PROCEEDINGS OF THE FOURTH ANNUAL MEETING *of the* STOCKHOLDERS' ASSOCIATION FEDERAL RESERVE BANK OF DALLAS

JUNE 19, 1930

DALLAS, TEXAS

ADVISORY COMMITTEE OF STOCKHOLDERS' ASSOCIATION

Elected for the year 1930-1931

Arizona

E. W. Graves,
First National Bank,
Douglas.

Oklahoma

W. C. Slaughter,
Durant National Bank,
Durant.

New Mexico

G. K. Richardson,
Carlsbad National Bank,
Carlsbad.

Louisiana

Ben Johnson,
Commercial National Bank,
Shreveport.

Texas

P. B. Doty,
First National Bank,
Beaumont.

J. B. Fortson,
Corsicana National Bank,
Corsicana.

John Gregg,
Merchants National Bank,
Brownsville.

Alf Morris,
First National Bank,
Winnsboro.

E. A. Palmer,
Yoakum National Bank,
Yoakum.

W. S. Posey,
First National Bank,
Lubbock.

Oxsheer Smith,
Citizens National Bank,
Cameron.

J. P. Williams,
First National Bank,
Mineral Wells.

PROGRAM

FOURTH ANNUAL MEETING OF THE STOCKHOLDERS' ASSOCIATION

FEDERAL RESERVE BANK OF DALLAS

Thursday, June 19, 1930, 10 A. M., Adolphus Hotel

Invocation by Dr. Charles C. Selecman, President, Southern Methodist University, Dallas, Texas.

Report of the Chairman: W. M. Massie, Vice-President, Fort Worth National Bank, Fort Worth, Texas.

Appointment of Committees.

Report on Earnings and Operations of Federal Reserve Bank of Dallas: Lynn P. Talley, Governor of Federal Reserve Bank, Dallas, Texas.

Why Place the Debit Power of the Country, as Represented by Checks, in Governmental Agencies? Nathan Adams, President, First National Bank in Dallas, Dallas, Texas.

A More Equitable Distribution of the Earnings of the Federal Reserve Bank: B. D. Harris, Vice-President, Second National Bank, Houston, Texas.

General Relationship with Member Banks: J. M. Caviness, Cashier, First National Bank, Paris, Texas.

Open Discussion.

Report of Committees.

Adjournment.

PROCEEDINGS OF STOCKHOLDERS' MEETING

Held at Dallas, June 19, 1930

10:28 A. M.

June 19, 1930.

The Chairman: You gentlemen will please come around and get your seats and let's get started here because we want to confine our activities to the morning entirely and not have an afternoon session. The hour for the convention to meet has arrived and passed and I am going to ask that you men come to order.

I am going to ask that you rise and remain standing while Dr. Charles C. Selecman, President of Southern Methodist University, Dallas, Texas, delivers the invocation.

Dr. Selecman has the distinction of having delivered the invocation on two separate occasions to the Frigidaire manufacturers and dealers and he is therefore fully qualified to deliver the invocation to a group of bankers.

Dr. Selecman: Almighty God, Thou art the maker and creator of all things and the ruler of all of the elements in the Universe. We recognize Thee as our God and our King and as the giver of every good and perfect gift. Thou sendest the early and the latter rain; the seed time and the harvest. Thou dost scatter the flowers and sunshine at our feet. Thou hast said, "Blessed is that nation whose God is the Lord," and Thou hast taught us that blessed is the man that sitteth not in the seat of the scornful nor standeth in the way of the wicked men, that whatsoever he doeth shall prosper.

We pray that our lives may be governed according to the laws of righteousness and the laws of God; that we may not only love and fear God but that we may regard the rights of men and we ask this day Thy divine blessing to be upon this group of men who hold in their hands such great issues and who stand under such great burdens of responsibility, and whose welfare affects the welfare of so many people. Help us, O Lord, above everything else to remember that a man's life consisteth not in the abundance of the things which he possesseth but that it is our business first to seek the Kingdom of God and His righteousness knowing that all things shall be added unto us. Hear us in this our prayer; accept our thanksgiving through Christ, our Redeemer. Amen.

The Chairman: We now come to the most uninteresting part of our program, which is the report of the chairman. My report is going to be very brief for the reason that we have arranged a very interesting program for you, with subjects of much interest and I shall not trespass on the time of the speakers assigned to those subjects as we are particularly anxious that they be given ample time in which to discuss them.

This is the fourth annual meeting of the Stockholders' Association, Federal Reserve Bank of Dallas. Our Association has passed the experimental stage and is now an established institution. You have indicated by your attendance and interest that it has been in existence long enough to prove its value, and I am of the opinion that a distinct benefit has accrued, both to member banks and the officials of the Federal Reserve Bank, from these meetings.

The work of your committee is circumscribed and there is little that it can do, except in an advisory way, as the policies and principles of the Federal Reserve System are controlled largely by statutory regulations, under which the banks operate.

Several meetings of your Advisory Committee were held during the year, which were all well attended and much interest displayed in the work of the Association by the members. At our first meeting a committee on objectives and activities was appointed, composed of Ben Johnson, Shreveport; J. P. Williams, Mineral Wells, and Oxsheer Smith, Cameron, Texas, it being the duty of this committee to outline a program which we would follow in our work for the past year. The program presented and adopted by your committee as a whole follows:

Added hours of service for closing time on deferred credit items.

Tenure of office of Class A and Class B directors be confined to two terms.

That special meetings be held by the respective groups of stockholders, which are to elect directors at the ensuing election, for the purpose of consideration and endorsement of candidates for such vacancies.

A thorough study of the matter of larger participation by member banks in the earnings of the Federal Reserve Bank.

Change in method of election of Class A and Class B directors.

Closer and more understanding relationship between member banks and the Federal Reserve Bank.

In reporting on the work outlined by our Program Committee, I am taking them up in the order named.

We found upon investigation that the closing time of the Federal Reserve Bank of Dallas on deferred credit items was not out of line with other Federal reserve banks and that no advantage would be gained in requesting additional hours of service, as train schedules made it impractical.

The matter of tenure of office of Class A and Class B directors lies wholly within the control of member banks. However, it is the opinion of the Advisory Committee that periodical changes in the personnel of the board would be beneficial in the operation of the bank and we suggest that we reaffirm the resolutions adopted at the 1928-29 stockholders' meetings, which recommend that no elective director be elected for more than two terms.

The matter of special meetings to be held of the respective groups of stockholders which are to elect directors we also found impractical, it being the opinion of the committee that the time lost and the cost involved would not justify the expense and doubtless the same results could be obtained by continuing under our present plan of nomination.

The question of larger participation by member banks in the earnings of the Federal Reserve Bank is of serious import and your committee suggests that careful consideration be given to any plan that might be recommended to the Federal Reserve Board. Already several bills have been introduced in Congress bearing on this question and still further legislation seems inevitable.

The lack of interest displayed by member banks in the election of Class A and Class B directors of the Federal reserve banks has been a matter of serious concern to the Federal Reserve Board, as well as the officials of the bank. The Federal Reserve Act provides that member banks shall elect six of the nine directors to serve on the boards of the respective banks. Your apathy in not taking advantage of the privilege accorded you has been most disturbing to your Advisory Committee. Your committee in collaboration with the officials of the Federal Reserve Bank has endeavored to arouse a keener interest in the election of these directors. The result of our efforts was shown in the election held last December, at which time an appreciable vote was cast, although results as to number of banks voting were far from satisfactory. Too much credit cannot be given to Col. C. C. Walsh, Federal Reserve Agent, for his untiring efforts to bring about a change in the election procedure of Class A and Class B directors. Your committee is pleased to report that at a conference of Federal Reserve Agents held in Washington in December, 1929, Colonel Walsh, as Chairman of the Committee of Federal Reserve Agents, submitted to the Board three changes, which were finally approved and adopted.

The first of the suggested changes recommended by the conference of Federal Reserve Agents provides that the date for the opening of the polls in the annual election of Class A and Class B directors be changed from November 15 to November 1.

The second suggestion recommends that that part of Section 4 of the Federal Reserve Act which provides for the method of counting the ballots in the election of directors in the Federal reserve banks be amended to read as follows: "The candidate then having a majority of the electors voting and the highest number of combined votes shall be declared elected."

The third suggestion provides that the designation of officers to cast the vote for Class A and Class B directors shall be made by title instead of name.

You have been advised as to these changes and a new resolution has been forwarded you for adoption by your board of directors. Your committee strongly recommends the immediate passage of the resolution referred to, believing that by doing so greater interest will be created in the annual elections of directors.

Your committee feels that a closer relationship and better understanding should be had between member banks and the Federal Reserve Bank. In order that this may be brought about we suggest the enlargement and expansion of the Member Bank Relations Department by adding thereto an executive officer of proven ability as a commercial banker, whose duty it would be to periodically visit member banks, assisting those banks in working out their problems. His title should be such that he would carry into his work the influence of an official of the bank and at the same time be clothed with authority to speak for and commit the institution in anything that might be necessary in the premises, it being the thought of the committee that through this contact many complications might be averted before they assume serious proportions.

The past year has been one fraught with added burdens and grave responsibilities, not alone for the banker but for those in authority who administer the affairs of the Federal Reserve System. I am convinced that the creation of the Federal Reserve System was a great piece of constructive legislation. The more I have watched it work the more I have become convinced that it is the most helpful instrument in the administration of our economic affairs which has been created in our time. That it has been faultless is too much to expect. Only through study and experience can we learn to do the job better.

These stockholders' meetings can be made profitable if the members will take the time to study and discuss those fundamental questions embraced in the operation of the Act.

In conclusion permit me to express my grateful appreciation of the splendid support given your chairman by the members of our Advisory Committee. They have been ever zealous in their efforts to work out those problems affecting the relationship of member banks with the Federal Reserve Bank. I also desire to express to Governor Talley and other officers of the Federal Reserve Bank my personal appreciation, as well as that of the members of the Advisory Committee, for the splendid cooperation which they have given us in our work.

I would be ungrateful indeed if I failed to express to the membership of the Association and our Advisory Committee my sincere appreciation of the honor which you have conferred upon me in electing me your chairman. It is one of the greatest honors that has come to me and I shall cherish it throughout the years to come. (Applause.)

THE CHAIRMAN: The next order of business is the appointment of committees. We only have two committees, the Committee on Resolutions and a Nominating Committee. Our by-laws provide that at each annual election there must be elected six members of the Advisory Committee who will serve for two years. I am going to ask that the secretary read the names of the members going off the committee at this time.

THE SECRETARY: Those retiring at this time will be E. H. Schmidt; Nathan Adams; A. F. Jones; W. M. Massie; Gus F. Taylor; John T. Yantis.

THE CHAIRMAN: I am going to appoint the Resolutions Committee. I think our by-laws provide that there shall be a committee of five—the secretary says I am wrong, that the number is seven instead of five. On this Resolutions Committee I am going to appoint John T. Yantis, Brownwood, Chairman; R. G. Erwin, Ballinger; T. S. Stevenson, Floydada; W. P. Riley, Junction; A. B. Childs, Naples; J. Edwin Brown, McGregor; C. E. Maedgen, Lubbock. If any of the names that I have called are not present—let me arrive at that in this way—those whose names I have called, please rise. Mr. Yantis is here, Mr. Maedgen is here and Mr. Childs and Mr. Brown are here. Is Mr. Erwin here?

A STOCKHOLDER: I haven't seen him.

THE CHAIRMAN: That necessitates arranging a new committee then. I would like to have a full committee.

A STOCKHOLDER: Erwin is here. I saw him in the hotel.

THE CHAIRMAN: I'm going to substitute the names of Ford Seale of Denison; W. S. Fant of Weatherford and D. E. Box of Grapevine.

On your Nominating Committee I am going to name: Sam

R. Lawder of Houston; Owen W. Sherrill of Georgetown; Fred Smith of Weatherford; H. E. Childs of Itasca and C. E. Maedgen of Lubbock. I am going to ask that those gentlemen whose names I have called, please rise.

Mr. Maedgen: Mr. Chairman, it occurs to me that you have my name on both committees and you ought to substitute for me on one or the other and put somebody else in my place.

The Chairman: I will take your name off of the Nominating Committee, Mr. Maedgen. Mr. Lawder is here and Mr. Sherrill is here and Mr. Elliot is here. Is Mr. Gill here? Mr. Smith is here, Fred Smith of Weatherford? Mr. Childs is here. In the place of Mr. Gill and Mr. Smith and Mr. Maedgen, who is a member of the Resolutions Committee, I am going to appoint R. V. Colbert of Stamford; W. W. Jones of Sulphur Springs and J. E. Woods of Teague. That completes the two committees and I am going to ask the gentlemen whose names have been called to retire and prepare suitable resolutions and proper nominations in order that they may report back here later on and get through with the entire work of this meeting at a morning session, as there will be no afternoon session.

Mr. Woodson: Mr. Chairman, in view of the fact that we are going to have only one session and that we have some very important papers here and you are taking fourteen members away from us during the discussion, I am wondering—in view of the fact that we are going to have luncheon together—if we can't adjourn for lunch as we have done on occasions in the past, and adopt these committee reports at that time and let these gentlemen hear these talks and the discussion on these papers.

The Chairman: I think that if you wait for the reports to come in at luncheon most of these men will get away by that time and not come back or possibly not even be at the luncheon. I know some of them have engagements, some of them have some golf games and I think we should hear from those committees before we adjourn. I regret that these committees will be forced to miss some of this program, which is a very, very interesting program, and we have confined it to just a few subjects in order to give the speakers ample time to present each subject. However, I will submit it to a vote of the association. Mr. Woodson, do you make that as a motion?

Mr. Woodson: I make it as a motion. I say to you, gentlemen, that it is very important to come here—if I were on one of these committees I would want to stay in here and hear the discussion of those questions if I could.

A Stockholder: I am sure our nominations are going to be accepted as they have been heretofore, and we can accept them at the lunch hour just as well as we can now and I am in favor of passing on that at the lunch hour. You are invited to stay here for lunch. Those who want to play golf and are not interested enough in the selection of their officials to stay through the luncheon, of course we will have to excuse them, but in my opinion I think they ought to stay for the luncheon—they are invited to it and those gentlemen, I think, ought to stay. We can go through the part of our program at that time and I move you that the Resolutions Committee and the Committee on Nominations make their reports at the lunch hour to be adopted by this convention.

The Chairman: Is there a second?

Mr. J. E. Owens: I second that motion.

Mr. Frost: Before you vote on that, I would like to ask for my own information as to what the Resolutions Committee does. If they will have a lot of resolutions we are going to pass or reject it seems to me that we ought to be in the meeting here where we can discuss them thoroughly and pass or reject them with proper information and after proper discussion. My recollection of the previous meetings is that where we have had the resolutions passed at the lunch hour, the resolutions are read and a very few of the members hear them and there is no discussion and the vote is put and then they read about the resolutions the next day. That is the way it has happened in the past when we had these things voted on during the luncheon. I don't know whether the Resolutions Committee is going to bring up anything that is proper for us to discuss in detail, but I have one matter myself that I would like to offer in the shape of a resolution and I would also like to get the procedure on that, whether I should take it to the committee or whether the resolution will be presented on the floor during the morning. Those things will be very important for me to know before I would know whether to vote to have the resolutions reported at the luncheon or here in the meeting so that we can discuss them.

Mr. Nathan Adams: I move we adjourn for lunch and then meet again for one or two hours to discuss these things. The summertime is here and the days are longer and these gentlemen will have plenty of time to play golf.

The Chairman: Do you offer that as an amendment to the motion?

Mr. Nathan Adams: I move we adjourn from twelve-thirty until one-thirty and I offer it as an amendment to Mr. Woodson's resolution.

Mr. Harris: I have a word, Mr. Chairman. It so happens, Mr. Chairman, that your committee has delegated to me a subject that I think is of very far-reaching importance and in the treatment of it I believe that some resolution of some sort ought to be taken and I so recommend. I think it would be unfortunate if the gentlemen who draw up these resolutions, if they have any that have to do with this subject, are out of the hall and unable to hear the argument and discussion and whichever of these resolutions or motions are adopted I hope it will result in the members of the committee hearing the things that the resolutions are going to relate to.

Mr. Williams: I think the Resolutions Committee should go into session now. The luncheon is prepared to be served at one-thirty and we couldn't adjourn at twelve-thirty and get back at one-thirty if the lunch is at one-thirty, and I think Mr. Frost is correct that we should have these matters brought before this meeting for discussion, and as a substitute to all motions that have been made, I move you that the Resolutions Committee go into session immediately to consider any matters that may come before them. We might not get through by twelve-thirty but I think that these gentlemen who have prepared papers on the subjects should not be cut off and I think we should adjourn at one-thirty when the luncheon is ready and be back at two or two-thirty. The days are getting long, the long summer days are here, and if any want to play golf they will have sufficient time from three-thirty or four o'clock on and I believe we ought to stay here and finish up. I don't believe they will come back if you adjourn for lunch. I wish we could follow Mr. Adams' suggestion about that, but they won't come back. I don't believe that if the Resolutions Committee goes out now that they will have to spend the whole morning because after each discussion there will be some resolution introduced and I believe those resolutions ought to be presented before we adjourn here as Mr. Frost says, so that, it seems to me, the Resolutions Committee should remain here. Let the Resolutions Committee be present at the discussions and hear the different suggestions. Unless you have got some resolutions to submit—

The Chairman: The chair has no resolutions to offer. Answering Mr. Frost's question and for the information of those present, I will say that we have provided here just before adjournment to receive the reports of these two committees, at which time the resolutions offered by the Resolutions Committee or any other resolutions that may be offered from the floor will be discussed and you will have ample time and opportunity to pass on each and every one of the resolutions offered. Now, as a matter of proper procedure in Mr. Frost's case, if he has a resolution to offer, he should present it to the Resolutions Committee and let the Resolutions Committee pass on it. Then you will have an opportunity to discuss that from the floor or, if he desires to withhold his resolution and present it to the membership as a whole, it is entirely agreeable with the chair.

Mr. Taylor: I move you that we dispose of all these motions and proceed to business. If the Resolutions Committee wants to go out and discuss resolutions or if they want to remain in here, why let them do it. I move you that we table all these motions and proceed to business.

(The motion was seconded.)

Mr. Downs: While I recognize the good intention of Mr. Woodson and while I recognize the diplomacy of Mr. Adams, I think those committees ought to retire in accordance with the suggestion of the president. They are very few in number and it won't embarrass the majority, the large number present—and while I don't want to say that they will not be missed, those few can afford to sacrifice themselves upon the altar of the common good of the meeting and retire for the few moments it will take them and the quicker they retire the quicker we will get through with the matter.

Mr. Taylor: I rise to a point of order. In the face of a motion to table, the gentleman is out of order.

Mr. Downs: The quicker we get through the quicker they will retire.

The Chairman: Gentlemen, the motion to table is in order.

Mr. Woodson: I will withdraw my motion if the second will withdraw his second.

The Chairman: What is your pleasure? You have all heard the motion made by Mr. Taylor to table the motions made by Mr. Woodson as well as the amendment made by Mr. Adams. Will you now vote on the motion to table? All in favor of that motion to table, let it be known by saying "aye." The ayes have it and the motion to table is carried.

A Stockholder: I suggest that you call the roll of the committees.

The Chairman: The Resolutions Committee is composed of: John T. Yantis, Brownwood, Chairman; A. B. Childs, Naples; J. Edwin Brown, McGregor; C. E. Maedgen, Lubbock; Ford Seale, Denison; W. S. Fant, Weatherford; D. E. Box, Grapevine.

The Committee on Nominations is as follows: Sam R. Lawder, Houston, Chairman; Owen W. Sherrill, Georgetown; R. V. Colbert, Stamford; W. W. Jones, Sulphur Springs; J. E. Woods, Teague; H. E. Childs, Itasca.

Mr. Yantis: Might I ask that any members who have resolutions present them. There may be other resolutions growing out of the discussion this morning, but I think the Resolutions Committee will retire at this time and we are ready to consider such resolutions as are presented to us and we would want them now in order that we may get to work at them very quickly and get back here to take part in the meeting.

THE CHAIRMAN: Gentlemen, you will please heed the suggestion of the Chairman of the Resolutions Committee, Mr. Yantis. Any one having a resolution that he cares to offer can present it to the Resolutions Committee, who will now retire. You, of course, will be given an opportunity to present such a resolution to the membership as a whole later on.

The next order of business is one in which we are all vitally interested—a report on the earnings and operations of the Federal Reserve Bank of Dallas by Mr. Lynn P. Talley, Governor of the Federal Reserve Bank, Dallas, Texas. It gives me pleasure to present to you Governor Talley:

MR. TALLEY: Mr. President and Member Bankers:

On behalf of our directors and officers I extend to you the greetings of our organization. Your attendance is the best evidence of a sustained interest in these meetings. While there is not as large a numerical representation of the member banks in the district as a whole as we would like to see, we are gratified that as many of you as are here have a sufficient interest in the affairs of your Federal Reserve Bank and banking and economic problems of the district to be present on the occasion of these meetings. We realize, of course, that, according to responses you have sent in, in a number of instances member banks have more than one representative present. This is an evidence to us that in many individual cases member banks appreciate the value of these discussions and contacts and therefore desire as many of their officers as possible to receive the benefit of the ensuing discussions. The management of the Federal Reserve Bank of Dallas, and especially its officers, feel that they likewise derive considerable benefit from the expression of your views whether the discussions are critical or confirming. Let me express the hope that at the close of your session you will feel that it has been an enjoyable and profitable occasion and that you will feel amply repaid for the time that you have devoted to coming.

At the time of your last meeting we were entering the period that afterwards proved to be the climax of one of our characteristic cycles of business and speculative activity. Even at that time some evidences of business recession were beginning to appear, and the cycle reached its climax and end during the latter days of August and with the crash in the security markets on October 29 and 30, respectively.

Please do not begin to settle yourselves in an attitude of boredom from an anticipation that I may be starting a review of the events that led up to the situations to which I have referred. As bankers and sufferers from its aftermath, the details are sufficiently fresh in your minds to avoid any necessity of any lengthy comment from me. Moreover, except for the lessons that have been taught, I know that you want to forget them as speedily as possible. I think I should, however, briefly state to you that your directors and officers endeavored to have a keen appreciation, understanding and discernment of what was happening and this, of course, applies to the management of the Federal Reserve System as a whole.

During the first week in August, 1929, the Federal Reserve Board called the Governors of the Federal reserve banks into special conference in Washington. At that conference the situation was carefully reviewed and analyzed and after being discussed for two days very definite conclusions were reached. During the latter part of 1928 and during all of 1929 up to that time, the Federal Reserve System had been pursuing a policy of pressure for firmer money in view of the steady and tremendous expansion of credit which was going chiefly into speculative channels, without unduly penalizing industry, commerce and agriculture. The outstanding purpose of this policy was to insure and assure that the Federal reserve banks themselves would be in a position to meet the emergency that was clearly inevitable as, if and when it would eventuate. Briefly, the chief concern was the ways and means of meeting the normal seasonal increased need for Federal reserve bank credit that appears between midsummer and the end of the Christmas holidays, which experience shows amounts to approximately $300,000,000 annually. This need for additional reserve credit expresses itself more succinctly in the way of a public demand for additional currency supplies than in the direction of the other two forms of reserve credit, viz., the need for increased reserves or gold exports. The problem facing the conference was to confine the proceeds of an increased amount of reserve credit to business uses and to prevent it from entering speculative channels and augmenting the large supply of bank credit already in use there and without making the cost of credit to business prohibitive. To that end a decision was reached to increase the discount rate of the Federal Reserve Bank of New York to 6 per cent to discourage further discounting with that institution, and with the thought and hope that it would not be necessary for any other Federal reserve bank to increase its discount rate above the then existing figure of 5 per cent. Subsequent events show that that hope was realized. At the same time the minimum buying rates for bankers' acceptances were not only not increased but were actually fractionally reduced in order that the public might have no difficulty in arriving at a correct interpretation of the policy and action.

A bankers' bill is clearly the one instrument that must rest upon a legitimate and fundamental business transaction. Bankers' bills can be created for only four purposes: to finance the importation of goods, the exportation of goods, the storage of goods, or to create dollar exchange so that payment for exports may be readily effected. Commercial rates in the outside market had at that time already advanced to an average of 1 per cent above the discount rate uniformly in effect throughout the System. Therefore, the bankers' bill was selected as the instrument upon which the additional amount of seasonal reserve credit needed would be put out and at the same time it could be used to collateralize note issues. It is probably sufficient to say that the policy worked and though this procedure was followed by the stock market crash in October, the interests of the country in the meantime were adequately served through the medium of an additional amount of reserve credit for business purposes. The action of the System did not precipitate the stock market crash. That was an inevitable phenomenon that was bound to occur and though the System was called upon to take decisive action in the emergency, the amount of credit necessary for business at the time was provided and rates did not mount sky-high during the panic period on the stock exchange as had always occurred in similar instances. As a matter of fact, the rates for accommodation remained where they were and almost immediately afterward, due to a reversal of System policy at the proper time, rates rapidly declined.

From that point on and including the present, in view of the business depression that had begun to set in in the late summer, the policy of the System has been one of ease. There have been many times during the intervening period when the credit situation has been delicately poised from the standpoint of reaching decisions as to whether or not through open market operations further ease should be brought about or whether open market operations already undertaken were sufficient. In view of these events the medium formerly known as the Open Market Investment Committee has been disbanded and in its place has been set up what is known as the Open Market Policy Conference, composed of a representative from each Federal reserve bank, which can convene upon its own motion after consultation with the Federal Reserve Board, or can be called into special session at any time by the Board itself. This conference has since met in Washington with the Federal Reserve Board for two-day sessions on January 28 and 29, March 24 and 25, and May 21 and 22.

I may say to you that the business depression is worldwide and has been accompanied by a decline in prices, chiefly commodity prices, to a point lower than at any time since 1916. In fact it seems to me that everything has declined in price except the admission to the movies and the greens fees at the golf courses. This depression and price decline have been met by the central banks the world over, by a policy of credit ease and a tremendous volume of open market purchases. There is a wide disparity in the rates for short-time funds and long-term investments, but in the course of time, and as usual in periods of this character, the disparity will gradually disappear, and it is my own thought that in the present circumstances the rates on short-term money will tend to rise eventually in a greater ratio than the rates on long-term money will decline. This statement is based upon two factors: first, in addition to effective open market operations by the Federal Reserve System, funds have accumulated from business recession and will have to be kept liquid so that when a demand for credit from business reappears the funds will be available for that purpose; and, second, because there has been a tremendous overissue of securities, chiefly stock issues in 1929, and even this year a tremendous issue in the longer-term category that is probably in excess of an available supply of capital savings to readily absorb.

I have dwelt upon this feature a little bit longer than I intended, but I hope it has been interesting to you, and, above all, has indicated a distinct purpose and service of the System in a nation-wide emergency. This leads me to repeat the statement I made in an address recently, that we are having a world-wide business depression without a panic.

I shall now give you as briefly as I can a resume of our loan operations and a statement of our earnings and expenses for the first five months of this year, since we have, according to custom, on December 31, last, mailed to all member banks a comprehensive statistical report on the operations of the bank for the year 1929.

On May 31 loans to member banks were $9,457,000 as compared with $25,911,000 on May 31, 1929, and slightly more than $11,000,000 on the same date in 1928. The reduction in the use of reserve bank credit this year as compared with 1929 is due largely to the liquidation of borrowings on the part of city banks, as there has been no material change in country-bank borrowings. Of the nine and a half million dollars of loans to member banks on May 31, $2,000,000 represented loans to city banks and $7,400,000 represented advances to country banks. This compares with loans of approximately $19,000,000 to city banks and $7,000,000 to country banks on May 31, last year. In this connection it should be observed that whereas more than $10,000,000 of advances to city banks and $2,900,000 of country bank advances were a year ago secured by United States Government obligations, only $95,000 of city bank loans and $950,000 of country bank loans were secured in this manner on May 31, this year. While we do not have current figures as to borrowings of member banks from all sources, condition reports as of the call of March 27, reflected member bank total borrowings of $8,261,000, of which amount approximately $6,000,000 represented borrowings from the Federal Reserve Bank.

The volume of paper discounted for member banks during the first five months of this year was $92,500,000, with 248 member banks accommodated, which compares with $346,-508,000 during the first five months of 1929, or a decrease of $254,000,000. Loans to member banks on January 6, 1930, totaling $17,300,000, represented maximum borrowing requirements during the first five months' period. Minimum borrowings for the period occurred on March 25 and amounted to $5,440,000. There was no material change during the period in our independent holdings of United States Government securities, which, at the beginning of the year, amounted to $9,900,000. Our position on May 31 in respect to these holdings was that the market value was some $27,000 more than our book value after deducting the premium amortized from the coupon return to reduce the yield to a normal basis in order that the investment would be owned at par at its maturity. At the beginning of the year the System's holdings of United States Government securities in the open market investment account amounted to $277,500,000, our participation amounting to approximately $15,000,000. On May 31 the System's holdings in this account had increased to $327,300,000, our participation having increased to $15,649,000. In this connection I may mention that on February 18 we disposed of $5,000,000 of our participation in the special account in order to improve our reserve in view of demands of an unusual and temporary nature that we were called on to meet at that time, to which I shall refer later.

Our holdings of bankers' acceptances at the beginning of the year amounted to $9,175,000, and during the first five months we acquired bills amounting to $45,500,000 through open market purchases from member banks and from other Federal reserve banks. During this period acceptances amounting to more than $48,000,000 matured, which left our total holdings on May 31, at approximately $6,000,000.

Our minimum buying rates on bankers' acceptances at the beginning of the year ranged from 4 per cent to 4½ per cent. As a result of frequent declines in the rate in the open market during the period, our buying rates, effective on May 31, ranged from 2½ per cent to 3 per cent, and these rates have since been slightly reduced further in view of the decline in the total amount of bankers' bills outstanding and a further easing of rates in the open market.

Of the total amount of bankers' acceptances acquired during the first five months of this year, $12,500,000 were acquired in this market from member banks and dealers. This amount is less than one-half the amount so acquired for the first six months of last year, due largely to a greater ease and consequently lower rates in the open market.

At the close of business May 31, bankers' bills held for collection for account of member banks amounted to $3,321,-000, as compared to $9,335,000 held at the same time last year. The rapid reduction of yield on bankers' bills, together with anticipation of seasonal demands no doubt prompted member banks to let their holdings of bills run off without corresponding reinvestment, though there has been until recently an increasing investment in call loans and government securities.

At the beginning of the current year the rediscount rate of the Federal Reserve Bank of Dallas on all classes of paper was 5 per cent, which had been in effect since March 2, 1929. On February 7 this year our directors reduced the rate to 4½ per cent, and again, at their meeting on April 7, established a still lower rate of 4 per cent on all classes of paper, both the changes being approved by the Federal Reserve Board. The 4 per cent rate was continued in effect by our board at its May and June meetings, and is, therefore, in effect at the present time. All Federal reserve banks have at the present time a rediscount rate of 4 per cent with the exception of the Federal Reserve Bank of New York, where the rate is 3 per cent, and the effective rate at the Federal Reserve Banks of Boston and Cleveland is 3½ per cent.

Stockholders are always interested in the earnings and expenses of the institution in which they have their funds invested, and I am giving you below the figures applicable to our first five months' operations. I shall not impose upon you by undertaking to vocally itemize the sources from which these earnings are derived or the different divisions of the expense account. The itemized statement will appear, however, in your published proceedings unless during the meeting you desire to ask me for any specific figure. The gross earnings for the first five months of this year are $727,203.98, as compared to $957,826.52 for the same period of 1929. The total current expenses, including cost of currency, repairs and alterations to banking house and furniture and equipment, amount to $588,600, as compared to $624,000 at the same date last year. After deducting accrued dividends to May 31, amounting to $110,000, the net earnings for the first five months of this year amount to $28,500, as compared to $223,-800 on the same date in 1929.

The expenses for the first five months are approximately $35,000 less than they were for the same period in 1929. The principal changes in our expenses were a decrease of $51,0000 in the cost of currency, occasioned by having to pay for a complete new stock of Federal reserve notes last year, due to the change in the size of currency, an increase of approximately $3,500 in repairs and alterations to banking house, and an increase of approximately $16,000 in our equipment account, representing the purchase of an additional printing press, new currency cancelling machine and the replacement of similar equipment such as bookkeeping and adding machines.

The complete table appears below:

Comparative Statement of Earnings and Expenses

	First Five Months 1930	First Five Months 1929
EARNINGS:		
Bills Discounted	$196,291.30	$379,134.17
Bills Purchased	155,469.47	334,063.58
United States Securities	359,972.10	171,520.04
Fed. Int. Cr. Bk. Debentures	....	65,007.79
Deficient Reserve Penalties	8,566.42	5,491.35
Miscellaneous	6,904.69	2,609.59
Gross Earnings	$727,203.98	$957,826.52
DEDUCTIONS:		
Cost of F. R. Currency	$ 40,453.99	$ 91,628.26
Repairs and Alterations to Banking House	4,413.99	900.40
Other Current Expenses	526,412.93	515,985.54
Furniture and Equipment	19,479.70	3,500.74
Profit and Loss	2,197.70	Cr. 11,889.01
Dividends Accrued	110,161.99	110,114.76
Total Deductions	$698,724.90	$734,018.71
Net Earnings	28,479.08	223,807.81

We had an increase of approximately $7,000 in shipping charges on currency which was due to disturbed conditions over the district during the month of February when we were called upon to render unusual services of an emergency nature. I am glad to report that during that time we made our facilities available in every possible way. In these situations we were called upon to make emergency currency deliveries at five different points and during the month of February handled at the Head Office alone approximately $45,000,000 in currency in outbound shipments. Of this amount $11,000,000 was shipped to one of our branches to meet special situations, and $10,000,000 was delivered to member banks in another city, and similar amounts to several other points. In addition to our regular method of making shipment by insured registered mail, it was necessary to make currency deliveries by automobile, interurban, armored truck, and in one case, due to distance and lack of time available for other means of transportation, delivery of currency was made by plane. May I not digress for a moment to say that these situations were promptly and summarily dealt with, with the result that the situation in this district appeared to become completely stabilized in the short space of less than three weeks.

Our directors at their regular monthly meeting on June 7 declared the usual semi-annual dividend at the rate of 6 per cent per annum and the amount will be credited to the respective member banks in proportion to their stock interest on June 30.

The amount of the earnings of the bank in excess of expenses and dividends at the close of the first six months' period is naturally not available, but it is estimated that it will be about the same as at the close of the corresponding periods in 1927 and 1928, though considerably less than on June 30, 1929. Against whatever the amount may be there have already accrued, up to the end of May, depreciation charges on building and equipment amounting to $19,250. It is our custom to write off the depreciation charges at the end of the fiscal year on December 31.

I am quoting below the volume and cost of free services rendered member banks during the first six months of 1930. The figures for June which are included are estimated, but I feel that with sufficient accruacy to warrant my quoting them. Again to avoid being tedious I am not reading you the volume figures but shall merely quote cost. However, all of the pertinent figures will appear in the printed record of your proceedings.

Volume and Cost of Free Services Rendered Member Banks During the First Six Months of 1930

(January through May, actual; June estimated.)

	Number of Items	Amount	Cost
Check Collections	20,536,436	$4,051,506,005	$84,565
Non-cash Collections	225,493	97,635,107	12,763
Transfer of Funds	59,124	3,034,048,280	14,469
Currency Shipments	33,709,698	158,690,160	57,086
Coin Shipments	27,797,050	4,317,394	14,313
Custody and Safekeeping	37,728		3,579
Purchase and Sale of Bankers' Acceptances and U. S. Securties	3,324	52,059,852	2,243

The cost of these free services is included in the total item of expense to which I have referred and the total cost of $189,000 of these services compares with an estimated dividend of $130,000 to be paid on June 30 and is in addition thereto. In general the volume of these transactions is larger than during the first half of last year, although the cost is slightly less.

We began the year with a capital of $4,452,900 and a surplus of $8,934,617. At the close of last year our surplus was $215,000 less than the amount of our paid-in capital. Our earnings last year were sufficient to bring our surplus up to twice the amount of paid-in capital, and in addition, as provided by law, 10 per cent or $28,817.94 of the remainder of our earnings was also transferred to surplus. The total amount transferred to surplus at the end of last year was $244,416.85. After transferring this amount to our surplus account the remainder of our earnings, as provided by law, amounting to $259,361.46, was paid to the Treasury of the United States as a franchise tax, this being only the second time during the history of this bank that a franchise tax has been paid.

During the first five months of this year our capital account decreased, due to consolidations and liquidations, to $4,350,200. Therefore at the close of May 31 our surplus was approximately $234,200 more than twice the amount of our paid-in capital.

The payment of any franchise tax and the amount of it for the year 1930 depends largely if not wholly upon what our earnings amount to over expenses and dividends for the last half of the year. Ordinarily earnings are larger in the last half of the year than the first half, but due to the uncertainty of the period during which the continued policy of ease may seem desirable, and with no knowledge of what conditions in the district may be throughout the remainder of the year, I would not undertake to estimate future earnings as they might determine the amount of the franchise tax. I think I should say, however, that since our surplus is in excess of twice the amount of our paid-in capital, with no probabilities of increase in capital account, that with the exception of 10 per cent of what our earnings may be, the remainder of the earnings, whatever they amount to, would be paid as a franchise tax.

At the present time we have hidden reserves of a half million dollars set up in an account styled "Self-insurance Fund." To this account we may charge any losses or depreciations that are not otherwise provided for, and I do not know that it will seem either desirable or necessary or that the amount of earnings will permit to add anything to this fund at the close of the year.

I am pleased to report to you for the fourth consecutive time that during the past year we experienced no losses in our loan operations and this has been the case since July 1, 1925, though I am making no predictions for the future. There are, as all of you know as bankers, banana peelings scattered all around and it behooves all of us to avoid stepping on any of them.

During the first part of this year we had a disastrous failure of one of our larger member banks that was substantially indebted to us. The failure occurred on the first day of February, due primarily to a large defalcation. The institution was indebted to us at the time it closed in the amount of $677,000, against which we had $219,000 of additional collateral. If I may be pardoned in saying so, I think it is a tribute to our discount functions that by May 1, exactly ninety days later, the entire indebtedness was completely liquidated, and this was accomplished without suits or other undue pressure, with practically no expense and with a due regard for the unfortunate circumstances surrounding the makers of the obligations we held. The collection of the debt was handled in such a way that we were able to return the remaining paper to the Receiver so that he would be in a position to allow offsets of the deposit balances of the makers against their remaining indebtedness and this was accomplished without any loss or additional expense to the Federal Reserve Bank. There were only two disputed items as between the Receiver and the Federal Reserve Bank, but these have been covered by an agreement without prejudice and collateralized in such a way that if the final decisions are against us, no loss will result. I want also to take this opportunity to say that the successful culmination of this transaction should also be regarded as a tribute to the city in which the failure occurred and to its citizenship as represented in the makers of the obligations which we held. In respect to every item we received the most complete cooperation.

I am very glad to say that notwithstanding the various economic and financial problems with which the district has had to contend, bank failures in the district have not been excessively large during the current year, especially when compared specifically to some of the other districts and to the country as a whole. At the present time we are holding in our assets the indebtedness from two failed banks amounting to $32,119.89, in which there is no loss estimated. We are holding indebtedness from another bank which went into liquidation in February through selling a portion of its assets to another institution and through a special arrangement with us, in the public interest, so that its indebtedness to us is the only obligation which it has except to its stockholders. Naturally this obligation, since it is the only one the bank has, is secured by its entire assets, including its unsold notes, banking house, furniture and fixtures, stockholders' liability and the endorsement of its directors. While this sounds like a marshalling of assets, in reality it is with the entire cooperation and a distinct accommodation to the liquidators.

In the closing paragraph of my address to you at our last meeting I stated that most of the amendments to the Federal Reserve Act recommended by the Federal Reserve Board failed of passage at the short session of Congress and died on the calendar. I further stated that some of these amendments had been reintroduced during the special session of Congress and that all of them had been again recommended by the Federal Reserve Board with one or two additional amendments, for example, the Board's discretion to waive the six months' notice of withdrawal by a member state bank. As I recall it none of these amendments was adopted by the special session of Congress, but in the present regular session, beginning last December, the amendments were given consideration and I am now able to report to you the following amendments which have become effective. Two of these amendments are almost entirely administrative and are, therefore, of no vital interest to member banks as they prescribe procedure with reference to terminating the membership of banks in certain circumstances. The other amendment is of interest to member banks in that it admits certain classes of paper to the eligibility classification that have heretofore been excluded. I am giving you the gist of the amendments as follows:

Amendment to Section 9 of the Federal Reserve Act so as to authorize the Federal Reserve Board in its discretion to permit state member banks to withdraw from membership in the System without waiting six months after filing notice.

Amendment to fourth paragraph of Section 13, permitting a member bank to rediscount with a Federal reserve bank the same amount of paper of a single borrower as a national bank may acquire from a single borrower under the provisions of section 5200 of the Revised Statutes.

Amendment to Sections 6 and 9 of the Federal Reserve Act, facilitating the cancellation of Federal reserve bank stock held by a member bank which has discontinued its banking operations without a receiver or liquidating agent having been appointed; this amendment provides that in the case of a national bank the Comptroller may appoint a receiver and the Federal reserve bank stock held by it may thereupon be cancelled, and that in the case of a state bank the Federal Reserve Board may, after hearing, forfeit the membership of such bank in the Federal Reserve System.

There have been a number of bills introduced both into the House and the Senate looking to the amendment of Section 7 of the Federal Reserve Act, which has to do with the distribution of earnings. So far as I know none of the bills has been taken up before the Banking and Currency Committee of either branch of Congress for hearings, and it is not likely that this amendment or several other amendments of less importance will be passed at this session. The amendment authorizing Federal reserve banks to discount the promissory notes of member banks for longer periods than fifteen days seems to have been side-tracked entirely, but this and other fundamental changes in the Act will probably await the studies that have been authorized by the Senate to be undertaken by its Committee on Banking and Currency and its recommendation.

I think undoubtedly I have given you a sufficient basis for any discussion in which you might want to indulge in reference to the operations and policies of the bank, but if there are any points concerning which you would like to have any information that I have not mentioned, I shall be available for interrogation as usual.

THE CHAIRMAN: Governor Talley has given us a very full and complete report. It has been most interesting and instructive. The next speaker on our program needs no introduction at my hands. He is known not only in his home state but throughout the entire United States as a very capable banker. Mr. Nathan Adams, President of the First National Bank in Dallas, Dallas, Texas, will now address us on the subject "Why Place the Debit Power of the Country, as Represented by Checks, in Governmental Agencies?" It is my pleasure to present Mr. Nathan Adams.

MR. ADAMS: Mr. Chairman and Gentlemen:

The question of collecting checks at par is the one that seemed to have disturbed the minds of the framers of the Federal Reserve Act. The effect has been to destroy the right to barter, and certainly there can be no reason for placing America upon a gold standard basis in transactions between the people of this country. This country was settled in the early days by farmers, and the merchant or the manufacturer was incident thereto. In the pioneer days of this country it was the inherent right of the farmer to barter the produce of his farm, figured in dollars and cents, for the clothing and other necessities of his daily life. The railroads have since become an integral part of the banking system for the reason that more credit is extended upon bill of lading transactions than upon any other class of collateral.

If the great bankers of this country are correct in their statement that New York is the ultimate and final clearing house of America and its financial center, then the continuity of credit relation must flow from the smallest producing point to the largest terminal point and to the largest financial center without being in any way interfered with. The banking business of this country is founded upon the judicious use of reserves. Money is a medium of exchange. The circulating medium of this country, in my opinion, is not money, but checks. Checks have come into universal use by reason of the unit banking system, which is essential to the prosperity of America. The birth of a check does not come from money in the agricultural sections of this country, but from the movement of cotton, corn, wheat, oats and other products from the farm. Money has never yet been the basis of credit and never will be. If the farm commodities were left on the farm and the oil, coal, sulphur and other minerals were left in the ground there would be little need for checks.

In turning the debits of this country into money at impossible places like Dallas, it must necessarily affect the prices of farm products. Country banking, in my opinion, has not changed the right to barter. The farmer brings ten bales of cotton to town and receives a check for it. He then gives his merchant a check and the merchant in turn gives a check to the wholesaler or to the manufacturer from whom he bought his merchandise. The basis of the check is cotton.

Credit extended in the agricultural sections of the country is not extended for the purpose of producing money—and no one yet has ever found where he could plant cotton and money would spring up out of the ground. I do not believe that any living man would argue that the price of farm products could be maintained if the farmer demanded only money in payment for whatever he sells.

If cotton would sell at 25 cents per pound and the price could be maintained and the farmer refused to accept a check, the farmers of this country would have all the circulating currency of America in their homes. If you agree with me that the price can only be maintained by reason of the fact that the farmer is willing to cooperate with the banking institutions of this country, then you must admit that if you cannot directly pay the farmer in cash that you cannot indirectly turn the debit power of this country into your banking system without penalizing the agricultural products. The final and ultimate payment must be made at the natural clearing house of this country—New York City or San Francisco—one the gateway to Europe and the other the gateway to the Orient.

The collection system of the Federal Reserve Bank is nothing more than a "police power" and has nothing to do with the fundamental uses of credit which the Federal Reserve System gives to this country—therefore, it would not in any way affect the credit power if the banking business were put back into the hands of the bankers. Suppose the Federal Reserve Act had gone one step further and said that all continuity of credit relations between banks should cease and that all member banks should do their business with the Federal reserve bank. That would mean that all the cotton and grain drafts coming from the producing bank would go through the Federal Reserve Bank for payment in money, instead of—as is now being done—giving credit to one and debit-ing the other. It does not exactly say this, but it does say that the debit power of the country as represented by checks which arise only from the shipment of products, shall be paid in **money**; and the agricultural sections do not produce money and cannot turn the agricultural products so quickly as to be able to meet this debit power at impossible places like Dallas, Atlanta, St. Louis, Kansas City, Chicago and Boston in **money.**

No banking system can be a **balanced** banking system that takes into its hands the daily debit power of the country, as represented by checks, when it assumes not a particle of responsibility for the daily credit power, which gives birth to the check. No one yet has ever seen a bank statement that does not show both **debits and credits.**

The Federal reserve collection system puts too great a burden upon the country banker, who must furnish production credit as well as the marketing credit and then pay the debit at impossible places like Dallas and Atlanta. Water cannot run up hill without a forceful pump.

The collection system within each district would, in my opinion, solve the problem. Each item that goes into the collection channels of the Federal Reserve Bank should bear the endorsement of a bank in that particular district and no check should be collected except through a member bank in that district, and then perhaps the spirit of "barter" would return, but it can never return so long as inter-district collections are made. The question of whether or not a country bank is permitted to charge exchange is not involved in this question. The collection system of the Federal Reserve Bank is acknowledged to be a scientific system, but so are many doctors noted for their science and yet their patients die—and we have seen the country bankers and the agricultural sections of this country (which boasts of a banking system second to none in the world) suffer to the fullest extent.

Do you believe or does any living man believe that all the farmers have lost their sense of proportion and judgment and that all the country bankers have lost their judgment? Not at all. They are suffering under a banking system that has penalized their every effort.

God gave the farmers the inherent right to barter and we have taken that right away from them, and over a period of fifteen years we have seen agriculture perish almost from the face of the earth.

I have said previously, and I say here, that if I had one act to perform on this earth, and if that act would be my last one, it would be to destroy the power of the Federal Reserve Bank over commerce and agriculture by reason of the fact that it takes into its hands the daily debit power of this country, as represented by checks, **without assuming any responsi-**

bility for the daily credit power. And when the scientist answers this argument (and I hope he will) I want him to show me some place on this American continent where country banking is happy and where agriculture is prosperous. Our attention, as bankers, should be directed to the things that affect the prosperity of our people and the law which has put Americans on a gold standard basis in transactions between themselves has done more damage to agriculture than any other one thing that I know anything about. And what is it, after all? It is a "police power" and does not in any way involve the fundamental principles of the Federal Reserve Bank—but in order that we may collect more easily the checks, we have placed a burden upon the country banker that it is impossible for him to overcome.

No banker in this country has a more profound admiration for the fundamental principles of the Federal Reserve Act than myself, but the collection system is not one of its fundamentals, and study of the actual conditions should be made with a view to properly solving the problem—not for the benefit of any one class, but for benefit of the whole people.

THE CHAIRMAN: Mr. Adams has presented for your consideration a very fundamental question involved in the operation of the Federal Reserve Bank and we thank him for the clear and understanding manner in which he has presented his subject. Is Colonel Walsh in the house? Colonel, I believe you have an announcement to make.

COLONEL WALSH: Mr. Chairman and gentlemen of the Member Bank Stockholders' Association of the Federal Reserve Bank of Dallas:

After you have concluded your intellectual feast, as provided in the program this morning, by sitting at the feet of Gamaliel, as it were, to assimilate the interesting addresses which are being presented for your pleasure and enlightenment, we have provided a gastronomical repast in the form of a luncheon for each and all of you, in the immediate rear of the Junior Ballroom, where you will be permitted to satisfy the cravings of the "inner man" to the fullest extent, just for the "stomach's sake."

On behalf of the Boards of Directors and the officers of the Federal Reserve Bank's Head Office at Dallas, and the branches at El Paso, Houston and San Antonio, you are cordially invited to remain for this luncheon at the conclusion of the morning program.

I trust that each and all of you will accept the invitation and become our guests at this luncheon, which will be served at 1:30 p. m.

THE CHAIRMAN: The next subject on our program is one that has created considerable discussion. In selecting a gentleman to present that subject to you on this program, your Program Committee prevailed upon Mr. B. D. Harris, Vice President of the Second National Bank of Houston, who doubtless has a clearer understanding of economics and sound banking than most bankers in this Southwest. It is my pleasure and privilege now to present Mr. Harris, who will present for your consideration "A More Equitable Distribution of the Earnings of the Federal Reserve Bank."

Mr. Harris: Mr. Chairman and Members:

It has been a great many years now since I found any occasion or necessity to deliver a prepared address or to read a prepared paper and, in this instance, I am going to state why I feel compelled to make an exception. It is because when very unexpectedly, about three weeks ago, the committee asked me if I would undertake this address, without having given this very large subject any more than casual attention or analysis, any more than the average banker does, when I dipped into it and started to make an analysis, to reduce the generalizations, guesses and opinions to fact, to endeavor to prepare an analysis for myself, if you please, for my own understanding, I was immediately confronted with some facts so surprising, with some factors so tremendously large and important, with some correlative things, that all combined represented a necessity of collecting and making a study of a mass of analytical figures of different sorts—which made it imperative to include in the scope of this address the broad perspective of the whole subject—that I found it impossible to carry those figures in my memory and to preserve that sequence, and to properly comprehend and visualize the whole subject, without reducing it to a prepared paper. I am very much afraid in attempting to read this prepared address this morning that you gentlemen sitting in hard chairs and more or less anxious to stir around, might find it rather long. I hope not, because the facts to which I am going to draw your attention this morning, I think, intimately concern every one among us. They concern you a great deal more than the mere matter of a distribution of earnings, as in the case of any other bank, or corporation, would—and they concern fundamental factors of such great importance, in their relationship to the continuance of the Reserve System, that I hope you will find it worth your while to listen to what is more in the nature of an assemblage of facts in sequence than any original views of my own. I have a very open mind on some of these questions which I intend to bring before you, bearing in mind that there are pending at this time, without any discussions or hearings, five bills in Congress relating to this subject by members of importance, and very definite in their provisions. These bills I have here and also some other data which may be referred to if necessary to clarify any part of it.

The topic assigned to me by your committee is "A More Equitable Distribution of the Earnings of the Federal Reserve Bank."

In the lengthy and nation-wide debate which raged unceasingly for a number of years preceding the organization of the Federal Reserve System in 1914, and more especially in the seven-year period following the panic of 1907 when our banking machinery broke down in a period of prosperity because it could not sustain the load, the combined thought of the nation was concentrated with great intensity and thoroughness upon the construction of a new banking and currency system that would embody the soundest principles gained by the experience of all the ages throughout the world. Not only the best banking brains of the nation and all of the nations had free play in this discussion, but all of our foremost economists and business, agricultural, and political leaders were heard from exhaustively in the effort to formulate a system which would not only be based upon an impregnably strong position, but which would at the same time be responsive to and entirely fulfilling all the needs of this particular nation, and which would be politically expedient, since this particular nation had preconceived and deep-rooted habits of thought, following the abolition of the First and Second banks of the United States, hostile to the creation of a centralized government bank, corresponding to the central banks of the other great nations. It is not necessary here to dwell upon the reasons for this, and reference is only here made to this preliminary history to place emphasis upon the fact that a very intense and searching X-ray was focused over a long period of time upon everything related to the subject, comprising the whole history of economics and banking.

It will be recalled that the United States Government in the first place created and sent abroad a very able monetary commission headed by a very able man, Senator Nelson W. Aldrich of New Jersey, to make a close and intimate study on the ground, and with the benefit of extensive discussions with the most able authorities in Europe, of the banking systems of the other great nations. This committee returned to the United States with probably the most comprehensive data ever assembled together on this subject. On this data was finally evolved a bill in Congress sponsored by Senator Aldrich for the creation of the National Reserve Association. Although this bill was endorsed by the American Bankers Association Convention in New Orleans in October, 1911, it met with much opposition in Congress, and failed to pass. However, it provided the skeleton and ground-work for the Federal Reserve Act, which in theory and general structure very closely resembled it.

A comparison of the text of the National Reserve Association and the Federal Reserve Association bills very clearly establishes the important fact that however much the respective bills may have differed in any other respects, they were absolutely identical in one respect of the greatest fundamental importance; namely, that under no circumstances should these reserve banks be operated for profit, and provisions were written into both laws designed to forever obviate that possibility, by limiting the return to the stockholders to a moderate rate of interest, and the further provision in both acts, that in case of liquidation, only the par value of the stock would be returned to the stockholders, and any surplus or earnings would revert to the Treasury of the United States. It is interesting to note that the National Reserve Act provided, first, for a contingent fund to be maintained to an amount equal to 1 per cent on the paid-in capital, and not to exceed $2,000,000, as a protection against any possible losses (this also to revert to the United States Treasury in case of liquidation); second, a 4 per cent cumulative dividend to be paid to the stockholders; third, one-half of additional earnings to go to surplus until the latter amounted to 20 per cent of the paid-in capital, one-fourth to the Government as a franchise tax, and one-fourth to shareholders until the dividends to the latter equaled 5 per cent, and in no case more than 5 per cent per annum. After that point had been reached, one-half of excess earnings to go to surplus, and one-half to the Government as franchise tax, provided that after 20 per cent surplus had been reached, the entire amount of the excess earnings should go to the Government as a franchise tax.

A study of this subject makes the conclusion very plain that the governing and fundamental thought and intention of these provisions were centered upon the primary necessity of insuring beyond all peradventure the impregnable soundness of these institutions for reserve purposes by removing any possibility that they might themselves become over-extended and in the same position as any other banks, and impotent by reason thereof in times of stress and crisis to lend their powerful aid to save the situation, fulfilling the functions for which they were created. The seriousness of concentrating the reserves of the nation to these institutions was fully recognized, for it was apparent that this radical experiment and adventure carried with it tremendous responsibilities, and that if these reserve institutions should ever collapse, everything else would fall down with them. The one supremely important basic principle of the Federal Reserve System centered in insuring and forever maintaining the impregnable strength of these reserve institutions.

I do not consider that the basic thought in turning the excess earnings over to the Government as a franchise tax was motivated by any conception that the Government is entitled to appropriate all the surplus earnings of these privately owned institutions in return for the charter rights granted them, but rather that this sort of a distribution of the earnings would be most effective in insuring that the stockholders would be limited to a 6 per cent return, insuring the proper and sound administration of the banks, and removing the urge to operate them for profit rather than for safety. The absolute unanimity relative to this is very striking and impressive, when it is considered that this unanimity was arrived at after a period of the most concentrated thought, exhaustive discussion, the assemblage of all history and experience and the free interplay of all thought of the recognized authorities here and abroad.

I am presenting these facts to your attention as a prelude to what I am further going to say, because to me the combination of investigation, wisdom, experience, intellectual comprehension, and sound and considered judgment, resulting in this unanimity of conclusion, seems very high and convincing authority indeed, and I cannot but feel that the deliberate and considered judgment of so high a tribunal upon this fundamental factor of supreme importance should not be reversed except upon the authority of combined judgment of the same importance, and entitled to the same profound respect.

When the Federal Reserve law was under discussion before its passage, some of our soundest bankers and best thinkers saw two very dangerous possibilities in it in particular, and many of our best bankers opposed it because of this. The first danger was of clumsy and ignorant tinkering with the law because of popular clamor and political influence, which might result in converting a scientifically adjusted and effective piece of machinery into an engine of destruction and ruin. The second was the possibility and probability of credit expansion under this system to an unwholesome and dangerous extent—to an extent that would, among other things, be sure to put to a very severe test the strength and stability of the reserve banks. And also it was clearly apprehended that the proper conduct of these reserve banks, involving the safety of the whole banking and business structure of the nation, would call for a very high order of economic comprehension, ability, steadfastness, and courage in the personnel of the Federal Reserve Board and the personnel of the banks, and that in this respect the System was vulnerable to political influence, as well as the uncertainty of the calibre and qualifications of incumbents placed in their positions by voting majorities. I am glad to say that from its first inception the System has been signally fortunate in the first place in having its policies and destinies shaped by so great a banker as Mr. Paul M. Warburg, who, in my estimation, has hardly a peer in broad comprehension and sound constructive ability, and in having associated with him gentlemen of high character and ability, and that the personnel of management throughout has been with few exceptions well qualified and of high character. Nevertheless, the Federal Reserve System, having no counterpart in the world, was an experiment which has been and will continue to be in a constant state of evolution.

Looking back over its history we can see mistakes have been made, and penalties have been paid for them—but with constant gain in experience, it is constantly working to higher levels of efficiency and correct adjustment. On the whole it has been invaluable, and though we have lessons yet to learn in perfecting it, we would not be without it. Above everything else, all the experience we have gained emphasizes constantly the imperative need and the solemn duty to forever preserve and defend the strength, liquidity and soundness of these reserve institutions. We have recently witnessed the culmination of extraordinary credit inflation, resulting finally in the greatest stock market collapse in history, and in a business recession which is becoming prolonged. I am not going to discuss this at all today, except to call your attention to the fact that during this period the amount of bank credit created under the operation of the Federal Reserve System, and for the protection of which the Federal Reserve System constituted the reserve safeguard, expanded in volume to more than ten times the amount of the entire resources of the Federal Reserve System, and on that volume of outstanding credit, the gold reserve declined to approximately 6½ per cent, as was clearly shown in the National City Bank Bulletin analysis of October, 1928. In that month I was in Washington, and was told by members of the Federal Reserve Board that the volume of outstanding bank credit was approximately $55,000,000,000, of which approximately 55 per cent was employed in carrying stocks and bonds, approximately 10 per cent in real estate operations, and the remaining 35 per cent in conducting the other business of the country.

It is very pertinent here to lay emphasis and stress upon the fact that the Federal Reserve law, originally designed to function so that the volume of currency and credit created by the System would automatically expand and contract with the movements of commerce—thus getting away in the first instance from the rigid, unresponsive volume of bond-secured currency which had caused us so much trouble in our preceding system—afterwards had to be altered to enable the System to furnish the tremendous volume of credit necessary to carry on the war, for which reason the law was amended to permit banks to borrow against Government bonds—the huge volume of which, both then and now, created the means of enormous credit expansion—without at the same time providing any means of automatic contraction with the movements of commerce, or any means of contraction except such as might be brought about by open market operations only partially effective. That is the law today, and I am free to confess it would be difficult, if not impossible, to change back under present conditions except possibly by gradually imposing restrictions. If to the difficulties we have so recently witnessed of controlling this huge and inelastic volume of credit, mounting up to a figure where the percentage of actual gold reserve supporting it constantly dwindles, and might conceivably drop much lower than 6½ per cent, this situation should be further aggravated and made still more precarious by the dangers of the Federal reserve banks themselves further expanding the volume of credit by going into the market and purchasing earning securities in large volume in order to make large earnings for the benefit of their stockholders, the consequences might be too tragical for the imagination to grasp.

Do not lose sight of the fact that the operations of this sort of the Federal reserve banks mean something very different from those of ordinary member banks. When a Federal reserve bank goes into the market to purchase securities, it has the effect of immediately creating an inelastic volume of bank credit of ten to fifteen times that much, so that if the combined Federal reserve banks should purchase, for illustration, $500,000,000 of securities for earning assets, it would create something like at least $5,000,000,000 expansion of bank credit. It can be readily seen that huge volumes of bank credit would thus be created, unrelated to legitimate business needs, which would naturally seek employment in speculation. Last year's stock market experiences warn us of the great dangers in this. There could very well come a time when confidence would be lost. That very same confidence which we now have in the banking structure of the country might be lost, and if that should ever be lost, we are all lost. Anybody having a balance in a bank, created by bank credit extended by bankers can call for the currency. The currency is all redeemable in gold. You must admit that it will require very wise, sound, and safe management on the part of the Federal Reserve Board and the Federal reserve banks to protect this volume of credit and guarantee the redemption of our currency in gold, and even more so it is imperatively demanded that any provisions written into the law itself shall be of the safest and soundest character. We have no positive assurance in fact that Federal Reserve management will never get into inexperienced or incompetent hands. Long periods of business depression, unemployment, declining prosperity, failures, and what we call bad times happen along in cycles, and at such times dissatisfaction and public clamor are rampant, and foolish laws and remedies gain many followers among the unthinking, uninformed, and ignorant. Federal Reserve laws will not permit of any crude and clumsy tinkering without destructive results, and Federal Reserve management must ever be strong, brave, sound and conservative, unresponsive to popular clamor or politics, to successfuly navigate the ship through stormy and dangerous waters.

Therefore, the question before the house today presents considerations of the most serious character. We have debated this question in our previous sessions. There can be no question that many of the banks of the country, especially those that are not particularly prospering, are looking with dissatisfaction at turning over practically all of the excess earnings to the Government as a franchise tax. One very definite evidence of this is seen in the five bills now pending in Congress (possibly there may be others), which have, so far, I think, had no hearings or made any progress, namely:

H. R. 10472, Mr. Wingo, introduced March 4, 1930, providing that the surplus earnings at the end of each calendar year shall be distributed to the stockholders on a pro rata basis according to their stock holdings of the Federal Reserve, and their average reserve balance maintained with the Federal Reserve Bank during the year; such distribution to be in accordance with the rules and regulations to be prescribed by the Federal Reserve Board.

H. R. 10211, Mr. Stengall, introduced February 24, 1930, providing that 10 per cent of excess earnings shall be passed to surplus, and the remaining 90 per cent divided between the United States and stockholders as follows: Federal Reserve Board shall determine as nearly as possible what proportion of net earnings was derived from the issuance of Federal reserve notes, which amount shall be paid over to the United States as a franchise tax, the remainder distributed among the stockholders in proportion to their stockholdings.

H. R. 7966, Mr. McFadden, introduced January 6, 1930, providing that excess earnings be distributed pro rata by the Federal Reserve Bank to each member bank in proportion to their respective reserves, such distribution, however, limited to those members whose maximum reserve at any time during the year does not exced $500,000. (A member with $501,000 reserve would be out of luck!)

Senate Bill 3564, Mr. Fletcher, introduced February 13, 1930, providing for 10 per cent to surplus and 90 per cent distributed among stockholders pro rata at the end of each calendar year under rules and regulations prescribed by the Federal Reserve Board.

Senate Bill 5723, Hon. Carter Glass, introduced February 4, 1930, providing that after regular 6 per cent dividends have been paid, one-half shall be paid to the member banks as an extra dividend, one-fourth paid to the Government as a franchise tax, and the remaining one-fourth divided as follows: first, by addition to surplus of the bank until such surplus reaches 100 per cent of subscribed capital, or 200 per cent of paid-in capital, and the balance as an additional franchise tax to the Government.

Under all of these bills, in case of dissolution or liquidation, the stockholders would receive back the par value of their stock, any surplus or other earnings to revert to the Government. I apprehend that the consideration of the proposed legislation will narrow down to the McFadden and Glass bills, because of the prominence and authority of the authors as members of the House and Senate Banking and Currency Committees, respectively. I also apprehend that because of member bank pressure, some sort of legislation will be enacted that will have the effect at any rate of reducing the amount paid to the Government as a franchise tax, and in some way giving some benefit of the remainder to the stockholders, to measurably satisfy the latter. **The same sort of pressure that brings this about is not unlikely to be hereafter exerted in the direction of expanding the operations of the reserve banks to make more money and bring in more dividends, especially for the reasons which I shall hereafter endeavor to show.**

Behind all this, and strongly prompting it, is the feeling that the Federal Reserve System is losing members and popularity because of the feeling that the relationship is unprofitable, to counteract which, means are being sought to make the relations more profitable and satisfactory, and to attract new members. I sincerely believe there is much misconception and fallacy in the expectation that any possible distribution of earnings would change this situation.

It is proper to say here that on May 26 of this year the Economic Policy Commission of the American Bankers Association made public their report, in my opinion a well-considered and thoroughly sound expression, opposing at this time any change in the law to permit a larger distribution of earnings to the member banks. The large calibre of the members of this Commission needs no comment when I name them—R. S. Hecht, Chairman; George E. Roberts, Nathan Adams, Leonard P. Ayres, Frank W. Blair, Walter W. Head, W. E. Longyear, Walter S. McLucas, Max B. Nahm, Melvin A. Traylor, Paul M. Warburg, O. Howard Wolfe, Gurden Edwards. Time does not permit going into the full text of this able document, which fully recognizes the dangers above referred to, but as illustrative of profits that would be derived by the members offsetting the very dangerous risk of changing the law, may I not quote the following extract from it:

"In this connection it might be well to point out that a proposed increase in dividends would, after all, be a very small financial inducement to present to prospective banks. The Federal Reserve Bank of Richmond has computed, on the basis of the past six years, a theoretical forecast of additional earnings that would be disbursed to member banks during the next six years under two plans introduced in the United States Senate. The Fletcher Bill provides that earnings, after present dividends and completion of 100 per cent surplus, should be distributed to the stockholder banks. If the earnings of each bank were distributed among its own members there would be no extra dividends in the Boston, New York, Philadelphia, Cleveland, Chicago and San Francisco districts during the next six years, but the other six Federal reserve banks would pay annually extras at the following rates: Richmond, 6.08 per cent; Atlanta, 4.09 per cent; St. Louis 3.50 per cent; Minneapolis, 9.51 per cent; Kansas City, 5.48 per cent; Dallas, 4.83 per cent. If the earnings were pooled and paid out to all members in all districts each member would receive an average annual extra dividend of .78 per cent. Under this plan no franchise tax would be paid.

"Under the Glass bill the average annual extras would be as follows: Boston, 2.51 per cent; New York, .48 per cent; Philadelphia, 2.05 per cent; Cleveland, 2.09 per cent; Richmond, 3.26 per cent; Atlanta, 4.67 per cent; Chicago, 3.20 per cent; St. Louis, 2.02 per cent; Minneapolis, 4.75 per cent; Kansas City, 2.74 per cent; Dallas, 3.31 per cent; San Francisco, 1.87 per cent. If these extra funds were pooled the result would be an extra average annual dividend of 1.73 per cent for each member. Under this plan the system would pay an average franchise tax of $1,941,996 each year.

"A member bank having capital and surplus of $200,000, therefore holding Federal reserve bank stock amounting to $6,000, on which it is receiving $360 under the present 6 per cent dividend arrangement, would, with the addition of each 1 per cent to the dividend rate, receive an additional income of $60 a year. If each member bank will figure out for itself the dollar-and-cents gain it would enjoy we are confident it will be agreed that the gains are small as against the economic disadvantages which can be pointed out."

I may mention here, though time does not permit me to go into it, that all the important central banks in the world are operated pretty much the same in effect with different variations, to pay the bulk of the earnings to the government after a moderate and reasonable return to their stockholders. The banking and economic structure and conditions of different countries naturally differ considerably, as their laws differ considerably in consequence, but the principle is essentially the same. For my own part, I have an open mind on the proposition of giving our member banks any possible benefits in the way of increased services or participation in surplus earnings, consistent with the paramount considerations of safety which must be unconditionally and immutably assured before that can be done. The question is how? As I see it, we have not yet gained enough experience or a long enough perspective over any long range of normal years to determine what the average of earnings would be, assuming that the banks are soundly and properly operated, as reserve institutions must be.

Taking the range of earnings back to 1914, any average, for instance, including the huge earnings of 1918, 1919, 1920 and 1921 would have to be eliminated because of the abnormally expanded operations of those years incident to war conditions not likely to occur or be justified again. Out of a total of $900,000,000, total gross earnings of the combined banks from 1914 to 1929, inclusive, $474,000,000, or more than half of the earnings of these fifteen years were made in the four years mentioned. The earnings of these four years also contributed powerfully to building up the surplus quickly.

I have read with much interest the study of possible distribution of earnings made by the able Governor of the Federal Reserve Bank of Richmond, Mr. George J. Seay, referred to in the above report of the Economic Commission. Mr. Seay tabulates all franchise taxes paid the Government up to and including 1929, aggregating roundly $147,000,000, of which amount $124,000,000 was paid for the years 1920 and 1921. For the two following years, 1922 and 1923, the total franchise taxes, $11,000,000, were also abnormally large. The total franchise tax, $135,000,000, paid in those four years represents 92 per cent of $147,000,000, the total amount paid for the years 1917 to 1929, inclusive. These abnormal years should be eliminated from all average calculations. The last seven years have witnessed a phenomenal and unprecedented expansion of building, business, speculation, and volume and activity in the markets, with a corresponding expansion of credit volume and Federal reserve bank operations. I do not think any average of those years either would be a safe guide in estimating earnings over, say, the next ten years. It is still a very uncertain question what the earnings will be in the long reach ahead, and it is entirely possible that through shrinkage of operations and possible losses, years will be encountered of inability to earn expenses. In any such years there will be the urge to expand operations, when every sound consideration would demand contraction, in order to make unwarranted dividends for the stockholders. I emphasize—this must never be permitted.

But even averaging the abnormal profits of abnormal years as above shown, the returns to the stockholders would be very small indeed. Notwithstanding this, however, I would not oppose reducing the franchise tax paid to the Government to whatever percentage would be reasonable and justified by the charter privileges granted, taking into full consideration on the one hand the following provision of Section 7—"Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom, shall be exempt from Federal, State, and local taxation, except taxes upon real estate"; and on the other hand, that although it has been stated the banks make a large profit on circulation under certain conditions, and under others not, the Government technically imposing no tax on circulation, I have a memorandum from Governor Talley, which, if I understand it correctly, indicates that the Act provides that the Federal Reserve Bank shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of Federal reserve notes which equals the total amount of outstanding notes, less the amount of gold and gold certificates held by Federal Reserve Agents as collateral security. Without further time or access to records, I cannot distinguish the material difference, and I pass over that. The Federal reserve banks are owned by the stockholders, who take all the risks and all the losses and pay all of their own expenses, serving the Government unstintedly with all their facilities. I think we should pay the Government, of course, anything that may be determined as just and equitable. The Government also has a duty and an obligation to the public to maintain a sound banking and currency system, not alone for the benefit of the member banks, but for the whole public, and should not unreasonably appropriate the earnings of the banks, carrying out the mandate of the law.

After establishing the ratio of this franchise tax, I would not be opposed to paying the remaining excess into some sort of a Contingent Fund to be held intact for the benefit of the stockholders over a period of say ten years, or any number of years, more or less, that would enable a longer perspective to be had of the operations, needs, and future conditions of the System, until it can be determined in the light of experience and mature consideration what disposition could be properly made of them. This fund might be invested in government bonds.

I believe the member banks would do well to give very serious and sober consideration at this time to the broad and long range perspective imperfectly covered in the foregoing, making further studies of their own. Mr. Warburg has been consistent in his opposition to larger dividends. In my estimation he is an authority without an equal in the profoundness of his knowledge, and in his comprehension and sound judgment on government banking, in theory and practice. His recent two volumes on the Federal Reserve System should be read by every banker.

Let us briefly analyze some of the causes of dissatisfaction with an open mind, to see if they are well-founded. As to loss of interest on balances member banks should take into consideration that under our previous banking system, country banks were required to carry 15 per cent reserves, of which three-fifths could be carried on a 2 per cent basis with city bank reserve agents, and the other two-fifths had to be carried in **legal tender money** (on occasions very difficult to get) in their own vaults. Non-legal tender money, including all the volume of National Bank notes, which they carried in stock for counter purposes, was not reserve, and there was at all times a large volume of it yielding no more income than the balances carried with the Federal Reserve Bank. Under the Federal Reserve System they have to carry very much less cash on hand than formerly because of the stability of conditions and the certainty of getting in all the currency needed immediately. Reserve City banks had to carry 25 per cent reserves, of which 12½ per cent could be carried with Central Reserve City banks on a 2 per cent basis. Central Reserve City banks had to carry a 25 per cent reserve always on hand. As a practical proposition, banks of all three classes carried much more currency on hand than stark reserve requirements in order to be safe and prepared for emergencies.

Under Federal Reserve conditions, the required reserve have been cut in half, to say nothing about the reduction in counter cash carried. The banks, therefore, have the other half released for lending purposes. If a country bank lends the other half at 10 per cent, it would be equivalent to earning 5 per cent of the entire amount of the reserve previously carried, or if they can lend it to average 5 per cent, if you please, that would be equivalent to 2½ per cent of the entire amount of the reserve previously carried; whereas, they could formerly earn 2 per cent on only three-fifths of the reserve previously carried. The same principle applies to the reserves of the city banks. But independently of the savings and advantages to the member banks because of the large reduction in their reserves, and in the amount of vault cash carried as above shown, it would be very interesting for each member bank to make a computation of the value of service rendered by the Federal Reserve Bank, and estimate the percentage ratio of the amount so realized to the reserve balance carried. A quite striking calculation of this sort has just come to my attention, and without calling any names, I will read to you the carbon of a letter written by an officer of the Federal Reserve Bank of Dallas to a typical and representative country bank correspondent.

"June 18, 1930.

"Dear Mr. ————:

"We are very glad to furnish you the information requested in your letter of June 16, which has a direct bearing on the benefit of membership in the Federal Reserve System. We know that this is a question that is frequently discussed by our member banks, but this is the first time that I can recall during my thirteen years' connection with the Federal Reserve Bank that any member bank has thought the question out along the lines indicated in your letter and requested the information of us.

"I believe that the information that you have requested is going to be rather surprising to you. For convenience, all of the data has been based on the five-months' period beginning with January 1 of this year and ending on May 31, and for this period the information requested by you is given below.

Amount of currency shipped to this bank	$40,216.00
Amount of coin shipped to this bank	600.00
Amount of currency shipped by this bank to you	39,500.00
Amount of coin shipped by this bank to you	1,200.00
Amount of discount charged on notes rediscounted with this bank	798.28
Average reserve requirement	12,632.00
Express charges on money shipped this bank	34.88
Cost of money shipments made by this bank to you, based on express rate	32.86
Toll on collect telegrams ordering money shipments	7.33
Difference in interest charged on rediscounts between rate charged you and 6 per cent	284.60
2 per cent interest for 5 months on your average reserve requirement	105.25

"By way of explanation, during the five-months' period, I find that discount was charged you on six different offerings at 4½ per cent rate and on one offering at a 4 per cent rate. Taking into consideration at express rates the cost of the money shipments to and from your bank and the toll on collect telegrams ordering the money and the difference between the amount of discount charged you and the amount that you would have to pay at a 6 per cent rate, we arrived at a total of $359.67, which is equivalent to an interest rate of 6.84 per cent on your average reserve requirement.

"While the above furnishes you the information that you have requested, I might remind you that it does not take into consideration all of our free services, including the collection of checks, transfer of funds, sake-keeping of securities, and other services such as the purchase and sale of bankers' acceptances and U. S. securities. We also carry the float for you on your money shipments, both to and from your bank. We have just recently made a calculation of the cost of our free services during the first six months of this year, actual from January through May, with the month of June estimated, for use at the stockholders' meeting tomorrow, and it may be of interest to you to know that the total cost of such free service for the first six months of this year is estimated to be approximately $189,000, which compares with an estimated dividend of approximately $130,000 to be paid on June 30, and, of course, is in addition thereto.

"We are very glad of the opportunity to furnish you this information, and if there is anything further that you wish or if any of the information that we have furnished needs clarifying, we will be glad if you will write us."

Personally, I have not been able to convince myself that any distinction ought to be made in disbursements of dividends to two banks, each with the same capital, but one having twice as large deposits, and therefore carrying twice as large reserves. The latter has twice as large liabilities, needs to borrow twice as much money, all things being equal, and would in any case have to carry correspondingly larger reserves, and would benefit correspondingly in having half of those reserves released. The larger the volume of business, the larger demands they will make on the Federal Reserve Bank for clearing their float, shipping currency, making transfers, and everything else. They get more benefit out of it in proportion to their capital than the smaller bank.

In the case of our own individual banks, they have some stockholders who carry larger balances without interest than other stockholders, and they have some stockholders who carry no balances at all. They could not make any discriminations on that account in paying dividends, and should the Federal Reserve Bank make such discriminations, it would be violative of every precedent and usage applying to all other corporations. I do not believe there is any sound basis for the Federal reserve banks adventuring into this sort of thing, especially as the reserves of the larger bank are adjusted to its conditions on the same impartial and fair ratio that the smaller bank's are adjusted to its conditions. Otherwise, the larger bank could, with equal propriety, say that as its capital is the same as the smaller bank, it should carry no larger reserves than the smaller bank. The reserves have no reference to capitalization, but to volume of deposits. The bank with a larger volume makes much more earnings in proportion to its capital, carries no more proportionate reserve than the smaller bank, and no more than it should carry to protect its depositors, and I fail to see where it is entitled to any special consideration by virtue of that fact.

Is it not also true that one fundamental cause of dissatisfaction is in the first place that the country banks find it easier to borrow money on all sorts of collateral and under all sorts of arrangements, including personal loans on collateral, without any red tape, loss of time, and hard-boiled regulations, from their city bank correspondents, who additionally allow them 2 per cent, and will willingly do various things the Federal Reserve Bank is not permitted to do? The regulations need no apologies, as they are sound and proper, calculated to progressively improve the standards of banking, the economics of the country, and develop bankers of greater comprehension and ability, in which our unit system is by and large lacking. But it is easier and very natural to follow the line of least resistance, lean to the easiest way, the most comfortable way, and string along with the big city banks as before the System started, relying on the latter to do all the borrowing that is necessary from the Federal Reserve Bank to take care of the needs of their customers.

I wonder if the country banks in the agricultural regions, which in recent years have been operating under more or less discouraging conditions, owing to the prolonged depression in agriculture, the hazards of their loans, losses, and slow collections, reduced volume and profits, and because of this, the necessity of employing funds in low-rate secondary reserves instead of 10 per cent loans—the movement of business from small towns to larger towns in this automobile era, the gradual decline of small-town business and small-town banks because of these conditions—are not, unconsciously, perhaps, laying the blame in the wrong place. Three per cent of a bank's capital and surplus is very small in proportion to its total assets. It should not be any hardship, or really amount to anything material one way or the other, to keep this small percentage safely and continuously invested without risk or the necessity of renewal to yield 6 per cent in Federal reserve stock.

I have been looking over the changes in membership in the System in the last five years—1925-29, inclusive. These figures reveal that although the number of members declined from 9,489 to 8,522, a net loss of 967 within that period, a total of 1,241 banks were lost to membership through mergers by the member banks, suspensions, etc., and 807 banks joined the System, against 631 withdrawing, which showing is nothing in particular to be unduly agitated over. We have within that period been going through a very necessary and wholesome consolidation of banks, resulting in stronger and more desirable members, and a progressively stronger banking situation—the only sound corrective that can be applied to a generally over-banked country bank situation extending practically over the whole country, and especially in the agricultural sections, which has been one of the most difficult problems the country has had to deal with—two or more banks in towns having business enough to support only one properly managed bank. Banks with insufficient capital and incompetent management, dividing the business, leading to excessive competition and unsound practices, all in a precarious position. I think we will all agree that as and when such situations can be corrected as they are now being corrected by consolidation and elimination, resulting in stronger institutions able to command better talent, with capital and volume sufficiently large to be operated properly and profitably, a very constructive and necessary thing has been accomplished.

Any reduction in the number of the members of the System resulting from this as above shown means nothing at all beyond that the System is improving itself. It is not an advantage to the System to have a lot of members of a weak and unprofitable, poorly managed character that cannot con-form to the rules anyhow and are foredoomed to pass out because of their own inherent conditions through no fault of the Federal Reserve System. The situation, in short, is that by consolidations and eliminations the progress of events is progressively creating gigantic and strong institutions in the big cities, and more wholesome and sturdy institutions in the smaller towns. It is certainly far better for the economics of the country that this process should continue, remedying an unsound banking situation with natural and sound correctives, than to perpetuate it, and the conditions arising from it, by chaining up all these weak links with stronger institutions in large towns, to keep them alive and at the same time to keep alive the over-banked situation and keep alive the excessive competition, by virtue of which none can be operated profitably. The Federal Reserve statement totals do not indicate that the System itself is declining, but getting stronger and better, and the statements, moreover, indicate at this time an extraordinarily strong, liquid, and healthful condition. As long as this continues, and the Federal Reserve System is serving all the needs of the country fully and acceptably, I don't see anything to be concerned over. The preservation of invulnerable strength, and the highest grade management that can be secured in the Federal reserve banks, holding the reserves of the nation, are the things that count. The preservation of a banking and currency system on a firm and everlasting foundation is the thing that is indispensable.

Shall we not concentrate our energies, with all the force that is in us, on the attainment of those objectives, and in every possible way discourage any experimentation or tinkering with the Federal Reserve law, or make any changes in it until we know beyond peradventure where it will land us.

1. Sincerely and conscientiously holding the views above expressed, I would like to see this convention go on record as endorsing the report of the Economic Policy Commission of the American Bankers Association, above referred to, as representing the considered judgment of as able and representative a committee as could be named within the association.

2. Recognizing, however, that there are at this time five bills pending in Congress as heretofore enumerated, and that with the political influences that will be brought to bear it is not unlikely that some sort of legislation will be enacted, if it becomes necessary to choose an alternative I would recommend following the form of the Glass Bill, S. 5723, reading as follows:

"Sec. 7. After necessary expenses of a Federal reserve bank shall have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims

have been fully met the net earnings, beginning with the earnings for the year ending December 31, 1929, shall be distributed as follows: Twenty-five per centum of such net earnings shall be paid to the United States as a franchise tax; 25 per centum of such net earnings shall be paid into the surplus fund of such bank; provided, however, that no such payment shall be made into such surplus fund in excess of an amount sufficient to make the entire surplus fund equal to the amount of the subscribed capital stock of such bank, and that any part of such 25 per centum which is not needed to bring such surplus fund up to 100 per centum of such subscribed capital stock shall be paid to the United States as additional franchise tax; and the remaining 50 per centum of such net earnings shall be paid at the end of each calendar year to the stockholders on a pro rata distribution to be made in accordance with such rules and regulations as may be prescribed by the Federal Reserve Board."

with the recommendation, however, that same be amended to read as follows (lines 12 to 16, inclusive): "and the remaining 50 per centum of such net earnings shall be credited on the books of each Federal reserve bank to a 'Contingent Fund' for the benefit of the stockholders, out of which no dividends shall be paid to the stockholders exceeding 2% on the paid-in capital of the bank in any one calendar year, and then only subject to the approval of the Federal Reserve Board".

3. I would recommend that the Chairman of this meeting appoint a special committee of seven to draft a memorializing resolution respectively to the Banking and Currency Committee of each branch of Congress, with copies to the directors of the Federal Reserve Bank of Dallas, the Federal Reserve Board, and the Federal Advisory Council, embodying the recommendations of this convention.

I do not believe the Federal Reserve Bank should ever be under pressure to pay more than 8 per cent. I do not believe that all the years are going to average like the years we have our estimates on. I know that necessarily we are going to have lean years, we are going to have years where we won't make any money and there should be some of that money left there. There will be other things to be provided. For instance, the Federal Reserve should, in my opinion, start in now establishing a fund for superannuated employees as other great banks do. The Federal reserve employees give all of their lives to it, they have no opportunity to do anything else and while they are getting old we ought to set aside out of the surplus earnings something to provide for them in old age as other great institutions do and in this contingent fund there would be the surplus over 2 per cent, provided they make it. I am sure they will want to provide for various things that may come along hereafter, but in any case limiting the extra dividend to 2 per cent will provide a necessary check and safeguard upon the reckless expansion of the operations of the reserve banks simply to make profits. Any surplus earnings over 2 per cent could be very well administered in providing additional free services to the members without having that effect.

Gentlemen, I want to say in conclusion that I apologize and regret having taken so much time on this subject, but it was necessary in order that you might visualize all that is involved in this subject. I hope that you will feel that the importance of these things—not merely paying out dividends—but the interrelated questions in connection therewith, have been sufficient to justify me in getting together all of this information, and putting it in sequence, so that you can yourselves have everything that I have, and in your own way analyze, digest it and form your opinions of what should be done in the matter. I thank you.

THE CHAIRMAN: We thank you for the splendid presentation of your subject, Mr. Harris, and I am sure that it has been most interesting.

We have now a man who is a splendid banker and who will express the viewpoint of the smaller banks in their relations to the Federal Reserve Bank. It is my privilege and my pleasure to present to you Mr. J. M. Caviness, Cashier of the First National Bank of Paris, Texas, who will address you on the subject of "General Relationship with the Member Banks." Mr. Caviness:

MR. CAVINESS: Mr. Chairman and Gentlemen:

I have been asked to discuss the general relationship of the Federal Reserve Bank with the member banks, which subject appears to me to be of vast importance, and a clarified solution of which would go far toward eliminating many grievances now existing between our own great institution and the member banks at large. It is not my purpose or intention to discuss the present Member Bank Relations Department, which has been functioning so efficiently for the past several years, and under considerable handicaps at that.

I take issue with many of the critics of the Federal Reserve System for I believe, considered as a whole, it is one of the greatest pieces of financial legislation on our statute books. Of course I realize, as each of you must, that had you or I been called into conference when this law was being framed by Congress we could and would have written a flawless instrument, above criticism and entirely satisfactory to everyone concerned (barring, of course, the ignorant or uninformed), but due entirely to our lack of time we were compelled to shift the framing of this legislation onto other shoulders, and, as a consequence, not a few imperfections crept in, which, I feel, could and should be remedied from time to time.

In the enactment of the Federal Reserve Act, Congress hoped and planned to accomplish several specific purposes, but, in the last analysis, the motivating reason and thought was to provide a safer and better system of banking. Please pardon my digression, but I do not believe they had any thought of branch, chain or group banking, but rather the unit system, having in mind the solidifying of existing banks and looking well to future organizations with the watchful and solicitous care of a proud parent. To some of us this phase of the situation appears to have been sadly neglected, yet it is one that could be easily cured and at no great expense.

I have in mind a plan which I hope I can present clearly and understandingly for your earnest consideration. Our board of directors—and much praise should be given each and every one of them for their loyal, patriotic and wise direction of the affairs of our great institution—could select some capable, practical banker, who is familiar with and cognizant of the trials and tribulations of the country banker, clothe him with such authority as the position would justify, and place him second in command to our most capable and efficient Governor, Mr. Talley. Considering the many duties and heavy responsibilities attendant upon the office of Governor, it would be sheer folly on our part to presume that he could absent himself from his desk to the extent that would be required in the position I am advocating, granting which, this middle-man would be of inestimable aid and assistance.

The gentleman selected for this position, having the confidence of the member banks as well as the Federal Reserve, and being thoroughly conversant with the problems of the small-town banker, would be able to accomplish much good for both parties in smoothing out many of the differences now existing. It is common knowledge that erroneous impressions are much more easily corrected by a face-to-face and heart-to-heart discussion than would otherwise be possible. It is my firm belief that many good banks and bankers are not availing themselves of the privileges and facilities of the Reserve Bank, due, in a large part, to some prejudice that could easily be removed by a personal visit from this official.

And, too, this ambassador of good will, enjoying our confidence, would be in position to give us country boys, from time to time, much helpful and useful advice with reference to improved methods. Because we are country boys is no indication that we are content to use only primitive methods of operation. On the other hand, it is our desire and ambition, in so far as it is possible, to walk hand in hand with progress and to reach out always for the best that is to be had in our line.

Keeping always in touch with the best loan and investment policies of the country, our counselor's advice would be welcomed and sought after, which would in the end create stronger banks by making better bankers of us, thereby strengthening the entire financial system. In this way there would be injected into our ranks a feeling of good-fellowship that would be far reaching in its influence for good, and we would soon come to regard the Federal as a big brother rather than to view it with suspicion as has too often been the case.

I believe that many failures might be averted by helpful counsel and advice, thus proving the value of the old adage, "An ounce of prevention is worth a pound of cure." Regardless of what may have been our previous attitude, I believe that our big brother is as anxious to prevent the closing of banks as are those of us who live in the communities affected. The seriousness of a situation such as this, in the small town, and the urgent need of assistance in such cases, cannot always be imparted to the Reserve officials by correspondence. In order to realize the full extent of the trouble in these instances, it is necessary that one should be in close personal touch with affairs, ready at a moment's notice to render such aid as would be necessary to forestall a calamity. Those who have had experience in situations of this nature will admit that a person on the ground, merely standing by, can do more to restore confidence than any amount of correspondence.

Chaotic conditions resulting from bank failures are not confined exclusively to the communities where failures occur, but are widespread in their influence, even affecting the entire system of banking. I was very happy to note recently that the Economic Commission of the American Bankers' Association, in discussing the utilization of earnings of the Federal Reserve Bank, considered that these earnings might be used most advantageously in strengthening weak spots wherever and whenever they become manifest.

Pardon me for getting personal, as I understand this would not apply generally, but there are times in our neck of the woods when it becomes necessary to ask for the loan of a few hundred thousand sheckels to offset the normal decline of deposits and the abnormal demands and needs of our customers. While I realize the best way to lose a friend is to borrow from him something you can't repay, yet it would be most comforting to have someone in authority pay us an occasional visit and, after going over the ground thoroughly, give us some definite assurance of support in times of stress and otherwise.

As stated in the beginning of this talk, the Federal Reserve System has many great accomplishments to its credit, but I am sure it has not yet reached its maximum efficiency, due, in a large measure, to misunderstandings or fancied injustices on our part. I feel that we stockholders should take a more personal interest in our own great institution and render it the cooperation we expect, but do not often get, from our own stockholders. While I have never discussed this with Governor Talley, or any other official, I am of the opinion they would welcome more frequent visits from us and would appreciate any friendly and constructive criticism. God knows, none of us crave any other kind. With this spirit of cooperation prevailing among the stockholders we would soon come to view with pride the accomplishments of our bank and both the Federal and member banks would reap a greater reward and become better builders of worth-while institutions. Surely this is the sincere hope and desire of each one present.

THE CHAIRMAN: That is a country bank member's viewpoint on the question and it is certainly worthy of consideration and we thank him for his clear presentation of the subject.

We now come to that part of our program which permits of open discussion. If any member has anything which he cares to present, the chair would be pleased to hear from him. It is open for you now, gentlemen.

MR. OXSHEER SMITH: (of Cameron) While we are speaking of closer cooperation between our Federal Reserve Bank and its members, I wonder if all present know that there is a standing invitation from the Federal Reserve Bank, extended by Governor Talley to its members, to visit the Federal and spend as many days as is necessary to become familiar with the methods used in handling money, figuring reserve balances, wire transfers, handling of discounts and in fact all of the details of Federal Reserve accounting.

Our bank has accepted this invitation in the past and our cashier spent a week with the Federal Reserve Bank. By reason of this visit we feel that we understand the operations of the Federal Reserve Bank better, have improved the method of handling our own business, and have derived a great deal of benefit. We expect to send two of our men up this summer. I urge each of you to avail yourself of this opportunity and send an active man to learn something of the modern mechanics of running a bank. Isn't this invitation still open, Governor Talley?

MR. TALLEY: Yes, sir.

THE CHAIRMAN: Has any other member anything which he wishes to present? Remember, this is your opportunity for open discussion and you are at liberty to air out your views.

MR. TAYLOR: I move that we endorse the recommendations made by Mr. Harris in the latter part of his paper as to the earnings of the Federal Reserve Bank.

The motion was seconded.

The Chairman: In order to have the matter clearly before you, I am going to ask Mr. Harris to present that part of his recommendation.

Mr. Harding: I understand he made a recommendation and then an alternate and you can make it clear whether you are going to vote on his recommendation or the alternate.

Mr. Harris: Do you desire me to read that, Mr. Chairman?

The Chairman: If you will.

Mr. Harris: You have a carbon copy of it there. If you want it it is just the last two pages. I would like to say to the mover—

The Chairman: Mr. Harris will now read the recommendation.

Mr. Harris: I would like to say to the mover that my recommendation is that these recommendations be referred to a special committee of seven, appointed by the chair, who would make a report on them and I make that explanation now. If you would like for me to read it over again—

The Chairman: There seems to be some misunderstanding and in order to have it clear, I suggest that you read it.

Mr. Harris: I will be glad to.

"Sincerely and conscientiously holding the views above expressed, I would like to see this convention go on record as endorsing the report of the Economic Policy Commission of the American Bankers' Association above referred to, as representing the considered judgment of as able and representative a committee as could be named within the Association."

That is my recommendation, and in paragraph 2, I go on to say:

"Recognizing, however, that there are at this time five bills pending in Congress as heretofore enumerated, and that with the political influences that will be brought to bear, it is not unlikely that some sort of legislation will be enacted, if it becomes necessary to choose an alternative I would recommend following the form of the Glass Bill, S. 5723, reading as follows:

"Sec. 7. After all necessary expenses of a Federal reserve bank shall have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met the net earnings, beginning with the earnings for the year ending December 31, 1929, shall be distributed as follows: Twenty-five per centum of such net earnings shall be paid to the United States as a franchise tax; 25 per centum of such net earnings shall be paid into the surplus fund of such banks; provided, however, that no such payment shall be made into such surplus fund in excess of an amount sufficient to make the entire surplus fund equal to the amount of the subscribed capital stock of such bank, and that any part of such 25 per centum which is not needed to bring such surplus fund up to 100 per centum of such subscribed capital stock shall be paid to the United States as additional franchise tax; and the remaining 50 per centum of such net earnings shall be paid at the end of each calendar year to the stockholders on a pro rata distribution to be made in accordance with such rules and regulations as may be prescribed by the Federal Reserve Board."

with the recommendation, however, that same be amended to read as follows (lines 12 to 16, inclusive):
"and the remaining 50 per centum of such net earnings shall be credited on the books of each Federal reserve bank to a 'Contingent Fund' for the benefit of the stockholders, out of which no dividends shall be paid to the stockholders exceeding 2 per cent on the paid-in capital of the bank in any one calendar year, and then only subject to the approval of the Federal Reserve Board."

If it should develop in Congress that there is any likelihood or probability of the adoption of the recommendations of the Economic Policy Committee I would certainly favor it. If we are going to have some legislation anyhow, I would favor the Glass Bill with the amendment I have just read.

MR. TAYLOR: Mr. Chairman, I move that that be carried out. I think it should be referred to the Advisory Committee and let them appoint a committee to study the question and then report to your incoming Advisory Committee for their recommendation.

THE CHAIRMAN: Then you withdraw your other motion?

MR. TAYLOR: Yes, sir.

THE CHAIRMAN: I offer it as a substitute.

(The motion was seconded.)

MR. FROST: Might I ask in offering that resolution if this question will be acted on by this meeting or will it go over until another year? If that committee has to study this and report back, it certainly ought to have time to do it and it won't have that time this morning. You won't have another meeting for a year.

MR. TAYLOR: I would think that should be referred to the new Advisory Committee and they have got to appoint a committee of seven who will study the matter and refer it back to this committee. That was my motion.

MR. FROST: Which committee? The Advisory Committee and with authority in that committee to bind us by their resolution on this matter, without our knowing what they were doing?

A STOCKHOLDER: I think it should be a committee with sufficient ability that we would be willing to give them plenary power and accept their judgment.

MR. HARRIS: I would like to clarify what I meant in this because this is an action upon my recommendation and I want no misconception of the recommendation and what it meant. We are not going to adjourn right away and I thought when writing it that this would be submitted to a committee who would report back to this meeting. I had in mind that that would be done when I drew it. I had the idea that it would be referred to a committee which was to be named and that they would withdraw and then afterward make a report to this meeting.

MR. FROST: I think that's what they ought to do. We ought to either act on it ourselves as a convention assembled or let it alone. As I understand the resolution or the recommendation of Mr. Harris, we approve the findings of the committee—the Economic Policy Committee of the American Bankers' Association—and the net result of that would be that we recommend that no change be made and that member banks do not participate in any earnings of the System other than that already participated in. If we are going to vote on that I think we ought to have a free discussion of it because I don't believe that's right. I think we ought to have some sort of participation, more than we have now. As to what it will be, it may be the Glass Bill will be satisfactory and it may not, but we ought to decide that before we just approve something that some committee from the American Bankers' Association has found.

MR. WOODSON: I wonder if we adopt his recommendation, which means that if we are going to pass it that we shall follow his report—

MR. FROST: Our resolution—won't it be that we don't participate any further in the earnings other than we do at present, that if they are going to pass a bill it will be all right with us?

MR. WOODSON: That's his recommendation.

MR. HARRIS: I take it that Congress, which has had no hearings whatever on any of these bills—within the last few days Senator Glass has introduced another bill amending the Federal Reserve Act in numerous important particulars—will not take any action at all on any of this proposed legislation at this session. In that case, everything in connection with any and all amendments to the Federal Reserve Act will probably be taken up all at one time at the next session of Congress. When this particular matter comes to the point of a hearing, we want to be heard. If, as now seems probable, some amendment will result reducing the franchise tax paid to the government, and giving the Federal reserve banks the remainder of the excess earnings, I think this is the time to determine which of these five bills we would prefer, either as presented or amended. In that case, I would prefer the Glass Bill amended as suggested in my paper. In any case, I am firm in the belief that no laws should be passed permitting reckless distribution of earnings without checks or safeguards.

MR. FROST: Wouldn't it be better for us to make one recommendation and stand on that, whether we want to participate or don't want to participate?

MR. HARRIS: That's a question to decide.

MR. TAYLOR: I understand you are in favor of participating. I am willing for them to do that now, absolutely, but I am not in favor of crippling the Federal Reserve in any way. If it would cripple the Federal Reserve in any way, I am against it. I am in favor, however, of participation. I understood Mr. Harris to recommend that we participate in the earnings.

MR. FROST: I understood his recommendation is that we do not participate.

MR. HARRIS: Not at all. I say my personal view coincides with that of the Economic Policy Committee, but I apprehend that some bill is going to be passed, and I would like for this convention to go on record today with its views as to what we favor. Regardless of my personal opinion, which I feel obliged to express, as I say, I am confident that a bill is going to be passed, and of those bills, I suggest that we support the Glass Bill, under which the Government participation will range from 25% to 50%, the remaining 50% after surplus is completed going to the stockholders. Now it is all right, and I am willing to agree to that proportionate division, but my recommendation is that instead of distributing all the excess earnings to the stockholders, that we put it in a contingent fund on the books of the Federal Reserve Bank for the benefit of the stockholders out of which the bank would distribute no more than 2% dividend in any calendar year, and the remainder of it held in the fund available for enlarged services to the stockholders or any other purposes which experience over a period of years would determine, such as for instance the provision for superannuated employees previously referred to.

Mr. Frost: It may be that I will agree with you as to the Glass Bill being an ideal bill with the addition of the provision about the contingent fund. However, I don't see the point in this convention going on record to say that we do not believe in participation, but if we are to have participation that we would choose this bill. It weakens the whole proposition. Either let's endorse the Glass Bill or let the Glass Bill alone.

Mr. Harris: That's very well, that is for this convention to determine. When I came here I had no idea what they would endorse. I would favor putting that 50% in the contingent fund and only a distribution of 2% per annum . . . you understand these are not resolutions presented to you with a view of seeking their adoption. These are simply recommendations of my own personal point of view and I expected that they would be referred to a committee which would come back with any recommendation they wanted to and you would have an opportunity to vote upon it.

Mr. Frost: I understand you clearly, I think, but when a suitable resolution is offered for us to act on endorsing the advice of this committee, we are going on record and I don't think you ask that.

Mr. Harris: Mr. Taylor made a motion putting this question before you and all of this discussion is, of course, germane to this motion, anybody can second or amend it and express any view. The object is to get it before you.

Mr. Taylor: I desire to withdraw my motion. I do not want to be understood as being in favor of going on record and with the permission of my second I will withdraw my motion.

Mr. George Miller: It is my understanding, and I believe it is the understanding of most of the delegates present, that Colonel Walsh has invited us to be his guests or rather the guests of the Federal Reserve Bank at luncheon and if we don't hurry up and settle this question, we won't get anything to eat. We are not invited to be their guests for dinner.

The Chairman: Might I say this: There seems to be some misunderstanding and I think it can be cleared up in this way. Mr. Harris has made certain recommendations that the chair appoint a committee of seven, a special committee of seven, to draft a memorializing resolution respectively to the Banking and Currency Committee of each branch of Congress, with copies to the directors of the Federal Reserve Bank of Dallas, the Federal Reserve Board and the Federal Advisory Council, embodying the recommendations of this convention. Now, if you are going to accept the recommendations made by Mr. Harris, then the chair is open for a motion to that effect.

Mr. Harris: I will make this statement, as I have previously stated, when I thought this out before I came here, I thought it might be practical to refer this question to a committee to come back and make a report upon which we would vote. It was not my intention that the committee should make up our minds for us, but they would carry out the recommendation as to memorializing the bodies mentioned after we had decided what we would recommend.

The Chairman: Yes, sir, embodying the recommendations of this convention.

Mr. Harding: I want to offer a substitute and in explanation will say that it is a one-hundred-to-one chance that there will be no action taken at this session of Congress. Therefore I move that the whole matter of this subject which is covered by this paper and this discussion be referred to the incoming Advisory Committee and that they shall be empowered to appoint a fact-finding committee of seven to go into the whole question with power to conduct a questionnaire and then at the proper time convey to the committees of both houses of Congress the thoughts of this convention or this membership as reflected in its Advisory Committee.

Mr. Taylor: I shall certainly second that motion because that is what I was trying to say.

The Chairman: Is there any discussion of this matter.

Mr. Frost: I don't like to take up so much time, but I think that is taking the question out of the hands of this body because that committee will have authority to memorialize Congress. If that's what we want to do, why all right, but you understand we are voting to delegate this authority to that committee to put us on record that we are in favor of a bill or against a bill, for participation or against participation. If we want to vote for that, why it suits me all right.

Mr. Harding: I prefaced that motion with the statement that they should conduct a questionnaire, of course with arguments pro and con on the question, because there will not be anything done until fall and the proposition would have to be acted upon before the annual meeting next June.

Mr. Patrick: I am opposed to delegating all of this authority to any kind of committee. I think it is something that this Association ought to act on entirely. Personally, I might say while I am on my feet, I am opposed to any distribution to the member banks until all of the Federal reserve banks have built their surplus up to 100% of the subscribed capital. That is in the interest of safety and in the interest of the country. It is reasonable to suppose that this country is going to grow. We are going through a period of depression for the time being, but business will come back and the time will come possibly when the system will need all the paid in capital and statutory surplus in the next few years, but let me call your attention to the fact that the System, as a System, lacks some sixty or seventy million dollars yet of having a surplus equal to the subscribed capital stock. In other words, five of the banks, five of the large ones, have yet to acquire a statutory surplus. I am therefore opposed to any distribution by any bank other than 6% provided for until that surplus has been accumulated; and I will go further, I think the earnings should be pooled, if you please, and the excess earnings added to the surplus of those banks until they are built up. That is my thought about it. I am unalterably opposed to the delegation of any plenary power to any committee to act on this question which affects us all. I think such action should be taken by this Association as a whole.

THE CHAIRMAN: There is a motion before the house, gentlemen. What is your pleasure? Is there any further discussion of the motion?

MR. WOODSON: Has the Resolutions Committee anything to report on this subject? It may be that somebody has introduced a resolution through that committee.

MR. YANTIS: Mr. Chairman, the committee did not have time to think through any specific plan that might be proposed for the distribution of earnings, but the resolution prepared on that subject is as follows:

"Resolved, That the earnings of the Federal Reserve Bank of Dallas should be more equitably distributed to the member banks, but caution exercised in the perfection of any plan for this purpose so as not to put the Federal reserve banks in competition with the member banks."

We simply feel like going on record at this time that we are in favor of a more equitable distribution in the future.

THE CHAIRMAN: Mr. Yantis, then your committee is not proposing any definite plan?

MR. YANTIS: No plan whatsoever at this time.

MR. HARRIS: Might I say a final word? I wonder if I could get the consent of all of you to offer a substitute motion.

THE CHAIRMAN: There is only one motion.

MR. HARRIS: We seem to be doing a lot of talking and not getting anywhere with it, and are considerably past the hour for adjournment. Inasmuch as it is clearly apparent that the majority of the members want a reduction of the franchise tax paid to the Government, and a participation of the membership, and as I anticipate, the two Glass Bills now pending in Congress will come in for more careful consideration than any of the others, if I can get unanimous consent, I would like to offer a motion to test the sentiment of this house pro or con relative to the second alternative which I suggested in my address, favoring the Glass Bill as read providing for a 50% distribution to the stockholders, with the amendment which has just been read that the 50% is not all to be disbursed, but carried on the books of each Federal reserve bank as a contingent fund belonging to the stockholders, of which not more than 2% be disbursed in dividends to the stockholders in any one year. I offer that motion.

MR. FROST: You say not more than 2% in one year. Do you mean 2% on our capital stock?

MR. HARRIS: Yes sir. The remainder of this 50% to be carried on the books of the bank for the benefit of the stockholders, the distribution of which is to be determined hereafter.

MR. FROST: That would be a maximum dividend of 8%.

MR. HARRIS: I offer that motion and if there be a second, I should like to get that alternative before the house.

(The motion was seconded).

THE CHAIRMAN: In order that we may be clear on this, are you offering that as an amendment to Mr. Harding's motion?

MR. HARDING: I accept the amendment to the motion.

THE CHAIRMAN: If there is no further discussion, we will proceed to a vote on the amendment.

MR. HARDING: The substitute motion offered by Mr. Harris.

THE CHAIRMAN: All those in favor of the substitute motion as presented by Mr. Harris will make it known by saying "aye". The ayes have it and the motion is carried.

THE CHAIRMAN: Is there any discussion? If not, we will proceed to the next order of business. We will now have the reports of the committees. Is the Resolution Committee ready to report? Let me ascertain this, a question relative to the method of procedure. In passing on the resolutions heretofore we have had the chairman read the entire resolutions offered. Shall we adopt them as a whole or shall we vote on them as each resolution is read? What's your pleasure?

(It was moved and seconded that the resolutions be passed upon and voted upon one at a time, and the following resolutions, read by the Chairman of the Resolutions Committee, were adopted by the convention without discussion):

No. 1

WHEREAS, It is considered to be very necessary to the welfare of the Federal Reserve Bank and its membership that the interest of the membership in the selection of proper directors be maintained at all times; and

WHEREAS, A campaign of pledging or soliciting promises of the votes of members in favor of any candidate in advance of the election itself could result in an eventual control of the Board by some one group, and further could very naturally discourage the nomination of desirable men for the position by creating a situation in which the election of any candidate would be impossible, unless pledges had been obtained a year or possibly more in advance;

THEREFORE BE IT RESOLVED, That it is the opinion of the stockholders, and they do hereby recommend to the membership, that no pledges or promises of votes in favor of any candidate for a directorship in the Federal Reserve Bank of Dallas be sought for, or given, but that each voting member shall be prepared to vote in favor of the candidate who, to such member, may at the time of the election seem to be most desirable and the one who can best serve the interests of the district.

No. 2

RESOLVED, That the shareholders of the Federal Reserve Bank of Dallas, at the annual meeting assembled in Dallas, Texas, on June 19, 1930, reaffirm their former resolution that a director not serve for more than two terms of three years each.

No. 3

RESOLVED, That the present fifteen-day limit on loans to member banks be extended to a period not to exceed ninety days.

No. 4

RESOLVED, That the earnings of the Federal Reserve Bank of Dallas should be more equitably distributed to the member banks, but caution exercised in the perfection of any plan for this purpose so as not to put the Federal reserve banks in competition with the member banks.

No. 5

RESOLVED, That a vote of thanks be extended to the officers and directors of the Federal Reserve Bank of Dallas for the assistance rendered the Advisory Committee of the Stockholders' Association in preparation for this meeting, and for the many courtesies which have been extended to the representatives present.

MR. SHAW: I would like to make a motion to this assembly endorsing the request by Mr. Caviness of Paris to the effect that the directors of the Federal Reserve Bank consider the matter of putting on such an official as suggested. I think it would be a great thing for the future welfare of our system.

Mr. Yantis: Mr. Chairman, a resolution embodying the sentiment of this motion was presented to the Resolutions Committee. The members of the committee were not agreed on the matter and I was instructed, if the matter was presented from the floor, to express this sentiment regarding it. It was felt by some members of the Resolutions Committee that if the idea was carried out, it would soon develop to the point where we would have other examinations, by an official of the Federal Reserve Bank, in addition to those we now have through the office of the Comptroller of the Currency. We are also informed that while the personnel of the Member Bank Relations Department might not be everything desired it is the policy of the Federal Reserve Bank of Dallas to send one of its senior officers to any member bank requesting it, to discuss any question or consider any situation that may arise. If an officer of any member bank will write or call the Federal Reserve Bank and make the request, a senior officer will be very glad to go and call on that member bank, and go over with its officers any matters they may desire. We therefore felt that it would be better to leave it for the initiative to come from the member bank, and to have it ask for such assistance, rather than have it so that an officer of the Federal Reserve Bank can come into the member bank and make any examination he desires. We don't believe such authority should be given, but that the request should come from the member bank itself. We don't think there should be any tampering along this line, and we feel that you are treading on dangerous ground, and therefore we left the resolution out of our report.

Mr. Caviness: It is merely to refer this matter to the board of directors for their consideration. There is absolutely nothing binding on those present. It's a whole lot like Mark Twain said about the weather, "A whole lot said, but damn little done". It is my suggestion to the board of directors for their earnest consideration. I couldn't see any harm in it.

Mr. Shaw: My motion was so made that we request them to consider it.

Mr. Taylor: That it be referred to the board of directors.

The Chairman: If there is no further discussion of the matter, we will proceed to vote on the motion offered by Mr. Shaw.

Let all those in favor of the motion signify it by saying "aye". The ayes have it and the motion is carried.

Mr. Miller: I move we adjourn for lunch.

The Chairman: We have another committee's report. Is the

Committee on Nominations ready to report?

MR. LAWDER: Mr. Chairman and Gentlemen: The committee respectfully submits the following names for members of the Advisory Committee:

E. A. Palmer, of Yoakum.
P. B. Doty, of Lubbock.
W. S. Posey, of Lubbock.
John Gregg, of Brownsville.
J. B. Fortson, of Corsicana.
G. K. Richardson, of Carlsbad, N. M.

MR. TAYLOR: I move the gentlemen whose names have been read out be elected.

THE CHAIRMAN: Is there any discussion? If not, we will proceed to vote.

A STOCKHOLDER: I second the motion.

THE CHAIRMAN: All in favor of the motion will signify it by saying "aye". The ayes have it. The gentlemen are duly elected. The names just read together with the following names will compose your Advisory Committee for the ensuing year:

Oxsheer Smith, Cameron.
J. P. Williams, Mineral Wells.
Alf Morris, Winnsboro.
Ben Johnson, Shreveport.
W. C. Slaughter, Durant, Okla.
E. W. Graves, Douglas, Ariz.

Adjournment.

DIRECTORS AND OFFICERS OF THE FEDERAL RESERVE BANK OF DALLAS FOR YEAR 1930

Directors

Class A

J. H. Frost, San Antonio, Texas
J. P. Williams, Mineral Wells, Texas
W. H. Patrick, Clarendon, Texas

Class B

A. S. Cleveland, Houston, Texas
J. R. Milam, Waco, Texas
J. J. Culbertson, Paris, Texas

Class C

C. C. Walsh, Dallas, Texas
S. B. Perkins, Dallas, Texas
E. R. Brown, Dallas, Texas

Member Federal Advisory Council

B. A. McKinney
Dallas, Texas

OFFICERS

C. C. Walsh, Chairman and Federal Reserve Agent
S. B. Perkins, Deputy Chairman
Chas. C. Hall, Assistant Federal Reserve Agent and Secretary
W. J. Evans, Assistant Federal Reserve Agent
W. P. Clarke, General Auditor
C. C. True, Assistant Auditor

Lynn P. Talley, Governor
R. R. Gilbert, Deputy Governor
R. B. Coleman, Deputy Governor
Fred Harris, Cashier
W. O. Ford, Assistant Deputy Governor
E. B. Austin, Assistant Cashier
L. G. Pondrom, Assistant Cashier
R. O. Webb, Assistant Cashier

Chas. C. Huff, General Counsel
Locke, Locke, Stroud & Randolph, Counsel

EL PASO BRANCH

Directors

A. J. Crawford, Carlsbad, N. M.

A. P. Coles, El Paso, Texas
George D. Flory, El Paso, Texas
J. L. Hermann, El Paso, Texas
E. M. Hurd, El Paso, Texas
A. F. Jones, Portales, N. M.
C. M. Newman, El Paso, Texas

Officers

J. L. Hermann, Managing Director
Allen Sayles, Cashier

HOUSTON BRANCH

Directors

E. A. Peden, Houston, Texas

Guy M. Bryan, Houston, Texas
Fred W. Catterall, Galveston, Texas
R. M. Farrar, Houston, Texas
W. D. Gentry, Houston, Texas
N. E. Meador, Houston, Texas
J. C. Wilson, Beaumont, Texas

Officers

W. D. Gentry, Managing Director
C. B. Mendel, Cashier
H. R. DeMoss, Assistant Cashier

SAN ANTONIO BRANCH

Directors

J. M. Bennett, San Antonio, Texas

Frank G. Crow, McAllen, Texas
M. Crump, San Antonio, Texas
Franz C. Groos, San Antonio, Texas
Reagan Houston, San Antonio, Texas
R. T. Hunnicutt, Del Rio, Texas
W. P. Napier, San Antonio, Texas

Officers

M. Crump, Managing Director
W. E. Eagle, Cashier
T. E. Parks, Assistant Cashier

REGISTRATION

DIRECTORS—FEDERAL RESERVE BANK OF DALLAS

E. R. Brown,
Dallas, Texas

J. H. Frost,
San Antonio, Texas

J. R. Milam
Waco, Texas

W. H. Patrick,
Clarendon, Texas

S. B. Perkins,
Dallas, Texas

J. P. Williams,
Mineral Wells, Texas

DIRECTORS—EL PASO BRANCH

E. M. Hurd,
El Paso, Texas

Arthur F. Jones,
Portales, N. M.

DIRECTORS—HOUSTON BRANCH

W. D. Gentry,
Houston, Texas

J. C. Wilson,
Beaumont, Texas

DIRECTORS—SAN ANTONIO BRANCH

M. Crump,
San Antonio, Texas

R. T. Hunnicutt,
Del Rio, Texas

Walter P. Napier, San Antonio, Texas

Albany, Texas		
First National	Joe Matthews	President
Annona, Texas		
First National	A. M. Graves	Director
Arcadia, Louisiana		
First National	W. D. Truluck	Cashier
Austin, Texas		
Austin National	W. H. Folts	President
Bailey, Texas		
First National	G. E. Carpenter	Cashier
Bartlett, Texas		
First National	C. C. Bailey	President
Big Spring, Texas		
State National	T. S. Currie	Vice President
West Texas National	B. Reagan	President
Blooming Grove, Texas		
Citizens National	T. M. George, Jr.	Asst. Cashier
	J. O. McSpadden, Jr.	Asst. Cashier
Brownwood, Texas		
First National	Jno. T. Yantis	President
Bynum, Texas		
First National	L. C. McCommas	President
	L. C. McCommas, Jr.	
Cameron, Texas		
Citizens National	Oxsheer Smith	President
Canton, Texas		
First National	W. L. Steed	Vice President
Clarendon, Texas		
First National	W. H. Patrick	President
Coleman, Texas		
Coleman National	C. W. Woodruff	Cashier
First National	E. C. Edens	Cashier
Cooper, Texas		
First National	T. B. Good	Director
	W. I. Bartley	Cashier
Corsicana, Texas		
Corsicana National	A. G. Elliott	President
	J. B. Fortson	Chr. of Board
	John T. Fortson	Vice President
First State	Geo. E. Jester	President
	Alton N. Justiss	Asst. Cashier
Daingerfield, Texas		
Citizens National	W. T. Cannon, Jr.	President
Dallas, Texas		
First National	Nathan Adams	President
Dallas National	J. D. Gillespie	President
Mercantile Bk. & Tr. Co. of Texas	R. L. Thornton	President
	J. W. Hoopes	Vice President
	Frank Pondrom	Vice President
	Bailey Malone	Vice President
National Bank of Commerce	George Miller	Cashier
Republic Nat'l Bk. & Tr. Co.	F. F. Florence	President
	Stanley Longmoor	Vice President

Dawson, Texas		
First National	C. M. Newton	President
	Conrad Newton, Jr.	
Del Rio, Texas		
First National	R. T. Hunnicutt	Vice President
Denison, Texas		
Citizens National	Ford Seale	Vice President
Durant, Okla.		
First National	Dial Currin	Vice President
Eagle Pass, Texas		
First National	Geo. C. Hollis	President
Ennis, Texas		
Citizens National	Fred A. Newton	President
Ferris, Texas		
F. & M. State Bank	D. H. Moyers	President
Forney, Texas		
Forney State	J. C. Reagin	President
	O. W. Reagin	V. P. & Cashier
Fort Worth, Texas		
Continental National	H. C. Burke, Jr.	Asst. Vice Pres.
Fort Worth National	R. E. Harding	President
	W. M. Massie	Vice President
Stockyards National	W. L. Pier	President
Frost, Texas		
Citizens State	R. F. Shaw	Vice President
First National	John C. Beck	Vice President
	R. F. Henderson	
Garland, Texas		
State National	A. R. Davis	President
Georgetown, Texas		
City National Bank	O. W. Sherrill	President
Glen Rose, Texas		
First National	C. A. Bridges	V. P. & Cashier
Grand Saline, Texas		
State National	J. C. Alsup	President
	J. E. Persons	Vice President
Grapevine, Texas		
Tarrant County National	D. E. Box	President
Greenville, Texas		
Greenville Nat'l Exchange	J. A. Norton	Cashier
Gorman, Texas		
First National	O. P. Newberry	President
Handley, Texas		
First National	Ben T. Merritt	Cashier
Hawkins, Texas		
First National	E. M. Slaughter	Cashier
Hillsboro, Texas		
Citizens National	T. G. Hawkins	Chr. of Board

Houston, Texas		
First National	Sam R. Lawder	Vice President
Second National	B. D. Harris	Sr. Vice Pres.
South Texas Com'l National	Earle P. Stallings	Cashier
Hugo, Oklahoma		
National Bank of Commerce	F. H. Sherwood	President
Idabel, Oklahoma	Bernie Herstein	Cashier
Idabel National	F. R. Abbott	
Italy, Texas		
Farmers National	Whit George	President
First National	Earl Eagan	Vice President
Itasca, Texas		
First National	Pat E. Hooks	President
	Jno. M. Coffin	Cashier
Itasca National	H. E. Chiles	President
Lamesa, Texas		
First National	W. K. Crawley	V. P. & Cashier
Lamesa National	O. B. Norman	V. P. & Cashier
Lancaster, Texas		
First National	B. F. Lyon	Cr. of Board
	W. Y. Perry	Cashier
Leonard, Texas		
Leonard National	Homer Collins	Cashier
	R. A. Nesbitt	Asst. Cashier
Lewisville, Texas		
First National	M. H. Milliken	Cashier
Lott, Texas		
Lott National	H. W. Stuart	V. P. & Cashier
Lubbock, Texas		
Lubbock National	C. E. Maegden	President
Mart, Texas		
F. & M. National	T. M. Wilson	President
Marlin, Texas		
Citizens National	Michael S. Hunt	Director
McGregor, Texas		
First National	J. Edwin Brown	Vice President
First State	E. C. Kunz	President
	T. C. Vahrenkamp	V. P. & Cashier
McKinney, Texas		
Central State	A. H. Eubanks	V. P. & Cashier
Collin County National	Henry W. Warden	Vice President
	Thos. Johnson	V. P. & Cashier
Melissa, Texas		
Melissa National	J. E. Gibson	President
	H. S. Wysong	Cashier
Mercedes, Texas		
First National	W. W. Collier	Director
Mesquite, Texas		
First National	N. E. Shands	Cashier
Mexia, Texas		
City National	David Murphy	Vice President

Midland, Texas		
Midland National	R. M. Barron	President
Milford, Texas		
First National	J. G. Cheatham	Vice President
Mineral Wells, Texas		
First National	J. P. Williams	President
Mt. Vernon, Texas		
M. & P. National	W. J. Moore	Cashier
Naples, Texas		
Morris County National	A. B. Gallaway	President
	A. B. Childs	Cashier
Nevada, Texas		
First National	Geo. H. Jones	Cashier
New York, N. Y.		
Chase National	L. Jacoby	Representative
Nocona, Texas		
Peoples National	Joe L. Janeway	Cashier
Olney, Texas		
First National	Wright McClatchy	Cashier
Paris, Texas		
First National	J. M. Caviness	Cashier
Pilot Point, Texas		
Pilot Point National	F. W. Hayden	Director
	J. Earl Selz	Cashier
Plano, Texas		
Farmers National	R. A. Davis	President
Plano National	D. S. Coleman	Cashier
Portales, N. M.		
First National	Arthur F. Jones	Cashier
Ralls, Texas		
Security State Bk. & Tr. Co.	J. Edd McLaughlin	Vice President
Rockwall, Texas		
First National	J. O. Wallace	Vice President
Royse City, Texas		
First State	W. H. Adams	President
San Antonio, Texas		
Alamo National	Walter P. Napier	President
Frost National	J. H. Frost	President
San Angelo, Texas		
First National	C. R. Hallmark	Cashier
Seymour, Texas		
Farmers National	R. E. Baskin	President
First State	F. H. Bunkley	Vice President
Sherman, Texas		
M. & P. National	C. B. Dorchester	President
	L. S. Omohondro	Cashier
Shreveport, La.		
Commercial National	P. C. Willis	Vice President
Smithville, Texas		
First National	E. G. Eagleston	Vice President

Stamford, Texas		
First National	R. Colbert	President
Stephenville, Texas		
Farmers First National	Jno. W. Frey	President
	Earl L. Frey	Cashier
First State	Ben B. McCollum	Vice President
Streetman, Texas		
First National	R. C. Cole	Cashier
Sulphur Springs, Texas		
City National	W. W. Jones	Vice President
	R. M. Womack	Vice President
Teague, Texas		
Teague National	J. E. Woods	President
Temple, Texas		
City National	W. S. Rowland	President
First National	Col. P. L. Downs	Vice President
Throckmorton, Texas		
First National	Garland Eubank	Cashier
	Mrs. Garland Eubank	
	Mrs. C. E. Kent	
Trenton, Texas		
First National	Jno. Donaghey	Cashier
Troup, Texas		
First National	John Walton Pace	Cashier
Tyler, Texas		
Citizens National	Gus F. Taylor	President
Peoples National	Sam R. Greer	President
	W. M. Haddad	Director
	S. A. Lindsey	Chr. of Board
Van Alstyne, Texas		
First National	L. Umphress	Cashier
	Carter Umphress	
Valley View, Texas		
Valley View National	C. B. Johnson	Cashier
Waco, Texas		
Citizens National	Walter G. Lacy	President
First National	W. W. Woodson	President
Waxahachie, Texas		
Citizens National	W. A. Canon	V. P. & Cashier
Weatherford, Texas		
First National	W. S. Fant	President
Wichita Falls, Texas		
First National	Chas. E. McCutchen	Vice President
Wills Point, Texas		
State National	R. W. Curtis	Vice President
Winnsboro, Texas		
First National	Alf Morris	President
	T. A. Wright	Cashier
Yoakum, Texas		
Yoakum National	E. A. Palmer	President