

YOUR FEDERAL RESERVE BANK AND YOU

ADDRESS

by

WILLIAM Mc CHESNEY MARTIN

President Federal Reserve Bank of St. Louis

Before the

SECOND ANNUAL CONFERENCE ON BANKING

at the

UNIVERSITY OF ILLINOIS

Monday, November 9, 1936

8:10 P. M.

RELEASED FOR PUBLICATION

November 9, 1936

After 8:10 P.M.

Your Federal Reserve Bank and You

There are doubtless those here in this audience who remember the time when the complaint was often made that the country banks were at a great disadvantage compared with the city banks, because in times of emergency the city banks could get together through their clearing house and aid each other, while the only aid the country banks could get was through their correspondents, who frequently were so busy taking care of their own affairs that they could be of little assistance. This complaint, which had merit, was borne in mind when the Federal Reserve Act was under discussion in 1913.

In times of stress, beginning with 1857, the banks in the large cities pooled their reserves, issued clearing house certificates, and were able to be of assistance to each other. This principle of cooperation had been tested and found of value; consequently, it was the foundation of the Federal Reserve Act. By its provisions, all National banks and all State banks, with sufficient capital, that desire membership in a given area are brought into cooperation through the Federal Reserve Bank of the district by keeping their reserves there, owning stock in the reserve bank, electing a majority of six of the nine directors, and being able through the medium of rediscount immediately to convert into cash any of their sound assets. Before the Act of 1935, except for an emergency period from February 27, 1932 to March 3, 1935, they could only rediscount eligible paper, but now a bank can borrow on all of its good assets.

Since the establishment of the Federal Reserve System, the country bank can no longer be heard to say that it is at a disadvantage for now it can be a member of the Federal Reserve Bank of its district and have exactly the same privileges as the banks in the large cities. It has just as much of a vote as the large bank and is represented on the Board of Directors of the Federal Reserve Bank by a director from the group to which it belongs according to size. The small bank, through the System, is given the opportunity to have its say as to

policies and to exert the same influence as the large bank. It is unfortunate that the Federal Reserve System is too often thought of as something apart from the member banks. The fact is that the member banks, the twelve Federal Reserve Banks, the Federal Open Market Committee, the Federal Advisory Council and the Board of Governors of the Federal Reserve System make the Federal Reserve System. In order to give the System full efficiency, all of these different sub-divisions of one organization must work together to the best of their ability, the purpose being to bring about banking efficiency in the community served by the member bank and in the United States of America as a whole.

The Federal Reserve System is the result of banking experience as developed in this country. It is not made up of untried theories but is based on tested banking principles.

In the trying times through which we have recently passed it has proved itself a great help and certainly has saved many a community while the country has been going through unusual experiences which were not just confined to our Nation but were world-wide.

There are a great many instances about which the Federal Reserve Bank can never talk. The many times it has been of the greatest help to a community and its banks will never be known to the outside world, although some idea may be assumed from those numerous occurrences when the exigencies of the emergency forced the use of the airplane whose arrival with help could not be concealed.

It has been and can be of help to a bank when considering its every-day problems. The Federal Reserve Bank is not in competition for banking business, it has no "ax to grind", it is not mixed up in local affairs. Its one consideration is to assist its member to be successful and to so conduct itself as to merit the confidence of its community. A banker who feels that he cannot talk over his problem with any one in his home town, can come to the Federal Reserve Bank and discuss the matter freely. If nothing more, it is often a relief to unburden his mind, and he is sure of a sympathetic hearing and disinterested advice.

I have gone through so much that this I know. I would not be an officer or a director of a commercial bank that was not a member of the Federal Reserve System. I would feel that good management demanded that my bank and my community be given this protection. I might never have an emergency, I might never have to borrow or ask for advice, but the fact that I could get assistance would always make me more sure of my position and would be notice to my community that I was alert to its interests.

I have stated that if a bank had sound loans under the Act as it now stands, it could rediscount such loans and always be assured of sufficient liquidity to meet its needs. There is one thing though that must be borne in mind; the loans must not only be sound, but there must be sufficient evidence in the bill case accompanying them to enable the bank to convince any one from whom it wishes to borrow that they are sound.

During the hectic days through which we recently passed it was surprising how frequently the banks were unkind to themselves, to the Federal Reserve System, correspondent banks and all other lending agencies. Time and time again an offering came in without adequate statements or any data sufficient to come to a conclusion as to whether the loan was good or not. In regard to real estate loans there were missing properly brought down abstracts of title, insurance policies and other necessary papers. It made no difference how good the bank itself knew the loan to be, there was not sufficient data to give evidence of that fact to an outsider. In these days when there is little probability of a bank having to borrow, it is liable to get careless about its bill case. May I impress on you the necessity of having every loan in your bank supported by all of the necessary credit data for presentation to an outside lending agency. Even if you never need to borrow, the habit will be such a good one that it is sure to increase the solvency of your bank.

I wish to say again that the Federal Reserve System is made up of the member banks, the Federal Reserve Banks, the Federal Open Market Committee, the

Federal Advisory Council and the Board of Governors of the Federal Reserve System. It is the means by which tested banking principles, made efficient and effective through cooperation, are extended to all banks in the United States of America. The principle of the coordination of the component member banks is preserved. Their individuality remains with only such limitations as experience has seemed to make necessary in order to enable the member banks more safely and efficiently to serve their local communities. As it stands today, it is in your power to take care of the System and it is in the System's power to help you coordinate your forces. There is no reason why banking should not go forward to assured success.