

STENOGRAPHER'S MINUTES

---

THE RESERVE BANK

---

ORGANIZATION COMMITTEE

---

---

"FEDERAL RESERVE DISTRICT DIVISIONS AND LOCATION  
OF FEDERAL RESERVE BANKS AND HEAD OFFICES."

---

---

vs.

---

---

At Los Angeles, Calif.

---

Date February 4, 1914.

Law Reporting Company, Official Stenographers  
115 BROADWAY, — NEW YORK  
TELEPHONE, 2820 RECTOR

Los Angeles, Cal., February 4, 1914.

Met pursuant to adjournment at 10:00 A. M.

PRESENT:

THE SECRETARY OF THE TREASURY.

THE SECRETARY OF AGRICULTURE.

-----

The Secretary of the Treasury: This Committee is required by the Federal Reserve Act to divide the country into not less than eight or more than twelve districts and locate a Federal Reserve Bank in some city in each one of these districts; and in determining the districts, the law requires that due regard shall be had to the convenience of trade and customary course of business; also that the districts be not necessarily coterminus with state lines. The object here is to get such information relating to Southern California and the courses of business in this district as we may be able to obtain.

I see that the Clearing House has presented some names here. The first on the list is Mr. Elliott. We will be glad to hear from Mr. Elliott:

## STATEMENT OF J. M. ELLIOTT.

The Secretary of the Treasury: Please give your name and occupation.

Mr. Elliott: J. M. Elliott.

The Secretary of the Treasury: Your occupation, Mr. Elliott.

Mr. Elliott: I am president of the First National Bank of this city.

The Secretary of the Treasury: Are you president of the Clearing House?

Mr. Elliott: No, sir, I am not. I had not thought I was to be called upon.

The Secretary of the Treasury: I see your name is on the list here.

Mr. Elliott: The president of the Clearing House Association is here, but I am willing to answer any questions that may be asked.

The Secretary of the Treasury: Who desires to present the case of Los Angeles?

Mr. Elliott: Mr. Fishburn, the president of the Los Angeles Clearing House, Impresume, will do so.

The Secretary of the Treasury: Then perhaps we had better

have him first.

Mr. Elliott: Yes, sir.

STATEMENT OF J. B. FISHBURN

The Secretary of the Treasury: Will you give your full name and occupation?

Mr. Fishburn: J. M. Fishburn. I am president of the National Bank of California in Los Angeles.

The Secretary of the Treasury: Your relation to the clearing house?

Mr. Fishburn: I am president of the Clearing House.

The Secretary of the Treasury: We would be glad to have your views, Mr. Fishburn, about this district here.

Mr. Fishburn: As soon as we learned that these meetings were to be held with a view to locating the various Federal Reserve Banks, the Los Angeles Clearing House and the associated savings banks and trust companies of Los Angeles, amounting in number to about thirty-two banks, got together for the purpose of discussing this proposition of location. Having in mind first the greatest possible efficiency for the Federal Reserve Bank, these banks are a unit in intense desire that the system shall work successfully.

and it naturally has their complete cooperation. The result of that meeting was formulated in a resolution.

The Secretary of the Treasury: Have you that resolution?

Mr. Fishburn: I have a copy of the resolution. I also mailed your Committee a copy, and if you haven't it, I can give you another copy.

The Secretary of the Treasury: I haven't seen it. You may produce the resolution now and it may be filed here as an exhibit to your testimony. Will you kindly read the resolution?

Mr. Fishburn: It is quite long and I don't want to take up too much of your time.

The Secretary of the Treasury: Just give us the gist of it.

Mr. Fishburn: The gist of the resolution is that the Los Angeles banks unanimously recommend that one Federal Reserve Bank be established upon this coast, and that it be established in San Francisco. The reason for that is to get the highest efficiency and to provide profits for our Regional Bank, because the coast district can likely employ the money of the Federal Reserve Bank nearly or quite all the time.

## J. E. Fishburn

The resolution submitted by Mr. Fishburn is as follows:

"WHEREAS the Federal Reserve Act provides that there shall not be less than 8 or more than 12 Federal Reserve Districts; each district to contain only one Federal Reserve Bank; the districts to be apportioned with due regard to the convenience and customary course of business, and also proves that the minimum subscribed capital of each Federal Reserve Bank shall be not less than \$4,000,000, every National Bank shall be required and every state bank may be permitted to subscribe to the capital stock to the extent of six per cent of the combined capital and surplus of each subscribing bank; and

"WHEREAS, in order to locate these Federal Reserve Banks properly and equitably, it will be necessary to take into consideration the items of convenience, natural course of business, volume of banking business and the future utility and strength of the Federal Reserve Bank to aid trade and commerce as well as the banking business in any given region; and

"WHEREAS, the latest returns from the Comptroller of the Currency show substantially the following figures:

J. E. Fishburn.

"Total capital and surplus of  
National Banks in the United States,  
about . . . . . \$2,000,000,000.

Total capital and surplus of  
State Banks and Trust Companies  
in the United States, about . . . . \$2,000,000,000.  
Total \$4,000,000,000.

Total capital and surplus of  
National Banks of the Pacific  
Coast States, including California,  
Arizona, Nevada, Oregon, Washington,  
Idaho and Utah, about \$130,000,000.

Total capital and surplus of  
State Banks and Trust Companies in  
Pacific Coast states, about \$130,000,000.  
Total . . . . \$ 260,000,000.

"It will be seen that all the banks of the Pacific  
Coast states have only about 1/15 of the banking capital  
and surplus of the United States, and as there will be only  
from 8 to 12 Reserve Banks, and probably not more than 10,  
the Pacific Coast states will not in equity be entitled to  
more than one Reserve Bank; and

"WHEREAS; the banking capital and surplus of the State of California is \$169,000,000 of which \$73,000,000 is in San Francisco alone; and

"WHEREAS, the utility and strength of a reserve bank will depend largely upon the extent and character of the area to be covered by its operations, and its efficiency will be greated if it covers a territory with different climatic, industrial, agricultural and manufacturing conditions, with the result that when there is a demand for credit or currency in one section, there will be a surplus in another section and the Federal Reserve Bank will be the Clearing House through which the average condition of the entire section will be reflected.

It will better serve the interests of the public and of the banks, if we have one largely capitalized Reserve Bank covering a large, diversified territory, than to have two covering a smaller and less diversified territory; and

"WHEREAS, the business of the Federal Reserve Banks will be soley with the member banks within its district, no deposits from or loans to individuals being accepted or made, nor any business transacted, that cannot be transacted with a branch, the location of the Federal Reserve Bank in

J. E. Fishburn

any district should be central, for the convenience of its member banks.

It will be conceded that San Francisco will be the logical place for one such institution. Los Angeles and some city in the Pacific Northwest could then have branches, which will in every respect serve the needs of banks in their respective communities.

THEREFORE, ~~BE~~ IT RESOLVED, that the Los Angeles Clearing House Association and associated banks of the city of Los Angeles favor one Federal Reserve Bank only, for the Pacific Coast states, to be located in the city of San Francisco, the Branches in the city of Los Angeles and in one or more of the cities of the Pacific Northwest; and

BE IT FURTHER RESOLVED, that copies of this resolution be forwarded to the Reserve Bank Organization Committee and to the San Francisco Clearing House Association."

Mr. Fishburn: I think if we had a natural district in the country, a district that runs north and south, and which provides different maturities for the various crops of the territory covered and different maturities or different needs for the money, it would be the best thing possible. Take it, for instance, beginning in December, and in the

## J. E. Fishburn

southern end of the state, the requirements are and the money is invested in the citrus industry in the way of box stuff, fertilizer, fumigation, and those things. That money is released probably nearly all of it, by the first of April. Then it can be moved north to move the deciduous fruit, and a little later the grain crop, and still a little later the canned fruits of this district. It then comes back and goes into shocks, boxes again, and starts on the new route around the circle.

The Secretary of the Treasury: In crop rotation.

Mr. Fishburn: Yes, sir; and that is the reason for that.

The Secretary of the Treasury: Distribute the demand equally over the year.

Mr. Fishburn: Yes, sir; and we can employ the capital of one Federal Reserve Bank, we employ its funds nearly all the year round.

The Secretary of the Treasury: Now, what is the district that you are addressing yourself to?

Mr. Fishburn: Our primary district would be California, Oregon and Washington, to which we would suggest Arizona, Nevada, New Mexico and Utah, or at any rate as far east as Arizona and Nevada, Idaho and Utah. That, however, is my

J. E. Fishburn

personal view. I have not consulted the other members upon that.

The Secretary of Agriculture: The southern states?

Mr. Fishburn: Yes sir.

The Secretary of the Treasury: I suppose you have figured up the capitalization and the course the bank would have on the business of that district?

Mr. Fishburn: Except just this, that it would make a large and comfortable bank from the actual bank subscriptions without going outside for personal subscriptions or to the government for the subscriptions. I have not the figures. Mr. Sarteri has those. With reference to the location and our reason for selecting San Francisco, it is because it is now the natural point to which all banking business goes for this country that I have mentioned. There is not a bank in Los Angeles, for instance, that would not keep an account in San Francisco, and there is probably not a bank in San Francisco that keeps an account in Los Angeles for any real need; and that thing is true jp and down the coast.

The  $\frac{1}{4}$  Secretary of Agriculture: Where else do you keep accounts?

J. E. Fishburn.

Mr. Fishburn: We keep an account at Chicago, New York and Kansas City.

The Secretary of Agriculture: What percentage would you say you keep in San Francisco, and what percentage in the other cities?

Mr. Fishburn: Well, it varies according to the needs. At this time of the year and a little later, our funds will naturally drift to New York on account of the tourist travel here that brings an immense amount of New York exchange, and the orange crop going east accumulates our money east more or less, so that I can't answer that question.

The Secretary of Agriculture: Normally what would you say?

Mr. Fishburn: It is about evenly divided between New York, Chicago and San Francisco. The Kansas City accounts are just for collection purposes.

The Secretary of the Treasury: Well, you don't keep any reserve balance in San Francisco?

Mr. Fishburn: We are a reserve city ourselves.

The Secretary of the Treasury: Your accounts in San Francisco are for exchange purposes?

Mr. Fishburn: Yes, sir.

J. E. Fishburn.

The Secretary of the Treasury: To what extent do you keep balances, or the banks in Los Angeles carry accounts in San Francisco from year to year? C<sup>an</sup> you give the figures?

Mr. Fishburn: No, I have no actual figures, but I think they are about equally divided between Chicago, New York and San Francisco.

The Secretary of the Treasury: I was not speaking of reserves; I was speaking of balances.

Mr. Fishburn: San Francisco does not act as a reserve, but the balances are about the same.

The Secretary of the Treasury: In dollars and cents, couldn't you supply those figures? I mean the aggregate of the balance carried in San Francisco?

Mr. Fishburn: No, I have not made any calculation.

The Secretary of the Treasury: I say you can supply it.

Mr. Fishburn: I think perhaps you will find them before you are through with the examination. If not, I will get them for you.

The Secretary of the Treasury: Do you think that the bank should be located in San Francisco?

Mr. Fishburn: Yes, sir.

J. E. Fishburn

The Secretary of the Treasury: I presume you would expect in that case to have a branch here in Los Angeles?

Mr. Fishburn: We would hope for one for the purpose of convenience, yes, sir.

The Secretary of the Treasury: To what extent do the Arizona banks carry their balances and reserve in San Francisco?

Mr. Fishburn: I think very largely. The Los Angeles banks have a considerable amount of that Arizona business. I think every bank perhaps in Arizona approximately carries a Los Angeles account, but I think the larger part of the business is in San Francisco.

The Secretary of the Treasury: Can you supply that information, to what extent they carry balances here?

Mr. Fishburn: Yes sir.

The Secretary of the Treasury: The banks of Arizona.

Mr. Fishburn: Yes sir.

The Secretary of Agriculture: Who could give us the most definite information as to the course of trade from Arizona, perhaps west of Arizona?

Mr. Fishburn: At the moment I can't answer, but I will try to get you that information and get you the right person to

J. E. Fishburn.

supply it.

The Secretary of the Treasury: How about Nevada - take southern Nevada.

Mr. Fishburn: That comes down here.

The Secretary of the Treasury: That comes largely to Los Angeles?

Mr. Fishburn: Yes, sir, of lage years. Still their banking connections are San Francisco connections. Every one has a San Francisco connection.

The Secretary of Agriculture: Still the territory is naturally tributary to Los Angeles?

Mr. Fishburn: Yes; but it is only of late years that it has been opened up to business, and it has not yet been weaned away from San Francisco.

The Secretary of the Treasury: Do you carry any of y ur reserve balances with St. Louis?

Mr. Fishburn: A small amount, yes sir.

The Secretary of the Treasury: What percentage would you say of your entire reserve balances are carried in St. Louis?

Mr. Fishburn: Oh, two per cent, perhaps.

The Secretary of the Treasury: You mean two per cent of

the 25 per cent?

Mr. Fishburn: Yes sir.

The Secretary of the Treasury: You have some distinctive papers perhaps here, Mr. Fishburn, haven't you? I mean you have a distinctive character of commercial paper. If you have any such paper, we would like to have some information about it. In some places they have cattle; in some places they have other kinds of commercial paper.

Mr. Fishburn: The commercial paper that we get here is the result of the sale of goods by the wholesale houses and manufacturers, and they are taking for that the acceptances of the people to whom they sell. In addition to that there is the direct paper of these wholesale houses and manufacturers running directly to the bank.

The Secretary of the Treasury: One name paper.

Mr. Fishburn: One name or one firm, yes.

The Secretary of Agriculture: To what extent are the fruit crops financed here?

Mr. Fishburn: They are very largely financed here, and when we have difficulties, as we had last year, it is a great burden to the banks, and to some extent they have relieved themselves by rediscounting their paper east.

J. E. Fishburn.

The Secretary of the Treasury: You mean the fruit people rediscount direct?

Mr. Fishburn: I mean the local banks vcarry the fruit people and rediscount to do it.

The Secretary of the Treasury: Can you give us any idea of the time when that excessive demand arises and the extent to which you rediscount?

Mr. Fishburn: Ordinarily it arises at the time they commence to take on their box stuff and fertilization bills, which would be in December, and they all have to be carried the last of November and December. Money commences to be released the latter part of January, and being practically returned by the first day of April. The Valencia oranges come later, as late as June, but not in quantities to seriously affect the situation.

The Secretary of Agriculture: The situation last year was very obnoxious?

Mr. Fishburn: Yes sir.

The Secretary of Agriculture: And most unusual?

Mr. Fishburn: Yes sir. The frost destroyed the crop to some extent, although much better results were obtained than were expected, by selecting the fruit and carefully cutting.

The Secretary of the Treasury: How are advances made against the growing crops?

Mr. Fishburn: The advances are simply made direct on the credit of the concern. I don't think there are any mortgages taken. I don't think there are any crop mortgages or anything of that kind in this country. I have not heard of it.

The Secretary of the Treasury: You rely entirely upon the responsibility of the maker of the note?

Mr. Fishburn: Yes sir.

The Secretary of the Treasury: Without any lien on the growing crop or anything of that sort?

Mr. Fishburn: You know I am not entirely familiar with the method of the local bank in the handling of that matter, but I have not heard it, and the paper offered ~~us~~ for re-discount is not secured by mortgage. I have never seen any paper secured by mortgage on a crop. They are a community of people well know to their banker and he knows their financial condition and whether or not their place is mortgaged; he knows what that place will produce under ordinary conditions, and therefore knows whether or not to extend them a line of credit and how much.

J. E. Fishburn.

The Secretary of Agriculture: It is a settled agricultural condition?

Mr. Fishburn: Yes, sir.

The Secretary of the Treasury: Can you give us any idea of the extent to which rediscounting has been necessary this year in order to carry out the crop movement?

Mr. Fishburn: No sir, I cannot.

The Secretary of the Treasury: It is easy enough to ascertain that?

Mr. Fishburn: It can be ascertained by interviewing the banks themselves and adding up the total.

The Secretary of the Treasury: Can you supply that information for me?

Mr. Fishburn: I can do so.

The Secretary of the Treasury: Take, for instance, the month of December -- you might get the maximum for December, which would give us a line of information we would like to have.

Mr. Fishburn: Yes sir.

The Secretary of the Treasury: Of course, we can get a lot of that information through the Comptroller's office.

Mr. Fishburn: That can be forwarded to you a little later.

J. M. Fishburn.

The Secretary of the Treasury: I will be very glad to have it. We would like to have an idea of that extreme demand in December for the national banks, and if possible the state banks also, and if they will participate in giving that information. That might be forwarded to Washington to the Federal Reserve Organization Committee.

Mr. Fishburn: If you will have your secretary write me a letter covering the point you want to develop, I will do so.

The Secretary of the Treasury: Make a memorandum of that, Mr. Stenographer, and give him a copy of those questions. Let that be filed by the 30th of February.

Mr. Fishburn: A note has just been handed to me suggesting as to the Arizona business and the trend of it, the course of it, that Mr. William W. Woods, vice president of the Citizens National Bank here, is familiar with that.

The Secretary of the Treasury: Very well, The Federal Reserve Act, in section 13, provides as follows:

"Upon the endorsement 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;

J. E. Fisburn.

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."

Now, the Committee desires to have the clearing houses in the different cities of the countries, to which this same question is being addressed, submit a brief giving a definition of commercial paper within the meaning of this Act. We want their views as to what would be the best definition of commercial paper. We should also like to have suggestions as to the standard form of notes or drafts, or bills of exchange which would be best adapted for general uses among the Federal Reserve Banks and the member banks. In some localities they have, as I said a moment ago, a special character of paper, for instance, live stock paper.

Mr. Fisburn: Yes.

The Secretary of the Treasury: If you have any peculiar paper of any sort in this locality, we should like to have a memorandum about that and an explanation of it, and as full information concerning it as possible.

J. E. Fishburn

Mr. Fishburn: I think you will find that most of the notes in note form from which the banks take their paper, are not negotiable. That particular paper that is intended to be used, or perhaps might be used for rediscount would have to be on a form probably supplied by the Federal Reserve Board, for the reason that in different localities and in different states on this question of negotiable notes different customs prevail.

The Secretary of the Treasury: I know different customs prevail, and that is why we desire to get this information together, because the Board will in time promulgate rules and regulations covering these points.

Mr. Fishburn: You might, for instance, find paper that was negotiable and be put into the Federal Reserve Bank on the coast and then later the Federal Reserve Board formed might require the New Orleans Federal Reserve Bank to discount it for us, and if it went there it would not be negotiable paper. It is a very difficult question.

The Secretary of the Treasury: We want full information.

Mr. Fishburn: Yes.

The Secretary of the Treasury: Just write that question out, Mr. Stenographer.

J. E. Fishburn.

The Secretary of Agriculture: The Committee would like a brief covering all that information.

The Secretary of the Treasury: And with that the recommendation on the part of your Clearing House. We would like to have that by the 1st of March.

Mr. Fishburn: We can do that.

The Secretary of the Treasury: Now, there is another point. In section 16 of the Act, page 19, it is provided:

"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 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."

That presents also a very important problem, and one upon which we desire to have the different Clearing Houses submit their views as early as possible. We would like to have that by the 1st of March. We would like a brief on that point with your suggestions or recommendations as to how that clause can be best carried out and effectuated.

J. E. Fishburn

The purpose that is obvious is to substitute a system of bank clearances for the present store method of check collections.

Mr. Fishburn: Yes sir.

The Secretary of the Treasury: Also on the question of the charges that will be made between the different Federal Reserve Banks and their branches, and the transfer of funds, we would like to have your suggestions about that.

Mr. Fishburn: Is it contemplated that there will be charges between the Federal Reserve Banks on these items?

The Secretary of the Treasury: The Board has the right to regulate that. We would like to have your suggestions as to whether or not charges should be made, and if so, to what extent.

Mr. Fishburn: We are all interested in having the Federal Reserve Banks earn money, and you will load them with an enormous expense account if you don't make any charge for these items.

The Secretary of the Treasury: That is a question for the Board to determine, and we would like your views. If you think there should be charges, to what extent do you think they should be made? We would like to have the

Clearing House give that very earnest thought.

Mr. Fishburn: Very well.

The Secretary of the Treasury: That is all. You may make Mr. Fishburn a copy of these questions. Also, Mr. Fishburn, you had better take a copy of this Act. I will mark these two sections.

The Secretary of Agriculture: And the stenographer will give you a memorandum.

The Secretary of the Treasury: I would like to ask if there is any representative of Phoenix here today.

Mr. Goldwater: Yes sir. I am here representing the Arizona Banking Association.

The Secretary of the Treasury: What is your name?

Mr. Goldwater: Morris Goldwater.

The Secretary of the Treasury: We will call you a little later.

#### STATEMENT OF STODDARD JESS.

The Secretary of the Treasury: Mr. Jess, your full name and occupation.

Mr. Jess: Stoddard Jess, vice president of the First National Bank of Los Angeles.

m

Stoddard Jess.

The Secretary of the Treasury: We would like to have your views, Mr. Jess.

Mr. Jess: Briefly restating what has already been said by Mr. Fishburn, the president of the Clearing House Association, I would say that when this question of districting the country for the location of Federal Reserve Banks first came up, Los Angeles, in common with all other cities of any pretense, was interested in the question. We collated facts and figures and discovered that by reason of the geographical location, the preponderance of banking capital, and particularly as to its location between sections of diversified products, that San Francisco seemed to be the logical location for a Federal Reserve bank on the Pacific Coast. A meeting of the members of the Clearing House Association and of the allied savings banks and trust companies was had, and a resolution was formulated and unanimously adopted, stating that the banks of Los Angeles favored San Francisco as the location for a Federal Reserve Bank in this vicinity.

The Secretary of Agriculture: Did you discuss the more general question as to the number of banks that should be established at this time -- the number of districts?

## Stoddard Jess

Mr. Jess: I think that it was the expression of those who considered the question locally here that the smaller number would probably give greater efficiency with a proper number of branches than would a larger one; and I think it will be found to be the concensus of opinion of Los Angeles bankers that eight Federal Reserve Banks would probably give greater efficiency than a larger number.

The Secretary of the Treasury: Where would you put the other banks if you had eight now? You have designated San Francisco as one.

Mr. Jess: I should say that New York, Boston, Chicago, St. Louis, Minneapolis or St. Paul, Denver and Atlanta, Georgia, or New Orleans. I think personally I would give the preference to Minneapolis over St. Paul, and Atlanta over New Orleans, by reason of their size and geographical location.

The Secretary of Agriculture: In speaking of some of these sections, you have not, of course, undertaken to discover whether a bank could be created there with the requisite capital.

Mr. Jess: In these different locations?

The Secretary of Agriculture: Yes.

Mr. Jess: Well, in most of them that would be common knowledge. I have never examined carefully into the eligibility of Atlanta, we will say, as to the necessary capital, and possibly Denver might be questioned.

The Secretary of the Treasury: Have you laid out the districts tentatively?

Mr. Jess: I have not, except our own district here. I felt that it should include what is commonly known as the Pacific Coast states, Washington, Oregon, California, Nevada, Utah and Arizona.

The Secretary of Agriculture: You have got telephone and telegraph communication with San Francisco?

Mr. Jess: We have.

The Secretary of Agriculture: Is it easy to speak on the telephone?

Mr. Jess: Very easy.

The Secretary of Agriculture: Is the traffic often interrupted?

Mr. Jess: Very seldom. Our service is remarkably good. It is difficult to tell when called on the phone whether you are talking with somebody in the city or in San Francisco.

## Stoddard Jess

The Secretary of Agriculture: What is the time of your fast mail?

Mr. Jess: Our fast mail makes the trip in about fourteen hours between the cities.

The Secretary of the Treasury: Can you give us any idea, Mr. Jess, of the excess demand -- for rediscounting purposes what the rediscounting here is?

Mr. Jess: I should say that would be very difficult to arrive at.

The Secretary of the Treasury: Why?

Mr. Jess: I think that probably that money is borrowed by the banks indirectly to a degree, as well as directly. The direct rediscounting or borrowing would be evidenced by the Comptroller's reports. The other would be known by the banks themselves. To what extent that may be prevalent, I don't know. I think there is a growing opinion that the idea of borrowing indirectly is becoming obsolete. The banks are favoring the rediscounting idea as being entirely compatible with good banking, as well they may, for it is one of the main advantages that we hope to receive from our new currency system.

The Secretary of Agriculture: I suppose under the old

## Stoddard Jess

system when you had reached a certain point you simply stopped?

Mr. Jess: Oh yes.

The Secretary of the Treasury: Well, it would be of some value to know, in laying out these districts and determining their necessities, to what extent there has been both the direct and indirect method of discounting, so we can get an idea of that demand.

Mr. Jess: I think that information could be and should be furnished by the banks.

The Secretary of the Treasury: Of course I would call on you formally for it if necessary, but I presume that is unnecessary.

Mr. Jess: Yes sir.

The Secretary of the Treasury: You have heard the question, have you?

Mr. Jess: I did.

The Secretary of the Treasury: If you will be good enough to impress yourself with that question and give us that information by the 20th, we would like to have it. I will propound the same question to you so you may furnish the information also.

## Stoddard Jess

The Secretary of Agriculture: It would be very serviceable if we could have a statement of those conditions.

Mr. Jess: I feel that the banks should cooperate, because cooperation is to their interest and the welfare of all, and I believe they will be glad to do it.

The Secretary of the Treasury: Well, of course the Committee could get it, because it has the power to issue subpoenas, and to compel the production of such testimony as is necessary. Are there representatives here of the state banks?

Mr. Jess: Yes, Mr. Sartori, vice president of the Clearing House Association and president of the Security Savings Bank.

The Secretary of the Treasury: We would be very glad if the national and the state banks would furnish that information so we may have it for the purposes of the Committee. It is very useful to know what the maximum demand is so when we lay out the districts we may know what extreme conditions have to be met.

I will now call Mr. Sartori.

## STATEMENT OF J. F. SARTORI.

The Secretary of Agriculture: State your name.

Mr. Sartori: J. F. Sartori.

The Secretary of Agriculture: Mr. Sartori, you have heard the statement of the problem. The Committee would be very glad to have any suggestion or statement of your views.

Mr. Sartori: I am fully in accord with the resolution of the Clearing House and the testimony given by both Mr. Fishburn and Mr. Jess, that an ideal district would be composed of the seven Pacific states mentioned, with San Francisco as the location of the Federal Bank Reserve. It has been suggested that there should be a Federal Reserve Bank located in Los Angeles for this southwestern district. I took the trouble to gather together a few statistics to show that these seven states were only entitled to equity or from trend of business and volume of business, and volume of banking capital and surplus, volume of deposits and volume of clearings, and so on -- that they are not entitled to more than one Federal Reserve district out of either eight or ten or twelve. I have a few statistics to show that down here in the southwest it would be rather difficult to form a district that is to say, if volume of business should

J. F. Sartori.

in any way govern the location. Some of these statistics I see are practically the same that were offered in San Francisco. I will file them if you desire.

The Secretary of Agriculture: I think they may be very serviceable, Mr. Sartori. Just file them as an exhibit to your testimony.

(The papers submitted by the witness were filed.)

The Secretary of Agriculture: Is it your view that this district would be self-sufficient?

Mr. Sartori: I think the district would be self-sufficient district for the reasons stated in the resolutions of the Clearing House Association, that it has a variety of conditions and a very large variety of products and industries. One section down here received its report principally during the winter months; in the north, it is during the summer and fall.

The Secretary of Agriculture: You have heard the question asked, Mr. Sartori, as to the extreme demand in this section and the extent of it. Do you think the state banks would cooperate with the Committee in furnishing the figures?

Mr. Sartori: Very gladly. We have an association here of the state banks and trust companies and we will very

J. F. Sartori.

gladly cooperate with the Clearing House Association.

The Secretary of the Treasury: Are you members of the Clearing House? I mean these state banks members of the Clearing House?

Mr. Sartori: They are not. The Clearing House is composed now, I think, of eight national banks, the trust and savings bank association of the state banks, and there is a movement on foot at the present time to enlarge the scope of the Clearing House and take in a large number of state banks. I think it will be consummated in a short time. If you please, there is one suggestion I would like to make.

The Secretary of Agriculture: Proceed.

Mr. Sartori: I am the president of a trust and savings bank, a departmental bank in the state of California. I am naturally interested as to the advisability and possibility of entering the system. Section 9 provides as follows:

"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

J. F. Sartori.

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."

Now, I suppose most of the trust and savings banks of the country have made loans and have time loans on the books to certain individuals and firms and corporations exceeding in amount this rule of 10 per cent of the capital and surplus. I know it is true of most of them in the state of California.

The Secretary of the Treasury: To what extent can you make loans under the California law?

Mr. Sartori: Under the law as it has been on the statute books for many years, to any extent.

The Secretary of the Treasury: No limit?

Mr. Sartori: No, limit. Under the new amendment to the Bank Act, 50 per cent -- to the extent of 50 per cent of capital and surplus. Now, how many of the state banks here have other loans. These loans won't mature for years. The question will be what will be the ruling of the Federal

J. F. Sartori.

Reserve Board on that subject.

The Secretary of the Treasury: How do you mean? As to the amount that may be loaned?

Mr. Sartori: No. The state banks when entering the system must conform to that provision of the national bank Act.

The Secretary of the Treasury: You mean the time within which the state banks may be allowed to conform to this provision?

Mr. Sartori: Yes. It has this provision further:

"And to such rules and regulations as the Federal Reserve Board may, in pursuance thereof, prescribe."

Will that permit the Federal Reserve Board to make an exception in the case of state banks on that subject in case the state banks desire to enter the system? Can they enter the system although they have loans amounting to more than 10 per cent of their capital and surplus?

The Secretary of the Treasury: I presume what you want to know is this, whether or not in order to be eligible to membership you must at the time of application, have loans not in excess of 10 per cent of the capital and surplus.

Mr. Sartori: Yes.

The Secretary of the Treasury: We have had that question

J. F. Sartori.

asked us before. While my associate and myself have said that we cannot, of course, as a committee, make a ruling on that point, we believe it is not necessary that at the time of application the state banks and trust companies shall have reduced their loans to each individual or corporation to that extent, and the Federal Reserve Board would undoubtedly, by rule, prescribe a reasonable time in which they might conform to that requirement. The eligibility would relate to the amount of capital.

Mr. Sartori: Yes.

The Secretary of the Treasury: And then they would be given a reasonable time to conform to the requirements of this Act.

The Secretary of Agriculture: I don't think that would work any hardship, and the Board would consider the matter of having eligible banks in this system.

Mr. Sartori: Naturally a state bank would want to know what the ruling of the Federal Reserve Board will be on that question.

The Secretary of Agriculture: While we cannot state positively, that seems to be a reasonable interpretation and we think it will be made.

J. F. Sartori.

The Secretary of the Treasury: It may be that the Committee will formulate the rule or a statement on that particular point very shortly and address it to all the state banks.

The Secretary of Agriculture: That is, we may make an official rule.

The Secretary of the Treasury: We are considering the question. There is another point in that same section, to which our attention was drawn, and that is this, that state banks and trust companies should observe the prohibition against making purchase of or loans on stock of such banks.

Mr. Sartori: That is the law in this state.

The Secretary of the Treasury: If that is the law here, there is no point in California, but in some other states they are permitted to make such loans. They seem to interpret that clause to mean that they could not own stock in other banks or in other corporations where the law of the states permitted it. This prohibition relates solely to your making loans upon your own stock, or making purchase of your own stock.

Mr. Sartori: I presume in some states there is a law against state banks investing in stocks of any kind, or assuming any kind of stockholders' liability?

J. F. Sartori.

The Secretary of the Treasury: Yes, that is true, but that is not true in California.

Mr. Sartori: No.

The Secretary of the Treasury: Your law permits you to subscribe for the stock in these Federal Reserve Banks.

Mr. Sartori: Yes.

The Secretary of Agriculture: There is one question. Have you anything to show in your statistics or anywhere else, the growth of banking power in this section and in this city especially during the period of say ten years?

Mr. Sartori: No, I did not go into comparative figures on that subject.

The Secretary of Agriculture: That would be easy to get?

Mr. Sartori: I can show the volume of banking capital and deposits in this section, in the southern counties, and in Arizona, Nevada and Utah.

The Secretary of Agriculture: That is, just for the present?

Mr. Sartori: For the present.

The Secretary of Agriculture: Would it be difficult to give us that?

Mr. Sartori: Oh no; we have that prepared. Of this

J. F. Sartori.

particular city, for instance?

The Secretary of Agriculture: Yes, and for this section.

The Secretary of the Treasury: Of course, we have it for the national banks; we haven't it for the state banks. If you would be good enough to give it to me for the national and state banks separate, and summarize it.

The Secretary of Agriculture: The growth has been very rapid here?

Mr. Sartori: Yes, very rapid.

The Secretary of the Treasury: That is all. Thank you.

FURTHER STATEMENT OF J. M. ELLIOTT.

The Secretary of the Treasury: Will you be good enough to give us your views, Mr. Elliott, on this problem?

Mr. Elliott: I would be glad to see a large district with San Francisco as its center, including not only Washington, Oregon and California, but at least a part of -- at least all of Nevada and part of Utah and part or the whole of Arizona, and possibly that part of the states the majority of which are east of the mountains but have a small portion west of the mountains.

The Secretary of the Treasury: Are you familiar with the

J. M. Elliott.

normal courses of business throughout that district?

Mr. Elliott: In this part quite well and in the other part fairly well.

The Secretary of the Treasury: Now, to what extent would Arizona, Utah and Nevada, be contiguous to and best served by that sort of an arrangement?

Mr. Elliott: All of Nevada would be served best by San Francisco than by any other city except possibly some small part of it might be served by Salt Lake, if Salt Lake was considered.

The Secretary of the Treasury: Does Salt Lake do more business with San Francisco than with some of the eastern cities?

Mr. Elliott: I think Salt Lake would be better served by San Francisco than it would be by Denver or anything further east.

The Secretary of Agriculture: You said a part of Utah. What part of Utah?

Mr. Elliott: Well, I think it would include nearly all of the State of Utah.

The Secretary of Agriculture: Isn't it true that this section east of the mountains has relatively few banks.

J. M. Elliott.

and that they are attached to Salt Lake City?

Mr. Elliott: Yes sir, I think so.

The Secretary of the Treasury: Now, about Arizona, to what extent are you familiar with the course of exchange and business with Arizona?

Mr. Elliott: I am fairly well acquainted with it. A great deal of the business is done here, except the southeasterly part, in which nearly all of their business is done in El Paso, Texas. They carry a considerable amount of their balances here, and a considerable amount of their balances in San Francisco.

The Secretary of Agriculture: It was represented to us in one of the northern states on the coast that failure to establish a bank up there would do injustice to that section. Does that appeal to you as sound reasoning?

Mr. Elliott: I hardly think so. You gentlemen recognize that if a large district is given, the bank representing that district can do comparatively a small amount acting as a clearing house for that whole district. The smaller the districts are the nearer a bank can come to acting as a clearing house. Practically, San Francisco would be of little use in this section, and hardly any use whatever to

Arizona and the remoter parts of the district, as a clearing house, for the reason that the length of time taken to send the item from the locality where they went into the bank first, to the clearing house, and then having them sent out through the district would take so long that it would render it unworkable.

The Secretary of the Treasury: With branches acting as clearing houses, that would simplify the situation very much.

Mr. Elliott: Yes sir, that would simplify the situation very much, but there is nothing in the Act which would lead anyone to expect that they would act as clearing houses unless, of course, the Central Reserve Board concluded that that was part of their duty.

The Secretary of the Treasury: They may, of course, confer such authority upon the branches.

Mr. Elliott: If they did, it would largely obviate that difficulty and would relieve the banks, especially in a reserve city like Los Angeles, of a very great burden. It would also require very considerable capital for them to do it.

The Secretary of the Treasury: It is upon that point

that we should like to have your views very fully expressed from the clearing house.

Mr. Elliott: I will be glad to do so. I will be glad to answer any further questions I can.

The Secretary of the Treasury: It is well to assume in making up that brief that the branch banks may act as clearing houses; of course, in their particular localities, they, in turn, will act through the Federal Reserve Bank.

Mr. Elliott: Could they do that, Mr. McAdoo, without having the same difficulty or experience in the banks directly sending their items to a clearing house in San Francisco?

The Secretary of the Treasury: Now, that is the very question on which we are seeking light.

Mr. Elliott: That is impractical.

The Secretary of the Treasury: We would like to have as much light as we can get.

Mr. Elliott: The impracticability rests in the length of time between the time the item is deposited in the bank and the time it would reach the bank on which it was drawn, and the payment be advised and come back in its channel. The further you get that away, the greater is the difficulty.

The Secretary of the Treasury: Oh yes, the difficulty increases with the distance, there is no doubt about that; and yet it may not be insuperable.

Mr. Elliott: If you make enough branches you can obviate the difficulty largely.

The Secretary of the Treasury: That is all. Thank you.

The Secretary of Agriculture: As the Arizona representatives may want to get out of town, we will hear from them next. Mr. Goldwater.

#### STATEMENT OF MORRIS GOLDWATER

The Secretary of the Treasury: Give your full name, address, occupation and whom you represent.

Mr. Goldwater: Morris Goldwater. I live at Prescott, Arizona. I am a merchant and connected with the banks. I am also Secretary of the Arizona Bankers Association and have been for ten years.

The Secretary of the Treasury: Are you here with any credentials from that association?

Mr. Goldwater: No sir.

The Secretary of the Treasury: Simply acting as an individual?

Mr. Goldwater: No sir. The president asked me if I would come over and hear what was going on and afterwards come himself. Before coming I wrote a letter to each one of the banks in Arizona asking them a few questions. I don't think I have the letter with me, or a copy of it, but I have a sort of synopsis of the questions and answers.

Mr. Elliott: If my certification is worth anything, I know that Mr. Morris Goldwater is what he represents. I have letters from Arizona stating that that is the case, and I know that he is the secretary of the association.

The Secretary of the Treasury: Well, I only want to know if Mr. Goldwater is authorized to speak for the Bankers Association of Arizona by express authority.

Mr. Goldwater: We have had no meetings since November? The Executive Committee will meet in Phoenix next Monday.

The Secretary of the Treasury: Give us an idea of what you asked them.

Mr. Goldwater: I asked them. Has your bank accepted the provisions of the Federal Reserve Act? If not, do you expect to within the next thirty days? Where should the Federal Reserve Bank of which you would be a member be located to best suit your needs? If a branch bank be asked

for Arizona, in what city do you think it should be located?

The Secretary of the Treasury: What reply did you get?

Mr. Goldwater: There are thirteen national banks in the state of Arizona, and I received replies from eleven of them. The first choice of the answers received were eight for San Francisco, one for Los Angeles, and one for Kansas City.

The Secretary of the Treasury: Where were those banks located? Can you give us that data?

Mr. Goldwater: If I had known that I was coming up here to answer these questions, I could have done so, but I have left my valise over in the hotel. The train was late and I didn't even open it to take the papers out.

The Secretary of the Treasury: Suppose you file those replies as an exhibit to your testimony during the day.

Mr. Goldwater: I can do that. I have them with me. Do you care to hear the rest of those?

The Secretary of Agriculture: Oh yes.

Mr. Goldwater: Second choice, six of them were Los Angeles, one Kansas City and two El Paso. Of the eleven replies received, <sup>ten</sup> of them answered yes, they had accepted the provisions of the Federal Reserve Act. One of

them said no. The other banks did not reply at all; were probably too far away. I can give you the locations of these national banks. There are two in Phoenix, two in Tucson, one in Prescott, one in Globe, one in Douglas, one in Rogales, two in Yuma, one in Tempe and one in Tombstone. The bank in Tombstone is the one that has not yet accepted, although he answers that he expects to do so within thirty days. If a branch bank be asked for Arizona, in what city do you think it should be located? The first choice, ten of them are for Phoenix, one for Tucson, one for Los Angeles or El Paso. Of the letters sent to the 43 state banks -- and besides the 43 state banks there are 13 branch banks in Arizona -- there were 21 replies received. The replies received from the bank itself, of course includes its branches. I don't know that some of them had time to answer. The letter was sent eight days ago, and it takes to some places quite a while to get an answer back. In answer to the first question. Have you accepted the provisions of the Federal Reserve Act? All 21 replies no. In reply to the second question. Do you expect to do so within the next thirty days, one answered yes. One answered yes, as soon as our capital can be increased. Two were

doubtful about it.

The Secretary of Agriculture: What is your state law? Is there any limitation?

Mr. Goldwater: I think not. I know of nothing to prevent any of them. The law as it has been in existence quite a long time was amended by the last legislature. I don't think it has been amended or changed in any way since we became a state. There is nothing in it prohibiting it that I know of. To the third questions there was one answered, Denver, two selected Phoenix, six Los Angeles, six San Francisco and four El Paso. I will say that most of the banks down in Douglas -- only the banks in Douglas and Bisbee favor El Paso as the Reserve Bank. To the fourth question Phoenix was selected by 15, Prescott by 2. El Paso by one and Tucson by one. <sup>Two</sup> Two of them made no reply.

The Secretary of Agriculture: That would indicate that the great majority of both your state and national banks think that Arizona ought to be attached to a district with a central abank in the west.

Mr. Goldwater: Not only that, but they think they ought to be attached to San Francisco and Los Angeles.

The Secretary of Agriculture: Yes.

Mr. Goldwater: I don't know of any of the banks there that do much business that keep accounts all over the United States for that matter, but the greater part of the business is done with California.

The Secretary of Agriculture: When we were in Denver they laid out a district including Arizona and New Mexico on the south and Montana on the north.

Mr. Goldwater: I saw that in the paper, but I believe we have very little business with Denver. When mining is quite active and machinery is being sent in there, there may be some business with Denver, but the biggest part of our bank balances are kept -- well, I wouldn't say that. The largest part of our balances are kept in the east, New York, Boston and Chicago.

The Secretary of the Treasury: Why do you keep them there is the bulk of your business is in California, instead of San Francisco?

Mr. Goldwater: For one reason we find it best to do that. When we want to do anything in California, we can generally get a little premium by sending the exchange on New York.

The Secretary of the Treasury: When you get a parring of exchange between the different reserve banks, that same

condition will not exist.

Mr. Goldwater: Probably that is one of the reasons why they did not care for the Reserve Bank, taking away some of the profits.

The Secretary of the Treasury: On the other hand, there may be profits in some other directions.

Mr. Goldwater: There might be.

The Secretary of the Treasury: Where do you keep the bulk of your reserve now? Are you a director of a national bank?

Mr. Goldwater: Yes sir.

The Secretary of the Treasury: Which one?

Mr. Goldwater: Prescott National Bank, and vice president.

The Secretary of the Treasury: Where do you keep the bulk of your reserves?

Mr. Goldwater: In New York and Boston, for the larger part of it.

The Secretary of the Treasury: What percentage would you say?

Mr. Goldwater: Well, I am not prepared to say, because it changes from time to time. We keep a very large balance in San Francisco and Los Angeles for a bank of our size.

The Secretary of the Treasury: What is the general direction of your commodity shipments in Arizona -- your crops? Where do they go? Where do they find a market?

Mr. Goldwater: Well, most of it finds its way east. The fruit finds its way east. The hay and grain is consumed locally, and the surplus of hay then usually comes over to California when they have a bad season here. The high charges of the railroads prevent the shipping here.

The Secretary of Agriculture: What about your cattle?

Mr. Goldwater: Well, the cattle are shipped both ways. They feed a great deal of feed to cattle down there and in that way consume the hay without shipping it out of the country.

The Secretary of the Treasury: What is your principal fruit crop in the territory?

Mr. Goldwater: Well, the Salt River Valley produces oranges, melons and apricots. I think down in Yuma they have the same products. In the larger part of the territory they are raising some apples and peaches but not to the extent that they are able to ship them out of the state. Right now they are turning their attention to the growing of apples in large quantities. There are two or three orchards

that produce large quantities in the northern part.

The Secretary of the Treasury: In the northern part?

Mr. Goldwater: Yes, around Verdi and that neighborhood.

The Secretary of the Treasury: Is the sentiment of the business men generally in favor of attachment to the California San Francisco district?

Mr. Goldwater: I think so.

The Secretary of the Treasury: So far as you have been able to learn.

Mr. Goldwater: So far as I have been able to learn. I think it is. I think that is the sentiment of the town of Phoenix, which <sup>is</sup> the largest town, and I think the town of Tucson also.

The Secretary of the Treasury: What is the time of the fast mail between Phoenix and San Francisco?

Mr. Goldwater: We can leave there at 7 o'clock in the evening and get here at 8:55 the next morning, provided they are on time. Usually, as they were this morning, they are an hour or an hour and a half late.

The Secretary of the Treasury: And then it is another 14 hours to San Francisco.

Mr. Goldwater: I don't know what that time is. Of course,

if we want anything from San Francisco, we don't come through here. It goes right direct.

The Secretary of the Treasury: It goes through Bakersfield?

Mr. Goldwater: Yes.

The Secretary of the Treasury: What is the time from Tucson to Los Angeles?

Mr. Goldwater: Well, it is only two or three hours difference. The same train that you take out of Phoenix you catch at Tucson and get here at the same time.

The Secretary of the Treasury: That is all. Thank you, Mr. Goldwater. Is there anyone else here from Arizona?

#### STATEMENT OF ALFRED STEINFELD.

The Secretary of the Treasury: Give your full name, address and occupation?

Mr. Steinfeld: Alfred Steinfeld, banker and merchant, Tucson, Arizona?

The Secretary of the Treasury: Are you president also of the Bankers Association of Arizona?

Mr. Steinfeld: I am.

The Secretary of the Treasury: Does that comprise all of

the national and state banks in its membership?

Mr. Steinfeld: Nearly all of them. There are some that are not members.

The Secretary of the Treasury: Are you representing the association as well?

Mr. Steinfeld: We have had no formal meeting, but I think that we are going to have a meeting next week.

The Secretary of the Treasury: You have heard the testimony of Mr. Goldwater?

Mr. Steinfeld: Well, I didn't hear it very distinctly.

The Secretary of the Treasury: Well, the question is where Arizona should be attached in the organization of these districts<sup>2</sup>/<sub>4</sub> Is it your view that she should be connected with a district of which San Francisco should be the reserve center?

Mr. Steinfeld: Yes sir, decidedly so. Our interests are entirely in that direction.

The Secretary of the Treasury: What is your bank?

Mr. Steinfeld: Consolidated National Bank of Tucson.

The Secretary of the Treasury: Where do you keep your reserves?

Mr. Steinfeld: Well, we keep them all over the country,

but our principal reserves are in New York and San Francisco.

The Secretary of the Treasury: What per cent is in San Francisco?

Mr. Steinfeld: I should say probably 15 per cent.

The Secretary of the Treasury: 15 per cent?

Mr. Steinfeld: Yes sir.

The Secretary of the Treasury: And 85 in New York?

Mr. Steinfeld: No.

The Secretary of the Treasury: Oh, 15 per cent of the total?

Mr. Steinfeld: Of the total. I mean of the amount of money represented.

The Secretary of the Treasury: Of the amount of money represented by those totals?

Mr. Steinfeld: Yes sir.

The Secretary of the Treasury: Then that leaves you 85 per cent of the money that you keep somewhere else. Where do you keep that?

Mr. Steinfeld: We keep it in Los Angeles and New York, Kansas City, Denver, Chicago and St. Louis.

The Secretary of the Treasury: How much in New York would you say?

## A. Steinfeld

Mr. Steinfeld: Well, that is our main reserve there. I would say probably about 30 per cent. This is just a guess.

The Secretary of the Treasury: I understand you are just giving an approximation. How much in Chicago?

Mr. Steinfeld: Probably about 10 per cent.

The Secretary of the Treasury: In St. Louis, do you keep some there?

Mr. Steinfeld: Yes sir.

The Secretary of the Treasury: How much, about?

Mr. Steinfeld: Well, we don't carry much in St. Louis. Probably about 5 per cent.

The Secretary of Agriculture: What about Denver?

Mr. Steinfeld: We carry a balance there.

The Secretary of the Treasury: How much there?

Mr. Steinfeld: I would say about the same as St. Louis.

The Secretary of Agriculture: Do you agree to the statement that Arizona should not be attached to a district of which Denver was the center?

Mr. Steinfeld: Yes sir.

The Secretary of Agriculture: That would do violence to your customary business rules?

Mr. Steinfeld: I think so. Our trade and our natural flow is more towards the coast.

A. Steinfeld.

The Secretary of the Treasury: To what extent are your balances in Chicago, and New York, necessitated by your exchange requirements?

Mr. Steinfeld: Well, we find in the first place that New York exchange can be more readily used than other points, for general commercial purposes.

The Secretary of the Treasury: Does it generally command a premium?

Mr. Steinfeld: No, not entirely so.

The Secretary of Agriculture: Is it better known?

Mr. Steinfeld: Well, it is less liable to a discount. Some of these points are subject to a discount, although all the connections we have remit for our account to New York whenever it is required, without any charge.

The Secretary of the Treasury: With the barring of exchange between these reserve banks, that necessity would very largely disappear, wouldn't it?

Mr. Steinfeld: Yes, to a certain extent I should think. But the natural flow of business, I think, would control to some extent as to just how and where you could carry your balances.

The Secretary of the Treasury: Whatever is normal would

A. Steinfeld.

continue?

Mr. Steinfeld: Yes sir.

The Secretary of the Treasury: And whatever is abnormal or artificial would disappear?

Mr. Steinfeld: Yes sir.

The Secretary of the Treasury: That is about the size of it. Do you think that would be desirable for the country to get rid of the artificial relations?

Mr. Steinfeld: Yes sir, I do.

The Secretary of the Treasury: Thank you.

Is there anybody else from Arizona?

(No response.)

The Secretary of the Treasury: I notice a large number of representatives of the Chamber of Commerce. Who is to be the spokesman for the Chamber? May we know who wants to be heard as representing the Chamber? We have quite a number of names here.

(No response.)

The Secretary of the Treasury: I see that Mr. Cole is the first name on the list handed to me. Will Mr. Cole please come forward.

(No response.)

G. S. Patton.

The Secretary of the Treasury: Is Mr. George S. Patton here?

STATEMENT OF GEORGE S. PATTON.

Mr. Patton: I didn't understand that there was to be any representation from the Chamber of Commerce. I thought they were to leave that matter to the Clearing House Association. At least, I received no communication. If there is any data that the Board would like to have that the Chamber of Commerce could supply, the secretary of that Chamber, who is a very efficient gentleman, can supply it, in regard to the quality and quantity of the manufacturing business here. That could be supplied later.

The Secretary of the Treasury: We would like a brief on that point or a memorandum of it, giving us such data as you think is peculiar to the issue, giving us some knowledge of the growth of Los Angeles. We are fairly familiar with it anyway, but it might be reduced to figures and statistics. Will you see that that is done, Mr. Patton?

Mr. Patton: Yes sir.

The Secretary of the Treasury: Now, are there any merchants or business men in the room from Los Angeles who would like

G. S. Patton.

to be heard.

(No response.)

The Secretary of the Treasury: I understand that Mr. Perrin would like to be heard, Mr. John Perrin.

STATEMENT OF JOHN PERRIN.

The Secretary of the Treasury: Mr. Perrin, at this hearing we desire to be posted more about the local conditions in this territory, and any light you can give us we will be glad to get. As far as Indianapolis is concerned, we expect to hear from you further.

Mr. Perrin: I am sorry I have not prepared anything with reference to the local situation, but only as to the general situation. The extent of one of the districts depends so much upon the extent of the other that the problem will have to be attacked as a whole.

The Secretary of the Treasury: Are you going to appear at the hearing at Indianapolis?

Mr. Perrin: No. I am domiciled here, although Indianapolis is my legal residence. I have been here for three years past.

The Secretary of the Treasury: We would be very glad to

John Perrin.

hear briefly from you as to any suggestion you have to submit

Mr. Perrin: What I have is very brief. The principle upon which I have entered upon this is that each reserve bank should have strength to meet unaided the normal requirements of the district; that the several reserve banks, except that of New York, should be as nearly uniform as may be in amount of resources; and that the Reserve Bank of New York should have special strength to take care of the demands of a broad bear market.

It has seemed to me that large banks in one or two places might be determined within the letter of the law, but that is contrary to the purpose of the law, as I understand it, and so I have sought to keep within what has seemed to me the purpose of the law in what I submit. The trouble with our present situation is the focusing of demands, particularly in the southern states, at one season, and next to that the focusing of similar demands in the Northwest, so I have begun districting in the south.

The Secretary of the Treasury: Now, have you the districts outlined that you would suggest?

Mr. Perrin: Yes.

The Secretary of the Treasury: Have you got a map?

John Perrin.

Mr. Perrin: I have.

The Secretary of the Treasury: Let me see that.

Mr. Perrin: I include the south in three districts, each of them extending north so as to give sufficient resources to make each one independent, taking Alabama and Georgia as the first and extending them north up to Pennsylvania but not including Pennsylvania.

The Secretary of Agriculture: You include Maryland?

Mr. Perrin: Include Maryland.

The Secretary of the Treasury: Now, give us your summary.

Mr. Perrin: This is the detail of what is included in each district. It leads up to this, and I number them in the order in which I have districted them. The first district includes Alabama and Georgia, the next Louisiana and Mississippi and part of Texas, and the next Texas. That makes three districts. Then going to the Northwest to include the wheat districts and swinging south --

The Secretary of the Treasury: You propose to put a Reserve Bank in Washington, another in New York, and another in Boston for the Atlantic seaboard?

Mr. Perrin: I start from the other end. The reason for the suggestion of these particular cities is that they are

John Perrin.

convenient for intercommunication. It is not essential for the purpose of any one district, but the cities suggested are so conveniently situated that except for Kansas City, within a night's ride the Federal Reserve Board and the representatives of seven of the Federal Reserve Bank could meet for conference. Telephone communication would be very easy. Transfers of currencies and securities would be very easy. So for that reason I suggest these cities. Washington for the first district, St. Louis for the second, Kansas City third; then going to the Northwest, Chicago; then swing over to take San Francisco for the Pacific Coast; then going back to district what remains, that would mean New England, Boston, New York, and then districting for the final district what is left, Number 8, which includes, as I suggest, Michigan, Ohio and Western Pennsylvania.

The Secretary of Agriculture: Where do you put Kentucky and Tennessee?

Mr. Perrin: They go in with the St. Louis district to take care of Louisiana and Mississippi. You must have eight districts.

The Secretary of the Treasury: Does not Michigan unanimously request to be attached to Chicago?

John Perrin.

Mr. Perrin: It has seemed to me there are two objections which I suggest. One is the matter of inconvenience in the transaction of current business. It has seemed to me with the location of branches that inconvenience would disappear practically entirely. The other objection is the administrative difficulty of applying a uniform discount rate to a section which includes a high rate territory and a low rate territory; but high rates are necessarily due to lack of loanable funds, and if you seek to make each district independent you must include loanable funds in that district. If the Federal Reserve Board cannot by its classification of paper, and otherwise, take care of the administrative difficulty, and that must remain, I submit that that is less important than that a reserve bank should be made a member bank, in effect, of some other reserve bank. I have sought to make the lending power of the different institutions as nearly uniform as possible. They do not vary greatly in capital.

|             |                          |
|-------------|--------------------------|
| Washington  | \$10,000,000             |
| St. Louis   | 11,000,000               |
| Kansas City | 9,000,000 or \$8,000,000 |
| Chicago     | 14,000,000               |

## John Perrin.

|                |                            |
|----------------|----------------------------|
| San Francisco, | \$7,000,000 or \$8,000,000 |
| Boston,        | 9,000,000                  |
| New York,      | 32,000,000                 |
| Cleveland,     | 10,000,000                 |

The lending power would run from I believe \$73,000,000 up to \$103,000,000.

The Secretary of Agriculture: That is based only on national banks.

Mr. Perrin: That is based only on national banks, and is included in this way: 6 per cent of capital and surplus, of course, for capital, and roughly 6 per cent of individual deposits. I assume that bank balances with other banks will greatly disappear, and that consequently that is an inconstant factor. So I take 6 per cent of the individual deposits. In central reserve cities I take 7 per cent, but for country banks I take 6, because being a little more remote from branches, they would perhaps require a little larger margin of deposit for current operation than a bank that had a branch, or a reserve bank.

The Secretary of the Treasury: You are assuming that outside of the reserves which these banks would carry for member banks, they would keep a deposit line of this much

John Perrin.

in addition.

Mr. Perrin: No. That is required.

The Secretary of the Treasury: I understand the reserve is required.

Mr. Perrin: That deposit is what is the required deposit from the member banks, and this which I call reserve is the reserve of the Federal Reserve Banks.

The Secretary of the Treasury: This is the combination of the two.

Mr. Perrin: Yes.

The Secretary of the Treasury: Where do you get the re-discount?

Mr. Perrin: Taking the 35 per cent reserve against that amount of deposit liability, rediscount liability not taking the form of notes. Of course, to the extent that notes were taken for those rediscounts, the reserve would have to be 40 per cent instead of 35, but this is based simply upon a rediscount privilege creating a credit for checking. For New York in the suggested division, it includes no important agricultural demand at all. It is exempt from that, but it seemed to me the obligation resting upon New York is of a two-fold character. We must look to the New

John Perrin.

York institution to make the investment in loans in Federal Reserve centers, both to regulate rates of foreign exchange and as a potential secondary reserve for the whole country. There is no other bank naturally as situated for that, or or so apt to do it. The others are all given more or less of local or agricultural demand.

In addition to that, if we are to provide an alternative for the present call loans on the stock exchange, we are bound to have a strong institution to make certain the availability for rediscount, or the rediscount possibility of bills and acceptances.

I am told that in London the average current investment in bills is about \$2500,000,000, more or less. The only reason why a market would be so broad and so stable as that of London is the certainty of rediscount if desired. The Bank of England does not in terms declare that it will re-discount without limit, but as a matter of fact it does so, and so that bill market is possible. Unless we provide some such commercial channel for surplus funds to flow into, there seems no way but that temporary investment of surplus funds must go as now into call loans upon the stock exchange. That means that we have all the disturbance that

John Perrin.

comes from the withdrawal of funds needed for commerce as as the need arises, and all the difficulties that arise from that present situation from which we wish to depart. Consequently, I have not seen any other way except to give the New York bank a special strength for that purpose, and, so you see, the lending power runs from \$73,000,000 to \$100,000,000 and with the other I have suggested a lending power of \$310,000,000 for the New York bank.

In dividing the whole country in this way, it is my thought -- I can't say that I have worked this out accurately, although these figures are accurate based upon the National Bank resources -- it is rather as an illustration of the principle which I suggest rather than an attempt at precise definition. If that is so accurately worked out that we have eight principalities here with a central bank in each, which I take it is the organization contemplated by the law, it would very rarely happen that any one reserve bank would need assistance from another. If it did, if seven are approximately equally uniform in power, the burden upon any one bank could be shared by five or six of the others without even appealing to New York, so the whole machine would be uniformly strong.

Now, as to how far the rediscount would be called for,

John Perrin.

assume, for instance, that a rate -- take the St. Louis district. Assume the discount rate was 5-1/2 per cent. with a going rate, let us say, in Chicago, of 5 per cent. It seems to us altogether probable that the individual banks in New Orleans would, to the extent it was possible, arrange with individual banks in Chicago for loans of 5 per cent rather than discount at 5-1/2 per cent with their own reserve banks. So there would be a constant and free interflow of credits in that way between banks, and the reserve banks would be appealed to only when the market began to have its loanable funds absorbed.

The Secretary of the Treasury: What is your chief reason, Mr. Perrin, for advocating the dominant bank for New York? Is that because of the foreign exchange question, or for the other reason?

Mr. Perrin: No sir. I would say that the foreign exchange was a secondary reason. The main purpose is the encouragement and maintenance of a broad bill market, which it seems to be absolutely essential to have for the full success of the system.

The Secretary of the Treasury: You think it can be obtained only that way.

John Perrin.

Mr. Perrin: There may be other ways. No other way has suggested itself to me.

The Secretary of the Treasury: What I mean is this, do you believe that you cannot have a broad bill market of that kind unless there is a dominant bank of that kind somewhere, whether in New York or some other place?

Mr. Perrin: Suppose one is guided by the experience in other countries. In France, in Germany, in every financial center in which a market of that kind naturally centers --

The Secretary of the Treasury: But conditions are not analogous.

Mr. Perrin: To be sure, but a financial center, I take it, is so because that is the place where the bulk of trades are made. It is the great clearing house, the great market place where buyers and sellers meet. You cannot scatter them. They must meet in some place.

The Secretary of the Treasury: Of course our system in this country has created an artificial condition largely, with the creation of certain cities as central reserve cities, and the pyramiding of reserves and the payment of interest balances, all of which have attracted capital. In some cities the reserves we have discovered in our

John Perrin.

investigation. Those reserves are practically wholly artificial.

Mr. Perrin: Yes.

The secretary of the Treasury: Now, <sup>to</sup> that extent, these conditions are not a safe guide to future action, and what we must consider are the conditions in the light of normality or abnormality, and the question which arises in my mind is this: To what extent, in view of these abnormal conditions, these who argue in favor of a dominant bank in New York are not being influenced by that condition rather than by letting the mind revert to a normal state of affairs again and then divide it with reference to that normality.

Mr. Perrin: Suppose we sought to have eight, Mr. Secretary, bill markets, one at the point at which each of these reserve banks are located. They will not all have the same discount.

The Secretary of the Treasury: How do you know they will not? They might?

Mr. Perrin: That is entirely possible.

The Secretary of the Treasury: The Reserve Board has the right to regulate that absolutely.

Mr. Perrin: I don't know whether that would be physically possible or not to have eight bill markets.

The secretary of the Treasury: They are all dealing on the same basis of rate, and it would certainly be far more possible than if there was a variation, and that in turn would depend upon the strength of the different units, and then again you have coordination with the Federal Reserve Board. So that the argument in favor of a dominant unit in the system would not be as strong as if you did not have that coordinating power.

Mr. Perrin: I have dwelt on that in which I have submitted there, and incidentally it has seemed to me that that coordination and cooperation on the part of the Federal Reserve Banks could be best obtained, and that is one reason why I suggested their contiguous location or nearly contiguous, to bring about voluntary cooperation as nearly as possible. But even with that and making the whole system a unit, I have not grasped the thought that it would be possible to have more than one center where investors from other countries and investors from this country would find the whole flow of either investments offered of this character or of funds to invest.

The Secretary of the Treasury: If you had heard the arguments of the different cities we visited, you would have

a different point of view. At least we are struggling with that now. I see in your plan here you omit New Orleans for a Reserve Bank.

Mr. perrin: For the purposes of the operation of the one which I mark number 2, there is no reason why that Reserve Bank should not be located at Jackson, Mississippi, or New Orleans, or any other point in that district.

The Secretary of the Treasury: Or St. Louis.

Mr. Perrin: Or St. Louis. I assume that there will be branches located in all the important cities of the country. and that the convenience both for clearance and for discounts will thereby be served so that the actual location of the Federal Reserve Bank itself is not very vital.

The Secretary of the Treasury: It is not material.

Mr. Perrin: It does not seem to me so. Like the old state bank of Indiana, it makes no difference.

The Secretary of the Treasury: Holding these reserves, as long as they are accessible to banks in the district, your view is that its location is not material?

Mr. Perrin: Yes. It does not seem to me, for instance, if there was a branch at New Orleans that it would be at all essential that the reserves of that district should be

located proportionately at New Orleans, but the reserves in St. Louis are just as available as a basis for loans made in New Orleans as if the Reserve Bank were located in New Orleans.

The Secretary of the Treasury: In other words, you take the view that the power of the parent bank can be exerted at any branch?

Mr. Perrin: Exactly.

The secretary of the Treasury: And that so long as the Reserve Bank itself, its headquarters, are at an available point in the district it will satisfy the situation?

Mr. Perrin: That is exactly my view.

The Secretary of the Treasury: We had suggestions from some gentlemen that it was not necessary to have a Reserve Bank in New York that it might be served by a branch.

Mr. Perrin: I think that is true.

The Secretary of the Treasury: It could be done.

Mr. Perrin: I think that is true.

The Secretary of the Treasury: The same thing could be said of Chicago?

Mr. Perrin: Exactly.

The Secretary of Agriculture: You have included

Cincinnati in number 2?

Mr. Perrin: Yes. That is simply to build up the resources in number 2 district so as to make it seem sufficient to serve the needs of that district and so as to make it fairly uniform with the other districts.

The Secretary of Agriculture: Would you say that would be of considerable advantage? Would you get the same strength by bringing the line farther west?

Mr. Perrin: Then you diminish the strength of number 3. If we stop to analyse the different transactions and have in mind that inconvenience to which they refer -- Take, for instance, New Haven. New Haven does its business almost wholly with New York, undoubtedly, and they would say they ought to be allotted to the New York district. A branch at NewHaven receiving checks upon New York today. I assume, would send them directly to the <sup>bank</sup> new York/ and report to the Boston bank, if that were the Reserve bank, that it had remitted so much, and to charge the New York bank with the accounts that were kept in Boston. As a matter of rediscount convenience, I don't see that it would be material. A bank does not borrow money within five minutes or fifteen minutes. It usually knows some weeks ahead when it is

going to require funds.

The Secretary of the Treasury: Many of the bankers and business men who appeared before the Committee seemed to have the view that these banks are ordinary banks of discount and deposit.

Mr. Perrin: That has not been my conception of it.

The Secretary of the Treasury: I understand that, but they have a wrong idea about the necessity of having the bank.

Mr. Perrin: Well, it has not seemed to me that the convenience in clearing is by any means the matter of major consideration; that the convenience in clearing can be adequately served through the branches, and that the very vital thing is to provide possibly rediscounts.

The Secretary of the Treasury: Mr. Perrin, you heard the questions I addressed to the Clearing House here a moment ago about this definition of commercial paper?

Mr. Perrin: Yes, sir.

The Secretary of the Treasury: Also the question of clearances?

Mr. Perrin: Yes, sir. I don't know that I heard the question of clearances.

The Secretary of the Treasury: I mean the question of

Reserve Banks acting as clearing houses.

Mr. Perrin: Yes.

The Secretary of the Treasury: You are familiar with section 16 of the Act, aren't you?

Mr. perrin: Yes, sir.

The Secretary of the Treasury: As to rules and regulations governing the charges for transfer of funds between the Federal Reserve Banks and their branches, and that they also may act as Clearing Houses or require member banks to act as Clearing Houses. I mean the reserve banks may themselves act as Clearing Houses or have the Reserve Bank for the district act as a clearing house. Have you given any thought to those two subjects?

Mr. Perrin: Yes, sir; I am free to say I have.

The Secretary of the Treasury: We shall be very glad if you would submit a memorandum on that subject, first, as to the question of commercial paper -- I mean the definition of commercial paper, which I should imagine will occupy your time for a little while, and, secondly, as to the charges that should be made, if any, between the Federal Reserve Banks and their branches, and on the question of their acting as Clearing Houses of banks in their respective district.

Mr. Perrin: I should be glad to comply with the suggestion, Mr. Secretary. I should say this, as I have worked over those different problems-- it has presented itself to me in this light; I question the human possibility of defining commercial paper in such a way as to conform to what the ultimate practice will be. It has seemed to me that at the outset there must be considerable latitude, considerable discretion.

The Secretary of Agriculture: That is the reason it is left to administrative handling instead of being enacted into law.

Mr. Perrin: Yes. If they knew how they would have put it into the law, and it seems the way to meet that is to require of each bank offering paper for rediscount a statement of the funds represented by these notes and the purposes for which it is to be used.

The Secretary of the Treasury: That is the point we would like you to submit a written memorandum on.

Mr. Perrin: Yes.

The Secretary of the Treasury: Because it requires a great deal of study and thought.

Mr. Perrin: I was going to say further that it has seemed

to me that from time to time the attitude of the Federal Reserve Board in regard to that would change.

The Secretary of the Treasury: Well, it may be. That is left to administrative method. If it had been fixed in the Act, then you could<sup>not</sup> have dealt with it except by new legislation.

Mr. Perrin: If you are successful in bringing in to existence a large volume of acceptances, both bank acceptances and trade acceptances, the situation could be changed.

The Secretary of the Treasury: The idea is to get some sort of definition which will designate the kind of paper we ought to have under this bill.

The Secretary of Agriculture: Or any suggestion you have to make which you think we should have.

Mr. Perrin: I will be glad to do that. It seems to me exceedingly desirable for the general economy that the Federal Reserve Banks should, as far as possible, act as clearing agents.

The Secretary of Agriculture: That is contemplated in the law, if you will just indicate how you think that should be brought about. Will you file that as an exhibit?

Mr. Perrin: Yes.

The Secretary of the Treasury: If it is convenient, we would like to have those exhibits in triplicate. I will say that to the Los Angeles people who have appeared here also.

Is there anyone else who desires to be heard here now at this hearing?

Mr. Fishburn: I notice present in the room, Mr. Frank Knox, President of the National Bank of San Francisco, also Mr. Roberts, secretary of the Bankers Association of Boise, Idaho.

The Secretary of the Treasury: We have heard from Boise very thoroughly. We would be glad to hear from Mr. Knox.

STATEMENT OF FRANK KNOX.

The Secretary of the Treasury: What is your name?

Mr. Knox: Frank Knox, president of the National Bank of the Republic of Salt Lake City, president of the State Bankers Association of Utah, vice president of the Salt Lake Clearing House Association.

The Secretary of the Treasury: Are you here with authority to represent those associations?

Mr. Knox: No sir. I was to have gone to Denver, but I

was not home. I am here simply as an individual.

The Secretary of the Treasury: Now, we would like to know something about the Utah situation and as to what your view as to the place you should be attached,-- I mean what Reserve District would best serve the customary course of business.

Mr. Knox: I was home only two days since you were in Denver, , and the bankers I spoke to all favor San Francisco, if it is selected for a Federal Bank Reserve, excepting one, and that bank also has a bank in Denver.

The Secretary of the Treasury: Which bank is that?

Mr. Knox: That is the Continental National and the Merchants National Bank.

The Secretary of Agriculture: Is that a member of the Clearing House?

Mr. Knox: Yes sir.

The Secretary of the Treasury: Suppose Portland, Oregon, was chosen, how would that operate so far as Salt Lake City is concerned?

Mr. Knox: We have no direct connection with Portland such as we have with San Francisco; but Idaho banks do a great portion of their business with Portland. They also keep

accounts in St. Louis.

The Secretary of the Treasury: To what extent do you keep your reserves in St. Louis and Chicago?

Mr. Knox: I keep, speaking of my own bank, 45 per cent in Chicago, about the same in New York, and 10 per cent in St. Louis. That is my reserves. The balance is in San Francisco.

The Secretary of the Treasury: The other portion in San Francisco is merely for exchange purposes?

Mr. Knox: Yes sir.

The Secretary of the Treasury: Which represents a normal requirement?

Mr. Knox: We accumulate the balance by reason of wheat shipments and stock shipments, and then we are United States depository and we used that money for paying the government each day the excess deposit. We get rid of it in that way. People in our city general want eastern exchange.

The Secretary of Agriculture: Your western connection, you think, is the normal one for Utah?

Mr. Knox: I would certainly prefer to be connected with San Francisco rather than Denver or Omaha, or a city of

that kind.

The Secretary of Agriculture: The state should go as a whole into one district?

Mr. Knox: Yes, sir, I think so.

The Secretary of Agriculture: There are very few banks east of the mountains?

Mr. Knox: East of the Rocky Mountains.

The Secretary of Agriculture: East of Salt Lake.

Mr. Knox: There is none that I know of really east of Salt Lake in Utah -- national banks. And we certainly prefer to be connected with a strong Federal Bank than a tail end and weak one, and it would require all the states west of the Rocky Mountains, excluding California and including Colorado, to have a capital and surplus of \$70,000,000; and as far as business is concerned, I don't see how we could raise the capital in that community.

The Secretary of Agriculture: What is the course of the movement of your commodities from Utah?

Mr. Knox: Our wheat, barley and grain, practically all goes west. Some goes south occasionally, but it practically all goes west. I don't know where the sugar goes to. Sheep and live stock largely go east to Omaha, Kansas City and

Chicago, except in certain periods we sell a good deal of stock in California and the west. That is sheep and cattle.

The Secretary of the Treasury: Have you any special kinds of commercial paper in Utah? I mean any commercial paper that is peculiar to the district there?

Mr. Knox: Well, we have no paper there that is subject to rediscounting; at least not much of it.

The Secretary of the Treasury: Cattle -- do you have that?

Mr. Knox: No, we are not a cattle country. We have some but money is largely loaned on sheep and live stock -- what is known as live stock, but we loan to merchants and the best growers borrow money and we loan to mining people and the mining companies endorse the paper. That is a very large matter. Ninety day paper is practically something we don't know anything about. We loan for ninety days sometimes, but we only get paid about twice a year.

The Secretary of the Treasury: To what extent will this be a benefit to Utah?

Mr. Knox: It will be a benefit to the country banks which are obliged to take it occasionally/<sup>as security</sup>-- not that they do it; they have not sufficient capital; but

it may enable them to get better security in some cases.

It would be of very little advantage really.

The Secretary of the Treasury: That is all, Mr. Knox.

Mr. Knox: May I ask a question?

The Secretary of the Treasury: Certainly.

Mr. Knox: I want to know to what extent National Banks are supposed to be able to rediscount. In my bank I expect to loan about \$700,000 of my four and a half million deposits and if I can only rediscount to the extent of my capital, how am I going to do it?

The Secretary of the Treasury: There is no limitation as I recall it. I think there is a specific provision in the Act there that you may -- I have not time to look it up.

Mr. Knox: I think it is still governed by the old law.

The Secretary of the Treasury: No, there is no limitation, as I recall it, on the power of rediscount with the Federal Reserve Bank.

Mr. Knox: I would like to say one word more. We are about equi-distant from Denver and San Francisco. 24 hours either way, and Denver is 24 hours from Chicago, and we are 36 hours from Chicago, and we certainly prefer to be attached to San Francisco.

T The Secretary of Agriculture: You think you represent the majority of the bankers?

Mr. Knox: Well, I rather think I do, but I am not authorized to speak for them.

The Secretary of the Treasury: Does anyone else desire to be heard before the meeting adjourns? If not, the meeting will now adjourn.

Whereupon, at 13 o'clock noon the hearing at Los Angeles was adjourned.