Bulletin No. 81

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

September 22, 1917.

TO THE MEMBER BANKS OF DISTRICT NUMBER SEVEN:

We are in receipt of a letter from Hon. W. P. G. Harding, Governor of the Federal Reserve Board, which we quote in full for your information.

"In view of the anticipated heavy demands upon Federal Reserve Banks, the Board looks with approval upon the suggestion that the practice be encouraged of having short time commercial paper run for not longer than four months instead of six months as is frequently the case today. It seems desirable that the commercial banks of the country should have in their portfolios a maximum amount of paper that can be rediscounted with Federal Reserve Banks. As the Federal Reserve Banks can rediscount only paper which has not more than ninety days to run, it follows that if investments of member banks are in six months paper, on an average of only 50 per cent of such paper is available at any one time for rediscount; but should the investments be in paper having four months or less to run, at least 75 per cent would on an average have not more than ninety days to run to maturity and would therefore be immediately available for use at the Federal Reserve Bank.

The Board is of the opinion that the suggested change would greatly improve the banking condition of the country, as the banks would make a turn-over three times a year instead of twice, and the credits which they would provide would come up for consideration three times instead of twice a year. The borrower in good credit would have no reasonable grounds for complaint and the borrower in doubtful credit would be strengthened by frank conversations with his bankers at more frequent intervals than at present. It is suggested that if the bankers of the country will undertake this change in methods of borrowing and insist upon four months paper

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instead of six, the credit situation will be greatly improved within a short time; responsible borrowers would have greater assurance of credits and the banks themselves would be in position to meet contingencies with at least 50 per cent more confidence than under the existing borrowing conditions.''

Respectfully,

JAMES B. McDOUGAL,

Governor.