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**REVIEW**  
*of the*  
**Operations of the Federal Reserve Bank  
of Richmond**

**From Date of Organization to  
the Close of the Year 1915.**

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RICHMOND, VA., *January 3, 1916.*

TO THE MEMBER BANKS OF THE FEDERAL RESERVE  
BANK OF RICHMOND:

Herewith there is submitted for your information and interest a review of business and credit conditions in the Fifth Federal Reserve District, and the operations of the Federal Reserve Bank of Richmond during the period between the date of organization and the close of the year 1915. With the review will be found schedules reflecting the progress made in developing the activities of the institution.

Very truly yours,

WILLIAM INGLE,  
*Chairman of the Board.*



## **Review of the Operations of the Federal Reserve Bank of Richmond from the Date of Organization to the Close of the Year 1915.**

The one hundred days following July 31, 1914, were days of stress and anxiety throughout the country. Until that date general business, while quiet if not dull in many lines, had promise of better things to follow the gathering and sale of bountiful crops. Immediately thereafter came uncertainty, followed promptly by conditions from which panics usually are born. Gold reserves meagre and scattered, as invited if not compelled by the National Bank Act, were altogether inadequate to meet any unusual strain, while the knowledge that under the circumstances Europe could not as theretofore be relied upon for supporting gold and credit, greatly accentuated the difficulties of the situation. An instant and countrywide appreciation of the serious condition of affairs materially assisted those charged with the responsibility of accommodating finance and business of all kinds to the unprecedented, remarkable and rapidly following developments. While this spirit of mutual forbearance was most manifest and continuous until the crisis was past, it was also true that there were to be found individual banks and individual people who in being tempted to hoard gold were setting an ex-

ample which would have been followed very widely had not action promptly been taken in applying a palliative. The extended "emergency currency" law for the first time since its enactment was called into action, and its general and liberal employment undoubtedly greatly aided, if indeed it did not save, a situation otherwise unprotected. So well did the law render an important service at a time when men were more concerned that help might be had from any source than that it should follow the employment of sound principles, that many bank people expressed regret that it was to be superseded by other and more scientific legislation.

While the panic of 1907 was in its immediate effect most seriously felt in the larger centers of population, the happenings of the past year have borne with equal severity upon all interests in the country, from the great bank in a central reserve city to the farmer or merchant at remote interior points. Probably in no section was the strain more keenly felt than in the territory within the limits of the Fifth Federal Reserve District, particularly in that part of the district south of the latitude of the seat of the Reserve Bank, Richmond. The Fifth District embraces the States of Maryland, Virginia, West Virginia (excepting the panhandle), North Carolina, South Carolina, and the District of Columbia. Taken as a whole, the district is admirably well balanced agriculturally, industrially and financially. Aside from the miscellaneous products of its farms, its lands yield bountifully wheat, corn, oats, tobacco, cotton, fruits, etc. Large sections are given over to the growing of truck, while in other neighborhoods

the raising of cattle is the principal industry. Bituminous coal, mined in great quantities, underlies a generous part of its area, as does petroleum, while its forests yield lumber in quantity, and naval stores. Industrially, the district holds first rank in several important lines, notably in the manufacture of fertilizer, tobacco, clothing, canned goods and cotton products. Its seaports are the outlets for a great volume of raw and manufactured material, including grains, cotton, tobacco, coal, lumber and cattle, both live and dressed. Financially, its northern half is complementary to its southern section throughout most of the year. Banking capital, supplemented by trade credits, is sufficient to care for its proper and normal needs. Credit is shortest in supply in the months of August and September, and, as a rule, is easiest immediately following the maturing of cotton in the early fall, when debts for seasonal supplies are rapidly liquidated.

When it was realized in August, 1914, that obstacles would intervene to prevent the normal forward movement of cotton, the largest single export crop of the country, alarm if not panic followed, not only among those primarily concerned, the planters, but with many merchants, who, the country over, but especially in the Fifth District, were relying upon the normal movement of an admittedly great crop to permit liquidation. The crop, maturing at the time of greatest uncertainty, could be sold only at rapidly softening prices, the situation being accentuated by the fact that credit could not be had to finance its holding until trade could adjust itself to changed conditions. Late in October it was determined that the

reserve banks should open for business on November 16th, and the intelligence instantly had the effect of ameliorating conditions. Creditors became less insistent, apparently recognizing instantly that relief was near at hand. With the opening of the banks, but before a dollar had been loaned by them, it was possible to negotiate fresh loans or rearrange old transactions in the larger money markets on a six per cent. basis, and two or three weeks later five per cent. was the rate commonly current—so quickly did the country realize the possibilities of the new law. It now easily was possible to care for the exigencies of the cotton situation, with the consequence that loans made upon pledge of the staple permitted rapid liquidation of outstanding debts and the relief of situations greatly overstrained both in banking and mercantile lines.

Only those who were close to the heart of movements can fully appreciate the intenseness of conditions relieved by the active and passive influence of the Reserve Act during the first three or four months of its employment. Many substantial and fully solvent banks in endeavoring to meet the generally reasonable demands of their customers found themselves in exhausted position, and distress or failure would inevitably have followed had not conditions changed for the better. Banks which as a rule never borrowed excessively, if at all, were forced to assume liabilities for bills payable, rediscounts and emergency currency in amounts aggregating three times their own capital. During the winter months a generous share of this indebtedness was paid, following the sale of cotton at improv-

ing prices, and the very gradual but sure improvement in general business. Meanwhile valuable lessons had been learned, with the result that there was planted last spring less cotton and more grass and grain crops in the two Carolinas than has been the case in many years. Diversification and economy have been the watchwords, and in consequence we now see contentment and plenty where last year was helplessness and unhappiness.

While in the district as a whole cotton most intimately touches the interest of the greatest number of its people, there are other large lines of endeavor of commanding importance. Tobacco both in its growing and manufacture is one such great interest. Its market, at first adversely affected, gradually recovered, until both in yield and in prices those concerned have been satisfied with results. Grains have produced average yields, sold at greater than average prices. Garden truck and vegetables were over-produced, and as packers bought sparingly, prices have been far from satisfactory. In fact, those sections largely given over to potato growing are at the moment the least prosperous portions of the district. Cattle raisers have not fully shared in the pronounced improvement in general conditions. While it fortunately is true that excellent grass and hay crops materially reduced the cost of carrying stock its market has not been satisfactory, and in consequence much of it remains unsold, while the grower is further using his credit in purchasing fresh supplies for fattening. Coal for months was in a most unprofitable position, but since August its tonnage and market have

rapidly improved until the business is now in excellent form. Lumber until quite recently has been in a distressed condition, but its position now is improving, due not only to a better export demand, but to an increasing development of building operations. The fertilizer trade had its special troubles during the year. Last winter collections in the southern country were very slow, if not impossible. It was difficult to plan for the future. The tonnage used in the cotton section was forty per cent. less than the consumption of the preceding season. Collections during October and November were excellent, and this in connection with the fact that credit is now easy will make for good spring prospects. Clothing, long depressed, is now finding a ready market, while canned goods, an important interest, are meeting a greatly broadening demand. In a word, the almost universal disorganization and depression of a year ago has gradually but surely been succeeded by readjustment and improvement until it is possible to report that general business in practically all lines in the Fifth District is nearly and in some instances better than normal.

Fourteen months ago the banks of the district were heavily committed for bills payable, rediscounts and emergency currency. The last indicated liability long since disappeared, much of it at the time by the aid of the reserve bank. Excess bills payable were promptly reduced in the use of the same agency. With the gathering and sale of seasonable crops came liquidation, so generous and general that easy credit conditions now obtain throughout the district. As a matter of

fact, many substantial banks have not only cared for all unusual liabilities, but have surplus funds seeking employment.

The reserve bank made its first discount transaction on November 26, 1914. Its loan line developed slowly and it was not until August 9, 1915, that its maximum figures, \$8,747,476.30, were reached. Liquidation of maturing paper has since reduced the line. It is proper to say that in no instance was a transaction solicited, but all re-discounts reached the bank upon the initiative of its members. The first definition given of "commercial paper" was the cause of great concern, but the subsequent ruling, where understood, has given very general satisfaction. It is true that for a while at first, and later with fresh applicants, it was necessary to decline to accept a gradually diminishing percentage of the paper offered, for the reason that it originated from ineligible sources or as a matter of credit did not measure up to moderate minimum requirements of the regulations. It was rarely indeed that temperate and explanatory correspondence did not fully satisfy the member institution. It now is the case that offerings reach the bank in admirable form, and when upon occasion it is necessary to decline at the moment to accept, it usually is on account of some technical defect, such as an incomplete endorsement or alteration. For some time many exceptions were taken to the requirement that after July 15th statements must be filed with paper made by large borrowers. Here again considerate correspondence well served its purpose, with the result that not only are the statements furnished, but many banks have written

highly commending a practice new to many of them. The experience is that member banks which have used the reserve bank in rediscounting have little if any adverse criticism to offer.

Some members who have not so used the bank stress two or three points which have struck them unfavorably. First, they regret an assumed loss of interest on reserve deposits, evidently overlooking the fact that balances with the reserve bank up to November 16th last were made up of unproductive funds withdrawn from vault reserve and released under the new law. It possibly also is true that it is not considered that when all reserves shall have been withdrawn from the hands of approved reserve agents the three per cent. of deposits released from the reserves of country banks, when invested at current rates, will yield practically the amount heretofore received as interest from reserve agents. Again, much is heard of the sacrifice compelled in the loss of exchange charges to follow the operation of the clearance features of the new law, and again it is overlooked that balances heretofore supporting clearances, when no longer serving as reserve must necessarily be withdrawn for positive employment at full interest rates, when members will promptly desire that the reserve bank take over the business. Practically all present adverse criticism seems to arise from the fact that many banks are still living in the atmosphere of the past, and will not diagnose the situation in the light of the future, as forecast in the Reserve Act.

Generally speaking, it is the fact that banks in the northern half of the district are oversupplied

with funds, while those of the southern half, as a rule, are short. For entirely different reasons a great number of institutions throughout the district which do a commercial business pay exaggerated interest rates on deposits. Quite commonly is four per cent. paid on savings accounts, either *bona fide* or so called, while many banks pay five. At many places in the northern part of the district banks which have no regular business demand for funds will pay four per cent. on deposits to swell figures in competition with neighbors, thus necessitating the investment of the money so acquired in securities which *may* improve in value, and in real estate mortgages or other fixed directions. In the southern half the high rates have been paid for the reason that the money has been needed, but here again a generous share of it has found lodgment in farm purchase mortgages, good but altogether unliquid. The reserve banks, in stabilizing rates at uniform and moderate figures, will permit members, in manufacturing deposits in the form of rediscounts, eventually to reduce their charges for interest paid on many accounts heretofore improperly classed as savings deposits.

It is natural that banks not originally subscribing to membership in the reserve system should have hesitated to give it allegiance. While few bank people of any kind who had studied the law have ventured to criticize the fundamental purposes to be served by the Act, many of those not directly committed to its provisions have thought it wiser to postpone their subscription until its usefulness to all could be demonstrated. As under the circumstances it has

as yet been possible to demonstrate this usefulness principally in affording rediscounting privileges, it naturally has followed that these particular benefits have been better exemplified in sections needing accommodation than elsewhere. In consequence the greater number of accessions to membership have come from borrowing neighborhoods either by conversion or as State banks. As other features of the law are called into play, its benefits will be tangibly apparent to banks of all kinds differently situated. This will especially be the case just as soon as really comprehensive clearing plans can be made effective and when it can be felt that any plan adopted is to be fairly stable in its character. Just as soon as reserves are fully transferred from their old lodgment with "approved reserve agents" it will at once be apparent that these so-called reserve balances have really been supporting the collection of checking operations of the country and also that the old false system of reserves has been responsible for the crises experienced. It then will be as plainly evident that such balances cannot longer be maintained without serious loss to the interior banks, which in consequence will be only too ready to transfer clearances to the reserve banks holding their real reserve balances. As a rule, clearance operations so far undertaken have been approached and handled in a way suggesting timidity and lack of confidence, and the fact has been responsible not only for one-sided effects and unsatisfactory results, but has given heart to many people who from the time of its birth have antagonized the law and who would welcome the breakdown of any of its parts.

Many banks seem to fail to realize, in enjoying the benefits of customers' balances, that in making a charge beyond actual cost of furnishing exchange in remitting for such customers' checks, they are not taxing a correspondent bank, but through it are levying a charge upon business in connection with which the checks were issued, and that one reason for the passage of the law was a desire to relieve the business of the country of this very expense.

In the Fifth District collection charges take different forms, and as is generally the case throughout the country as an average proposition, and omitting scattered very large items handled at special rates where especially arranged for, a collecting bank probably receives one-eighth of one per cent. or \$1.25 for every thousand dollars of collections made by it. Frequently the exchange furnished costs nothing, but is drawn in liquidation of balances which otherwise could only be moved at an expense in money. When occasionally it becomes necessary to ship currency to make exchange, the cost per thousand between Richmond and its member bank points is from twenty to forty cents. The balance, eighty-five cents to a dollar and five cents, is clear profit to the bank drawing the exchange.

This average charge is made in one of several ways. Sometimes a permanent minimum fixed balance calculated to earn an equivalent will absorb it. Again, balances of certain nature will be remitted at intervals with or without charge, dependent upon an arrangement meaning just about the one-eighth. Then there will be an interchange of costly business in equal or other

agreed volume between two banks, again meaning just about the same one-eighth. Much of this business is remitted for upon receipt at one-tenth, one-eighth or in many cases at one-quarter or even more. Many banks exact minimum charges of from two to ten per cent. on small business. In one-bank towns no combination seeking to exact specific charges is possible or necessary, but at other points, great and small, such combinations are common, if not usual. Little change has occurred during the past year in the direction of ameliorating old conditions. A member bank at one of the centers after subscribing to the clearance plan addressed certain of its larger correspondents asking the continuance of their direct dispatches for remittance at par in lieu of the accustomed one-eighth, probably in order to obtain the benefit of the additional time, as otherwise the checks would have found the reserve bank for attention. The reserve bank, being in Richmond and accepting from its members and from the New York Reserve Bank local checks at par, has made Richmond practically a par point. The banks of the city only recently entered into an agreement under which a "country clearing-house" is to look after the collection of checks on a certain designated number of interior towns of the district. The plan should prove helpful if only in securing a single remittance at possibly a wholesale rate in lieu of half a dozen daily exchanges each at a retail price. Apart from the instances noted, no change has taken place excepting where such of our members as joined the collection system in a spirit of co-operation voluntarily relinquished

their exchange charges on business reaching them through the reserve bank. The entire subject of clearances is so intimately related to that of reserves that it will be difficult to introduce effective arrangements to care for transit matter in a comprehensive way until all reserves have been withdrawn from the hands of "approved reserve agents." When this has been accomplished, member banks in realizing that they cannot afford to maintain non-reserve-compensating balances to support clearances, will be only too ready to use the reserve banks in caring for collection matter. It would greatly facilitate not only the development of the clearance system, but the prompt rounding out of other most important features of the Reserve Act if the law were so amended as to require the immediate transfer to the reserve banks of the full minimum share of the reserves of members which ultimately are there to find lodgment.

When, immediately following the opening of the bank, a uniform discount rate of six per cent. was established, the immediate effect was to steady and soften the price of credit which, notwithstanding the use of nearly four hundred million dollars of emergency currency in the country, had been scarce and high. Inspired by appreciation of the beneficent power of the new law, the large open credit markets of the country soon resumed their normal tone, when in following their downward trend, the reserve banks were permitted gradually to lower discount rates until at the moment four per cent. is the rate on commercial paper to mature within ninety days from the date of its acceptance by the reserve

bank. A rate of three and a half per cent. was named on sixty-day trade acceptances, but comparatively little of such paper has found its way to the bank, principally for the reason that the "acceptance" has gradually fallen into disuse. It is noted, however, at several places that freshly prepared draft forms are being introduced so drawn as to be eligible for discount at preferred rates by the reserve bank.

On September 15, 1915, with the approval of the Reserve Board, the bank made a rate of three per cent. on "commodity" paper up to a maturity of ninety days, and for the first time permitted banks in position to offer paper secured by the best collateral in the world, viz.: unmanufactured staple products, to borrow money with which to serve their customers, and at a rate approximating that made on demand or stock secured loans in the open market. The effect was most beneficial not only in inspiring confidence, but in giving the borrowing public the benefit of lower interest rates than heretofore it ever had enjoyed. While those concerned in the growing and handling of cereal crops will also be helped in due course, the action taken in September greatly aided the cotton grower and spinner. South Carolina is the only State in the district in which interest at rates in excess of six per cent. may legally be charged. Many of the banks in that State in advertising that they are prepared to loan money on the pledge of cotton at six per cent. are obtaining new business, both loans and deposits, in competition with those institutions continuing to charge the usual eight per cent. or more which was exacted before the

reserve bank was established. That the classification and rate are both highly acceptable to all concerned is evidenced not only by the volume of loans from South Carolina handled by the bank, but is to be inferred from the fact that more banks from that State have entered the system during the past year than from all the remainder of the district. It is the fact, and naturally so, that State banks most impressed with the value of the new law are those which have been made aware of its usefulness to some neighboring institution. As the reserve bank really has only operated in an effective way the discounting side of its activities, it is natural that those compelled or desirous to use their credit, first should be interested. With the setting up of proper clearance machinery, another and larger class of banks will own like interest and in actively using the reserve bank as a usual daily and convenient correspondent for all purposes, will by their example induce many State banks actively to lend themselves to plans seeking to co-ordinate in the country all of its banking activities.

The Federal Reserve Bank of Richmond has most fully served the needs of its district during a trying year. When help has not been directly extended, the bank has made it possible to be obtained elsewhere at the same or lower rates than it has named, a situation fully appreciated by numerous correspondents. A canvass of all member banks elicited replies of a most gratifying nature, appreciative not only of immediate service rendered either actual or potential, but of the larger purposes of the law. Adverse criticism when offered was directed almost entirely to the

two points before referred to, non-payment of interest on reserve balances and possible loss of exchange charges. Those raising the points apparently have never reflected upon the intimate relationship of the two questions, but are continuing to think in terms of the old National Bank Act, with its artificial advantages and dangerous limitations. Surely upon further study it will be apparent to all such that the advantages of attachment to the reserve system will far outweigh any apparent sacrifice its members may be called upon to make, while the public, both borrowers and depositors, in being better and more surely served than ever before and in gradually appreciating the full meaning of stability, certainty and safety will do its full share in co-operating with member institutions in furthering the objects of the Reserve Act.

Respectfully submitted,

WILLIAM INGLE,

*Chairman of the Board.*

*Richmond, Va., January 3, 1916.*