FEDERAL RESERVE BANK
OF DALLAS

December 31, 1923.

TO THE BANK ADDRESSED:

The enclosed pamphlet describes and illustrates, in a very interesting way, the manner in which the Federal Reserve System serves the banks and business interests of the country. It was compiled and published to meet the need for bringing about a better understanding of the functioning of the Federal Reserve System, and we are mailing it to the eligible non-member state banks in this district believing that it will prove of interest to them.

Yours very truly,

Lynn P. Talley

Federal Reserve Agent.

-of service to banks & business

The Federal Reserve System

"Where there is no vision,
The people perish."

CHARTS

comprising exhibit of Federal reserve system
at annual convention of American Bankers' Association
September 24-27, 1923

Inclusive of tabular matter and two charts which could not be prepared
in time for exhibit at the convention

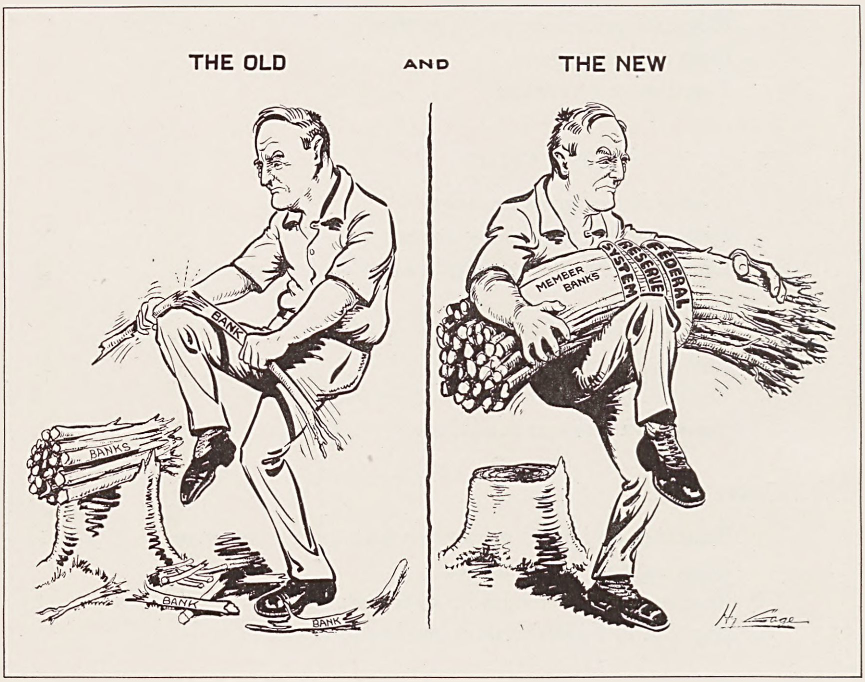
CONTENTS

MOBILIZATION OF RESERVES

Bank reserves formerly were widely scattered among individual banks. In times of need each bank had to look out for itself and was loath to part with its holdings, and any large withdrawal of reserve funds from city depositories led to strained conditions.

Now reserves of member banks are their balances in the Federal reserve banks. These great gold reserves practically sustain the reserves of every member, as from that great reservoir assistance may flow to member banks in any part of the country through the rediscount system.

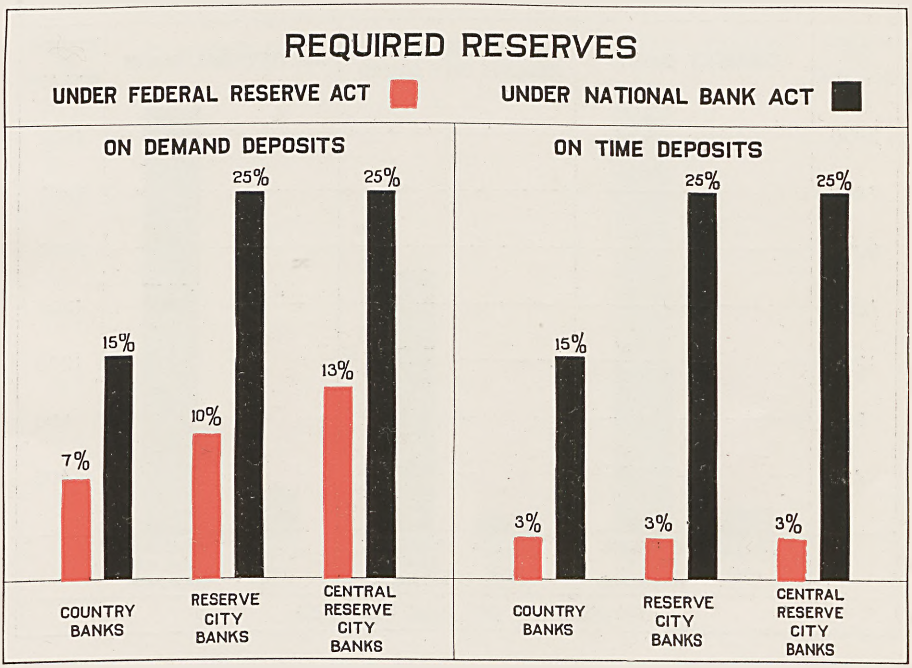
"IN UNION THERE IS STRENGTH"



REDUCTION IN RESERVE REQUIREMENTS

Increased liquidity of bank resources due to new form of reserves introduced by Federal reserve system permitted large decreases in the percentage of reserves to be carried by member banks. Three factors made this possible– the mobilization of reserves at the reserve banks; the fact that these reserves are actual collected funds, and that means for rediscounting are available. The funds thus released add considerably to loaning power of member banks.

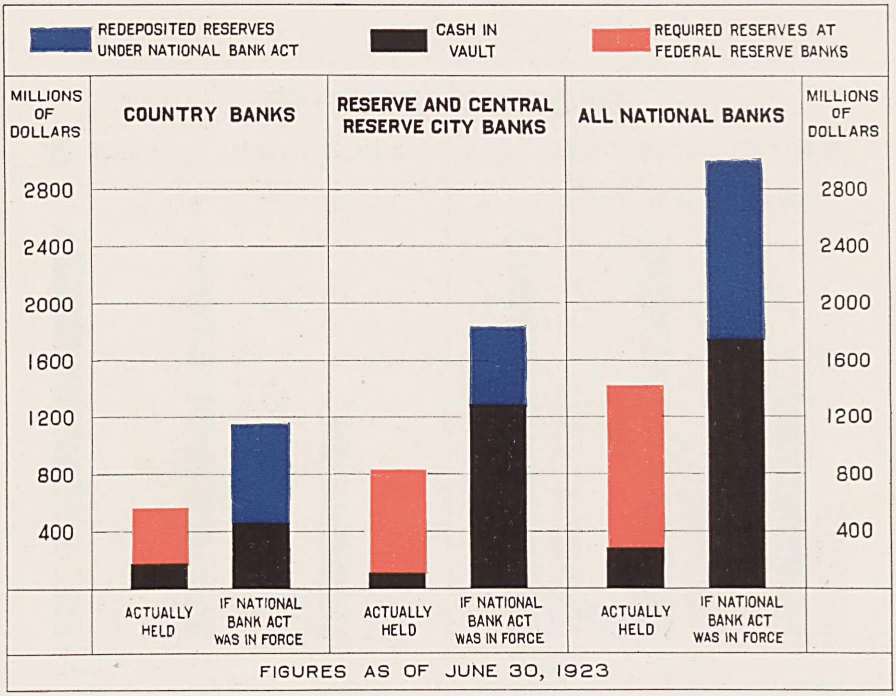
Many states now permit state member banks to keep reserves in accordance with provisions of Federal Reserve Act.



CASH AND RESERVES OF NATIONAL BANKS

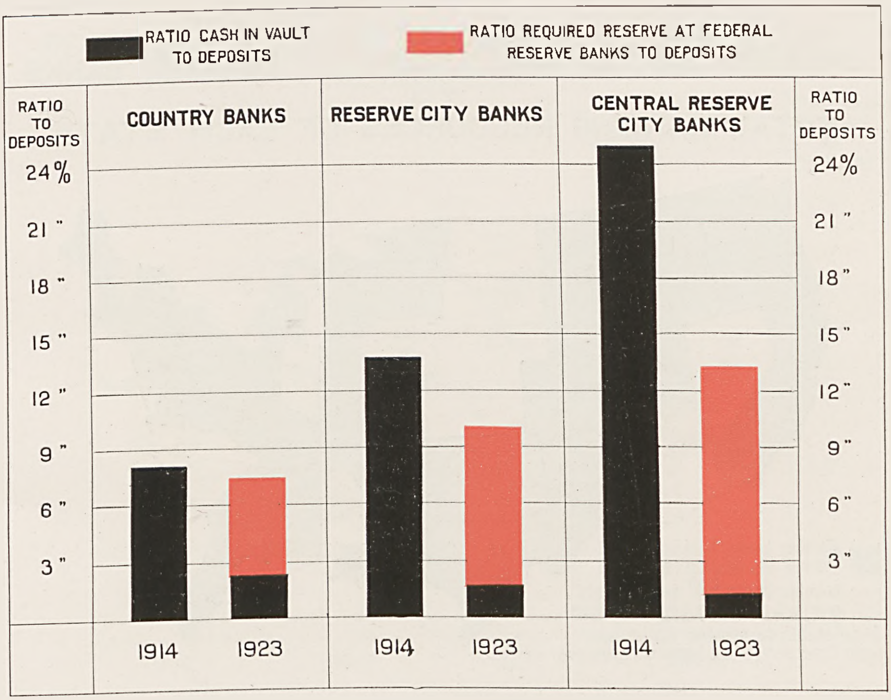
CARRIED UNDER FEDERAL RESERVE ACT ON JUNE 30, 1923 IN CONTRAST WITH REQUIREMENTS IF NATIONAL BANK ACT HAD CONTINUED IN FORCE

Deposits of national banks more than doubled from 1914 to 1923. However, the lower reserve requirements of the Federal Reserve Act enabled these banks to carry largely increased deposits with an actual decrease in their reserves. Cash now counts only as till money and has been reduced from 1,021 millions in 1914 to 290 millions in 1923, or 72 per cent. If the National Bank Act was in effect today these banks would have to hold reserves of 1,753 millions in cash and 1,242 millions on deposit with other banks, or 2,995 millions. Required cash reserves alone under the National Bank Act therefore would have been much larger than the present combined total of reserve at reserve banks and cash in vault.



RELEASE OF FUNDS FOR INVESTMENT

The Federal Reserve Act has released a vast amount of cash which was formerly held as reserve under the National Bank Act. From 1,021 millions (without Alaska and Hawaii) in 1914, a reduction has been made to only 290 millions in 1923. The difference – 731 millions – has gone largely into the reserve banks as part of the legal reserve of 1,128 millions now required to be held there. A striking comparison not generally realized is that the cash in vault of all national banks was 13.635 per cent of deposits in 1914, whereas combined cash and required reserves were only 9.414 per cent of deposits in 1923 under the Federal Reserve Act.

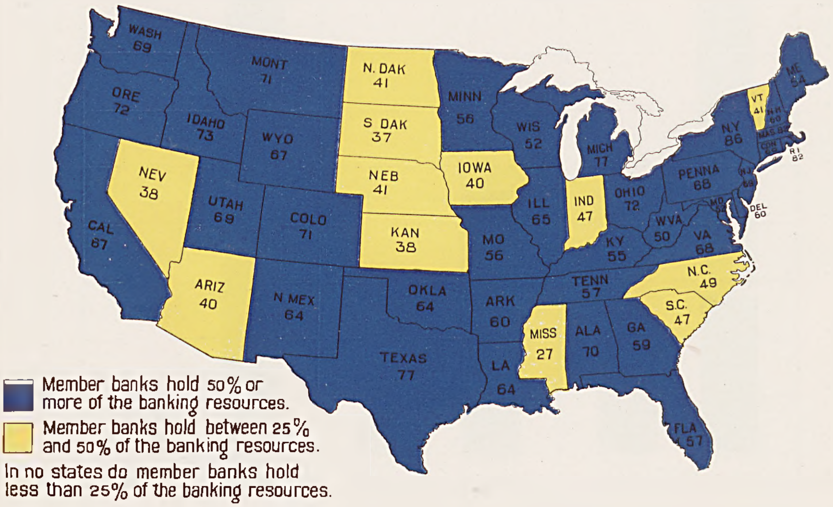


MEMBERSHIP IN THE SYSTEM

Membership formerly restricted to banks with paid-up unimpaired capital as follows: Cities of 3,000 people or less-$25,000; 3,001 to 6,000-$50,000; 6,001 to 50,000-$100,000; over 50,000-$200,000. Banks may now become members having capital equal to 60% of amounts given provided that they increase capital to requirements within five years.

Excluding mutual savings banks, 33% of all banks on June 30, 1922 were member banks, and these members had 73% of total resources.

PERCENTAGE OF RESOURCES OF MEMBER BANKS TO TOTAL BANKING RESOURCES OF EACH STATE



ELASTIC CURRENCY

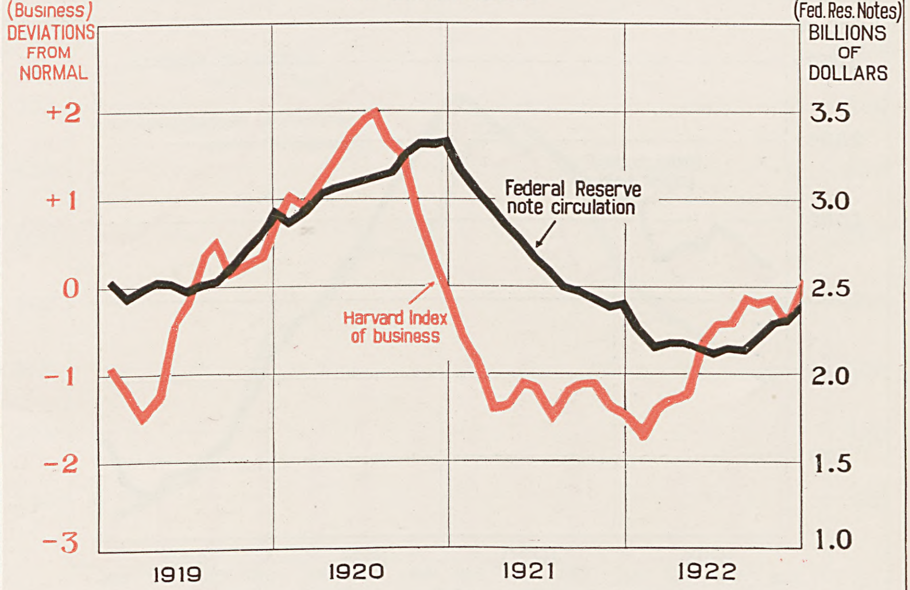
Money in circulation prior to passage of Federal Reserve Act responded little to changing needs of business. It had little power of expansion or contraction.

Federal Reserve Act created a currency secured by gold and business paper. This currency expands and contracts almost automatically as borrowings fluctuate.

Federal reserve notes now constitute almost one half of total money in circulation.

Close relation to volume of business is indicated in chart.

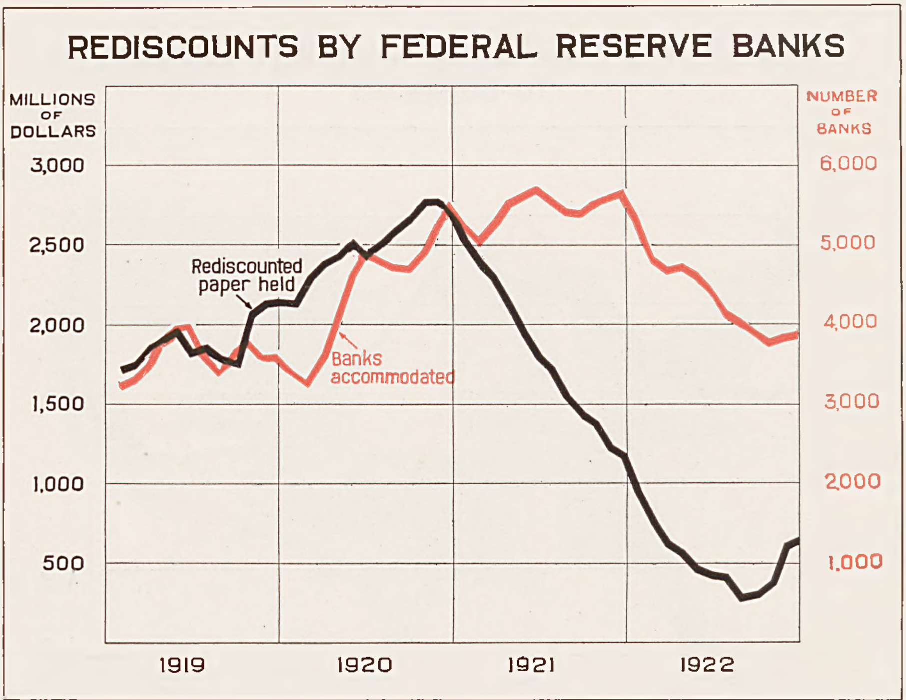
RELATION OF FEDERAL RESERVE NOTE CIRCULATION TO BUSINESS



REDISCOUNTING

Inflexible reserves under national bank act permitted reserves to be used only to meet withdrawal of deposits. Loaning power was rigidly limited, there being no elasticity in loaning power to meet emergencies.

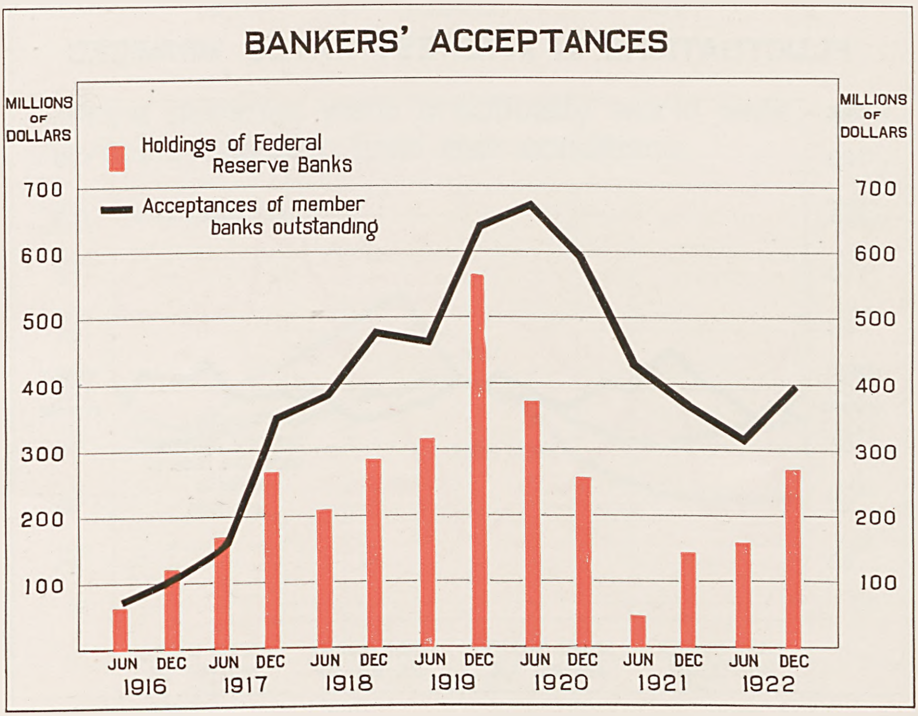
Federal Reserve Act does not encourage any institutions in doing business beyond their resources, but it does provide means through rediscounting for meeting all legitimate requirements of business.



FINANCING TRADE THROUGH BANKERS' ACCEPTANCES

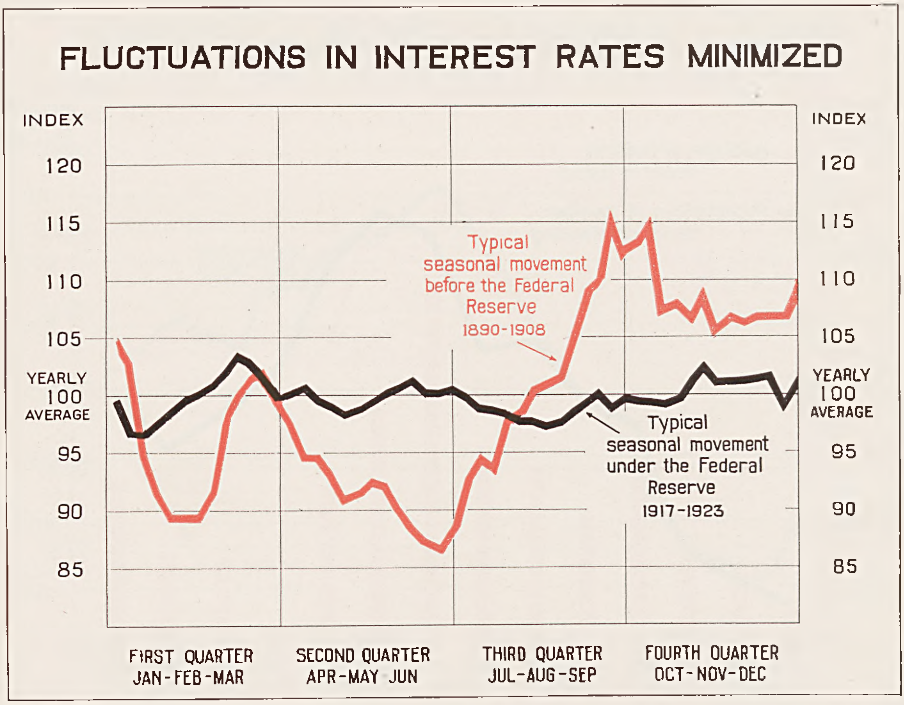
The Federal Reserve Act, by permitting national banks to accept drafts or bills of exchange and to issue letters of credit, provided a new method of financing in this country and made available to banks a desirable form of investment. The financing of foreign trade, which heretofore had almost entirely been done abroad, was greatly facilitated.

The reserve banks have been steady purchasers of bankers' bills.



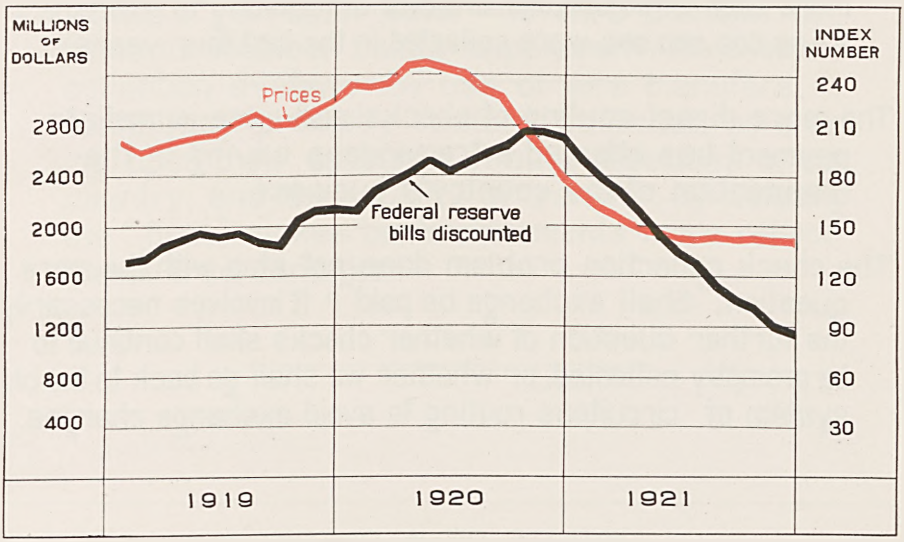
STABILIZATION OF INTEREST RATES

Prior to the Federal reserve system interest rates exhibited marked seasonal variations,- low at one season and high at another. Now banks may care for seasonal credit and currency needs by rediscounting at their reserve bank and thus avoid drawing heavily on funds already in use elsewhere. This elasticity minimizes seasonal fluctuations in interest rates.

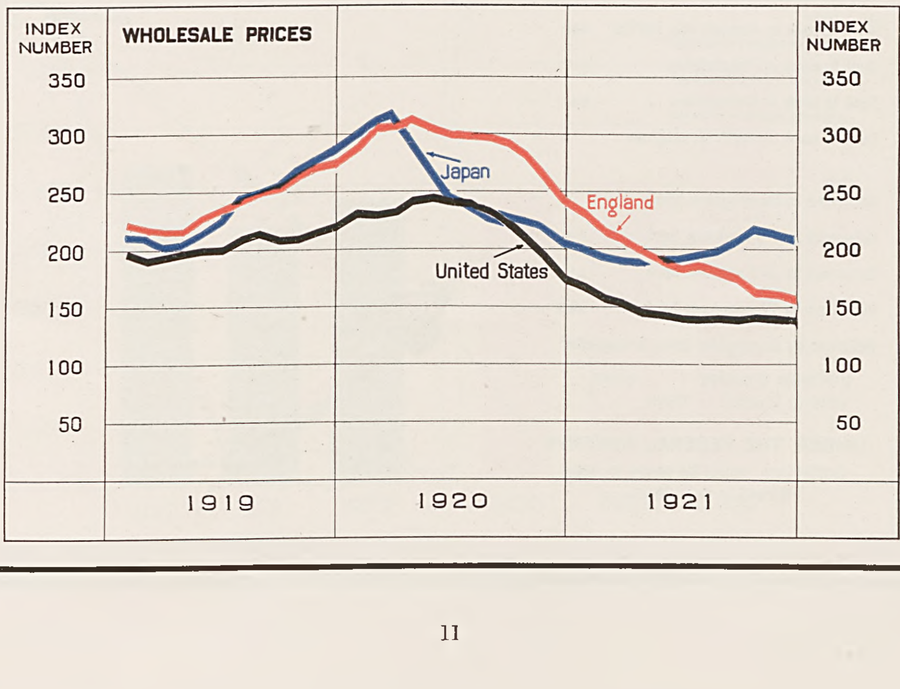


PRICES AND LOAN ACCOMMODATIONS

The decline in prices which began in 1920 brought about six months later a reduction in both Federal reserve note circulation and rediscounted bills held by reserve banks.



Price declines were practically world wide,- an inevitable reaction from war conditions.



CHECK COLLECTIONS

92 per cent of the banks now cooperate in the Federal reserve par check collection system, through which more than 1,800,000,000 checks amounting to over $560,000,000,000 were collected in the last four years.

The more direct routing of checks and more immediate payment has effected a tremendous saving in the transaction of the country's business.

The check collection problem does not stop with the mere question; "Shall exchange be paid"? It involves necessarily the further question of whether checks shall continue to be promptly collected, or whether we shall go back to the old system of circuitous routing to avoid exchange charges.

ROUTE OF A CHECK

BEFORE THE FEDERAL RESERVE

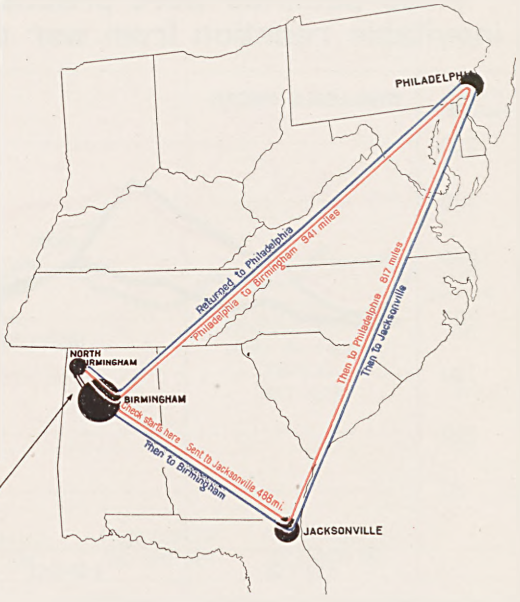
Check on North Birmingham bank was deposited in Birmingham bank	4	Miles
Sent to bank in Jacksonville Florida (To avoid payment of exchange)	488	"
Sent to bank in Philadelphia (To avoid payment of exchange)	817	"
Sent to bank in Birmingham (To avoid payment of exchange)	941	"
Sent to bank in North Birmingham	4	"
CHECK NOT PAID AND		
Returned to Birmingham bank	4	"
Returned to Philadelphia bank	941	"
Returned to Jacksonville bank	817	"
Returned to Birmingham bank	488	"

Returned by Birmingham bank to depositor

Distance traveled 4500 miles
Time in transit 14 days

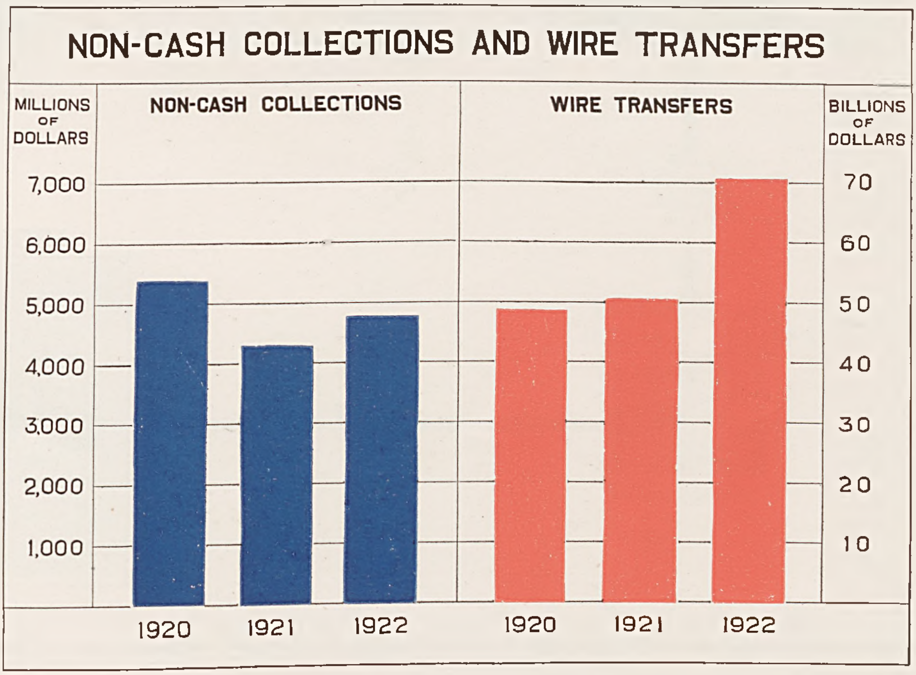
UNDER THE FEDERAL RESERVE

Collection would be made by mail directly in 2 days

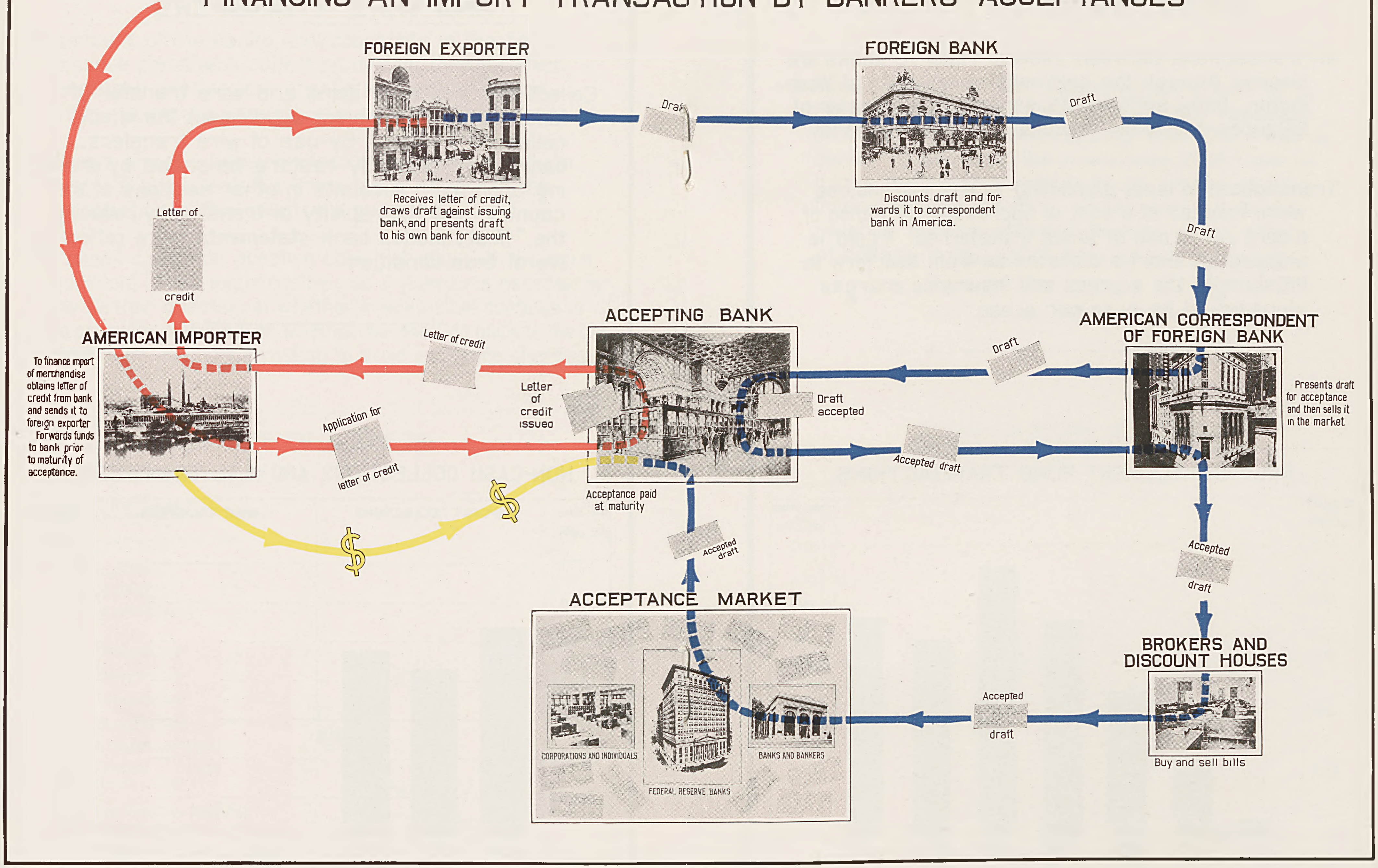


NON-CASH COLLECTIONS AND WIRE TRANSFERS

Collection of non-cash items and wire transfer of funds for member banks supplement the check collection system. By use of wire transfers, banks may promptly restore balances by drawing upon their accounts in other sections of the country, and the rapidity of transfer, by reducing the "float", makes bank statements more reflective of true condition.



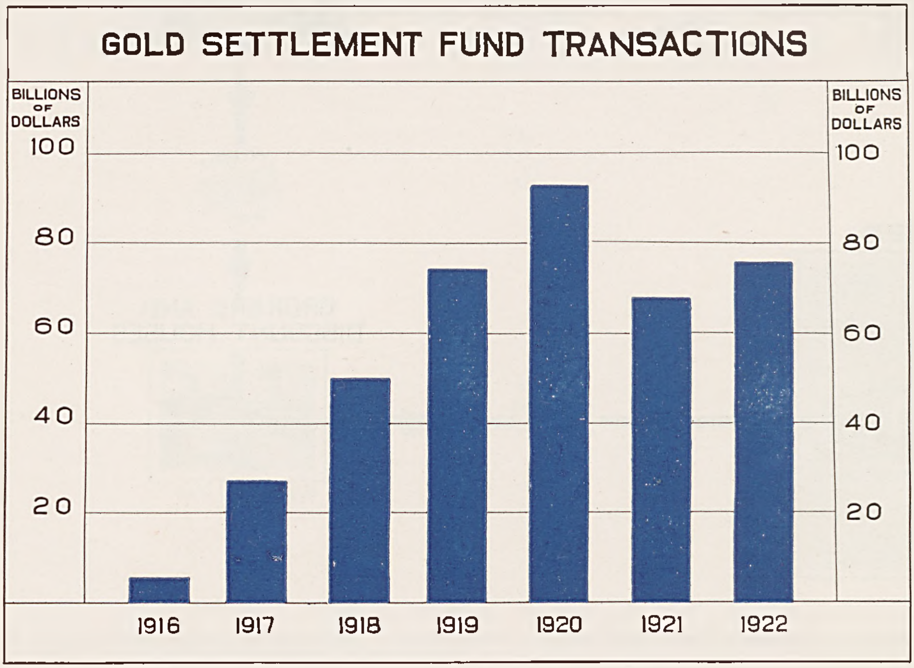
FINANCING AN IMPORT TRANSACTION BY BANKERS ACCEPTANCES



GOLD SETTLEMENT FUND

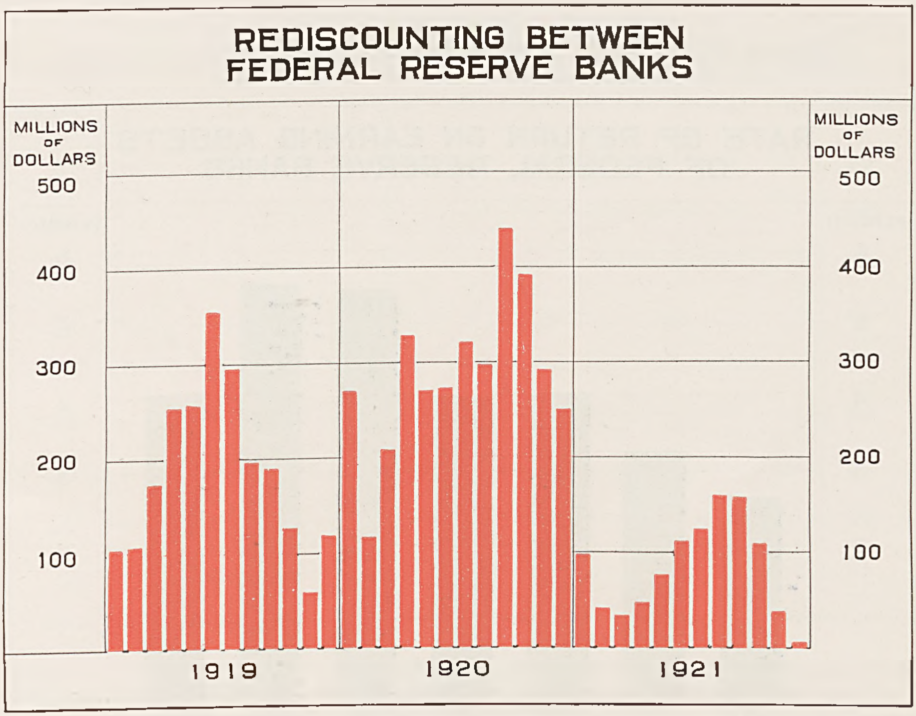
All transactions between Federal reserve banks are cleared through the gold settlement fund at Washington. Daily settlements expedite the transfer of balances and avoid physical shipments of money.

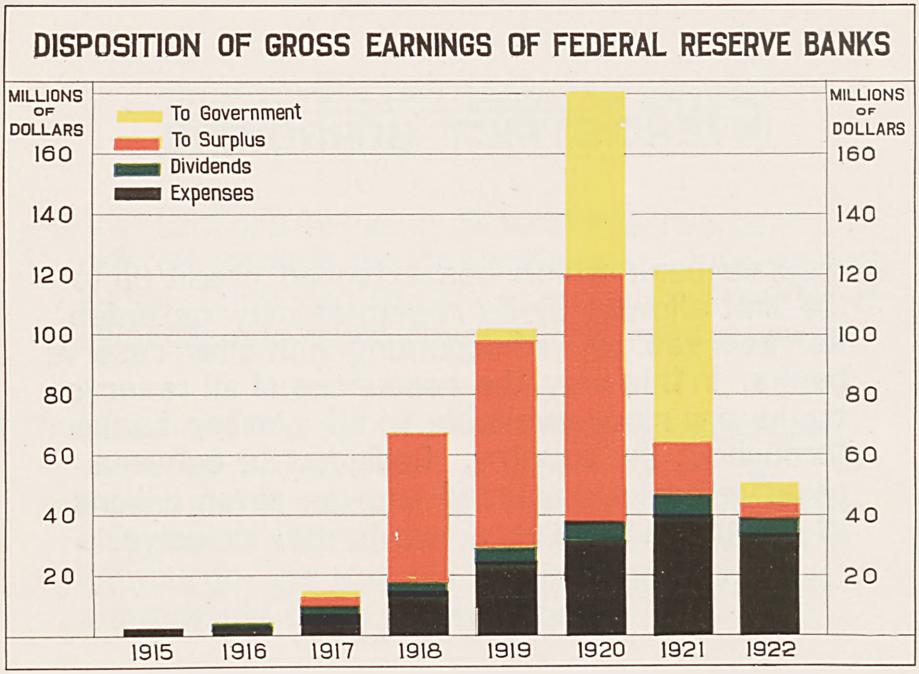
Transactions in 1922, amounting to $76,490,000,000 were handled at a cost of approximately 65/100 of a cent per $1,000 of funds transferred. If gold is shipped as short a distance as from New York to Pittsburgh, the express and insurance charges alone would be $1.35 per $1,000.

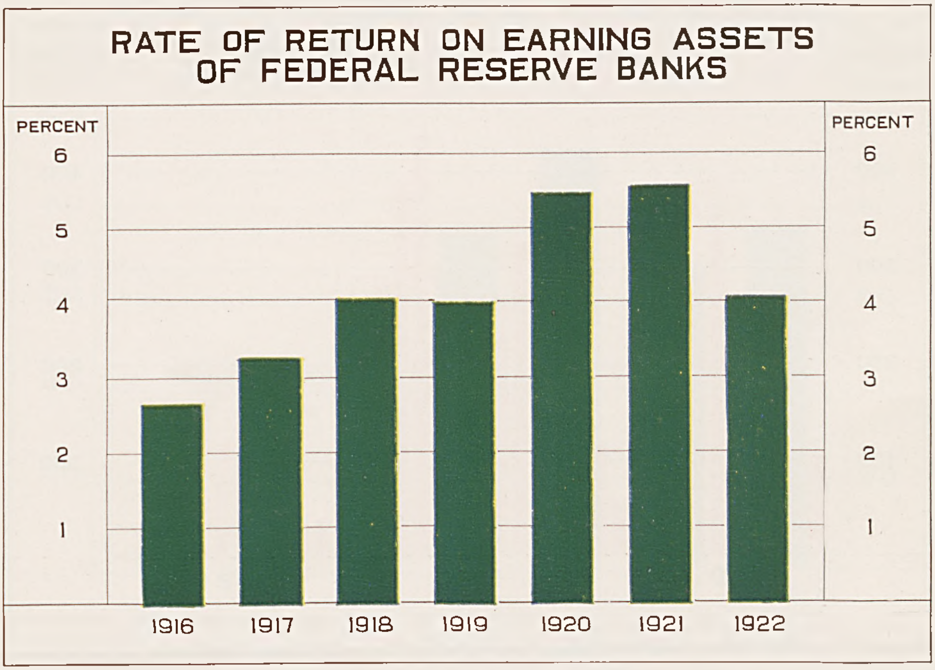


INTERDISTRICT BORROWING

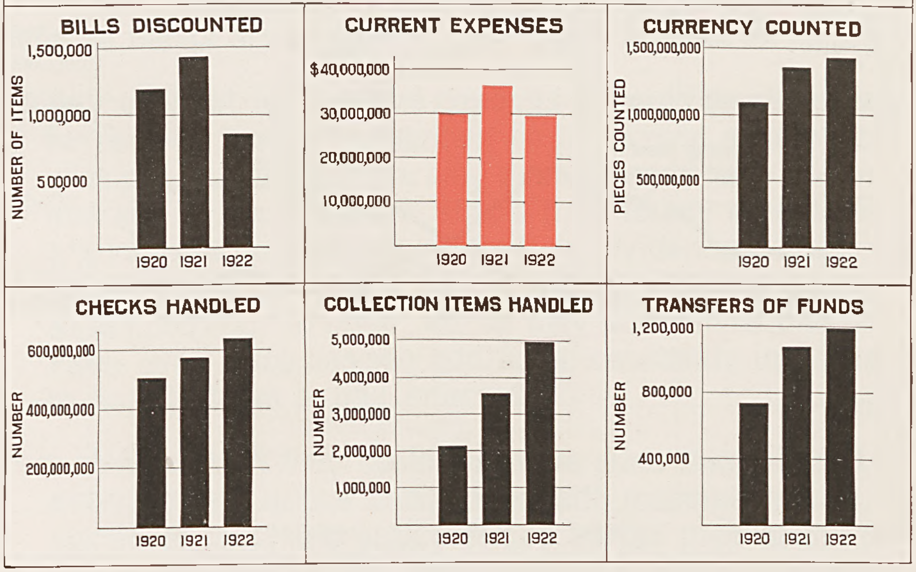
A reserve bank which has extended credit up to the limit allowed by its reserves may replenish its reserves by rediscounting with other reserve banks. In this way the resources of all reserve banks are made available to all member banks throughout the country. Rediscounts between reserve banks amounted to over seven billions of dollars in the years 1918 to 1921 inclusive.



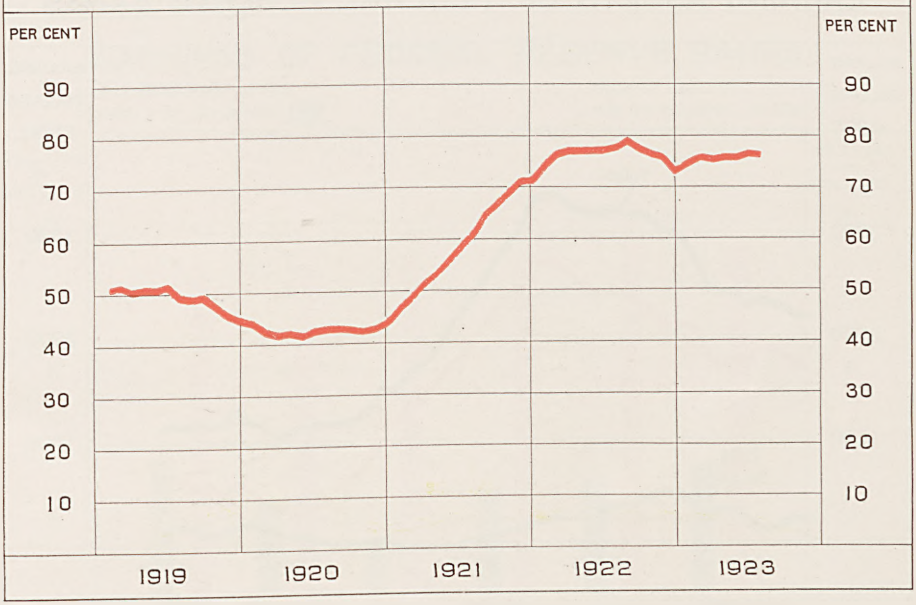

DISPOSITION OF GROSS EARNINGS OF FEDERAL RESERVE BANKS
MILLIONS OF DOLLARS
To Government
To Surplus
Dividends
Expenses
160
140
120
100
80
60
40
20
1915
1916
1917
1918
1919
1920
1921
1922

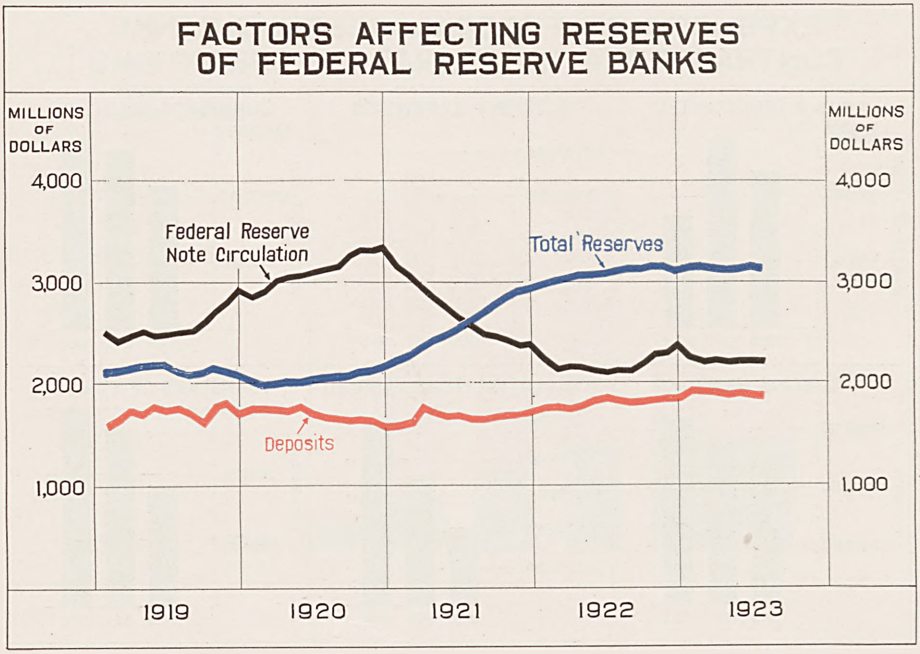

RATE OF RETURN ON EARNING ASSETS OF FEDERAL RESERVE BANKS
PERCENT
6
5
4
3
2
1
1916
1917
1918
1919
1920
1921
1922

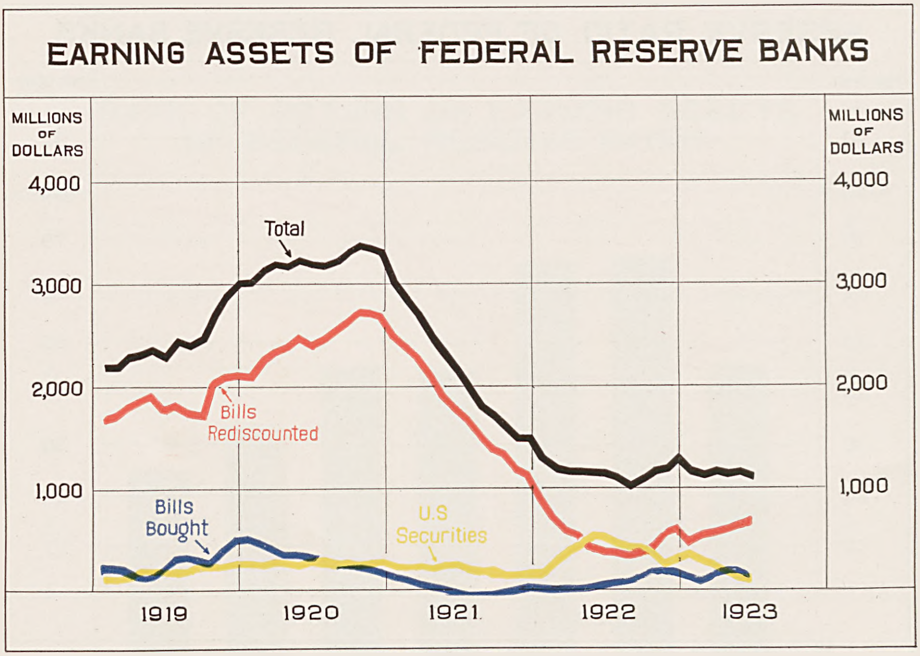
EXPENSES OF FEDERAL RESERVE BANKS CONTRASTED WITH VOLUME OF OPERATIONS



RESERVE RATIO OF FEDERAL RESERVE BANKS




FACTORS AFFECTING RESERVES OF FEDERAL RESERVE BANKS
MILLIONS OF DOLLARS
4,000
3,000
2,000
1,000
Federal Reserve Note Circulation
Total Reserves
Deposits
1919
1920
1921
1922
1923

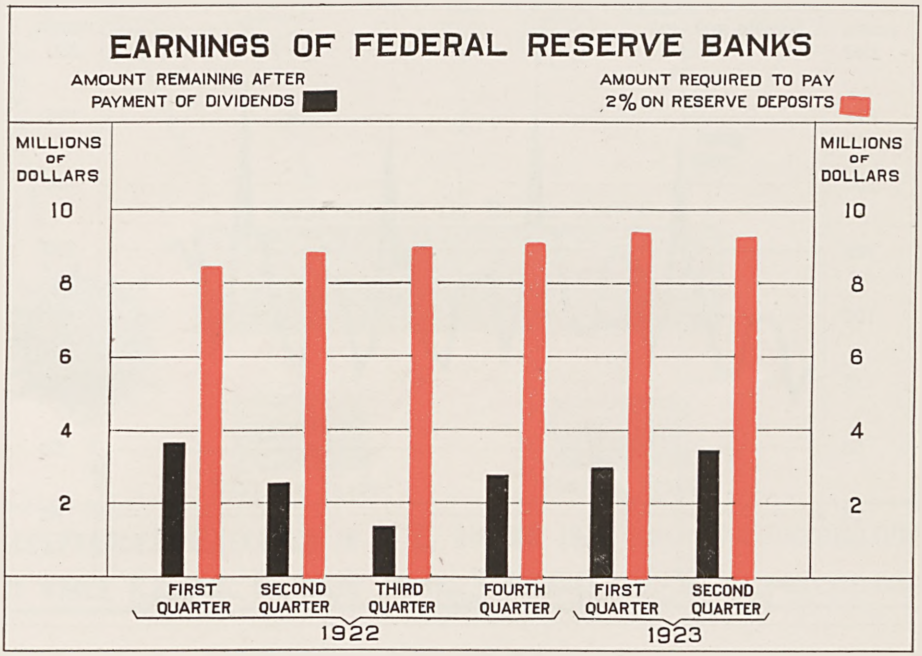

EARNING ASSETS OF FEDERAL RESERVE BANKS
MILLIONS OF DOLLARS
4,000
3,000
2,000
1,000
Total
Bills Rediscounted
Bills Bought
U.S Securities
1919
1920
1921
1922
1923

PAYMENT OF INTEREST ON RESERVE DEPOSITS

Reserve Banks are organized for service and not for profit.

To pay interest on reserve deposits it would be necessary for reserve banks to maintain large earning assets. For example, in 1922 their earning assets would have had to average $1,800,000,000 to enable them to pay expenses, 2% interest on deposits, and 6% in dividends. Their earning assets during that year actually averaged $1,187,000,000. In other words they would have had to keep over $600,000,000 additional constantly invested to enable them to pay interest.

It is obvious that they could not have done this without entering into active competition with member banks. Moreover, such a practice would curtail their ability to accommodate member banks with discounts as needed.



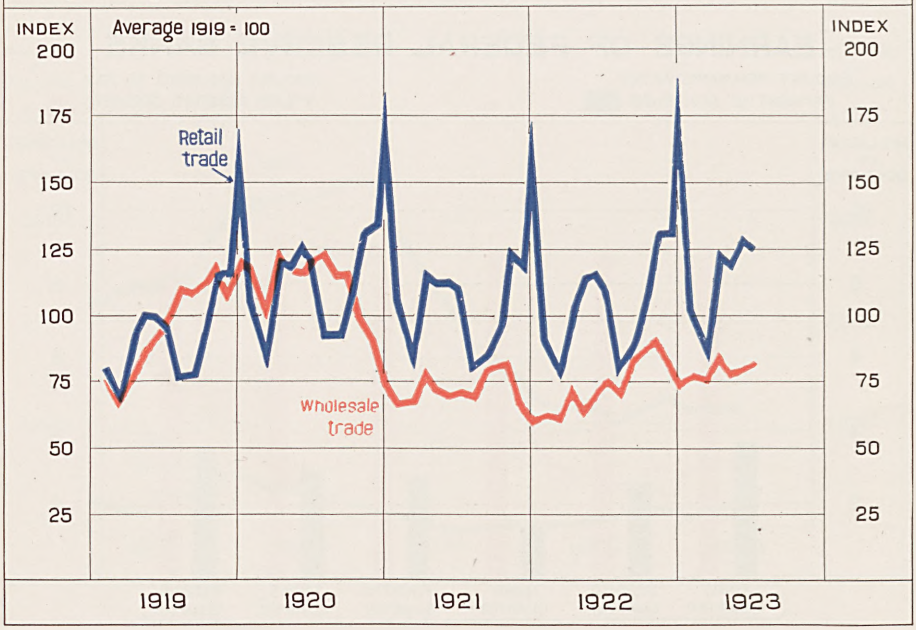
REPORTS ON BUSINESS CONDITIONS

Each reserve bank keeps in close touch with business and agricultural conditions in its district and publishes monthly reports for free distribution. These reports, which are largely summaries of facts ascertained at first hand, are issued in the interest of better business through the dissemination of sound information.

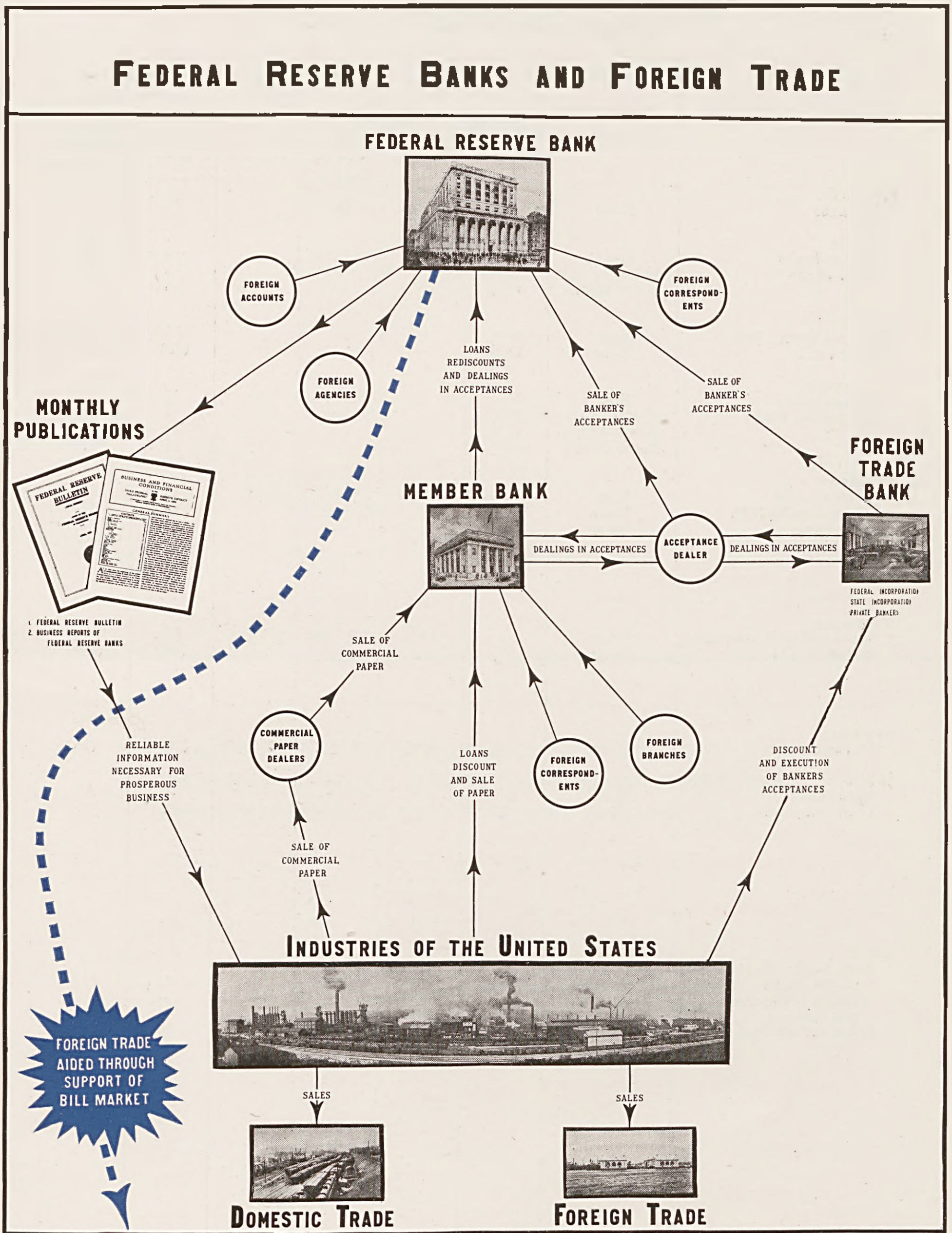
The Federal Reserve Bulletin, published by the Federal Reserve Board, contains extensive and authoritative information on finance and trade throughout the world.

INDICES OF BUSINESS CONDITIONS

Prepared by Federal Reserve Board in cooperation with Federal Reserve banks.



CHIEF SUPPORT OF BILL MARKET



ACCEPTANCES EXECUTED IN U.S. DURING 1922 (EST.) $4,000,000,000

OF WHICH FEDERAL RESERVE BANKS PURCHASED 49% — 1,948,000,000

Reserve Requirements Under State Laws

States printed in red do not permit state member banks to substitute reserve requirements of Federal Reserve Act.

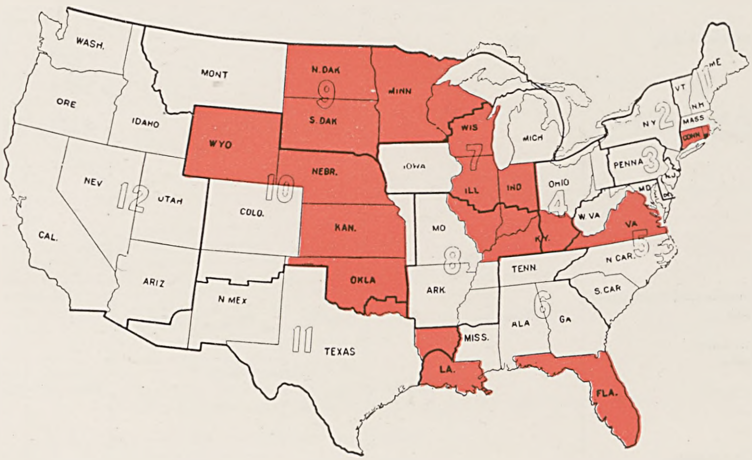
Figures in parentheses refer to footnotes

	Population restrictions	Reserves required to be held upon				Distribution of reserves	
		Aggregate deposits	Demand deposits	Time deposits	Savings deposits	Cash in vault	Balances with depositaries
Alabama:							
All banks	None	—	15%	—	—	2/5	3/5
Arizona:							
Savings banks	None	10%	—	—	—	1/4	3/4
Other banks	50,000 or over	20%	—	—	—	1/3	2/3
" "	under 50,000	15%	—	—	—	1/3	2/3
Arkansas:							
Reserve agents (35)	None	20%	—	—	—	2/5	3/5
Other banks	None	15%	—	—	—	(38)	(38)
California:							
Savings banks	None	—	—	—	5%	1/2	1/2 (1)
Commercial banks	100,000 or over	18%	—	—	—	1/2	1/2
" "	50,000–99,999	15%	—	—	—	1/2	1/2
" "	Under 50,000	12%	—	—	—	1/2	1/2
Colorado:							
Savings banks	None	20%(2)	—	—	15%	1/5	4/5 (3)
Reserve agents (35)	None	25%	—	—	—	1/5	4/5 (4)
Other banks	None	20%	—	—	—	1/5	4/5 (3)
Connecticut:							
State banks and trust companies	None	—	12%	5%	—	1/3	2/3 (5)
Delaware:							
Banks and trust companies	None	—	10%	5% (38)	5% (38)	1/3	2/3 (39)
Savings banks	None	5%	—	—	—	(38)	(39)
Florida:							
All banking companies	None	20%	—	—	—	2/5	3/5 (6)
Georgia:							
All banks	None	—	15%	5% (7)	5% (7)	(38)	(38)
Idaho:							
State banks	None	15%	—	—	—	1/5	4/5
Trust companies	None	15%	—	—	(8)	1/5	4/5
Illinois:							
Banks and trust companies	Chicago	25% (9)	—	—	—	(38)	(38)
" " " "	Elsewhere	15% (9)	—	—	—	(38)	(38)
Indiana:							
All banks and banking companies	None	—	12½%(10)	—	—	(38)	(38)
Iowa:							
State banks, trust companies, and savings banks doing commercial business	3,000 or over	—	20%	8%	8%	3/20	17/20
	Under 3,000	—	15%	8%	8%	3/20	17/20
Other savings banks	None	—	—	—	8%	3/20	17/20
Kansas:							
State banks	50,000 or over	—	10%	3%	—	1/3	2/3
" " (11)	Under 50,000	—	10%	3%	—	1/3	2/3
" " (12)	Under 50,000	—	7%	3%	—	1/3	2/3
" "	Under 1,000	—	7%	3%	—	1/3	2/3 (13)
Trust companies	None	—	25%	10%	—	1/3 (14)	2/3 (14)
Kentucky:							
State banks and trust companies	Central reserve cities (15)	—	13%	3%	—	1/3	2/3
" " " "	Reserve cities (15)	—	10%	3%	—	1/3	2/3
" " " "	Elsewhere	—	7%	3%	—	1/3	2/3
Louisiana:							
State banks	None	—	20%	—	—	1/5 (16)	4/5
Maine:							
Trust and banking companies	None	—	15% (17)	—	—	—	All (18)

Reserve Requirements Under State Laws

	Population restrictions	Reserves required to be held upon				Distribution of Reserves	
		Aggregate deposits	Demand deposits	Time deposits	Savings deposits	Cash in vault	Balances with depositaries
Maryland:							
State banks	None	—	15%	—	—	1/3	2/3
Trust companies	None	—	15%	—	—	—	All (19)
Massachusetts:							
Trust companies	In Boston within 3 miles of State House	—	20%	—	—	2/5 (20)	3/5 (20)
" "	Elsewhere	—	15%	—	—	2/5 (20)	3/5 (20)
Michigan:							
Commercial banks	100,000 or over	20%	—	—	—	(38)	(38)
" "	Under 100,000	12%	—	—	—	(38)	(38)
Savings banks	None	12%	—	—	—	(38)	(38)
Minnesota:							
State banks	Res. cities (35)	—	15%	5%	—	1/4	3/4
" "	Elsewhere	—	12%	5%	—	1/4	3/4
Mississippi:							
State banks	Over 50,000	—	25%	10%	10%	(38)	(38)
" "	Elsewhere	—	15%	7%	7%	(38)	(38)
Missouri:							
State banks and trust companies	200,000 or over	—	18%	—	—	7/18	11/18
" " " "	25,000 to 199,999	—	15%	—	—	2/5	3/5
" " " "	Under 25,000	—	15%	—	—	(38)	(38)
Montana:							
State banks	Res. cities (35)	15%	—	—	—	(21)	(21)
" "	Elsewhere	10%	—	—	—	(21)	(21)

STATES PRINTED IN RED DO NOT PERMIT STATE MEMBER BANKS TO SUBSTITUTE RESERVE REQUIREMENTS OF FEDERAL RESERVE ACT.



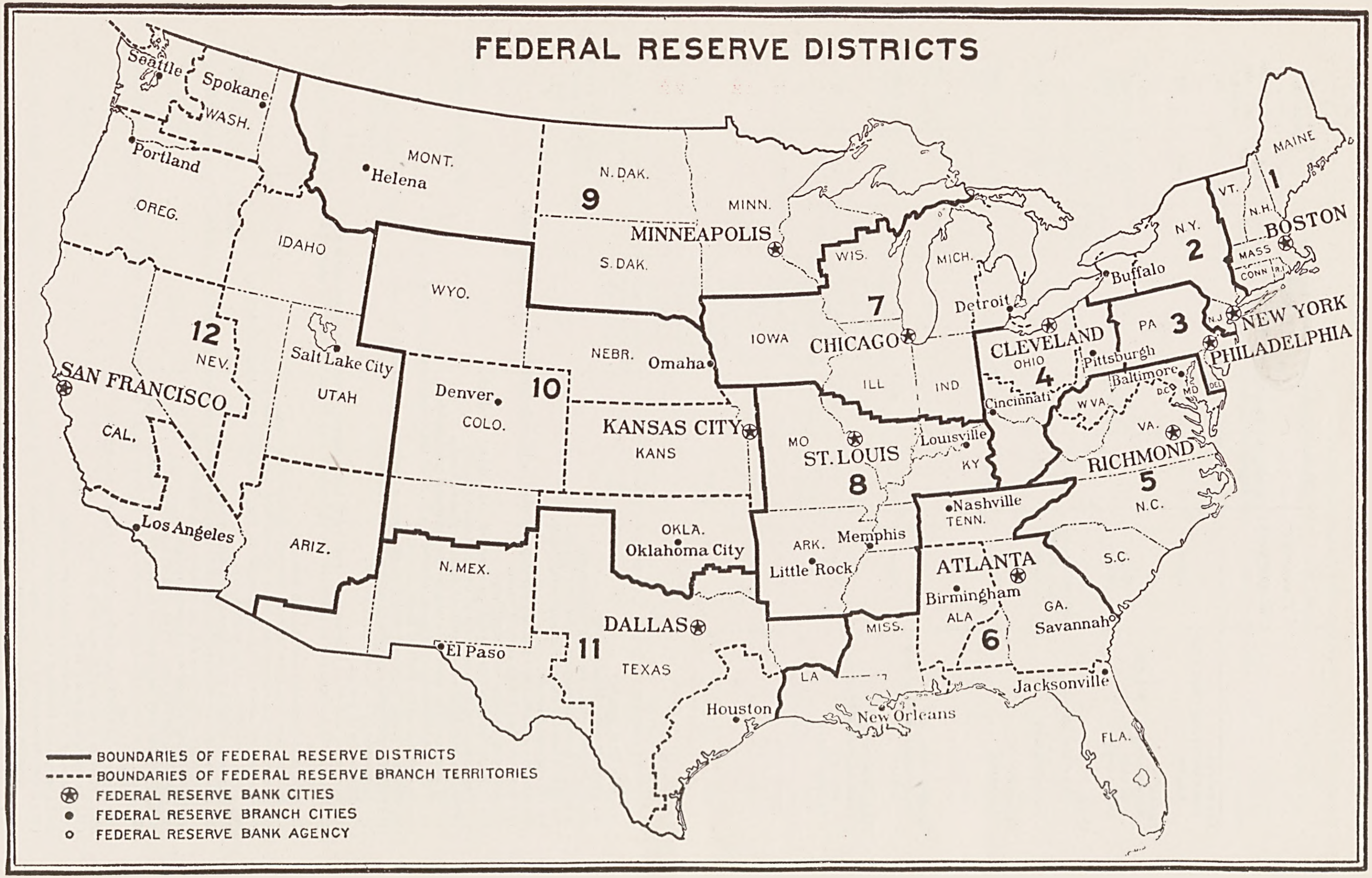
Reserve Requirements Under State Laws

	Population restrictions	Reserves required to be held upon: Aggregate deposits	Demand deposits	Time deposits	Savings deposits	Distribution of Reserves: Cash in vault	Balances with depositaries
Nebraska:							
State banks	Over 25,000	20%	—	—	—	2/5	3/5
" "	Elsewhere	15%	—	—	—	1/3	2/3
Savings banks	None	—	—	—	5%	(38)	(38)
Nevada:							
Reserve agents (35)	None	25%	—	—	—	1/3	2/3
Other banks	None	15%	—	—	—	1/3	2/3
Savings banks and trust companies not doing general banking business	None	10%	—	—	—	1/2	1/2
New Hampshire:							
All banks	None	15% (37)	—	—	—	1/3	2/3
New Jersey:							
State banks	None	—	15% (22)	—	—	2/5	3/5
Trust companies	None	—	15%	—	—	1/5	4/5
New Mexico:							
All banks	None	12%	—	—	—	(25)	All
New York:							
State banks	Boroughs of 2,000,000 or over	—	18%	—	—	2/3 (24)	1/3
" "	Boroughs of 1,000,000 to 1,999,999 (23)	—	15%	—	—	2/3 (24)	1/3
" "	Elsewhere	—	12%	—	—	1/3 (24)	2/3
Trust companies	Boroughs of 2,000,000 or over	—	15%	—	—	2/3 (24)	1/3
" "	Boroughs of 1,000,000 to 1,999,999 (23)	—	13%	—	—	8/13 (24)	5/13
" "	1st and 2nd class cities under 1,000,000	—	10%	—	—	2/5 (24)	3/5
" "	Elsewhere	—	10%	—	—	3/10 (24)	7/10
Private bankers	Cities of 1st class	—	15%	—	—	1/10	9/10
" "	Elsewhere	—	10%	—	—	1/10	9/10
North Carolina:							
Banks and trust companies	None	—	15%	—	5%	(25)	(38)
North Dakota:							
Savings banks	None	—	20%	8% (26)	5% (27)	2/5	3/5
State banks	"	—	10%	7%	—	2/5	3/5
Ohio:							
Commercial banks	None	15%	—	—	—	4/15 demand 2/15 time	11/15 demand 13/15 time
Savings banks and trust companies	"	—	15%	10%	—	4/15 demand 2/10 time	11/15 demand 8/10 time
Oklahoma: (28)							
State banks	Over 2,500	20%	—	—	—	1/3	2/3
" "	Under 2,500	15%	—	—	—	1/3	2/3
Reserve banks	None	20%	—	—	—	1/3	2/3
Savings banks not doing general business	"	20%	—	—	—	1/2	1/2 (6)
Oregon:							
State banks and trust companies	None	—	15%	10%	10%	1/4	3/4
Pennsylvania:							
All banks	None	—	15% (22)	7½	—	1/3 demand time (30)	2/3 demand (29) time (30)
Rhode Island:							
State banks and trust companies	None	15%	—	—	—	2/5	3/5
South Carolina:							
All banks	None	—	7%	3%	—	(38)	(38)
South Dakota:							
Reserve banks (35)	None	20%	—	—	—	(38)	(38)
Other banks	"	17½%	—	—	—	(38)	(38)

Reserve Requirements Under State Laws

	Population restrictions	Reserves required to be held upon				Distribution of Reserves	
		Aggregate deposits	Demand deposits	Time deposits	Savings deposits	Cash in vault	Balances with depositaries
Tennessee:							
State banks and trust companies	None	—	10%	—	—	(38)	(38)
Texas:							
Banks—capital $25,000 or over	None	—	15%	—	—	(38)	(38)
Other banks	None	—	20%	—	—	(38)	(38)
Utah:							
Commercial banks	50,000 or over	20%	—	—	—	⅛	⅞
" "	Under 50,000	15%	—	—	—	⅛	⅞
Savings banks	None	10%	—	—	—	¼	¾
Vermont:							
All banks	None	—	15% (10)	—	3%	⅕ (31)	⅘ (29)
Virginia:							
State banks (32)	None	—	10%	3%	—	(38)	(38)
Washington:							
State banks and trust companies	None	15% (33)	—	—	—	(38)	(38)
West Virginia:							
State banks and trust companies	None	—	15%	—	—	⅖	⅗
Savings banks	"	—	—	—	5% (34)	All (34)	—
Wisconsin:							
Reserve banks	None	20%	—	—	—	(38)	(38)
Other state banks and trust companies	"	12%	—	—	—	(38)	(38)
Mutual savings banks	"	—	—	—	5%	(38)	(38)
Wyoming:							
Commercial banks and trust companies	None	20% (36)	—	—	10%	(38)	(38)
Savings banks	"	—	—	—	10%	(38)	(38)

(1) Or in U. S. bonds.
(2) Deposits other than savings.
(3) 6% deposits may be in Liberty bonds.
(4) 7½% deposits may be in Liberty bonds.
(5) ¼ of balances may be in approved bonds.
(6) Or approved bonds.
(7) Reserve against time and savings deposits may be in unpledged U. S. or Georgia bonds.
(8) Not less than 5% as cash in vault.
(9) Ruling of auditor—not state law.
(10) Commercial deposits payable on demand and subject to check.
(11) Banks having 20% or more of deposits due to banks.
(12) Banks having less than 20% of deposits due to banks.
(13) ¼ of reserves as cash with approval of banking commissioner.
(14) U. S. bonds and demand loans secured by U. S. or municipal bonds accepted as reserve.
(15) As designated by Federal Reserve Act.
(16) Member banks' balances with Federal reserve bank accepted as cash in vault.
(17) Including deposits subject to notice within 10 days.
(18) ⅓ may be in U. S. or Maine bonds.
(19) ⅓ may be in bonds.
(20) ½ of cash and ⅓ of balances, or in all ⅖ of total reserve, may be in approved bonds.
(21) Such portion of reserve as directors may determine may be on deposit with approved reserve agents, balance in cash.
(22) All items or claims payable on demand.
(23) If bank does not have office in borough of preceding class.
(24) Prescribed percentage may be on deposit with Federal reserve bank.
(25) No requirements as to cash in vault; all may be carried with reserve agents.
(26) Total deposits on time certificates.
(27) Deposits subject to notice as provided by law.
(28) No specific law exists permitting state member banks to substitute Federal reserve in lieu of state requirements, but state authorities do not criticize such substitution.
(29) ½ of balances may be in approved bonds.
(30) ⅓ in approved bonds, ⅔ in cash or balances.
(31) ½ of cash may be deposited in bank in same town or county.
(32) State law by implication permits state member banks to comply with reserve requirements of Federal Reserve Act.
(33) Reserve of 100% required against uninvested trust funds.
(34) Set aside from profits and held as cash.
(35) As defined by state law.
(36) Liability to depositors other than savings.
(37) Deposits in banking or commercial department.
(38) Reserves consist of cash in vault and balance with approved reserve agents, no provision being made for definite distribution between the two.
(39) Upon approval of banking commissioner one-half of reserves may be in bonds or other obligations of the United States.


FEDERAL RESERVE DISTRICTS
1
BOSTON
MAINE
VT.
N.H.
MASS
CONN
R.I.
2
NEW YORK
N.Y.
Buffalo
N.J.
3
PHILADELPHIA
PA
DEL
4
CLEVELAND
OHIO
Pittsburgh
Cincinnati
5
RICHMOND
Baltimore
D.C.
MD
W VA.
VA.
N.C.
S.C.
6
ATLANTA
Nashville
TENN.
Birmingham
ALA
GA.
Savannah
Jacksonville
FLA.
New Orleans
MISS.
LA
7
CHICAGO
WIS.
MICH.
Detroit
IOWA
ILL
IND
8
ST. LOUIS
MO
Louisville
KY
Memphis
ARK.
Little Rock
9
MINNEAPOLIS
N. DAK.
MINN.
S. DAK.
MONT.
Helena
10
KANSAS CITY
NEBR.
Omaha
KANS
Denver
COLO.
WYO.
OKLA.
Oklahoma City
N. MEX.
11
DALLAS
TEXAS
El Paso
Houston
12
SAN FRANCISCO
Seattle
Spokane
WASH.
Portland
OREG.
IDAHO
NEV.
Salt Lake City
UTAH
CAL.
Los Angeles
ARIZ.
BOUNDARIES OF FEDERAL RESERVE DISTRICTS
BOUNDARIES OF FEDERAL RESERVE BRANCH TERRITORIES
FEDERAL RESERVE BANK CITIES
FEDERAL RESERVE BRANCH CITIES
FEDERAL RESERVE BANK AGENCY