of the banks would be represented, but control would be in the Board.

A change in the provision about open-market policy is obviously necessary in order to place definite responsibility on a national body. Under the present law open-market policies are formulated by the Federal Open Market Committee, which consists of the Governors of the twelve Federal Reserve banks. The recommendations of the committee have to be approved by 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 twelve, which has power to formulate policies, but not to put them into effect. We have the Federal Reserve Board, consisting of eight 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 say as to whether the policy is to be carried out or not. It would be difficult to conceive of an arrangement that was better

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calculated for diffusing responsibility and creating an elaborate system of obstructions than this. To what extent this arrangement has been a factor in the actual operation of the System is immaterial. It is impossible now to decide whether or not the failure of the System to prevent the worst phases of the depression has been due to the faulty mechanism of the open-market powers. It need not be decided whether there was anything more that the System could have done or not in order to reach the conclusion that a piece of machinery that makes delays, conflicts and obstruction not only possible but probable is one that should not be permitted to remain in the law. The proposal in the bill is one that would place the ultimate responsibility on the Federal Reserve Board, since the Board as a whole will elect three of the members of the committee from among its own members and will also have the power to approve or disapprove of the appointment of the Governors who will be elected to represent the banks in the committee. Furthermore, the Board members will have a majority of the committee. Responsibility for open-market operations, therefore, would be definitely fixed on the Federal Reserve Board. This is as it should be, since the country holds the Board responsible for these policies.

These arguments are not purely theoretical, but have a real practical significance. It is a fact that the Federal Reserve Board, whether it has always been right or not, has always taken the national point of view and it is natural for it to do so because it is specifically appointed for that purpose. It is also true that the majority of the Governors take a local point of view and also have been trained and think in terms of commercial banking. To buy a lot of Government securities at a time when money rates are already very low, or to buy long-term securities rather than exclusively short-term liquid obligations goes against their philosophy of sound commer-

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cial and central banking. It may be that on many occasions a broader outlook has prevailed among the Governors under the leadership of those of them who have had broader experience, but nevertheless, there is the possibility and the actual voting power of Governors who have nothing to do with the money market, with international movements of funds, and with the national credit situation, making decisions on policies that deal with these precise subjects. Furthermore, back of the Governors are the 108 directors, who in most cases take their responsibilities on the directorates as being primarily concerned with the interests of their stockholders, that is, the member banks, and in reference to local credit conditions. Participation in national policies may at times appear to them to be a betrayal of their trust. They should not be placed in that position. It is proper and desirable that the local business and credit point of view prevail in the Federal Reserve banks' relationship with their local banks and businessmen. But this is not the point of view that should prevail in the determination of national policies.

The committee as it is set up gives the Board a majority, but provides for representation of the point of view of the Governors. It would be even better to either leave the matter to the Federal Reserve Board with provision for some advisory committee of Governors, or at least to leave it to the committee now provided for in the bill, but with power of approval by the Federal Reserve Board as a whole. Such an arrangement would contribute to the sense of unescapable responsibility which should be fostered in the Federal Reserve Board.

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Section 206 provides that any sound assets of a member bank shall be eligible as a basis for borrowing at a Federal Reserve bank, subject to regulations of the Federal Reserve Board. The Board would also have authority to prescribe limitations on maturity of advances to member banks.

The purpose of this provision is to empower the Board to relax or tighten eligibility requirements in accordance with changes in economic and credit conditions and to remove mandatory limitations on maturity of advances to member banks. Existing limitations had to be suspended during the emergency, but this was accomplished only after they had done a great deal of harm. 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 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 available under the law for borrowing at the Reserve banks. There is at present considerable evidence that the restrictions on eligibility are proving an impediment to recovery. New loans of a type that commercial banks have customarily made in the past are now refused, not because the applicants do not possess sound assets, but because the sound assets that they do possess are technically ineligible for rediscount. There is also a tendency among many banks to remove from their portfolios paper that cannot be immediately liquified by recourse to

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the Federal Reserve banks.

While it is true that this proposal is a departure from the original theory of the Federal Reserve Act, it is a departure that is in line with the development of the nation since that time. In order to support this provision it is not necessary to subscribe to the theory that commercial lending on a large scale will never again be the custom in this country. It is only necessary to recognize that it is possible that banks may once more, as they did in 1930-1932, find themselves in a position where they needed the help of the Federal Reserve banks as they never had before, and where these banks were not able to come to their assistance because of technicalities in the law. The power to modify any regulations that may exist, if an emergency comes up, should, therefore, be lodged where it can be used xxxxxxxx promptly and effectively. Member banks should be given the assurance that if they conduct their business prudently and serve their communities' needs both for short-time and long-time funds with due regard to the soundness of the assets they acquire they need never find themselves insolvent as a consequence of national developments that are beyond their control. The banks should concern themselves with the substance of their assets rather than with their form. Such an assurance to the banks is likely to be an important help to business recovery.

Section 207 amends Section 14 of the Federal Reserve Act so that obligations, the principal and interest of which are guaranteed by the United States, shall be eligible for purchase by the Federal Reserve banks 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.

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Section 208 (1) provides that collateral requirements for Federal Reserve notes shall be repealed and that the prohibition against the paying out of Federal Reserve notes of another Federal Reserve bank shall be removed. Repeal of the provisions for collateral against Federal Reserve notes is proposed because these notes, being prior liens on the assets of the Reserve banks and obligations of the United States Government, require no specific pledging of collateral in order to insure their safety. At the same time the collateral requirements have hampered open market operations of the Federal Reserve System at critical times and have had to be belatedly relaxed during the emergency to admit United States Government obligations.

The proposal does not in any way change the 40 per cent gold certificate reserve requirement against Federal Reserve notes. The present collateral requirement caused serious difficulty at the time when there was a foreign drain on the country's gold in 1931-1932. At that time it was necessary to pledge more than a billion dollars of gold over and above the reserve requirements, and it was not possible to increase the amount of eligible paper that would have released the gold, except by the sale of Government securities, and the consequent increase in the burden of debt on the member banks. In other words, at that time collateral requirements caused the Reserve System to refrain from adopting a monetary policy that was clearly in the interests of combatting the prevailing deflation. The situation was met at the time by an emergency measure, which, however, was greatly delayed. Such a state of affairs should not be permitted to occur again. The best way to prevent its occurrence is to do away with collateral requirements all together and let the quality of the Federal Reserve notes depend entirely on the fact that they are secured by the assets of the Reserve bank.

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It has been erroneously asserted that to dispense with the requirement for segregation would give the Reserve banks power to issue notes without adequate backing. This is not the case. The Reserve banks have two principal classes of liabilities: deposits and notes. Back of these, in addition to gold and lawful money, are the Reserve banks' bills and securities. Either notes or deposits can be increased through the acquisition by the Reserve banks of an acceptable asset. Their total can be increased in no other way. It is at the time the 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 deposits 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 deposits of the Reserve banks are also good enough to back Federal Reserve notes.

Furthermore, 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.

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Section 208 (2) provides for the abolition of the Federal Reserve Agent. Since it is proposed to vest his function as Chairman of the Board of Directors in the Governor and, since his function as custodian of collateral against Federal Reserve notes ceases to exist with the abolition of the collateral, it is proposed to abolish the office itself and thereby to contribute to the economical and unified operation of the Federal Reserve banks.

Section 209. This section provides that in order to prevent injurious credit expansion or contraction the Federal Reserve Board may change reserve requirements as to any or all Federal Reserve districts or classes of cities and as to demand or time deposits. This proposal represents a clarification and modification of a power which the Board now possesses under the Thomas amendment. It is essential, in view of the possibility of dangerous credit expansion on the basis of existing reserves, and also in order to give the Board another instrument for easing credit conditions in case some time in the future that policy should become in the public interest.

The present law, in addition to being hastily worded,and self-contradictory, 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. 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 in these excess reserves, if

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the Treasury should use part or all of its gold profit, a power in the Federal Reserve Board to counteract an inflation is highly desirable.

Section 210 provides for amending Section 24 of the Federal Reserve Act so as to permit loans to be made on an amortization basis for periods of twenty years and up to 75 per cent of the value of the property. It removes the geographic limitations as to location of real estate on which loans may be made and provides that the aggregate amount of real estate loans, plus other real estate (except bank premises), shall not exceed 60 per cent of time deposits or 100 per cent of capital and surplus, whichever is the greater. All real estate loans are to be secured by first liens but second and subsequent liens may be taken to secure debts previously contracted in good faith. It is provided that limitations of Section 24 be applicable to State member banks as well as national banks. The purpose of this proposal is to relax restrictions on the power of member banks to make mortgage loans. This proposal would enable member banks better to meet the credit needs of many communities and would remove the necessity of organizing other institutions to perform this service.

The unfreezing of the mortgage market is a matter of great importance at this stage of the business situation. As of October 17, 1934, national banks had authority to loan up to $3,400,000,000 on real estate mortgages. The actual loans they had made, however, were much smaller. Under the new proposal the limit would be probably in excess of $4,000,000,000 additional. While the fact that the banks have not used all the lending power that they had would seem to indicate that there is no urgent need for increasing that power, it is true that there are many individual banks that are not in a position to lend as much on real estate as they would like and would think it safe and profitable. When State member bank are added to national banks

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the total amount of real estate loans that may be possible under the proposal is about $6,000,000,000.

The proposed liberalization of mortgage loans is not particularly radical. It simply changes the limitations somewhat. Since our commercial banks hold $10,000,000,000 of the people's savings, they must not confine their lending operations to short-time loans. If they were to so confine their loans they would not be able to make a living since the total amount of short-time paper is not adequate to support the banks. It is, therefore, important on the one hand to have the banks find an outlet for their funds and on the other hand it is important to encourage building activity through improvement in the mortgage market. If the banks do not do this themselves, other agencies including the Government will and the prospects of profitable operation for the commercial banking system will correspondingly diminish.

The encouragement of amortized loans which the bill proposes has the advantage of making the loans better because they become paid up through a long period of time, including periods of prosperity. The fact that there is a limit on the amount of principal repayment that can be demanded at any time is in itself a great safeguard, because it prevents large maturities coming at a time of acute depression or crisis. That is what happened in the present depression. It is believed, therefore, that the proposed liberalization and modification of existing restrictions on mortgage loans will not in any way hurt the soundness of existing banks. It is hoped, however, that it will encourage activity in the field in which it is most needed and will tend to prevent the recurrence of conditions when the simultaneous calling of a large volume of mortgages resulted in innumerable foreclosures with loss to the borrowers, the lenders, and the community.

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CAPITALIZATION OF INSURED BANKS NOT MEMBERS OF THE FEDERAL RESERVE SYSTEM: JUNE 30, 1934

Population of towns where located	Number of banks with:				Deposits of banks with: (000 omitted)			
	Insufficient capital	Sufficient capital	Not classified	Total	Insufficient capital	Sufficient capital	Not classified	Total
Under 3,000	1,545	3,937		5,482	$172,114	$1,093,078		$1,265,192
3,000 to 6,000	116	550		666	37,811	413,844		451,655
6,000 to 50,000	242	637		879	137,296	1,077,362		1,214,658
50,000 and over	95	17	1/126	263	40,204	1,671,054	1/$114,905	1,826,163

1/ Includes banks with capital of between $100,000 and $200,000 which may qualify due to the provisions in the law that banks in the outlying districts of a city with more than 50,000 inhabitants and where State laws permit the organization of State banks with a capital of $100,000 or less, member banks may have a capital of not less than $100,000.

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