The First Two Years of the Federal Reserve Bank

Address Delivered by William McChesney Martin, Chairman of the Board of the Federal Reserve Bank of St. Louis, Before the Memphis Chapter of the American Institute of Banking, in Memphis, Tennessee, on Tuesday Evening, November 14th, 1916.

TODAY is the fourteenth of November, and on Tuesday of this week, November 16, 1916, the twelve Federal reserve banks will have been open for business exactly two years. We are, therefore, in a position to see what the system has accomplished in this short time, and on some things at least to speak from the view-point of practical experience rather than from the viewpoint of theory.

Two years is an extremely short time to give any bank, let alone a great banking system, an opportunity to demonstrate itself. Should we examine the first two years of the operation of any of the great world banks, such as the Bank of France, the Bank of England, or the Imperial Bank of Germany, we would be unable to find that any one of these institutions made such progress in so short a time. In fact, if I have read correctly, the impression would be gained that in the first two years they stood still. If there are any of you present here tonight who were with your banks when they first opened their doors, you can doubtless testify that even an individual bank was not able to show much in the way of results at the end of the first two years, and if you had been criticised on your bank showing for such a time, you would have considered, and rightly so, that it was unjust.

We, however, are living in an age when things move rapidly, and tonight I think I can state to you without fear of contradiction that the Federal Reserve System and the Federal Reserve Banks have accomplished more in the first two years of their existence than any other of the world's great banking systems can boast of from the history of their two first years. Even from an earning viewpoint, and this, while not unimportant, in my judgment is perhaps the last viewpoint from which the Federal Reserve Banks should be judged, they are, to use a common phrase, "making good." All of the twelve banks are earning something on their paid-in capital. In September of this year, six of the banks earned not in excess of six per cent on their paid-in capital, while the other six earned less than six per cent but in excess of four per cent.

Perhaps we can get a better idea of what the Federal Reserve Act has accomplished by very briefly stating the things it was intended to accomplish. Its purpose was to correct certain defects in our financial system which had long been recognized, but which it took the panic of 1907 to so impress on the minds of business men and bankers of the United States that they considered them of enough seriousness to realize that they must be corrected if this country's future was to be assured. To do this, the Federal Reserve Act was passed, its chief object being to furnish banks with a medium through which they could benefit the public to a greater extent than ever before by giving it increased facilities, greater stability in the interest rate, and the creation of the confidence that comes from knowing that they are members of a great system whose purpose is their protection. Now, at the end of two years, it seems to me that any bank, which owns stock in a Federal Reserve Bank, can go to its customers able to offer them the assurance that never again will they have trouble that was once experienced in getting money to meet payrolls. A member bank can also assure its customer that, if he has the proper credit standing and is conducting his business in the proper way, he is now under no danger of having his loan called during a time like 1907, when such a call, in many cases, meant the shutting down of the business; but that, instead, the bank, through the instrumentality of the Federal Reserve System, is in position to extend such accommodation as is legitimate for sound business and the good of the entire community.

The four great defects in our old system of banking, agreed upon by banker, business man and economist, were: (1) lack of co-operation between the banks; (2) diversion and immobility of bank reserves); (3) and unscientific, inelastic bond secured currency, and (4) and an actual hoarding of money by the Government.

In the early history of our country, it was learned through bitter experience that banking is a paradox. It is not only a most selfish business, but at the same time, if it wishes to exist, must be altruistic. It is organized for the purpose of making dividends for its stockholders, but at the same time, it must think of, and help wherever possible, its neighbors in the same business. The reason is that it is based on confidence. Whenever any bank in a community fails, every other bank in that community, whether it deserves it or not, is under more or less suspicion. A run on any bank is more or less a dangerous thing for all banks. New York learned this lesson during a panic in the early history of our country, and it resulted in the formation of a clearing house, the chief purpose of which was not so much the clearing of checks as the pooling of reserves so that help could be extended to the smallest deserving bank. This principle of combination of reserves has justified itself throughout all of our country, and all of our large cities have clearing house associations. However, though the banks in the cities could combine their reserves, there was no medium by which banks located outside of cities could effectively pool their reserves. They were dependent on their correspondents in the centers, and though the correspondents in time of trouble did the very best they could for their friends in the country districts, as you gentlemen know, there were times when you could not be furnished the money you needed and even times when you were charged for your own money when it was sent to you. The principle of combination was all right, but there was no effective means of carrying it out. The Federal Reserve Bank furnishes this means. The country is divided into twelve districts; each district has a Federal Reserve Bank. All National banks in a district, and such of the State banks as desire, are joined together through the medium of stock ownership in the Federal Reserve Bank. In it the member banks also deposit a certain portion of their reserves, and in fact, since the recent amendment to the Federal Reserve Act, they can keep all of their reserve in the Federal Reserve Bank of their district, if they so desire, even that part which heretofore the law compelled them to keep in their own vaults. Thus, as it were, the Federal Reserve Bank becomes a gold reservoir, able through its rediscounting operations to send a stream of money to any bank that enjoys its privileges which has a legitimate need for it. It is because the public has realized this fact, and because the merchant has felt that he is not under the cloud of the possibility of having his loans called in the happening of any unusual event, that, in great measure at least, it has been possible for business in this country, in the face of the greatest European war in history and in an atmosphere charged with the possibility of the impossible, to reach the unprecedented high tide that it now enjoys. It is perfectly true that there has been brought in from Europe some six hundred or seven hundred millions of dollars of gold, which, to some degree, acting as a basis of credit, has resulted in lower interest rates, and it is also true that some sections of our country have enjoyed good crops and high prices, but I submit to you that it is entirely possible, with even these conditions, if the people did not have the confidence in our financial system, that they have gained through the establishment of the Federal Reserve Banks, business would have gone forward with a much more halting step than it has. In fact, I was told by one of the largest wholesalers in this country that he did not believe merchants would think of ordering the supplies they are, unless they felt that there was a Federal Reserve System to stabilize conditions. We are really too close to events to be able to see clearly how much the present volume of business of this country is due to the Federal Reserve System, but we do know that it has helped a great deal, and perhaps when we are further away from these stirring times and history is written, we will be astonished to find out approximately how much.

In the period of readjustment that must follow the war, it is to the Federal Reserve System that this country must look for the protection of its gold supply. The gold that we have will naturally be desired by the nations from which it came, because it is the basis of credit. Under our old system, we would have had to stand helpless and see the gold go out. However, with the Federal Reserve System in effect, there is every reason to believe that we will be given the effective protection. The system, under this strain, is yet to be tried, but those in charge are anticipating the situation and are waiting the outcome with confidence. We read of the "trade war" that is to be made upon this country. We are becoming familiar with such phrases as "the scramble for gold." There are those who predict a dark outlook ahead. Personally, however, I cannot be pessimist enough to find these "Jeremiahs" good company. Europe undoubtedly will want our gold, but how is she going to get it? Many of her men are dead, many more have been rendered inefficient through wounds. Such machinery as she had has been turned into munition plants, and it takes time to change the sword into a plow-share. Gold will leave us, of course, but not as the result of a sudden raid. Europe cannot as heretofore established artificial interest rates, which we are helpless to check.

Now the Federal Reserve Banks will be able to meet such a move by a raise in rates. The movement will be slow, due to the natural and normal economic conditions, and through the Federal Reserve Banks we have an instrument by which it can be safeguarded.

It is a pity that those State institutions which are hesitating about coming into the System cannot get this world vision of the situation. Now that our country is brought so close together through the medium of the railroad, telegraph and telephone, no longer can any bank, however small, insist that it is not interested in the affairs of the world. An uncontrolled withdrawal of gold out of the United States will affect every bank in it, whether the bank is able to recognize it or not. It will know the result, even though it may not be conscious of the cause. The Federal Reserve System can be made a success without the State institutions, but it is unquestionably true that every State institution that joins the System adds strength, not only to itself, but to the System. It is bound to benefit, whenever a strain comes, by having access, as a matter of right, to the gold reservoir in the Federal Reserve Bank; and the Federal Reserve Bank is stronger and more able to help all banks by reason of the reserve which the State bank will keep with it. In a majority of cities, State banks and trust companies have found it to their advantage to be members of the local clearing house associations. Such membership was a material aid to them in the different panics. At the outbreak of the war, when it was necessary to establish the so-called "gold pool" to protect American industry, many State institutions realized the situation and contributed to that pool. In such cases, State institutions have found it greatly to their benefit, and in some instances they found it even necessary to their life, to combine their reserves and pool their gold. Having had to do this heretofore, why is it not plain to them that it is not only for their benefit, but for the benefit of the country as a whole for them to pool their gold through the medium of the Federal Reserve Bank, when in so doing, through the medium of rediscount, they are certain of protection for themselves and their customers during any emergency?

There was a time, under the old system, when a merchant might come into a bank and apply for say, a $10,000 loan. The cashier of the bank would say: "Mr. Brown, you are a most excellent credit risk; we have the money, and will be glad to lend it to you at 6%, provided you will make your note on demand." Mr. Brown's answer would be: "Such a loan will do me no good, for I expect to buy leather with the money borrowed from you, turn it into shoes, sell the shoes, make enough on them to pay off the loan, and have sufficient profit to increase my deposit with you, but it will take me at least ninety days to do this." The banker would reply: "I am sorry, but when checks are presented at the counter of this bank, we must pay them in money. We cannot pay a $1000 check with an undivided one-tenth interest in a $10,000 loan, even though the loan is as good as your loan would be. If I cannot pay the check in cash, I have broken my contract with the depositor and I might as well close my doors, and you know that world conditions are such that at any time I may be called upon to cash an unusual number of checks." The result, under the old system, was that Mr. Brown did not get his loan; he could not spend the money for the leather, and the dealer in the leather lost a profit. Mr. Brown could not make the shoes and make a profit. Perhaps he had to put his help on half time or discharge some of them, and as a community suffers when its units suffer, so the refusal of that loan to Mr. Brown discouraged the whole community. On the other hand, the bank which perhaps could have loaned the money to Mr. Brown at 6% could not make that much, and as a rule, sent the money it might have loaned to Mr. Brown to a central reserve city, where it did not receive more than 2% on daily balances. It did this because it felt that money so deposited it could get on demand, but even this was not certain in unusual emergencies like in 1907, and the first weeks of August, 1915, when the great war commenced.

Now that the Federal Reserve banks are open for business, if Mr. Brown wants $10,000 for a legitimate commercial transaction for ninety days, the banker can let him have it, for no longer is that $10,000 of necessity tied up for ninety days. If Mr. Brown's loan is based on a legitimate liquid commercial transaction, the banker knows that, by endorsing Mr. Brown's note and sending it to the Federal Reserve Bank of his district, with a statement of Mr. Brown's financial affairs, he can get cash for the note, less the discount, in any form that he desires it. The amount will be put to his credit on the books of the Federal Reserve Bank, or he will be sent any kind of money in the denominations that he desires. This means that business men can be taken care of for their legitimate needs by their local banks, and in this way, the whole community helped.

Sometimes I fear that many of our member banks do not thoroughly appreciate the facilities which the Federal Reserve Bank of their district can offer them. It has ben astonishing to all of us that our member banks have not made more requests of us for small bills. I know that many of our banks have needed this kind of money during the crop moving season. The Federal Reserve Bank of St. Louis wishes to do evertyhing in its power to be of assistance to its member banks, and always tries to answer requests for different kinds of money promptly.

There has always perhaps existed a prejudice against a bank borrowing money, and in my judgment, such a prejudice has not been well founded, provided the borrowing was for legitimate needs. Banks were timid about showing the item "Bills Payable" in their statements, for they were afraid of criticism. Under the National Bank Act, banks could not have Bills Payable in excess of the amount of their capital stock, but this provision of the National Bank Act has been so amended by the Federal Reserve Act that there is now no fixed limit covering the amount a member bank may rediscount with its Federal Reserve Bank. This seems that the amount any member bank may rediscount is left to the discretion of the Board of Directors of the Federal Reserve Bank, with the result that legitimate needs of any bank may be cared for. This, of course, does not mean that a bank may borrow all it desires without hindrance, but it does mean that the Board of Directors of the Federal Reserve Bank can give all the help that it thinks the bank needs.

The item, "Bills Rediscounted with the Federal Reserve Bank," on a bank's statement, I have every reason to believe, is viewed by the general public in an entirely different light from the old item "Bills Payable." This is strikingly illustrated by a conversation I had several months ago with a gentleman who stopped me on the street to show me the sttements of two banks in which he was nterested. One of them showed Bills Payable and the other one showed Bills Rediscounted with the Federal Reserve Bank, and he volunteered the information that while he did not like "Bills Payable," he rather liked that item "Bills Rediscounted with the Federal Reserve Bank." I asked him why, and his reply was: "Why, any bank that shows Bills Rediscounted with the Federal Reserve Bank, indicates to me two things: *First*, that it has paper measuring up to a certain standard; and *second*, that it was in fair condition or the Federal Reserve Bank would not have rediscounted the paper for it." This gives you an idea of how this gentleman looked at the matter, and is indicative of the way that many others are viewing it.

The Federal Reserve System has done one thing which, it seems to me, is of the very greatest benefit to the entire business world. It is asking that statements of borrowers be furnished with their notes—a requirement which sometimes results in a charge against the Federal Reserve Bank of "red-tape." During the early days of the bank, this was a common charge, and is a charge often made yet by those who prefer to criticise rather than learn from experience how easy it is to deal with the Federal Reserve Bank. When a bank offers a note for rediscount at the Federal Reserve Bank of St. Louis, we feel that it is a perfectly reasonable request to ask that the bank let us know what it knew when it granted the loan. We prefer this information in the way of a signed statement of the borrower, but if the bank cannot furnish this, on small loans we are prefectly willing to accept the bank's statement of what the borrower owns and what he owes. We take it that no bank grants a loan without some particular knowledge about the borrower, and all we want is this particular knowledge. After two years' experience in the asking for statements, I think I can say that unquestionably the requirement has been of very great benefit not only to the bank, but also to the borrower, and I know that many banks find it extremely easy to do business with the Federal Reserve Bank of St. Louis. This statement requirement is resulting in many a small merchant and farmer keeping a set of books—something that he never did before—and through keeping a set of books, he has been able to stop many a small leak. It may be that if this winter you see a farmer, who ordinarily left his implement open to the weather, take the trouble to put them into the barn, this action can be directly traced to the fact that he was asked to make a statement, and after seeing his condition expressed in figures, instead of guessing at it, he has become more careful.

Through the regulations issued by the Federal Reserve Board, commercial paper is becoming standarized. Credit terms are beginning to have definite meaning. The Federal Reserve Banks themselves are working together and expect to formulate a set of statements that can be used by all of them, and it looks like that within a short time, we may have in this country statements as uniform as it is possible to get them.

It is obvious that when borrowers stop guessing at their financial condition, and banks quit guessing at the borrower's condition, frequently misled by the optimistic ideas of the borrower himself, that loans themselves will become safer. I think you will agree with me that "charge offs" affect the bank's earnings to a much greater degree than an obtaining of high interest rates. It, therefore, stands to reason that the banker can afford to charge a less interest rate than heretofore, and at the same time make more money, because he will collect his loans when due, instead, as heretofore, of charging a high interest rate, because he was guessing at the credit standing of the borrower, and frequently finding his guess wrong and having to charge off the greater part, at least, of both principal and interest. One way through which the stabilizing of the discount rates will be attained is through the minimizing of the risk by statements, and even with a lower interest rate, in the end the banks will make more net profits.

Heretofore, we have never had an elastic currency—i. e., a currency which could be issued so that you could use it to pay your hands in the cotton field when it was needed for that purpose, and when the need had disappeared would come in and go out of existence. After two years experience with the issue of Federal Reserve notes, I think I can safely say that they can give us the kind of relief we have long needed. I cannot do better than quote Governor Harding of the Federal Reserve Board, who, in a recent speech, said:

"Experience thus far, limited though it has been, has shown that the machinery for the issue of the notes provided for by the Federal Reserve Banks can work promptly and effectively, and there is no reason to doubt that whenever it may be called upon to render extended service in times of stress or difficulty, it will be able immediately to meet the requirements of those calling for assistance through the medium of note issues."

There was a time when a man in Memphis, who wished to buy coffee in Brazil, had to arrange to have a London, French or German bank accept a draft drawn on it. We could not do an international business without paying tribute to foreign banks. All that is past now. Under the Federal Reserve Act, National banks may now make both foreign and domestic acceptances, and there are now in the foreign trade approximately $175,000,000 of drafts accepted by American banks and bankers. A market is created for this type of paper, since it can be purchased by the Federal Reserve Banks. Up to October 1st the amount of acceptances bought by Federal Reserve Banks was approximately $300,000,000. It is through this means that the American dollar is attaining its place in the sun. It now has displaced the pound, the franc, and the mark, in the international trade of the world, and it is believed that it will be able to maintain its position even when the war is over.

Two years of operation of the Federal Reserve System proves that it is sound, and not only sound, but thoroughly practical. It has already brought about a feeling of confidence, and standardization of commercial paper, a definition of credit terms, the establishment of the American dollar in international trade, a Federal Reserve Note currency, fitted to varying needs, and a check clearing system of great benefit to the country as a whole, even though certain individual banks may have to forgoe the profit of charging exchanges. It is a thing worth noting that much of the criticism that is heard from banks, in regard to Federal Reserve Banks, comes from those who voice preconceived ideas and have had absolutely no experience with the Federal Reserve Banks themselves. It has not been an uncommon thing to have a bank make the statement that it could not do business with the Federal Reserve Bank on account of "red-tape" and, at any rate, it did not have any paper that it could rediscount with the Federal Reserve Bank, and then, when it mentioned the notes that it had, find out that most of them were eligible for rediscount. It has also, I am glad to say, been our experience that when a bank ceases dealing with prejudices and once learns the facts, it finds it extremely easy, and think pleasant, to deal with us. Frankly, unless you take the trouble to find how the Federal Reserve Bank can be of service to you, you will never know how to use it and, in fact, may have to suffer inconvenience that it was not necessary for you to undergo. Sometimes very discouraging things occur. It was just the other day that one of our member bankers came into our office and said that if he could do such and such a thing, it would be a great convenience to him and save him considerable money. For answer, I handed him a circular which I am sure was mailed to him some two months previous. He read it and said: "Well, I declare; I didn't know this." Here is a case where he could have been doing something of distinct advantage to himself at least two months sooner than he did, and it may be that in the meantime he had been criticising the Federal Reserve Bank when he should have been criticising himself. May I ask that all of you please read our circulars carefully, and if there is anything about them that you do not understand, please write in immediately, for the officers of the Federal Reserve Bank of St. Louis are practical bankers and want to be of real assistance to all member banks.

St. Louis Claims For Federal Farm Loan Bank

REMARKS OF MR. WALKER HILL, BEFORE FARM LOAN BANK BOARD.

Our Committee has prepared a brief which is accompanied by illustative diagrams. We wish to leave with the Board copies of this brief, which is not long, and to ask that you will give it consideration.

The brief demonstrates these facts:

We have in this State of Missouri 20,000,000 acres of land not under improvement. That is nearly one-half of our entire area.

We have in Missouri 10,000,000 acres, nearly one-fourth of our area, which is not in farms.

In the adjoining state of Arkansas the acreage of improved land is 8,000,000 acres, not one-fourth of the entire area.

I mention these two States because the conditions show that they may be properly embraced in one district, with St. Louis as the location of the Federal Farm Loan Bank.

The Federal Farm Loan Act provides for twelve districts and says, "said districts shall be apportioned with due regard to the farm loan needs of the country."

The brief which we present to you gives, in more detail than I will quote, the figures showing that Missouri has one-fifteenth of all of the mortgaged farms in the United States. Missouri and Arksnsas together have one-tenth of all the mortgaged farms in the United States. These figures are given by the census bureau of the Government. They seem to our committee to demonstrate clearly the claims of these two States to constitute a district. The amount of the farm mortgages in the two States follows closely the same proportion as the number in respect to the amount for the entire country.

The number of farms in Missouri is decreasing. We had in 1910, a decrease of 7,642 in the number of our farms as compared with 1900. We had an increase in farm mortgages. I will not quote the percentage of increase. You will find it set forth fully in the brief, together with other statistics showing the great needs of this territory which lies at the very door of St. Louis.

Now, why are these conditions? We are in the very center of the farm production of the entire country. Yet we have many counties in which less than 40 per cent of the acreage is embraced in farms. We have 33 countries in which the present average value of the land is under $25 an acre.

Missouri agriculturally is two kinds of a State: North of the Missouri River, about one-third of our area, is fine land adapted to grain growing. It is one vast lot for live stock in winter. South of the river and extending down through Arkansas is a territory of narrow rich valleys, grassy slopes and plateaus, watered by innumerable springs and favored in respect to climate. It is territory which nature intended for dairying, fruit growing and poultry raising. It includes most of the 20,000,000 acres of unimproved Missouri and most of the 25,000,000 acres of unimproved Arkansas lands. If the Federal Farm Loan Act has been intended especially to meet the needs of this Missouri-Arkansas district it could not have been drafted better. The district is one of small farms. In Missouri there are 140,000 farms under 50 acres. In Arkansas there 110,000 farms under 50 acres. The Federal Farm Loan act offers these small farmers the capital to acquire dairy stock, to plant orchards, to establish themselves in poultry raising, in short to make the most of their conditions of soil and climate.

The Federal Farm Loan Act extends its advantages to "any person about to become the owner of farm land." We have 85,000 tenant farmers in Missouri and 108,000 tenant farmers in Arkansas. They are tenants, not from choice, but from the lack of capital to buy land.

St. Louis loans a great deal of money on farm mortgages. We have one trust company with a record $30,000,000.00 loaned on farm mortgages and not a dollar lost. But these loans are made on the larger farms and in large amounts. They are loaned to the amount of 25 per cent of the value of the property. We cannot meet the needs of the small farmer. We have a great field for the operation of the Federal Farm Loan Act. Epitomizing our brief I invite your attention to these points:—

1. Distinctive needs of the Missouri-Arkansas District.
2. The extent of the unimproved land.
3. The decrease in the number of farms.
4. The proportion of mortgaged farms to the whole country.
5. Peculiar conditions of the Ozark region.
6. The high rate of interest paid by the small farmer.
7. St. Louis as a farm loaning center.
8. St. Louis as a bond buying center.
9. The great number of tenant farmers in the district.
10. Intimate relations of St. Louis to this small-farm territory.
11. The relations of the Federal Farm Loan Bank and the Federal Reserve Bank.
12. What Missouri is doing at this time to help herself.
13. St. Louis' present efforts toward agricultural development.
14. The unanimous request of the St. Louis Clearing House.
15. Special adaptation of the Federal Act to St. Louis territory.

Significance of Live Stock Marketing at St. Louis by Wirt Wright, President National Stockyards National Bank.

Mr. Secretary and Members of the Committee:—

With your permission I would like to discuss very briefly two facts connected with the live stock business, which seem pertinent to the establishment of a farm loan bank at St. Louis.

First, live stock shipping and financing are ties or links of association between the farmer and St. Louis.

The importance of a live stock market depends upon contiguity and transportation facilities. You are, of course, aware that live stock shipping, more than that of any other farm product, responds quite absolutely to good freight service; fast, convenient stock trains, early arrival at the market and low freight rates.

Therefore St. Louis comes honestly by its position as the fourth largest market—the largest horse and mule market—because its railroads give good service in its immediate tributary territory. Beginning at the north with the Burlington along the river and then following around in order, the Wabash, Alton, Rock Island, Missouri Pacific, Frisco, Iron Mountain and Cotton Belt; spread out like a fan over Missouri and Arkansas.

Our Committee has filed with you charts showing the number and value of live stock marketed here as result of this situation. The bulk of Missouri and Arkansas live stock is shipped to this market. Thus exists a peculiarly intimate relationship between St. Louis and its tributary agricultural territory and its importance to you lies in the fact that the shipper largely comes to town with his stock. He does not do so when he markets grain or cotton or fruit or produce unless he is within driving distance. But he frequently accompanies his stock to market. He learns the City, does a little shopping, visits its attractions and assures a proprietary interest therein. It becomes "his town" and he will support any good enterprise located there, if he can.

Moreover is so happens that financing of live stock drifts naturally to the marketing point. Home banks do as much of this as they are able, but at present prices, the amounts involved are frequently so large, and other conditions force farmers—every good farmer is this section is a live stock man—to obtain assistance through his commission man or the bank at the Stodkyards. Probably in excess of $15,000,000.00 of this class of paper is handled annually at the Yards. And in this way again the tie between St. Louis and the Missouri and Arkansas stock man is emphasized and strengthened and the habit of looking to St. Louis as the financial cnter of the district is established.

In the second place, Missouri and Arkansas seriously need assistance in financing live stock breeding and dairying and I apprehend a farm loan bank here will, as one of its activities, carry a good many loans, the proceeds of which will go into these industries. In my judgment, there has been urgent need for some sort of institution to handle long time live stock loans if we propose to increase our supply to keep pace with the demand and encourage dairying. In the nature of the case a loan on breeding or dairy stock will not automatically liquidate itself sooner than two and a half to three years. Interior banks do as much as they can after they have first financed crop making, but they correctly expect liquidation at least once a year.

Mr. Hill's bank or Mr. Watt's bank cannot consider this class of paper. The institutions at the Stock Yards carry some of it, but as they are holding largely demand deposits, there is a limit to their capacity. In fact, as capital loans, they should be secured by something less susceptible than live stock itself to the many contingencies which may arise in a considerable period of time. Un-

doubtedly the Federal Land Banks, will make many a loan for this purpose.

Now North Missouri is a beef finishing country, but South of the Missouri River and all of Arkansss present a wonderful opportunity for live stock breeding and dairying. Natural conditions are of the best, climate equable, grazing excellent, bottom lands produce sufficient winter feed and water is fine. The Universities of both States have been doing a world of educational work and the opportunities for producing cattle, hogs, and sheep and for dairying are unquestionably promising. But financing is needed. If the Land Banks will assist in this matter, and I believe they will, there is sufficient need in this industry alone to argue strongly the location of a Bank at St. Louis.

Just these two points, first the location of a well established National live stock market here is one of the important links between Missouri and Arkansas farmers and St. Louis. Second, there is in this territory urgent need of financing long-time breeding and dairying loans, which the location of a bank at St. Louis will greatly assist.

"Why the Federal Farm Loan Bank will serve the district more effectively if located in the same city with the Federal Reserve Bank."—Tom W. Bennett.

This subject, in its very nature, requires reasons, and while they are numerous, I will endeavor to enumerate only a few of the most potent ones.

Federal Reserve Bank.

In the consideration of the establishment of the Federal Reserve Bank in St. Louis, undoubtedly one of the controlling reasons for the selection of this city was the ease with which it can be reached by railroad, telegraph, telephone and mail, from all sections of the country, and more particularly this Federal Reserve District. This ease of access is especially necessary for the purpose of the prompt handling of rediscounts and the clearing and collection of checks and other banking items.

In the consideration of this subject, it is unnecessary to take up the time of this Honorable Body in discussing transportation, telegraph, telephone or mail facilities. We have them and through them our farming community is brought into very close touch with this city. But, it seems to me that in so far as the facilities mentioned were factors in locating the Federal Reserve Bank in St. Louis, they are equally as desirable in determining the location of the Federal Land Bank.

Many large transportation centers are not located in agricultural districts, but in this respect St. Louis is particularly fortunate, and is therefore an ideal location for the establishment of a Federal Land Bank.

Appraiser.

Under the Federal Farm Loan Act, before the Federal Land Bank can grant any mortgage loan, it must be reported upon by its appraiser. It seems to me that it would be a very great convenience to the prospective borrower, as well as to the appraiser himself, if the appraiser had his headquarters in a city which furnished a great number of trains to the locality where the property to be mortgaged is located. It perhaps would not be necessary for the appraiser to have his office in the quarters of the Federal Land Bank, but it certainly would make for efficiency if he could have his office there and could personally meet with the Board. He must make a written report, it is true, but quite frequently an oral explanation of a written report, while not always essential is often desirable.

Farm Loan Registrar.

Then again, each Federal Land Bank, under the Act, must have a Farm Loan Registrar who must keep in his custody the first mortgages securing bond issues. Such Registrar, for the sake of convenience to all and to facilitate the withdrawal of mortgage securities from time to time as they mature, or for the purpose of substitution which the Federal Land Bank may find necessary to make, will doubtless have his office on the premises or in the close vicinity of the Federal Land Bank. The Registrar should have at his disposal the very best vault accommodations for the custody and safekeeping of the securities in his possession and for which he is held responsible. St. Louis can offer as commodious and as finely equipped safe deposit facilities as any city in the United States.

Therefore, where a city like St. Louis, the center of an agricultural district, is available, it would seem that the Federal Land Bank should have its principal office there.

Agents of Federal Land Banks.

Under Section 15 of the Federal Farm Loan Act, where Federal Land Banks are authorized to make loans through agents, it is provided:—

> "No agents other than a duly incorporated bank, trust company, mortgage company or savings institution, chartered by the State in which it has its principal office, shall be employed under the provisions of this Section."

It is possible that there may be the necessity for the appointment of many such agents. Now, of course, no Federal Land Bank would employ any agent about which it did not have the fullest information, and such being the case, it would be a distinct advantage for the Federal Land Bank to be established in the same city as the Federal Reserve Bank. The Federal Reserve Bank necessarily has complete information in regard to all of its member banks, and since it is collecting checks on non-member banks, it comes in daily contact with them and has full information in regard to them. I am advised that although the check clearing system has only been in operation under its present plan, since July 15, 1916, the Federal Reserve Bank of St. Louis now has 45% of all banks in its district on its par collection list. It is reasonable to suppose that in time it will have all of the banks on its collection list and through the collection system will have intimate knowledge of even those banks and trust companies whose capital being less than $25,000, makes them ineligible to membership in the Federal Reserve System. It seems to me that it would be a great convenience to the Federal Land Bank and be conducive to safety of all concerned, if the Federal Land Bank could discuss the appointment of agents with the Federal Reserve Bank. It stands to reason that it can do this much better if both the Federal Land Bank and the Federal Reserve Bank are located in the same city.

Federal Reserve Banks May Buy Farm Loan Bonds.

In Section 27 of the Federal Farm Loan Act, it is provided that any member bank of the Federal Reserve System may buy and sell farm loan bonds issued under the authority of this Act. Naturally, members of the Federal Reserve System find occasion to visit the Federal Reserve Bank of their district from time to time. They like to do it, and it is proper that they should do it. It would be an incentive to them to become familiar with both institutions if, on one visit to the city, they could come in personal contact with the Federal Land Bank and the Federal Reserve Bank, and there is nothing like personal contact to give a thorough understanding of them. In fact, the farmers of any given community are very likely to consult with their local bankers as to the establishment of National Farm Loan Associations, and the ways in which they can use the facilities offered by the Federal Farm Loan Act to better their condition. The closer the member banks can come in contact with the Federal Land Bank, the better equipped they will be to give the desired information to their farmer customers. They might not make a special trip to the Federal Land Bank, but if on the same visit they could visit the Federal Reserve Bank with which they are in daily contact, and at the same time visit the Federal Land Bank, they would very probably sooon get an intimate acquaintance with the latter institution, and would be in position to give the proper advice to those inquiring. Then there would undoubtedly be reciprocating advantages to the Federal Reserve Bank if the Federal Land Bank is located in the same city. It is possible that many of the state institutions which may be appointed agents of the Federal Land Bank may, through the development of a personal acquaintance with the Federal Reserve Bank, ultimately become members of the Federal Reserve Bank, thus improving and furthering the development of the Reserve System.

In the provision of the Act which permits the Federal Reserve Banks to buy and sell farm loan bonds subject to certain limitations, it would certainly be a great convenience if in such transactions the Federal Reserve Bank and the Federal Land Bank were located in the same city.

Branch Banks.

The Act further provides, subject to the approval of the Federal Farm Loan Board, for the establishment of Branch Banks. In the apportionment of the United States into Federal Land Bank districts, there are undoubtedly many smaller cities in the district, which will include St. Louis where it may be desirable to establish branches, but in my opinion it would be unwise to select any other than the Federal Reserve Bank city of St. Louis for the principal office of the Federal Land Bank.

Finally.

Omitting many other good reasons which could be advanced for the establishment of the Federal Land Bank for this district in St. Louis, I wish to say in conclusion that St. Louis is ranked as a wealthy city and its citizens are accustomed to buying high-class investments such as state and municipal bonds and mortgage securities. They now have great confindence in the Federal Reserve System and the Federal Reserve Bank of St. Louis. It is my opinion, therefore, that with the location of a Federal Land Bank in St. Louis, which is to issue and sell farm loan bonds, the confidence of investors in those bonds can be more readily obtained than if located elsewhere. I am strongly of the belief that the Federal Land Bank should be located in St. Louis, and it might also be advantageous for it to secure quarters in the same building with the Federal Reserve Bank.

PARIS BANKER VISITS ST. LOUIS.

Festus J. Wade, president of the Mercantile Trust Company, played the part of host on November 21st to Capt. Robert Masson, vice-president of the Lyonnais Bank of Paris, France, at a dinner given at the St. Louis Club. Many local bankers and business men were invited to the banquet and had the pleasure of meeting the distinguished foreign capitalist who, according to newspaper gossip, was here in the interest of a new foreign loan to the French Government.

Rumors of another loan being raised by the allied powers has been current lately and it is believed he may be here on some such assignment.

REPORT OF DROVERS NAT'L, EAST ST. LOUIS

Splendid gains are shown by the Drovers National Bank of East St. Louis by reference to its report of November 17th, showing total resources of $1,367,963.73. The leading items comprising same are: bills receivable, $670,550; U. S. and other bonds, $219,941; stock in Federal Reserve Bank, $6,600; furniture and fixtures, $11,800; real estate owned, $6,252; 5% fund, $10,000 and cash items of $442,620.05.

Liabilities are: capital and surplus, $212,000; undivided profits, $7,288; circulation, $194,800; reserved for taxes, $1,000 and deposits of $952,875.68, a net gain on September 12th of $117,535.00

THE SAINT LOUIS BANKER
SUCCEEDING THE COMMERCE MONTHLY
PUBLISHED BY
THE COMMERCE PUBLISHING COMPANY, Inc.
SAINT LOUIS, MO.
I. V. A. WAIT..*Editor and Publisher*

The St. Louis Banker numbers among its subscribers nearly every progressive banking institution in the country, particularly in the Central West, South and Southwest.

SUBSCRIPTION PRICE - $2.00 PER YEAR

Entered as second-class matter, July 13, 1905, at the Post Office at St. Louis, Mo., under the Act of Congress of March 3, 1879.

TWELFTH YEAR DECEMBER, 1916 NUMBER TWELVE

FEDERAL BANK WARNINGS.

AMERICAN bankers have just been warned by the Federal Reserve Board to avoid locking up their funds by purchasing treasury bills of foreign governments involving long-term obligations.

While specifically disclaiming "any intention of reflecting upon the financial stability of any nation," the board advises all investors to proceed with caution, and formally announced to member banks of the federal reserve system that, with the liquid funds which should be available to American merchants, manufacturers and farmers in danger of being absorbed for other purposes, it "does not regard it in the interest of the country at this time that they invest in foreign treasury bills of this character."

H. P. Davison of J. P. Morgan Company was in Washington recently and conferred with President Wilson and some of the members of the reserve board. It was said later that he sought to have banks of the reserve system authorized to buy British treasury bills as if they were bills of exchange to cover commercial transactions.

Danger from further importation of large amounts of gold, the board says, in its statement, will arise only in case the gold is permitted to become the basis of undesirable loan expansions and of inflations.

Emphasis is laid upon the necessity for caution in putting money into investments which are short term in name, but which "either by contract or through force of circumstances may in the aggregate have to be renewed until normal conditions return."

The board's warning, in the form of a statement to be published later in the December Federal Reserve *Balletin*, follows:

"In view of the contradictory reports which have appeared in the press regarding its attitude toward the purchasing by banks in this country of treasury bills of foreign governments, the board deems it a duty to define its position clearly. In making this statement the board desires to disclaim any intention of discussing the finances or of reflecting upon the financial stability of any nation, but wishes it understood it seeks to deal only with general principles which affect all alike.

"The board does not share the view expressed of late that further importations of large amounts of gold must of necessity prove a source of danger or disturbance to this country. That danger, the board believes, will arise only in case the inflowing gold should remain uncontrolled and be permitted to become the vasis of undesirable loan expansions and of inflation. There are means, however, of controlling accessions of gold by proper and voluntary co-operation of the banks or, if need be, by legislative enactment. An important step in this direction would be the anticipation of the final transfer of reserves contemplated by the federal reserve act, to become effective November 16, 1917. This date can be advanced to February or March, 1917.

"Member banks would then be placed on the permanent basis of their reserve requirements and fictitious reserves would then disappear and the banks have a clearer conception of actual reserve and financial conditions. It will then appear that, while a large increase in the country's gold holdings has taken place, the expansion of loans and deposits has been such that there will not remain any excess of reserves, apart from the important reserve loaning power of the federal reserve banks.

In these circumstances the board feels that member banks should pursue a policy of keeping themselves liquid; of not loaning down to the legal limit, but of maintaining an excess of reserves—not with reserve agents, where their balances are loaned out and constitute no actual reserve, but in their own vaults or preferably with their federal reserve banks. The board believes that at this time banks should proceed with much caution in locking up their funds in long-term obligations or in investments, which are short term in form or name, but which, either by contract or through force of circumstances, may in the aggregate have to be renewed until normal conditions return.

Ultimate Danger Possible.

The board does not undertake to forecast probabilities or to specify circumstances which may become important factors in determining future conditions. Its concern and responsibility lies primarily with the banking situation. If, however, our banking institutions have to intervene because foreign secuiities are offered faster than they can be absorbed by investors—that is their depositors—an element would be introduced into the situation, which, if not kept under control, would tend toward instability and ultimate injury to the economic development of this country.

The natural absorbing power of the investment market supplies an important regulator of the volume of our sales to foreign countries in excess of the goods that they send us. The form which the most recent borrowing is taking, apart from reference to its intrinsic merits, makes it appear particularly attractive as a banking investment. The board, as a matter of fact, understands that it is expected to place it primarily with banks. In fact, it would appear so attractive that, unless a broader and natural point of view be adopted, individual banks might easily be tempted to invest in it to such an extent that the banking resources of this country employed in this manner might run into many hundreds of millions of dollars.

Liquid Funds Necessary.

While the loans may be short in form and severally, may be collected at maturity, the object of the borrower must be to attempt to renew them collectively, with the result that the aggregate amount placed here will remain until such time as it may be advantageously converted into a long-term obligation. It would therefore seem as a consequence that liquid funds of our banks, which should be available for short credit facilities to our merchants, manufacturers and farmers, would be exposed to the danger of being absorbed for other purposes to a disproportionate degree, especially in view of the fact that many of our banks and trust companies are already carrying substantial amounts of foreign obligations and of acceptances which they are under agreement to renew.

The board deems it, therefore, its duty to assure the member banks that it does not regard it in the interest of the country at this time that they invest in foreign treasury bills of this character.

Investor Should Use Caution.

The boad does not consider that it is called upon to advise private investors, but as the United States is fast becoming the banker of foreign countries in all parts of the world, it takes occasion to suggest that the investor should receive full authoritative data—particularly in the case of unsecured loans—in order that he may judge the future intelligently in the light of present conditions and in conjunction with the economic developments of the past.

The United States has not attained a position of wealth and of international financial power, which, in the natural course of events, it could not have reached for a generation. We must be careful not to impair this position of strength and independence. While it is true that a slowing down in the process of credit extension may mean some curtailment of our abnormally stimulated export trade to certain countries, we need not fear that our business will fall off precipitately should we become more conservative in the matter of investing in loans, because there ae still hundreds of millions of our own and foreign secutiries held abroad which our investors would be glad to take over, and, moreover, trade can be stimulated in other directions.

Duty of American Bankers.

In the opinion of the board, it is the duty of our banks to remain liquid, that they may be able to continue to respond to our home requirements, the nature and scope of which none can forsee, and that our present economic and financial strength may be maintained when, at the end of the war, we shall wish to do our full share in the work of international reconstruction and development. which will then lie ahead of us, and when a clearer understanding of economic conditions as they will then exist will enable this country more safely and intelligently to do its proper part in the financial rehabilitation of the world.

STATE LAWS BAR FARM LOAN BANKS.

The very peculiar homestead law of Texas may prove a barrier to the farmers obtaining from the Federal farm loan law the benefits which, it was enacted to make available. This fact was dwelt upon by many of the farmers and others who appeared before the Federal Farm Loan Board, which recently met at Dallas to conisder the claims of Texas for one of the proposed 12 regional institutions.

The homestead law of Texas defines a homestead as 200 acres, and a farmer owning less than this quantity of land is not permitted to mortgage it for any purpose other than to make permanent improvements, even excluding the purchase of implements and livestock. It was shown at the hearings that Texas is the only State having such a homestead law.

Gov. Ferguson has expressed the opinion that the homestead law will not affect the chances of Texas in her candidacy for one of the farm loan banks, but Lieutenant-Governor W. P. Hobby, who appeared before the board at Houston, pledged his support for a measure amending the law at the next Legislature, to the end that Texas farmers may have the full privileges and advantages caused by the farm loan act.

Secretary McAdoo, in the course of the hearings, repeatedly stated that the board would not undertake to advise the citizens of Texas as to homestead legislation, nor to criticise existing laws, and that it was up to the people of the State to get the utmost possible benefit from the farm loan act by whatever means they regarded best.

Farmers in nearly all of the Texas hearings were given preference over other speakers. Stories of high interest rates, of foreclosed mortgages and of savings lost were told by these witnesses. It was brought out that the interest in Texas farm loans is higher than in any other State, most of the farmers paying 9 and 10 per cent.

Shears and Paste-Pot

The information contained under this head is gleaned from 3,000 Newspapers in the Several States reported and in event any of it is in error, we will gladly correct same in the succeeding issues of the St. Louis Banker, upon being so advised by our readers.

MISSOURI.

Cape Girardeau—B. F. Marshall, wealthy land owner, merchant and banker, died at his home in this city after two years' illness of lung trouble. The funeral was held at Sikeston.

St. Louis—Arrangements have been completed by the Industrial Loan Co., (Poor Man's Bank) to enlarge its quarters, making its third expansion since it was founded less than four years ago.

Maryville—George L. Wilfley, president of the Farmers Trust Company, accompanied by Morgan Mayfield, superintendent of construction of the new banking building, went to Chicago to select the furniture for the various offices and departments. The firm of Wright & Wright of Kansas City were the architects of the new building.

St. Louis—State National Bank has declared an extra dividend of 2 per cent, besides the regular 4 per cent semi-annual dividend. The Franklin Bank has also declared an extra dividend of 3 per cent.

St. Louis—The St. Louis Union Bank announces the opening of its Business Building Bureau.

Kansas City—Members of the fifty trust companies and farm mortgage companies of Kansas met this week in the directors' room of the Commerce Trust Company. They organized a division of the Farm Mortgage Bankers' Association of America.

Metz—On account of a change of plans W. W. Jackson will not accept the position of cashier of the Bank of Stotesbury on January 1st. R. E. McAllister, who has held the position a number of years, will remain as cashier. Mr. Jackson will continue to hold the position as assistant cashier of the Metz Bank.

Shelbina—The Commercial Bank made a presto change and opened for business in the H. H. Jewett building two doors north of the old stand. The change is for a few weeks pending improvements now under way in the Commercial Bank building.

Carrolton—The Banking House of Wilcoxson & Co., celebrated its 50th anniversary November 17, when the officers were the recipients of scores of telegrams and letters of congratulation from banks in all parts of the state. Both the Third National of St. Louis and the First National of Kansas City, correspondents, contributed beautiful floral gifts.

Bloomfield—S. C. Biffle, who resigned as assistant cashier of the Bank of Dexter left for Fredericktown. He will go to the Bell City Bank as cashier on January 1st.

St. Louis—The directors of the Mortgage Trust Company and the Mortgage Guarantee Company declared a regular semi-annual dividend of $2.50 per share on the capital stock of the company, payable November 28th, to stockholders of record November 21st, 1916.

Carthage—The First National Bank of Williamston did not open November 15 and announcement was made that an examination of the books was in progress.

Naylor—C. C. McCallon is the cashier of a new bank recently established here.

Morley—Morley's new bank building has been completed and the Scott County Bank moved its business to its new quarters.

Queen City—At the meeting of the stockholders of the Bank of Green City, J. H. Novinger tendered his resignation as president of that institution, a position he has held since its organization in 1903. Dr. D. M. Riggins was elected as president to succeed Mr. Novinger.

Jefferson City—Jesse W. Henry, cashier of the Farmers and Mechanics bank, who was accidentally shot by a companion while imitating the turkey call, at the Painted Rock Country Club, is improving rapidly.

Louisiana—J. S. Alexander has been elected cashier of the Farmers and Merchants Bank at Frankford to fill the vacancy caused by the death of W. H. Kniseley.

Louisiana—At a meeting of the board of directors of the Bank of Louisiana, Geo. E. Lynott was elected cashier to fill the vacancy caused by the death of Judge R. H. Goodman.

St. Louis—Advices from Cincinnati, Ohio, stated that the Third National Bank of St. Louis had won its suit for $55,000 against men who were actively identified with the defunct Second National Bank of that city. The litigation grew out of a loan made on notes given by the chairman of the board and president of the Cincinnati bank.

St. Louis—National Bank examiners of Federal Reserve District No. 8, held their annual conference in the office of Chief Examiner, J. M. Logan, in the Federal Reserve Bank Building, November 2nd.

Bogard—H. T. Trotter has been elected assistant of the Carroll Exchange Bank at Carrollton to take the place of H. C. Brown resigned.

Bunceton—The second National Bank ever chartered in Cooper County was organized at Boonville under very favorable circumstances, under the name of the Boonville National Bank. It will supercede the Central National Bank, and have a capital stock of $75,000 with a paid-up surplus of $25,000.

Birch Tree—The Shannon County Farm Loan Association was organized in Birch Tree for the purpose of obtaining farm loans under the Federal Land Bank Bill.

Birch Tree—C. M. Seaman of Monteer and A. J. Hawkins have contracted for C. L. V. Randall's holdings in the Shannon County Bank.

Marshall—Blackburn is to have a new bank, capitalized at $25,000.

California—Henry Herfurth has been made president of a bank just organized at East Helena, Montana. Mr. Herfurth has been connected with the California State Bank ever since it was organized.

Laredo—The Farmers and Merchants' Bank has a new assistant cashier, in the person of Mr. Roy L. Storms of Laredo, Mo., who will begin work in that position.

California—The newly organized bank at Enon opened up for business November 6th. They will have temporary headquarters in the restaurant building of E. H. Jeffries, until permanent quarters can be erected.

ILLINOIS.

Beecher—Strong interests in Beecher and vicinity are organizing a new bank in that village to be known as the Farmers State Bank of Beecher, to take over the business of the First National Bank.

Waukegan—That the D. M. Erskine Bank of Highland, a private institution, may become a state bank is now a possibility according to report from that city.

Berwyn—The stock of the Twelfth Street State Bank that has just about completed its handsome new building at 12th and Harvey has been fully subscribed and the books closed.

Quincy—The Bartlett-Wallace State Bank of Loraine has been organized and a permit secured to operate the institution. The capital stock of the Bank is $50,000.

Belleville—A very large crowd attended the funeral of Samuel C. Smiley, the O'Fallon banker, who was buried in the Shiloh Cemetery after srvices were held at the home in O'Fallon.

Griggsville—Ross Shinn has been elected a director of the Griggsville Bank, this city. to fill the vacancy caused by the death of Doctor Harvey.

Lincoln—The work on the German American National Bank new addition, is expected to be rapidly pushed within the next few weeks with the hope of getting the building under cover before the severe weather commences. The contract for the concrete work has been let to H. K. Rhoads.

Lincoln—A transfer of bank stock by the State Bank of Latham